Structure and Financial Performance of Airlines in Kenya

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Abstract

Using positivism we could consider collecting data of others having a truthful collection of information and analyzing it completely. This study carried out, having importance due to lack of prior research, along with its need for further improvement to rectify and uplift the state's transportation of cargo and passengers for much more import/export to increase financial status of national economy. Some factors discussed in the research affecting performance and structure of the airline, financially, are; amount of capital invested in the airline planning, strategic planning for attracting more passengers to travel with the airlines and environmental factors (govt. policies) affecting the operating of airlines, causing it to be interrupted during the execution of its operation. Kenyan airline is of the major transport mode in the region and its improvement along with advancement of its equipment. Improvement of transportation should be considered by avoiding to change policies again and again to have a stable status and to increase in tourist coming through the airlines. This article described the challenging position of Kenyan airlines and the factors which affect the financial structure and performance. The capital structure, environmental factor and strategic planning are related to the financial structure and performance and became responsible for profit and loss of Kenyan airlines. The study is carries out through different surveys and the data collected and managed by PLS-SEM software.

Keywords: Capital, Strategies, Kenya, Transportation, Import, Export, Environmental Factors & Financial Structure

Introduction:

Financial structure and performance declares the life of any running business. Airline industry in Kenya in the region of Eastern Africa is a developing country and so faces major problems trying to figure and mitigate them as it is a source of national income through tourism and transportation. This study is conducted in the light of certain aspects that disrupts the natural working in the process of its daily operations including factors such as environmental, organizational as well as economic which can be setbacks to the organization's full working capacity. Listed down are few of the factors and suggestions to improve the company's work ethics. Very little study has been conducted in regards of financial structure and performance of Airlines in Kenya compared to worldwide studies related to this problem.

Aviation industry contributes about 2.7 trillion dollars to world's gross domestic product (GDP) which is almost 3.6%, passing many economic sectors. Aviation industry undergoes different aspects effecting its financial growth including some factors that include larger capital investment to improve financial structure, government taxes fluctuation along with being able to keep airlines at the top of the charts with competitive strategies to get more passengers to fly using one's airline. With the passage of time more people have opted to travel through air transport increasing the traffic causing the airlines and airports to evidently improve the way of working by making advancement in the current resources and utilizing space & time more efficiently. Airlines do struggle in maintaining as financial structure gets disturbed caused by change in certain policies or setbacks by the increase in passengers which was assumed to be beneficial for the industry as it would have increased income, although, some airlines showed poor financial performance.

In the 21st century, airlines operate in highly challenging surroundings in order to compete with other airlines for the caption of the most eligible way of air transport, they come up with strategies to draw attention of potential customers. Advancements such as low cost carriers have been an obstacle as it attracts both leisure & business segments. Also, to tackle further innovations, airlines must be updated about the information on new operating models, innovative entrants and further airline consolidation to be able to have a competitive strategy. Today's trend is perfect for competition which Kenyan government has a chance of missing out on. Kenyan airlines self-establish to show their relevant products to be offered in the industry.

Airline industry plays an important role in maintaining sustainable development in East African sub-region. Development of this region is required for the expansion of transportation industry in addition to raise livelihood standards as improved transportation infrastructure would increase estate value by lowered transport cost, supporting rapid economic growth and personal mobility.

Engaging in providing cargo and passenger transportation by air locally, regionally and internationally, airlines in Kenya face challenges in financial performance which can be explained, going through decisions made regarding their capital structure. Defined as prudent mix for holding income, debts and equity, capital structure is used for financial investment for the company. It is the balance between debts and equity which would maximize the value of the company with the minimum cost of capital. Decisions taken regarding capital structure are complicated as they affect overall operation of the company along with the shareholder's investments.

Airlines well-being depends on the environmental stability and foreign trade. Political, environmental, social technological as well as legal factors being few external economic factors that would be downside to an airlines financial structure. An airline cannot afford to ignore such factors and have to keep update on such matters as it could have a great impact on its organization, which will in turn determine who will get the competitive advantage.

To maintain a smooth flow of work, airline companies have to take on financial assistance to balance their financial structure. Evaluating what will be the best interest for the company, the financial management has to constantly make decisions, taking risks with strategies after having complete risk assessment in order to keep the company not going under bankruptcy.

Creating new business plan or to evaluate current one, macro environmental factors should be thoroughly examined as it could create unstable economy for Kenya Airways therefore, such factors are of great value to be studied before execution both in its local and international markets. Kenya Airways is said to have lost around $290 million in the years 2014/2015 cause of terrorism threats to the country causing decrease in tourism. Taking a chance, Kenya Airways in reply of severe environmental forces, took in its first Boeing 787 Dreamliner with insurance against fuel price increases.

The objective to achieve stabilization and competitive advantage, airlines have to keep many factors in mind regarding prices, managing resources, customer satisfaction and strategic planning to prevent any setbacks from the steps taken to improve the current state of the airline. Therefore, Swat analysis and risk assessment is considered to evaluate what feedback we will get in return of the actions taken to mitigate causes of distress in work place environment. It results in gaining knowledge about trends and economic life cycle which can help predict external opportunities. The margin of error is way less than the average margin of the profit. Majority of airline companies struggle to keep their financial structure safe from today's negative trends with many carriers facing difficulty in maintaining balance and a few of them which still under go bankruptcy. How some companies survive is by having to merge or to create alliance with other airlines to decrease operation cost and increasing profitability.

Finance managers face challenges in today's time to increase the output of investment by the shareholders, balancing between debts and equities. Use of debts would give advantage to a company shielding it form interest tax maximizing its interest return, whereas, levered company would have to pay regular interest when it is due. On the other hand, a company has an added cost to it as to pay its shareholders their share when using equity.

With the use of too much debt, the company has a risk of undergoing bankruptcy and financial distress when failure of paying accumulated interest is occurred. It still remains a challenge as to what would be optimal balance in between debts and equities. This clears the concept of capital structure. For the expansion of domestic and international services, the air transport services have to achieve a sustainable development.

Several factors have influence over the outcome of decisions taken regarding the welfare of an airline determining whether it would have a positive or negative impact on the organization's work environment, under the supervision of experts, everything is checked and analyzed to avoid any major problems along with minor inconvenience that might disturb the possible outcome causing it to disrupt regular operations.

Financial performance is a topic that has received special recognition by scholars. As in the words of (Mutende et al., 2017), the firm's capability of attaining its planned financial outcomes as measured against its calculated outputs. Financial & Non-financial performance are the two types of performance. Performance of the company is evaluated in three dimensions. The first is the company's productivity or processing of inputs into outputs efficiently. The second dimension is the rate at which a company earned profit is greater than costs or profitability. Last and the third determines if the level of company's market value is greater than that of its book value (Walker, 2001). Financial performance is a source of generating profits to pay taxes, interest and dividends to shareholders. Ratio Analysis is usually carried out to predict outcomes. Information for generating ratios is extracted at the end of a decided financial year and is expressed in quantitative values (Robb & Robinson, 2014). Majority of organization predict level of financial performance by sources such as, return on investment, return on asset & return on equity. Defined as means to evaluate how a company manages the asset base to initiate profits for max wealth for the shareholders and ROE is a means to evaluate if the organization is managing its equity proportion well on the balance sheet, whereas, ROI is minimum return rate required to commit funds in a specific period of time allotted for a project by the company (Dawar, 2014). Stability of the environment in which an airline business operates is necessary for its wellbeing of international trade. Although reserved income would be considered as an ideal economical source in the eyes of small business in majority of countries, a few airlines show mix of increased equity to debt ratio, reason being them unable to reserve earnings (Pereira Alves, 2017).

Organizational performance usually frustrates business executives and owners, as even if employees work hard and are caught-up performing their tasks, the companies are not able to fulfil their planned outcomes (Smith, 1995). Airline industry has been faced with rough times due to global financial crisis. Keeping in mind that the financial structure changes from firm to firm as it is effected by nature as well as the environment they operate in. (Zou & Stan, 1998) explained characteristics of a firm as its demographic as well as its managerial variable that comprises the firm's internal environment. In the words of (Kogan & Tian, 2012) , a firm's characteristics comprises of its size, leverage provided, fluidity, growth of sales, growth of assets along with its turnover.

The surrounding nature of an association in a business is defined as "the ornamentation of all external circumstances and impacts that influence its lifecycle and advancement" (Mintzberg et al., 2003). Aviation industry is most probably a major mode of transport delegate in the economy as it has an important role to play in transportation of passengers and freight. The environment of an organization are the forces surrounding it, having the potential to have an impact on its way of working along with access to scare resources. Understanding of effective management is necessary for an organization. The surrounding environment stabilizes the relation among decision-level highlights (Hough & White, 2003) but also affects the continuity of direction itself. Two of the aspects interacting with determining the performance, additional proof is required by joint organization amongst macroeconomic factors, firm characteristics along with financial performance (Adeoye & Elegunde, 2012). (Mnang'at et al., 2016) studied a notable relation of micro enterprises in Kenya between financial performance and interest rate.

Optimum financial structure indicates the standard, that minimizes the price of finance for the organization and increases its financial performance (Vătavu, 2015). As financial structure is considered to be linked with financial performance elsewhere, little relation exists in the matter of Kenyan airlines. This motivates the present study to conduct research to fill out this gap.

By the time airlines all around the world are making profit, the African airlines combined don't make enough profit. Government rules usually keep an eye on the formation as well as the structure which would have an effect on airline's financial structure and performance. Conceptual framework visualizes the relation of concepts and theoretical aspect that aims to the linkage separating financial structure & performance. Micro-economic factors exist inside the company and under the handling of organization that covers product, company's culture, quality managerial skills, demand and productivity (Broadstock et al., 2011). Statistically speaking, Kenya airways posted a loss of $290 million in 2014/2015 financial year resulting in huge changes in macro-environmental forces.

Worth might be visible or invisible, operational or economical. Being a public company, Kenyan Airways look for making of investor esteem as their definitive goal (de Waal, 2001). From the showed studies, the impact of financial structure on financial execution of Airlines industry in Kenya has not been adequately done. Form previous studies regarding financial structures' effects on financial performance of airlines in Kenya is not concluded. The concept of the relation in financial framework, firm size, profit ratio and financial performance is found through studies. Threats in competition through multinational players make players like KQ further conscious of own vulnerability level and cause them to engage proactively in order to ensure sustainability in such crucial times. In airline industry field, currently, Kenyan sky is being overshadowed by the likes of European along with Middle Eastern carriers. The cost of pricing is questionable if does not apply with the firm's overall strategic planning. About $1.9 billion is contributed to Kenya's GDP by air transport alone. As airlines in Kenya face unstable growth, profit ratio was recorded with a decreased net loss of $80 million in 2018 as the last year was recorded at $71 million in 2017. (Čater & Pučko, 2010) observed, about 60-80% of companies around the word perform quite well in strategic formulation, however, are unable to succeed or have difficulty while the implementation of strategy is in process. (Gittell et al., 2004) employee productivity and service quality decrease when employee cost is lowered. Increased failure ratio in strategic implementation discourages not only the stakeholders involved but also causes difficulty for the firms to identify their targets.

Along with multiple studies conducted both in Kenya and other places, very little is done in regards of relationship amongst financial structure and financial performance of Kenyan airlines. Effects like capital investment, competitive strategies, macro-environmental factors along with relation between financial structure and financial performance were addressed in this research to be certain of the complication in hand. Therefore, it was necessary to find out the link amongst financial structure and financial performance of airlines in Kenya.

Capital:

Theory assumed that the taxes and bankruptcy prices are not set up to such an extent that the progressions in degree of obligations and values of the capital construction are not applicable to stock cost of the stock and along these lines worth of the firm. (Zeitun & Tian, 2014) Examining how capital structure affects financial performance. Panel data methodology were to be adopted among 167 companies in Jordan 2003. It shows the capital structure of the organization has enough influence over its financial performance. This study was conducted in Jordan creating need for relative studies in Kenya's context. This study was executed to sum up debt to support independent variables. This theory for trade-off points to the fact that the executives prefer debt (Etiennot et al., 2019). Decisions regarding capital structure results in leverage mostly when the organization takes the opportunity of using debts in economic operations (Kodongo et al., 2015). As the study suggests, retained profits have an impact on financial performance, thus, Kenyan airlines should opt more useful means of retained profits. Benefits of this application is as it is readily assessable and mitigates additional expenditures relating along issuance of equity, improving net profit ratio and ROA of the airline.

Strategies:

Strategies regarding pricing that are not compatible with the goals of the organization can seriously affect the outcome of the performance. Pricing strategies have implications related to managerial as well as with public policy that would have major consequences. Survey conducted, results show that many opinionated as agree or strongly agreed that pricing affects organizational performance strongly. The aim is to identify the effects of implying competitive strategies with their impacts regarding the performance of airlines in Kenya. The correlation of efficiency between pricing strategies and Kenya Airways performance was effective which means, the cost charged by a firm is fair compared to the prices charged by its competition, in such case organizational performance is amplified as supported by (Kim & Chung, 1997). Competitive strategies need to focus on the management-needs

recognition process to confirm the intelligence operations would be applicable. A firm's strategic human resource also plays an important part in the uprising of its performance (Simon & DeVaro, 2006).

Environmental Factors:

Very little attention is paid on environmental factors affecting organizational performance of the airlines including Kenya regarding academic research. Kenya airlines need to observe macro-environmental factors both in its local and international market. Around 46 airlines are operational in Kenya. Kenya airways covers over 40% in market share with operations exceeding outside the continent of Africa. Almost all airlines have faced different hurdles emanating because of capital budgeting. In the period between 2004 to 2018, airlines around the globe have announced about increase net profit margins in 8 years. This was majorly assigned to signify the up rise in number of passengers from an approximate of 2.1 to 4.3 billion, having it to rise up 100%. Reserved profits are the outcome of net income that is retained after a specified time by the airline (Aparicio & Kapelko, 2019).

Table 1: Outer Loading Table Summary

Construct	Indicator	Outer loading
	cs1	9.133
	cs2	28.381
Capital Structure (cost)	cs3	12.080
	sp1	13.161
Strategic Planning (sp)	sp2	18.455
	sp3	19.785
	ef1	13.069
Environmental Factor (ef)	ef2	7.822
	ef3	20.674
	f&p1	5.211
	f&p2	5.911

Financial Structure and Performance)
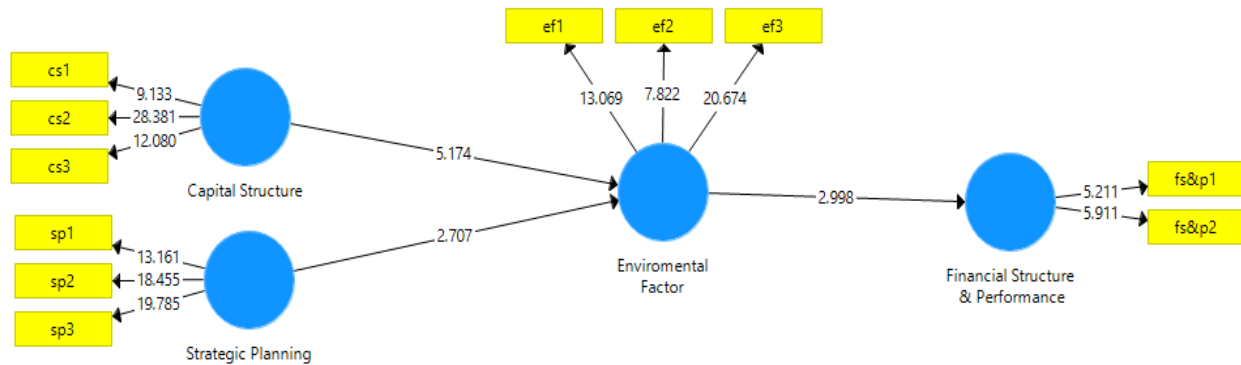
Figure. 1 Outer Model and Inner Model

(Indicators and relation between latent variables)

Research Model:

Partial Least Square Structural Equation modeling (PLS-SEM)

Structural equation modeling (SEM) is a multivariate measurable strategy that permits specialists to gauge and test causal connections. This strategy began with regards to hereditary qualities, to look at the impact of at least one free factors, which working together were addressed in a way outline, which is the reason it is likewise once in a while called comprehensively, way examination.

In these models, the kinds of factors are recognized by their estimation or job in the model: (I) dormant factors: otherwise called builds, variables, ideas, or calculated factors — they are the model highlights of direct interest, however they are undetectable components that must be deduced from those noticed; (ii) noticed factors, additionally called markers, inputs, or essentially gauges, and are recognized on the grounds that they can be estimated and are known or remembered to be connected with the dormant ideas. A model is insight, which is the develop and can be seen through the estimation of factors saw as verbal and quantitative thinking test scores, for example, among other quantifiable markers.

Thusly, these dormant factors, contingent upon their job in the model, can be exogenous and endogenous. The exogenous influence others and don't get impact, while the endogenous ones get impact from different factors yet additionally can influence one another. Ordinarily, graphically, these models are addressed with the dormant factors in Greek letters inside circles, and the noticed factors are addressed in Latin letters inside square shapes. The connection between the noticed factors or markers and the inactive factors is known as the estimation model or external model, while the relationship structure between the idle factors or ideas of the model is known as the primary model or inward model. The two models are addressed graphically by bolts in direction outlines. The bearing of the bolts between the noticed and dormant factors, hypothetically, shows whether the noticed estimations are intelligent pointers (every marker is a reflection or direct perception of the idle variable or build) or developmental markers (where some arrangement of pointers together mutually decide the inactive variable). The whole interaction to lay out or address the primary model is known as the particular or recognizable proof of the model.

In this model, the connections of the multitude of pointers with their separate dormant factors are introduced as intelligent markers, since each overview question measure is only one of a bunch of signs of their particular idea.

Research Philosophy:

Research philosophy is the means in which you believe. It is the way of data collection of the variables and the hypothesis. Research philosophy is so of many types but positivism is what is targeted by us.

Talking about positivism, we could consider it as we just collect data out of the observation and thoughts of others having a truthful collection of data and analyzing it completely. The research is carried out using "positivism" philosophy as it includes unbiased opinion of the researcher along with singular reality.

Research approach deductive:

As deductive approach is being done so the data collected by people that already did the research on related variables by adding their reference.

As we are students, so we do not have the capital or the resources to fully organize a research regarding such matter but to our full extent, data has been collected by cited articles confirming their validity and variables were sorted out relating to our research.

Quantitative research is done to achieve higher knowledge and social world understanding. This method is carried out to observe events or situations affecting people. Objective data is provided which is clearly communicated by statistical values or numbers.

Analyzing statistical data is much easier.

Research Methodology:

The study sample was based on 50-100 people based on different levels throughout the airport and from random individuals, consisting of both genders perspective. The data was collected through 15 questions asked through a questionnaire regarding the study conducted. Every question is close ended and is based on Likert scale.

Findings:

What new things that came out of this study was that as Kenyan airlines play an important role in the economic increase of the country it should be of major interest in uplifting its facilities and fluency at the rate at which it works. Most countries airlines are being researched by different companies but as Kenya is an under developed country, its lack of resources and capital becomes a major reason for its downfall in working. Its imports and exports are of great interest for the development of the country. The airlines working and financial status has great fluctuation due to external and internal factors discussed in the research. Also, data collection and analyzing was done on the basis of study conducted by professional that validates its correction. It was also found that the airline try to sustain its status financially through strategic planning by attracting passengers to travel with their airline.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Strategic Planning_ -> Enviromental Factor_	0.306	0.314	0.113	2.707	0.007
Enviromental Factor_ -> Financial Structure & Performance	0.404	0.407	0.135	2.998	0.003
Capital Structure_ -> Enviromental Factor_	0.448	0.441	0.087	5.174	0.000

Figure. 2. Tabular Form of Construct

From the above table, original sample (O) of strategic planning for environmental factor is 0.306, while it's mean (M) is 0.314, and standard deviation (STDEV) is 0.113. The original sample of environmental factor to financial structure and performance is 0.404 and its mean and standard deviation are 0.407 and 0.135. The data of capital structure to environmental factor is reported for original sample, mean, and standard deviation as 0.448, 0.441 and

0.087. In case of T statistics first value (strategic planning > environmental factor) is 2.707 while its P value is 0.007. T statistics (|O/STDEV|) of environmental factor > financial structure and performance is 2.998 and P value is 0.003. Capital Structure > environmental factor P value is 0.000 and T statistics is 5.174.

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Capital Structure_	0.726	0.746	0.845	0.646
Enviromental Factor_	0.719	0.731	0.840	0.636
Financial Structure & Performance	0.523	0.526	0.807	0.677
Strategic Planning_	0.792	0.795	0.878	0.706

Figure. 3. Cronbach's Alpha, rho A, Composite Reliability and Average Variance Extracted (AVE) Chart

According to the given data, capital structure has 0.726 Cronbach's Alpha value, rho A is 0.746, composite reliability of capital structure is 0.845 and average variance extracted (AVE) 0.646. On the other hand, environmental factor shows 0.719, 0.731, 0.840 and 0.636 respectively in Cronbach's Alpha, rho a, composite reliability and extracted average variance. If we talk about the data obtained by financial structure and performance then Cronbach's Alpha becomes 0.523, rho A lies on 0.526, while 0.807 and 0.677 are the value of composite reliability and average variance extracted (AVE). Last one is strategic planning, in which Cronbach's Alpha value is 0.792, 0.795 is rho A, composite reliability is 0.878 and average variance extracted AVE is 0.706.

Discussion:

The above details shows that although Kenya is an underdeveloped country and its financial performance is not stronger as compare to other countries but its variable capital structure (cost) increased gradually which may give benefits to Kenya airline. While we are taking the strategic planning of Kenyan airlines it also shows great improvement and both variables capital structure and strategic planning help to enhance environmental factor. The last thing which is affected by all these variables is financial structure and performance, which gets much more success in relation to all the three variables. Figure number 2 gives the detail vies of data collected by questionnaires, in which original sample of strategic planning shows that, environmental factor and capital structure has high values. When we go towards the standard deviation of all these variables, the environmental factor in relation with financial structure and performance show highest value and capital structure towards environmental factor gives lowest value. T statistics of capital structure has greater value, while P value is lowest in case of capital structure. According to table 3, financial structure and performance in case of Cronbach's alpha and rho A, show lowest values in all that's why these values are marked by red color. In the column of composite reliability and average variance extracted AVE financial structure and performance is in the range of all other variables.

Partial Least Squares Structural Equation Modeling (PLS-SEM) is useful when the research needs to predict a set of dependent variables from a large set of independent variables. This example shows in which situations researchers should use this technique with respect to other predictive multivariate techniques. We illustrate PLS-SEM using a subset of a survey held in airlines of Kenya. Specifically, we test whether the construct, capital structure, is predicted by environmental factor or strategic planning. Also, what is the influence of environmental factor on financial structure and performance? According to the UTAUT Model, cs is defined as the capital structure which has three indictors cs1, cs2 and cs3, which provides basic structure to the airlines. Sp is the planning procedure which also has three indictors sp1, sp2 and sp3 based on proper planning. Ef is associated with the factor which is influenced by environment, it is also depend upon 3 indicators ef1, ef2, ef3, it is co related with the capital structure (cs) and strategic planning (sp). The last variable, financial structure and performance (f&p) is the basic variable of this model. This variable is depending on environmental factor (ef) and it is very useful for all the variable, this variable contains only two indicators f&p1, f&p2.

Conclusion:

At the end of this study, it is concluded that some of the factors affecting the airlines can be mitigated by giving fix policies to the airlines that would stop a part of external factors in the way of operating. Improvement of transportation should be considered by avoiding to change policies again and again to have a stable status and to increase in tourist coming through the airlines. Also, the strategic team should consider better option suitable in regards of the financial stability of the airlines. The strategic planning should consider the environmental factor also because it creates great influence on performance of airlines.

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