AN ANALYSIS OF THE IMPACT OF INDUSTRY ROLE PLAYERS ON THE COMPETITIVENESS AND PROFITABILITY OF AN ENTITY IN A VOLATILE ENVIRONMENT

By

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Abstract

The airline industry has grown rapidly over the past few decades, recording a ten-fold rise in passenger numbers and a fourteen-fold increase in cargo volumes. This growth has created overwhelming value to airline passengers, employees, suppliers and the broader economy. Unfortunately, this industry has been affected by terrorism attacks, wars, revolutions, pandemic fears, earthquakes, volcanoes, failing economies and skyrocketing fuel prices all of which have negatively impacted on profitability and resulted in intense competition. Consequently, airlines have spent the last decade in survival mode having to adapt to harsh changes.

Air Zimbabwe, a state-run organisation which operates in this highly regulated and turbulent industry, is faced with numerous micro and macro environmental challenges and has been purposively selected for this study. According to company statistics, the airline's annual passenger uplifts have declined from a peak of over 1 million in the 1990s to less than 200 000 in 2011, with revenue generation declining in correlation. Whilst Air Zimbabwe has experienced depressed demand for its services, competitor airlines are recording brisk business. The aim of this study was to investigate how a struggling organisation, which operates in a turbulent environment, can improve its competitiveness and profitability by better understanding the impact of industry role players and adapting organisational strategies to industry variations.

This study examined, from the point of view of the industry players themselves, the extent to which customers, suppliers, competitors, regulatory authorities, substitute products and new entrants have impacted on the competitiveness and profitability of the airline. Major findings reveal that an organisation cannot operate in isolation and be competitive or profitable, but constantly needs to analyse the industry environment in which it operates in and to amicably interact with other industry role players. The research outlines the need for competition in certain areas and cooperation in others.

Key Terms:
Competitiveness
Profitability
Strategy

Declaration

Student: 4237-514-2

I Mary G S Muli declare that,

An analysis of the impact of industry role players on the competitiveness and profitability of an entity in a volatile environment

is my own work, and that all sources I have used or quoted have been indicated and acknowledged by means of complete references.

…… ……

Signature Date

(Mary G S Muli)

“To Him who is able to do exceedingly, abundantly above all that we ask or think, according to the power that works in us, to Him be glory in the church by Christ Jesus to all generations, forever and ever,
Amen.”

Ephesians 3 verses 20 - 21

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"Let us not grow weary while doing good,

for in due season we shall reap if we do not lose heart.

Therefore, as we have opportunity, let us do good to all…."

(Galatians 6: 9-10)

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May the Lord continue to abundantly bless you all

Table of Contents

List of Tables

List of Figures

CHAPTER 1: INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Introduction

Different industry environments present opportunities and threats for organisations operating within the particular industry. In order for companies to position themselves and sustain competitive advantage over time, they need to adapt and change their strategies so as to align with the changing environment (Hill and Jones, 2004: 189). According to Louw and Venter (2010: 80), the industry environment is comprised of external factors that directly affect the organisation in its operations, such as, customers, suppliers, competitors, regulatory agencies and special interest groups. Three major relationships shape the industry in which an organisation operates. These are:

i. competition within the industry;
ii. complementary relationships; and
iii. industry regulation.

Porter (2006) asserts that, competition within any industry goes beyond established industry rivals to include customers, suppliers, substitute products and potential entrants. Industry structures, rivalry and profit potential differ within industries and drive competition and profitability. A thorough and ongoing industry analysis is therefore essential for an organisation when making strategic decisions, as power relationships amoung players in the industry influence current and future price levels, investment opportunities, firm profitability and greatly impacts any strategic decisions the organisation makes so as to gain competitive advantage (Fitzroy and Hulbert, 2005: 73-74).

The Value Net Framework developed by Brandenburger and Nalebuff (1996) underlines that each organisation is surrounded by:

i. partners whose products and/or services complement it;
ii. rivals who compete with the organisation;
iii. suppliers who provide the organisation with inputs and raw materials; and
iv. customers who are the destination for the organization's products (Louw and Venter, 2010: 124).

Organisations are unable to continue their day-to-day operations without profits. Therefore, profitability is a crucial element for the survival of the organisation. Profit seeking organisations attempt to achieve specific rates of return in the long run which can only be achieved after taking into consideration consumer needs (Cant, Strydom, Jooste and du Plessis, 2006: 12). However, maximum profit as a pricing objective that attracts additional competition, can also damage the image of the firm (Cant et al, 2006: 338).

This study focuses on competitiveness and profitability in the turbulent airline industry, with particular reference to Air Zimbabwe.

1.2 Background analysis

1.2.1 The volatile airline industry

Competition within an industry is determined by a combination of economic, historic and regulatory factors (Hill and Jones, 2004: 46). There are three forms of competition within the airline industry:

i. intermodal competition (competition between air transportation and other modes of transport such as rail, sea and road);
ii. intra-modal competition (competition among airlines); and
iii. market-product competition (competition based on the derived nature of demand for airline transportation).

Invaldi and Vibes (2005) allude to the fact that the airline passenger can first choose the mode of transportation they want to travel with, then within this mode decide on a specific service, all of which are dependent on the initial actual demand for transportation.

The airline industry has grown rapidly over the last few decades, adding new customers, new connections, and additional frequencies to a global network, while better technology and more sophisticated operational management have driven costs down. The value created to the airline passenger, employee, supplier and the broader economy is overwhelming. Changing business models and substantially increased competition (as liberalized market access became widespread and many new airlines entered the industry) have transformed air transport markets and the airline industry over the last 40 years (www.iata.org). Despite a ten-fold rise in passenger numbers and a fourteen-fold increase in cargo volumes the airline industry has been rocked by terrorism attacks, wars, revolutions, pandemic fears, earthquakes, volcanoes, failing

economies and skyrocketing fuel prices all of which have negatively affected sustainable profits with 2010 as the best year of the decade, with a profit of US$18 billion (Bisignani, 2011). According to the former International Air Transport Association (IATA) Chief Executive Officer, Giovanni Bisignani, airlines have transformed themselves by slashing costs by 9%, increasing fuel efficiency by 24%, and improving labour productivity by 67%, over the period 2001 to 2010 and yet many jobs were still lost with the closure of world renowned airlines such as Swissair, Varig, Ansett, Sabena, Mexicana and Aloha. (www.iata.org).

The 2008 global economic recession resulted in a decrease in airline passenger traffic demand in many markets by between 15% and 20%. The drop in demand resulted in substantial discounting of fares and a reduction in yields as airlines attempted to match capacity with demand (www.investopedia.com/features/industryhandbook/airline.asp#ixzz1hjKPprWd). According to the World Bank Director – Energy, Transport and Water, an estimated 2,860 aircraft were parked idle worldwide in 2009 (13.1% of the total global fleet). In addition, escalating fuel prices of over US$100 per barrel negatively impacted the bottom line of airlines and fuel management evolved into a fine art directly impacting on survival.

Porter (2011) highlights that there are few industries where all five forces of rivalry, new entrants, customer and supplier bargaining power, and the threat of substitutes act so strongly to depress profitability as they do in the airline industry, resulting in poor airline profitability. The low industry profitability is driven by challenging underlying industry economics that result in an overly-fragmented industry in most markets that competes almost solely on price. This is further exacerbated by government policies and industry regulations and standards which limit exit and hinder effective competition among different business models. Industry profitability is made worse by airlines and some suppliers who pursue price-oriented competition.

In an attempt to generate more profits and change the nature of the business environment to their own advantage some airlines are combining the advantages of both competition and cooperation. With co-opetition airlines can cooperate in certain markets or circumstances and compete in others. Brandenburger and Nalebuff (1996) further stress that business strategy and co-opetition provide a framework by which companies can gain a sustainable competitive advantage by changing the environment to their own advantage, as most companies can achieve more success in a dynamic industry than they ever could working alone

(www.provenmodels.com/593). Co-opetition within the airline industry can be seen in the strategic partnerships between many airlines, online travel agencies and other related industries. According to Grant (2008: 33), partnerships with car rental companies, hotel chains, tour operators and credit card issuers have been an important source of additional revenue to airlines earning them over US$10 billion annually.

1.2.2 The Zimbabwean economic environment

The hyper-inflationary environment which was characteristic of the last decade in Zimbabwe resulted in rapid price movements, speculative activities, foreign currency shortages, skills flight, shortage of Jet A1 fuel and rapid money supply growth. Before Zimbabwe changed to the multi currency system in 2009 Old Mutual estimated inflation to have risen to more than 231 million percent while the economy declined by 14.1%. Zimbabwe's external debt position deteriorated with the country unable to meet many of its external obligations and accumulating arrears (Kramarenko, Engstrom, Verdier, Fernandes, Oppers, Hughes, McHugh and Coats: 2010).

The Zimbabwean economy and socio-political environment began to improve in 2009 following the introduction of the multi currency system and the formation of the Inclusive Government in February 2009 (www.rbz.co.zw/publications/monthlyeb.asp). According to June 2012 statistics published by the Reserve Bank of Zimbabwe monthly price increases had stabilized to 0.2% and year on year price increases averaged 3.97% (www.rbz.co.zw/about/inflation.asp). However, credit creation required to stimulate demand and jump-start the economy remained limited as most entities failed to recapitalize and restore their operating capacity. The lack of modern technology in most industries has resulted in most companies operating at an average 30% capacity, limiting global competitiveness (National Budget: 2010). Kramarenko et al (2010) identify inadequate infrastructure, high operational costs, wage pressures, and the poor business climate as the major contributory factors which have made Zimbabwe less attractive to investors. The same authors also note the increased uncertainty about indigenization legislation as adding to decreased capital inflows and deteriorated investor confidence. The demand for air travel within Zimbabwe has thus remained subdued as a result of low business volumes and low disposable incomes.

1.2.3 The airline industry in Zimbabwe

Zimbabwe, a landlocked country located in the southern part of the African continent, has in the past been identified as a major tourist destination. However, since the country embarked on the Land Reform Programme in 2000, tourism has steadily declined in response to travel warnings issued by several European, American and Australian countries to their citizens discouraging them from visiting Zimbabwe as a result of the ensuing violence. After rising during the 1990s, (an estimated 1.4 million tourists visited Zimbabwe in 1999) industry figures of visitors to Zimbabwe in 2000 plummeted by 75% (www.izimbabwe.co.zw/about-zimbabwe). This had a huge impact on the Zimbabwean economy as thousands of jobs were lost due to company closures. Consequently, several airlines including Qantas, Lufthansa, KLM Royal Dutch Airlines, Austrian Airlines, Air France, Air Mauritius, Ghana Airways, Cameroon Airlines and Egypt Air withdrew their operations into Zimbabwe. In 2012, Air Zimbabwe and light aircraft charter companies such as Executive Air operate within Zimbabwe, while only ten foreign operators namely, South African Airways, Kenya Airways, Ethiopian Airlines, Air Namibia, South African Airlink, BA Comair, Emirates, Air Botswana, Air Malawi and Angolan Airlines link Zimbabwe to the rest of the world. This is a vast contrast to over 45 airlines operating into the country in the 1990s.

The discovery of vast diamond reserves in the eastern region of Zimbabwe in 2006 however stopped the continuous withdrawal of airlines from the market as there was hope of an economic recovery in the future. In 2010, following a decade of internal political struggles as well as the adverse effects of the global economic slowdown, tourism in Zimbabwe was on the track to recovery. Since the formation of a transitional government, the country has become a more favourable tourist destination due to the return of relative peace and stability. In addition, many western nations have lifted their travel warnings to Zimbabwe and this has encouraged more tourists to visit the country. Despite the slow recovery of the global economy, arrivals to Zimbabwe registered positive growth in 2010, with the majority of arrivals coming from other African countries, followed by countries in Europe and the United States of America (www.zimbabwetourism.net). Growing mining investment opportunities and a revitalised tourism environment have resulted in the stabilisation of aircraft movement into the country from the continuous decline between 1999 and 2006. This is depicted in Figure 1.1 below.

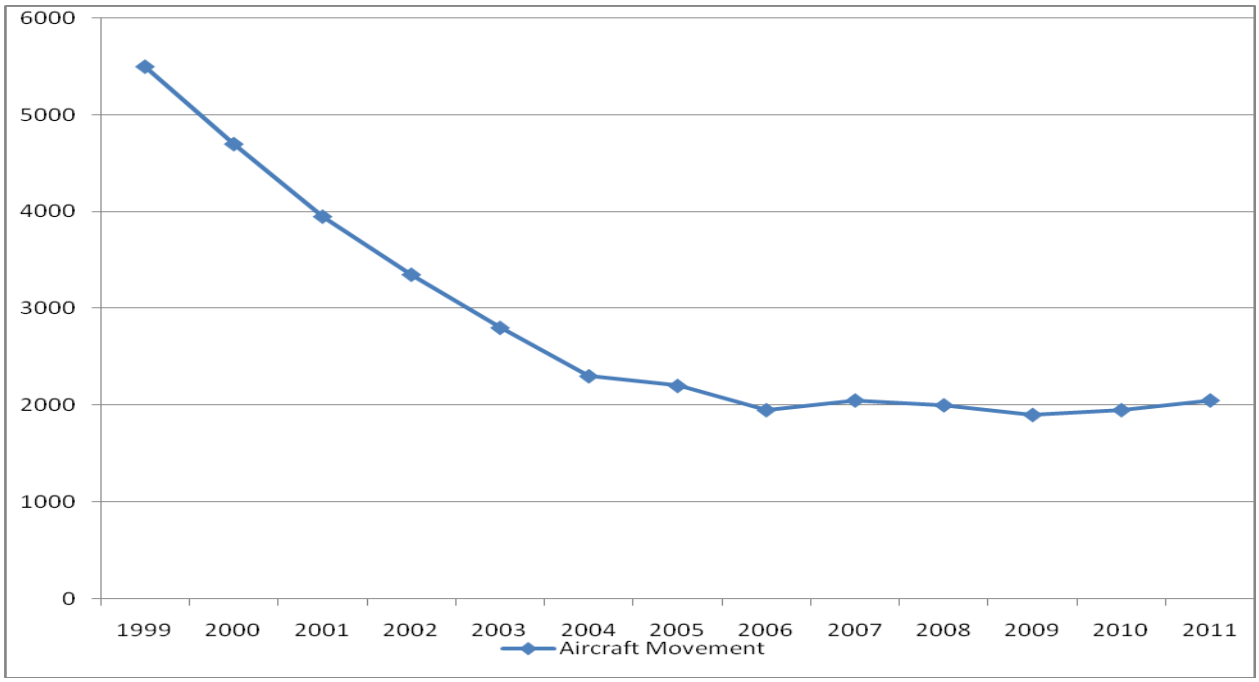

Figure 1.1: 1999 to 2011 Statistics of aircraft movement in Zimbabwe

Source: Civil Aviation Authority of Zimbabwe

1.2.4 Air Zimbabwe Private Limited

Air Zimbabwe Private Limited is an airline wholly owned by the Government of Zimbabwe, with a fleet compliment of eight aircraft and a route network of three international, three regional and two domestic destinations (www.airzimbabwe.aero). The Airline's market is mainly made up of Zimbabweans (75%), resident both locally and internationally, with other nationalities constituting the remaining 25% (Air Zimbabwe Holdings Operations and Service Improvement Plan: 2007). Air Zimbabwe's passenger and cargo uplifts gradually decreased from 467 696 passengers and 7 484 tonnes of cargo in 2000 (Air Zimbabwe Annual Report 2003/04/05) to 215 769 passengers and 2 097 tonnes in 2010 (Air Zimbabwe Management Accounts and Business Performance Review December 2010).

Despite massive budgetary allocations to Air Zimbabwe by the Central Bank through the Parastatal Financial Support during the Zimbabwe Dollar era, the airline continued to lose market share to competitor airlines. The Airline strived to survive following a marked decline in tourist arrivals with service being concentrated on the generic product. In pursuance of the Strategy to Restore Viability the airline embarked on a route rationalization programme with routes such as Harare/Nairobi/Dar es Salaam, Harare/Kariba, Harare/Singapore/Guangzhou,

Harare/Masvingo/Buffalo Range, Harare/Lilongwe, Harare/Kinshasa, Harare/Dubai and the Democratic Republic of Congo internal operations, which failed to achieve the required critical mass of passengers to justify economic existence, being terminated in 2008 (Air Zimbabwe Holdings Survival Strategy: 2009).

Problems affecting the Zimbabwean macro environment such as; the free fall of the Zimbabwe dollar, price controls, the stand-off between Zimbabwe and western countries, negative publicity and travel warnings issued to potential passengers in the international market, have all had their bearing on the profitability and competitiveness of the airline. Air Zimbabwe's problems have been aggravated by:

i. expulsion from the IATA Clearing House (ICH) in 2009;
ii. disconnection of global distribution systems (GDS) by creditors;
iii. the operation of aging equipment;
iv. failure by the airline to attract a strategic partner;
v. charging of airfares which are well below cost (low yields);
vi. operation of inefficient networks mainly because of crew and equipment challenges;
vii. low employee productivity as a result of the non-payment of staff salaries since June 2011;
viii. the use of uneconomic equipment largely emanating from government intervention in the purchase and leasing aircraft; and
ix. a spiralling debt.

The gradual liberalisation of the airline industry in Zimbabwe towards an open skies policy has increased competition, especially on the regional sector from new players such as Fresh Air, Precision Air and Zambezi Airlines and traditional players like South African Airways, Kenya Airways and Ethiopian Airlines, as well as new international competition from Emirates which commenced operations into Zimbabwe in February 2012.

1.3 Problem statement and main research question

In Zimbabwe, government intervention and assistance has been prevalent in the control and provision of certain goods and services directly to the public, as a way of commanding the economy, achieving distributive justice and economic sovereignty and reducing poverty through the provision of public goods and services to economically disadvantaged masses. As a result,

the government and regulatory forces can directly affect how organisations operate within a given industry by:

i. maintaining barriers to entry;
ii. regulating prices;
iii. imposing restrictions on practices regarded as counter to public interest; and
iv. implementing policies on mergers and acquisitions which guard against competition (Perreault and McCarthy, 2002: 107).

Air Zimbabwe is a state-run organisation wholly-owned by the Government of Zimbabwe which operates in a turbulent industry. The operation of airlines is highly regulated both by domestic and international organisations, government arms, laws, statutory instruments and industry associations because of high safety, security and regularity standards that protect the travelling public. Volatility of the airline industry, the need for constant large capital injections and increased competition due to deregulation, are all reducing profitability of the industry resulting in uncertainty, complexity and dynamism.

Air Zimbabwe's competitive advantage and profitability have sharply declined over the past decade and its challenges, debt and uncompetitiveness continue to increase as the harsh changes affecting the airline industry augment. On January 09, 2012 Air Zimbabwe suspended all operations sighting viability challenges. This is in direct contradiction to increased frequencies by competitor airlines and the launch of new airlines onto the Zimbabwean airline market. The manner in which an organisation interacts with its competitors, customers and other industry players directly affects its competitive advantage and profitability (Louw and Venter, 2010: 115). This leads to the following research problem:

There is a need to analyse the airline's interaction with industry role players so that it can better align its strategies to changes within the airline industry environment in order for the full reintroduction of Air Zimbabwe flights to be both competitive and profitable.

This study aims to better prepare organisations that are struggling to survive as a result of micro and macro environmental challenges, and specifically Air Zimbabwe, by understanding the impact that industry role players have on their competitiveness and profitability. Such an appreciation will assist organisations to continuously adapt their strategies to industry variations

and needs. The airline industry is selected because of its volatility that has seen a decline in the profitability of airlines operating worldwide and a shift in the understanding and implementation of competitiveness; and Air Zimbabwe because of the extreme macro and micro environmental forces under which it operates.

1.4 Research objectives

Businesses do not operate in a void; stakeholders, the internal environment, the external environment and the macro environment all affect the operations of the business (Anacona, Kochan, Scully, Van Maanen and Westney, 2005: 5). Harsh changes in the macro, industry and internal environments have resulted in airlines constantly shifting their strategies in order to survive. Airline interactions with competitors, customers and other industry role players have had a profound impact on competitive advantage and profitability.

The primary research objective is to examine the need for constant industry analysis with particular emphasis on the interaction with industry role players so as to continuously align organisational strategies to the rest of the industry in order to retain and gain competitive advantage and profitability in a volatile environment like the airline industry.

1.4.1 Secondary objectives

Air Zimbabwe's competitive advantage and profitability has steadily declined over the past decade and its challenges, debt and uncompetitiveness continue to increase as the harsh changes affecting the airline industry augment. It is thus important to determine; in relation to Air Zimbabwe:

i. The level of intra modal competition;
   (The different forms of airline competition and their impact on the competitiveness and profitability of Air Zimbabwe)
ii. The extent to which the Zimbabwean Government's policies will affect profitability and market share levels of Air Zimbabwe;
   (How actions of the shareholder especially the gradual liberalisation towards open skies will impact on the airline's profitability and competitiveness)
iii. The effect of changing industry regulations on Air Zimbabwe's survival
   (Laws and regulations being implemented in the airline industry which will and can affect the competitiveness of the airline)

iv. Air Zimbabwe's capacity to turn to co-opetition as an organisational strategy;
(The airline's option of teaming up with competitor airlines and other related organisations through the formation of strategic alliances and partnerships)

v. Strategic directions which the airline can explore in order to regain competiveness and profitability

This analysis of the airline's interaction with industry role players will assist it to better align its strategies to changes within the airline industry environment.

1.5 Research constructs

The research constructs for this research are profitability and competitiveness. These constructs are discussed below.

1.5.1 Competitiveness

The concept of competitiveness is linked to competition and/or competitive advantage and the table below illustrates some selected definitions:

> *Competitive advantage occurs when an organization acquires, develops or manipulates an attribute or a combination of attributes which it has direct control over such that these resources such as access to natural resources, highly trained and skilled human resources, capabilities, competencies or new technologies allows it to outperform its competitors.*
>
> *Pettigrew, Thomas and Whittington (2002: 55)*

> *Competition is the process of trying to win or do better than others; a contest. It arises from a situation whereby organisations offering more or less of the same category of products or services compete within the market environment for the same consumers.*
>
> *Cronje, du Toit, Motlatla, and Marais (2004: 93)*

> *A firm enjoys competitive advantage over rivals when its profitability is greater than the average profitability of all firms in the industry in which it operates.*
>
> *Hill and Jones (2004: 4)*

Competitive advantage is gained when an organisation earns or has the potential to earn a persistently higher profit than other firms in the same market.

Grant (2005: 225)

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices, or a combination of both.

Thompson and Martin (2005: 123)

Competitiveness is the ability of organisations to gain advantage over competitors which is demonstrated through excellence within a sector and/or advantage gained in the procurement of resources.

Johnson, Scholes and Whittington (2008: 78)

Competitive advantage is the way in which organisations utilise their resources and competencies in order to generate value creating strategy that other firms find difficult to imitate.

Fitzroy and Hulbert (2005: 419)

Competition is the mechanism that keeps excessive profits in check, acts as an incentive for higher productivity and encourages technological innovation. Organisations compete for a market share, labour, capital, entrepreneurship and material.

Cant, Strydom, Jooste and du Plessis (2006: 42)

Competition within an industry is determined by economic, historic and regulatory factors. Most organisations operate in market economies that are characterised by competition in the market environment (Cronje et al 2004: 93). Three levels of economic competition are classified as:

i. direct competition (competition between products which perform the same function);
ii. indirect competition (competition among close substitutes); and
iii. budget competition (competition for the same consumer's available limited resources such as time and money).

According to Grant (2005: 69), the level of competition within an industry amoung producers or suppliers of services and products determines whether a consumer surplus or a producer surplus is realised. Competitors within the market environment thus determine how much of a

product is produced, at what price and the level of competition for labour, capital, entrepreneurship and material.

Thompson and Martin (2005: 123) state that competition necessitates strategy as strategic management is effectively about increasing a company's strength in the most efficient way relative to competition. Competitive advantage thus enables an organisation to create superior value for its customers and superior profits for itself. Four criteria that determine a firm's competitive capabilities in the marketplace and judging a firm's resources are as follows:

i. Are they Valuable? (do they enable a firm to devise strategies that improve efficiency or effectiveness?)
ii. Are they Rare? (if many other firms possess it, then it is not rare)
iii. Are they Imperfectly Imitable? (because of unique historical conditions, causally ambiguous, and/or are socially complex)
iv. Are they Non-Substitutable? (if a ready substitute can be found, then this condition is not met)

When all four criteria are met, then a firm can be said to have a sustainable competitive advantage. Pettigrew et al (2002: 55) also points out that sustainable competitive advantage is based on privileged market positions. Strategies that lead to sustainable competitive advantage are derived from the exploitation of unique and scarce resources or the adept strategy implementation by a few organisations such that replication by latecomers is unprofitable.

Unfortunately, competitive advantage is subject to attrition by competition and is difficult to sustain in the long run. Competitors' ability to imitate the organisations competitive advantage or their innovative prowess is the major challenge to sustainable competitive advantage (Grant, 2005: 232). While most organisational competitive strategies are confined to the use of resources it is important to note that competitive advantage follows from industry structure rather than from strategic resources (Pettigrew et al, 2002: 66).

1.5.2 Profitability

Cronje, Du Toit, Motlatla and Marais (2004: 400) state that profit is the favourable difference between the income earned during a specific period and the cost incurred to earn that income. Grant (2005: 41) defines profit as *"the surplus of revenues over costs available for distribution to*

the owners of the firm." Jain and Khanna (2010: 172) name six elements of profit as shown in Figure 1.2 below:

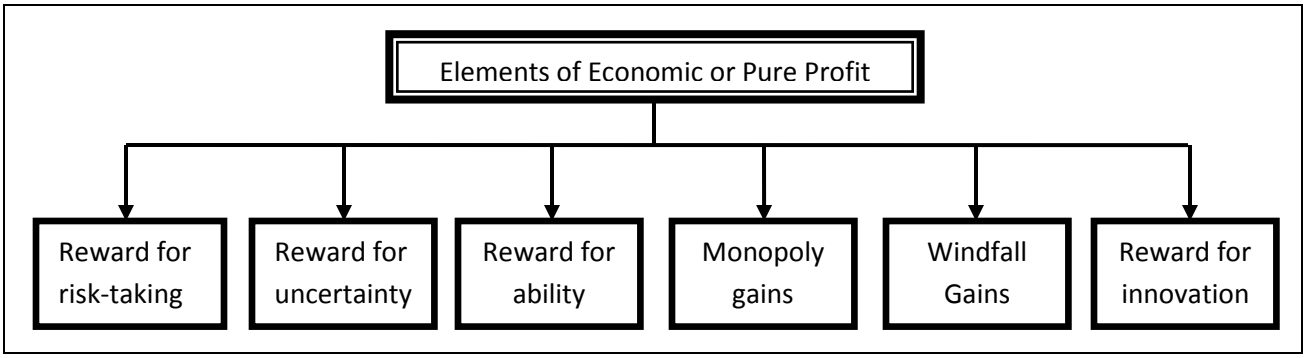

Figure 1.2: Six Elements of Pure Profit

Source: Jain and Khanna (2010: 172)

An entrepreneur is rewarded with profit for taking risk; bearing uninsurable risks such as uncertainties of market conditions, competition and/or government interference etc.; engaging his services; and product and service innovations that reduce production costs. As Frank and Bernanke (2003: 193) point out, in many instances businesses desert locations and industries whose prospects appear bleak and migrate to those where profit opportunities appear plentiful. However, in order for a firm to earn profits it has to first create value for its customers (Grant 2005: 68). Profitability within an industry is therefore determined by:

i. the value of the product to consumers
ii. the intensity of competition within that industry and
iii. the bargaining power of the producers relative to their suppliers (Grant, 2005: 69)

The measurement of profitability is however a poor indicator of future success of the organisation, as it can only determine the organisation's historical survival without giving an indication of the chances of future survival (Grant, 2005: 84). In order to measure the long-term survival of the organisation, financial measures need to be complemented with non-financial measures and continuous environment scanning in order for the organisation to exploit opportunities and counter threats. Future industry profitability relies on current industry structure; changing trends to industry structure; and the effect of structural changes to the fives forces of competition (Grant, 2005: 84).

1.6 Research method

1.6.1 The research design

"The research design is a plan indicating the required data, the sampling plan and the methods of data collection and analysis." (Wiid and Diggines, 2009: 53). Interweaving qualitative and quantitative methodologies enhances the accuracy and authenticity of a research (Schensul, Schensul and LeCompte, 2012: 52). This research, which is cross-sectional in nature, will make use of methodological triangulation (a combination of both qualitative and quantitative research methods) in investigating the impact and effect of relationships within the industry environment on the operations of Air Zimbabwe. Since quantitative research has limitations of answering why and how questions and lacks documentation of challenges encountered when attempting to alter or reform existing practices (Nastasi and Schensul, 2005: 186), qualitative research will be used as a pilot study to increase the validity and reliability of the quantitative research. In addition, this hybrid of methodologies has the major advantage of converting detailed qualitative descriptions into quantitative scales for statistical analysis (Wiid and Diggines, 2009: 92). The textual data gathered through in-depth interviews will therefore be used in the formulation of the structured survey instrument thereby maximising the appropriateness and utility of the research instrument.

According to Wiid and Diggines (2009: 55), exploratory research provides more information about the research problem which can be used in the construction of meaningful research questions. On the other hand, descriptive research is used to gather conclusive evidence necessary to answer research questions and determine a cause of action. Descriptive research answers the questions who, what, when, where and why? Although it is already known that changes and developments to relationships within the industry environment make ongoing analysis critical for organisational survival, speculative and tentative hypotheses and questions exist as to the relationships within the airline industry. In order to answer the objectives of the research a complementary research approach will be followed, that is, use of exploratory research in the qualitative stage and descriptive research for the quantitative phase.

1.6.2 The sampling plan

Tustin, Ligthelm, Martins and Van Wyk (2010: 337) define a census as "an accounting of the entire population" and a sample as a "subset of a group." Challenges of time, cost, accuracy and practicality make it impossible to conduct a census for all sampling units chosen. For the

qualitative research five individuals will be drawn from Air Zimbabwe, ground handling agents and Zimbabwean aviation regulators while a sample of 50 will be drawn from the population of travel agencies and airlines operating into Zimbabwe in fulfilling the quantitative aspect of the research.

The population is made up of a group of people from whom information, opinions, behaviour, preferences and attitudes will be gathered in order to answer the research question (Tustin et al, 2010: 96). The target population consists of individuals with aviation industry experience including regulators, ground handlers, and airline and travel agent employees so as to capture a broad overview of the industry.

The sampling frame is “a list of all the sample units available for selection at a stage of the sampling process.” (Tustin, 2010:196). A reliable sample frame must represent all elements of the population, be up to date, complete, correct and accessible. For the selection of sampling units, a list of airlines operating into Zimbabwe will be obtained from the Civil Aviation Authority of Zimbabwe and travel agent directories will be downloaded from the Association of Zimbabwe Travel Agents website. For the selection of sampling elements the individual staff records of employees under current employment at the time of the research within the selected airlines and travel agencies will be used.

The purposive sampling method will be used for the selection of respondents in the qualitative stage while simple random sampling will be used for the selection of travel agent and airline employees in the quantitative stage of the research. However, due to the limited number of airlines operating within Zimbabwe (10 airlines) sampling elements will be selected from all ten airlines in order to attain a more accurate conclusion.

A practical and economical sample size which shows a fair representation of the population will be selected. This is more judgmental than mathematical because the larger the size of the population the longer the time it will take to conduct the research and the more expensive the research will be. In depth interviews will be carried out with five industry stakeholders while personal interviews will be conducted with 30 travel agent and 20 airline employees.

It is likely that some of the sample elements may be unwilling to participate in the research process due to time constraints or mere lack of interest which will result in errors of estimation. There are also likely to be measurement errors as respondents intentionally give incorrect answers especially expected from employees of foreign airlines operating within Zimbabwe who might view the research as providing a competitor airline with insider information.

1.6.3 The research instrument

Two separate research instruments will be used in this study. A questionnaire consisting of semi structured questions will be used in the qualitative brainstorming stage so as to give guidance to the interviewer and to align the in depth interviews to the research objectives. Textual data gathered from these interviews will provide a basis for judgement on whether or not a line of thought is worth including in the quantitative instrument in terms of importance and answering of the research objectives as well as identifying options and structuring of the structured survey questions (Schensul et al, 2012: 54). A more comprehensive questionnaire consisting of structured questions with both open ended and close ended responses will then be constructed for use in the quantitative stage of the research. Personal face to face interviews will be conducted at the offices of selected airlines and travel agents.

1.6.4 Data analysis plan

According to Tustin et al (2010: 99) data editing involves a thorough examination of all data collected. Central editing will be conducted and the information will be stored on a flash disk and external hard drive using direct computer entry. All data will be structured, categorised and summarised and some of the data will either be tabulated or graphically analyzed in order to explore, present, describe and examine relationships and trends.

The aim of the analysis is to provide relevant and comprehensive information regarding the impact and effect of the interaction of Air Zimbabwe with industry role players on its competitive advantage and profitability. A descriptive analysis which includes calculation of frequency distributions, the mean, average mean and standard deviations will summarise the sample in terms of variables of interest. The derived information will also be used to estimate possible future effects of the current ongoing changes within the airline industry to the operations and viability of Air Zimbabwe.

Once analysed, the data will be interpreted to provide meaningful information on the strategies Air Zimbabwe can employ in order align itself to the rest of the industry.

1.7 Limitations of the study

The following limitations are likely to be faced:

- The research is cross-sectional in nature, therefore valuable trend analysis which is provided by a longitudinal study will not be provided. A longitudinal study can give better insight to the impact of continued global changes. The qualitative stage of the research will specifically target aviation employees who have been employed in the industry for over fifteen years, thereby providing valuable background information on both the competitiveness and profitability of the airline.
- In many instances respondents are not available or willing to participate in surveys especially when they lack interest in the research subject and do not value the relevance of the research. As a result responses given may not reflect a true representation of the population and result in survey errors. In addition, there is a basic assumption that the selected travel agent and airline employees shall cooperate with the researcher when approached and yet this might prove not to be the case, especially for airline employees who might find it difficult to divulge information to competitor airline employees such as the researcher. The research will therefore comprise of a heterogeneous sample that encompasses employees from Air Zimbabwe, foreign airlines operating within Zimbabwe, travel agents, a ground handling company and aviation regulators. This targeted sample is expected to improve both the validity and reliability of data gathered.
- The selection of Air Zimbabwe which is currently only operating a limited domestic route network may only reveal partial volatility of the airline industry. Chapter 3 of this study will focus on the extent to which the different industry role players impact on the entire turbulent airline environment.

1.8 Delimitations of the study

- Interviews will be conducted with the actual players within the airline industry, that is, airlines and travel agents even though the passengers who travel by air could provide valuable information as seen from a different perspective. However, the research will investigate whether or not respondents have been passengers on either Air Zimbabwe or other foreign airlines given the numerous travel incentives offered to airline industry employees.

- The research is carried out in Harare only, the hub city of Air Zimbabwe, whereas this limited geographical cover does not fully reflect the views of all the airline's stakeholders who are located across the whole world. Nevertheless, the extreme micro and macro environmental forces under which organisations operate in Zimbabwe are expected to expose the extent to which industry role players can impact on the competitiveness and profitability of entities.

It is therefore assumed that limitations and delimitations experienced during the research will not significantly interfere with the outcomes of the study.

1.9 Significance and importance of the study

In the face of numerous challenges that organisations encounter in both the macro and micro environment they cannot survive independently of the industry in which they operate. Constant interaction with industry role players and the ability to adapt and align organisational strategies to changes within the industry are instrumental to improved competitive advantage and profitability. Hill and Jones (2004: 371) stress that a company suffering from persistently low profitability can turn around its fortunes through a change in leadership, a change in the organisation and/or a change in the strategies it employs. This research will assist the airline and other organisations in similar circumstances to align their strategies in line with the industry in which they operate so as to:

i. position their companies such that organisational capabilities provide the best defence against the existing array of competitive forces;
ii. influence the balance of forces through strategic moves, thereby improving the firms relative position; and
iii. anticipate shifts in the factors underlying the forces and responding to them, thereby exploiting change by choosing strategies appropriate to the new competitive balance before rivals recognize them.

The continuous monitoring of competitors assists in the development of effective strategies (Cronje et al 2004: 93).

1.10 Chapter overview

This research is divided into six chapters which are briefly summarised as follows:

Chapter 1 of this research provides a background analysis of the research problem and objectives and gives an outline of the research process.

Chapters 2 reviews the Air Zimbabwe competitive environment and is compiled from secondary data gathered from both internal and external data sources. It reviews airline competition in Zimbabwe and highlights strategies employed by airlines which are in direct competition with Air Zimbabwe. It also explains the changing regulations within the airline industry and their impact on competitive advantage and profitability.

Chapter 3 is comprised of literature review which highlights strategies employed in a competitive environment. A structural analysis of the airline industry preludes the different competitive strategies.

Chapter 4 details the different research methods employed in fulfilling the research objectives and answering research questions.

Chapter 5 analyses and interprets all data gathered in this research.

Chapter 6 summarises the research by providing a conclusion to the impact of Air Zimbabwe's interaction with industry role players on its competitive advantage and profitability

1.11 Summary

This chapter outlines the background to the study. According to Grant (2005: 18), strategy in business is about ensuring the survival and prosperity of the organisation. The environment in which organisations are operating is increasingly interconnected, competitive and turbulent and greater attention is now given to financial performance. As Dess, Lumpkin and Taylor (2004: 6) point out, the strategy employed by an organisation can result in a struggling firm becoming a star whilst at the same time a high flying firm can just as swiftly become earthbound. Grant (2008: 5) also asserts that success cannot be attributed to overwhelming superior resources nor consistent good fortune but rather to the presence of a well formulated and implemented strategy.

CHAPTER 2: THE AIR ZIMBABWE VOLATILE ENVIRONMENT

2.1 Introduction

Public utilities have in many jurisdictions experienced regulatory reform in the form of increased competition through more liberal entry. Where once regulated or government-owned monopolies dominated because of the belief that most utilities were 'natural monopolies', there is now a growing consensus that competition can perform a broader and more effective role (Poole, 2009). The Civil Aeronautics Board (CAB) which was created to help protect the public and maintain order in the rapidly growing field of commercial aviation regulated airline services and fares from 1938 to 1978. However, following deregulation and the consequential liberalization of the skies in 1978, airfares have consistently fallen by approximately 22%, passenger traffic has dramatically risen, competition is keener, routes have expanded and flights to smaller communities have risen by more than 50% (www.investopedia.com).

Interdependencies of companies affect the strategic decisions made by organisations within any industry, as the impact and likely reactions of rivals are crucial in assessing the competitiveness and profitability of the industry. To a greater or lesser extent, competitors are affected by the decisions, competitive strategies and innovation of others. Likewise, organisations are also linked to, and dependant on, industries from which they buy supplies from and market products to. This wider competitive environment is composed of forces that influence and in turn can be influenced by the organisation (Thompson and Martin, 2005: 167-168).

Chapter 2 details the nature of the airline competitive environment in which Air Zimbabwe operates as well as the role of industry regulators, which lead to volatility of the industry.

2.2 Deregulation of the airline industry

Regulation of the airline industry was implemented in order for governments to be able to protect scheduled services from charter services so as to maintain air transportation as a public service, since most domestic markets were deemed too small to support more than a single carrier (www.transportation.nationaljournal.com). It was argued that increased competition would result in poor service delivery and wastage of resources and the view that the airline industry should remain under domestic control since it was an important national asset (Caruso, 2009).

According to The Inter VISTAS Consulting Group, the airline industry, despite trends towards global markets, free trade, the internet, economic integration of continents and technology advancements, is still governed in many respects by a framework of rules laid down in the post World War II era. These rules stifle competition and prevent airlines from fully benefiting from possible economic gains, by sheltering airlines from market forces. In many cases, governments directly assist in the establishment and growth of their own state owned “flag carriers” through subsidies and other fiscal incentives, and as a result, prohibits, or heavily regulates the industry in order to avoid direct competition. Even in countries where privately run airlines are well established, national airlines are still accorded priority, especially in the apportionment of aviation rights to local or international markets (www.intervistas-ga2.com).

Though desirable, a level playing field across borders is complicated by the state ownership of some airlines which gives such carriers different objectives (Rovinescu, 2011). For most nations the closure of a national airline (flag carrier) has political connotations, since the government would have assisted in its growth through subsidies and other fiscal incentives because of the high capital costs involved in establishing and running an airline. These airlines have priorities in the apportionment of aviation rights to local or international markets and their existence aids the country’s economy especially through tourism (www.investopedia.com). This is the case in most developing nations such as Zimbabwe where Air Zimbabwe is the national airline. The heavily regulated aviation industry also means aviation rights are often negotiated between governments, denying airlines the right to an open market (Akvistad, 2011).

In the last decade, many national airlines have since been corporatized as public companies or state owned enterprises, or have been completely privatised. This has rendered the designation of "flag carriers" less important than it was in the past. The liberalization of the airline industry has led to global traffic growth of between 12% and 35% and up to 100% in some markets, lower fares and the creation of over 2 million jobs worldwide. However, there are still a number of countries that place a priority on protecting their flag carriers, rather than enhancing the overall welfare of the broader public interest (Serpen and O’toole, 2002).

Deregulation has also resulted in airlines more efficiently allocating resources in a bid to lower prices and improvements in service quality due to increased competition within the industry.

Long haul fares have decreased while short haul fares have increased, with tariffs being aligned to costs, as more passengers travel on longer routes (Grant, 2008: 29). The Organisation for Economic Co-operation and Development also states that new carriers in the market have checked the market power of long established airlines (www.oecd.org).

2.3 Airline competition in Zimbabwe

A thorough and ongoing industry analysis is essential for any organisation when making strategic decisions, as the relationships within the industry, its evolution and key success factors greatly impact any strategic decisions the organisation makes (Louw and Venter, 2010:116). Crouch (2008: 57) underscores the need to appreciate the terms on which organisations compete, the clients they serve as well as other stakeholders whose actions can affect or are affected by the organisation and their preferences and sources of competitive advantage within the industry, in order to fully understand the competitive context. This understanding provides an appreciation of the framework for identifying factors that will possibly affect profitability of the industry. Fitzroy and Hulbert (2005: 84) distinguish four levels of competition namely:

i. network-to-network;
ii. company-to company;
iii. business-to-business; and
iv. product-to-product competition.

While the strongest competitive force determines profitability within an industry and is the most important for strategy formulation, the most salient force may not always be obvious (Porter, 2006). Five forces namely:

i. the possibility of new entrants (departures);
ii. the bargaining power of clients and consumers;
iii. the bargaining power of suppliers;
iv. the availability or non availability of substitute products or services; and
v. the number and actions of existing competitors;

collectively determine the level of competitiveness within an industry and the resultant profitability of organisations in the industry (Cronje et al, 2004: 93). The continuous monitoring of competitors assists in the development of effective strategies.

Competition within an industry is determined by a combination of economic, historic and regulatory factors. It is essential for organisations to understand competition since the ability to generate profits through value addition to customers is largely dependent on the intensity of competition amoung organisations that vie for the same value creating opportunities (Grant, 2005: 68). Since the demand for transport is derived from the nature of demand for movement of goods, services and people from one location to another, the airline industry's services take on the characteristics of the demand for goods. Thompson and Martin (2005: 177) link the intensity of rivalry among existing competitors to:

i. the number of competitors;
ii. the degree of their concentration;
iii. the degree of product differentiation within the industry;
iv. the rate of industry growth;
v. the level of exit barriers;
vi. diversity of methods of competition within the industry; and
vii. cost structures.

According to the Civil Aviation Authority of Zimbabwe, eleven airlines operated into Zimbabwe in 2011, these are, Air Zimbabwe, South African Airways, BA Comair, South African Airlink, Ethiopian Airlines, Kenya Airways, Air Botswana, Air Malawi, Angolan Airlines, Zambezi Airlines and Air Namibia (www.caaz.co.zw). These airlines directly compete for the Zimbabwean airline passenger and cargo traffic from Zimbabwe through their different hub cities to different parts of the world which they service. Table 2.1 below shows total frequencies per week for each airline and the routes served in June 2012. Air Zimbabwe, although included in the table, suspended all its regional and international flights and currently operates three weekly domestic frequencies to Bulawayo and Victoria Falls (www.airzimbabwe.aero).

Table 2.1: 2012 Routes and Frequencies of Airlines Operating into Zimbabwe

Airline	Route	Frequencies per week
South African Airways	Johannesburg – Harare	17
	Johannesburg – Victoria Falls	7
South African Airlink	Johannesburg – Harare	13
	Johannesburg – Bulawayo	7
Kenya Airways	Nairobi – Harare	12
BA Comair	Johannesburg – Harare	7
	Johannesburg – Victoria Falls	7
Ethiopian Airlines	Addis Ababa – Harare	7
Air Namibia	Windhoek – Victoria Falls	5
	Windhoek – Harare	4
Air Malawi	Lilongwe – Harare	4
Emirates	Dubai – Harare	5
Air Botswana	Gaborone – Harare	3
Angolan Airlines	Luanda – Harare	1
Air Zimbabwe	*Harare – London*	*2*
	Harare – Kuala Lumpur – Beijing	*1*
	Harare – Johannesburg	*11*
	Harare – Lusaka – Lubumbashi	*3*
	Harare - Victoria Falls	*6*
	Harare - Bulawayo	*11*
	Bulawayo – Johannesburg	*4*

Source: Civil Aviation Authority of Zimbabwe (2012)

The most aggressive competitors are those whose primary goal is to attain market share as compared to earning short term profits (Grant, 2005, 115). According to 2011 Civil Aviation Authority of Zimbabwe statistics, although Air Zimbabwe operated the most frequencies and enjoyed a monopoly of domestic operations within Zimbabwe, it only controlled 23% of the market share. This is second to South African Airways which transported 30% of the total airline

passenger traffic (www.caaz.co.zw). South African Airlink which operated a much smaller aircraft carried more passengers than industry giants such as Ethiopian Airlines and Kenya Airways which recorded 8% and 9% market share respectively. The pie chart below shows market share statistics per airline for passenger traffic transported into and out of Zimbabwe in 2011 (www.caaz.co.zw).

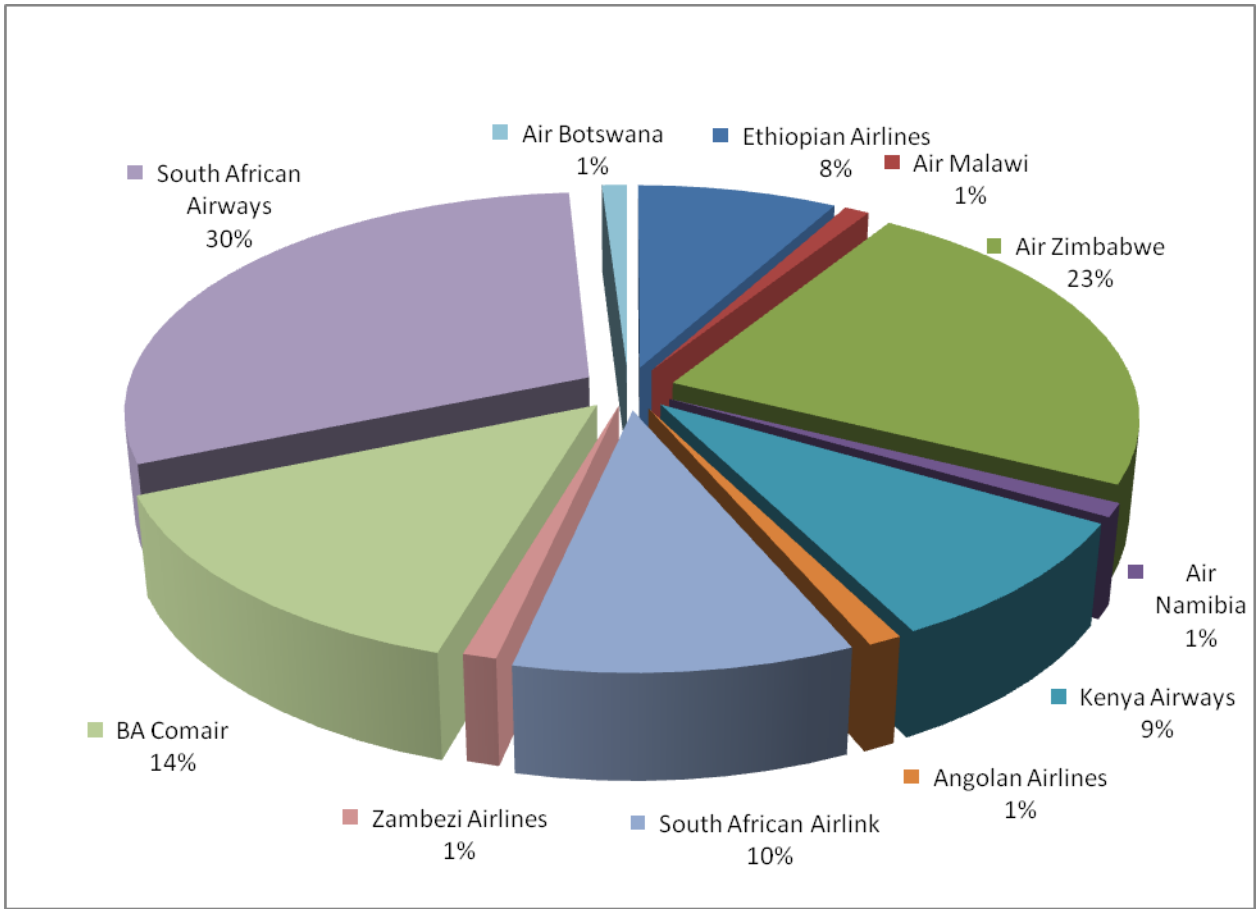

Figure 2.1: 2011 Passenger Market Shares of Airlines Operating in Zimbabwe

Source: Civil Aviation Authority of Zimbabwe (2011)

2.4 Competitor analysis

Fitzroy and Hulbert (2005: 83) define a competitor as any entity that is capable of satisfying the same or similar requirements of the customer as the organisation. This includes current rivals, possible future rivals, producers of substitute products and indirect competitors. Securing an accurate understanding of rival intentions and capabilities enables identification of competitive

opportunity and gives an appreciation of competitive circumstances that pre-empt rival strategies (Crouch, 2008: 47). According to Aaker (2001: 62) analyzing and understanding the actions of rival entities, forestalls the strengths and weaknesses of current competitor strategies, helps predict emerging industry opportunities and threats, provides possible strategic alternatives to the organisation and assists in identification of strategic uncertainties that require further monitoring over time. Circumstances offer advantage to the degree that the organisation has an accurate assessment of the competitive environment in which it operates and knowledge of the competitive terrain (Crouch, 2008: 65). Figure 2.2 below identifies eight elements that influence the actions of competitors.

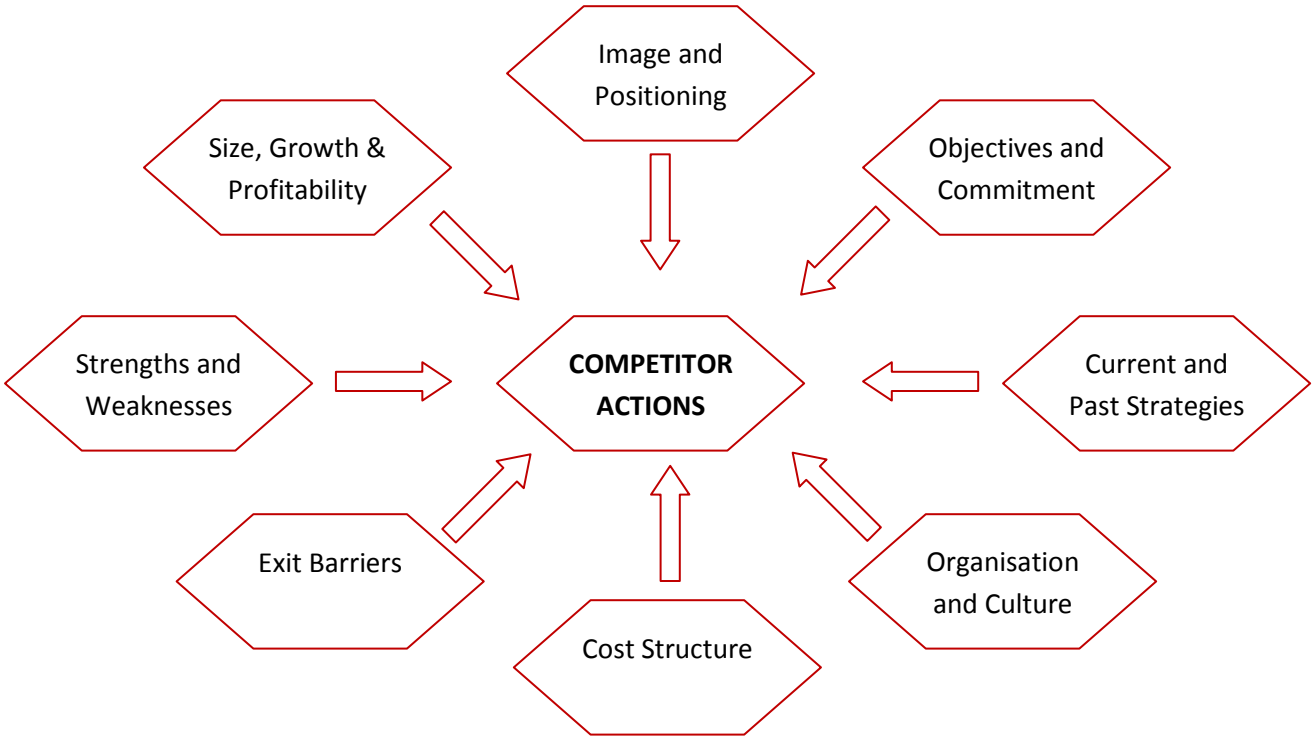

Figure 2.2: Understanding Competitor Actions

Source: Aaker (2001: 63)

The timing and competitive position of tactics involved in the implementation of strategies determine the competitive advantage and profitability of the organisation in relation to competition. West, Ford and Ibrahim (2006: 122) name three categories that represent the

timing tactics that an organisation can follow in order to act or react to competitor actions, which are:

i. first mover;
ii. early followers; or
iii. late mover.

Timing selection is dependent on the organisation's resources, capabilities and competencies. Once an organisation chooses its market share goal and the action to follow, several strategic options are available as highlighted in the competitive timing/direction matrix below.

Goal	Move before competition	Move with competition	Move away from competition
Market share protection (hold defend)	i. Mix adjustments ii. Deterrent action	i. Imitate ii. Compensate	i. Merger ii. Acquisition iii. Collusion
Market share advancement (growth)	i. New areas ii. New segments iii. Additional channels iv. Penetration pricing	i. Capitalise ii. Leapfrog	i. New offerings ii. Reciprocal agreements

Figure 2.3: Competitive Timing/Direction Matrix

Source: West, Ford and Ibrahim (2006: 123)

An organisation's competitive position determines whether it pursues offensive or defensive tactics. West et al (2006: 125) identify four competitive positions namely:

i. the market leader;
ii. the market challenger;
iii. the market follower; or
iv. the market nichers.

Market leaders use pricing, distribution coverage, advertising intensity, technological advancements and new products to gain and maintain the largest market share in the industry through the use of both offensive and defensive tactics. Runner-up firms who endeavour to

increase market share through offensive tactics are known as market challengers, while runner-up firms who aim to retain their market share through use of defensive strategies are known as market followers as they are satisfied with the status quo. A market nicher is a firm that avoids expensive head-on clashes with larger organisations but rather prefers to concentrate on small segments of the market not pursued by other firms (Fitzroy and Hulbert, 2005: 200).

Essentially, companies tend to follow past strategies that have worked well for them in the face of competition (Ryans, 2009: 101). A major factor influencing the strategy of competitor airlines are their resources and capabilities which stand out from competitors. It is therefore essential to assess the strength, available resources and capabilities of the competitor such as brand strength, management skills, operational capabilities and financial resources before employing any strategies to counter competitor challenges (Grant, 2005: 114). These determine the strategy to employ as airlines aim to increase competitive advantage and profitability. The organisation's culture as supported by its structure, systems and people also influence the strategy employed (Aaker, 2001: 65).

A thorough evaluation of strategy driving forces is therefore imperative in understanding likely future actions of competitors and how to counter competitive moves in the market (Ryans, 2009: 102). Crouch (2008: 23) emphasizes three components of competitive direction, which are:

i. the essential aim of interaction with a competitor;
ii. understanding the competitive framework; and
iii. predicting competitor intentions and capabilities whilst at the same time masking the organisations own intentions and capabilities.

The strengths and weaknesses of competitors are assessed through the identification of assets and competencies within the industry in which the organisation operates (Aaker, 2001: 66).

2.4.1 Strategies employed by competitor airlines

By nature, the service industry is intangible, heterogeneous, inseparable and perishable thereby making customer satisfaction and value creation essential elements in attaining competitive advantage and profitability (West et al, 2006: 266). Intensifying competition due to industry regulations that are opening competition to new and varied competitors, slowing industry growth projections, increasing levels of parity amoung service providers and increased customer expectations are necessitating the elimination of operational inefficiencies in an attempt to

improve profit margins (www.iata.org). There is therefore immense strategic turbulence as firms attempt to differentiate their offerings from those of competitors through constant monitoring of customer wants and needs in an attempt to enhance value.

A competitor's strategy points to how operating policies explicitly and/or implicitly position the business, such that it maximizes the value of capabilities which distinguish it from rivals. Competitor analysis also provides an organisation with a framework for self analysis and understanding conclusions rival companies may be drawing about its position in the competitive environment (Aaker, 2001: 63).

2.4.1.1 The hub-and-spoke system

During the 1980s, major airlines replaced the traditional point-to-point route network with a route map where individual airlines concentrated their routes on a few big, busy and international airports linked together by frequent services using the larger, faster and more efficient new aircraft. Smaller aircraft were used to connect major airports to smaller, less busy airports with feeder frequencies which were scheduled such that passengers could be pooled in order to fill the larger aircraft (Grant, 2008: 30). Planes no longer carry passengers bound for hub cities only, but for the hundreds of other destinations reachable from the hub, allowing airlines to multiply the service offered to consumers.

The hub-and-spoke system allows consumers to enjoy more choices in departure and arrival times, and a far greater choice of destinations. The hubs, in turn, have become an important and dynamic source of jobs and revenue in their communities. The hub-and-spoke system has been adopted by airlines which are geographically centrally located such as Emirates, Kenya Airways and Ethiopian Airlines which have taken advantage of their base locations to transport passengers from the rest of the African continent into their long haul flights and vice versa (www.iata.org). As a result these airlines enjoy a much wider route network than Air Zimbabwe which is located in the south of the continent and as a result does not have the same route network. The hub-and-spoke system created a barrier to entry for most new carriers as it made obtaining landing slots and gates at major hubs difficult, whilst at the same time the dominance of certain airlines within a particular market and route deterred upcoming airlines (Grant, 2008: 30).

Table 2.2 below shows the total number of domestic and international destinations that both passengers and cargo originating from Zimbabwe can be further transported to using the different hub cities of airlines operating into Zimbabwe.

Table 2.2: Destinations of Airlines Operating in Zimbabwe in 2012

Airline	Domestic Destinations	International Destinations	Hub City	Source
Air Botswana	4	3	Gaborone	www.airbotswana.co.bw
Air Malawi	2	4	Lilongwe	www.airmalawi.com
BA Comair	2	5	Johannesburg	www.comair.co.za
Air Zimbabwe	3	6	Harare	www.airzimbabwe.aero
Zambezi Airlines	2	7	Lusaka	www.flyzambezi.com
Airlink	14	13	Johannesburg	www.flyairlink.com
Angolan Airlines	11	23	Luanda	www.taag.com
Air Namibia	6	25	Windhoek	www.airnamibia.com.na
South African Airways	5	33	Johannesburg	www.flysaa.com
Kenya Airways	5	36	Nairobi	www.kenya-airways.com
Ethiopian Airlines	17	62	Addis Ababa	www.flyethiopian.com
Emirates	2	111	Dubai	www.emirates.com

2.4.1.2 Product innovation strategies

Differentiating brands in over-crowded industries is continuously becoming difficult as brands for major products and service categories are generally becoming more and more similar hence customers are basing their choice decisions on price (Kim and Mauborgne, 2005: 8). Innovation however refers to subsequent changes and adaptations to strategies in an attempt to gain competitive advantage (Hill and Jones, 2004: 135). Although being first in the market provides significant and sustained market share advantage the adoption of distinctive positioning and marketing strategies by late entrants and complacency by early entrants can advance their position in the market as they take advantage of gaps in product offerings (West et al, 2006: 123).

According to Grant (2008: 33), American Airlines in a bid to build customer loyalty and discourage passengers from switching airlines based on minimal price differentials, introduced frequent flyer schemes in 1981 and was soon followed by all other major airlines. These schemes offer varied incentives to passengers based on miles flown such as:

i. free airline tickets;
ii. free upgrades;
iii. excess baggage allowances;
iv. express check-in; and
v. access to departure lounges (www.iata.org).

Airlines operating into Zimbabwe have followed suit and almost all the airlines have customer loyalty and frequent flier programmes as indicated:

South African Airways	-	Voyager	(www.flysaa.com)
Kenya Airways	-	Flying Blue and Msafiri	(www.kenya-airways.com)
Air Namibia	-	Reward $	(www.airnamibia.com.na)
Ethiopian Airlines	-	ShebaMiles Club	(www.flyetiopian.com)
Air Zimbabwe	-	Rainbow Club	(www.airzimbabwe.aero)
Air Botswana	-	Teemane Club	(www.airbotswana.co.bw)
TAAG Angolan Airlines	-	Umbi Umbi Club	(www.taag.com)
Emirates	-	Business Rewards and Skywards	(www.emirates.com)

Unfortunately, due to the similarity in benefits offered by all airlines, very little competitive advantage is now derived from frequent flier and loyalty programmes. Loyalty to specific airlines is now relatively low except for frequent travellers who still react to the incentives of customer-loyalty programmes (www.iata.org). Innovation has been central in the attainment of competitive advantage through the use of what would be deemed a common place existing strategy. West et al (2006: 212) categorise innovation objectives into:

i. new-to-the-world;
ii. additions to existing lines;
iii. improvements and revisions;
iv. new product lines;
v. cost reductions; and
vi. repositions.

Market leaders usually have dominance as is seen in advantages enjoyed by the more prominent airlines whose customer-loyalty and frequent-flier programmes are constantly adapted and changed in order to gain competitive advantage. Whilst most organisations take a risk-averse stance and stay with the tried and tested, it is those organisations that have reinvented their strategies that have gained market success. As a result whether an organisation is a pioneer or a late comer of a strategy, a thorough understanding of entry and defensive strategies and a good sense of timing enhances competitive advantage (Hill and Jones, 2004: 198).

2.4.1.3 Branding strategies

The American Marketing Association defines a brand as a name, symbol, word, sign, design or a combination of these that differentiates an organisation from competitors (West et al, 2006: 239). The image and positioning of the competitor is deduced in part from its products, advertising, packaging and action but more importantly customer perception on the products and services provided by the organisation (Aaker, 2001; 64).

Commercial Air Services (Comair) was launched in 1946 as South Africa's first private airline, initially operating charter flights to some of the remotest places in Africa. For more than 45 years, Comair competed only on secondary routes such as Margate on the South Coast of KwaZulu-Natal, Skukuza in the Kruger National Park and Manzini, Harare and Gaborone across the border. Once the South African airline industry was deregulated in 1991, Comair entered the mainline domestic market (www.leader.co.za). In 1996 Comair Ltd became a franchise partner with British Airways and took on the livery and colours of British Airways. It currently operates using the British Airways banner (www.comair.com). Although British Airways is a shareholder, it does not have a say in the running of the local airline, just in the brand and quality control. In the face of competition, the backing of British Airway's international brand helps BA Comair's reputation. Comair's joint Chief Executive Officer, Novick Venter, claims that South Africans perceive that the British provide better quality than locals, this is despite the fact that Comair is locally owned and controlled, increasing the airline's competitive advantage within the southern African airline market (www.leader.co.za).

West et al (2006: 246) emphasize industry cost structure, brand efficiency, brand profitability and consumer perceptions of the brand as essential elements in the achievement of sustainable

competitive advantage through the use of branding strategies. A successful brand is a valuable organisational asset which however requires constant nurturing.

2.4.1.4 Diversification strategy

For more than a quarter of a century traditional carriers have been struggling to find an effective way to deal with the threat of low cost airlines (Ryans, 2009: 6). Some traditional carriers such as Air Canada, South African Airways, Qantas and BA Comair have chosen to compete head-on with low cost carriers on domestic and short-haul routes in different ways such as introducing subsidiary low cost carriers of their own, filling up part of the economy cabin with price sensitive passengers or buying an equity stake in competitor low cost carriers (Rovinescu, 2011). Insight into a competitors cost structure provides an indication of likely future pricing strategies and staying power (Aaker, 2001: 65).

Internationally, traditional airlines suffered major losses following the September 11 terrorist attacks while low cost airlines such as Ryanair and EasyJet, were flourishing due to a change in the travel market which had become seriously price sensitive (www.leader.co.za). This was the incentive to the formation of a subsidiary airline Kulula by Comair. Kulula took to the skies in August 2001 as South Africa's first low cost airline and now operates over 325 flights a week to 15 destinations (www.kulula.com). In response to competitor actions South African Airways launched the low cost carrier Mango, a wholly owned subsidiary, in October 2006 (www.engineeringnews.co.za). Venter (2008) points out that there are no similarities between the two brands – Kulula and BA Comair. While Kulula is young, bright, fun and laid back, BA Comair is professional and more conservative. Even the markets served are different in that BA Comair passengers are mostly travelling for business, and in this top end of the market the company usually pays for the ticket whereas Kulula passengers mostly travel for personal reasons, look for the best price and are more concerned about getting to their destination than about the frills in the service. Kulula also attracts a large portion of the small to medium-sized enterprise (SMEs) market. At the front line, Kulula and BA Comair are two different teams but behind the scenes, it is one company that cross-pollinates the brands in a clearly symbiotic relationship or in a convergence business model (www.leader.co.za).

Increased competition reduced revenue inflows of established airlines against excess capacity which led to price wars (Grant, 2008: 33). As IATA's Chief Economist, Pearce (2010) asserts,

the difference in the business models of the low cost carriers and the traditional carriers will always result in a cost gap and a difference in yields due to the business investments already made by the traditional carriers and incomes from first class service (www.iata.org). It is however important for management to critically assess how it responds to low cost competition as strategies vary, ranging from direct confrontation to moving away from the most vulnerable segments and focusing on segments that are less susceptible to low cost competition (Ryans, 2009: 83).

2.4.1.5 Mergers, acquisitions and partnerships

Trouble in the airline industry traces back 40 years to an era when governments controlled air fares and route regulation, which ended in 1978 (Barrett, 2010). Industry deregulation in 1978 resulted in a wave of increased entry by new airlines greatly reducing seller concentration (Grant, 2008: 30). Most airlines continued to respond to higher operating costs especially the escalating price of fuel by raising fuel surcharges and reducing capacity, or the number of flights (Grant, 2008: 39). The net result for consumers were higher ticket prices and very full planes, which also reduced opportunities for upgrades (Chang, 2011). Unable to compete on prices, airlines tried to outdo each other on services (Barrett, 2010). However, international over capacity, competition and the need by long established airlines to build national and international route networks led to an increase in mergers and acquisitions within the industry (Grant, 2008: 31).

These mergers and acquisitions were used as a new strategy to thin a bloated industry (Barrett, 2010). In 1996 the Kenyan government privatized its national flag carrier Kenya Airways with a sale of 26% shareholding to KLM Royal Dutch Airlines. The coalition between Kenya Airways and KLM widened both airline route networks to diverse African and European destinations with regular services between Nairobi and Amsterdam, and code-shared services within the Kenya Airways-KLM network (www.galbithink.org/topics/ka/alliance.htm). Likewise, Swaziland Airlink was formed as a joint venture company between the Swaziland Government which owns 60% of the airline and Airlink of South Africa which owns 40%. Airlink now enjoys a stake in the national carrier of Swaziland (www.flyairlink.com).

Technology transfer and development, market access, cost reduction, risk reduction and changes in the industry structure have led to the establishment of partnerships within the airline

industry (Walker, 2003: 149). Airlink has enjoyed the benefits of partnerships since 1997 when it partnered with South African Airways and SA Express providing a feeder network to the larger airlines which links smaller towns, regional centres and hubs throughout South Africa establishing a leading aviation network in Africa (www.flyairlink.com). Airlines in the partnership are enjoying a wide route network which offers better connectivity to the travelling public.

Commercial Air Services (Comair) which was launched in 1946 as South Africa's first private airline operated charter flights to some of the remotest places in Africa for more than 45 years. Once the South African airline industry was deregulated in 1991, Comair entered the mainline domestic market (www.leader.co.za). In 1996 Comair Ltd became a franchise partner with British Airways and took on the livery and colours of British Airways. It currently operates using the British Airways banner (www.comair.com).

2.4.1.6 Strategic alliances

Limited by restrictions on mergers with foreign airlines in an era where airlines were losing billions of dollars amid volatile fuel prices and reduced consumer spending, airlines sought to cut costs yet increasing market share by expanding alliances and trying to extend synergies within current partnerships. Airline alliances started as loose marketing agreements, for code-sharing and frequent linkages but have since become tight economic relationships (Chakravorty, 2010). Unfortunately for the airline traveller, alliances may also create disadvantages in the form of higher prices when all competition is erased on a certain route and/or reduced flight frequencies on certain routes especially between hub cities of alliance airlines (Chakravorty, 2010).

As highlighted in Table 2.3 below, June 2012 statistics for the three largest international airline alliances – Star Alliance, Sky Team and Oneworld show that they control over 77% of the world's market share (www.aviationknowledge.wikidot.com/aviation:global-alliance). Brouthers, Brouthers and Wilkinson attribute the success of international strategic alliances to complementary skills, cooperative cultures, compatible goals and commensurate levels of skills (Hough et al, 2007: 390). It is important to note that four major competitors for the Zimbabwean passenger market as shown in Figure 2.1 are members of the three major international airline alliances. BA Comair through its franchise partnership with British Airways is a member of the

Oneworld Alliance; Kenya Airways is a member of the Sky Team Alliance; while both South African Airways and Ethiopian Airlines are members of the Star Alliance.

Table 2.3: Statistics for the 3 Major Airline Alliances

Alliance	Star Alliance	Sky Team	Oneworld
Year Formed	1997	2000	1999
Member Airlines	28	17	12
Number of Destinations	1 293	983	766
Countries Served	190	178	147
Daily Departures	21 410	14 500	10 049
Aircraft fleet	4 382	3 542	2 675
Average Annual Passenger Uplifts	649 million	506 million	303 million
Number of Employees	409 152	399 469	355 672
Average Star Rating	3.29	3.19	3.73
Network capacity within Africa	23%	10%	4%
Global Market Share	29.3%	24.6%	23.2%

Sources: Star Alliance Statistics *www.staralliance.com*
Oneworld Statistics *www.oneworld.com*
Sky Team Statistics *www.skyteam.com*
www.aviationknowledge.wikidot.com/aviation:global-alliance

2.4.1.7 Rapid growth strategies

A prerequisite to supplying air service is gaining access to the requisite infrastructure. Airport time slots for instance may not accommodate additional flights or accessibility to airport facilities may disadvantage new airlines. The level and growth of sales and market share provide indicators of the strength of business strategies employed. Strong competitors and successful strategies are usually identified by the maintenance of a strong market position or the achievement of rapid growth. In addition, a profitable business easily accesses capital for investment (Aaker, 2001: 63).

Emirates was launched as an airline wholly owned by the Government of Dubai in 1985 operating two leased aircraft. However in its 27 years of existence it has evolved into a globally

influential travel and tourism conglomerate which now operates to more than a hundred destinations worldwide. It has grown in scale and stature "not through protectionism but through competition" from the ever-growing number of international carriers that take advantage of Dubai's open-skies policy. Employing an explosive growth strategy while continually striving to provide the best service in the industry has been the secret of Emirates' success and profitability since its third year of operation (www.emirates.com).

2.5 Regulation within the airline industry

The government and regulatory forces can directly affect how organisations operate within a given industry by maintaining barriers to entry, regulating prices, imposing restrictions on practices regarded as counter to public interest and implementing policies on mergers and acquisitions to protect competition (Post, Lawrence and Weber, 2002: 479). Noneconomic regulation within the airline industry takes the form of a multitude of technical standards and regulations aimed at:

i. ensuring extremely high levels of safety governing the airworthiness of aircraft;
ii. timing, supervision and nature of aircraft maintenance;
iii. the number of, duties, schedules, licensing and workloads of air crew;
iv. the manner in which aircraft are operated; and
v. air transport infrastructure at airports. (www.iata.org)

From an economic point of view the airline industry is regulated under three facets that are:

1. granting of air traffic rights for entry into the industry;
2. control of air fares and freight tariffs; and
3. the control of service frequencies and capacity (www.icao.int).

The regulation of the airline industry impacts on how airlines compete within the industry. There are several laws, statutory instruments, government arms and industry associations that govern the manner in which airlines operate. Listed below are industry regulators who directly impact on the competitiveness and profitability of airlines operating into Zimbabwe and particularly Air Zimbabwe:

- **The Civil Aviation Authority of Zimbabwe (CAAZ)**

  The Civil Aviation Authority of Zimbabwe provides Zimbabwean navigation services, airport facilities and services and advices the Government of Zimbabwe on civil aviation

services. Several civil aviation legislations and air navigation regulations including the Air Services Act, Aviation Act, Aircraft Act, Aviation Regulations and Air Services Regulations applicable to aviation operators within Zimbabwe are enforced by CAAZ. In addition to the regulation of the aviation industry its main purpose is to develop civil aviation in Zimbabwe and to promote safe, regular and efficient air travel (www.caaz.co.zw).

- **The Air Services Board**

The Air Services Board provides regulation of services performed by aircraft within the Zimbabwean airspace including the issuance, renewal, transfer and amendment of permits based on satisfactory provision of information on safety, regularity, frequency of operation, reasonableness of charges, servicing and maintenance of aircraft and general efficiency. Failure to comply with set regulations can result in the revocation, suspension or variation of operating permits (www.parlzim.gov.zw/attachments/article/99/AIR_SERVICES_ACT_13_01.pdf).

- **The Airlines Association of Southern Africa (AASA)**

The Airlines Association of Southern Africa represents the mutual interests of member airlines and partner organisations in the aviation industry such as airport authorities, air traffic service providers, ground handling companies, aircraft and engine manufacturers, weather service providers, aircraft leasing companies and oil companies that are based in African countries south of the equator. Its jurisdiction encompasses policy, planning, operational, regulatory and financial issues affecting the bottom line of the airlines and also relates to airports, airspace, civil aviation, safety and security of airline operations (www.aasa.za.net).

- **The African Airlines Association (AFRAA)**

The African Airlines Association sensitises African airlines on concrete actions for cooperation in operational, commercial, technical, and training fields and African Governments through the African Civil Aviation Commission and other regional and sub-regional organisations on the actions to be taken for the development of an efficient air transport system. In addition, AFRAA is a major catalyst for all the major aviation policy decisions on the continent (www.afraa.org).

- **The International Air Transport Association (IATA)**

The International Air Transport Association is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure and economical air services. IATA is the voice of the industry, with firm advocacy and lobbying to focus governments on the long term issues for viability of aviation, such as liberalization, environment and taxation. It has spearheaded several initiatives for member airlines in order to fulfil its objectives and improve perceptions of the role of aviation in economic and global competitiveness. These include:

  - The IATA Operational Safety Audit (IOSA) which is the global standard for airline safety management and by 2009 airlines were required to achieve IOSA registration as a condition of IATA membership.
  - IATA led the alignment of the whole aviation industry including airlines, airports, manufacturers and air navigation service providers so as to achieve carbon-neutral growth and to cut aviation's carbon emissions.
  - Simplifying the Business (StB) is an initiative to use technology to improve customer convenience and reduce costs especially through paperless operations in airlines and ground handlers.
  - Savings across the air transport value chain, particularly with monopoly suppliers so as to reduce costs.
  - Financial Systems which settle travel agent and airline payments and billings through a central body (www.iata.org).

- **The International Civil Aviation Organisation (ICAO)**

The International Civil Aviation Organisation an agency of the United Nations which promotes the safe and orderly development of international civil aviation throughout the world sets standards and regulations necessary for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection (www.icao.int).

- **The European Aviation Safety Agency (EASA)**

The European Aviation Safety Agency promotes the highest common standards of safety and environmental protection in civil aviation in Europe and worldwide so as to keep air transport safe and sustainable, allowing for growth and improved safety. The

agency's responsibilities include expert advice to the EU for drafting new legislation; implementing and monitoring safety rules, including inspections in the Member States; type-certification of aircraft and components, as well as the approval of organisations involved in the design, manufacture and maintenance of aeronautical products; authorization of third-country (non EU) operators; and safety analysis and research (www.easa.europa.eu).

2.5.1 Safety and security

In the aftermath of September 11, rapid emergency measures were adopted by the airline industry with more stringent security being applied across the globe and passengers having to comply with longer queues and hassles at security check points, increased airline fares as airlines introduced a new insurance surcharge on tickets and the airlines themselves being mixed up in all the ensuing confusion as governments, national authorities and the industry failed to harmonize operations and work together (Bisignani, 2011). As the IATA Director Security and Travel Facilitation, Dunlan (2011) asserts, it remains every passenger's dream to be able to get from the curb to the boarding gate with dignity, without stopping, without stripping, without unpacking and yet feeling safe enough to fly.

According to Dunlan (2011) safety remains the most important element for all airlines because the aviation industry is very much a target and more stringent security measures need to be put in place especially since passenger numbers are increasing (an estimated 2.8 billion passengers were flown globally in 2011). In a bid to make the skies safer, IATA initiated safety targets in 2001 through the IATA Operational Safety Audit (IOSA). IOSA became the global benchmark for safety and a requirement for IATA registration (all IATA members are IOSA registered and must remain registered in order to maintain IATA membership), with 369 airlines having complied with the requirements by end of 2011. This improved the industry accident rate with 1 accident for every 2.7 million flights in 2011 (Tyler, 2012). It is important to note that the accident rate for IOSA registered operators was 52% better than for non IOSA operators.

Although business is all about taking risks, being able to reduce risks at the same profitability levels makes good business sense. According to Brouthers, Brouthers and Wilkinson the success of international strategic partnerships is dependent on complementary skills, cooperative cultures, compatible goals and complementary skills. Since the implementation of

the IOSA programme in 2001, industry market leaders have made it a prerequisite to partner only with airlines which are IOSA registered since conformity to IOSA standards implies that the carrier has demonstrated a high level of operational excellence thereby reducing safety and security risks. In addition, the sharing of IOSA reports facilitates code share arrangements and saves potential partner airlines time, professional resources and money (www.iata.org/iosa).

2.5.2 The environment

According to the World Economic Forum 2006 (www.weforum.org/corporatecitizenship), "Corporate citizenship is about the contribution a company makes to society and the environment through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy." The 1992 United Nations World Summit on Sustainable Development held in Rio de Janeiro defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission, 1987). The Organisation for Economic Co-operation and Development (OECD) advocates that while bringing economic benefits, transport activity causes many negative environmental impacts including greenhouse gas emissions, air pollution, noise pollution, water pollution, negative impacts on bio-diversity due to pollution and habitat losses (www.oecd.org). To ensure sustainable development the airline industry is closely monitored by governments, unions and several aviation regulatory authorities such as IATA and ICAO as well as nongovernmental organisations.

There are also external environmental costs created by air transport services, in particular from greenhouse gases and noise and air pollution. These will not directly impact airline profitability but will have indirect effects through government regulation (Shane, 2009). Notwithstanding a rise in the number of aircraft movements in recent decades, airlines and airframe and engine manufacturers have made substantial reductions in the economic cost of aircraft noise (Bhatt, 2007). Greenhouse gas emissions have also been dramatically reduced over time for the average departure. This has allowed the expansion of services at some densely populated city hubs that otherwise would have been constrained (www.transportation.nationaljournal.com).

2.5.2.1 Air pollution

The aviation industry is sensitive to the amount of carbon dioxide and other volatile organic compounds that are emitted as a result of air travel, even though this amount is minor when

compared to that of other segments of the transportation industry worldwide. Aviation industry carbon dioxide emissions in 2010 constituted 2% of the total global man made carbon dioxide and 12% of emissions emitted by all transportation sources. However, passenger aviation traffic is expected to increase by an average of about 5% annually during the next 20 years, while cargo aviation traffic is expecting a 6% average yearly increase. With constant climate change challenges affecting all industries and in order to achieve a vision of a carbon free future, airlines were given new targets set at the 2007 IATA Annual General Meeting of:

- a 1.5% average annual improvement in fuel efficiency to 2020;
- capping net carbon dioxide emissions from 2020 with carbon-neutral growth; and
- reducing emissions by half by 2050 compared to a 2005 baseline (www.iata.org)

Improvements in technology, operations and infrastructure as well as the use of positive economic measures are needed to achieve this. Since the beginning of the jet age, the aviation industry has taken steps to improve fuel efficiency and reduce harmful emissions. Today's new jet aircraft are 70% more fuel efficient than jet aircraft produced 40 years ago and 20% more fuel efficient than 10 years ago. Modern aircraft can achieve fuel efficiencies of 3.5 litres of fuel per 100 passenger kilometres. In addition, sustainable biofuels have a big contribution to make in order to meet the target of reducing aviation's carbon footprint by up to 80% (www.boeing.com).

Although airlines are able to offset the escalating price of fuel by reducing operating costs elsewhere (Grant, 2008: 39) most airlines continue to respond to higher costs by raising fuel surcharges and reducing capacity, or the number of flights. The net result for consumers is higher ticket prices and very full planes, which also reduces opportunities for an upgrade (Chang, 2011). On the other hand some airlines such as Emirates are increasing profitability by combining fuel efficiencies of new jet aircraft with environmental advantages through massive aircraft acquisitions.

In the short term, the industry aims to reduce emissions by identifying and applying product enhancements and modifications for the current fleet. The International Air Transport Association is compiling industry best practices, publishing guidance material, conducting airline visits and establishing training programmes to improve existing fuel conservation measures. For the medium term, possibilities to accelerate fleet renewal and to introduce the latest

technologies as early and as widely as possible are being explored, as well as the commercialization of sustainable biofuels. According to the International Panel on Climate Change in its 1999 special report on aviation, more efficient aircraft operations can save fuel and carbon dioxide emissions by up to 6%. Joint initiatives to identify and develop radically new technologies and aircraft designs have been set for the long term (www.iata.org).

2.5.2.2 Noise pollution

Although individual aircraft have become quieter over the past 30 years, flight frequencies have increased, increasing noise in and around airport areas. Aircraft landing and takeoff are the chief sources of aviation noise but communities living in close proximity to airports are also affected by 'ground noise' from sources on the airport such as taxiing aircraft, aircraft engine tests, generators or airside vehicular traffic and transport links to the airport such as road and rail networks. (Parliamentary Office of Science and Technology Postnote Number 197, 2003: 1).

Aircraft noise is governed through international, regional and national regulations. At international level, the International Civil Aviation Organisation (ICAO) sets progressively tighter certification standards for noise emissions from aircraft. In addition to these specific requirements, the ICAO requires members to manage noise levels by reducing aircraft noise at source, land-use planning, changes to operational procedures and adhering to restrictions on the use of the noisiest aircraft (www.parliament.uk/post).

Future policy instruments to reduce noise from aircraft are constantly being analyzed for implementation. These include:

i. voluntary initiatives such as agreements between airports and local communities on the number and/or type of day and night flights;
ii. guidance to airport operators on potential mitigation measures such as a list of take-off noise limits realistically achievable by different aircraft types;
iii. legal sanctions for failure to follow noise preferential routes;
iv. take-off noise limits; and
v. the number of night flights and landing charges that vary according to the noise performance of aircraft.

(Parliamentary Office of Science and Technology Postnote Number 197 2003: 4).

2.6 Summary

A decade of change has transformed aviation - airlines are leaner, greener, safer and stronger, unfortunately windfall profits are not achievable in the aviation sector because of the nature and characteristics of the industry and market in which it operates which are quite different from other sectors (www.transportation.nationaljournal.com). It is impossible for airlines to simply pass on all their costs to consumers due to the level of competition and congested nature of a significant part of air transport infrastructure. As Crouch (2008: 59) points out, the gathering and interpretation of competitor information strategically forestalls competitor capabilities and intentions and helps avoid surprises. The main aim of competitor analysis is for an organisation to gain insight into factors that can influence future product and market investment decisions in an effort to gain or maintain sustainable competitive advantage (Aaker, 2001: 56). Chapter 2 detailed the current strategies that Air Zimbabwe's competitor airlines are employing in an effort to gain competitive advantage and profitability.

CHAPTER 3: STRATEGIES IN A VOLATILE ENVIRONMENT

3.1 Introduction

The airline industry tends to have an oligopolistic cost structure. An oligopoly is an economic condition where the suppliers of a product are so few that one supplier's actions can have a significant impact on prices and actions of competitors (www.economicsonline.co.uk/Business_economics/Oligopoly.html). Mohr and Fourie (2004: 290) explain that there is a high level of interdependence between firms operating in oligopolies, as the actions of one firm affects the actions of other firms. Due to this high level of interdependence, no individual firm is certain of the policies of rivals as the environment is uncertain. Profitability is consequentially not only dependant on the organisations actions but also on the actions of rival companies and the possible retaliatory actions of competitors to any strategies employed (Mohr and Fourie, 2004: 291). Intensity of competition within the industry is thus dependant on the extent to which the cost structure permits companies to compete in the long and short run (Thompson and Martin, 2005: 73). The more fiercely firms compete to obtain a larger share of industry profits the smaller the disposable industry profits become (Mohr and Fourie, 2004: 291).

Walker (2003: 43) asserts that a firm's performance is influenced by the characteristics of the industry in which it operates which determine the price, value and cost of products and services. For an organisation to survive and prosper within an industry it must supply what customers want to buy and out-live competition (Grant, 2005: 93). In industries such as airlines where the forces are intense, almost no company earns attractive returns on investment (Thompson and Martin, 2005: 247).

Chapter 3 gives a literature overview of various competitive strategies which can be employed in trying to increase and/or regain competitive advantage and profitability.

3.2 Porter's five forces model

Porter (2006) stresses that competition within any industry goes beyond established industry rivals. As shown in Figure 3.1, although rivalry among existing firms within an industry is at the heart of competition and is the primary determinant of industry profitability, it is important for

organisations to look beyond immediate competition to the bargaining power of buyers and suppliers, and threats from substitute products and new entrants (Thompson and Martin, 2005: 172). Based on the airline introduction in Chapter 2, this model has been extended to show the airline environment.

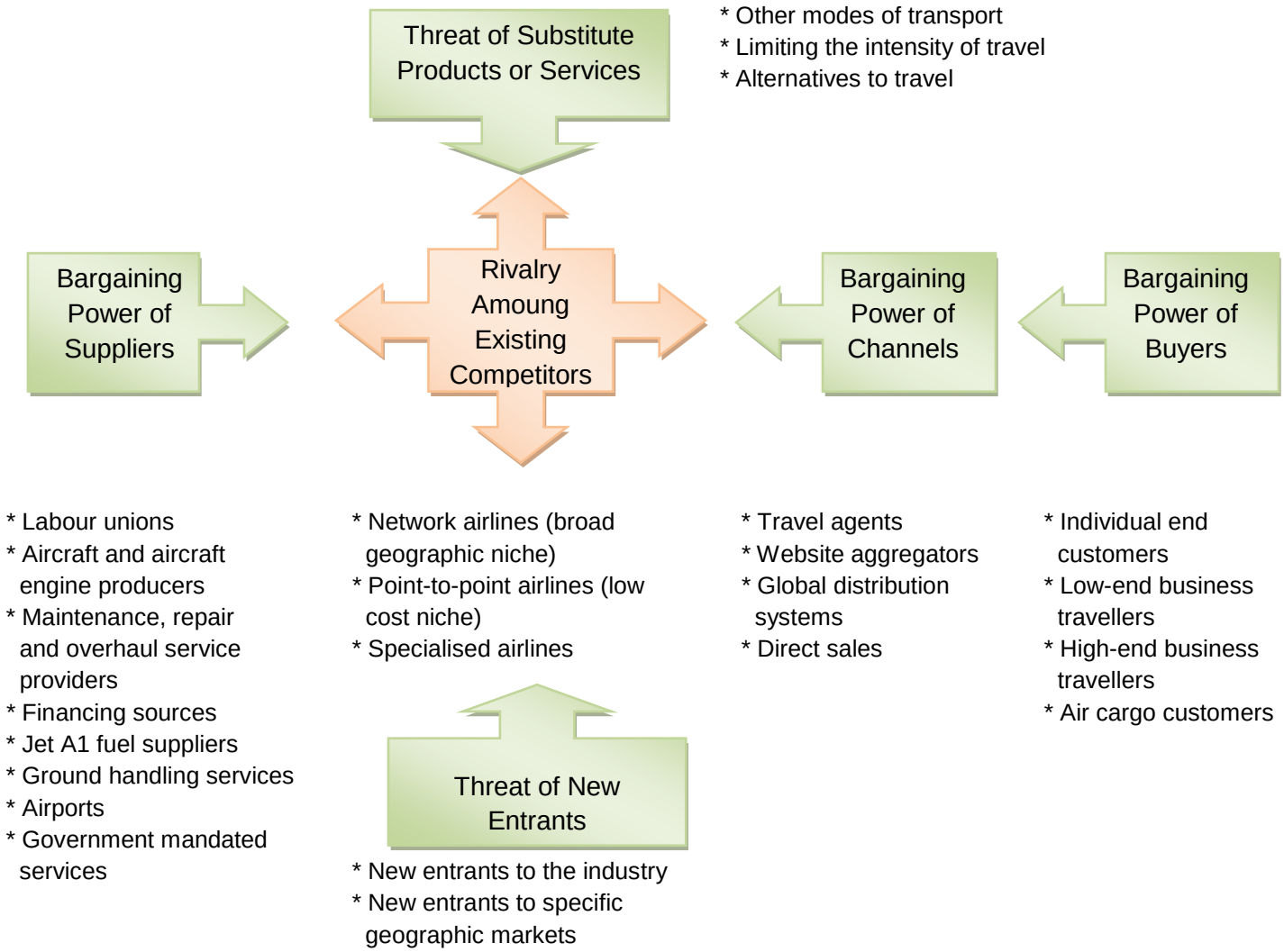

Figure 3.1: Determinants of Airline Industry Profitability

Source: www.iata.org (2011)

These forces will now be individually discussed with reference to the turbulent airline environment.

3.2.1 Rivalry amoung existing competitors

Thompson and Martin (2005: 177) define competitive rivals as organisations which target the same customer group with similar products and services. Competition takes many forms including price competition, product development, product differentiation, advertising and campaigns, and service improvements (Stonehouse and Campbell, 2004: 122). The airline industry generally earns low returns because the cost of competition is high and this is highly detrimental when there are challenges in the economy. Companies are interdependent as the competitive actions or moves of one company directly affect the market share and consequently the profitability of rivals (Hill and Jones, 2004: 45). A major threat in such industries is rivalry between existing competitors and the possibility of price wars.

Thompson and Strickland (2003: 81) identify several factors that influence the level of competitive rivalry within an industry. These are:

i. the number, size and power of competitors and their degree of concentration;
ii. the rate of growth of the industry;
iii. the degree of product or service differentiation;
iv. the perishability of products;
v. the cost structure of the industry;
vi. the number and effect of exit barriers; and
vii. the number of strategic options available in the industry.

The level of industry demand determines the intensity of these factors as a growing industry does not necessarily result in loss of market share of existing companies or a reduction in profitability as firms enjoy greater scope to compete for customers which moderates competition (Hill and Jones, 2004: 46).

During the years of regulation the extent of competition within the airline industry was largely based on non-price differentiation strategies such as customer service, in-flight food and in-flight entertainment (Grant, 2008: 33). After deregulation, market competition forced airlines to come up with a more efficient way of using their fleets in order to compete for customers on the basis of low cost, convenience, and attractive service. This competition has taken the form of frequent price changes and a variation of prices paid by passengers on the same flight depending on the time of purchase, the rebooking conditions and the class of service. Within the airline industry intense rivalry is currently driven by:

i. a perishable product;
ii. difficulty in sustaining product differentiation;
iii. high fixed and low marginal costs;
iv. over capacity;
v. highly heterogeneous industry growth across geographies;
vi. the diversity of airlines; and
vii. volatile markets (www.iata.org).

In addition, specialized assets with low liquidation value, high exit costs and government policies are barriers that make it difficult to exit the airline industry resulting in intense competition as airlines compete to retain market share (Thompson and Martin, 2005: 73). These combined factors drive the aggressive build-up of capacity which fuels pricing decisions that fail to support attractive returns (Rohitdehri, 2008). Contracts especially with employees and the legal protection of insolvent airlines from their creditors and existing contracts through permission to continue operations under court supervision, are two key exit barriers that affect the airline industry (Grant, 2008: 39).

3.2.2 The threat of new entrants

The ratio of the return on capital in excess of the cost of capital within an industry acts as a magnet to any industry (Grant, 2005: 75). The same author explains that an industry's ability to enjoy profits in the long run above the competitive level is dependent on the intensity of barriers to entry to the industry. Aaker (2001: 61) identifies the following attributes that attract new entrants:

i. market expansion;
ii. product expansion;
iii. backward integration;
iv. forward integration;
v. the export of assets or competencies; and
vi. retaliatory or defensive strategies.

Traditional market leaders often tend to exhibit complacency and arrogance in the face of newcomers and only pay particular attention to competition from existing, already well established airlines, especially when the new entrant moves into untapped and undeveloped markets on the fringe of the existing market. This is also true in developing markets where data

is less transparent than in more mature markets whereby, a traditional airline's market share continues to grow but its overall share of the market declines as a result of newcomers in the market (Ryans, 2009: 86). According to IATA statistics, over 1 300 airlines were established in the past 40 years (www.iata.org).

Any strategy employed by a new entrant is likely to attract a retaliatory reaction from existing firms within an industry. Porter (2006) stresses that newcomers should expect retaliation based on:

i. previous reactions to new entrants;
ii. excess cash and unused borrowing power of existing firms;
iii. available productive capacity;
iv. existing relationships within the industry between customers, suppliers, buyers and competitors; and
v. industry growth rate at time of entry.

One of the reasons air fares have declined in the years after liberalization is the practice of established carriers to fight aggressively for customers by meeting the competitive challenge of new rivals in the marketplace. Major airlines have used this retaliatory strategy to guard against low-cost entrants (Grant, 2005: 78). When any carrier, whether new or established, large or small, enters a market for the first time, it changes the competitive dynamics. Airlines already serving the market have little choice but to respond, whether the new rival is a newcomer or a well-established carrier and the most basic competitive response is to match price (Grant, 2008: 38).

In most industries new entrants cannot enter and compete on the same level as long established organisations (Hitt, Ireland and Hoskisson, 2010: 52). A problem faced by all airlines, whether long-established or just launched, is the difficulty of entering new markets without taking over existing companies. Airlines fiercely guard their landing slots and gates, and with little spare capacity in the business, it is tough for prospective entrants to gain a foothold (Chakravorty, 2010). Established firms which are diversifying from other industries however use totally different strategies to enter a different market, for example, Virgin used its brand name to enter a wide range of industries including the airline industry (Grant, 2005: 78). Even though large multinational enterprises have the financial resources to invade virtually any industry, huge capital requirements limit the pool of likely new entrants especially in the airline industry. Long

term attractive industry returns and efficient capital markets; however give potential entrants an option of being funded by investors (Rohitdehri, 2008). For aspiring airlines, financing is usually available to purchase aircraft because of their high resale value. As Grant (2008: 38) affirms, the establishment of an airline requires more than just a capital requirement but also involves the more challenging task of setting up the service system which involves take-off and landing slots, baggage handling services, marketing and distribution systems as well as airline and aircraft certification. This is often aggravated by the dominance of a few major airlines at particular airports, leaving new entrants to use secondary airports which are less popular with passengers.

Thompson and Martin (2005: 173) state that, economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels and cost advantages independent of scale are barriers which can deter new entrants into an industry. Industries with high entry barriers tend to earn above average profits (Hitt et al, 2010: 52). In the airline industry the number of new entrants is largely determined by the cost of borrowing and possible impediments to accessing bank loans and credit facilities. The effectiveness of barriers to entry is also determined by the resources and capabilities of new entrants (Grant, 2005: 78). Within the airline industry barriers to entry are low as market access is increasingly liberalized, economies of scale in operations are limited, access to distribution channels is easy and consumer switching costs are low (Porter, 2011).

Supply side economies of scale deter entry as existing companies that produce in large volumes enjoy low unit costs as they can spread their fixed costs over more units, already have well established favourable business terms with suppliers and make use of efficient technology (Porter, 2006). Established relationships in an industry between manufacturers and distributors usually pose as a barrier to new industry entrants (Thompson and Martin, 2005: 174) as existing competitors may have control over or own the distribution channels (Louw and Venter, 2010: 120). Hill and Jones (2004: 41) point out that, established companies enjoy an absolute cost advantage relative to potential entrants as a result of experience, patents or secret processes which give the superior production operations; control of inputs such as labour ; and lower risk structures which allow access to cheaper funds.

A prerequisite to supplying air service is gaining access to the requisite infrastructure. Airport time slots for instance may not accommodate additional flights or accessibility to airport facilities may disadvantage new airlines. In some instances new entrants have to even by pass distributions channels and create their own as gaining access to the same sales channels as those used by established airlines may be costly (Porter, 2006). Many low cost airlines entering the airline industry have avoided using travel agents who favour established higher fare carriers because of the rates of sales commission received and have encouraged their passengers to book directly with the airline via the internet.

Demand side economies of scale arise with customer loyalty to long established companies as well as the drawing of more customers to organisations with an already well established customer base (Porter, 2006). Brand name recognition and incentives such as frequent flier points are also possible barriers to entry as a strong brand name and incentives can lure a customer even if price offerings are higher. Buyers are also usually weary of changing suppliers to industry new comers as they would have to incur additional costs such as purchasing new handling equipment, modification on information systems and employee retraining (Thompson and Martin, 2005: 173). The larger the switching costs, the more cumbersome it is for an entrant to gain customers. A new airline can expect fierce competition if it enters the market on a large scale in order to compete on an equal cost basis but a small scale entrance will result in a higher and less competitive cost structure.

Newcomers can however take advantage of clear product differentiation especially where the customer perceives that a new product offers better value than what the existing competition is offering (Louw and Venter, 2010: 120). This requires a large amount of spending on advertising and promotions to make the customer aware and appreciative of the new product offering. The launch of the first major low cost carrier by Southwest Airlines in 1971 is such an example (Ryans, 2009: 6). Airlines with a lower operating cost structure than the traditional airlines were generally able to offer lower fares and less comforts while making up for the decreased ticket prices by charging for extras like food, priority boarding, seat allocations, and baggage. Today the major aviation markets worldwide boast of several low cost airlines with over 50 such airlines operating in Europe alone and some of the most profitable airlines in the world which have created significant shareholder value over the years are low cost (Ryans, 2009: 6).

3.2.3 The threat of substitute products or services

It is often difficult for management to anticipate competition from company's operating in the same business environment and even more so to anticipate strategies of competitors in very different business environments which make use of different resources and capabilities that subsequently affect profitability (Ryans, 2009: 111). Substitutes perform the same or similar functions as an industry's product which customers can turn to satisfy the same need. As Louw and Venter (2010: 121) uphold that, substitution usually takes the form of new technologies or business models. In each market shippers and passengers preferences can shift from one mode of transport to another based on pricing, service and advertising despite the fact that each mode of transport has inherent advantages (www.iata.org).

Even though substitutes are always present the threat of substitution can be downstream or indirect and easily overlooked. Substitution however has the potential of diminishing profits within an industry by placing a ceiling on prices. The threat of substitutes is highest if the alternative product offers an attractive price performance trade off or if the buyer's cost of switching to the substitute is low (Porter, 2006). In a competitive industry a producers product is replaceable by that of another and no producer can influence price such that it increases the income of only one producer (Mohr and Fourie, 2004: 289). It is therefore essential in business to remain alert to changes in other industries that may make them attractive substitutes.

The derived nature of demand for transportation puts it at a high threat from advancements in the communication industry with the most powerful substitute to air travel being the decision not to travel at all (www.iata.org). Communication revolution has led to the death of distance as it is able to relieve people of the need to meet face to face. Technology, in the form of tele-conferencing, web-conferencing and video-conferencing, allow everyone to be in the room at the same time or to participate asynchronously. They can be designed so that participants actually experience their colleagues as being on the other side of the same table they are sitting at, despite the fact that they are on the other side of the world. Monies that were spent on travel can instead be put to individual laptops, continuous updating of content offerings, and technology infrastructure that an individual can link to in Europe, America, Asia or Africa with equal ease.

The extent to which substitute products and services are able to affect profits and prices is dependent on the price and performance characteristics of alternatives (Grant 2005: 74). High speed trains such as Eurostar which are able to travel at up to 300 kilometres per hour carrying more passengers than all airlines on the same route combined; at lower costs; shorter check-in times; quicker boarding; less queuing; high punctuality; lower carbon dioxide emissions and with flexible connectivity options for onward journeys are genuine substitute threats to the airline industry especially on short haul journeys (www.eurostar.com). Modal substitutability is however limited by the physical characteristics of freight and passengers and the difficulty of the terrain over which people and goods need to be transported. It is also a bigger threat on domestic and regional routes as compared to international routes.

Time, cost, personal preference and convenience determine the threat that substitute products pose to the airline industry. Modal substitution occurs when passenger and shipper preferences shift from the airline industry to other modes of transportation. Constantly increasing costs within the airline industry exposed it to threats from substitute products and services from sea, road and rail transportation which offer though slower yet similar products and services. In an effort to reduce costs and increase marketability of airline transportation IATA started Simplifying the Business (launched at the 2004 IATA Annual General Meeting in Singapore) which comprised e-ticketing, e-freight, common-use self-service kiosks, bar-coded boarding passes and radio frequency identification for baggage tags. This was all in a bid to cut costs for all member airlines both big and small yet improving efficiency and convenience for passenger and freight traffic alike as well as reducing the threat being posed by potential substitute products (Bisignani, 2011).

3.2.4 The bargaining power of suppliers

Companies depend on a wide range of supplier groups for inputs and powerful suppliers can reduce profitability especially in industries where it is impossible to pass on cost increases to the customer (Stonehouse and Campbell, 2004: 121). Supplier power increases when:

i. the supplier is more concentrated than the industry to which it sells;
ii. revenues from the industry are secondary to the supplier;
iii. the organisation is exposed to switching costs should it change suppliers;
iv. products offered by the suppliers are differentiated;
v. there is no threat of substitutes in the supplier group; or

vi. the supplier has the capacity to integrate forward into the industry (Porter, 2006).

Industry participants are prone to supplier threats to increase prices and/or costs or to reduce the quality of goods or services being supplied (Dess et al, 2004: 53). As a group suppliers earn higher returns than their cost of capital, and returns are significantly higher than for airlines (www.iata.org).

Aircraft and engine producers are both concentrated oligopolies (Porter, 2011). The commercial aircraft manufacturing industry requires huge capital investments in manufacturing, research and development. The high costs of aircraft production have resulted in the emergence of two major players from either side of the Atlantic, Airbus a subsidiary of European Aeronautic Defence and Space Company (EADS) in Europe and Boeing in the United States of America (www.aviationknowledge.wikidot.com/aviation:manufacturers). The two form a duopoly with market leadership in the sector largely rotating between these two corporate giants depending on the market dynamics. Commercial airlines, governments, individuals and other air transport operators form the bulk of their customers. Aircraft suppliers bargaining power is largely centred on the terms on which aircraft are supplied to airlines. Fortunately there is very little chance that these suppliers will integrate forward to operate their own airlines due to the high technical orientation of their businesses (www.iata.org).

The suppliers of Jet A1 fuel have by far impacted on the profitability of the industry the most due to their bargaining power. According to IATA, cheap oil is history and fuel management has evolved into a fine art impacting the bottom line as the survival of airlines depends on the unthinkable of operating with oil of over US$100 a barrel becoming the norm. Jet A1 fuel now accounts for more than 25% of total airline operating costs compared to less than 15% in 2000 (www.iata.org). Airports are local monopolies with significant power charging fees for gate usage as well as for take-off and landing slots. Airport services are concentrated in a small number of firms but they have low switching costs. Privatization has led to the entry of private companies, some of which operate airports around the world. The competitive timing of flights into particular airports is controlled by airport authorities thereby giving them direct control of the profitability and competitiveness of airlines operating from their stations (www.iata.org).

The formation of trade unions has given the suppliers of labour, the employee, a great boost to their bargaining power especially in instances where trade unions have joined forces against

individual enterprises. British Airways cabin crew trade union, Unite, has made several headlines in the past few years as it disrupted the airline's operations especially during the peak holiday breaks such as Christmas and Easter due to disputes on salaries, travel benefits and potential job cuts. In some of these industrial actions the union has even managed to gain support from unions representing ground handling staff and baggage handlers disrupting operations at airports even for other airlines and most importantly costing the industry millions of dollars (www.guardian.co.uk). Employees with the scarce skills have for a long time now enjoyed their power and are likely to continue doing so (Dess et al, 2004: 54). At Air Zimbabwe the year 2011 was punctuated by intermittent collective job actions by pilots over salary disputes which resulted in the airline grounding its entire fleet for a total of 78 days during the year (www.airzimbabwe.aero). These work stoppages prove the bargaining power of labour suppliers and that negotiations and not intimidation, confrontation or litigation can economically benefit the industry.

3.2.5 The bargaining power of buyers

There are different groups of customers whose bargaining power differ within the same industry. The buyer can reduce industry profitability by forcing down prices and yet demanding better service and products thus increasing costs (Porter, 2006). In addition buyers can erode industry profitability by playing competitors against each other through their actions and words (Dess et al, 2004: 52). Thompson and Martin (2005: 176) assert that, the power of buyers is determined by:

i. their size and concentration;
ii. the degree of product standardization;
iii. ability of buyers to switch suppliers; and
iv. the probability of vertical integration.

Customarily the airline industry market is divided into three distinct segments that is, the business traveller, the leisure traveller and the personal traveller.

The demand for business travel is price inelastic as this is a concentrated market with a limited number of frequent travellers who belong to the high income group and occupy senior positions within the organisations in which they work. This group travels on the most efficient airlines as they have set meetings to attend and delays can result in business losses amounting to millions of dollars and the fact that tickets are paid for by their companies increases the choice of airline.

As a result they easily switch suppliers/airlines dependant on service delivery and efficiency. Unfortunately business travel can be delayed or reduced in frequency by sponsoring organisations (Porter, 2011).

Leisure travel is characterized by large numbers but demand in this market segment is extremely elastic for both price and income. The power of the leisure traveller lies in numbers and it is important to note that it is the cost conscious passenger who is only interested in being transported from origin to destination at the most affordable rate who resulted in the birth of low cost carriers. Due to the stringent conditions that most airlines attach to lower fares it is difficult for the leisure traveller to switch airlines as this involves increased costs which can even amount to having to purchase new tickets at no refund for the previous ticket.

Some journeys are necessitated by urgent family matters hence the personal travel segment. This segment pays for its own air fares through savings and the urgency of the need to travel such as burial of a relative or medical related travel determine the amount of money one is prepared to sacrifice to travel for such an event. As a result of the urgency of personal travel most customers within this segment perceive air travel as a standardised product (Porter, 2011). The tighter timing and routing constraints limit the options available to the personal traveller limiting his bargaining power but it is also important to note that such ad hoc trips are few.

There has been a huge increase in the number of airlines linking the different destinations worldwide especially after the introduction of low cost carriers. This has given the air traveller increased choice. The customers are educated and have experience and as a result are now more demanding and know what to expect from a good airline. Airline travellers therefore have a stronger bargaining position. This has been compounded by the fact that most passengers view air travel as discretionary spending while the availability of airfares on airline websites has increased price sensitivity (www.iata.org).

The use of internet websites has significantly become more concentrated and travel agents are more aggressive in pursuing the interests of the end customers (www.iata.org). Aggregator websites which focus on price comparisons have significantly increased the transparency of air fares across airlines and concentrated the buying power of consumers (Pearce, 2011). Travel agents who operate a supermarket of services in the travel and transport field including hotel

accommodation, sightseeing trips, airline bookings, car rentals, vacation tours, buses and cruise lines represent most large corporate clients with significant power to shift demand across carriers (www.iata.org).

About a decade ago airlines paid a standard commission of 9% for international flights and 7% for domestic flights but airlines greatly reduced these rates with the introduction of budget carriers onto the market who started selling directly to the public through call centres and then on the internet (www.guardian.co.uk/travel/2007/feb/25/travelnews.escape). According to (Grant, 2008: 35), airlines based in America began reducing travel agent commissions in 1996 and by 2006 travel agent commissions only constituted 1.3% of total operating costs compared to 6.2% in 1991 as airlines developed their own direct sales engines both telephonically and through use of web based reservations systems. Today, there are huge variations in travel agent commissions amoung airlines, for example, a travel agent gets no commission for selling an American Airlines ticket to New York and yet can earn 10% commission on the same route for a flight on Eos (www.guardian.co.uk/travel/2007/feb/25/travelnews.escape). Travel agencies are therefore able to influence the travelling public not only on the mode of transport to use but also on the particular airline to use within the airline industry dependant on the rates of commission and other perks they derive from the different airlines.

3.3 Competitive strategies

Different industry environments present particular opportunities and threats which require various competitive manoeuvres, gambits and tactics (Hill and Jones, 2004: 189). Often organisations need to adapt and change their strategies in order to meet the changing industry environment. It is important for organisations to identify their strategy orientation to whether it is aligned to customer, to competitors or both. Fitzroy and Hulbert (2005: 80) emphasize that, competitive strategies employed by organisations should be dependent on the constantly changing needs and values of customers and not just an imitation of competitor actions. A successful competitive strategy therefore lies in the organisation's insight, understanding and identification of customer needs and values and the overall creativity to satisfy them such that value is created for both the customer and the organisation.

West et al (2006: 41) define competitive strategy as strategy at the strategic business unit level which deals primarily with competitive position. It is strategy that focuses mainly on improving

the competitive position of an organisation's products and/or services within the industry in which it operates. This can either follow a market orientation or a technology orientation. Market oriented competitive strategy is decided by the marketing function of the organisation while technology oriented competitive strategy is guided by the continual improvement, development and innovation of products.

Hill and Jones (2004: 151) stress that, the strategy employed by an organisation is dependent on:

i. what is to be satisfied (customer needs);
ii. who is to be satisfied (customer groups); and
iii. how customer needs will be satisfied (distinctive competencies).

Within the airline industry airlines offer differing services such as conventional passenger carriers, freight operations, combined passenger and cargo carriers, low cost airlines and charter services. Strategy creates a design that takes into account capabilities and contingencies while anticipating activities of competitors (Crouch, 2008: 11). In the absence of change organisations tend to continue competing in the same manner. In order to forecast how a competitor might change its strategy it is important to identify the goals that it is currently pursuing and to analyse how it is competing at present (Grant, 2005: 115). Below is a concept map for strategy in a competitive environment.

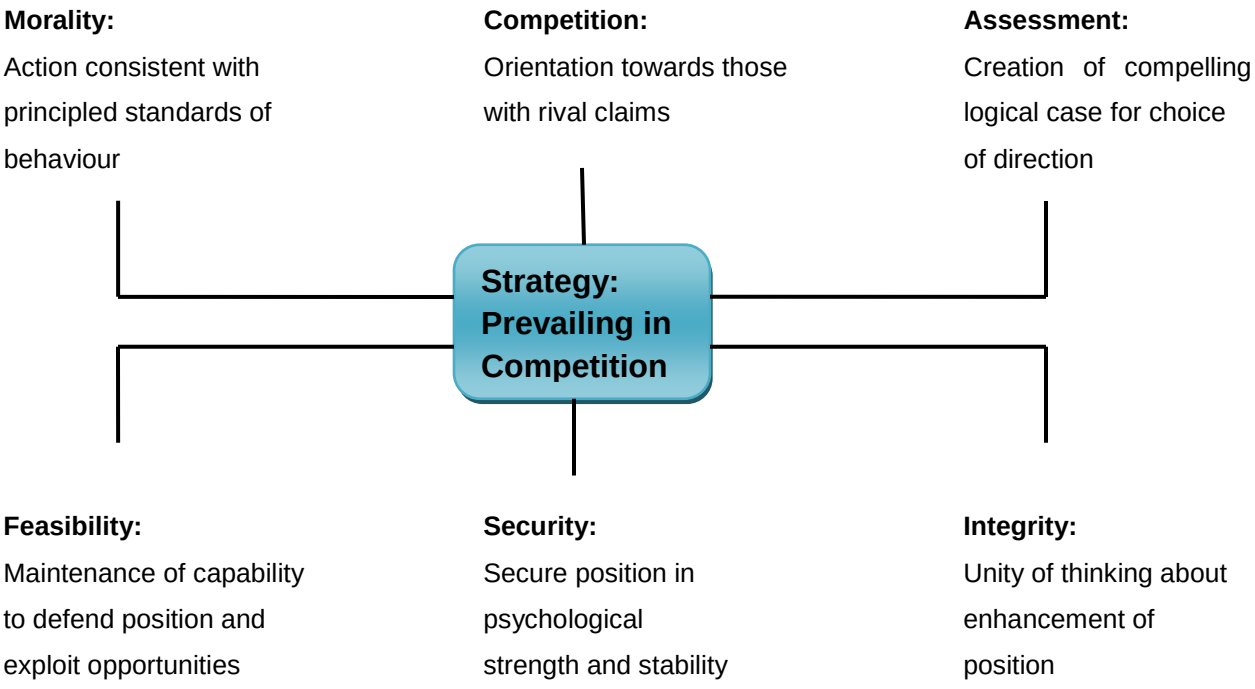

Figure 3.2: Concept Map for Strategy

Source: Crouch (2008: 21)

3.3.1 Business level strategies

There are countless variations to the competitive strategies that organisations employ dependant on the individual organisations circumstances and the industry in which it operates (Louw and Venter, 2010: 247). The same author explains that the differences in competitive strategies employed in different organisations are determined by:

- whether the organisation's target market is broad or narrow
- whether the organisation follows a low cost or differentiation strategy
- or a combination of the above.

According to Johnson et al (2008: 232), an organisation may choose to gain competitive advantage through the use of either price-based or differentiation based strategies. Another approach to sustaining competitive advantage is the creation of a strategic lock-in whereby the organisation achieves a proprietary position within the industry it operates in thereby becoming an industry standard (Johnson et al 2008: 235). As competitive advantage is difficult to sustain in the long term each strategy chosen has shortfalls. Organisations that choose low-price strategies face the danger of competitors following suit; poor customer perception as most

customers associate low prices with inferior quality; and continued cost reductions result in an inability to pursue a differentiation strategy (Johnson et al, 2008: 233). A differentiation strategy is most susceptible to change both in consumer tastes and technologies which can render the strategy ineffective overnight. Figure 3.3 below illustrates the key aspects an organisation needs to take heed of in order to sustain competitive advantage based on the strategy chosen.

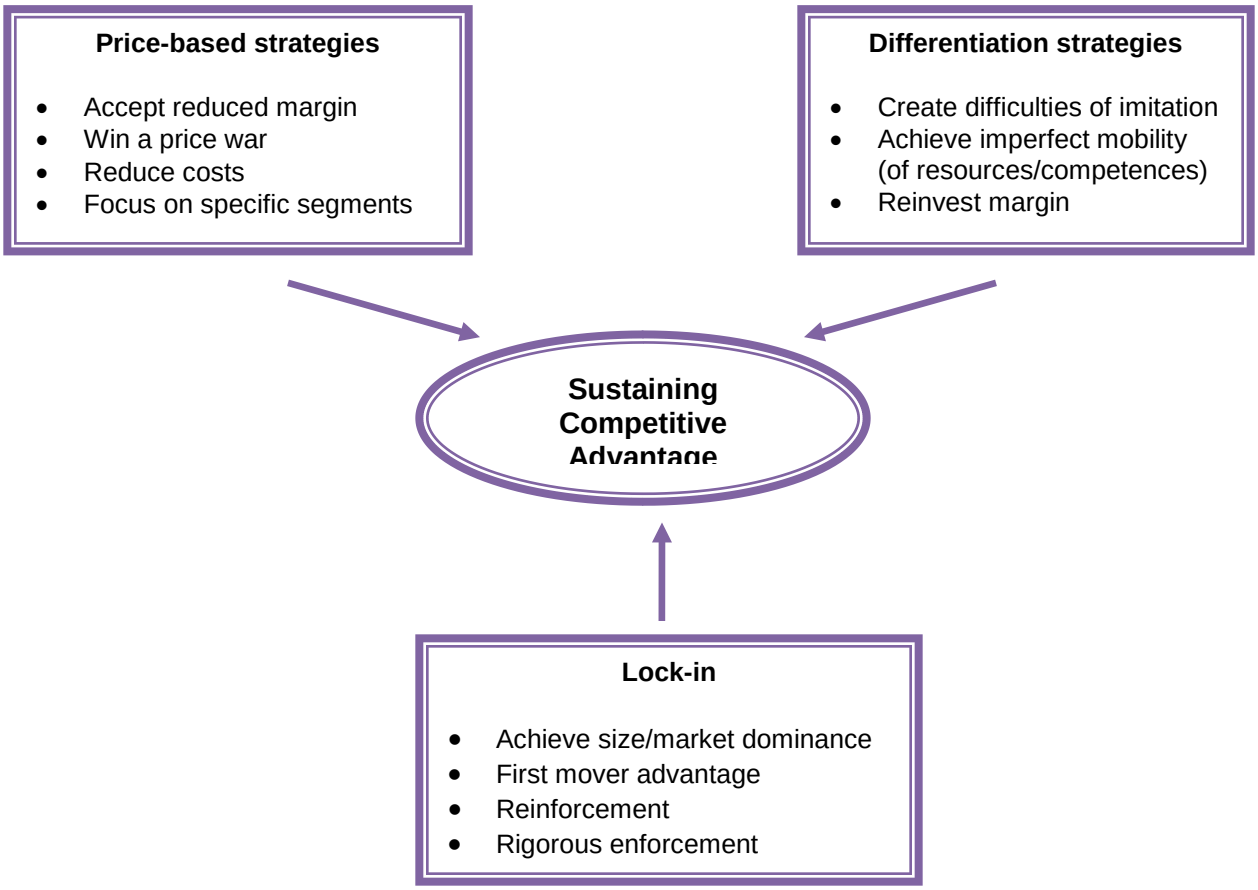

Figure 3.3: Sustaining Competitive Advantage

Source: Johnson, Scholes and Whittington (2008: 232)

3.3.1.1 'No frills' strategy

This strategy is applied to a segment of the market which cannot or chooses not to afford better quality goods. Products and/or services provided have a low price, a low perceived added value and focus on price sensitive customers (Louw and Venter, 2010: 247). Johnson et al (2008: 227) note that, this strategy is successful in industries where commodity markets exist,

customers are price sensitive; and bargaining power of buyers and/or switching costs are high. The 'no frills' strategy offers smaller players an opportunity to avoid major competitors.

The advent of the low cost carrier in the post deregulation era divided the airline industry into two distinct segments, that is, the full service carriers and the low cost carriers (Thompson and Martin, 2005: 176). These budget carriers compete both with each other and traditional carriers. Low cost carriers use simple fare schemes, have stricter conditions on ticket refunds and transfers to other airlines, operate either early in the morning or late at night, have no in-flight entertainment, less baggage allowance – in essence no-frills. A deep understanding of low cost competition can help traditional airlines to develop strategies that give them an edge to counter threats from low cost competition and to also take advantage of opportunities derived from cost conscious segments of the market (Ryans, 2009: 16).

3.3.1.2 Low price strategy

The low price strategy aims to maintain low prices whilst maintaining similar products or service value as rivals. Fitzroy and Hulbert (2005: 202) stress that, sustaining competitive advantage using the low price strategy is dependent on the organisation's ability to focus on a market segment that is unattractive to rivals so as to avoid competitive pressures which can reduce prices below profitable levels. As a result this strategy can only be followed if the organisation has a low cost base; a big market share so as to remain profitable; and be able to purchase inputs in large quantities. In addition it would be an unwise decision to initiate a price war against a rival who has readily disposable cash reserves as a counter attack can prove disastrous to the organisation. Johnson et al (2008: 227) point out that, the major pitfalls when competing on price are margin reductions for competing organisations which will ultimately result in the inability to reinvest or develop products and services as a result of limited available resources.

3.3.1.3 Cost leadership strategy

Low prices are generally associated with perceived inferior quality however low cost does not necessarily mean cheap. Companies that follow a cost leadership strategy secure a cost advantage over rivals, price their products competitively and usually achieve a high profit margin as they avoid unnecessary costs by meeting specific needs of customers (Thompson and Martin, 2005: 290). The focus of such organisations is to achieve above average profits with

industry average prices through superior management, concentrating on cost saving opportunities, minimizing wastages and discarding added values to products and services which customers regard as unnecessary or unimportant. Cost savings are achieved in all aspects of the business including management perks.

The low cost base gives the organisation a competitive advantage over rivals as it better cushions it from sporadic increases in input costs by powerful suppliers in the market and plummeting product prices as a result of actions of powerful buyers (Hill and Jones, 2004: 156). Core capabilities, distinctive resources and major gaps are often key drivers of a low cost competitor's strategy (Ryans, 2009: 103). Low cost carriers use smaller, newer and more fuel efficient aircraft make use of cheaper secondary airports and have less traffic delays and lower landing fees because they operate either early in the morning or late at night. Furthermore, they have avoided agency commissions altogether by selling directly to passengers through their internet engines (Thompson and Martin, 2005: 176), whilst their stronger financial position enables them to hedge against price increases in fuel through forward purchases giving them a greater competitive advantage (Grant, 2008: 32). In addition, being start-ups, low cost airlines have managed to avoid labour regulations and unionization which has negatively affected traditional carriers (Tyler, 2010). Air Canada President and Chief Executive Officer, Rovinescu (2011), advocates that for the conventional airline to effectively compete with low cost carriers the airline needs a critical mass of aircraft, a low cost business structure that can remain low cost and a workforce that embraces that culture.

3.3.1.4 Differentiation strategy

Differentiation strategy is used where the customer is willing to pay a premium price in order to enjoy added value (Thompson and Martin, 2005: 292). However costs are only added to areas which are perceived as important by the customer. Aaker (2001: 155) identifies three characteristics of differentiation strategies, which are;

i. to generate added value for the customer;
ii. the customer must perceive the added value; and
iii. sustainability of the strategy such that it is difficult to copy.

The prototype of differentiation is a quality strategy in which the organisation delivers and is perceived by the customer as delivering a product or service which is superior to competitor

offerings (Aaker, 2001: 157). Angwin, Cummings and Smith (2011: 144) identify six differentiation strategies which may lead to competitive advantage as illustrated below:

Table 3.1: Six Basic Differentiation Strategies

	Differentiation Strategy	Explanation
1	Low Price	Price lower than rivals
2	Image	Brand or Reputation
3	Support	Provision of back-up or after sales service
4	Quality	Durability, reliability and performance of products
5	Design	Product functions
6	Undifferentiating	Same as others

Source: Angwin, Cummings and Smith (2011: 144)

Competitive advantage is gained based on the uniqueness of the difference offered. Louw and Venter (2010: 253) stress that this strategy is usually built on brand power or in organisations which enjoy competencies that are peculiar to the organisation such that rival organisations find them difficult to imitate. An alternative differentiation route is building strong brands through the creation of brand equity (Aaker, 2001: 164). De Kuijper (2009: 152) defines brand power as the reputation of a product, service or company in the minds of the consumers, competitors and investors; but it is the brand that can deliver superior return that is a power node. Robertson (2012) argues that when a brand differentiates itself from a competitor that is when it is able to earn profits. The success of differentiation strategies is dependent on clear identification of customers, organisational ability to clearly identify what is valued by customers and a clear identification of competitors (Hill and Jones, 2004: 160). However as with all competitive advantage organisations cannot maintain uniqueness in the customer's eyes in the long-term as competitors imitate products and services.

3.3.1.5 Focus strategies

Focus strategies concentrate on one segment or a limited range of segments (Thompson and Martin, 2005: 287). According to Podder and Gadhawe (2007: 19), they only become practical strategies to follow if they meet most of the following conditions:

- The niche target market is big enough to be profitable and has growth potential;
- Industry leaders have no interest in capturing the same niche market segment;
- Multi-segment competitors perceive it costly or difficult to target the niche market as well as their mainstream customers;
- The industry has several different niches and segments so as to avoid competing for the same customers and for each organisation to target a niche that is most suited to its available resource strengths and capabilities;
- There are is little if any competition for the same niche market; and/or
- The organisation has the resources and capabilities to meet the needs of the niche market segment.

In order to increase profitability, Nelson (2011: 463) argues that, an organisation following a focus strategy must produce increased revenues that are greater than the increased cost of the strategy or business cost savings that are greater than the low prices charged to customers.

Unfortunately focus strategies face the risk that competitors may successfully focus on an even smaller market segment or the most profitable section of the chosen niche market thereby reducing the size of the target market and consequently the profitability potential for the organisation. Alternatively an industry-wide competitor can recognize the potential of the niche market and mobilize superior resources to expand into the segment better serving the market needs or the preferences and needs of the niche market segment may become similar to the broader market thereby reducing or eliminating the advantages of focusing (Aaker 2001: 180).

Focus strategies can follow either a differentiation or low cost strategy dependant on the two factors of competitive advantage or competitive scope. Competitive advantage is gained through lower cost or product differentiation while the competitive scope determines a broad or narrow customer segment (Daft, Murphy and Wilmot, 2010: 58).

a) Focused differentiation strategy

Podder and Gadhawe (2007: 18) explain that, focused differentiation strategies are utilised by organisations that aim to secure competitive advantage by providing a unique product or service that meets the tastes and preferences of a niche market. Uniqueness of the product is what commands a premium price increasing profitability of the organisation (Daft et al, 2010: 58).

This strategy allows the firm to be closely intertwined with its customers such that it quickly responds to their changing needs. Unfortunately rapid technological advancements or changes in consumer tastes can result in the disappearance of a niche market overnight and it is often difficult to move to a different niche as resources and competencies are concentrated on the particular needs of the chosen niche.

b) Cost focus strategy

A cost focus strategy generally targets the smallest buyers within an industry who purchase such small quantities which industry-wide competitors cannot serve at the same low cost. Products provided are usually copy cats of higher priced market leader products which satisfy basic needs of a sufficient customer segment. Organisations secure competitive advantage through serving customers in a pre-determined niche market at a price lower than rivals (Fleisher and Bensoussan, 2007). Usually smaller retailers who supply their own label or discounted label products follow this strategy. Most low cost carriers such as Ryanair and EasyJet follow a cost focus leadership strategy with business models which encompasses both low price and no frills. The low price have attracted high numbers of passenger traffic while maintaining a low cost base due to no frills both of which have increased competitiveness and profitability.

3.3.1.6 Hybrid strategy

A hybrid strategy combines elements of differentiation, low cost and low price. The extent of the elements is dependent on the nature of the market in which the organisation operates (Stonehouse and Campbell, 2004: 179). Success hinges on the organisation's ability to understand and deliver enhanced value to the customer while maintaining a low cost base which permits low prices. Angwin et al (2011: 143) explain that, customers must perceive a high value for the product but purchasing it at a low price. Profits should however be sufficient for continued investment in the development of differentiation bases so as to maintain organisational competitive advantage.

Louw and Venter (2010: 252) identify the following circumstances that can make the hybrid strategy an advantageous option:

i. If the organisation can produce greater volumes than competitors at an attractive profit margin because of a low cost base;
ii. The ability to clearly identify and capitalize on core competencies that facilitate differentiation while reducing costs on non-core activities;
iii. Identification of a market segment which can be served using the low-price approach; and/or
iv. Development into a new market which has established competitors, thereby diverting the attention of competitors while increasing market share by using a low cost base and at the same time seeking to establish a foothold from which a follow-through strategy can be implemented.

3.3.1.7 Blue ocean strategy

Kim and Mauborgne (2005: 12) disregard the conventional approach of beating competition by building a defensible position within the industry order but rather focus on making competition irrelevant by creating a leap in value for customers and the organisation thereby opening new uncontested market space. The authors refer to this concept as value innovation that is, creating both value and innovation. The argument behind this strategy is that industries are constantly being created and expanded and their boundaries are continuously becoming seamless therefore there is no need for organisations to compete head on (Kim and Mauborgne, 2005: 10).

Blue Ocean Strategies are used by organisations that align innovation with utility, price and cost positions. This strategy is successful in situations where the organisation is able to enhance product or service value for the customer while maintaining a low cost base so that prices are generally lower than competition. Kim and Mauborgne (2005: 16) argue that, cost savings are made by eliminating and reducing the factors the industry competes on whilst value is increased by raising existing ones and offering new elements which the industry has never offered. This combination reduces costs further over time due to the onslaught of economies of scale brought about by high sales volumes. When an organisation tries to outdo competition based on cost or quality the organisation is pursuing a red ocean strategy and almost always experiences slow

growth. Table 3.2 below highlights the difference between a red ocean and a blue ocean strategy.

Table 3.2: Red Ocean versus Blue Ocean Strategy

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market place	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost

Source: Kim and Mauborgne (2005: 18)

3.3.1.8 The value discipline model

Treacy and Wiersema's Value Discipline Model (1997) identifies three disciplines that organisations can follow in order to achieve market success:

i. Operational Excellence (the best price with the most convenience);
ii. Customer Intimacy (the best service for a particular market sector); or
iii. Product Leadership (the best product through innovation) (Hernandez, 2011: 25).

In deciding on the discipline to achieve excellence through the organisation has to be certain of its current position in relation to competitors; must ascertain benchmark standards of performance both within the industry and over the short term; and analyse available options of moving from current positioning to the future state of market leader (Treacy, 2004).

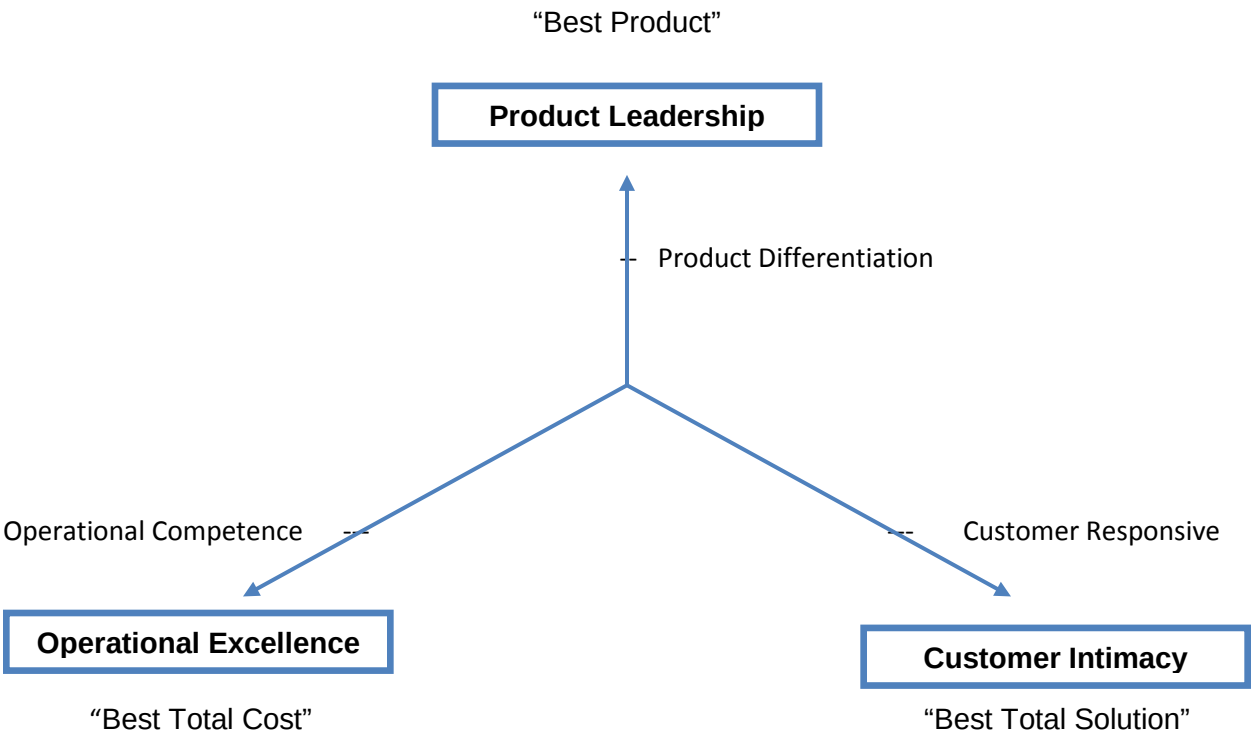

Figure 3.4: Value Discipline Diagram

Source: www.mfinley.com

Operational Excellence is gained through maintaining lowest total cost compared to competitor organisations. Total cost includes all service costs and also the costs of any "process rework" Hence, for a firm to achieve operational excellence minimal process failure rates are necessary, as much wastage as possible must be removed from internal production processes and those of suppliers, proficient supply chain management should be in place and streamlining of operations (Fitz-Enz, 2005: 50). Customer-intimate companies define themselves not only as suppliers but also as partners because in addition to tailoring goods or services to individual customers, on-time deliveries, lifetime value concepts and exceptional reliability they also assist their clients to be successful. This discipline requires detailed knowledge of customer needs and buying habits gathered through the use of customer relationship management systems, regular face-to-face dealings with customers and loyalty cards (Hernandez, 2011: 26). Product leadership companies are characterised by a leading-edge product or service. Their labour force is a strong asset that provides innovative ideas for both current and new product ranges. The company has to have a highly fluid and dynamic internal structure, with overlapping, self-organising teams which place low importance to job titles so as to maintain a development drive

while maintaining high margins in a short time frame (Niven, 2006: 15). Of these three disciplines, Treacy and Wiersema (1997) argue that, organisations should decide on which value discipline is best suited for them and then choose to excel in it without neglecting the other two disciplines.

3.3.2 Growth strategies

Johnson et al (2008: 253) highlight that, growth not only provides a potential for enhanced profitability but also introduces vitality to an organisation by providing challenges and rewards. Improved organisational performance should therefore, to a certain extent, involve a renewed emphasis on growth (Aaker, 2001: 212). This growth can be either internal (an expansion of existing markets, products and services) and/or external (an expansion into new markets, products and services). Kotler (2003: 100) emphasizes that, the main aim of internal growth is to seek new customers while retaining current customers by providing improved products and service. External growth on the other hand involves supplying new products, venturing into new markets and/or franchising products of other organisations. Ansoff's product/market growth matrix as shown in Figure 3.5 below provides alternative directions to strategic growth.

Products	Markets: Existing	Markets: Related	Markets: New
Existing	Market Penetration	Market Extension	Market Expansion
Related	Product Extension	Business Extension	Business Expansion, Related products
New	Product Expansion	Business Expansion, Related Markets	Extended Diversification

Figure 3.5: Product/Market Growth Alternatives

Source: Fitzroy and Hulbert (2005: 209)

3.3.2.1 Market penetration strategy

According to Lamb, Hair and McDaniel (2011: 44), market penetration builds on existing strategic capabilities as the organisation increases market share with existing products and services. Aaker (2001: 214) emphasizes the need to deliver solid value so as to create customer satisfaction and loyalty thereby creating a permanent market share gain. The same author points out that this strategy is most effective when targeted at heavy users of the product through the promotion of increased product usage by finding new applications for current users, increased quantities used and increased frequencies of use thereby increasing customer retention. Market penetration can also be accomplished through the attraction of previous product/service nonusers or the attracting competitor clients (Fitzroy and Hulbert, 2005: 209). Since market penetration exploits proven skills, resources and products in an already established supply chain, market, product and technologies it is relatively low risk and inexpensive (Kotler, 2003: 100). However, Johnson et al (2008: 258) point out the risk of intensified industry rivalry as competitors defend their market share as well as attracting the attention of competition regulatory authorities.

3.3.2.2 Consolidation strategy

Consolidation focuses on defensively maintaining current market share with current products in the face of aggressive competitors who are adamant on increasing their market share (Contractor and Lagrange, 2002: 147). Smit and Trigeorgis (2004: 358) explain that, cost advantages can be gained when one entity can support activities less expensively in combination than separately. This can be achieved in a fragmented industry, particularly one in decline, by acquiring weaker competitors (Johnson et al, 2008: 260). A parent company owns a percentage shareholding stake in a subsidiary by setting up a new operation or by acquiring an already established firm. The parent company has control over the subsidiary and is easily able to exercise experience curve and location economies. This is however a risky and costly operation used mainly in industries where the risk of losing knowhow and technological expertise is high (Hough, Neuland and Bothma, 2007: 386).

3.3.2.3 Product development strategy

Product lines are often extended in order to encompass new market segments as constant changes in the industry result in products quickly becoming obsolete therefore organisations should consider constant modifications of existing products and services as well as pioneering new ones (Louw and Venter, 2010: 216). According to Aaker (2001: 213), this can be achieved through the development of new product features, the development of a new generation product or the development of new products for the same market. Though this strategy is usually inevitable it is expensive and a high risk activity as it involves the acquisition and mastering of new technologies, requires high investment in research and development as well as heavy spending on advertising and promotion in order to effectively educate and test the market (Johnson et al, 2008: 261). Gurumurthy (2009) argues that, even though market followers enjoy the fruits of the pioneer's labour they achieve a lower market share than early entrants as consumers are generally risk averse and do not switch products if they are gaining enough satisfaction and pioneer products are recognized as the prototype for the product category.

3.3.2.4 Market development strategy

As the world continuously becomes globalised organisations are expanding their global reach, carrying their products and brands to new and diverse markets worldwide. Organisations implement market development strategies that traditionally work in their base markets and introduce the same products, processes, and operational strategies to new markets (Lamb et al, 2011: 44). Johnson et al (2008: 261) identify three forms of market development, that is, new segments, new users and/or new geographies. When assessing the viability of a market development strategy Aaker (2001: 222) identifies several growth directions that are:

i. Targeting current products or services to non users;
ii. The opening of new distribution channels;
iii. Product attributes that serve an untapped market segment; and/or
iv. Identification of application defined markets.

Johnson et al (2008: 261) stress the need of some alteration to traditional products for this strategy to be effective even if it only involves a change in packaging or service. This is usually necessary due to the differences in cultures (language, religion and norms) and regulations between countries, the structure of different market segments and the existence of segments that transcend national borders.

3.3.2.5 Combination strategy

Dependant on organisational resources and goals, the firm can simultaneously combine market penetration, market development and product development strategies. Fitzroy and Hulbert (2005: 204) stress that, an organisation's ability to combine competitive strategies creates the highest value for the shareholder. However, this is only achievable with continued innovation (Louw and Venter, 2010: 217). Innovation has the advantage of inducing market leadership and first mover advantages hence increased profits but also at the price of high research and development costs.

3.3.2.6 Diversification strategy

Increasing the organisation's scope through venturing into new markets with new products alongside the existing market products and markets is diversification (Harrison and St. John, 2009: 116). Louw and Venter (2010: 217) identify three methods of diversification, that is, acquisitions or mergers, internally funded ventures or joint ventures. These can either be in the same industry (concentric/related) or in a totally new territory (conglomerate/unrelated). Fitzroy and Hulbert (2005: 244) justify diversification on the basis of:

i. market power;
ii. sharing competencies;
iii. leveraging competencies;
iv. economies of scale and scope;
v. spreading risks;
vi. replacing a declining market;
vii. escaping competition in current markets;
viii. exploiting opportunities in emerging markets;
ix. searching for niches in the same market; and
x. responding to a decline in the current market.

Like all strategies diversification imposes certain risks which include learning new technologies; forging relationships with unknown suppliers and distributors; tying up resources in uncertain projects; lack of control and potential managerial differences and problems (Thompson and Martin, 2005: 511).

3.3.2.7 Integrative growth strategies

Martinez and Wolverton (2009: 91) categorize integrative growth into two broad sectors which are horizontal integration (the acquisition and amalgamation of competitors) and vertical integration (the acquisition and amalgamation of suppliers and distributors).

a) Horizontal integration

This strategy involves the development into complementary or adjacent activities as to those currently being undertaken by the organisation (Fitzroy and Hulbert, 2005: 194). It occurs when a firm acquires or merges with a rival firm (Thompson and Martin, 2005: 501). Pearce and Robinson (2003: 178) state that, the advocates of horizontal integration claim that it curbs competition and affords access to markets of competitors. Horizontal integration offers unique benefit to industries and sectors where small sized organisations fail to achieve efficiency and effectiveness objectives (Kazmi, 2008: 154). Continental Airlines in 2010 merged with United Airlines to form the world's largest carrier under the name United. During the same period Delta Airlines merged with Northwest Airlines becoming the second largest airline by passenger traffic. Kazmi (2008: 154) affirms that firms enjoy the benefits of economies of scale, economies of scope and increased product differentiation through use of this strategy. Unfortunately most big airline mergers have yielded mediocre to poor financial results (www.bloomberg.com).

b) Vertical integration

This strategy is further divided into backward vertical integration (development into activities concerned with the organisations input activities) and forward vertical integration (development into activities concerned with the organisations output activities) (Hitt et al, 2010: 166). While backward vertical integration aims to secure supplies at a lower cost than competitors forward vertical integration secures customers or outlets and guarantees product preference giving the organisation a much greater control of its total marketing effort (Johnson et al, 2008: 265).

Firms can control the effect of suppliers through vertical integration or long term supplier contracts (Thompson and Martin, 2005: 174). Within the airline industry there is limited competition amoung the suppliers of aircraft however, the suppliers of airline booking services have gained a more threatening foothold. Thomas Cook was formed in 1865 as a travel shop where customers could book Thomas Cook products, third party holidays, cruises, UK trips, sports breaks, flights, accommodation and package holiday brands. In 2003 Thomas Cook

integrated forward into the industry and officially launched Thomas Cook Airlines which now flies to worldwide destinations from nineteen UK airports (www.thomascook.com). Statistics from the UK Civil Aviation Authority reveal that in 2010 Thomas Cook Airlines carried over 8.1 million passengers biting into the market share of the traditional European carriers such as British Airways.

3.3.3 Co-operative strategies

While substitutes reduce the value of products and services, complimentary products and services increase value (Grant, 2005: 103). The Value Net Framework, developed by Brandenburger and Nalebuff (1996), was inspired by Porters Five Forces Framework for Industry Analysis and underlines that each organisation is surrounded by partners whose products/services complement it, rivals who compete with the organisation, suppliers who provide the organisation with inputs and raw materials and customers who are the destination for the organization's products (Raymond, 2009). It focuses on cooperation for mutual gain in the industry rather than competition for dominance (Walker, 2003: 46). Figure 3.6 below explains the relationships that increase value to the organisation, that is, suppliers provide resources to all industry players, competitors make your company's products or services seem less valuable, complementors provide products or services that add value to whatever your company offers and customers are the reason for existence of the organisation as the determine the organization's product or service offering in the market (www.provenmodels.com/593).

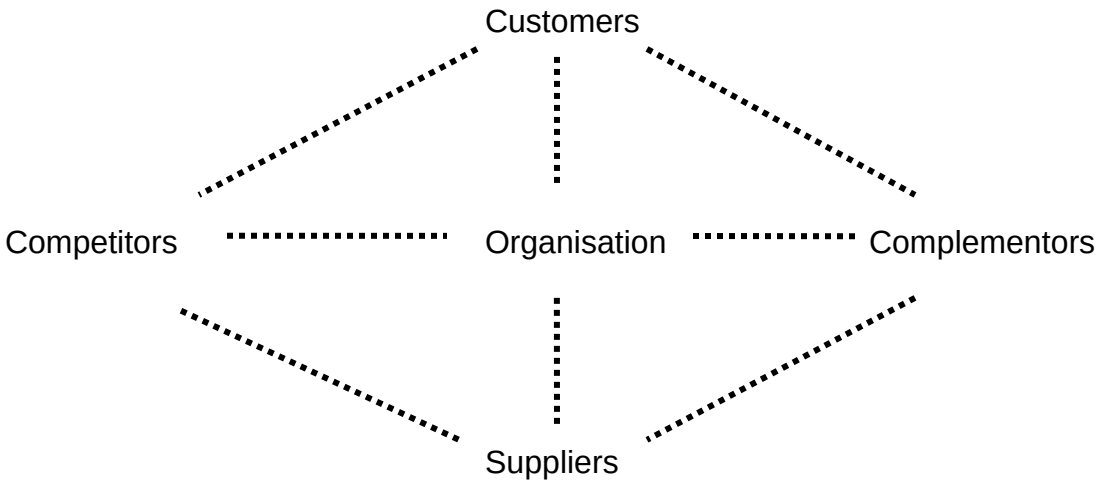

Figure 3.6: The Value Net Framework

Source: Louw and Venter (2010: 124)

In an attempt to generate more profits and change the nature of the business environment to their own advantage some organisations are combing the advantages of both competition and cooperation. With co-opetition organisations can cooperate in certain markets or circumstances and compete in others. Brandenburger and Nalebuff (1996) stress that business strategy and co-opetition provide a framework by which companies can gain a sustainable competitive advantage by changing the environment to their own advantage as most companies can achieve more success in a dynamic industry than they ever could working alone. When companies work together, they create a much larger and more valuable market than they ever could by working individually. Companies then compete with each other to determine who gets the largest share of that market. Since the objective of business is to maximize return on investment co-opetition allows for multiple winners in the marketplace (www.provenmodels.com/593).

In many business relationships, cooperation is a better alternative to competition as it increases value to rival organisations. For instance a price war between evenly matched competitors that does not alter market share only lowers industry profits (Grant, 2005: 108). Co-opetition within the airline industry can be seen in the strategic partnerships between many airlines and online travel agencies. By presenting new opportunities, co-opetition stimulates creativity; by focusing on change, it keeps businesses looking forward; by promoting growth, it makes business both more profitable and more personally satisfying; and by challenging the status quo, co-opetition says things can be done differently - and better (www.provenmodels.com/593).

3.3.3.1 Joint ventures, mergers, and partnerships

According to Mohr and Fourie (2004: 291), collusion limits competition within a given industry but maintains high levels of profitability in the long run. Joint ventures comprise of two or more organisations that merge in forming a new organisation (Hill and Jones 2004: 470). Firms with complementary technologies often form joint ventures in order to develop products and services (Walker, 2003: 150). The same author affirms that partnerships ultimately reduce costs as a result of improved learning curves. International over capacity and competition has resulted in airline mergers, acquisitions and even closures in some instances (Thompson and Martin, 2005: 177).

While lowering costs and/or risks partnerships offer firms control over important dimensions of co investment relationships (Walker, 2003: 150). Chief Executive Officer of Virgin Australia, Borghetti (2011), asserts that even though Virgin Australia pays a fee for the Virgin license and has to meet performance expectations the power of a brand such as Virgin is enormous. Virgin Australia did not have the resources or time to wait for the delivery of hundreds of new aircraft and therefore it partnered with four big airlines with the same high service standards – Air New Zealand, Etihad Airways, Delta Airlines and Singapore Airlines so as to have an international network which rivalled competitors and also to complement its domestic service. Experience has taught them that it is impossible for any company to be a global player, providing a global service without partners.

In an effort to offer the best service and increase convenience for passengers, airlines have also formed partnerships with companies in related industries. Mango Airlines (part of the South African Airways Group) a low cost airline based in South Africa for instance has partnered with several companies in trying to offer superior service to its passengers. Mango passengers can pay for their flights in Shoprite Checkers supermarkets; use their Edgars or Jet clothing store accounts to pay for flights; get preferential rates and tariffs from the Southern Sun Hotel group and the "no frills, no fuss" Tempest Car Rental company; get competitively priced travel insurance plans from Travel Guard Chartis and incentives from Momentum's wellness program (www.flymango.com). According to Grant (2008: 33) partnerships with car rental companies, hotel chains, tour operators and credit card issuers have been an important source of additional revenue to airlines earning them over US$10 billion annually.

3.3.3.2 Strategic alliances

Strategic alliances are cooperative agreements between existing or potential competitors in which partners invest in developing a common orientation so as to achieve individual and mutual goals and objectives. Firms within a strategic group have similar value and cost drivers compared to firms in other groups (Walker, 2003: 59). In most cases the linkages between companies are so strong that it is difficult to discern boundaries between the organizations (Hough et al, 2007: 386). Alliances give organisations access to new geographical markets especially where entry costs for international organisations are prohibitively high (Walker, 2003: 151). Dess et al (2004: 57) stress that, strategic alliances are critical strategic tools that protect members from competing alliances as they help chart the future strategies of alliance members;

help a firm to identify alliances whose competitive position may be marginal or tenuous; assist in the prediction of the industry evolution; and deter the movement of firms from one strategic position to another.

Changing the industry structure can ultimately increase the profit potential of the industry thus the formation of strategic alliances with competitors essentially increases the size of the market and reinforces existing barriers against possible new entrants to the market (Grant, 2005: 110). Alliance formation separates industry competitors into clusters which compete against each other in conjunction to rivalry amoung individual firms. Each alliance vies for industry dominance (Walker, 2003: 154).

Alliances can change the industry structure through inter-firm cooperation (Walker, 2003: 154). As Mikells (2011), the Executive Vice President and Chief Finance Officer of United Airlines advocates, airlines are now focusing more on cost reduction strategies by co-locating at airports, sharing information technology systems and doing joint investments in information technology. He advocates that alliances benefit member airlines through:

i. An extended route network;
ii. Cost reduction from sharing of:
    - Sales offices
    - Maintenance facilities
    - Operational facilities such as catering or computer systems.
    - Operational staff such as ground handling personnel, at check-in and boarding desks.
    - Investments and purchases by negotiating extra volume discounts.
iii. Increased market share as passengers can benefit from:
    - Lower prices due to lowered operational costs for a given route.
    - More departure times to choose from on a given route.
    - More destinations within easy reach.
    - Shorter travel times as a result of optimized transfers.
    - A wider range of airport lounges shared with alliance members
    - Faster mileage rewards by earning miles for a single account on several different carriers.

- Availability of round the world tickets enabling travellers to fly over the world for a relatively low price.

Alliances are now racing to expand their network, fully aware that the most diverse route map and the biggest presence in the busiest markets will make the strongest alliance (Chakravorty, 2010).

3.4 Summary

Infinite ways of competing exist but how an organisation competes is not the only key to success. Aaker (2001: 134) emphasizes that, sustainable competitive advantage can only be achieved after evaluating the organisations assets and competencies which tie in with the chosen strategy (the basis of competition), accurate selection of the target product market (where you compete) and a critical analysis of competitors to evaluate their ability to match or neutralize the strategy (whom you compete with). Of the various strategies identified in Chapter 3 Air Zimbabwe has a variety of choices of strategies that it can implement.

Based on the financial prowess of Air Zimbabwe's major competitor airlines such as Emirates, South African Airways, Kenya Airways and Ethiopian Airlines, the implementation of any strategy that could result in a price war could have adverse effects to the profitability and competitiveness of the airline as it can ultimately reduce fares below profitable levels. On the other hand, the volatile macro-economic environment in Zimbabwe, where most industries are currently operating at about 40% capacity, which has resulted in the country being highly dependent on imports from neighbouring countries, hampers implementation of strategies that require a low cost base. Additionally, the Zimbabwean economy does not have the capacity for the airline to focus on a particular segment only because the country is still recovering from the hyper inflationary environment. Both internal and external expansion strategies are however essential to increase the airline's profitability and competiveness. The most recommendable strategy is to collaborate with competitors and other related organisations through partnerships, strategic alliances and mergers. Chapter 3 analysed the structure of the airline industry and gave an overview of possible competitive strategic moves that an organisation can employ in trying to gain and maintain competitive advantage and profitability

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

Inquisitiveness is the mother of all knowledge which has resulted in the evolution of research (Kumar, 2008: 1). Kothari (2008: 1) describes research as a “voyage of discovery” as one searches for information on a given topic. From the many different definitions of research, Collis and Hussey (2003: 1) conclude that, there is general agreement that research is a process of enquiry and investigation, it is systematic and methodological and it increases knowledge.

Connaway and Powell (2010: 2) classify research into two main categories, applied research (research used to solve specific problems in real situations) and theoretical research (research that is primarily interested in deriving new knowledge). The main aim of applied research, which is followed by this study, is to assist management to make better decisions about a specific problem dependant on the facts, logic and methodology presented (Wiid and Diggines, 2009: 6). The same authors however note that a degree of uncertainty will always exist when decisions have to be made and this risk can only be reduced through analysis and interpretation. The objectives of any research reflect the information required to address the research problem or opportunity (Tustin, Ligthelm, Martins and Van Wyk, 2010: 81). Collis and Hussey (2003: 10) classify research according to:

i. purpose (the reason for conducting the research);
ii. process (the method used for the collection and analysis of data);
iii. logic (whether the research is general or specific); or
iv. outcome (whether the research will solve a specific problem or contribute to general knowledge)

Research methods refer to the systematic, focused and orderly collection of data for the purpose of gathering information to solve and answer research problems and objectives (Ghauri and Gronhaug, 2002: 85). Brewerton and Millward (2001: 196) define methodology as a system of methods used in the study of a particular phenomenon. Chapter 4 which is summarised in the roadmap below, examines the methods employed in primary data collection in order to fulfil the research objectives.

Primary Research Objective

Analysis of the airline's interaction with industry role players so that it can better align its strategies to changes within the airline industry environment in order for the full reintroduction of Air Zimbabwe flights to be both competitive and profitable.

Stage 1: Qualitative Research

Objective: To determine the impact of regulatory authorities and suppliers on Air Zimbabwe's survival and the extent to which the Zimbabwean Government's gradual liberalisation towards open skies will affect profitability and market share levels

Design: Exploratory

Method: Personal in-depth interviews

Results will be analysed, interpreted and also used in the construction of the questionnaire in stage 2.

Stage 2: Quantitative Research

Objective: To determine the impact of intra modal competition, buyers and substitute products on the airline's profitability and competitiveness and the best possible strategies which can be employed in this volatile environment

Design: Descriptive

Method: Face-to-face personal interviews using a semi-structured questionnaire

Chapter 5: Data Analysis and Interpretation

Figure 4.1: Roadmap through the Research

4.2 Research design

Ghauri and Gronhaug (2002: 47) define research design as the overall plan that relates the conceptual research problem to relevant and practical research. It is the overall strategy to get information which will answer the research objectives. Wiid and Diggines (2009: 33) identify the purpose of the research design as a framework to be followed when conducting the research investigation (data collection and analysis) in order to increase the validity of results and findings.

4.2.1 Data collection approach

The two major approaches in primary data collection are quantitative and/or qualitative research. Wiid and Diggines (2009: 87) identify three factors to be considered when selecting the most appropriate approach in a research:

i. the volume and variety of data required;
ii. the objectivity and reliability of the required data; and
iii. the cost and duration of the study.

As Tustin et al (2010: 91) note, the difference in the approaches is based on the sampling methodology and not the type of data generated from the study.

Wilson (2006: 105) defines qualitative research as an unstructured research approach with a small number of carefully selected individuals with the intention of providing non-quantifiable insights into behaviour, motivations and attitudes. It involves examining and reflecting on perceptions in order to gain an understanding of social and human activities (Collis and Hussey, 2003: 13). Brewerton and Millward (2001: 199) argue that, although the main aim of qualitative research is to explore a specific issue in order to generate new theory this method can also be effectively used to supplement and enrich quantitative research.

Quantitative research is a more structured approach using a sample of the population so as to produce quantifiable insights (Wilson, 2006: 135). It involves collecting and analysing numerical data and applying statistical tests to it (Collis and Hussey, 2003: 13). The aim of quantitative research is to generalise about a specific population based on results from a representative sample which are manipulated to forecast possible future results under different or similar conditions (Tustin et al, 2010: 89).

Collis and Hussey (2003: 78) define the use of both quantitative and qualitative methods of data collection as methodological triangulation. The same authors argue that a combination of methodologies in the study of the same phenomenon leads to greater validity and reliability than a single methodological approach. Qualitative and quantitative methods are suitable at different stages of a research, for instance, qualitative research can be used to build hypotheses and explanations at the beginning of a research then quantitative methods can be used to accept or reject these hypotheses in a logical and consistent manner (Collis and Hussey, 2003: 88). Brewerton and Millward (2001: 61) argue that, in many cases it is valuable to undertake preliminary qualitative research in order to generate detail-rich information which can feed into a subsequent quantitative research. Saunders, Lewis and Thornhill (2009: 153) identify two advantages of the mixed method research, that is, different methods can be used for different purposes in a study and since each analysis procedure has its own strengths and weaknesses the use of different methods cancel out the 'method effect' thereby placing greater confidence on conclusions arrived at.

This study encompasses both qualitative and quantitative approaches in an attempt to gain an in-depth understanding as well as information about the general representativeness of that understanding. A few in-depth interviews which provide qualitative insights and illuminations accompanied by a questionnaire survey is advantageous in taking a broader and complimentary view of the research problem (Collis and Hussey, 2003: 76-79). Qualitative research will be used to explore and understand attitudes and behaviour so as to gain confidence that important issues about the impact of industry role players on competitiveness and profitability are addressed in the research while quantitative research will centre on determining the extent of these attitudes and behaviours and provide statistical conclusions which will assist organisations operating in volatile environments. Qualitative data gathered from in-depth interviews will provide a basis for judgement on whether or not a line of thought is worth including in the quantitative instrument in terms of importance and answering of the research objectives as well as identifying options for structuring purposes of the structured survey questions (Schensul et al, 2012: 54). The qualitative research will therefore be used to strengthen the design of the quantitative study through maximisation of both the appropriateness and utility of the research instrument.

4.2.2 Design categories

According to Tustin et al (2010: 83), there are three main categories of research designs based on problem structure, research purpose, research questions, precision of hypotheses formed and the data collection methods used, that is:

i. exploratory research;
ii. descriptive research; or
iii. casual or explanatory research.

The focus of exploratory research is to gain insight and familiarity of the subject area as a foundation for more rigorous investigation at a later stage (Collis and Hussey, 2003: 10-11). Tustin et al (2010: 84) identify the aim of this type of study as searching for patterns, ideas or hypotheses. Exploratory studies are a valuable means of finding out what is happening, to seek new insights, ask questions, explain central concepts and constructs and assess phenomenon in a new light (Robson, 2002: 59).

Descriptive research describes the characteristics of an existing phenomenon and answers the questions: who, what, when, where and why (Wiid and Diggines, 2009: 55). The objective of descriptive research is to portray an accurate profile of persons, events or situations (Robson, 2002:59). Ghauri and Gronhaug (2002: 49) highlight that, this method is used when the problem is structured and well understood.

Casual research provides evidence about the relationship between variables by means of concomitant variation, the time order in which variables occur and/or the elimination of other possible explanations (Wiid and Diggines, 2009: 57). This method either confirms and describes the relationship between variables or proves the lack thereof (Saunders et al, 2009: 140).

The primary methodology of this research will make use of complementary research designs divided into two stages:

i. exploratory research consisting of in-depth interviews used in the qualitative research stage; and
ii. descriptive research consisting of a questionnaire used in the quantitative research stage.

The aim of the exploratory study is to determine the impact and extent to which industry role players affect organisations operating in a volatile environment while the descriptive study aims

to reveal how the competitiveness and profitability of such an organisation can be improved from the point of view of the industry role players themselves.

4.2.3 Sampling techniques

Ghauri and Gronhaug (2002: 113) divide sampling techniques into two main categories:

i. probability or representative sampling; and
ii. non-probability or judgemental sampling.

Non- probability sampling is based on the judgement of the researcher and is mainly used when there are resource and time constraints (Swanson, 2005: 102). Connaway and Powell (2010: 117) explain that, the probability of each unit being selected in non-probability samples is not known and it impossible to address research objectives that require statistical inferences about the characteristics of the population. In addition a statistical evaluation of sampling error cannot be undertaken making it impossible to assess representativeness of the sample (Tustin et al, 2010: 344). Saunders et al (2009: 213) classify non-probability sampling techniques into quota, purposive, snowball, judgemental and convenience sampling methods.

In quota sampling the population is divided into subclasses based on availability in approximately the same proportions as they are represented in the population (Ghauri and Gronhaug, 2002: 113). Although the random nature of quota sampling is a major shortfall it is a useful technique in situations where there are cost and time constraints (Bajpai, 2009: 267).

Sometimes a sample is selected based on knowledge of the population, its elements and purpose of the research. This is known as purposive sampling (Babbie, 2010: 207). Although this method is not representative of the population it is often effective in predicting outcomes (Brewerton and Millward, 2001: 117).

Elements are selected at the convenience of the researcher in convenience sampling (Bajpai, 2009: 267). This technique is useful to generate ideas and insights using small samples as in the pre-testing of questionnaires, pilot studies, and exploratory studies in the exploratory phase of a research project (Wiid and Diggines, 2009: 200).

Judgement sampling involves the selection of elements based on the judgement of the researcher, whether or not they make up a representative sample (Black, 2011: 232). Participants are selected prior to commencement of the research and other contacts that may arise during the course of the study are not pursued (Collis and Hussey, 2003: 158).

In snowball sampling elements used in the research are referred by other survey respondents through the use of dynamic and organic social networks (Bajpai, 2009: 267). This method is usually used when members of a population are difficult to locate as with the homeless, migrant workers or undocumented immigrants (Babbie, 2010: 208).

For the qualitative research stage non-probability sampling will be used to select respondents as this is a preliminary investigation to gain better understanding of the research problem. Five individuals with extended aviation knowledge will be selected using purposive sampling in order to gain information on the impact of regulatory authorities and suppliers on Air Zimbabwe's survival and the extent to which the Zimbabwean Government's gradual liberalisation towards open skies will affect profitability and market share levels. Though not representative, these individuals will provide useful information which will be used in the construction of the research questionnaire.

The quantitative research stage will however make use of probability sampling as the results are necessary to provide conclusive decisions about the total population from the selected sample. Brewerton and Millward (2001: 198) identify probability sampling as the selection of sampling elements in a manner in which all elements have a known and equal chance of selection. Since populations are composed of heterogeneous characteristics it is essential that any selected sample provides useful descriptions of the total population. Kumar (2008: 41) argues that, the probability sampling technique is more likely to produce more representative samples. Babbie (2010: 241) states two major advantages of probability sampling; that it avoids conscious or unconscious biases in element selection by the researcher; and permits estimates of sampling error. Saunders et al (2009: 213) classify probability sampling techniques into simple random sampling, systematic, stratified random, cluster and multi-stage sampling methods.

Black (2011: 226) classifies simple random sampling as the basis for other sampling techniques. In simple random sampling each element has an equal chance of selection and

each selection is independent of others (Brewerton and Millward, 2001: 116). Sekaran and Bougie (2010: 270) argue that, although simple random sampling offers the least bias it is cumbersome, expensive and requires an updated listing of the entire population.

Wiid and Diggines (2009: 205) identify systematic sampling as the selection of elements at regular intervals from an ordered list. The population is divided by the required sample size (n) and each n^{th} element is selected to make up the sample (Collis and Hussey, 2003: 156). Babbie (2010: 230) notes that, the selected sample can be grossly biased if elements are periodically arranged in a pattern which coincides with the sampling interval. Systematic sampling is mainly used for its convenience and ease of administration when working with large samples (Black, 2011: 229).

In stratified sampling the population is subdivided into homogeneous, mutually exclusive subgroups known as strata (Swanson, 2005: 53). Respondents are then chosen independently within each stratum (Sekaran and Bougie, 2010: 272). In order for the sample to be representative, selected elements of each stratum must be in an identical proportion as is in the population (Saunders et al, 2009: 228).

Cluster sampling involves the division of the population into clusters Elements are randomly selected from the clusters (Sekaran and Bougie, 2010: 275). This method is used when a list of individual members of a population is not available but a list of groups is accessible (Swanson, 2005: 53).

Multistage sampling involves the selection of elements using different probability methods divided into stages (Tustin et al, 2010: 358). The number of stages selected is at the discretion of the researcher dependent on convenience so as to represent a true reflection of the population as it is usually used where the population is dispersed over a large geographical area (Bajpai, 2009: 266).

In order to select a sample that is representative of the whole population and without bias simple random sampling will be used in the quantitative stage of the research. This method has also been selected because of the small geographical area, Harare, which this study will cover and the availability of an accurate and easily accessible sampling frame. In addition, inferential

statistics which are possible with this sampling method will be useful to determine the impact of intra modal competition, buyers and substitute products on the airline's profitability and competitiveness and the best possible strategies which can be employed in this volatile environment

4.3 The qualitative research process

The main aim of the qualitative research stage is to determine the impact of regulatory authorities and suppliers on Air Zimbabwe's survival and the extent to which the Zimbabwean Government's gradual liberalisation towards open skies will affect profitability and market share levels. Based on the fact that competitor airlines greatly safeguard their strategies so as to disguise weaknesses and capitalize on strengths thereby increasing competitive advantage and profitability as they take advantage of opportunities within the industry, their involvement can produce biased personal value judgments. As a result, only Air Zimbabwe, Civil Aviation Authority of Zimbabwe and National Handling Services employees will partake in this stage of the research.

According to Wiid and Diggines (2009: 88), the brainstorming characteristic of qualitative research is a useful pre-piloting technique that helps ensure that the questionnaire which will be used in the quantitative study is relevant and applicable in fulfilling the research objectives. Exploratory research provides a preliminary investigation so as to gain better understanding of the research problem, its extent and general effect. It assists in developing initial ideas, eliminating impractical ideas, clarifying the concept and providing direction for further study (Wilson, 2006: 33). Tustin et al (2010: 85) also note that, the exploratory research design is useful in establishing priorities amoung research questions and for learning about the practical problems likely to be encountered whilst carrying out the research.

Qualitative research enables the collection of in-depth data from a small group of people through the use of focus group interviews, in-depth interviews or projective techniques (Wiid and Diggines, 2009: 88). In-depth personal interviews provide the widest variety of data as well as the most detail (Tustin et al, 2010: 162) and as such will be used for this research. The flexibility and probing nature of in-depth interviews will give insight to comments which require further probing as well as greater understanding of the effect and impact that industry role players have to competitive advantage and profitability within the aviation industry. In addition in-depth

interviews disclose true opinions of respondents without hesitation about the opinions of other people and what is generally acceptable in a group or structured setting as well as freedom to open up on sensitive topics.

Semi-structured interviews make use of pre-determined topics, issues, sample sizes, people to be interviewed and questions to be asked (Ghauri and Gronhaug, 2002: 101). Fisher (2007: 159) explains that, in semi structured interviews even though the interviewer makes use of pre-planned questions respondents have much latitude to respond to these questions in a manner that is most sensible to them. This type of interview is easy to analyse, quantify and compare because it is quantifiable while at the same time allows for more exploration and probing in areas of interest (Brewerton and Millward, 2001: 70). The semi structured technique will be used in the in-depth interviews.

The main aim of these interviews is to produce data that is rich in insight, understanding, explanation and depth of information regarding the Air Zimbabwe situation and the airline's capabilities and constraints based on regulatory restrictions. The qualitative research stage will provide a foundation for the quantitative research stage and results will be used to construct the questionnaire.

4.3.1 Sample population

Choosing respondents with a specific objective in mind is termed purposive sampling (Tustin et al, 2010: 346). In this research purposive sampling will be to identify five respondents who will be interviewed in this pre-pilot stage. They will be made up of three senior management employees of Air Zimbabwe, one Civil Aviation Authority of Zimbabwe (the aviation regulatory authority in Zimbabwe) employee and one National Handling Services (the major ground handling company of airlines in Zimbabwe) employee. The major selection criteria for individuals are a minimum of fifteen years aviation industry experience which will be verified with the human resources departments of all three organisations. This criterion guarantees that selected respondents will provide insightful answers to the questions which will be asked.

In cross-sectional studies variables are analysed once and the relationships between them are determined whereas a longitudinal study examines such a relationship over a period of time. Although longitudinal studies produce more convincing conclusions about cause and effect

cross-sectional studies offer a good starting point to decide whether there is need for further studies. Knowledge of the aviation industry at large over a long period of time intends to reduce shortcomings of the cross sectional nature of this study which provides a snapshot of a sample of the population at a single point in time despite the fact that characteristics are constantly changing over time thereby not reflecting the actual situation.

4.3.2 Survey method

As the research involves executives who are difficult to access respondents will first be contacted telephonically to schedule an appointment and the interviews will be conducted face to face on an informal basis. The personal nature of face to face interviews results in a higher volume of data being collected. In order to avoid interviewer burnout and bias only one interview lasting approximately 45 minutes will be carried out per day. Even though in-depth interviews provide depth of data as there is close rapport which encourages a free flow of conversation the small sample limits ability to generalise about the population.

4.3.3 Analysis and interpretation of qualitative data

Ghauri and Gronhaug (2002: 137) define data analysis as the process of bringing order, structure and meaning to collected data. Wilson (2006: 124) stresses the importance of taking stock at the completion of interviews due to the fact that the interviewer generally recalls content that supports the interviewers own point of view and/or comments of particularly articulate or vociferous respondents. In-depth interviews will be transcribed, entered into word documents and transformed into text files for storage and analysis. Saunders et al (2009: 482) emphasize the need to summarise, categorise and restructure as a narrative, the non-standardised and complex data collected during qualitative research in order to support meaningful analysis. Leech and Onwuegbuzie (2008) define constant comparison analysis as a qualitative analysis tool that involves dividing the text into smaller meaningful parts that are given a descriptive title so as to identify underlying themes. This tool will be used to categorise the data into concepts that will be used for the structuring of the quantitative research instrument.

Keywords-in-context reveal how respondents use words in a given framework and help identify underlying connections that participants imply through speech (Leech and Onwuegbuzie, 2008). Analysing the qualitative data therefore gives an opportunity to review collected data so as to organize and interpret the content into a form that directly answers the research objectives.

Analysing keywords-in-context will assist in revealing how one concept may influence another. It is therefore important, not to commence the study with a pre-defined theoretical framework but rather to identify relationships and develop questions and propositions from the collected data and subsequent analysis. It is just as important to determine what gathered data means and to identify implications for decision making.

Since respondents communicate consciously or subconsciously, verbally and non-verbally in trying to put across a message, intuitive skills need to be applied in the interpretation of qualitative data (Wilson, 2006: 128). Componential analysis which uncovers relationships between words through the search of associated cultural symbols such as acts, sounds and objects (Leech and Onwuegbuzie, 2008) will be used to interpret non-verbal communication by respondents and to evaluate alternative explanations to responses. Both verbal and non-verbal data collected in this qualitative stage will be initially analysed separately and then used in the formulation of the questionnaire for the quantitative stage of the research.

4.4 The quantitative research process

The objective of the quantitative research stage is to determine the impact of intra modal competition, buyers and substitute products on the airline's profitability and competitiveness and the best possible strategies which can be employed in this volatile environment.

Quantitative research provides the basis for generalisation of the attitudes and behaviour motivations of the general population at large through analysis of responses gathered from a sample (Brewerton and Millward, 2001: 55). Quantitative research is made from larger samples than qualitative research; in addition, this structured method of gathering data is easily replicated and facilitates comparisons between studies (Collis and Hussey, 2003: 13). In this research, quantitative data will be used to confirm as well as provide conclusions through the measurement of the impact and effect of Air Zimbabwe's interaction with industry role players to its competitive advantage and profitability.

Quantitative research designs can either be measured once with the aim of establishing the association between variables (descriptive in nature) or several times so as to establish causality (experimental in nature) (Tustin et al, 2010: 86). The descriptive research design which, according to Wilson (2006: 34), is used to predict the occurrence of specific phenomena

as well as to answer speculative and tentative hypotheses and questions about the research will be used. Quantitative data can be gathered through the use of surveys, experiments or observation (Wiid and Diggines, 2009: 106). Generally, more data can be collected from surveys than experimentation or observation techniques (Tustin et al, 2010: 93). For the purpose of this research the survey method will be used to gather quantitative data.

4.4.1 Survey method

Swanson (2005: 98) defines a survey as "a method of gathering information from a sample of individuals". The Market Research Society (2003) expands this definition to include the systematic collection, analysis and interpretation of information by means of sampling and interviews with selected individuals. Information is gathered from respondents through interaction. Ghauri and Gronhaug (2002: 93) state that, surveys are an effective tool to gather opinions, attitudes, descriptions and for establishing cause-and-effect relationships. Brewerton and Millward (2001: 99) argue that, surveys are probably the most widely used research tools because they are cheaper, quicker and broader in coverage.

Tustin et al (2010: 145) maintain that, in-house personal business surveys conducted at the office allow for the collection of large volumes of data while interviewer administered personal interviews enhance the quality of data as the interviewer is able to clarify questions whilst at the same time noting observations regarding attitude. In addition respondent anxiety is greatly reduced thereby increasing response rate. Personal interviews also have the advantage of high response rates, good response rates, are more representative of the sample and have the least rate of refusals as respondents can be motivated and persuaded to participate (Wiid and Diggines, 2009: 125). The research instrument used in this study to collect data is a questionnaire.

Collis and Hussey (2003: 173) define a questionnaire as "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample." The questions designed should produce data that will accomplish the research objectives (Saunders et al, 2009: 361). A well designed questionnaire

i. collects relevant data
ii. produces comparable data
iii. minimises biases

iv. attracts and motivates respondents to participate in the survey

v. encourages honesty and accuracy (Wiid and Diggines, 2009: 172).

This survey will make use of a semi-structured questionnaire with each interview lasting approximately 15 minutes.

4.4.2 Sampling

The population of interest comprises the total group from which information will be gathered (Wilson, 2006: 197). The population is comprised of airlines operating into Zimbabwe in 2012 and travel agents which are affiliated to the Association of Zimbabwe Travel Agents. Wiid and Diggines (2009: 192) define a census as collecting data each member of the population. Since in most cases it is impractical to investigate all members of a target population due to time, cost and accuracy constraints a sample is drawn from the population (Fisher, 2007: 189). A sample, which is representative of the population, can provide information that is representative of the whole population. A list of all sample units in a given population, known as a sample frame, that is up to date, complete, accurate and accessible enhances the results of a research (Collis and Hussey, 2003: 155). Tustin et al (2010: 343) ascertain that, a sample frame ensures completeness, eliminates duplication and ensures accuracy. Airline and travel agent directories will be obtained from the Civil Aviation Authority of Zimbabwe and the Association of Zimbabwe Travel Agents, respectively.

According to Collis and Hussey (2003: 155), a representative sample is one in which the results obtained from the sample can be generalised as true for the whole population. The use of a larger sample for quantitative research intends to project results to a wider population (Tustin et al, 2010: 89). A total of 66 travel agents are members of the Association of Zimbabwe Travel Agents of which 60 operate in Harare, 5 in Bulawayo and 1 in Gweru (www.azta.co.zw). According to the Civil Aviation Authority of Zimbabwe 11 commercial airlines operate into Zimbabwe, all of which operate from Harare International Airport. Determination of the geographic boundaries covered by the research defines the extent of the survey (Tustin et al, 2010: 341). For purposes of this study the selection of respondents will be restricted to travel agents and airlines operating within Harare.

According to Tustin et al (2010: 359), the sample size is influenced by:

i. the degree of variability of the population;

ii. the degree of precision associated with the population estimates;
iii. the degree of confidence; and
iv. the extent to which the study will make use of sub-samples and/or statistical techniques that require a minimum sample size in order to produce meaningful results.

A practical and economical sample size which shows a fair representation of the population will be selected for this research. This is more judgmental than mathematical because the larger the size of the population the longer the time it will take to conduct the research and the more expensive the research will be. Half of the 60 travel agents operating in Harare (30) and all eleven airlines will be used in the research. Wiid and Diggines (2009: 210) state a general rule for the selection of a sample size that, a homogeneous population requires a smaller size therefore selection of half of the travel agents operating in Zimbabwe should be able to yield a relatively accurate estimate of the population. Since only ten airlines operate in Zimbabwe sampling units will be selected from all ten.

Sampling units are made up of the items being studied, that is, what is being studied. In order to answer the question “with whom do I want to speak” a sample element must be defined which consists of the people who will provide the necessary information regarding Air Zimbabwe’s interaction with industry role players on its competitive advantage and profitability (Wiid and Diggines, 2009: 194). Respondents will be selected from travel agent and airline employees operating within Harare.

Probability samples are more detailed, clear and unambiguous; in addition the selection of elements is not determined by the interviewer (Tustin et al, 2010: 373). In order to ensure that the sample is representative of the population a random selection procedure will be used. Simple random sampling without replacement involves the selection of respondents by means of a random process whereby the each respondent has the same equal chance of selection. Selection without replacement entails the selection of elements in such a way that the remaining elements have the same probability of being drawn (Wiid and Diggines, 2009: 202). One employee from each of the ten foreign commercial airlines that operate out of Harare, ten employees from Air Zimbabwe and an employee each from the 30 travel agents will be randomly selected to participate in the interview. This method has been chosen so as to get a heterogeneous sample which when analysed will be able to give a more conclusive conclusion about the population at large.

4.4.3 Analysis and interpretation of quantitative data

Graphs, charts and descriptive statistics help to explore, present, describe and examine relationships and trends within quantitative data gathered (Collis and Hussey, 2003: 196). The exploratory data analysis approach will be used in the initial stages to diagrammatically present data so as to explore and understand the data. Both tables and diagrams will be used in this initial analysis. This approach allows for flexibility to introduce previously unplanned analyses when responding to new findings and relationships which the research was not designed to test (Saunders et al, 2009: 428). Descriptive statistics on the other hand assist in further describing and comparing variables numerically so as to derive central tendency (mode, median and mean), frequency distribution, percentages and dispersion (Fisher, 2007: 208).

Wiid and Diggines (2009: 240) further categorise the analysis of quantitative data into:

i. univariate (single variable analysis used to measure central tendency and dispersion);
ii. bivariate (the measurement of two variables in order to examine correlation and regression); and
iii. multivariate (the employment of multiple regression, cluster analysis, factor analysis and conjoint analysis techniques in the simultaneous analysis of three or more variables).

Bivariate and multivariate analysis will be used for inferential statistics in measuring the mean, standard deviation and proportions. Hypothesis testing is used comparing data collected with what was theoretically expected to happen. All analysis will be influenced by research questions and objectives.

4.5 Credibility of research findings

A disadvantage of collecting data from a sample instead of the population is that findings only give an approximation of the population within given confidence limits (Wiid and Diggines, 2009: 245). Each research therefore has the risk of coming up with incorrect or unrepresentative research conclusions. In order to reduce the possibility of getting the wrong answer reliability and credibility are two important aspect of the research process.

4.5.1 Reliability

Saunders et al (2009: 156) define reliability as the extent to which data collection techniques or analysis procedures will yield consistent findings in the event that the same research is carried

out at another occasion; should the research be carried out by a different researcher; or if the raw data is analysed further. The same authors identify participant error, participant bias, and observer error and bias as four major threats that affect reliability. In enhancing reliability of the research instrument qualitative research will be used as a pre-piloting technique to assist in the formulation of the questions while simple terminology and short questions will be used in the questionnaire. In addition, uniform testing procedures and a diverse sample of respondents will enhance reliability of the research.

4.5.2 Validity

Validity represents how well a variable measures what it is supposed to and whether the findings derived are really what they appear to be about (Collis and Hussey, 2003: 59). In addition research in one organisation also raises concerns about the extent to which results are equally applicable to other organisations. In this research the Zimbabwean situation is virtually unique and results of this research are for the particular research setting. Saunders et al (2009: 157) identify history, testing, instrumentation, maturation, mortality of participants and ambiguity of conclusions as threats to validity. In countering these threats and in an attempt to establish validity of the research in depth interviews with industry role players who have extensive airline industry experience will be conducted. In addition the opinions of experts in the aviation industry and in business management will be sought. In measuring face validity, which is defined by Ghauri and Gronhaug (2002: 70) as the extent to the measure used is reasonable, the opinion of experts in the airline industry will be sought during the qualitative research process and the opinion of the research supervisor.

4.6 Conclusion

Data that is collected and interpreted systematically for a clear purpose are three important characteristics of research identified by Saunders et al (2009: 5). This chapter detailed the systematic collection of data that is, how the research will be conducted and the organisation of practical aspects such as personal and in-depth interviews and the identification of respondents. The systematic interpretation of the data will be discussed in Chapter 5, all with the single objective of analysing the impact of industry role players on the competitiveness and profitability of organisations in a volatile environment.

CHAPTER 5: DATA ANALYSIS AND INTERPRETATION

5.1 Introduction

The aim of this study was to investigate the impact of industry role players on the competitiveness and profitability of an organisation in a volatile environment. Chapter 5 analyses and interprets data gathered through the primary research. Ghauri and Gronhaug (2002: 137) define data analysis as a process of structuring, ordering and deriving meaning from collected data. Collection of data in this research was done in two stages; qualitative research and quantitative research. The first section of chapter 5 analyses and interprets the data collected through in-depth interviews, while the second section examines data collected through the research questionnaire.

Collis and Hussey (2003: 252) explain that, data collected in a research can be analysed through the use of either descriptive statistics or inferential statistics. While exploratory data analysis summarises the findings of the research, confirmatory data analysis draws conclusions about the complete population through data gathered from a sample. Tustin et al (2010: 523) identify five purposes of descriptive analysis as follows:

i. provision of preliminary insights into the nature of the responses obtained;
ii. detection of coding and data capturing errors;
iii. presentation of data in a transparent manner;
iv. summarising and measuring responses; and
v. evaluation of distributional assumptions.

So as to completely address the research objectives (see section 1.4), the primary research was divided into two stages. The goal of the qualitative research stage was to determine the impact of regulatory authorities and suppliers on Air Zimbabwe's survival and the extent to which the Zimbabwean Government's gradual liberalisation towards open skies will affect profitability and market share levels. To complement findings from the first phase, the quantitative research stage intended to determine the impact of intra modal competition, buyers and substitute products on the airline's profitability and competitiveness and the best possible strategies which can be employed in this volatile environment. Descriptive analysis is used to examine meanings expressed in collected non-standardised qualitative data and also to

summarise and describe responses derived from the questionnaire through the extensive use of diagrams and statistics.

5.2 Survey Results: Qualitative research

The qualitative research stage consisted of a pilot study used to provide rich in-insight, understanding, explanation and depth of information regarding the Air Zimbabwe situation and the airline's capabilities and constraints and to provide a foundation for the construction of the questionnaire. Five interviewees with a minimum of fifteen years aviation experience were purposively selected and interviewed. Selection was based on breadth and duration of service in the aviation sector so as to give a vast and overall view of airline operations.

Despite signing the confidentiality clause all five selected interviewees were reluctant to have their interviews recorded. As a result, the in-depth interviews were not recorded thereby reducing participant bias and increasing reliability of responses received. The broad experience of respondents in the aviation industry intended to increase the the extent to which results are equally applicable to other organisations and for validity of findings not to be limited to Air Zimbabwe alone.

The interviews were structured into five sections, (see Annexure A):

- **Section A** provided a longitudinal overview of industry transformations that have impacted on Air Zimbabwe's competitiveness and profitability over the past 20 years.
  (Objective: To gather background information on the competitiveness and profitability of the airline over the past fifteen years and to identify the different factors that have impacted on performance)

- **Section B** offered in-depth insight into the gradual liberalisation towards open skies within the Zimbabwean context and other aviation regulations that currently impact Air Zimbabwe.
  (Objective: To evaluate how the different policies implemented by the Government of Zimbabwe have impacted on competitiveness and profitability)

- **Section C** explored issues of safety and the environment with particular reference to the Air Zimbabwe aircraft fleet and operations.

(Objective: To evaluate the different industry regulations impacting on the airline's competitiveness and profitability)

- **Section D** investigated the power of suppliers and how it impacts on profitability.
  (Objective: To investigate the extent to which the different suppliers impact on airline profitability)

- **Section E** gave insight on Air Zimbabwe's future and possible strategic options available to the airline.
  (Objective: To assess the different strategic options available to the airline from the point of view of aviation employees who have been employed in the airline industry for a long time)

5.2.1 Section A: General information

The objective of Section A was to gather background information on the competitiveness and profitability of the airline over the past fifteen years and to identify the different factors that have impacted on performance. The average number of years of employment in the aviation industry for the five participants was 23 years. Their extensive, combined experience, spanned over several departments which included flight operations, strategic planning, legal, technical operations, corporate quality and safety, economics, business management, finance and company secretarial.

The general consensus amoung respondents was that the main aim of Zimbabwe's national flag carrier has never been profitability but rather to provide a national service and to facilitate economic growth in the fast growing tourism sector and other downstream industries such as agriculture and mining. Over the years, Air Zimbabwe has always incurred marginal losses except for brief periods of the 1995/1996 and 1999/2000 financial years when it recorded profits. One participant cited the major turning point for the airline as the massive retrenchments in 1998 and 1999 which emptied the airline's coffers resulting in increased borrowing and reliance on government funding. Another interviewee identified the lack of continuity in leadership which has resulted in investment in several projects which have not been followed through to completion as negatively impacting on profitability.

Respondents were also in agreement that before the year 2000 the airline was competitive especially on routes such as London and Johannesburg as is evident by “Best Airline out of Africa” award received in 1999. The farm invasions and ensuing violence in the country during the 2000 general elections resulted in the imposition of sanctions, the issuing of travel warnings and the beginning of hyper inflation in the economy all of which resulted in a massive decline in tourist arrivals into the country and the consequent departure of most international airlines from the country. A respondent highlighted that over the years the airline also underestimated the value of training and participation in industry forums and when the great depression began this was the first area that was affected by cost cutting. The resultant effect was a huge drop in the competitiveness of the airline because of inadequate skills training.

Interviewees named the individual stakeholder who can improve the airline’s competitiveness and profitability as the Government of Zimbabwe who is the 100% shareholder. Sanctions have affected many industries through closure and the shifting of operations to South Africa with those that are operational only operating at an estimated capacity utilisation of 40%. A participant pointed out that Bilateral Investment Protection Agreements are not being honoured, thus limiting direct investment into the country. Although prime markets such as Japan, Germany and the United States of America have lifted travel warnings to Zimbabwe, they are still governed by sanctions imposed on the country. As a result, the Government through various political policies can individually improve competitiveness and profitability of Air Zimbabwe. Three respondents suggested that the shareholder should leave the running of the airline to experts so that they can be accountable whilst it concentrates on policy issues as the lack of corporate governance has impacted on the airline’s performance. Another participant mentioned that there is no policy making body therefore decisions being made are haphazard and incompetent. Instead the government should create an aviation policy platform which should include all concerned ministries including tourism, finance, transport, state enterprises and trade to come up with policies that govern the Zimbabwean aviation industry.

In line with these responses questions 15 to 17 of the questionnaire further explored the impact of government intervention on the airline’s competitiveness and profitability and to get the view of industry role players on whether or not Air Zimbabwe should continue operating as a national flag carrier.

5.2.2 Section B: Regulation in the aviation industry

The objective of Section B was to evaluate how the different policies implemented by the Government of Zimbabwe have impacted on competitiveness and profitability. All five interviewees agreed that, currently, there are no prevailing aviation rights that give Air Zimbabwe priority in the Zimbabwean aviation industry. A participant cited that even though there seems to be a monopoly on the domestic sector there are actually 15 airlines which have been awarded traffic rights to ply domestic routes but unfortunately they are just briefcase companies. Two respondents pointed out that the only priority that the national airline enjoys is that government officials are mandated to travel on Air Zimbabwe to destinations where it operates but regrettably there are no monitoring mechanisms in place that enforce this legislation. A participant pointed out that the general practice is that governments first capacitate their own national airlines through capital injection and equipment facilitation so as to first empower them such that they are able to counter the resultant competition from an open skies policy. In Zimbabwe however, the gradual liberalisation towards open skies is being implemented against a crippled national airline which lacks government support. In addition, the provision of fifth freedom traffic rights to competitor airlines has resulted in unfair industry practices.

Respondents identified the following benefits of the open skies policy to the Zimbabwean aviation industry:

i. Development of Harare as an alternative southern African hub to Johannesburg;
ii. Increased connectivity attracts demand as has been evident through other successful African hubs like Johannesburg, Nairobi and Addis Ababa and consequently these are now attractive destinations;
iii. Infrastructure development through the upgrading of airports;
iv. A reduction in unemployment levels as more jobs are created through the aviation sector;
v. Potential economic growth because of the resultant increase in tourism and trade; and
vi. Increased competition will result in more market driven fares.

Although four participants agreed that liberalisation will lead to a decline in air fares prevailing in Zimbabwe one respondent highlighted that it is normal industry practice for airline fares to be seat cost driven so liberalisation will have a minimal impact on current fares in the market.

Distortions to airfares are actually caused by government taxes, taxes imposed by airport and other regulatory authorities and airline surcharges to hedge against unexpected fuel and insurances increases. To further accomplish validity of this line of thought question 21 of the questionnaire explored the rating of Air Zimbabwe's fares in relation to competitor airlines.

Interviewees indicated that competition is healthy and the open skies policy will positively impact the airline as Air Zimbabwe will be pushed to improve its cost management through the operation of a more cost effective fleet and also a reduction and more efficient utilisation of employees. One participant however considered this as a long term advantage as it will take approximately five years to change the mindset of the employees. Another respondent thought the greatest benefit is to the customer who will enjoy a wider choice, better service and consequently more market driven fares. Questions 8 and 10 to 14 of the questionnaire further explored ways in which the national flag carrier can better improve its competitiveness.

5.2.3 Section C: Safety and the environment

The objective of Section C was to evaluate the different industry regulations impacting on the airline's competitiveness and profitability.All five respondents concurred that the airline is currently meeting international safety standards as is evident by the absence of any fatal or major accidents since 1980, but it urgently needs to renew the IATA Operational Safety Audit. With adequate resources, it is quite evident that the airline has the capacity to pass the audit which it successfully passed twice before. While one participant noted that adherence to international environmental standards is guided by the manufacturer and the airline's role is largely centered on maintenance, another respondent highlighted that the airline is only complying with carbon emission regulations especially in the European Union because of low frequencies however a potential expansion of the route network will require stricter conformance to environmental regulations. Furthermore, from 2014 the Boeing 737-200 will no longer be permitted to operate to most destinations because of high noise levels as these aircraft have been in the market for over 25 years and are now well beyond their economic life as is evident by their high maintenance costs so it is time the airline disposes of them. This will definitely impact on the airline's profitability as the airline owns three B737-200 aircraft which operate its regional and domestic routes.

Participants explained that the current Air Zimbabwe fleet which has an average life of 22 years is very uncompetitive and lacks value proposition because it is:

i. diverse and lacks fleet commonality;
ii. has high maintenance costs because of its age;
iii. does not have in-flight entertainment;
iv. has dilapidated interiors; and
v. is not fuel efficient

In upgrading the current aircraft fleet, a respondent was of the opinion that the choice of equipment on particular routes should also be dependent on the competition plying the same route because it is not practical to envision changing the whole fleet at the same time due to the high capital requirements involved. As a result, the airline can continue to use its current fleet on routes where there is less competition and enter into operational leases for more competitive aircraft on routes where rivalry is more intense. Respondents explained that, in choosing the most appropriate equipment to lease or purchase, factors such as payload and range determine efficiency, it is cheaper to operate a common fleet, and while Boeing directs on maintenance Airbus employs a remove and replace policy. Table 5.1 below highlights the preferred aircraft choices according to respondents.

Table 5.1: Choice of aircraft per route

Choice of Aircraft		
Route	**Boeing Choice**	**Airbus Choice**
International Routes	B777 or B767-300	A330
Regional Routes	B737-700 or B737-800 or B737-900	A319 or A320
Domestic Routes	ATR42 or ATR47	ATR42 or ATR47

5.2.4 Section D: Suppliers

The objective of Section D was to investigate the extent to which the different suppliers impact on airline profitability. Participants explained that, although Jet A1 fuel suppliers mostly impact the profitability of airlines, fuel prices are determined by the base station and the price at any given location is almost uniform because of the oligopolistic nature of suppliers. If the

government, which governs the granting of licences to Jet A1 fuel suppliers, can increase the number of suppliers prices are likely to go down in the region because of enhanced competition and forces of supply and demand.

Two respondents mentioned that the few suppliers of aircraft and aircraft spares are concentrated in Europe and the United States of America and operate like a cartel giving them a high bargaining power. Unfortunately outsourcing and the use of third parties for procurement of aircraft spares by Air Zimbabwe because of unhealthy relations with original suppliers has distorted the price at which it purchases aircraft spares. Three interviewees suggested that Air Zimbabwe collaborate with other African airlines with a common fleet and pool the purchasing function of fuel and aircraft spares with the assistance of airline associations such as AFRAA so as to reduce the bargaining power of suppliers through economies of scale. One respondent however highlighted that implementing such a strategy would face challenges because most competitor airlines operate much more modern aircraft hence there is lack of fleet commonality within the region.

Three participants mentioned that the source of power for the airline employee is his expertise, experience, marketability and high mobility tendencies. While one participant thought the introduction of ownership options to employees would reduce their bargaining power two were of the view that continuous training and bonding will result in currently scarce skills being more abundant thereby decreasing their bargaining power. Another opinion was to outsource services such as aircraft maintenance which will increase the airline's bargaining power but this will require more oversight of service providers.

One respondent however highlighted that due to cut throat competition and volatility of the industry airlines are failing to cooperate in order to reduce the bargaining power of suppliers but are rather concentrating on intensifying rivalry amoung themselves. While question 7 of the questionnaire aims to rate the level of competitiveness in the airline industry, question 25 seeks to identify the supplier who is taking the most advantage of the volatile airline environment.

5.2.5 Section E: Air Zimbabwe's future

The objective of Section E was to assess the different strategic options available to the airline from the point of view of aviation employees who have been employed in the airline industry for

a long time. According to all five participants Air Zimbabwe's future is largely dependent on the shareholder's view of the value of the airline to the economy and his commitment, attitude and strategic direction to turnaround the fortunes of the airline because on its own it will not survive. Three respondents indicated that the shareholder should first decide whether or not Air Zimbabwe is an indispensible asset then provide the necessary funding to recapitalise it. It is however necessary for the shareholder to first fully appreciate the cost of running an airline.

In order to turnaround the fortunes of the airline interviewees identified several possible avenues that could be implemented as detailed below:

i. A concerted effort by the Government of Zimbabwe towards achieving political stability;
ii. Change the whole management so as to bring in new ideas which would result in a more successful turnaround strategy;
iii. In order to become profitable newer aircrafts are required because the current fleet consumes 25% more fuel than competitors, requires frequent maintenance and is less appealing as a result the pricing strategy is 5% to 10% lower than competitors;
iv. Regulators such as the Zimbabwe Revenue Authority have to remove duty on aircraft spares(as is the case in many countries) so that the airline can operate on a more fair playing ground with rivals;
v. More transparency by management and to limit a dictatorial attitude so as to improve employee relations and consequent productivity;
vi. The Civil Aviation Authority of Zimbabwe needs to improve airport infrastructure such as the equipment which aids aircraft to land in order to ensure 24 hour operations into and out of Zimbabwe so that the airline can improve its flight schedules; and
vii. Corporate governance is fundamental for the airline's survival as it currently lacks independence and separation of roles.

Respondents indicated that the airline's strategies are no longer suitable for the environment in which it operates. Several avenues, including rebranding, product development, market penetration, formation of alliances with other airlines and market expansion, were named. One respondent indicated that whichever strategic option was actually implemented, it is essential to first reclaim lost market share, while another explained that the airline should first attract a strategic partner who will assist in forming a strong network. An alternative option mentioned, was to form a technical partnership with a Far East airline which could use Harare as their

African hub, or for the Government to release at least 50% stake in the airline. Section D of the questionnaire further explored different strategic options which the airline could implement (see Annexure B).

5.3 Survey Results: Quantitative research

Initially, 50 respondents were identified for the research but unfortunately, because the survey was carried out towards the peak holiday season when the travel industry is busy, one interview could not be completed and has not been included in this analysis. The study therefore had a 98% response rate made up of 30 travel agents (60%), 10 Air Zimbabwe employees (20%) and 9 employees from foreign airlines (18%). When selecting sample members, all 60 travel agents operating in Zimbabwe and registered with the Association of Zimbabwe Travel Agents were given a number and 30 numbers were randomly chosen for inclusion in the sample. For the selection of Air Zimbabwe employees, 10 staff numbers were randomly selected from a comprehensive list of the total workforce as provided by the Human Resources Department. All 10 foreign airlines operating into Zimbabwe were included in the research.

Since participant error occurs when a research is wrongly timed respondents were permitted to choose suitable times for the personal face to face interviews and in certain cases were allowed to complete the questionnaires over a period of two or three days. In addition, to increase reliability, the questionnaire consisted mainly of structured questions which enabled consistent interpretations of responses.

In order to analyse the research objectives logically the questionnaire was divided into the following four sections (see Annexure B):

- **Section A** comprises of six questions providing background information about respondents. The main purpose of these simple questions was to put the respondents at ease and to motivate them to answer the subsequent questions. In addition, Section A provided demographic details of the sample in order to determine representativeness of the whole population without bias.
- **Section B** gathers information on the impact of industry role players on competitiveness. Questions in this section mainly centered on the possibility of Air Zimbabwe to turn to co-opetition with other industry players as a method of increasing competitive advantage.

(Objective: To evaluate the impact of the different industry role players on the competitiveness of the airline)

- **Section C** centres on the second research construct of profitability and the extent to which industry role players have impacted on Air Zimbabwe's profitability. It identified the extent to which several factors have impacted the profitability of the airline and which will possibly haunt its bottom line if not addressed.
  (Objective: To assess the impact of the different industry role players on the profitability of Air Zimbabwe)

- **Section D** concludes the questionnaire with an analysis of possible strategic directions that the airline could take considering the volatile environment it operates in.
  (Objective: To evaluate possible strategic options the airline can implement in order to improve competitiveness and profitability)

5.3.1 Section A: Background information

In selecting a sample for the quantitative research stage the target was to randomly select an unbiased sample which is representative of the whole population. The intention of questions 2 to 4 was to gather background information about the sample so as to determine representativeness of the whole population. Participants selected have been employed in the airline industry from 0 years to more than 20 years, are at different levels of the employee hierarchy and have attained varying educational qualifications which range from high school certificates to post-graduate degrees. The responses gathered, as indicated in Table 5.2 above, confirm that a heterogeneous sample was selected and that respondents understood the contents of the questionnaire and their responses can be taken seriously.

Table 5.2: Demographic details of the sample

	Years employed in the aviation industry											
	0 to 5 years		6 to 10 years		11 to 15 years		16 to 20 years		More than 20 years		**Total**	
	n	%	n	%	n	%	n	%	n	%	**n**	**%**
Position in organisation												
Junior Employee	8	57%	4	57%	5	63%	4	80%	1	7%	**22**	**45%**
Middle Management	4	29%	2	29%	2	25%	1	20%	9	60%	**18**	**37%**
Senior Management	2	14%	1	14%	1	12%	0	0%	5	33%	**9**	**18%**
Total	**14**	**100%**	**7**	**100%**	**8**	**100%**	**5**	**100%**	**15**	**100%**	**49**	**100%**
Educational Qualification												
High school certificate	0	0%	1	14%	0	0%	0	0%	1	7%	**2**	**4%**
Diploma	5	36%	4	58%	5	63%	2	40%	5	33%	**21**	**43%**
Under graduate degree	4	28%	1	14%	1	12%	1	20%	2	13%	**9**	**18%**
Post graduate degree	5	36%	1	14%	2	25%	2	40%	7	47%	**17**	**35%**
Total	**14**	**100%**	**7**	**100%**	**8**	**100%**	**5**	**100%**	**15**	**100%**	**49**	**100%**

A delimitation identified at the beginning of the research was that interviews would be conducted with the actual players within the airline industry, (that is, airline and travel agent employees) and would exclude passengers who travel by air who could provide valuable information as seen from a different perspective. Questions 5 and 6 of the questionnaire investigated the travel history of respondents and 94% of interviewees had actually flown on Air Zimbabwe while 76% had flown on other airlines giving a well travelled background for analysis of both the volatile airline industry and Air Zimbabwe's performance. Figure 5.1 below depicts the airline travel background of participants.

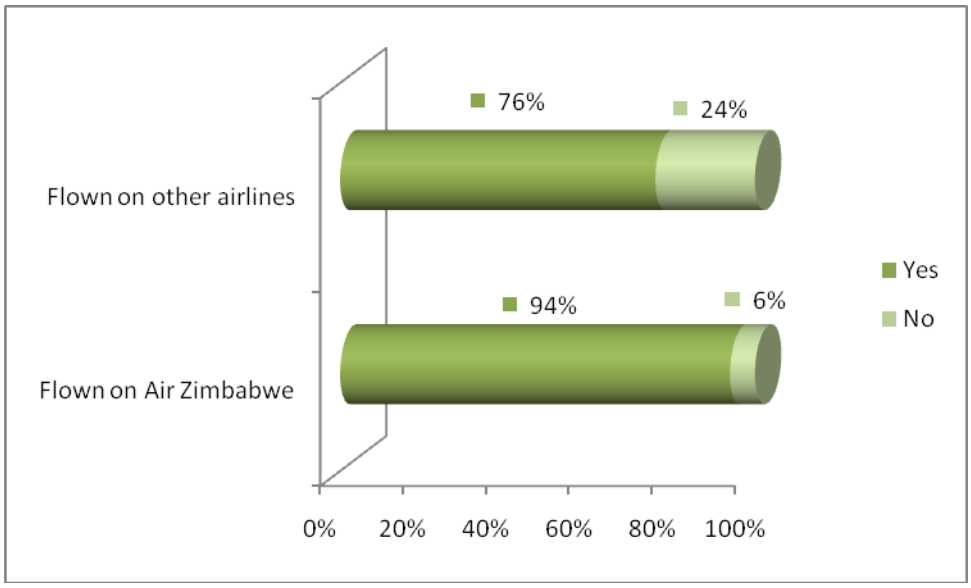

Figure 5.1: Travel background of respondents

5.3.2 Section B: Impact of industry role players on competitiveness

The objective of Section B was to evaluate the impact of the different industry role players on the competitiveness of the airline. In rating the level of competitiveness within the airline industry 76% of respondents indicated a high level of competitiveness, 12% as moderate, 10% as low and 2% as uncertain. Responses agree with the perception of interviewees in the qualitative research stage. From the point of view of industry role players the competitiveness of Air Zimbabwe is currently reduced by reliability (69%), perception (9%), cost (8%) and punctuality (4%).

From responses received, it is evident that competitor airlines have the greatest impact on Air Zimbabwe's competitiveness. 43% of respondents rate the impact of competitor airlines on the airline's competitiveness as very high. Additionally 37% of respondents rated their impact as high. This response is in agreement with answers for question 7 where 76% of participants rated the level of competitiveness in the airline industry as high. The impact of suppliers was also rated as between high and very high by 29% and 35% of respondents respectively. 20 participants (41%) were however uncertain about the extent to which buyers affect the competitiveness of the airline and only 24% and 12% of respondents rated their impact as between high to very high. The mean for buyers, substitute products and new entrants are nearest to 3 which display an uncertainty of their impact on competitiveness. However, less than

25% of participants were inclined to rate the impact of any of six industry role players, competitor airlines, suppliers, buyers, substitute products, new entrants or regulatory authorities as having either a low or very low impact. Table 5.3 below summarises responses received for question 9.

Table 5.3: Impact of industry role players on competitiveness

Industry role player	Very Low		Low		Uncertain		High		Very High		Total		Mean	Standard Deviation
	n	%	n	%	n	%	n	%	n	%	n	%		
Competitor airlines	3	6%	1	2%	6	12%	18	37%	21	43%	49	100%	4.08	1.096
Suppliers	3	6%	9	18%	6	12%	14	29%	17	35%	49	100%	3.67	1.297
Buyers	2	4%	9	18%	6	12%	12	24%	20	41%	49	100%	3.22	1.274
Substitute products	3	6%	8	16%	17	35%	16	33%	5	10%	49	100%	3.24	1.051
New entrants	5	10%	6	12%	12	24%	16	33%	10	20%	49	100%	3.41	1.240
Regulatory authorities	3	6%	8	16%	9	18%	18	37%	11	22%	49	100%	3.53	1.114
Average Mean													***3.52***	

The relatively small standard deviations per category as shown in Table 5.3 indicate that respondents are in general agreement with the mean opinion and this strengthens the outcomes discussed. This is highlighted in Table 5.4 below. The average mean score was calculated as 3.52, indicating that respondents are in general agreement about the impact of industry role players (identified by the independent variables: competitor airlines, suppliers buyers, substitute products, new entrants and regulatory authorities) on competitiveness.

Table 5.4: Variables sorted by mean and standard deviation

Variables Sorted By Mean				Variables Sorted By Standard Deviation		
Industry role player	**Mean**	**Standard deviation**		**Industry role player**	**Standard deviation**	**Mean**
Competitor airlines	4.08	1.096		Suppliers	1.297	3.67
Suppliers	3.67	1.297		Regulatory authorities	1.274	3.53
Regulatory authorities	3.53	1.274		Substitute products	1.240	3.24
Average Mean	***3.52***					
New entrants	3.41	1.051		Buyers	1.114	3.22
Substitute products	3.24	1.240		Competitor airlines	1.096	4.08
Buyers	3.22	1.114		New entrants	1.051	3.41

Since the independent variables; 'regulatory authorities', 'suppliers' and 'competitor airlines' have higher mean responses than the average mean of 3.52, these industry role players have a high to very high impact on competitiveness. Conversely, independent variables; 'buyers', 'substitute products' and 'new entrants', had a lower impact on competitiveness. Ranking of the variables by their mean scores clearly illustrates that competitor airlines have the greatest impact on competitiveness. In addition, similarity of standard deviations indicates that respondents are in general agreement about the impact of the six industry role players on competitiveness of the airline.

67% of participants point out that the competitiveness of Air Zimbabwe will improve if it operates as a traditional airline. The traditional airline offers an assortment of services on its flights which can include first, business and economy class services as well as cargo capacity enabling it to attract a wide range of customers. It also has the advantage of providing local connections within the home market and longer-haul connections in markets that offer sufficient travel volumes. The low cost carrier which is particularly strong in Europe and emerging economies accounts for 25% of globally available seats and mainly operates short and medium-haul flights

(www.iata.org). 15 respondents (31%) deem the low cost option as the most competitive direction Air Zimbabwe should take. One interviewee preferred the cargo carrier alternative while none of the respondents opted for the charter option. Charter airlines provide non-scheduled connections mainly to tourist destinations while cargo carriers offer logistical integrated services.

Despite the many disadvantages cited by Serpen and O'toole (2002) for operating as a national flag carrier which include:

i. a legacy of being run less as commercial businesses than as arms of government,
ii. often being managed by career bureaucrats,
iii. the maintenance of unprofitable routes for social or political reasons,
iv. inability to join global alliances,
v. severe and perennial financial stress and
vi. the constant need for governments to step in and bail out their carriers;

45 respondents (92%) believe that Air Zimbabwe should continue operating as a national flag carrier against 4 participants (8%) who were against the proposal. Increased political and economic pressure for governments to open up their markets will however require flag carriers to reshape their strategies as they separate commercially viable operations dependent on disposable income levels and the propensity to travel.

Air Zimbabwe can therefore enjoy the following advantages of operating as a national flag carrier as identified by Lijesen, Nijkamp, Pels and Rietveld, (2005)

i. operating direct flights thereby making travel shorter
ii. offering increased frequencies to home airports,
iii. market power to raise fares above cost levels,
iv. providing national pride,
v. the ability to adjust to local preferences,
vi. limiting cultural taste variations and
vii. economies of density in marketing the home region;

if it is able to develop a clear understanding of viable destinations, prices, products and services. It is essential for the airline to separate commercially viable services from those operated out of social or political obligations and to either eliminate or ring fence unprofitable operations.

As more and more organisations change the nature of the business environment to their own advantage by combining the advantages of both competition and cooperation in order to generate more profits and increase competitiveness, airlines are cooperating in certain markets or circumstances and competing in others. Industry role players believe that Air Zimbabwe will benefit from joining other airlines instead of continuing to operate as a stand-alone airline. 96% of respondents were inclined to believe that partnerships with other airlines will improve the competitiveness of Air Zimbabwe while only 4% were against the idea since most companies can achieve more success in a dynamic industry than they ever could working alone. Even though partnerships limit the freedom to compete they present new opportunities. Co-opetition stimulates creativity; by focusing on change, it keeps business forward looking; by promoting growth, it makes business both more profitable and more personally satisfying; by challenging the status quo, co-opetition says things can be done differently - and better (Brandenburger et al: 1998).

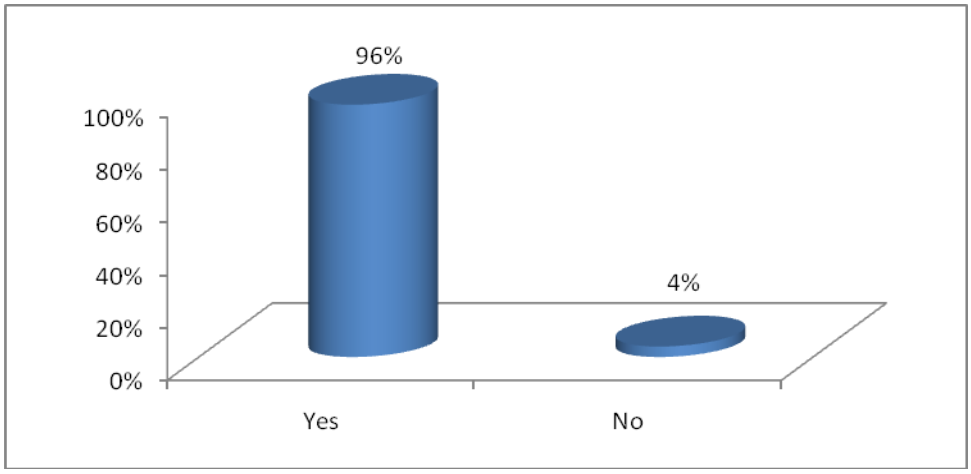

Figure 5.2: Partnerships with other Airlines

The 2009 statistics for the three largest international airline alliances – Star Alliance, Sky Team and Oneworld show that they control over 73% of the world's market share. Respondents believe that some of Air Zimbabwe's problems of perception, reliability and punctuality can be addressed through compliance to alliance conditions. Sky Team advocates (8% of respondents) pointed to the fact that moving away from the major competitors and expanding into new markets would increase the competitiveness of Air Zimbabwe. On the other hand 14% of respondents argued that Zimbabwe has over 400 British companies and is historically linked to

Britain strategically making Zimbabwe a very suitable southern African hub for the One World alliance. Star Alliance however came out as the top alliance of choice with 38 (78%) supporters. Boasting of the widest network it is believed to be able to provide more seamless connections to major cities of the world thereby providing the fastest growth potential into key markets.

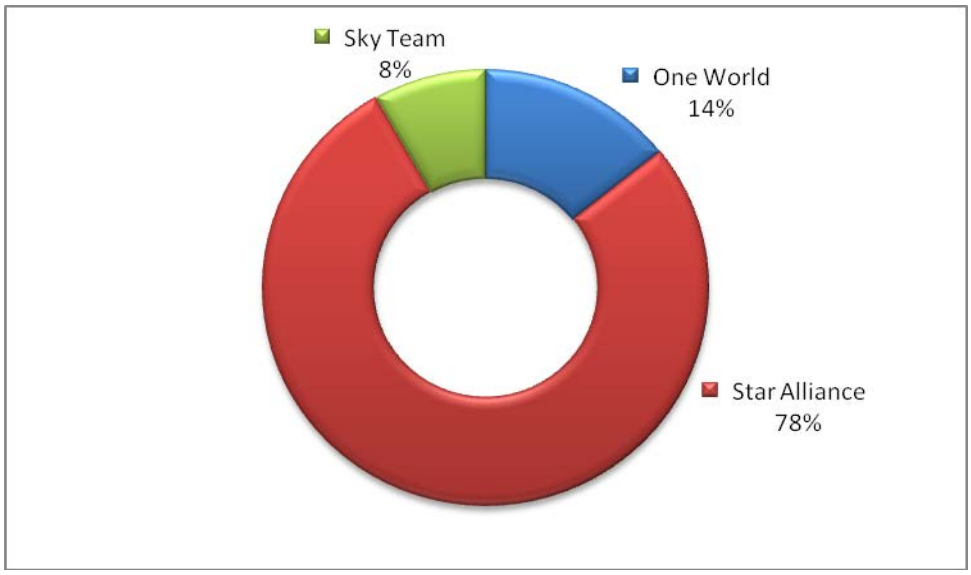

Figure 5.3: Choice of airline alliance

CEO and Co-founder of ExpertFlyer.com, Chris Lopinto, advocates that travellers are looking for ways to aggregate their travel searches into a single convenient location (www.fly.com). According to Grant (2008: 33) partnerships with car rental companies, hotel chains, tour operators and credit card issuers have been an important source of additional revenue to airlines earning them over US$10 billion annually. Industry role players strongly advocated for partnerships with companies in related industries as an avenue to increase competitiveness as highlighted in Table 5.5.

Over 60% of respondents recommended partnerships with tour operators, hotels and travel agents. Despite the advent of e-commerce and the common usage of airline websites as internet-booking-engines the relationship that received that strongest recommendation is with travel agents (32 respondents) most likely because of their ability to source and organise unique experiences and ancillary services such as visa processing, insurance, ground transportation and negotiating discounts. Tour operators were a close second with 55% of respondents strongly recommending Air Zimbabwe's partnership with them while hotels and car rental

companies were third and fourth, respectively. This conforms to responses for question 18 whereby tourists who mainly use airlines, hotels, tour operators and travel agents also received strong support as the most profitable customer the airline should focus on in order to improve profitability. It was however interesting to note that 19 respondents were uncertain about the potential benefits of a partnership with car rental companies whilst 6 respondents actually opposed such a partnership.

Table 5.5: Partnerships with related organisations

Related organisation	Strongly oppose		Oppose		Uncertain		Recommend		Strongly Recommend		Total		Mean	Standard Deviation
	n	%	n	%	n	%	n	%	n	%	n	%		
Travel agents	0	0%	0	0%	2	4%	15	31%	32	65%	49	100%	4.61	0.570
Hotels	0	0%	0	0%	13	27%	17	35%	19	39%	49	100%	4.12	0.807
Car rental companies	0	0%	6	12%	19	39%	9	18%	15	31%	49	100%	3.67	1.048
Tour operators	1	2%	0	0%	6	12%	15	31%	27	55%	49	100%	4.37	0.859
Average Mean													***4.19***	

The mean and standard deviations per category were also calculated as shown in Table 5.6 below. The relatively small standard deviations per category indicate that respondents are generally of the same opinion that partnerships with related organisations will improve the competitiveness of the airline. The average mean score of 4.19 confirms this general agreement of respondents. While mean ratings of partnerships with hotel and car rental companies are lower than average those with travel agents and tour operators are above average.

The ranking of related organisations by mean as shown in Table 5.6 below indicate that travel agents and tour operators have a mean higher than the average mean of 4.19. This signifies that respondents strongly recommend partnerships with these related organisations. Although mean responses decrease to 3.67 they still indicate a positive response from respondents. The correspondingly low standard deviation scores for the same variables indicate general consensus amoung respondents. Interestingly, travel agents who have the highest mean score

of 4.61 have the lowest standard deviation of 0.570 while car rental companies who have the lowest mean score of 3.67 have the highest standard deviation of 1.048.

Table 5.6: Related organisations sorted by mean and standard deviation

Variables Sorted By Mean				**Variables Sorted By Standard Deviation**		
Related organisation	**Mean**	**Standard deviation**		**Related organisation**	**Standard deviation**	**Mean**
Travel agents	4.61	0.570		Car rental companies	1.048	3.67
Tour operators	4.37	0.859		Tour Operators	0.859	4.37
Average Mean	***4.19***					
Hotels	4.12	0.807		Hotels	0.807	4.12
Car rental companies	3.67	1.048		Travel agents	0.570	4.61

5.3.3 Section C: Impact of Industry Role players on Profitability

The objective of Section C was to assess the impact of the different industry role players on the profitability of Air Zimbabwe. With regards to the impact of industry role players on profitability competitor airlines were rated as having the highest impact. 39% of respondents rate the impact of competitor airlines on the airline's profitability as very high. Furthermore, 47% of respondents rated their impact as high. 39% and 37% of interviewees were respectively uncertain of the impact of buyers and substitute products on Air Zimbabwe's profitability. From responses it is apparent that impact of industry role players on profitability follows the same trend as that of competitiveness.

Table 5.7: Impact of industry role players on profitability

Industry role player	Very Low		Low		Uncertain		High		Very High		Total		Mean	Standard Deviation
	n	%	n	%	n	%	n	%	n	%	n	%		
Competitor airlines	1	2%	2	4%	4	8%	23	47%	19	39%	49	100%	4.16	0.898
Suppliers	1	2%	4	8%	13	27%	18	37%	13	27%	49	100%	3.78	1.005
Buyers	1	2%	7	14%	19	39%	14	29%	8	16%	49	100%	3.43	1.000
Substitute products	5	10%	8	16%	18	37%	12	24%	6	12%	49	100%	3.12	1.148
New entrants	3	6%	9	18%	11	22%	14	29%	12	24%	49	100%	3.47	1.226
Regulatory authorities	4	8%	5	10%	6	12%	22	45%	12	24%	49	100%	3.67	1.197
Average Mean													***3.61***	

The relatively small standard deviations per industry role player as shown in Table 5.7 indicate that respondents were in general agreement with the mean opinion and this strengthens the outcomes discussed. Table 5.8 below sorts responses received for the individual industry role players by mean and standard deviation. Mean responses for competitor airlines, suppliers and regulatory authorities are higher than the average mean of 3.61 indicating a high to very high impact on profitability by these industry role players. New entrants, buyers and substitute products whose mean responses are lower than the average mean are however believed to have a lower impact. Ranking of the variables by their mean scores clearly illustrates that competitor airlines have the greatest impact on profitability. General similarity of standard deviations indicates that there are no vastly different opinions amoung respondents about the impact of the six industry role players on profitability.

Table 5.8: Industry role players sorted by mean and standard deviation

Variables Sorted By Mean				Variables Sorted By Standard Deviation		
Industry role player	**Mean**	**Standard deviation**		**Industry role player**	**Standard deviation**	**Mean**
Competitor airlines	4.16	0.898		New entrants	1.226	3.47
Suppliers	3.78	1.005		Regulatory authorities	1.197	3.67
Regulatory authorities	3.67	1.197		Substitute products	1.148	3.12
Average Mean	***3.61***					
New entrants	3.47	1.226		Suppliers	1.005	3.78
Buyers	3.43	1.000		Buyers	1.000	3.43
Substitute products	3.12	1.148		Competitor airlines	0.898	4.16

Post, Lawrence and Weber (2002: 479) point out that governments and regulatory forces can directly affect how organisations operate within a given industry by maintaining barriers to entry, regulating prices, imposing restrictions on practices regarded as counter to public interest and implementing policies on mergers and acquisitions to protect competition. This intervention has negatively affected the profitability and competitiveness of Air Zimbabwe as viewed by industry role players. The modal view for both impact of government intervention on competitiveness (23 respondents) and profitability (20 respondents) is negative whilst 12 respondents believed that the impact was actually very negative for both research constructs. In question 27 participants affirm that there is need for less government interference in the operational management of the airline and the adoption of new strategies.

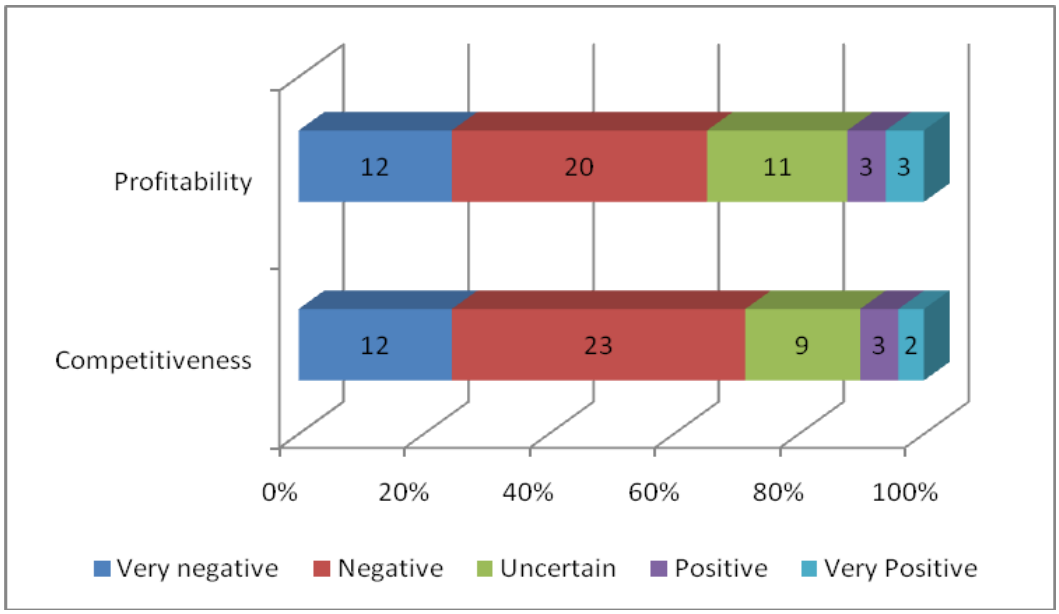

Figure 5.4: Impact of government intervention

Government, being the 100% shareholder of Air Zimbabwe, is perceived to have made decisions that have directly influenced the poor profitability of the airline. Top on the list is funding of the airline with 40 respondents confirming that government decisions have had a high to very high impact on profitability. The average opinion of the extent to which government decisions on funding have influenced the poor profitability of the airline is 4.10. This view is upheld by comments made in question 27 where participants suggest the need for urgent recapitalisation of the airline. Decisions on the acquisition of aircraft are rated as highly impacting on profitability by 35 interviewees. Most probably this view is based on the acquisition of the MA60 aircraft on political and not economical basis for though its fuel consumption is very low it has huge maintenance costs because the Chinese manufacturer is the sole supplier of aircraft spares. The appointment of senior management in the government parastatal is endorsed by the parent ministry. King (2002) characterizes corporate governance as the direction and control of companies so as to uphold the balance between economic and social goals and between individual and communal goals. One of the seven characteristics of good corporate governance is independence (the extent to which mechanisms have been put in place to minimize or avoid potential conflict of interest that may exist). Bhagat and Bolton (2007) argue that independence is negatively correlated with operating performance. Government decisions on routes flown least affect poor profitability with 22 respondents rating them as high to very high.

Table 5.9: Factors sorted by mean

Factor	Mean	Standard deviation
Funding	4.10	1.246
Aircraft acquisition	3.82	1.219
Average Mean	***3.71***	
Management selection	3.63	1.302
Routes flown	3.29	1.275

Table 5.9 above ranks the different factors by mean. Decisions on funding and aircraft acquisition were rated by respondents above the average mean indicating a high impact on the poor profitability of the airline. Decisions on the selection of management and routes flown have a lower impact. Similarity of the calculated standard deviations indicates general agreement amoung respondents that government decisions on the four named factors have influenced the poor profitability of Air Zimbabwe.

Cant et al (2006: 103) define market segmentation as selecting and targeting one or more sectors of a market that have common needs or characteristics with a distinct marketing mix. By deciding the needs which an organisation can best satisfy given the available resources so as to create the greatest value for the customer when compared to competitors a company can determine strategy based on customer characteristics. Travel agent and airline employees favour the tourist market as the segment that is likely to most improve the airline's profitability with 15 respondents selecting this segment. This view is in agreement to the airline operating as a national flag carrier as highlighted in question 15 of the questionnaire. In addition, such a segmentation moves away from strategies of competitor airlines such as South African Airways and South African Airlink whose major market is high end business travellers who frequently ply the Harare/Johannesburg route; Kenya Airways and Ethiopian Airlines whose target segment for the Zimbabwe market are cross border traders whose final destinations are mainly China and Dubai and Emirates which has targeted personal travellers mainly originating from the United Kingdom.

The 11 respondents who selected the high-end business traveller argue that the low price sensitivity of the business traveller makes them a more profitable option especially based on the

growing mining sector which will most likely attract more business investors. Those against this segment highlighted the current low connectivity and subsequent limited onward connections due to absence of partnerships with other airlines which currently deters business travel on Air Zimbabwe. This point was upheld by the 47 respondents who argued that partnerships with other airlines will improve the competitiveness of the airline in question 10 of the questionnaire. Participants also highlighted that whilst business travel is a high revenue earner it has the disadvantage of being easily reduced in frequency or postponed dependent on organisational performance and urgency and benefit to companies of the travel.

Based on the high level of unemployment in Zimbabwe which currently averages 70% and uncertainties surrounding the unattractive indigenisation legislation which will require companies to be 50% owned by local Zimbabweans 9 respondents consider cross border traders as a more profitable segment. 9 participants were unsatisfied with the individual choices available and argued that no stand-alone segment could be profitable but rather a combination of the customer groups automatically cancels out the disadvantages of each segment such as seasonality of tourists, low business volumes for the high-end business travellers and air cargo customers and price sensitivity of personal travellers and cross border traders. The pie chart below graphically represents the choices made by interviewees in question 18.

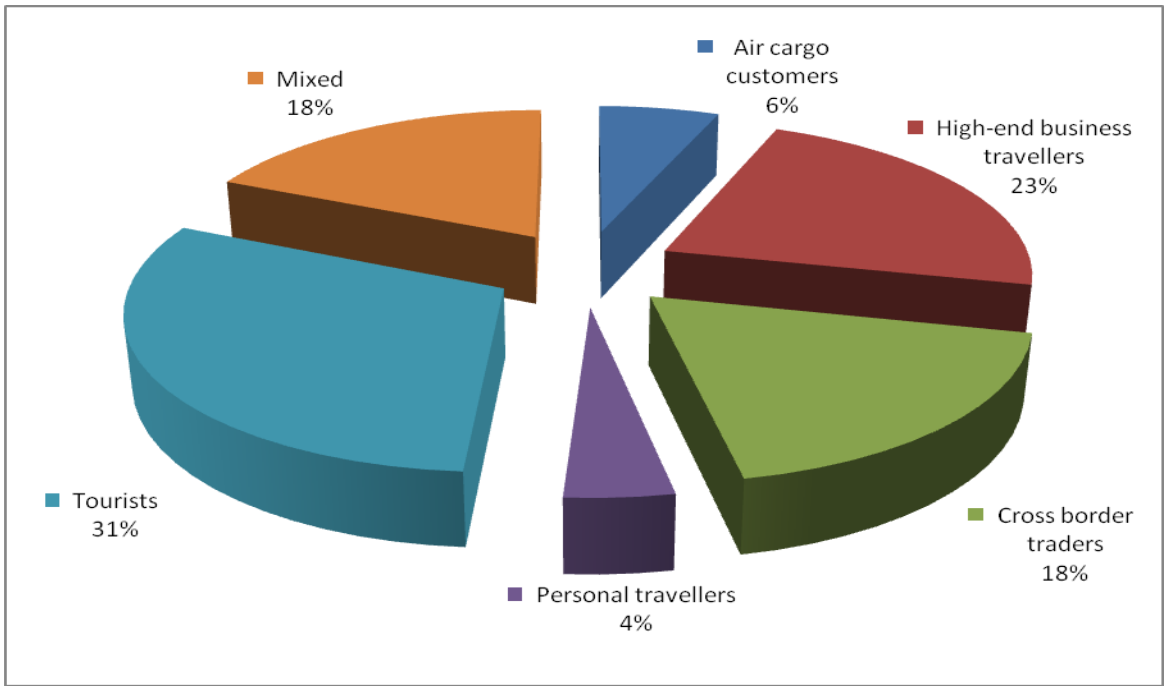

Figure 5.5: Customers to mainly focus on

Question 22 highlights the bargaining power of channels within the airline industry. According to interviewees expulsion from the IATA Clearing House had the strongest negative impact on the airline's profitability, followed by disconnection of reservations systems, network structure, aircraft being operated and to a lesser extent fares being charged. The International Air Transport Association sites several benefits of using its Clearing House which include:

i. the off-setting of mutual transactions which reduces bi-lateral, multi-currency transactions for passengers, cargo, baggage, catering and ground handling services to one single payable or receivable amount;
ii. prompt settling of interline accounts between airlines, airline-associated companies and travel partners;
iii. improved receivables and cash management as cross remittances, follow ups for credit collection and delays are eliminated;
iv. the ability to plan and optimise usage of financial resources as the clearance calendar is provided a year in advance and
v. fast debt collection and increased protection against bad debts and bankruptcy.

42 participants highlighted that the expulsion of Air Zimbabwe from the IATA Clearing House had a very strong impact on the poor profitability of the airline while 5 view the impact as strong.

Airline reservations systems and global distribution systems are used when making passenger bookings and to store passenger information such as names, contact details, meal and seat preferences and frequent flyer details. With the widespread use of computers by consumers and as airline's jostle for passengers in a shrinking market, reservation systems have been opened up for direct public use in a bid to both reduce costs through direct bookings and to provide a more accessible and convenient service. The disconnection of Air Zimbabwe's reservations systems is viewed as very strongly impacting the airline's poor profitability by 40 respondents and as strong by 6 respondents. This is mainly because the visibility of the airline's fares, routes and available capacity are greatly reduced worldwide.

The airline's network structure and fares being charged were both identified by 49% of participants as having a very strong impact on profitability while 37% and 27%, respectively thought the impact is strong. Impact of the aircraft being operated was rated as very strong by 14 respondents and strong by 24 respondents. The full analysis of the responses is shown in Figure 5.6 below.

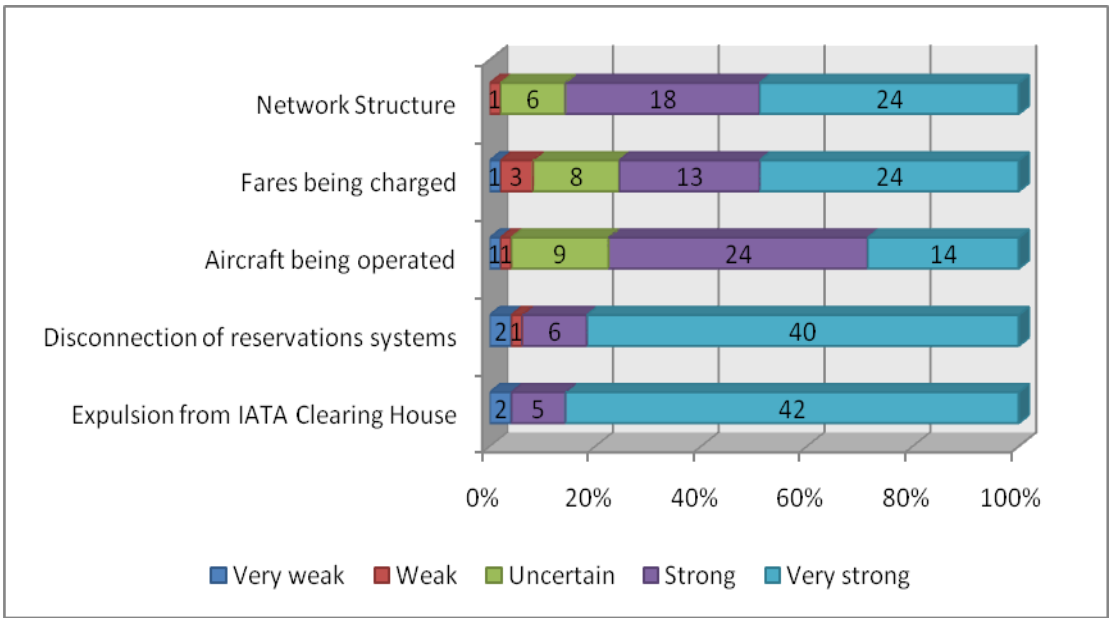

Figure 5.6: Factors impacting on poor profitability

Table 5.10 below illustrates the five variables sorted by their mean scores. Expulsion from IATA Clearing House, and disconnection of reservations systems were rated higher than the average mean of 4.37. Although the mean variables for aircraft operated, fares being charged by the airline and the network structure being operated are lower than the average mean score they still reflect as having a strong impact on the airlines profitability. The respondents were in general agreement about this fact as is indicated by the similarity of the standard deviations.

Table 5.10: Variables sorted by mean

Variable	Mean	Standard deviation
Expulsion from IATA Clearing House	4.73	0.836
Disconnection of reservations systems	4.65	0.925
Average Mean	***4.37***	
Network structure	4.33	0.774
Fares being charged	4.14	1.041
Aircraft being operated	4.00	0.866

As airlines strived to maintain market share levels and attract customers following the 2008 global economic recession which resulted in passenger demand decreasing in many markets by between 15% and 20% many resorted to discounting fares. This resulted in fierce price wars across the globe as competition became more aggressive. According to Cant et al (2006: 322) price influences how much of a product consumers purchase, reflects potential product value and ultimately determines the profitability of an organization. When compared to competitor airlines, respondents on the average rate Air Zimbabwe fares as being between cheap and fair. As also noted in question 8 of the questionnaire only 4 respondents believed that cost was a factor that affected the airline's competitiveness.

While it may still be profitable to charge lower than competitor fares, the lowering of prices is only viable if an airline is able to attract the required masses to fill up its available capacity thereby remaining profitable. Air Zimbabwe's 2011 market share levels, as highlighted in Figure 2.1, show that the low prices being charged by the airline failed to attract the required masses to make the organization a profitable entity. Although 23, 18 and 17 respondents respectively rate the airline's domestic, regional and international fares as fair this is mainly in relation to the product offered when compared to competitor airlines. This notion directly relates to the fundamental principle that price is a statement of value in a market driven economy. In question 22 of the questionnaire 49% and 27% of respondents identified fares being charged as very strongly and strongly impacting on the low profitability of the airline.

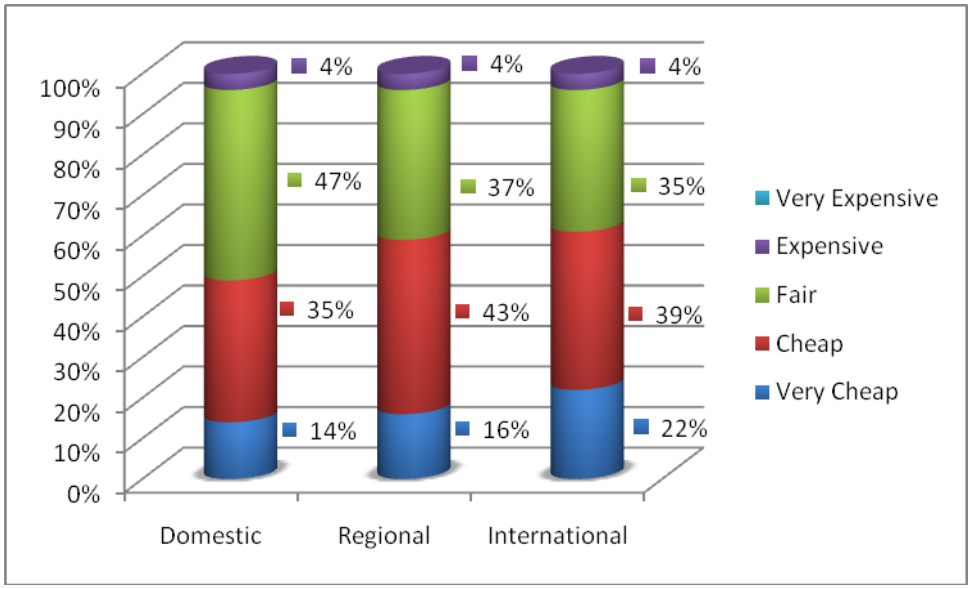

Figure 5.7: Fares compared to competitor airlines

Question 23 received the least responses of the whole questionnaire as 15 interviewees were unaware of industry regulations that are likely to affect the future profitability of Air Zimbabwe. 17 interviewees identified regulations imposed by the International Air Transport Association (IATA) as likely to most impact on the airline's profitability. Those named are:

i. suspension from IATA;
ii. expulsion from IATA Billing Settlement Plan (BSP);
iii. failure to renew the IATA Operational Safety Audit (IOSA);
iv. expulsion from IATA Clearing House (ICH); and
v. implementation of Simplifying the Business (StB) initiatives by IATA.

IATA governs global safety and security standards through its IOSA registration and membership to the international airline association is now on condition of successful renewal of the IOSA audit. Participants sighted the fact that most international destinations will not permit an airline which has not complied with safety standards thereby limiting the possible route network that it is able to operate in. In addition, participation in BSP and ICH simplifies and facilitates payments amoung airlines and travel agents thus increasing ticket sales. The StB initiative which will reduce airline operating costs and lead to an improvement of environmental standards through paperless operations requires huge capital investments in employee training and information technology system upgrades.

Other regulations that were sighted by respondents as likely to most affect the profitability of Zimbabwe's national flag carrier include:

i. Air navigation regulations imposed by the Civil Aviation Authority of Zimbabwe such as navigation charges, airport development levies, airport departure taxes and restricted flight crew duty time schemes;
ii. Government policies especially the open skies policy
iii. The banning of all aircraft manufactured before 1990 which are now identified internationally as "dirty aircraft" by December 2012 by many countries; and
iv. The Yamasokro declaration by African governments which will permit fifth freedom traffic rights and the operation of domestic flights by foreign carriers;

Responses on the impact of substitute products show that both sea and rail transportation have a weak to very weak impact on the airline's profitability according to more than 60% of

interviewees. Means for both these substitute services fall below the average mean point of view of 2.78. Rail transportation is not widely used in Zimbabwe because of the poor infrastructure available in that sector whilst the landlocked nature of Zimbabwe and the absence of a harbour limit the impact of sea transportation. In addition the nature of goods transported by both sea and rail which are bulky usually cannot be transported by air due to their volumetric and weight mass. As a result not much competition is derived from these forms of transportation.

Road transportation and communication technology on the other hand were considered to have a strong to very strong impact by more than 50% of respondents. Zimbabwe is linked to its neighbouring countries by a road network which is also used to link Africa's only emerging economy, South Africa, to other southern, eastern and central African countries. It is apparent from responses that the numerous haulage trucks and bus operators in the country are in direct competition with Air Zimbabwe. While they are a cheaper alternative they are also able to move larger volumes of both cargo and passengers. The mean of the impact of this substitute service is 3.33 which is higher than the average mean of 2.78. Interestingly though, was the extent to which communication technology was viewed as impacting the airline's profitability. It is apparent that e-commerce coupled with the derived nature of demand for transportation and the significance of air travel as a discretionary spending item has strengthened the impact of communication technology as a strong substitute to air transportation. The highest mean for question 24 of 3.57 was in relation to the threat posed by communication technology.

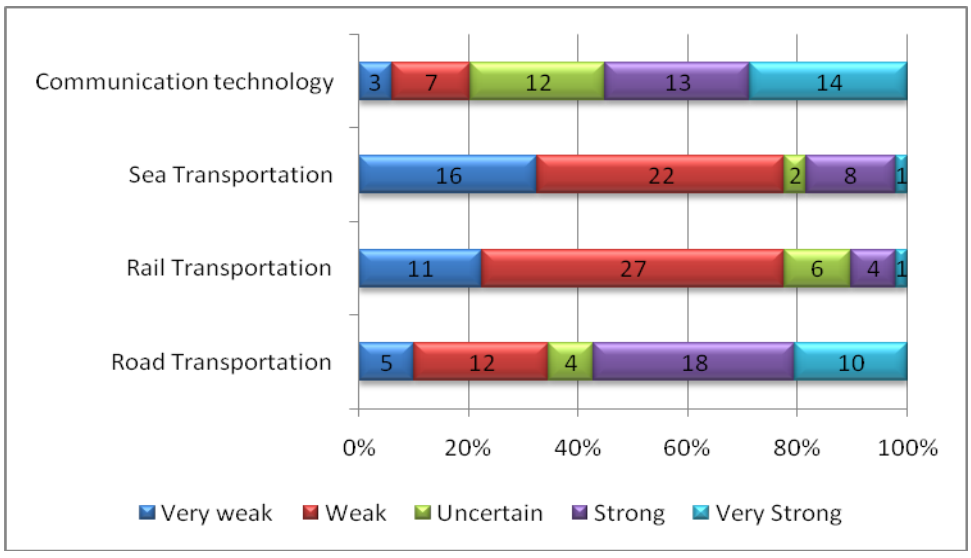

Figure 5.8: Impact of substitute products on profitability

According to responses received from 30 participants (61%) Jet A1 fuel suppliers are perceived to take the most advantage of the volatile airline environment. IATA estimates the average Jet A1 fuel price for 2012 as USD128.5 per barrel constituting between 28% and 34% of operating costs within the airline industry and between 32% and 38% for Air Zimbabwe. These statistics confirm the impact that Jet A1 fuel suppliers have to the profitability of airlines and Air Zimbabwe in particular. Landlocked countries such as Zimbabwe actually pay more for fuel because of additional transportation costs. All other suppliers including financiers (18%), employees (10%), ground handling service providers (6%) and aircraft manufacturers (4%) apparently do not have as much impact on profitability.

5.3.4 Section D: Strategy

The objective of Section D was to evaluate possible strategic options the airline can implement in order to improve competitiveness and profitability. In order for Air Zimbabwe to be more competitive 45 interviewees believe that it needs to change its strategy, 2 interviewees were uncertain and 2 interviewees do not see the need for any change in strategy. For the airline to be more profitable 43 participants believe that it needs to change its strategy, 4 participants were uncertain and 2 participants were against strategy change. The reasons provided for strategy change were many and varied and have been grouped and summarised below:

i. There are bottlenecks in the current strategies and the current poor performance is a direct indication that these strategies being employed are not viable and have failed;
ii. Air Zimbabwe's image is so negative that it needs to rebrand and reposition itself in order to regain customer goodwill
iii. At the moment there is need for more aggressiveness in strategy formulation because of the highly competitive environment in which the airline operates which has been exacerbated by the gradual liberalisation towards the open skies policy, therefore strategies need to be adjusted to the environment in which the organisation operates so as to become the airline of choice, to retain market share and increase profitability;
iv. The current point-to-point operations only work on high density routes so a change to network operations can improve the airline's competitiveness and profitability;
v. There is need for the airline to diversify its operations to include low cost carrier and cargo carrier subsidiaries to cater for other market segments which are currently not being serviced;

vi. The current strategies are extensively controlled by the government and have led to lack of competitiveness and profitability as a result new strategies with less shareholder intervention are urgently required;

vii. There is need to re-engineer all systems such as revenue management and inventory distribution and to improve information communication technology so as to be able to improve customer intimacy and pricing policies which are currently reactive instead of proactive;

viii. The airline needs urgent recapitalisation and investment in research so as to enable it to compete in this volatile environment;

ix. Radical changes in management, equipment, routes and partnerships are needed for Air Zimbabwe to achieve operational excellence.

Questions 28 to 30 gave different possible strategic options that the airline could employ in order to improve profitability and to gain competitive advantage. Responses to Treacy and Wiersema's Value Discipline Model are summarised in Figure 5.9 below. The average mean point of view for the implementation of a value discipline was 4.39 which indicate strong support. Although interpretations have been made from the responses and linked to other questions in the questionnaire, no deduction has been made as to the individual value discipline of choice which the airline should take.

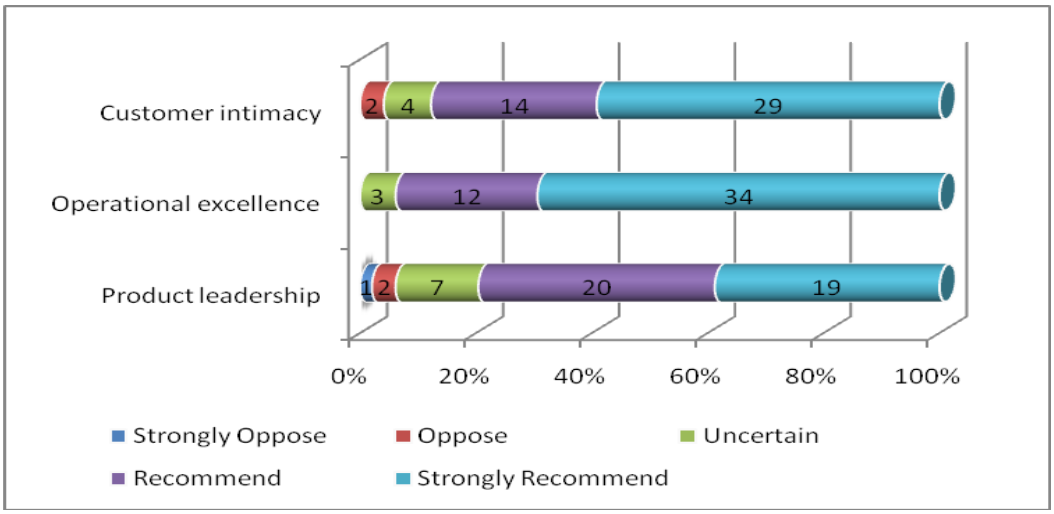

Figure 5.9: Choice of value discipline

Operational excellence which is gained through the maintenance of the lowest total cost compared to competitor organisations received the strongest recommendations with 69% of respondents strongly advocating for it, 24% of participants recommending it while 6% of interviewees were uncertain whether or not the airline should implement such a strategy. It is the only strategy that did not receive opposing votes. This strategy is suitable especially if the airline intends to target cost conscious customers such as cross border traders and tourists. It therefore concurs with respondents' choice of mainly targeting the tourist traveller in question 18.

Although 2 respondents opposed customer intimacy, 29 respondents strongly recommended it, 14 recommended it and 4 were uncertain about its benefits. In order to implement this strategy the airline would have to improve its information systems as highlighted in question 27 above so as to enable it to gather adequate information to tailor services to individual customers. Such a strategy is however more suited for the high-end business traveller who received 22% of votes in question 18.

In order for the airline to achieve product leadership it requires major investment in aircraft, systems and research as highlighted above. It is not surprising therefore that it received the highest opposition (6%) and uncertainty (14%). Implementation of this strategy would require shareholder recapitalisation a decision which is not in the control of the airline. However, providing leading-edge products and service was recommended by 24% of respondents and strongly recommended by 34% of respondents as it would itself be able to attract more customers thereby increasing market share.

Table 5.11: Value disciplines sorted by mean

Value discipline	Mean	Standard deviation
Operational excellence	4.63	0.602
Customer intimacy	4.43	0.816
Average Mean	***4.39***	
Product leadership	4.10	0.941

Even though the mean for product leadership is lower than the average mean, all three strategies have average ratings which lie between the recommend and strongly recommend categories as shown in Table 5.11 above. The ranking clearly illustrates that respondents believe that the implementation of a value discipline will improve the airlines competitiveness and profitability. The correspondingly low standard deviation scores for the same variables indicate general consensus amoung respondents. Interestingly, the value discipline which has the highest mean score (operational excellence) also has the lowest standard deviation and the value discipline with the lowest mean score (product leadership) has the highest standard deviation.

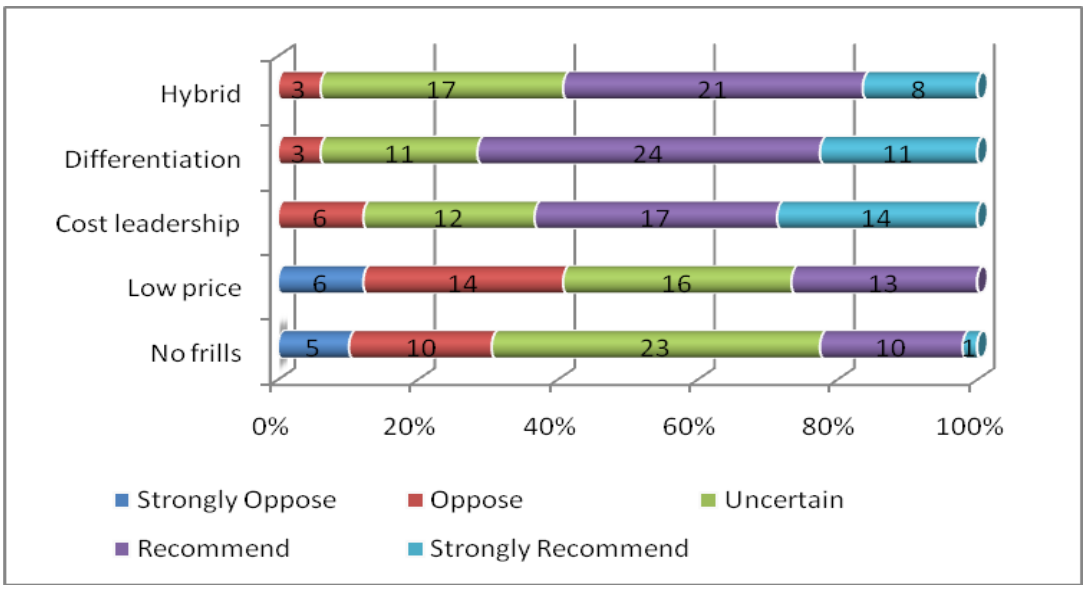

Figure 5.10: Choice of business strategy

Over 70% of respondents (35) recommended the differentiation strategy. This strategy is best suited to the high-end business travellers who are willing to pay a premium price for added value because of frequent business trips which are paid for by corporates. Cost leadership was recommended by 31 respondents (63%) who consider minimising costs and wastages whilst charging industry average prices as a profitable and competitive business strategy. The hybrid strategy which combines elements of low cost, low price and differentiation was recommended by 29 participants (59%). This strategy has been successfully used by low cost carriers but unfortunately this notion does not concur with question 14 responses where only 31% of respondents (15) considered the transformation of Air Zimbabwe into a low cost carrier as a viable and competitive option. The low price and no frills strategies were the least popular with

41% and 31% of respondents respectively opposing them. The responses in this section failed to harmonise with responses in the rest of the questionnaire.

When the five business strategies were sorted by mean, the mean values for differentiation, cost leadership and hybrid strategies were above the average mean of 3.39. On the contrary, the mean values for the no frills and low price business strategies are lower than the average mean. This is highlighted in Table 5.12 below. The relatively small standard deviations indicate that respondents are in agreement with the mean opinion.

Table 5.12: Business strategies sorted by mean

Business strategy	Mean	Standard deviation
Differentiation	3.88	0.832
Cost leadership	3.79	0.999
Hybrid	3.69	0.822
Average Mean	***3.39***	
No frills	2.84	1.299
Low price	2.73	0.995

Question 30 addressed possible growth strategies that the airline could employ. From a general perspective respondents are all agreeable that Air Zimbabwe needs to grow in order to achieve competitive advantage and profitability as highlighted by an average mean point of view of 4.11 and correspondingly low standard deviations. Mean responses for the growth strategies, product development and market penetration, are higher than the average mean of 4.11 indicating that respondents strongly recommend these strategies. Although also recommended, market development and diversification strategies have means which are less than the average mean. Table 5.13 below highlights this. The growth strategy with the highest mean score (product development) also has the lowest standard deviation while the growth strategy with the lowest mean score (diversification) has the highest standard deviation.

Table 5.13: Growth strategies sorted by mean

Growth Strategy	Mean	Standard deviation
Product development	4.39	0.812
Market penetration	4.20	0.841
Average Mean	***4.11***	
Market development	4.06	0.922
Diversification	3.78	1.046

In Figure 2.1, 2011 statistics show that Air Zimbabwe only controls 23% of the Zimbabwean airline market share and as a result 84% of participants believe that the airline should penetrate the market more aggressively with existing products. As highlighted in question 7 the airline industry is highly competitive and as indicated in question 27 there is need for more aggressive strategies in order to regain market share. As Grant (2005: 115) points out the most aggressive competitors are those whose primary goal is to attain market share as compared to earning short term profits. This strategy when combined with product development through the modification of existing products and pioneering of new ones is very effective as highlighted by the 41 respondents (84%) who also recommended this growth strategy.

Change is not an option anymore in today's world and today's knowledgeable customer knows exactly what they want. Venturing into new markets was recommended by 82% of respondents. As previously highlighted in questions 12 and 22 the airline's network structure is strongly impacting on the poor profitability of the airline so expansion into new markets especially through partnerships with other airlines and joining an alliance such as Star Alliance with a wide network will be beneficial to Air Zimbabwe. However diversification into new markets with new products was viewed as a bit too premature as it was opposed by 10% of respondents and 24% were uncertain if the airline had the capacity to venture into such a strategy. 66% of the less risk averse respondents however advocated for such an avenue.

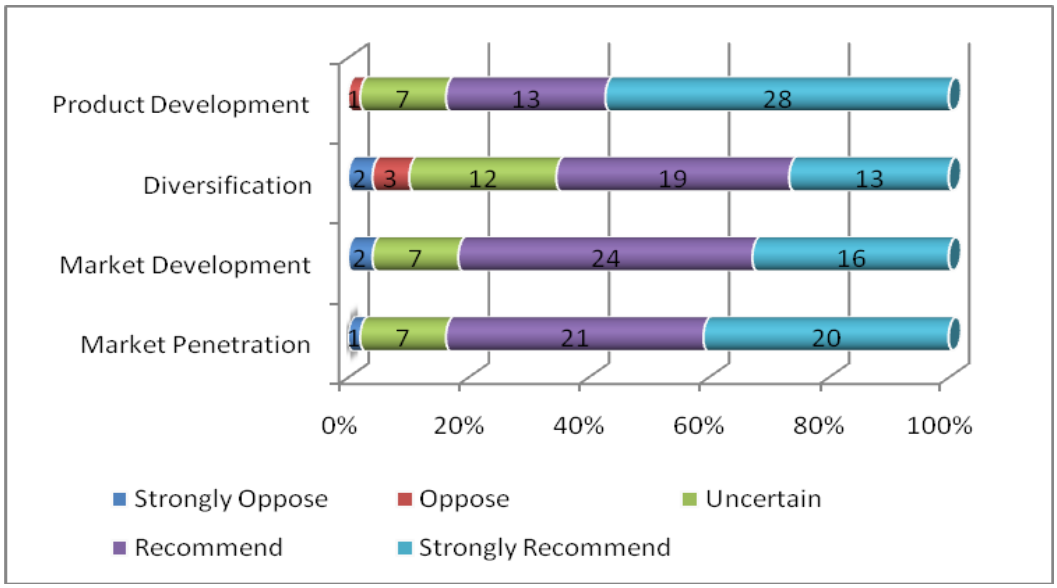

Figure 5.11: Choice of growth strategy

5.4 Summary

Findings reveal that there is a positive correlation between the impact of industry role players on competitiveness and on profitability as is revealed in Table 5.14 below.

Table 5.14: Mean rating for both competitiveness and profitability

Industry role player	Mean rating for competitiveness	Mean rating for profitability
Competitor airlines	4.08	4.16
Suppliers	3.67	3.78
Regulatory authorities	3.53	3.67
Average mean	***3.52***	***3.60***
New entrants	3.41	3.47
Substitute products	3.24	3.12
Buyers	3.22	3.43

On average industry role players highly impact both competitiveness and profitability. The independent industry role players, competitor airlines, suppliers and regulatory authorities were

rated higher than the average mean for both research constructs. Table 5.14 above clearly shows that competitor airlines have the strongest impact on both competitiveness and profitability. While new entrants, buyers and substitute products also have a strong impact on competitiveness and profitability these industry role players were rated lower than the average mean for both research constructs.

Based on these findings it is imperative that an organisation constantly monitors the actions of industry role players and aligns organisational strategies to changes within the industry in which it operates.

The shareholder, board, management and employees are important industry role players in any organisations whose actions directly impact on an organisations profitability and competitiveness. Further research is therefore required to explore the impact of internal controls within organisations as was highlighted during the qualitative stage of the research especially regarding corporate governance issues which were not investigated in this study. In addition, the effects of training and leadership continuity are also areas that require further study.

Chapter 6 discusses conclusions derived from the research and recommendations that can assist an organisation operating in a volatile environment such that it improves both competitiveness and profitability.

CHAPTER 6: FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

The aim of this study was to better prepare organisations that are struggling to survive in a turbulent environment, as a result of micro and macro environmental challenges, by understanding the impact that industry role players have on their competitiveness and profitability, in order to continuously adapt their strategies to industry variations and needs. The airline industry was selected because of its volatility that has seen a decline in the profitability of airlines operating worldwide and a shift in the understanding and implementation of competitiveness; and Air Zimbabwe, because of the extreme macro and micro environmental forces under which it operates.

The primary objective of the research was to examine the need for constant industry analysis with particular emphasis on the interaction with industry role players so as to continuously align organisational strategies to the rest of the industry (see section 1.4). The study explored two main research constructs, that is, competitiveness and profitability which were examined separately in the research instrument. Six major industry role players within the airline industry were analysed. These are competitor airlines, suppliers, buyers, substitute products, new entrants and regulatory authorities.

In fulfilling this objective the following secondary objectives were explored, that is:

i. Determining the level of intra modal competition within the Zimbabwean aviation industry;
ii. Exploring the extent to which the Zimbabwean Government's policies will affect profitability and market share levels of Air Zimbabwe;
iii. Analysing the effect that changing industry regulations will have on Air Zimbabwe's survival
iv. Establishing the airline's capacity to turn to co-opetition as an organisational strategy; and
v. Investigating possible strategic directions which the airline can employ in order to regain competiveness and profitability.

In an attempt to gain an in-depth understanding as well as information about the general representativeness of that understanding the study comprised of both qualitative and

quantitative approaches. The qualitative research stage was used to explore and understand attitudes and behaviour so as to gain confidence that important issues about the impact of industry role players on competitiveness and profitability were addressed in the research while the quantitative research stage provided statistical conclusions which can assist organisations operating in volatile environments. Initially, a pilot study consisting of 5 in-depth interviews was conducted and results analysed ahead of the actual survey. The survey consisting of 49 in-house personal business surveys was then conducted using a semi structured questionnaire and results analysed.

6.2 Summary of findings

From the research findings which were analysed and interpreted in Chapter 5, it is apparent that for an organisation to succeed in achieving its objectives there is need to continuously monitor the environment in which it operates in and to establish appropriate strategies. Overally, there was a general consensus of opinion amoung respondents about the impact of industry role players on profitability and competitiveness as was revealed by the similarity of standard deviations throughout the whole questionnaire.

6.2.1 Objective i: The level of intra modal competition

The level of competitiveness within the airline industry was rated as high by 76% of respondents. Reliability was identified by 69% of respondents as most affecting Air Zimbabwe's competiveness. In response to this high level of competition within the airline industry Air Zimbabwe's current fare structure was rated as between cheap and fair price by respondents on domestic, regional and international routes. While 92% of respondents argued that Air Zimbabwe should continue operating as a national flag carrier, 67% recommended that it maintain operations as a traditional airline in order to counter intra modal competition.

6.2.2 Objective ii: The impact of the Zimbabwean Government's policies

The research identified that government, through the policies that it implements, directly impacts on the economy and consequently entities operating within its confines. Intervention by the shareholder has negatively impacted both competiveness and profitability of the national airline as is revealed by mean responses of 2.18 and 2.29, respectively. Participants were of the opinion that government aviation policies on aircraft acquisition, routes flown by the national

airline, selection of managerial employees at Air Zimbabwe and funding of the Zimbabwean flag carrier have highly influenced its poor profitability.

6.2.3 Objective iii: The impact of changing industry regulations

The following industry regulations imposed by various regulatory authorities were cited as most likely affecting the future profitability of Zimbabwe's national flag carrier:

v. Air navigation regulations imposed by the Civil Aviation Authority of Zimbabwe such as navigation charges, airport development levies, airport departure taxes and restricted flight crew duty time schemes;
vi. Government policies especially the open skies policy
vii. The banning of all aircraft manufactured before 1990 which are now identified internationally as "dirty aircraft" by December 2012 by many countries; and
viii. The Yamasokro declaration by African governments which will permit fifth freedom traffic rights and the operation of domestic flights by foreign carriers;

In addition, 17 respondents identified the International Air Transport Association's regulations regarding, IATA membership, IATA Billing Settlement Plan (BSP) membership, the IATA Operational Safety Audit (IOSA), IATA Clearing House (ICH) membership, and initiatives related to implementation of Simplifying the Business (StB) as having the greatest impact on the airline's profitability.

6.2.4 Objective iv: Air Zimbabwe's capacity to turn to co-opetition

Data gathered revealed that 96% of respondents believe that partnerships with other airlines will improve the competiveness of Air Zimbabwe. Due to its wide network coverage 38 respondents identified Star Alliance as the international alliance of choice. In addition, the mean average for partnerships with related organisations such as travel agents, hotels, car rental companies and tour operators of 4.19 revealed a strong recommendation by respondents. This pointed to the fact that participants believe that cooperating in certain markets and/or circumstances while competing in others can lead to both profitability and competitiveness.

6.2.5 Objective v: Possible future strategic direction

Findings reveal that there is a need for Air Zimbabwe to change its current strategies. 92% of respondents trust that a strategic change would improve the airline's competitiveness while 88% believe it would increase its profitability. Respondents recommended different strategic

directions which the airline can explore. The average mean point of view for the implementation of one of Treacy and Wiersema's value discipline was 4.39 which indicate strong support. When the five business strategies were sorted by mean, the mean values for differentiation, cost leadership and hybrid strategies were above the average mean of 3.39. On the contrary, the mean values for the no frills and low price business strategies are lower than the average mean. From a general perspective respondents are all agreeable that Air Zimbabwe needs to grow in order to achieve competitive advantage and profitability as highlighted by an average mean point of view of 4.11 and correspondingly low standard deviations.

6.2.6 Primary Objective

This study set out to explore the impact of industry role players on both competitiveness and profitability and findings revealed a strong impact on both research constructs which are closely inter-linked. A positive correlation between the impact of industry role players on competitiveness and on profitability was revealed in the analysis. On average, industry role players highly impact both competitiveness and profitability with a mean average rating of 3.52 for impact on competitiveness and 3.60 for impact on profitability. The independent industry role players, competitor airlines, suppliers and regulatory authorities were rated higher than the average mean for both research constructs with competitor airlines having the strongest impact on both competitiveness and profitability. While new entrants, buyers and substitute products also have a strong impact on competitiveness and profitability these industry role players were rated lower than the average mean for both research constructs.

Based on the findings, from the secondary objectives, it is imperative that an organisation constantly monitors the actions of industry role players and aligns organisational strategies to changes within the industry in which it operates.

6.3 Conclusion

The research clearly illustrates that industry role players impact on the competitiveness and profitability of organisations more so in a volatile environment such as the airline industry, and for Air Zimbabwe in particular. The competitive environment in which organisations operate is bound by existing and possible relations amoung role players. In addition, industry players can through certain actions increase or decrease the bargaining power of each other. The study

revealed that, having a unique strategy that is practical in the environment in which you operate, determines the competitiveness and profitability of the organisation.

In Chapter 2 the competitive environment in Zimbabwe was reviewed. Deregulation has globally resulted in increased completion within the airline industry. As competition increases more ingenious strategies such as the hub-and-spoke system, product innovation, mergers, acquisitions, partnerships, rapid growth, diversification, branding and strategic alliances are being employed by airlines operating in Zimbabwe. The same chapter also explored the changing regulations within the airline industry and their impact on competitiveness and profitability. In the aftermath of September 11, more emphasis has been placed on safety and security with airlines having to comply with numerous regulations in a bid to protect the travelling public. In addition, sustainable development advocates have increased concerns regarding negative environmental impacts including greenhouse gas emissions, air pollution, noise pollution, water pollution, and negative impacts on bio-diversity due to pollution and habitat losses caused by transportation which have resulted in increased regulations. As a result different regulators have become major industry role players impacting on the profitability and competitiveness of airlines.

Chapter 3 gave a structural analysis of the airline industry with emphasis on the volatile environment within which airlines operate and highlighted different strategies which can be employed in this highly turbulent and competitive environment. Rivalry within the airline industry, the threat posed by substitute products and new products and the extent of bargaining power possessed by suppliers, buyers and channels were explored with particular emphasis on their impact on competitiveness and profitability. Actions of the different industry players determine the level of profitability within any industry and the more fiercely organisations compete especially in an oligopolistic and volatile environment the smaller the disposable industry profits become. As a result, there is a high level of interdependencies. The strategies employed by an organisation are dependent on the opportunities and threats prevalent in the industry in which it operates and constantly need to be adapted to meet the changing environment. A successful competitive strategy therefore lies in the organisation’s insight, understanding and identification of customer needs and values and the overall creativity to satisfy them such that value is created for both the customer and the organisation.

A complete appreciation of the impact of industry role players enables an entity to defend itself against possible threats to its competitiveness and profitability through the implementation of viable strategies; and at the same time take advantage of opportunities presented by turbulence in the environment.

6.4 Recommendations

Based on information gathered during this study the following recommendations are made in relation to relations with key industry players with the aim of improving the competitiveness and profitability of an entity in a volatile environment;

- **Government:** Having been identified as the stakeholder who can individually improve the fortunes of Air Zimbabwe it is evident that Zimbabwe's macroeconomic environment has increased the turbulence of the aviation industry in the country, consequently this has impacted on the national airline's competitiveness and profitability. It is imperative that policies implemented by the Government of Zimbabwe attract foreign and local investment. Even though poverty alleviation, job creation, health issues and raising basic living standards are prioritized by the Zimbabwean Government there is a need to recognize aviation as an economic driver and to develop policies that support it. As a result, the airline's current debt needs government ownership thus adequate funding is necessary to capacitate it such that it can compete with foreign players. Disposal of a stake in the national carrier is an option that could bring in much needed capital injection. Furthermore, it is essential for national flag carriers to separate commercially viable services from those operated out of social or political obligations and to either eliminate or ring fence unprofitable operations.

- **Competitor Airlines:** In this ever changing competitive environment there is need to compete with rivals in some areas and yet at the same time cooperate in others. Operating in isolation reduces competitiveness and consequently profitability therefore partnerships and alliances with both rivals and related organisations can assist in increasing market share. Additionally, competitor airlines should work together to reduce the bargaining power of suppliers.

- **Buyers:** Since the airline traveler is now more educated and experienced he knows what is expected from a good airline. Therefore organisations should critically analyse their available resources and decide on customer needs it can best meet thereby creating the greatest value for the customer when compared to competitors. Strategies implemented should therefore be on customer characteristics. Furthermore, the pricing structure followed by an entity is a statement of value and product offering therefore it should match the target market and product offering.

- **Channels:** Channels such as travel agents, aggregator websites, global distribution systems and airline websites are instrumental in the retention and growth of market share levels therefore the affiliation to bodies which facilitate the interaction with these channels is vital for increased competitiveness and profitability. Within the airline industry membership to the IATA Clearing House and Billing Settlement Plan portray a stable image which facilitates additional passenger loads.

- **Suppliers:** Air Zimbabwe should collaborate with other African airlines with a common fleet and pool the purchasing function of fuel and aircraft spares with the assistance of airline associations such as AFRAA, so as to reduce the bargaining power of suppliers through economies of scale. This however, will be most effective if the airline is able to accurately forecast oil prices, exchange rate movements and interest rate fluctuations which are key to the purchasing function of any organisation. Additionally, the airline should stop using expensive third parties when purchasing aircraft spares but honour its debts with original suppliers and have amicable relations with them so as to reduce costs. An option to reduce the bargaining power of employees is continuous training and bonding which will increase the number of skilled employees.

- **Regulators:** The Civil Aviation Authority of Zimbabwe through the imposition of numerous taxes has made Zimbabwe an expensive destination thereby reducing its competitiveness. A reduction in taxes being imposed on the travelling public can result in an increase in traffic into the country and consequently the competitiveness and profitability of the national airline. In addition, the imposition of strict navigation regulations increases the operating costs of domestic carriers making them less competitive therefore continuous consultations amoung interested parties is necessary before the implementation of regulations. Regulations imposed by the International Air

Transport Association will also negatively impact on the airline's profitability therefore there is an urgent need for Air Zimbabwe to renew its IOSA registration, and be readmitted as a member of IATA.

- **Substitute Products:** It is apparent that e-commerce coupled with the derived nature of demand for transportation and the significance of air travel as a discretionary spending item has strengthened the impact of communication technology as a strong substitute to air transportation. Therefore it is essential to be affiliated to a network that has flexible connections and many frequencies so as to reduce flight times thereby increasing the propensity to travel.

6.5 Limitations and delimitations of the study

The study was exposed to several limitations and delimitations as highlighted below:

- There are several volatile industries in the business environment. This study selected and centred on the airline industry in particular. The airline industry was selected because of the extent of turbulence prevalent in the industry that has seen a decline in the profitability of airlines operating worldwide and a shift in the understanding and implementation of competitiveness.
- Only one airline, Air Zimbabwe, was used as a case study for the whole airline industry. This only revealed partial volatility of the airline industry, which is comprised of different models such as low cost carriers, cargo carriers, charter airlines and traditional airlines. In addition, although Air Zimbabwe was able to draw attention to the view point of a national flag carrier the perspective of a privately owned airline are limited. Chapter 3 however, discussed how the different industry role players impact on the entire turbulent airline environment.
- Industry role players and airline operations are global in nature yet the research was conducted in the limited geographical area of Harare. The extreme micro and macro environmental forces under which organisations operate in Zimbabwe were believed to expose the extent to which industry role players can impact on the competitiveness and profitability of entities.

It is however important to note that limitations and delimitations experienced during the research did not significantly interfere with the outcomes of the study because of the clear signals provided by the research participants.

6.6 Recommendations for further study

The shareholder, board, management and employees are important industry role players in any organisations whose actions directly impact on an organisation's profitability and competitiveness. Further research is therefore recommended to explore the impact of internal controls within organisations especially regarding corporate governance issues which were not investigated in this study. In addition, the effects of training and leadership continuity are also areas that require further study.

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ANNEXURES

Annexure A: In-depth Interviews

Introduction

In the face of numerous challenges that airlines are facing they cannot survive independently of the industry in which they operate. Constant interaction with industry role players and the ability to adapt and align organisational strategies to changes within the airline industry are instrumental to improved competitive advantage and profitability. The purpose of this stage of the research is to determine the impact of regulatory authorities and suppliers on Air Zimbabwe's survival and the extent to which the Zimbabwean Government's gradual liberalisation towards open skies will affect profitability and market share levels.

You have been invited to participate in this study because I believe your extensive aviation experience will provide rich insight, understanding, explanation and depth regarding the Air Zimbabwe situation and the airline's capabilities and constraints based on regulatory restrictions. With your consent this discussion will be recorded and I will also make a few notes for myself during the interview which will enable me to accurately capture everything that we discuss. Your participation in this research is voluntary and you may choose to withdraw at any time or not to answer particular questions.

Confidentiality Clause

The questions in this research do not suggest the collection of any personal information. They are formulated in such a way as to establish the most appropriate strategic decision that Air Zimbabwe may employ in order to improve profitability and competitiveness. With this aspect in mind, any information that may lead to a particular respondent will not be implied. To help protect your confidentiality the survey does not contain information that will personally identify you. All data collected and conclusions made will be solely used for academic purposes.

If you have any questions about the research please feel free to ask. If you have understood the above information and are agreeable to participate in this interview please sign below:

Respondent ……

Mary G S Muli ……

Interview Questions

A: General Information

- For how long have you been employed in the aviation industry?
- How would you describe Air Zimbabwe's competitiveness and profitability over the years that you have been employed in the travel industry?
- Is there any particular stakeholder who can individually improve the competiveness and profitability of Air Zimbabwe? How?

B. Regulation in the Aviation Industry

- In your opinion are there aviation rights that give Air Zimbabwe priority in the Zimbabwean aviation industry?
- What benefits to the Zimbabwean aviation industry is the gradual liberalization towards open skies by the Zimbabwean Government?
- What impact will liberalization have on air fares prevailing within Zimbabwe?
- What in your opinion is the impact of this gradual liberalization on Air Zimbabwe's future profitability and competitiveness?

C. Safety and the Environment

- Is the airline meeting international safety and environmental standards?
- How competitive is Air Zimbabwe's current aircraft fleet?
- In your opinion which aircraft type would you suggest the airline use for its international, regional and domestic routes to improve competitiveness and profitability?

D. Suppliers

- Is price oriented competition of suppliers affecting industry profitability?
- In your opinion how can the bargaining power of Air Zimbabwe's suppliers be minimised?

E. Air Zimbabwe's Future

- How do you foresee Air Zimbabwe's future?
- What needs to be changed in order to turn around the fortunes of Air Zimbabwe?
- In your opinion which strategies are best suited for the airline?

Thank you very much for your time and participation

Annexure B: Research Survey

Research Summary

The airline industry has experienced everything in the past decade from terrorism attacks, wars, revolutions, pandemic fears, earthquakes, volcanoes, failing economies and skyrocketing fuel prices all of which have impacted on profitability and competitiveness. In the face of numerous challenges that airlines are facing they cannot survive independently of the industry in which they operate. Constant interaction with industry role players and the ability to adapt and align organisational strategies to changes within the airline industry are instrumental to improved competitive advantage and profitability.

This study aims to analyse Air Zimbabwe's interaction with industry role players in order for the airline to better align its strategies to changes within the industry such that the full reintroduction of Air Zimbabwe flights may be both competitive and profitable.

The questionnaire which consists of 30 questions takes approximately 15 minutes to complete.

Confidentiality note

The questions in this research do not suggest the collection of any personal information. They are formulated in such a way as to establish the most appropriate strategic decision that Air Zimbabwe may employ in order to improve profitability and competitiveness. With this aspect in mind, any information that may lead to a particular respondent will not be implied. All data collected and conclusions made will be solely used for academic purposes.

Your participation in this research will be greatly appreciated.

Regards

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Research Questionnaire

There are no right or wrong answers to these questions. Please read all questions carefully and be as candid as possible in your responses. Please answer all questions.

Section A: Background Information

Q1. You are currently employed by a (Please tick the most appropriate choice and indicate which one)

Travel agent		
Air Zimbabwe		
Other airline		

Q2. Please state your position in the organisation (Please tick the most appropriate choice)

Junior Employee	
Middle Management	
Senior Management	

Q3. How long have you been employed in the aviation industry? (Please tick the most appropriate choice)

0 to 5 years	
6 to 10 years	
11 to 15 years	
16 to 20 years	
More than 20 years	

Q4. What is your highest educational qualification? (Please tick the most appropriate choice)

High School Certificate	
Diploma	
Undergraduate degree	
Post-graduate degree	
Other (State ……..)	

Q5. Have you ever flown on Air Zimbabwe? (Please tick the most appropriate choice)

YES ☐ NO ☐

Q6. Have you ever flown on other airlines? (Please tick the most appropriate choice)

YES ☐ NO ☐

Section B: Impact of Industry Role Players on Competiveness

Q7: How do you rate the level of competitiveness within the airline industry? (Please tick the most appropriate choice)

High	
Moderate	
Low	
Uncertain	

Q8: What do you think currently reduces Air Zimbabwe's competitiveness? (Please tick the most appropriate choice)

Punctuality	
Cost	
Perception	
Reliability	

Q9: To what extent are industry role players affecting the competiveness of Air Zimbabwe? (Please circle the most appropriate choice per category)

1 = Very Low 2 = Low 3 = Uncertain 4 = High 5 = Very High

Industry role player	**Very low**		→		**Very High**
Competitor airlines	1	2	3	4	5
Suppliers	1	2	3	4	5
Buyers	1	2	3	4	5
Substitute products	1	2	3	4	5
New entrants	1	2	3	4	5
Regulatory authorities	1	2	3	4	5

Q10: Will partnerships with other airlines improve the competitiveness of Air Zimbabwe? (Please tick the most appropriate choice)

YES ☐ NO ☐

Q11: In the event that Air Zimbabwe joins one of the three major international airline alliances, which alliance do you think will most improve the airline's competitiveness? (Please tick the most appropriate choice)

One World	
Star Alliance	
Sky Team	

Q12: Please support your choice in Q11 above.

……

……

……

……

Q13. Which partnerships with related organisations would you recommend? (Please circle the most appropriate choice per category)

1 = Strongly oppose 2 = Oppose 3 = Uncertain 4 = Recommend 5 = Strongly recommend

Related Organisation	**Strongly oppose → Strongly recommend**				
Travel agents	1	2	3	4	5
Hotels	1	2	3	4	5
Car rental companies	1	2	3	4	5
Tour operators	1	2	3	4	5

Q14: In your opinion Air Zimbabwe's competitiveness will most improve if it operates as a (Please tick the most appropriate choice)

Low cost carrier	
Traditional airline	
Cargo carrier	
Charter airline	
Other (State……...)	

Q15: Do you think Air Zimbabwe should continue operating as a national flag carrier? (Please tick the most appropriate choice)

YES ☐ NO ☐

Section C: Impact of Industry Role Players on Profitability

Q16: How has government intervention affected the competitiveness and profitability of Air Zimbabwe? (Please circle the most appropriate choice per category)

1 = Very negative 2 = Negative 3 = Uncertain 4 = Positive 5 = Very Positive

Research Construct	**Very negative** →				**Very Positive**
Competitiveness	1	2	3	4	5
Profitability	1	2	3	4	5

Q17: To what extent are government decisions about the following influencing the poor profitability of Air Zimbabwe? (Please circle the most appropriate choice per category)

1 = Very low 2 = Low 3 = Uncertain 4 = High 5 = Very High

	Very low →				**Very High**
Aircraft acquisition	1	2	3	4	5
Routes flown	1	2	3	4	5
Management selection	1	2	3	4	5
Funding	1	2	3	4	5

Q18: Considering the Zimbabwean economy which customer do you think the airline should mainly focus on in order to improve profitability? (Please tick the most appropriate choice)

Air cargo customers	
High-end business travellers	
Cross border traders	
Personal travellers	
Tourists	

Q19: Please explain your choice in Q18 above.

……

……

……

……

Q20: Please rate the impact that each of the following industry role players has on Air Zimbabwe's profitability. (Please circle the most appropriate choice per category)

1 = Very Low 2 = Low 3 = Uncertain 4 = High 5 = Very High

Industry role player	**Very low** →				**Very High**
Competitor airlines	1	2	3	4	5
Suppliers	1	2	3	4	5
Buyers	1	2	3	4	5
Substitute products	1	2	3	4	5
New entrants	1	2	3	4	5
Regulatory authorities	1	2	3	4	5

Q21: How do you rate Air Zimbabwe's current fares compared to competitor airlines? (Please circle the most appropriate choice per category)

1 = Very cheap 2 = Cheap 3 = Fair price 4 = Expensive 5 = Very Expensive

Route	**Very cheap** →			**Very Expensive**	
Domestic	1	2	3	4	5
Regional	1	2	3	4	5
International	1	2	3	4	5

Q22: To what extent are the following factors impacting the low profitability of the airline? (Please circle the most appropriate choice per category)

1 = Very Weak 2 = Weak 3 = Uncertain 4 = Strong 5 = Very Strong

	Very weak →				**Very Strong**
Expulsion from IATA Clearing House	1	2	3	4	5
Disconnection of reservations systems	1	2	3	4	5
Aircraft being operated	1	2	3	4	5
Fares being charged	1	2	3	4	5
Network Structure	1	2	3	4	5

Q23: Which industry regulations are likely to affect the future profitability of Air Zimbabwe? Please explain.

……

……

……

……

Q24: Which substitute product or service do you think poses the greatest threat to the airline's profitability? (Please circle the most appropriate choice per category)

1 = Very Weak 2 = Weak 3 = Uncertain 4 = Strong 5 = Very Strong

Substitute product/service	**Very weak** →				**Very Strong**
Road Transportation	1	2	3	4	5
Rail Transportation	1	2	3	4	5
Sea Transportation	1	2	3	4	5
Communication technology	1	2	3	4	5

Q25: In your opinion which supplier is taking the most advantage of the volatile airline environment? (Please tick the most appropriate choice)

Jet A1 fuel suppliers	
Employees	
Aircraft manufacturers	
Financiers	
Ground handling service providers	

Section D: Strategy

Q26: Is there a need for Air Zimbabwe to change its current strategies in order for it to be more competitive and profitable? (Please circle the most appropriate choice per category)

1 = No 2 = Uncertain 3 = Yes

Research construct	**No** →		**Yes**
Competitiveness	1	2	3
Profitability	1	2	3

Q27: Please explain your answer in Q26 above

……

……

……

……

……....

Q28: Treacy and Wiersema identify three value disciplines which can assist organisations to achieve market success, that is, operational excellence which is gained through the maintenance of the lowest total cost compared to competitor organisations; product leadership which is characterised by leading-edge products or service; or customer-intimacy which is gained through tailoring goods or services to individual customers. Do you think Air Zimbabwe can achieve competitive advantage by following a value discipline? (Please circle the most appropriate choice per category)

1 = Strongly oppose 2 = Oppose 3 = Uncertain 4 = Recommend 5 = Strongly recommend

Value Discipline	**Strongly oppose** →				**Strongly recommend**
Product leadership	1	2	3	4	5
Operational excellence	1	2	3	4	5
Customer intimacy	1	2	3	4	5

Q29: In your opinion which business strategy can the airline employ in order to improve both competiveness and profitability? (Please circle the most appropriate choice per category)

1 = Strongly oppose 2 = Oppose 3 = Uncertain 4 = Recommend 5 = Strongly recommend

Business Strategy	**Strongly oppose** →				**Strongly recommend**
No frills	1	2	3	4	5
Low price	1	2	3	4	5
Cost leadership	1	2	3	4	5
Differentiation	1	2	3	4	5
Hybrid	1	2	3	4	5

Q30: In your opinion which growth strategy can the airline employ in order to improve competitiveness and profitability? (Please circle the most appropriate choice per category)

1 = Strongly oppose 2 = Oppose 3 = Uncertain 4 = Recommend 5 = Strongly recommend

Growth Strategy	**Strongly oppose** →				**Strongly recommend**
Market Penetration	1	2	3	4	5
Market Development	1	2	3	4	5
Diversification	1	2	3	4	5
Product Development	1	2	3	4	5

Thank you very much for your time and input