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St. Mary's University College

**SCHOOL OF GRADUATE STUDIES
MBA-PROGRAM**

**ANALYSIS OF THE IMPACT OF GLOBALIZATION
ON PERFORMANCE OF ETHIOPIAN AIRLINES**

**BY
FEKADU TADESSE**

**February, 2013
Addis Ababa, Ethiopia**



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**February 2013
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Approval

**ST.MARY'S UNIVERSITY COLLEGE
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**

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Declaration

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of _____ .All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or full to any other higher learning institution for the purpose of earning any degree.

Name

Signature

St. Mary's University College, Addis Ababa

February, 2013

Acknowledgment

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Thank you all!

Fekadu Tadesse

ABSTRACT

Globalization drives people to change their ways of living and caused dramatic change to changes to business practise. As part of the global community various organizations in our country Ethiopia has also been affected positively as well in the negative aspect. Among the best organizations Ethiopian Airlines one of the well knows airlines in Africa. Despite the escalation of fuel cost and intensive competition from neighbouring airlines and the international aviation industry it has maintained its reputation in the business. It has been growing each year in its capacity to compete in the aviation industry since its establishment. Therefore, the purpose of this research is to investigate the impacts of globalization on the performance of Ethiopian Airlines. The qualitative data were collected by using questionnaires which were administered to the management, international flight customers and non-management staff of the airlines within the population of above 6000 Ethiopian airlines employees 200 employees were selected by judgment sampling method. The quantitative data for 10 years were collected from the airlines annual report. After critically examining both the qualitative and quantitative data, the researcher found that, the impact of globalization is enormous in the different aspects of the organizations performance. The positive impacts include increased customers and income, increased technology leading to more comfort and increased destination of flight worldwide. The negative side is basically related to competitors and factors associated with Ethiopia's economic status that can make the organization of lesser preference by its customers due to the fact that competing giant organizations present better service by investing more. That is, as different literatures show globalization has a significant role in promoting as well challenging organizational performance. In general, the research led to the conclusion that more of the positive effects of globalization prevail than the side effects. This being said, it also showed that even the challenges posed by this process of globalization can be used as an opportunity that will enhance the organizational performance through fierce competition. As a recommendation the researcher mentioned that the organization should be alert in assessing its surrounding business environment and plan accordingly. The management in particular should make decisions affecting the organizational performance by taking the international aviation industry in to consideration. It is a good opportunity despite some of the hazards presented hence Ethiopian airlines should make use of it at its maximum ability.

Key Words: Globalization, Ethiopian Airlines Performance and Competition

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ACRONYMS

CSR	Corporate Social Responsibility
EIA	Ethiopian Investment Agency
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
ICTs	Information and Communication Technologies
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
LDC	Least Developed Countries
M&A	Mergers and Acquisitions
MDG	Millennium Development Goal
MoFED	Ministry of Finance and Economic Development
MRO	Maintenance Repair and Overall
OECD	Organisation for Economic Co-operation and Development
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PKM	Passenger-Kilometres
RPK	Revenue Passenger-Kilometres
SARS	Severe Acute Respiratory Syndrome
SSA	Sub-Sahara Africa
SDPRP	Sustainable Development and Poverty Reduction Program
TKPs	Tonne-Kilometers
TNC	Transnational Corporation
UNFCCC	UN Framework Convention on Climate Change
WIPS	World Investment Prospects Survey
WHO	World Health Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Global Commerce has taken place for hundreds of years dating back to the exploration and colonization of Africa, and the Americas by Europeans beginning in the 15th century. It is during the past 65 years or so, since the end of World War I, that global commerce has truly transformed the world's economy. According to the world bank, about one-fourth of all goods and services produced worldwide are sold to other nations, rather than domestically; this is almost double the percentage in 1960. In other words, the world's economy is becoming increasingly integrated, as an ever-higher share of output is being exported across national borders (Lawrence and Weber, 2011).

Globalization has caused dramatic changes to business practices around the world. Companies such as IBM, Intel, Microsoft, and Philips have started to outsource specialists from various parts of the world, causing job shifts and changes in companies' structures (Kathawala, 2005). In similar way, the process of globalization of the airline industry has taken a major step forward, for Strategic alliances between airlines are now common in the aviation industry, Star Alliance, One-world and Sky Team are other examples of changes driven by this phenomenon (Schirm, 2002). Therefore, this paper investigated the effects of globalization on business firms with a particular interest on how it affects the performance of Airline operations.

Globalization is an interesting phenomenon since it is obvious that the world has been going through this process of change towards increasing economic, financial, social, cultural, political, market, and environmental interdependence among nations. Virtually, everyone is affected by this process. Given these changes, globalization brings about a borderless world. It is making all countries smaller relative to the world market. By reducing transaction costs associated with distance, new technologies have reinforced this process (Vohara and Mehta, 2007).

Globalization drives people to change their ways of living, prompts firms to change their ways of conducting business, and, spurs nations to establish new national policies. Events

transpiring in different parts of the world now have dramatic consequences to other parts of the world at a faster pace than anyone could imagine in the past. For instance, the US financial crisis in 2008 has severely affected businesses around the world (Reavis, 2012) and globalization permits the rapid spread of the disease, which affects many airlines, the hospitality industry, and other businesses around the globe.

According to World Health Organization estimate, by the time of the European colonization of the Americas, plagues such as smallpox and measles could travel around the world within the span of a year. Today, of course, with international air travel, an infected person can carry a disease from almost any point of the globe to any other point in less than 36 hours (WHO Media Centre, 2010). A number of global ecological problems allegedly threaten human survival, such as exhaustion of natural resources, excessive world population growth, nuclear holocaust, acid rain, climate changes and that sort as part of globalization (Scholte, 2005).

On the positive side, globalization enables firms to outsource and find customers around the world, for examples, the auto and electronics industries. The globalization of production and operations benefits firms through the realization of economies of scales and scope (Reyes, Raisinghani and Singh, 2002). The development and expansion of air freight greatly speeded-up the transportation of goods and in some cases even reduce costs (although it is still cheaper to transport many things such as automobiles, for example-by ship). A key technological development here was the introduction in 1970 of the Boeing 747, with its wide body, and the arrival soon afterword to cargo version of the plane. Hence, no one can deny that globalization has changed the way we conduct business (Ritizer, 2010).

According to (Akram, 2011) global market refers to the merging of historically distinct and separate national markets into one huge global market place. The expansions of global markets liberalize the economic activities of exchange of goods and funds in addition to the removal of cross-border trade barriers has made formation of global markets more feasible.

The paper tried to elaborate the effects of globalization in general with emphases on the impact on the aviation industries, by classifying global phenomenon into two broad categories:

- 1) Global market opportunities, and
- 2) Global market threats.

These two major effects are chosen to be investigated here because they are effects of globalization; Global market opportunities refer to the increases in market potential, trade and investment potential and resource accessibility, while global market threats refer to the increases in the number and level of competition, and the level of uncertainty.

1.2 Statement of the Problem

In the past two decades, the world has gone through the process of globalization, one that causes increasing economic, financial, social, cultural, political, market, and environmental interdependence among nations. Liberalization of world trade and capital markets led by globalization has created a new and challenging competitive arena for all firms. With the trend towards more interdependence among nations, several changes in the business environment have emerged. There has been an emergence of global markets for goods, services, labour and financial capital. Consumers' demands around the world have converged (Thoumrungroje and Tansuhaj, 2007).

Increasing trade and investment liberalization evoked by advances in transportation and communication technologies has resulted in larger volumes of international business transactions. For instance, the jet airplane revolutionized communication by making it possible for people to travel around the world in less than 48 hours (Keegan and Green, 2003).

These aforementioned trends have brought about two key effects of globalization, global market opportunities and global market threats. It is obvious that globalization not only presents more opportunities to firms, but also higher levels of threats. While opportunities can arise from globalization, competition and uncertainty are inevitable.

Worldwide market forecast for commercial air transport 2008-2027, stated that world airlines experienced traffic growth at 4.8% per year in average for the past 20 years. It also predicted that during the next 20 years, they will achieve an average of 4.9% growth per year, and the traffic volume in 2027 will reach 11,732 billion revenue passenger-kilometres (RPK), which is 2.6 times of the year 2007 (Market group of Japan Aircraft development corporation, 2008).

In Africa, traffic will not grow so much in spite of economic growth because air travel market is not matured yet, but the traffic growth will be 5.4% per year for the next 20 years which is larger than the previous years (Market group of Japan Aircraft Development Corporation, 2008). The data show that, African countries need a strong vibrant air transport industry to achieve the goal of socioeconomic integration of the continent. Airlines are important for strategic reasons, for land locked countries like Ethiopia, Botswana, Burkina Faso, Burundi, Central Africa Republic, Chad, Malawi, Mali, Niger, Rwanda, Uganda, Zambia and Zimbabwe. If transport routes to the sea are closed for any reason, a country can airfreight at least urgently required items like spare parts for industrial machinery, food and medicine, to mention but a few items.

Air transport is critical for the movement of some agricultural products. Horticulture is big business in many countries in Africa. Flower is perishable and need to be moved quickly to market all over the world. Therefore, because of the above mentioned reasons the potential of Aviation business in Africa is markedly growing, and hence other big airlines such as Emirate and Qatar are focusing their business in Africa. Since it is a current issue for the aviation industry, the researcher wants to investigate the impact of globalization on the performance of Ethiopian Airlines in this thesis.

1.3 Research Questions

The primary goal of this research was to try to answer the following questions:

1. What are the major impacts of Globalization on air transportation industry?
2. How does globalization create market uncertainty in the air transportation business?
3. What should be the solution to the different problems attached with the negative impact of globalization?

1.4 Objective of the Study

The thesis has the following general and specific objectives

1.4.1 General Objective

This research paper has the following general objective

- To assess the impact of globalization on commercial air transportation industry.

1.4.2 Specific Objectives

The study has also the following specific objectives:

- To find out the impact of globalization on Ethiopian airlines marketing strategy, human capital development, capital accumulation and technology spill over. \
- To recommend some alternative measures and strategies in order to grasp the opportunity and to reduce the threat of globalization.

1.5 Significance of the Study

Scholars advance the literature by categorizing the effects of globalization into different dimensions and develop a model to test the relationships between these effects and firm performance. The findings from this study support the argument that globalization not only benefits firms in terms of increasing opportunities, but also hurts business performance due to higher competitiveness.

Hence this research work will have a significant contribution in revealing the impact of globalization on commercial air transportation industry and thereby, forward some proactive strategic measures. Since this paper includes other airlines' experiences, it will provide information to management as lessen learned and also it contributes some information to others for their scholarly work in the field of aviation industry.

1.6 Limitations of the Study

In conducting this research the researcher faces some limitation to compare the intensity of globalization impact on Ethiopian Airlines with others its competitors, because of the limitation data from other airlines since they are located far from Ethiopia. However, the researcher attempted to describe the impact of globalization based on consecutives airlines annual performance reports.

1.7 Definition of Terms

Globalization means different things to different people. A business man may see globalization as an opportunity to source goods and services from lower-cost locations and to search new markets. An economist may see it as an opportunity to examine the impact of globalization on jobs and standards of living. An environmentalist may be concerned with how globalization affects our ecology. An anthropologist may want to examine the influence of globalization on the culture of a group of people. A political scientist may be concerned with the impact of globalization on the power of governments relative to that of multinational companies and an employee may view globalization either as an opportunity for new work or as a threat to his or her current job.

However, in this study, globalization is defined as the process of increasing the social/cultural inter-connectedness, political interdependence and economic and market integrations across national, continental and global borders.

1.8 Organization of the Thesis

The thesis is organized into five chapters: Chapter one which includes background of the study, statement of the problem, description of research questions, description of the general and specific objectives of the research, definition of terms the significant of the study, and scope of the study. Chapter two includes review of related literature. Chapter three describes about research design and methodology includes, research design, population and sampling techniques, instrument of data collection, methods of data analysis. Chapter Four includes the result and discussion of the thesis and Chapter Five focuses on conclusions, and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE RELATED

2.1 Conceptual Definition of Terms

2.1.1 What is Globalization?

The term “globalization” is often used to describe the increased flow of knowledge resources, goods and services among nations. The term is sometimes defined as “the process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.” (J. Boudreaux, 2008).

In its most literal sense, it is the process of making, transformation of things or phenomena into global ones. It can be described abstractly as a process by which the people of the world are unified into a single society and function together. This process is a combination of economic, technological, socio-cultural, and political forces (Roberts and Hite, 2007).

The term is, however, often used to refer in the narrower sense of economic globalization, involving integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration and the spread of technology (OECD, 2010).

Globalization is reshaping our lives and leading us into unfamiliar territory. As new technologies drive down the cost of global communication and travel, we are increasingly exposed to the traits and practices of other cultures. As countries reduce barriers to trade and investment, globalization forces their industries to grow more competitive if they are to survive. And as multinationals from advanced countries and emerging markets seek out customers, competition intensifies on a global scale. These new realities of international business are altering our cultures and transforming the way companies do business.

Globalization is the trend toward greater economic, cultural, political, and technological interdependence among cultural, political, and technological, national institutions and economies. It is a trend characterized by denationalization interdependence among nations.

2.1.2 Kinds of Transport

The movement of goods from one place to another is called transport. Transport removes the hindrances of persons, place and time in exchange of goods and commodities. Effective transport plays an important role in the economic progress of the country. Development transport is synonymous with the development of infrastructure of a country. Development of transport means, the development of human civilization and the movement of languages, culture and technology from one place to another. It provides social, economic, and political touch among the countries in the world. It creates a sense of alliance, brotherhood and feelings of humanity among the people of different regions and different countries by shortening the immeasurable distances of the globe. The various modes of transport can be classified into three main divisions:

- Land Transport
- Water Transport
- Air Transport

1) Land Transport

Economic development of a country is very much dependant on an efficient transport system and among various means transport, roads are an essential pre requisite of improved transport. Once Adam Smith highlighted the importance of the important of transport that “Good roads, canals, and navigable reverse, by diminishing the expense of carriage, put the remote parts of the country on a level with those in the neighborhood of a town. They are upon that account, the greatest of all improvements”. In fact, road transport crates and accelerates the development process (K.Yadav, 2009).

The railway transport also has been the pioneer of modern mechanical transport. Railways have played a very significant role in the economic, social and political development of many countries in the world. Though the railway requires a very huge capital outlay as compared to other modes of transport, it is our principal means of transport.

2) Water Transport

Water transport is the cheapest and the oldest mode of transport. It operates on a natural track and hence does not require huge capital investment in the construction and maintenance of its track except in case of canals. The cost of operation of water transport is also very less. It has the largest carrying capacity and is most suitable for carrying bulky

goods over long distances. It has played a very significant role by bringing different parts of the world closer and is indispensable to foreign trade.

Water transport consists of:

A) Inland water transport: Inland water transport consists of transport by rivers, canals and lakes. Rivers are a natural highway which can be used as a means of transport. They are suitable for small boats as well as big barges. River transport played a very important role prior to the development of modern means of land transport.

B) Ocean Transport: Ocean transport is indispensable for the foreign trade. It has brought the different parts of the world closer and has knit together all the nations of the world into one big world market. It operates on a natural track i.e., the sea and does not require any investment in the construction and maintenance of its track. It is obviously, the cheapest mode of transport, Ocean transport includes (i) Coastal Shipping (ii) Overseas Shipping.

3) Air Transport

Air transport is the most recent mode of transport. It is the gift of the 20th century to the world. The second world wars gave a great drive to the development of air transport in almost all the countries of the world. The peculiar characteristic of air transport is that it does not need a specific surface track for its operations. It has no physical barriers as in the case of other modes of transport. Political boundaries are also immaterial although it has to observe the requirements of the International Law. The supreme advantage of air transport lies in its quickness. It is the fastest mode of transport. But the cost of its operation is very high and thus it is suitable for only rich passengers, mails and light and costly cargo. However, in advanced countries like U.S.A., Germany, etc. it offers a tough competition to the railway.

2.2 Globalization and International Transport Activity

The 21st century has seen the continued internationalization of the world's economy. There is also evidence of greater globalization of cultures and politics. Economically, globalization helps to facilitate the greater division of labor, and to exploit its comparative advantage more completely. In the long term ,globalization also stimulate technology and labor transfers, and allows the dynamism that accompanies entrepreneurial activities to stimulate the development of new technologies and processes that lead to global welfare improvements.

Increasing globalization has led to a strong increase in international shipping activity. Trade and shipping are closely linked, although some disagreement remains about the degree to which energy use in shipping is coupled with the movement of waterborne commerce. The estimates depend inter alia on the number of at-sea or in-port days that are assumed in the analysis. The available evidence largely indicates that world marine fleet energy demand is the sum of international fuel sales, plus domestically assigned fuel sales. Some debate continues about the best estimates of global fuel usage, but the major elements of activity-based inventories are widely accepted. Considering the range of current estimates using activity-based input parameters, ocean-going ships now consume about 2% to 3%- and perhaps even as much as 4%-of the world fossil fuels (OECD, 2008).

Air transport has also played a key part in fostering globalization. However, airlines (and to an even greater degree, air transport infrastructure) have had to respond to changing demands for their services. These demands come from the requirements for high-quality, fast and reliable international transport. Globalization, almost by definition, means demands for greater mobility and access, but these demands are increasingly different for different types of passengers and cargoes, to different places, and over different distances, than was previously the norm.

The implications of globalization in its many manifestations have been profound for the international air transport industry, not just on the demand side where the scale, nature and geography of demand in global markets has led to significant shifts but also on the supply side, where implicit and explicit international co-ordination of policies by governments (e.g. regarding safety, security and the environment) and the private sector (E.g. the internationalization of airframe and aero-engine production) have affected the institutional and technological environment in which air transport services are delivered (OECD, 2010).

Some of the most important facts about these interactions are air markets being liberalized, the networks that airline companies used to operate on being changed (often to hub-and-spoke networks), joining of many new often low-cost companies in to the market, and many airline companies have been going out of business or are being merged

,most of the remaining airlines have already united into three major alliances, such as Star Alliance, Oneworld, and Sky Teams.

International air transport is now a major contributor to globalization and is continually reshaping to meet the demands of the economic and social integration that globalization engenders. Some 40% of world trade (by value) now moves by air. To allow the flows of ideas, goods and persons that facilitate efficiency on a global scale, air transport has played a key role in the past, and is poised to continue this role in the future. Yet, as the strong growth in air transport activity is straining air-related infrastructure (such as airports), future economic growth in the sector could well be constrained by capacity limits (OECD, 2010).

With new developments to remove bottlenecks, combined with operational improvements, there is scope for considerable improvement in the efficiency of international road and rail freight in many regions. Of course, it is not simply a question of transit time and reliability (although both are important), it is also a question of cost. Air transport had the highest cost, but very short transit times. Sea transport provided the lowest cost, but had long transit times. The road freight results fall between air and sea, both in terms of cost and transit time. Rail transport exhibited a very wide range of costs and transit times, and showed major differences between the officially scheduled transit times and actual transit times achieved.

Within the next 15 years, there seem to be limited opportunities to dramatically increase the speed of either ships or aircraft. Indeed, concern about CO₂ emissions could lead to changes in the role of air freight within the supply chain. There have even been calls for sea freight transport to operate at slower speeds, in order to save fuel. Given these uncertainties, it is interesting to note the particular potential for rail movement to offer opportunities for shorter transit times, and possibly, reduced costs. Road freight times may not have the scope to be reduced to the same extent. For road and rail freight transport, border crossings represent an important barrier to trade. Safety for drivers and cargo is a major issue, especially for road transport. A major increase in road and rail transport from eastern parts of Asia to Europe would require major infrastructure investments, in particular for road transport. Although the Trans-Siberian rail connection already exists, gauges of rail networks still differ among countries involved.

There are many opportunities to improve the efficiency and reduce the environmental impact of international road and rail freight transport. Many of these developments require government intervention in the form of changes to regulatory policy, improvements to infrastructure and the breaking up of public monopolies that currently often offer inadequate services. This is a complex area when considered within one country; when it concerns international developments, it is even more complicated. When looking ahead 15 years, it is important to note the growing role played in international transport by major logistics companies. The consolidation that is evident means that single companies are now able to provide truly integrated services in a way that was not possible a few years ago (OECD, 2010).

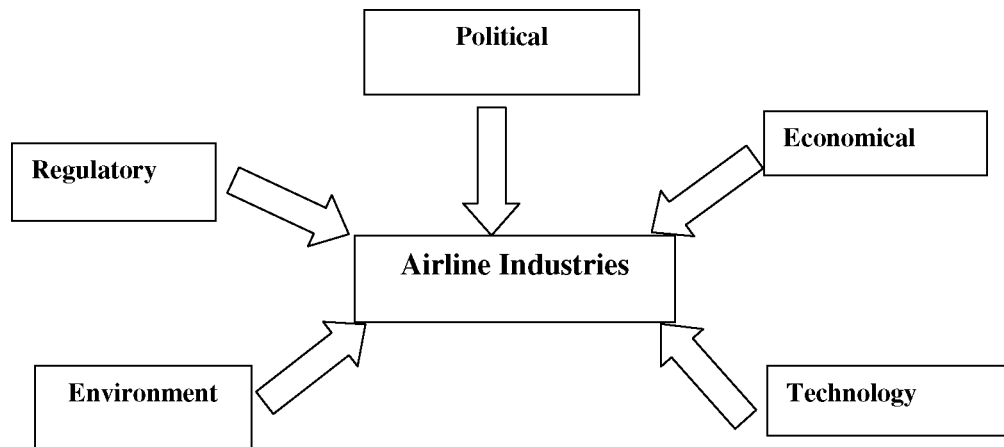
2.3 The Aviation Industry

The World aviation industry is a very unique industry. It can be said as a service industry as it doesn't produce any physical product for its customers in exchange of the money they paid to the airlines. Global business and tourism rely on air transport. Access to international markets and the increasing globalization of production makes worldwide connections essential. The total value of goods transported by air represents 35% of world trade. Beyond this, aviation makes a direct contribution to global GDP greater than most industries, including the pharmaceutical or automotive sectors. In 2010, the \$539 billion it contributed would have placed air transport as the 19th largest country in GDP terms, approximately equivalent to Switzerland or Poland (International Air Transport Association, IATA, 2012).

The advantage of connectivity goes further than these impressive figures to touch peripheral areas, such as encouraging investment and innovation and allowing companies to attract talent across borders. The numbers do not include tourism, which would not be able to post its impressive figures without support from the airlines. In 2011, tourism generated \$1.8 trillion in global economic activity and provided nearly 100 million jobs. Fully 51% of international tourism relies on air service, according to the World Travel and Tourism Council. Air transport plays a major role in developing nations, generating \$490 billion in economic activity. Over half of all the jobs aviation supports globally 35.9 million are based in developing economies. The industry's economic impact will continue to grow, by 2030, it is forecasted that 82 million jobs and \$6.9 trillion in economic activity will have air transport at their root (International Air Transport Association, IATA 2012).

However, despite the glamour perceived from the commercial power; the airline industry is suffering from irregular and low profit margin, highly susceptible to outside risks that are considered as non-business factors. It is highly dependent on marketing forecasting and economic influences compare to other transport industries.

Fluctuations on airline's performance are caused by a series of variable tasks such as operational and technical changes, regulatory and political issues. All of these factors are currently playing an important role in aviation business but none of them are in the hand of airlines control. Two of the well-known examples are the crises of September 11,2001 in US and epidemic Severe Acute Respiratory Syndrome (SARS) that caused a catastrophic on the financial side of airlines for quite some time. Apparently, the airline industry is exposed to excessive risks compared to other industries alike.



Source: Own Illustration based on Porter's five forces model

Fig 2.1.External factors that affect airline's performance

2.3.1 Economic Development and Airline Traffic Patterns

Economic theory and analytical studies indicate that there is a high correlation between the growth patterns of air traffic and economic trends in that the demand for air transport is primarily driven by economic development. Developments in personal income affect the level of consumer purchasing power and the tendency to undertake leisure travel. Commercial activity and trade have a direct impact on the demand for business travel and for air freight. According to International Aviation Organization (ICAO), the impact of economic slowdowns and recessions on air traffic trends is clearly visible during the following periods: 1974-75, 1980-82, 1990-91, 1998 and 2001, the latter coupled with

the unprecedented events of 11 September 2001 (International Civil Aviation Organization, ICAO, 2004).

Between 1992 and 2002, worldwide scheduled traffic, measured in TKPs (Tone-Kilometers), grew at an average annual rate of 4.9 percent, compared to a 3.0 percent GDP growth. While the pattern of traffic growth over that period was generally a reflection of economic conditions, the impact of recent event-related developments on air travel demand such as events of 11 September 2001, war in Iraq and the epidemic Severe Acute Respiratory Syndrome (SARS) outbreak indicate that the air transport industry is sensitive to safety and security concerns and so called fear and hassle factors which influence consumer confidence.

Other factors that have affected traffic demand include airline costs, and hence fares and rates, regulatory developments and the access to air and tourism services. Rapid growth in the 1960s coincided with the replacement of piston-engine aircraft with jet aircraft which led to reduced real fares and increased speed and comfort of travel. In addition to an adverse effect on the world economy, sharp changes in the price of oil and aviation fuel (such as in 1973-1974 and further escalation during 1979-1981) have had important effects on airline costs.

2.3.2 New Technology

2.3.2.1 New Technologies and Its Impact on Air Transport

Internet technology and web based commerce have dramatically transformed the airlines industry in the last ten years. Information and Communication Technologies (ICTs) have always played a predominant role in the airline sector but with the advent of the internet and open source technology their impact is becoming increasingly more crucial and evident (Sismanidou, Palacios² and Tafur, 2009).

The airline industry is historically one of the most technologically progressive sectors of the economy. That is, the computer reservation systems built by the airlines in the 1960s and 1970s was one of the world's first electronic marketplaces. Furthermore, the use of paperless electronic tickets, introduced in 1996, was the key that opened airlines and other outlets to begin offering tickets for sale from their Web sites.

American Airlines was the leader in the implementation of automated reservation systems. In conjunction with IBM, the airline was able to create Semi-Automatic Business Environment Research (SABER) system in 1961, which tied a passenger's name to their seat reservation. Imitations of the American system were designed soon after, and IBM offered Programmed Airline Reservations System (PARS) to other airlines. Retail automation, which is the placing of reservation systems terminals in external locations such as travel agencies, developed in tandem with airline deregulation after 1978 in the US (Copeland and Mckenney, 1988).

The advent of online ticket purchasing, however, provided a means of eliminating the costs of selling through intermediaries. Thus, large investments in remote reservation units were no longer necessary, bringing smaller airlines back into competition with their larger competitors. According to the International Air transport Association (IATA), the cost of processing a paper ticket is about \$10, whereas processing an e- ticket cost just \$1 which means, it is ten times cheaper to issue an e-ticket than to provide a ticket through a travel agency (Doganis, 2006).

Accordingly, incentives such as Air Miles (the award given by the airlines) and discounts for round-trip fares purchased on the Web are used to encourage online sales. Given the cost savings to airlines, plus the fact that airline tickets are the "top-selling product on the Web", ticket purchasing has revolutionized the industry by improving both market and customer accessibility. Recent years have seen further advances in reservations technologies. For example some airlines can handle bookings through wireless devices, personal digital assistants, and speech-technology that can process full sentences. Other cost-cutting measures include allowing large travel buyers to book directly in airlines' reservation systems, online check-in procedures, and mega websites (e.g. Orbitz, Travelocity, Expedia) which allow customers to book other services incidental to air travel concurrently with their ticket (Doganis, 2006).

In terms of information data bases, Northwest Airlines has developed a system which has the entire travel history of its frequent flyers stored in its memory, and also tracks customers by the revenue they generate. To satisfy passengers demands for self-service options across their journey, from boarding pass to baggage collection. IATA's Fast Travel initiative meets this expectation through six specific projects: check-in, document

scanning, bags ready-to-go, flight re-booking, self-boarding, and bag recovery (IATA, 2012).

2.3.2.2 New Technologies and the Composition of the Workforce.

Airlines have embraced productivity-enhancing technological change as a consequence of intense competition in air travel markets and to the high cost of labor. Labor-saving technology has been an integral part of the industry for decades, since the primary motivation for implementation of computerized reservation systems in the late 1970s, to increase productivity gains that resulted from displacing the call center reservation-taking workforce (Copeland and Mckenney, 1988).

More recently, internet booking has allowed airlines to reduce commission costs of travel agents, and also allows airlines to reduce staff at call centers. Essentially, online ticket purchasing allows for a distancing strategy that relies on consumers to perform the unpaid work of booking their own flights. Another technology which has affected airlines workforces is the self-service check-in machine. Kinetics Inc. claims that each of their machines takes the place of two-and-a-half ticket agents in hours-worked per week equivalent. The company also asserts that its kiosks do not take jobs, but rather that they eliminate tedious work and free agents to deliver real customer service.

2.3.3 Deregulation

Deregulation means the reduction of bureaucratic intervention in business, the simplification and the reduction in the volume of legislation. The airline industry had always been a highly regulated industry from the beginning of its establishment. The deregulation or liberalization movement initially started in the US in 1978. In general, governments usually treat the airline industry differently compared to some other industries due to the sensitivity of the aviation business, which involve some national security and sovereignty issues. Hence, many airlines are regarded as national property and protected from a fierce competition in the business world from their counterparts in other industries alike. Airlines need to obtain various permits from the authorities such as landing rights in each country required on certain routes. Generally, such rights are given based on bilateral agreements between the two countries. The number of seats, flight frequency and names of corresponding airlines are stated clearly in the agreement. Respective airlines from both parties may provide the service required on the route according to the terms and conditions stated

The air transport industry is deregulated and liberalized in most regions of the world. Africa has been slow to deregulate its air transport industry. However, there is a growing trend towards liberalization of the industry on the continent. The Yamoussoukro Decision of 1999 was the main legal instruments for the liberalization of inter Africa air transport services (Chingosho, 2005). The liberalization programme on Africa continent has resulted in the liquidation of some national carriers. Several private airlines have emerged, largely focusing on domestic and regional operation. There is a progressive trend of privatizing national airlines. However; the privatization programme has so far achieved limited success. Franchising has been adopted by some airlines as a business model to enable them to survive the fierce competition in the liberalized markets. Low cost airlines have also emerged to capture the price conscious market segment in some countries on the continent.

2.3.4 Environmental Protection

Future growth in civil aviation will take place against a background of increasing public concern regarding the environment, particularly with regard to aircraft noise and the impact of aircraft engine emissions. Noise levels near airports are subject to two opposing trends: the replacement of noisy aircraft by quieter ones and the increasing number of aircraft movements. International Civil Aviation Organization (ICAO) has developed noise certification Standards (Annex 16, Volume I) and in 1990 adopted a worldwide policy enabling States to introduce operating restrictions on the older, noisier (“Chapter 2”) aircraft covered by these standards. The phase-out of Chapter 2 aircraft has now been completed at most airports where aircraft noise is a problem and governments have been turning their attention to concerns that the rapid growth of air transport could increase noise levels once again.

In addressing these concerns, the ICAO Assembly in 2001 endorsed the concept of a “balanced approach” to aircraft noise management. It consisted of identifying the noise problem at an airport and analyzing the various measures available to reduce noise through the exploration of four principal elements, namely reduction at source (quieter aircraft), land-use planning and management, noise reduction operational procedures, and operating restrictions, with the goal of addressing the noise problem in the most cost effective manner.

In 2006, a new, more stringent ICAO standard applied (“Chapter 4”). In regards to aircraft engine emissions, initially the main concern was the impact on air quality in the vicinity of airports, as a result of which ICAO developed standards for the control of gaseous emissions through an engine certification scheme (Annex 16, Volume II). More recently, there have been increasing concerns that these emissions may be contributing to global atmospheric problems. The principal issue is aviation’s contribution to climate change. In 1999, the Intergovernmental Panel on Climate Change (IPCC) prepared a Special Report on Aviation and the Global Atmosphere which estimated that aircraft contribute about 3.5 percent of the total radiative forcing by all human activities. The emissions from aircraft of relevance for climate change include carbon dioxide (CO₂), water vapor, nitrogen oxides (NO_x), sulphur oxides and soot.

The Kyoto Protocol to the UN Framework Convention on Climate Change (UNFCCC), which was adopted in 1997 but has not yet entered into force, requires industrialized countries to reduce their collective emissions of certain greenhouse gases, the one most relevant to aviation being CO₂. The Kyoto Protocol also calls for industrialized countries, working through ICAO, to limit or reduce emissions from international aviation.

Future concerns about aviation’s role in both climate change and local air quality are largely due to the projected continued growth. Because of improvements in fuel productivity, growth rates for emissions are less than those for traffic growth. While fuel productivity improvement is expected to continue, there are no easy technical “fixes” for aviation and total emissions will continue to increase.

In the case of CO₂ (which is not controlled by the present standards), improvements can only be achieved by reducing the rate of fuel consumption. Operational measures, as well as the use of market-based options such as voluntary agreements, emissions trading or emission-related levies (charges or taxes), are all under consideration.

2.4 Safety and Quality of Service

Air transport has a strong tradition of giving top priority to safety. The traffic growth, productivity improvement and cost and yield reductions described above have been occurring, according to 2004 International Civil Aviation Organization (ICAO) report a substantial improvement in the safety of air travel has been achieved. The number of

passenger fatalities per 100 million passenger-kilometers flown has fallen from 0.8 in 1960 to 0.08 in 1980, 0.03 in 1990 and has ranged between 0.05 and 0.02 since then (International Civil Aviation Organization ICAO,2004).

There have also been significant enhancements in the quality of service provided to airline customers. There are many dimensions to the quality of service, including journey time, convenience and reliability of service, comfort in the aircraft cabin and the range of on-board facilities. Some of these factors are difficult to measure in an objective fashion. However, increases in aircraft speed and average stage length have been achieved, with positive consequences for journey times and passenger convenience.

2.5. Organization Performance

The Organizational Performance Management process area enables the organization to manage organizational performance by iteratively analyzing aggregated project data, identifying gaps in performance against the business objectives, and selecting and deploying improvements to close the gaps. In this process area, the term “improvement” includes all incremental and innovative process and technology improvements, including those improvements made to project work environments. “Improvement” refers to all ideas that would change the organization’s processes, technologies, and performance to better meet the organization’s business objectives and associated quality and process performance objectives.

Some of the example of organization’s business objectives are:

- Improving product quality (e.g. functionality, quality attributes)
- Increasing productivity
- Process efficiency and effectiveness
- Increasing consistency in meeting budget and schedule
- Decreasing cycle time
- Greater customer and end-user satisfaction
- Shorter development or production time to change functionality,
- Adding new features, or adapting to new technologies
- Improving performance of a supply chain involving multiple suppliers
- Improving use of resources across the organization

2.5.1. Measures of Performance

Performance is the execution or accomplishment of work, tasks or goals to a certain level of desired satisfaction. In this study, however, organizational performance is defined in terms of the ability of an organization to satisfy the desired expectations of three main stakeholders including of owners, employees and customers. This is measured in terms of the following parameters:

- (i) Owners' satisfaction with financial returns or profits from organizational operations.
- (ii) Employees' satisfaction with the conditions of work, such as wages and compensation, style of supervision, rapid promotion and the ability of the organization to guarantee job security.
- (iii) Employees' expressed a desire to stay with the organization, i.e., the ability of the organization to retain its workforce.
- (iv) Customers' expressed satisfaction with the quality of the products or service of the organization.

2.5.2 Airline Performance

Airline performance is a combination of financial and non-financial performance measuring and estimating the performance of airline industries has always been of interest to airline management team and researchers. In this regard, some researchers focused on financial indicators to estimate performance in airline industry, while some only dealt with non-financial indicators. There were also studies that focused on both financial and non-financial airline performance (Jenatabadi and Ismail, 2012).

Measuring Airlines' performance needs to consider the following four variables: load factor and market share as non financial performance, that of revenue passenger kilometer and operating profit for financial performance, internal indicators are the main factors in airline industry that can be changed by the management based on company's strategies and polices. Those factors are number of departure, average stage of length, advertising expenses.

Airlines are used various techniques to be competitive in the global transportation market, by studying the variables that impact on their productivity and price recover ability. This computation in the industry has put pressure on carriers' ability to raise pressure prices.

However input prices, like labor, fuel, materials, flight equipment, ground property and equipment have been increasing. Hence, airlines have made tremendous effort to improve efficiency to counteract such trends, yet large fluctuations in profitability are still an ongoing reality.

2.5.3 Economic Indicators that Influence the Airline's Performance.

Economic indicators cannot be controlled by organizations, and their influence depends on the economic situation of the company. Variables such as inflation rate, gross domestic products, and human development index are used as economic indicators to study the customers' demand of air transportation (Jenatabadi & Ismail, 2012).

The airline industry, like many other industries, is increasingly exposed to competition, and vulnerable to economic cycles. Increased competition has two effects on firms: it creates downward pressures on output prices, and it creates incentives for improving productivity and efficiency. Many airlines have been forced to undertake major restructuring in order to meet these challenges. On the other hand airlines industry has produced a collective loss when the global economy, GDP growth falls. According to the International air Transport Association (IATA) annual report, Airlines made a profit of \$7.9 billion in 2011. That is half of the \$15.8 billion profit realized in 2010 on the contrary airlines profit declined when the global economy, GDP fall by 2% due to the rise of fuel price in the world (IATA, 2012).

One of the most important economic factors used in a variety of economic research is Gross Domestic Products (GDP), which has been treated as one of the effective factors on performance of airline since 2000. For example, a study was conducted to investigate the performance of airlines industry in India, according to economic variable of GDP and other internal variables of the companies. The sample population in this research was airline industry in India and the researcher used the concepts of error correction and co-integration to analyze the data. The overall results demonstrate that, in India, the passenger-kilometres (PKM) are likely to rise faster than GDP, and even much faster than urbanization. The tone-kilometers (TKM) are significantly associated with industrial growth, and are likely to increase more quickly than the industrial production index. This factor also affects the demand rate in airline industry, in other words when the GDP increases, the number of people's travel increases accordingly which can be attractive to entrepreneurs coming into the business (Jenatabadi and Ismail 2012). Therefore, air travel demand generally depends on GDP although the growth of demand is faster than GDP.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

In undertaking this research the researcher used both qualitative and quantitative methods to build on existing research studies and methodologies. The main purpose of this research is to assess the impacts of globalization on Ethiopian aviation industry. The time period of this study covers 2003-2011. Since 2003, Ethiopia's economy has been growing steadily aided by an encouraging economic policy contributing for the recovery of the agricultural sector and attraction of foreign direct investment. According to the IMF Gross Domestic Product (GDP) figures for 2007, Ethiopia had the fastest growing economy in Africa among countries whose economy is not driven by Oil revenue. Ethiopia had achieved 11.5% & 11.6% GDP growth in 2007 & 2008 respectively, which is well above the 6.1% average for Sub-Saharan Africa (SSA) as reported by the International Monetary Fund (IMF) in 2012. According to Ethiopian Government's forecast Ethiopia's GDP was expected to expand by 10.2% in 2009 and 10.0% by 2010 instead the real GDP Growth in 2010/2011 was 11.4%.

The success of any business will ultimately be decided by its relevance to the market. No matter how well run a transport operation is, its long-term justification is premised on a demand for its services, regardless of its ability to make profits and/or satisfy social objectives (A. Hensher and M. Brewer 2001).

3.2 Sample and Sample Design

Under the umbrella of Ethiopian aviation group there are seven strategic business units:

- 1) Ethiopian International Passenger Airline, 2) Ethiopian Domestic Airline,
- 3) Ethiopian Cargo, 4) Ethiopian MRO Services, 5) Ethiopian Aviation Academy,
- 6) Ethiopian In-flight Catering Services, and 7) Ethiopian Ground Services.

Among those business groups the researcher is planned to study on Ethiopian international passenger airline and Cargo business units, based on the following reasons:

- It is suffering from irregular and low profit margin as part of the passenger air transportation industry, because most of its revenue goes to fuel, maintenance and other related expenses.

- It is highly susceptible to outside risks that are considered as non-business factors.
- It is highly dependent on marketing forecasting and economic influences compared to other transport industries and business units

The researcher can get reliable and legitimate data from international air transport organization that will help in analysing the study.

3.3 Population

The study population consists of the following:

- 1) Ethiopian airlines Management staff/groups,
- 2) Non-Management staff, and
- 3) Ethiopian airlines' international flight customers.

The researcher have taken the airlines employees (over 6000) as a study population, which is working in the head office in Addis Ababa for his study due to the fact that they are readily accessible to the researcher and he also believes that they can represent the effects in the entire branches of the airlines in the country because they are large in numbers compares to the branch workers and almost all functions of the airlines are performed at head office.

- From the study population, the researcher has taken 200 samples based on the judgement sampling method. It is the best method for this specific study since the targeted key informants will include higher level manager who are typically top decision makers of the Airline and Operation staff includes Cargo and marketing staff, are most knowledgeable about the airline's overall transportation activities.

3.4 Instrument for Data Collection

The following techniques of data collection were used:

- (i) Sample survey or structure self-administered questionnaire prepared for, Managements, Customers and Core Operation staff.
- (ii) Direct observations of the work places.
- (iii) Documents; additional data were also collected from secondary sources such as Annual Reports of the airlines and other relevant reports such as International Civil Aviation Organization (ICAO), Federal Aviation Regulation (FAA), International Air Transport Association (IATA), Boeing and Air bus aircraft manufacturer companies.

3.5 Techniques of Data Collection

Organization performance is measured using self-reported items that reflect the level of a managers' satisfaction in terms of return on investment, sales goals, profit goals, growth, and including employees' and customers' satisfactions. These items were adapted to focus to the main point of the research whenever possible and are rated on seven point scale (1 = very unsatisfactory and 7 very satisfactory) and the questioners include subjective questions that that enable the researcher to get employees' and customers' ideas related to the airlines performance.

The secondary financial data indicating that the revenues, operational expenses and the net profit of the airlines starting from the period of 2002 to 2011.

3.6 Procedure for Data Analysis

The data for this study were analyzed using simple percentages, cross tabulations, graph, and ranking. Furthermore, the use of triangulation method was adopted in this study. The triangulation method involves the use of more than one form of data collection to test the same hypotheses within a unified research plan. By combining methods in the same study, researcher can partially overcome the deficiencies that flow from employing one method.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

In this part the researcher presented the findings of the extent of globalization phenomenon influences the Ethiopian airlines performance from the primary and secondary data by using qualitative and quantitative analysis. Hence in this chapter the term Globalization is expressed in terms of political, economical, technological and environmental factors such as:

- Macro economic factors include volatility of fuel price, inflation, gross domestic product (GDP), and foreign direct investment (FDI);
- Political factors, includes nations interdependence, privatization, deregulation and trade liberalization;
- Technological factors, such as information technology, fleet modernization etc; and Market integrations factors such as strategic alliance.

4.1 Global Economic Trends versus Air Transportation Performance

Multiple indicators were used to assess the impact of globalization on the airlines performance. One of the relevant determinants of air transportation performance is demand of air transport. Airlines analysis the current market outlook, by examining key industry indicators, including fuel, market liberalization, emerging markets, economic growth, the environment, the technological advancement, and the increased number of competitors, the political stability of the countries, exodus of skilled manpower and the level of customers satisfaction.

Global and regional economic cycles extremely affect air travel demand, so it is essential for the airlines to take the current phase of the economic cycle into account in developing the long-term strategy. Historically, declines in economic activity are often associated with unexpected events. The flexibility of air travel demand to unsettling event depends on the nature of the event and the extent to which the event affects air travel, directly or indirectly. For example, events related to personal safety, such as epidemic disease, war, or threats against aircraft, has a greater effect than commercial or political events. Anxieties from the long-term demand trend are typically relatively short lived, lasting

around 12 months. Air travel is an essential part of personal and business life for many travellers. The internet, mobile connectivity, and social media are increasingly integrated into daily life, including how we research, discuss, plan, and book travel. At the same time, improved airplane technology and efficiency are allowing airlines to make air travel more affordable, so airfares generally represent a smaller portion of total trip costs.

Worldwide economic activity is the most powerful driver of commercial air transport growth and the resulting demand for airplanes. According to the Boeing Aircraft Manufacturer Company 2012-2031 forecast, the global gross domestic product (GDP) is projected to grow 3.2 percent per year for the next 20 years, driving worldwide air passenger traffic to average 5.0 percent and air cargo traffic to average 5.2 percent annual growth over the same period. Emerging economies are projected to grow 5 percent per year over the next 20 years, faster developed economies, which will average 2 percent growth. Emerging and developing economies will account for 72 percent of global growth between 2011 and 2031. Their share of real global GDP will increase from 30 percent to 44 percent over the same period (Boeing Current Market outlook, 2012).

Household income will grow and consumption patterns will change as educated labour forces expand investment in physical and social infrastructure increases, urbanization progresses, and the relative importance of economic sectors shifts within the world's emerging economies. With urbanization, the labour force shifts toward the industrial and service sectors, these encourage middle incomes to progress towards the income levels of developed economies. The emerging global middle class will expect to enjoy standards of living comparable to those in developed economies. As demand for international goods and services rises and leisure time increases, appetite for travel will grow.

As the figure 4.1 clearly indicated that, the fastest growing economies include China projected 6.6 percent growth annually, followed by Africa 4.1 percent growth, Latin America 4.1 percent, Middle East 3.8 percent, North America projected 2.6 percent and Europe 2.0 percent growth.

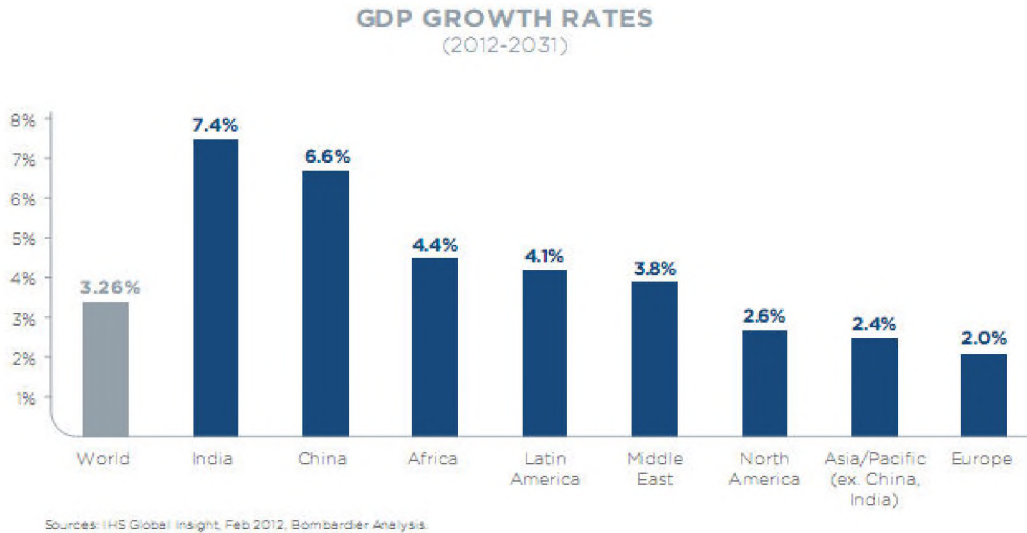


Figure 4.1 GDP Growth Rates

4.1.1 Commercial Aircraft Order and GDP Growth

Demand for air travel is also reflected in orders for new aircraft. New aircraft order intake more than quadrupled from 2009 to 2011. Net orders rose to 2,381 units in 2011, up from the 2010 total of 1,414 units, which itself more than doubled the 2009 pace of 556 aircraft orders. As the figure 4.2 clearly indicated the status of global industry inter related the amount of aircraft order. In general, the growth of the world economy increases the transaction of trades and the movement of people in the form of labour force and recreations. Thus increasing of the demand for air transportation and the purchasing of new air craft or the lease of air crafts to satisfy the demands. In contrast the recession of the world economy decreases the transactions of trades and the financial power of the people to choose air transportation to move from place to place. Hence, the air transportation demand and the income of the airline decrease.

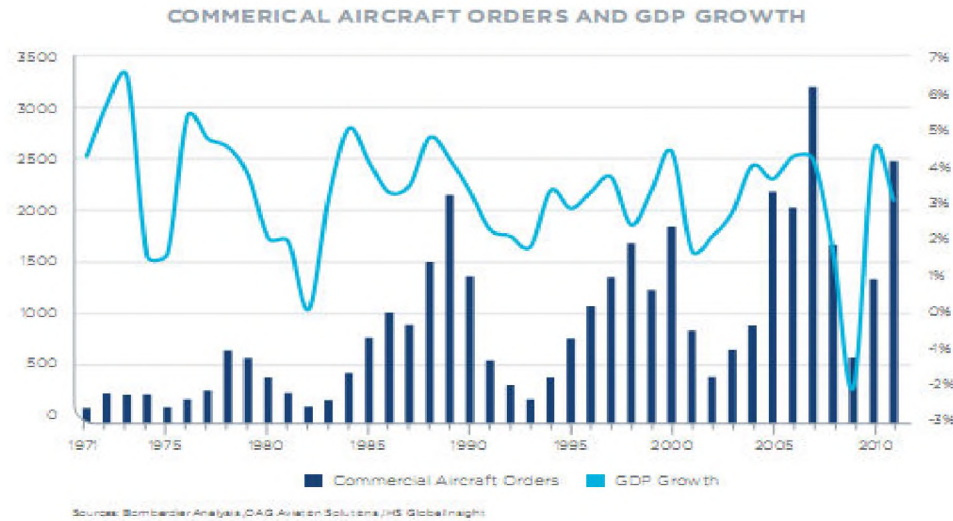


Figure 4.2: Commercial Aircraft Orders and GDP Growth

4.1.2 Population Growth, Urbanization and GDP

Population Growth and urbanization, the inclination for air travel is closely associated with wealth (as represented by per capita GDP) and urbanization. As both wealth and urbanization increase, particularly in emerging economies, the impact on commercial aviation is expected to be profound. The Organization for Economic Co-operation and Development (OECD) estimates that middle-class consumer spending, as a reflection of a region's per capital GDP, will expand rapidly in emerging economies. In Asia/Pacific (including China and India in the OECD analysis), middle-class consumer spending is expected to get bigger, from \$5.0 trillion in 2009, to \$32.6 trillion in 2030 on purchasing this desire in turn increase demand for air transportation. The purchasing power parity basis in other emerging markets, the increase is expected to be substantial, if not spectacular spending in Central/South America is expected to grow from \$1.5 trillion to \$3.1 trillion, while the Sub-Saharan Africa will see middle-class consumer spending grow from \$0.8 trillion to \$2.0 trillion by 2030. Spending in the Middle East and North Africa is expected to grow from \$0.3 trillion to \$0.8 trillion over the same period (Bombardier Air Market Forecast,2012).

MIDDLE-CLASS CONSUMER SPENDING IN TRILLIONS USD*

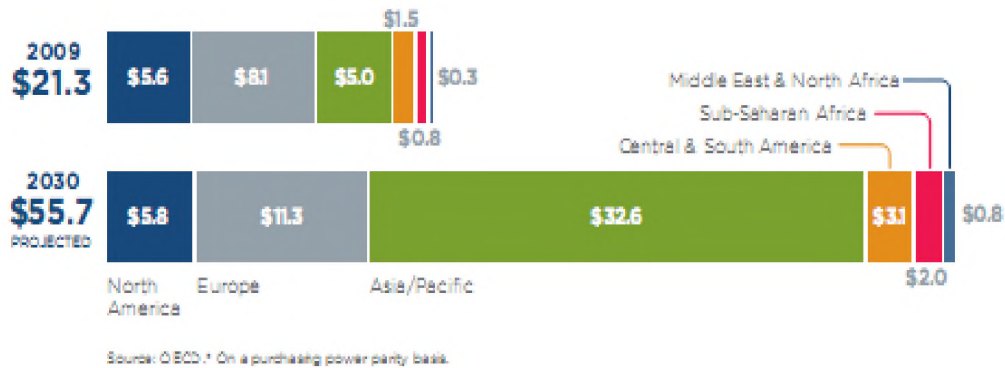


Figure 4.3 Middle class Consumer Spending in Trillions USD

In contrast, while middle-class consumer spending in mature markets is expected to continue growing, the increases are much smaller, with the result that, by 2030, Europe and North America together are expected to account for approximately 30% of the world's middle-class consumer spending, compared to approximately 64% in 2009 (Bombardier Air Market Forecast, 2012).

Rapid urbanization is also a feature of many of these fast-growing economies and presents an even more dramatic picture of large-scale global change. The United Nations estimates that the population of the world's urban areas will increase by more than 1.1 billion people over the period from 2009 to 2025. Urbanization will continue in Europe, and more so in North America. However, approximately 92% of that urban growth will occur in Africa, Latin America, India, China, and the rest of Asia, leading to increased demand for air travel in those regions. As the annual 2010/11 report indicated, 34% of the Ethiopian airlines' annual revenue comes from Asia, 32% from Africa and 28% from Europe and America.

4.1.3 Oil Price and Performance of Air Transportation Industry

Oil price and volatility- The outlook for consistently high oil prices and continued oil price volatility presents some of the biggest challenges for the world airline industry. Jet fuel which closely tracks the price of crude oil represents airlines' largest single expense, now amounting to 34% of operating costs on average, according to IATA. With this large

and growing influence, oil prices and oil price volatility are major determinants of the size and other make-up of the commercial aircraft fleet of the future.

From an average price of \$80 a barrel in 2010, oil prices rose by \$20 to \$100 per barrel in 2011. The prices spiked higher, and continued upwards by 8% in the year of 2012. Although peak prices have not reached the \$147 per barrel experienced in July 2008, neither have they retreated to the December 2008 low of less than \$35 per barrel. With 2011 average oil prices 25% higher than 2010, we anticipate that prices will remain above \$100 per barrel through 2012 and, indeed, throughout the 20-year forecast period. In fact, the U.S. energy information administration (EIA) revised its 20-year average oil price forecast from \$107 per barrel in 2011 to \$126 per barrel in 2012 (annual energy outlook 2012 early release), a nearly \$20 increase.

Further, as observers have noted, a continuation of the unrest in the Middle East, particularly the threatened closure of the Strait of Hormuz (a major oil trading passage), could drive oil prices to the \$150 per barrel range, resulting in an estimated 2012 average price of \$135 per barrel. While oil prices directly affect airlines' profitability, they also influence fleet decisions and drive network optimization strategies. These influences are reflected in increasing demand for highly fuel-efficient, high-productivity solutions, such as Boeing 787 aircraft and other modern turboprop aircraft. Oil price volatility challenges airlines' ability to forecast passenger volumes, airline workloads and fleet replacement timing decisions.

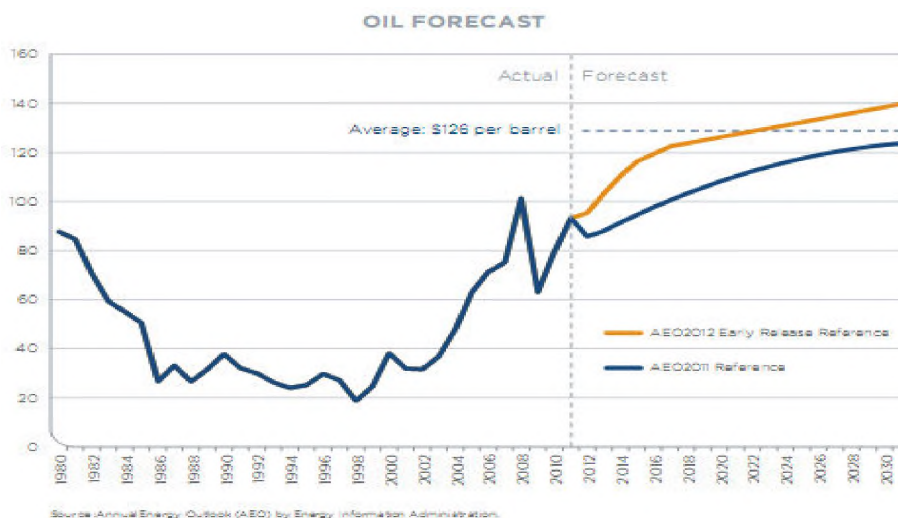


Figure 4.4: Oil Price Forecast

4.2 Global Airlines Industry Trends

The financial outlook for the world's airlines remains in a state of instability as broad economic concerns continue to work their way through deeply interconnected, interdependent global economic system. Against this backdrop, demand for air transportation remained strong through 2011 and into 2012. IATA reported that total passenger demand increased by 5.9% in 2011, with a 4.8% expected increase in total passenger kilometers flown in 2012. IATA data covering the first four months of 2012 reflected an overall 7.1% increase in passenger traffic, while capacity available seat kilometres (ASKs) increased 4.9%. As a result, passenger load factors grew to 77.5%. Global airline revenues have increased through out the period of economic recovery, from a low of \$476 billion in 2009, to \$547 billion in 2010, and to \$597 billion in 2011, representing a 9.3% year-over-year increase.

According to IATA, global airline profitability improved significantly, from a net loss of \$4.6 billion in 2009 to total net profits of \$15.8 billion in 2010, before declining to \$7.9 billion in 2011. Should the world economy slip further to a growth rate of just 2%, IATA observes that historically, this slow growth rate has resulted in the airlines sliding into industry wide losses.

IATA's central forecast for 2012 anticipated a further decline in airline profitability, to just \$3.0 billion. As clearly indicated in the table 4.1 Regionally, Asia/Pacific is expected to perform best, as per IATA's central forecast scenario, indicating profitability of \$2.0 billion. North America airline profitability is expected to be \$1.4 billion, Middle East \$0.4 billion and Latin America \$0.4 billion.

Airlines in Europe and Africa are expected to incur new losses of \$1.1 billion and \$0.1 billion, respectively. In summary, the economic recovery is continuing and demand for air transportation also continues to build with it, subject to the challenges posed by slow growth in global gross domestic product and high oil prices. In the face of these challenges airlines have shown creativity and consistency, in addressing their expenses a scenario in which operating a modern, highly fuel-efficient aircraft fleet remains the single most important strategy for business viability and long-term success.

AIRLINE INDUSTRY NET PROFIT (BILLIONS USD. \$)

Region	2007	2008	2009	2010	2011	2012F
World	12.9	-16	-4.6	15.8	7.9	3
North America	3.7	-9.6	-2.7	4.1	1.3	1.4
Europe	6.4	0.0	-4.3	1.9	0.5	-1.1
Asia/Pacific	3.0	-4.7	2.6	8.0	4.9	2.0
Middle East	-0.1	-0.3	-0.6	0.9	1.0	0.4
Latin America	0.1	-1.4	-0.5	0.9	0.3	0.4
Africa	-0.2	-0.1	-0.1	0.1	0.0	-0.1
Ethiopia Airlines*	0.02	0.04	0.07	0.08	0.02	

Source: International Air Transport Association (ATA), June 2012.

*Compiled data from Ethiopian airlines annual reports

Table 4.1: Airlines Industry Net Profits

4.3 Airlines and the Environment

Environmental issues and increasing environmental regulation have been increasing the shape the world's airline industry and infrastructure over the 2012 - 2031 forecast periods. These issues can be broadly categorized as: local air quality, aircraft emissions and community noise. The aviation industry has improved its performance in these areas consistently over more than 50 years.

Greater fuel efficiency directly boosts airline profitability and aircraft operations have become 20% more fuel efficient over the past 10 years alone. Modern aircraft now achieve fuel efficiency of 3.5 litres per 100 passenger kilometres, roughly comparable to today's leading hybrid passenger cars, with much greater speed.

Other environmental performance highlights:

- Today's aircraft fly three times farther on the same fuel than 30 years ago, a today's aircraft fly three times farther 75% gain in fuel efficiency per passenger

kilometer. New aircraft are 70% more fuel efficient than 40 years ago (International Air Transport Association,(AITA) ,2012).

- The maximum range of commercial jet aircraft has increased to 15,200 km from 5,190 km in 1960, carrying more passengers farther, with less fuel. While passenger traffic (in revenue passenger kilometers) has increased at an average of 5% annually, increasingly efficient aircraft operations have limited emissions growth to about 3%(International Air Transport Association (IATA) ,2012).
- Today's aircraft are 50% quieter than those 40 years ago. Current ICAO Chapter 4 requirements are 35-40 decibel (DB) quieter than the requirements 40 years ago.

In summary, the world aviation industry is actively addressing environmental concerns through the retirement of older aircraft, fleet modernization, application of technology, and improvements in operations and infrastructure. Growing environmental awareness and increased environmental regulation will increase demand for efficient new aircraft.

4.4. Overview of Economic Growth and Development in Ethiopia

4.4.1 GDP by Economic Activity

Ethiopia has both medium and long term visions. Its medium term vision is to achieve the Millennium Development Goals (MDGs). This should be achieved at the end of the implementation of the five-year plan, named as the Growth and Transformation Plan (GTP). The planning period for the GTP spans the period 2010/11-2014/15. Its long term vision, on the other hand, is to build on the achievements of the GTP and become a middle income country in the coming ten years (MoFED, 2011).

The main development objective of Ethiopia is to eradicate poverty in a relatively short period of time. This would be achieved by implementing broad based development policies that would not only enhance economic growth but would also adhere to the principles of an equitable distribution of the benefits from such growth. In the past decades, the Government of Ethiopia designed and implemented two development plans. The first was a three-year plan called Sustainable Development and Poverty Reduction Program (SDPRP), which was executed during the years 2002/03-2004/05. This was followed by the five-year plan: the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) which covered the period between 2005/06 and 2009/10.

As predetermined in the pillar strategies of PASDEP it is imperative to have an accelerated and sustained economic growth in order to tackle the daunting poverty challenges faced by the country and to improve the livelihoods of people. Cognizant of these objectives, enormous development efforts have been exerted in key sectors. As a result, the Ethiopian economy has witnessed a sustained, broad based and double-digit growth for the last eight years. This is an indication that Ethiopia is traversing on the right path that would enable it to meet its development objectives

	mm 2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
MGDPs growth rates								
<i>Sector</i>	11.7	12.6	11.5	11.8	11.2	10.0	10.6	11.4
<i>Agriculture</i>	16.9	13.5	10.9	9.4	7.5	6.4	7.6	9
<i>Industry</i>	11.6	9.4	10.2	9.5	10.0	9.9	10.8	10.8
<i>Services</i>	6.3	11.8	13.3	15.3	16.0	14.0	13.1	12.5
Sectoral share (m %)								
<i>Agriculture</i>	47.0	47.4	47.1	46.1	44.6	43.2	42.0	41.1
<i>Industry</i>	14.0	13.6	13.4	13.2	13.0	13.0	13.0	13.4
<i>Services</i>	39.7	39.7	40.4	41.7	43.5	45.1	46.4	46.6
Growth rates (Current Market Prices)	18.0	22.0	23.6	30.6	44.4	35.1	14.2	23.5
								27.8

Source: MoFED

Table 4.2: GDP growth rate by sector (2003/04-2010/11)

As clearly indicated in the table 4.2 the GDP growth of the country was double digit per year. In the year 2003/04 registered 11.7% real GDP growth rate. Such double digit growth has been sustained throughout the eight consecutive years that led to a simple average real GDP growth rate of 11.4%. The real GDP growth rate for 2010/11 is 11.4%. This is one of the highest growth rates registered by Sub-Saharan countries. The average growth rate for these economies was only 5.2%. The growth registered by Ethiopia is not only the fastest, but is also broad-based in the sense that agriculture, industry and services sectors registered commensurate growth rates (10.2%, 10.8% and 12.9%, respectively).

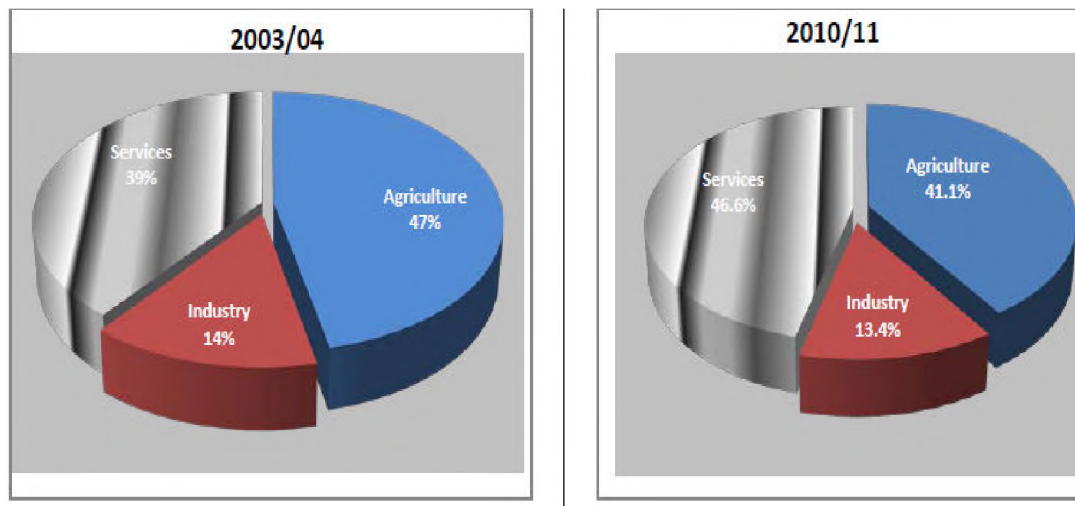
It is, however, worth noting that the prevailing international economic crisis, though mild compared to its impact on other countries, had some consequences on the growth registered during 2008/09. The high price movements that occurred during the last four fiscal years led to high levels of nominal growth rates. In this regard, a 27.8% average annual growth rate had been registered for nominal GDP during the period 2003/04-

2010/11. This growth rate reached its peak in 2007/08 (44.4%) and declined significantly in the subsequent two years and showed an upward movement in 2010/11.

4.4.2 Trends of Sectoral Distribution of GDP in Ethiopia

As clearly indicated in the Figure 4.5 .the sectoral distributions in terms of the structure of the economy, the contribution of agriculture to overall GDP was 47% in 2003/04. The share declined gradually but steadily and reached 41.1% in 2010/11. The share of industry showed no significant change, accounting on average for 13.3% of the total value added over the last eight years. On the other hand, during this period, the service sector became the dominant in the economy with its share increasing from 39.7% in 2003/04 to 46.6% in 2010/11.

According to the trend of increase in the agriculture, industry and service sectors there is also an increase in the airline performance in relation to this progress. It is explained in terms of increase in transportation of agricultural products such as horticulture through cargo service. In addition the transport of commodities and semi finished products like leather from the industries is also inclining. Thus the income of the airline is directly related with the increase in the sectoral distribution of GDP in Ethiopia.



Source: MoFED

Figure 4.5: Sectoral distribution of GDP in 2003/04 and 2010/11

4.5 Trends of Tourism in Ethiopia and Air transportation

Tourism is seen an important component of the country's economic development, because of its spill-over effects in developing infrastructure (roads and airports especially), construction of hotels and other facilities, job creation and image-building for the country. In 2011, world tourism continued to rebound from the setbacks of 2008-2009, in a year marked by persistent economic turbulence, major political changes in the Middle East and North Africa, and the natural disaster in Japan. Worldwide, international tourist arrivals (i.e. overnight visitors) grew by 4.6% in 2011 to 983 million, up from 940 million in 2010 when arrivals increased by 6.4% (UNWTO, 2012).

In 2011, travel for leisure, recreation and holidays accounted for just over half of all international tourist arrivals (51% or 505 million arrivals). Some 15% of international tourists reported travelling for business and professional purposes and another 27% travelled for other purposes, such as visiting friends and relatives (VFR), religious reasons and pilgrimages, health treatment, etc. The purpose of visit for the remaining 7% of arrivals was not specified.

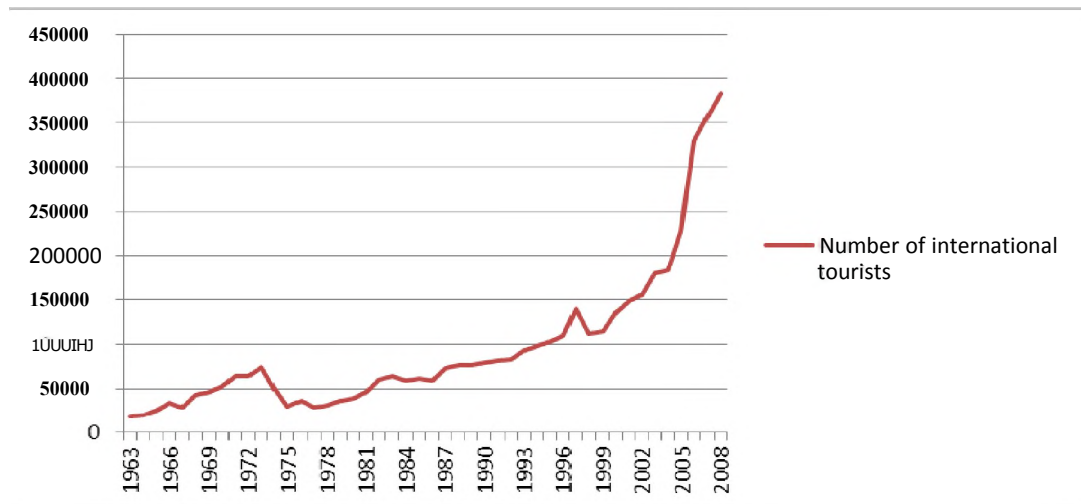
Slightly over half of travellers arrived at their destination by air transport (51%) in 2011, while the remainder travelled over the surface (49%) - whether by road (41%), rail (2%), or over water (6%). Over time, the trend has been for air transport to grow at a somewhat faster pace than surface transport, so the share of air transport is gradually increasing (UNWTO, 2012).

The Ethiopia tourism sector has experienced a robust growth in recent years; the number of tourist arrivals in to the country has doubled since 2004; in 2008 alone more than 384 thousand tourists have visited the country.

The government is proving its commitment to develop the country's tourism through a number of initiatives. The culture and tourism ministry is committed to transform the country as one of the top ten tourist destinations in Africa by year 2020. According to World Tourism Organization report, in 2010, Ethiopia has been visited by more than 468,000 international tourists (UNWTO, 2012).

The increasing number of tourists visiting Ethiopia is directly related to the airlines passengers carried because most of the tourist prefer to travel by air transport ,due to

deregulation of the Ethiopian immigration policy ,the number of religious traveller increases from Ethiopia to different countries .For examples, the Muslims religion followers travel to Mecca Medina for celebrating religious ceremony and also the Christianity followers travel to Jerusalem for visiting religious places. Thus, these events increase the demand for air transportation as well as Ethiopian airlines passenger carried annually.



Source: Ministry of Culture and Tourism, 2010

Figure 4.6: International Tourists arrivals in Ethiopia

4.6 Demographics and Demand of Air Transportation

The combination of low birth rate and low death rate is not only shrinking the population of the developed world but also it is making an aging population. Rapid aging of the developed world population is creating demographic problems to these countries like Italy, France, Portugal, Germany and Japan. On the other hand there is high population growth in the developing countries.

This will result in more immigration from the developing countries to join the shrinking work force in the developed countries. The affluent aged but rich population of the Western countries will also increase mobility in the form of tourism. Those events enable the airlines to increase the number of passenger carried. Furthermore, the global distribution of population will remain roughly constant but 60% will live in cities. Population growth and higher mobility combined together will cause air travel to grow very fast.

4.7 Legal Issues and the Aviation Industry

In the regulatory regime, deregulation, liberalization, and open sky policy are the catchwords of the day in network carriers of Europe and the USA. Globalization of airline activities has emerged to exploit from the liberalized market. Airlines are forced to look for strategic alliances and joint ventures. Although the implementation of the Yamoussoukro Decision for liberalizing Africa's air space has so far been slow, it is anticipated that more and more countries will liberalize their air spaces as we move into the future. The aviation industry in general is now moving into an environment characterized by: open route entry; unrestricted capacity; unrestricted traffic rights; unrestricted frequency; free pricing; open sky.

4.8 Air Transportation in Ethiopia

The operation of transport organization service determined by the demand for its services and the estimation of expected future demands. Transport is a service rarely in demand for its own characteristics. Demand for public transport, road freight facilities or airline services are usually derived from some other functions. The demand level for transport is related directly to the demand level for the product or service. It is therefore essential for a transport organisation to establish a demand pattern for its services.

Environmental factors play a significant role in airlines performance and ultimate bottom line, the profit. Yet often times, airlines are unable to directly control these factors. Factors such as Political, economical, sociological, technological, ecological, and regulatory environments impact on airlines performance and success.

In Africa, the demand for air transport services has been on the increase within the past three decades. There has been growth in passenger, aircraft and freight traffic as a result of physical and economic development, increase of export trade, movement of people, and relatively better political stability of the nations.

In Ethiopia the air transport sector is a critical focal point to open up the country to foreign investor, import and export trades and movement of labour forces. Thus, the government has established attractive investment policy to promote foreign investor to invest their resources in Ethiopia, consequently the number of foreign investment in Ethiopia, increases in significant numbers. The emerging of FDI in a country increases the

movement of people. As a result of this, the number of passengers and freight service increases from time to time.

Regional political instability in Africa is a major threat for Ethiopian Airlines as its major market is within Africa. However, political stability in Africa is assumed to prevail or even greatly improve at this current situation. The political, economic and social transformation embarked on by Ethiopia and the prevailing peace and stability in the country would contribute to stimulating travel to/from Ethiopia and will continue to do so in the future. Generally, economic activities have direct impact on demand of air transport services.

4.8.1 Overview of Ethiopian Airlines Operating and Financial Results.

The Airline’s level of operation and operating results in the fiscal year 2010/11 was higher than the previous year in all parameters. Capacity availed in terms of Available Seat Kilometres (ASK), Available Ton Kilometres (ATK) and Block Hours have increased during 2010/11 compared to 2009/2011.

Operating Results		Financial Results	
2010/11	2009/10	2010/11	2009/10
ASK (M-Xtuu)	ASK	Revenue	Revenue
ATK (AAtWt)	ATK	Operating Profit	Operating Profit
		EBITDA	EBITDA
		Net Profit	Net Profit

Source: Ethiopian airlines 2010/11 annual report.

Table 4.3 Overview of Ethiopian airlines 2010/11 Operating Results

Block Hours -The total block hours flown during the year were higher than the previous year by about 17%. This was mainly due to additional capacity and opening of new destinations.

Available Seat Kilo Meters (ASK) - Seat kilometres availed during 2010/11 was higher than the preceding year by 24% mainly due to commencement of new services to Maputo,

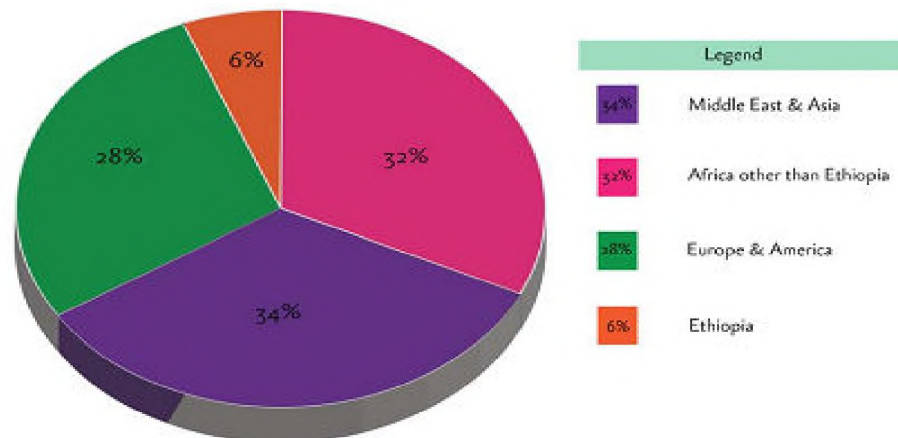
Bangui, Hangzhou, and Malakal and availing better capacity brand new aircraft B777-200LR.

Available Ton Kilo Meters (ATK)- The total ton kilometres availed during the fiscal year 2010/11 was more than the actual ton kilometres availed during the preceding year by 23%. This increase was mainly due to the addition of the B777-200LR aircraft into our passenger system and the continuous increase of our cargo operations. Revenue on Kilometres-The better results achieved in passenger and freight traffic has contributed to the overall increase in revenue ton kilometres recording growth rate of 18%.

Revenue Passenger Kilometres (RPK)-The RPK has increased by 23% compared to the preceding year. The increase is mainly attributed to the capacity growth and traffic increase on international schedule services.

4.8.2 Revenue by Geographical Location

As clearly indicated in the figure 4.7 the airlines revenue generated from different regions' customers such as 34% of revenue from Middle East and Asia, 32% revenue from Africa other than Ethiopia, 28% of the revenue from Europe and America and 6% of revenue is generated from Ethiopia international market. This shows that the airlines performance is highly dependent to the global economy.



Source: Ethiopian Airlines 2010/11 Annual Report

Figure 4.7: Revenue by Geographical Location

4.8.3 Ethiopian Airlines Financial Performance Trends

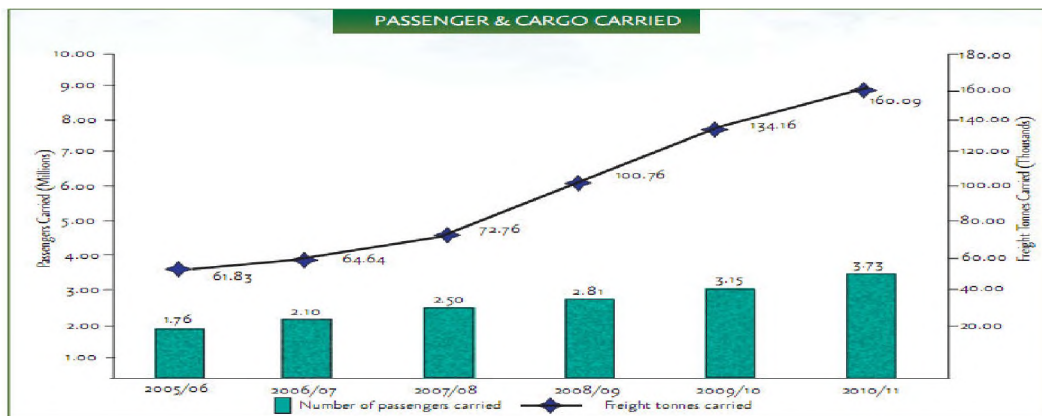
Fiscal Year	Total Operating revenue(Birr)	Total Operating expense(Birr)	Net Profit Before Tax(Birr)	Compared to the preceding year(%)Revenue
2001/02	2,515,876,000.00	2,292,707,000.00	223,169,000.00	6.1%
2002/03	2,832,713,000.00	2,697,181,000.00	135,532,000.00	12.6%
2003/04	3,420,164,869.00	3,150,900,363.00	269,264,506.00	20.7%
2004/05	4,327,800,000.00	3,950,461,000.00	377,339,000.00	26.5%
2005/06	5,398,507,665.00	5,161,982,062.00	236,525,603.00	24.7%
2006/07	6,887,695,043.00	6,689,653,876.00	198,041,167.00	27.6%
2007/08	9,199,339,048.00	8,771,618,119.00	427,720,929.00	33.6%
2008/09	12,213,744,300.00	11,239,575,264.00	974,169,036.00	32.8%
2009/10	16,816,362,661.00	15,436,097,093.00	1,380,265,568.00	37.7%
2010/11	24,759,277,395.00	24,346,100,134.00	413,177,261.00	47.2%

Source: Own manipulation from Data of Ethiopian Airlines annual reports

Table 4.4 Ten years Ethiopian Airlines Financial performance Trends

As clearly shown in the table 4.5, compared to the total revenue of the previous year of (2000/01), the revenue generated during the year 2001/02 grown by 6.1%. In 2002/03, the growth rate of revenue was 12.6% which was greater than the operation period of 2001/02, and this growth continued in the same fashion and finally the operational revenue of 2010/11 was 47.2% more than the revenue generated in 2009/10 operational period revenue.

4.8.4 Trends in Passenger and Cargo Carried



Source: Ethiopian airlines 2010/11 annual report

Figure 4.8: Passenger and Cargo Carried trends

According to figure 4.8 the number of passengers transported by Ethiopian airlines in 2005/06, were 1.76 million, 2.10 million in 2006/07, 2.8 million in 2008/09, 3.15 million in 2009/10 and 3.37 million passengers were transported in 2010/11. When we look at the cargo service the airlines transported in thousand of tonnes per year, as clearly indicated on the graph the airlines freight transportation grew each year, hence in 2005/06 the airlines carried 61830 tonnes, in 2006/07, 64640 tonnes, in 2007/08, 72760 tonnes, in 2008/09, 100,760, in 2009/10, 134160 tonnes and in 2010/11, 160090 tonnes.

4.8.5 Global Market Threat on the Ethiopian Airlines' Performance

In order to capture market share, new entrants bring new capability and often substantial resources. They set aggressive fares and as a result intense price competition develops among airlines with negative impact on profits. Such situation leads airlines to contain cost, restructure routes, and develop new marketing strategies.

As have seen the past ten years air transportation in Africa, many US, Europe, Middle East airlines focused Africa market, and joined the African market due to the diminishing trend in their own area and the better opportunities in Africa. As a result Ethiopian Airlines routes will be subject to stiff competition among the increasing number of carriers in the region. Although Competition in domestic operation is currently non-existent, we expect some domestic players in the future. Competition in Ethiopian Airlines international market among existing airlines takes the form of competing for position in the market using tactics like price competition, new service introduction, product differentiation, brand identity, etc.

They also compete through employing wider distribution system; attain market through different forms of alliances etc. Most importantly they compete in fares by providing under cuts for consumers while they reduce cost, improve productivity etc. within the airline.

4.8.6. Fluctuation of Oil Prices

The fluctuations in oil prices significantly affect the profitability of the airlines. Oil is the main ingredient for jet fuel. In fact, fuel costs are the second largest operating expense for most airlines. However, Jet fuel price being the major expenditure of the Ethiopian airline. The rise of fuel prices has increased its proportional contribution to airline costs. As the figure 4.9 indicated that the fuel cost of the airlines was less than 14% of total operating

costs in 2003, but rose to more than 26% in 2007, in 2011, the fuel cost of the airlines was 41%, with the proportion likely to be even higher in the current fuel price.

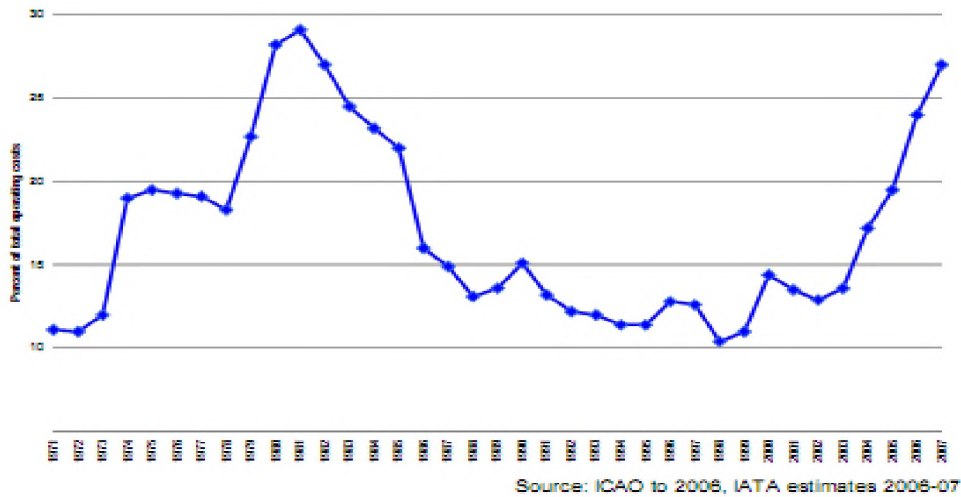


Figure 4.9: World airline fuel cost as percent of total operating costs

4.8.7 Ethiopian Airlines’ Competitors and Its New Station Expansions Trends

The Addis Ababa Bole international Airport, one of the largest airports in Africa, is the major hub for Ethiopian Airlines. Addis Airport has a capacity of providing world class passenger and cargo services to more than 6.5 million international and domestic passengers each year.

Lome is the second hub for Ethiopian airlines that enable the airlines to meet the growing demands for safe, reliable and competitive air transportation services in Central and West Africa. Ethiopian airlines currently provides services to 70 international destinations extending across four continents. It provides services for 45 destinations in Africa, 9 destinations Europe and America, 16 destinations Middle East and Asia countries.

Currently Ethiopian Airlines competitors increase their flight frequencies from year to year for example:

- Emirates flies daily from Dubai to Addis Ababa.
- Fly Dubai flies three days a week from Addis Ababa to Dubai
- Turkish Airlines flies daily from Addis Ababa to Istanbul

Lufthansa flies daily from Frankfurt to Addis Ababa

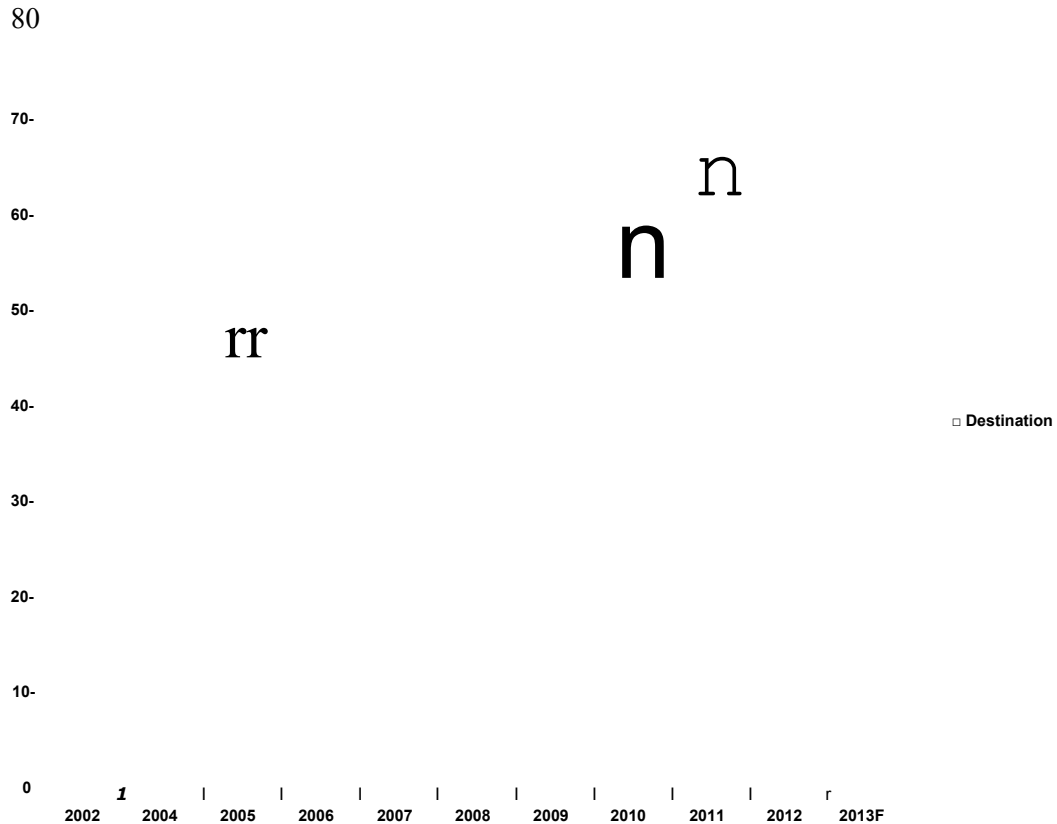
4.8.8.1 Major Competitors of Ethiopian Airlines

Base Region	Airlines	Region of competition
Africa	Kenya Airways South African Airways Egypt Air Air Morocco Air Algeria merging low cost carriers	Within Africa, Africa to/from the rest of the world. Within Africa, Africa to/from the rest of the world Within Africa, Africa to/from the rest of the world
Middle East	Emirates & Yemenia Gulf Air & Saudia Etihad Fly Dubai Bahrain Air Qatar Airways	Africa to/from M. East, Asia & Europe/ CGO Africa to/from Middle East, Asia & Europe Africa to/from M. East, Asia & Europe/ CGO Africa to/from Middle East Africa to/from Middle East Africa to/from Middle East, Asia & Europe
Europe	Lufthansa Turkish Airways Air France/KLM British Airways	Africa to/from the rest of the world Africa to/from the rest of the world Africa to/from the rest of the world Africa to/from the rest of the world
Asia	Chinese Airlines Other continental Airlines	Africa to/from Middle East,& Asia
USA	Delta, CO	Africa to/from Middle East,& Asia

Source: Ethiopian Airlines Vision 2025 document (July, 2009)

Table 4.5 Major Competitors of Ethiopian Airlines

4.8.8.2 Ethiopian Airlines Destination Expansion Trends



Source: Owned Manipulation from Ethiopian Airlines Annual reports

Figure 4.10 Ethiopian Airlines route expansion trends

As the figure clearly indicated that the airlines has been expanding its destinations from year to year. For example the year 2011, the airlines number of destinations was 58, in 2012 its destinations increases to 65, currently the airline destinations is 70.

4.9 Presentation of Results of Qualitative Data

In this study the researcher used, multiple indicators to evaluate the airlines performance. This was done from the point of view of three stakeholders in this organization, which consisted of (1) Management staff/Group (2) Non- management staff and (3) Customers. The questionnaires were distributed to 70 management group/staff, 130 Non-management staff and 40 Ethiopian Airlines' customers. A total of 240 completed surveys were

returned 140 were usable. Table 4.5 and 4.6 show the profile and the distribution summary of responses.

4.9.1. A. Profile of the respondents

As clearly shown in the figure 4.5, in terms of sex composition out of the total 240 respondents 211 or 88% are males and 29 or 12% are females. In terms of work experience, among 200 respondents 98 or 49% have 1-6 years experience of their specialities, 50 or 25% have 7-12 years of experience and 50 or 25% have more than 13 years experience.

No	Description	Sex		Work Experience		
		Male	Female	1- 6 years	7-12 years	Above 13 years
1	Management group	68	2	13	30	25
2	Non management staff	115	15	85	20	25
3	Customers				-	
	•Foreigner	3	2	-	-	-
	•Ethiopian	25	10	-	-	-
Total		211	29	98	50	50
Percentage		88%	12%	49%	25%	25%

Table 4.6 summary of Profile

4.9.1. B. Summery of the respondents

Item No	Description	Management Group/Staff	Non Management Staff	Customers	Total
1	Total number of questionnaires distribute	70	130	40	240
2	Number of successfully returned questionnaires	50	80	25	155
3	Number of incomplete returned questionnaires	2	8	5	15
4	Number of unreturned questionnaires	18	42	10	70
5	Number of valid returned questionnaires	48	72	20	140
6	% of Valid returned questionnaires	68.6%	55.3%	50%	

Table 4.7 Summary of responses

Regarding the valid questionnaires returned, 48 or 68% of the respondents of the management group returned valid questionnaires, 72 or 55.5% Non- management staff respondents returned valid questionnaires, 20 or 50% customer respondents returned valid questionnaires.

4.9.1 Management Group/ Staff

Management group/staff were asked to assess the positive and negative impacts of globalization on the performance of Ethiopian airlines. To summarise, they were asked to relate the opportunity of globalization to the marketing strategy of the airlines, the technology of the airline uses, the turn over of skilled labour force and relate the threat of globalization with the competitors' challenges of the airlines and strategic alliance

The larger percentage of the management staffs, 75.56% of them, stated that they were agreed that globalization increase the level of performance of the airlines profits.

This position is an indication that the only 24.54% of the management staffs were dissatisfied with the level of profit margins in the Ethiopian airlines.

1) Concerning the impact of globalization on market strategy of the airlines.

Some of the respondents management members, mentioned their fear that, unless the Ethiopian Civil Aviation Authority, working parallel with the airlines strategy, the existing Ethiopian International Air Port (Bole International Air port) is become crowded and will hold-up the airlines market expansion in the future.

The performance of the airlines is highly dependant on efficient, reliable and effective air port services. Effective air port services, contribute to the competitiveness of air transport industry. Infrastructures, in particular air ports, are the backbone of air transport systems; by provide facilities that the airlines enable to create networks within and between countries airports.

2) Concerning the new technology use of the airline

The respondents agreed that globalization create opportunity to the airlines to use new technologies such as latest technology aircrafts, Information communication technology (ICT). Those technologies facilitate Ethiopian airlines for its current and future competition.

Information Communication Technology (ICT) has revolutionized all businesses and in particular the airline industry. Through time, the airline industry has demonstrated dependency on ICT for its day today operational and short and long term strategic management processes across its functions.

3) Regarding the negative impact of globalization

Most of the respondents of management group agreed that due to the increasing attractiveness of the air transportation business in Africa the airlines competitors are increasing

4.9.2 Non-Management Staffs

Non management staffs were asked to assess the performance of the airlines. To this end, workers were asked to relate their level of satisfaction with the following conditions of work: management style and supervision, job security, promotion and the facility the airline has. Others included benefit package such as salaries, reasonability of the salary itself, and the opportunity to receive formal professional or in-service training on the job. Among 80 of the non-managements staff 52.% have agreed that the airlines current status has improvement in terms of training employees on new technologies, tight supervision, transferring of current organization information, improvement of working facilities and 47.8% of the staff were dissatisfied the benefit package, the salary scale and the job security of employees.

4.9.3 Customers

The customers were also asked to relate the level of their satisfaction to the services the Airlines provide. 64.5% of the samples stated that they were satisfied with the service of these passenger and Cargo transportation that the airlines provide. The remaining 35.5% stated that they are not satisfied at all with the service of the organization.

4.9.4 Computing the Overall Airlines Performance

There are three categories of stakeholders in this study. In percentage terms, this translates to $3n = 100$

Therefore $n=100/3 = 33.33 \%$

For the management staffs, I find the percentage of 75.56% in 24.44%. Thus I have;

$$75.56/100 \times 33.33/1 = 25.18\%$$

To compute the values for the level of satisfaction by Non-Management staffs, I find the percentage of 52.5% of 47.50 %. Thus we have;

$$52.50/100 \times 33.33/1 = 17.49\%$$

To compute the values for the level of satisfaction by the customers, I find the

Percentage of 64.5% of 35.50%. Thus we have; $64.50/100 \times 33.33/1 = 21.50\%$

To compute figures for the overall performance, I added the results of the three categories of stakeholders together.

Thus I have: $25.18\% + 17.49\% + 21.50\% = 64.17\%$. Thus, the result of 64.17% obtained at the end of the whole analysis is an indication that the airlines performance is on the average.

From the analysis of the result the impact of globalization on the performance of Ethiopian airlines more positive impact than its threats.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Major Findings

The findings can be categorized into two key effects of globalization, global market opportunities and global market threats.

5.1.1 Global market opportunity

The airline's global market opportunity has been increased because of the increasing of the movement of people in Africa and other continents around the world, in addition to that the increasing of trade transaction from Far East, and Middle East countries to Africa. Hence, currently, the airline expanded its route more than seventy destinations.

The net work of the airlines has been increasing because; the airlines became the member of star alliance group. This enables the airlines to be competitive and transport its customer around the world.

The annual cargo transportation capacity of the airlines has been increasing, because of the foreign trade products improvement in Ethiopia.

5.1.2 Global Market Threats

The airlines transport industry in Africa under going dynamic change because of ongoing liberalization programme in the content. The deregulation of the industry developed intensive price competition with mega carriers that came from out side the content with the negative impact of the airline profits.

The advancement of communication technology in the world enables the employees to access the global labour market opportunities and to seek better employees pay package. Hence, the resign of skilled aircraft technicians from the airlines and hire in other aviation organizations outside the country increased.

5.2 Conclusion

The main aim of this paper was to examine the impact of globalization on the performance of air transportation industry in the case of Ethiopian airlines. Thus, the findings of the study reflected that indeed globalization has an impact on the airlines performance. Since, globalization manifests in political, social, and macroeconomic environment of African continent, including, Ethiopian, its impact is inevitable. It has an effect upon the operation of the airlines other than the availability of capital and the ability of the management.

The implications of globalization in its many manifestations have been profound for the international air transport industry, not just on the demand side, where the scale, nature, and geography of demand in global markets has led to significant shifts, but also on the supply side, where implicit and explicit international coordination of policies by governments (e.g. regarding safety, security, and the environment) have affected the institutional and technological environment in which air transport services are delivered.

The positive effects of globalization on the performance of the airlines are manifested through tourism industry, foreign direct investment (FDI), and import export businesses and global economic integration.

Tourism is an important component of the country's economic development, because of its spill-over effects in developing infrastructure (roads and airports especially), construction of hotels and other facilities, job creation and image-building for the country. If a country is politically stable, attractive for tourists in terms of historical heritage, good environment and favourable policy for tourist, it obvious that the number of tourists visiting the country are increasing, this has a direct bearing in the number of passengers carried by the airlines. Hence, Ethiopian airlines has been promoting Ethiopian tourism, by participating in several major trade fair around the world in collaboration with the ministry of Tourism of Ethiopia.

The other positive impact of globalization on the performance of the airlines is manifested by foreign direct investments. FDI increases the regional economic activity in turn generates the need for passenger travel and freight and drives the demand for transportation services. This feedback relationship results in general correlation between the amounts of air travel and Gross Domestic Product (GDP). In addition to that the airlines is enabled to expand its route and number of destination. Therefore, the airlines'

performance increases in terms of passenger number and freight size. This led the airlines to have increased number modern fleet and new IT technology in order to satisfy customers demand and to be competitive and survive in the aviation industry.

The growth of horticulture farm in Ethiopia contributes to increase foreign currency income to the country. Currently, the production of perishable product export is growing, in the meantime, the size of the freight and the number of destination also is increasing. Ethiopian Cargo also contributes to the growth of the countries economy by providing dedicated fast and reliable operation for outgoing and incoming products such as fruits, semi processed(finished) leather, vegetables, flowers, carpets, chilled meat and frozen fish products and coffee and imports, include chemicals, machine spare parts, electronics, garment pharmaceuticals and vehicles

The negative impact of globalization manifested on the performance of Ethiopian airlines by increasing number of rivals in the Africa region aviation market, the environmental protection and the volatility of fuel price. The main cause of the increasing number of rivals in the region is the deregulation of the aviation industry. One of the results of deregulation is the emergence and domination of the market by a number of very large airlines “Mega-Carriers”, as a result of intensive competition a large number of small airlines went into liquidation. However, Ethiopian airlines, was able to survive and be competitive in the region by support of the government, the strength of the management and the hard work of the employees.

The next, Africans airlines including Ethiopian airlines threat is the increasing public concern regarding the environment, particularly with regards to aircraft noise and the impact of aircraft engine emission. Hence, ICAO, has developed, noise certification standards to adopt a worldwide policy enabling states to introduce operating restrictions. This restriction, has financially affected weak airlines like Ethiopian airlines while trying to fulfil the requirements. .

Finally, the volatility of the price of fuel has made the airlines to be uncertain to its future operation; in addition to increase the cost pressure to the airlines. The rise of fuel prices has increased its proportional contribution to airline costs. Currently, the cost of fuel is the first largest part of Ethiopian airlines’ operation cost.

5.3 Recommendations

Many of Ethiopian airlines strategic issues can be summarized into two main categories. First, can Ethiopian Airlines maintain its competitiveness in the market of aviation industry? Second, will it be able to maintain its growth through its current operational strategy? .In order to be competitive and to be able to achieve its vision 2025 the airlines is expected to scan its environment regularly so as to take proactive measures for future operations.

The main cause of the airlines to be uncertain about its future business is difficulty in predicting the future external environment of the aviation business. Understanding the external business environment status is very vital to the airlines for success of its future operation. Hence, the airlines should always make constant monitoring and conduct environmental scanning. Environmental scanning enables the airlines to minimize the negative impact of globalization. It also helps the management to develop a clear understanding of the trends of external business environment and forces that shape competition. The understanding will enable the airlines to choose the appropriate strategy or strategies that fit the trend in the external business environment. In addition, given the dynamic and rapidly changing environment in which most organizations compete, it is important that the airlines maintain its performance measurement system so that it remains appropriate and provides information that is relevant to the issues that are of current significance.

Ethiopian airlines' has been suffering considerably on the price of fuel and the cost of aircraft maintenance. On the other hand giant airlines have entered the market in the attempt to challenge Ethiopian's dominant position. As the operational cost increases the airline become more vulnerable and appears to be losing its most important market advantage. In order to counter act the increasing operational cost, the airlines should improve non fuel cost management. The major part of non fuel cost for Ethiopian airlines is maintenance. Aircraft maintenance needs highly skilled and disciplined labour forces. Currently due to the effect globalization some of experienced aircraft technicians left the airlines by being attracted to the package of other airlines' benefits. From the past five experiences, the exodus of the technicians is a continuous process and should be taken as an assignment by the airlines' management. Therefore, the management should give serious attention to the retention of the skilled labour force and take care on the induction

process of the new workforce that enable the airlines to have disciplined labour force and retain its competitiveness in the airline industry.

Due to the deregulation and liberalization of the aviation industry in Africa, the airlines from other continents focused their business on Africa. Hence, the current Ethiopian airlines competitors are giants in the aspect of their financial status and their number of fleets. They challenge Ethiopians by increasing the number of flight routes and providing frequent flight schedule with less fare in comparison to Ethiopian airlines. This may shift the Ethiopian customers to these airlines for service. Therefore, the airline should continue the membership of star alliance group with strength, because the benefit from the alliance group enables the airlines to have global coverage and gives opportunity to growth and revenue enhancement through the alliance networks.

Finally, the cost reduction process should be a continuous process for the airlines to be a competitor and survive in the aviation industry. Among these process of cost reduction are reducing operational non fuel costs such as improving the performance of in house air crafts maintenance, improving internal services ,such as marketing, catering and others by providing the required continuous training for employees and improving internal process of the operation. Currently, the airline uses Achieving Competitive Excellence (ACE) as a tool to improve the internal operation processes in its all division hence increasing efficiency and reducing operational costs. Despite the above mentioned factors, if the airline continues to implement this tool efficiently then its performance will grow at increased rates leading to the achievement of its vision of becoming the most competitive and leading aviation group in Africa.

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ANNEXES

Annex I

ST. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Questionnaire to be Filled by Ethiopian Airlines' Management.

I want to thank you for your interest in my research study. The information shall be used as a primary data in my research which I am conducting as a partial requirement of my study at St Mary's University College for completing my MBA under the School of Graduate Studies.

The purpose of this research is to study Ethiopian Airlines' international business practices in the globalization era and assess the effect of globalization on the operation of the airline.

All responses will be held strictly confidential and no information which could reveal your own identity will be disclosed in any data reporting.

Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project.

General Instructions

- There is no need of writing your name
- In all cases where answer options are available please tick (?) in the appropriate box.

Thank you, for your cooperation and timely response in advance

PART I: Participant Information

Q1. For how many years have you been working in Ethiopian airlines?

Less than 1 year 1-6 years 7-12 years

13-18 years 19-24 years 25- 32 years Over 32 years

Q2) What is your primary job function in the airlines?

- Planning Operations Senior Management
 Finance HR Administration Others (please
 Specify)

PART II: Questions related to impact of globalization on international operations of Ethiopian Airlines.

For the following questions, “GLOBALIZATION” is defined as the process of increasing social/cultural inter-connectedness, such as movement of people, and is expressed in political, economical, technological and market integration terms.

- Political factors, includes nations interdependence, privatization, deregulation and trade liberalization;
- Macro economic factors include volatility of fuel price, inflation, gross domestic product (GDP), and foreign direct investment (FDI);
- Technological factors, such as information technology, fleet modernization etc; and
- Market integrations factors such as strategic alliance.

A) To what extent do you agree/disagree with the following statements?

	Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
3) Globalization has increased the opportunities to develop customer markets base worldwide							
4) Globalization has increased the airline's opportunities for route expansion							
5) Globalization has increased the airlines'							

market potential.							
	Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
6) Globalization has increased the investment of acquisition of modern fleet.							
7) Globalization has increased the airlines' opportunities to access equipment and retention of skilled labour.							
8) Globalization has increased the airlines' opportunities to expand variety of services it venders							
9) Globalization has made it easy for the airline to identify potential customers.							
10) Globalization has increased the number of competitors the airline is facing.							
11) Globalization has increased the level of competition the company is facing.							
12) Globalization has increased the difficulty in forecasting demand for the airline's revenue.							
13) Markets have become increasingly uncertain due to globalization.							
14) Globalization has caused unpredictable changes on the way the airline operates							
15) Globalization adds complexity to the airline business operations.							
16) Globalization has increased the costs of the airline business operations.							
B) Ethiopian Airlines has achieved its goals in terms of...							

	Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
17) Growth in international market share.							
18) International market position.							
19) International sales growth							
C) Please indicate the extent to which you agree with the following statements regarding marketing efficiency of the airline in international markets							
20) The airline has achieved a significant international sales growth with less resource than expected.							
21) The airline has generated more sales revenue than sales expense							
22) The airlines' profits in international markets exceed the marketing and selling costs expended in those markets.							
23) The airline has achieved international sales and profit goals with minimum marketing costs.							
24) The airline is efficient in utilizing marketing and selling resources allocated to international markets in generating more revenues in those markets.							

Annex II

ST. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Questionnaire to be Filled by Ethiopian Airlines' Employees

I want to thank you for your interest in my research study. The information shall be used as a primary data in my research which I am conducting as a partial requirement of my study at St Mary's University College for completing my MBA under the School of Graduate Studies.

The purpose of this research is to study Ethiopian Airlines' international business practices in the globalization era and assess the effect of globalization on the operation of the airline.

All responses will be held strictly confidential and no information which could reveal your identity will be disclosed in any data reporting. Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project.

.General Instructions

- There is no need of writing your name
- In all cases where answer options are available please tick (7) in the appropriate box.

I would also like to thank you in advance for devoting your valuable time in answering the following questions

PART I: Participant Information

1. What is your gender

Male Female

2. Number of years you have worked in the airline (in years):

0-4

5-9

10-19

20-30

30 years or more

PART II: To what extent do you agree/disagree with the following statements?

	Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
1) I am optimistic about the future of the airline.							
2) I am proud to work for the Airlines.							
3) I feel that the organization cares about the employee.							
4) I understand what the organization's strategies are							
5) I am clear about what I need to do and how my job performance will be evaluated							
6) I receive the trainings I need to do my job							
7) I have all the required resources to do my job							
8) My manager plays a supportive role in my professional growth and development							
9) Employees are encouraged to try new ways of doing things							
10) There is a strong feeling of team spirit and cooperation in this organization.							
11) I feel secure about my continued employment at this organization							
12) I believe my career aspirations can be achieved at this organization							
13) I feel recognized for the contribution I make to this organization							
14) I am kept up-to-date on any organizational changes in policy or practice							
15) I am satisfied with the salary scale of the airline.							
16) I am satisfied with benefits package the Airlines offers							

Annex III

ST. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Questionnaire to be filled by Ethiopian Airlines' Customers

I want to thank you for your interest in my research study. The information shall be used as a primary data in my research which I am conducting as a partial requirement of my study at St Mary's University College for completing my MBA under the School of Graduate Studies.

The purpose of this research is to study Ethiopian Airlines' international business practices in the globalization era and determine the satisfaction level of customers on the operation of Ethiopian Airlines as impacted by globalization.

Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project.

General Instructions

- There is no need of writing your name
- In all cases where answer options are available please tick (✓) in the appropriate box.

I would also like to thank you in advance for devoting your valuable time in answering the following questions

Q.1) What is your gender?

Male

Female

Q. 2) How long have you used the Airlines' international transportation service?

Less than 6 months

1 year to less than 3 years

3 years to less than 5 years

5 years or more

Q.3) How frequently do you/your organization use the international flight services of Ethiopian airlines?

- Every day Every week Every 2 - 3 weeks
- Every months Every 2 - 3 months Every 4 - 6 months
- Once or twice a year

Q.4) How would you rate your overall satisfaction with the airlines' services?

- Very satisfied Somewhat satisfied Neutral
- Somewhat dissatisfied Very dissatisfied

Q.5) How likely are you to continue doing business with Ethiopian Airlines?

- Very likely Somewhat likely Neutral
- Somewhat unlikely Very unlikely

Q.6) If you switched to another airline, please indicate your reasons for doing so.
Select all that apply.

- Better quality of service Less price of service
- Billing policy Better customer service others

Q.7) Do you have any suggestions for improving the Airline's services?



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