

**FINANCIAL SUPPLY CHAIN MANAGEMENT AND OPERATIONAL  
PERFORMANCE IN THE LOW-COST AIRLINE FIRMS IN KENYA**

**BY**

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**DECLARATION**

**Declaration by the Student**

This is to declare that this research project is my original work and has not been presented in any University or Institution of Higher Learning for award of any Degree.

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## **DEDICATION**

To Almighty God and my beautiful mother, Jane. Without you, I wouldn't be where I am today.

Thank You!

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I want to thank the Almighty God for providing me with the grace and power to complete this Research Project successfully. Mr. Thomas Ombati and Ms. Salome Richu, my supervisors, deserve my heartfelt gratitude for devoting their time to guiding me through my research. Your gentle guidance and encouragement throughout the study allowed me to complete my paper on time. I would also like to thank the respondents from all the low-cost airlines that took their time to fill in the research questionnaire. Thank you very much!

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## ABBREVIATIONS AND ACRONYMS

<b>FSCM</b>	Financial Supply Chain Management
<b>SCM</b>	Supply Chain Management
<b>RBV</b>	Resource Based View
<b>SCN</b>	Supply Chain Network
<b>LCC</b>	Low-Cost Carriers
<b>FSC</b>	Full-Service Cost
<b>KCAA</b>	Kenya Civil Aviation Authority
<b>KAA</b>	Kenya Airports Authority
<b>IATA</b>	International Air Transport Association
<b>GoK</b>	Government of Kenya
<b>WCM</b>	Working Capital Management
<b>CCC</b>	Cash Conversion Cycle
<b>CaPex</b>	Capital Expenditure
<b>ROCE</b>	Return on Capital Employed
<b>ROI</b>	Return on Investment
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>PwC</b>	PricewaterhouseCoopers
<b>SCOR</b>	Supply Chain Operations Reference Model
<b>CFO</b>	Chief Finance Officer
<b>P2P</b>	Procure to Pay

## ABSTRACT

In every rapid business setting, FSCM is crucial. Kenya's economic development vision for 2030 emphasized the aviation industry as the expansion of the economy model (GoK, 2020). Kenyan low-cost airlines have been profitable; nevertheless, fierce competition, high operating expenses, and corruption have created uncertainties in the near future (GoK, 2020; Lock et al, 2010). In 2012 for example, Kenya Airways' earnings fell by half in 2012, and it lost Kshs. 7.5 billion, Kshs. 13 billion, and Kshs. 36.57 billion for 2018, 2019, and 2020, respectively. (Kenya Airways, 2020; Jambojet, 2019). The airlines therefore, needed urgent and priority measures to regain competitive advantage and to gain relevant global competition. The study's overall goal was to ascertain the impact and level of adoption of Financial Supply Chain Management on operational performance among Kenya's low-cost airline companies. Research on FSCM in the airline industry cannot be over emphasized because most studies have focused on the general performance of SCM with little attention to FSCM and its implication on the performance of the low-cost airline firms. A descriptive research approach was used in the study. Descriptive study allows researchers to obtain accurate and systemic primary data from several low-cost airline companies in a set period of time. The target population for the study was 33 low-cost airlines operating in Kenya. The researcher gathered information through primary and secondary sources. Descriptive statistics such as the mean was used to estimate the average score of each airline and to determine the FSCM solutions adopted by the Kenyan low-cost airlines. A linear regression was generated since it reveals statistical relationships between research variables and can assist in estimating the behaviors of these variables. The study found that, FSCM has a favorable impact on organizational performance. As a result, the study advises that FSCM be applied in businesses to improve operational performance. The study also recommends that low-cost airlines must maintain an optimum working capital, cash conversion period, capital expenditure policies, P<sub>2</sub>P cycles as well as conduct regular demand and supply analyses as FSCM strategies so as to enhance operational performance and increase business competitiveness in the aviation industry.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

Financial supply chain management (FSCM) is the end-to-end activities that involves the procure-to-pay sequence, working capital management, capital expenditure, cash conversion cycle and demand and supply market analysis business processes (Fathollah, 2019, Wohlgeschaffen, 2010 & Lawson, 2009). The FSCM includes everything that has to do with invoicing, making orders, reconciling and analyzing payments. The quantifiable characteristics of an entity's business process results, such as production cycle time, dependability and stock turns can be termed as operational performance (Azim, Ahmed & Shibbir, 2015; Corra, Ellram, Scavarda, & Cooper, 2007; Lewis, 2019). Business performance metrics such as market share, growth, on time performance, cost saving and customer satisfaction are influenced by operational success (Azim et al, 2015). According to Shalakh (2015), FSCM is an effective strategic and tactical instrument for realizing consumer demand patterns and managing global complexity leading to low cost and higher operational performance.

The research was steered by three theories namely, the theory of the firm, resource-based theory (RBV) and supply chain network theory. The theory of the firm argues that a company exists and makes decisions in order to maximize profit while RBV states that a company's sustainable competitive advantage stems from its precious, rare, inimitable and irreplaceable resources, as well as their unique use of core competencies. The supply chain network theory describes the interactions that exist between organizations, suppliers, consumers, and purchasers. These theories were critical in explaining how an organization benefits from leveraging FSCM so as to augment operational performance (Wellenbrock, 2013), by attempting to unify past research on FSCM and addressing several variables of operational

performance. The theories' implications were addressed, and concluding remarks proposed the benefits of further theory creation and testing.

Companies rely on their supply chains to get what they need promptly while being competitive and thriving on a dynamic market (Hughes, 2010). Sirengo & Nafula (2009) opined that a low-cost carrier, also referred to as a low-cost airline, is an airline that concentrates on cutting operational expenses while getting rid of some of the standard services and amenities that are factored in their prices leading to less comforts with affordable rates. Like other airline firms, low-cost airline businesses have large system inventories, numerous suppliers, and highly esteemed customers, hence would want to gain more from the practice of optimal FSCM (Chia, Goh & Hum, 2019). It is not apparent, however, if low-cost airlines in Kenya are optimally anchored in FSCM hence the lacuna of knowledge on how it will contribute to optimal operational performance in terms of accelerated growth, on time performance, market share, customer satisfaction and cost saving in the Kenyan low-cost airline firms. As a result, the current research aims to find FSCM adopted by the low-cost airline companies in Kenya.

### **1.1.1 Financial Supply Chain Management**

The FSCM has been widely adopted to imply control of financial flows and monetary processes in a supply chain (Wohlgeschaffen, 2010). Lawson, (2009) defined FSCM as optimal plans, management, control, and design of supply chain financial flows to enhance efficient and a well-organized flow of supply chain material. He also described FSCM to a lattice of business firms and financial institutions, where there is good coordination of the flow of financial transactions through monetary practices and shared information systems, to facilitate efficient movement of products and services among traders in a supply chain.

At the moment, the globally dynamic trade-influent economy not only creates financial strain among global market consumers, but also increases the demand on a growing number of global providers (Voss, Ahlstrom & Blackmon, 2012). The need for effective and optimum management of working capital to maintain their operations even during tough times is

recognized by the majority of commercial companies. Most corporate organizations therefore have chosen to seek possibilities to improve operations and to release constrained funds together with appropriate financial supply chain strategies. Business organizations need to have integrated and viable financial management strategies to deliver long-term financial efficiency, meet key performance indicators, realize prolonged cash efficiencies and reach quantifiable goals (Chen, 2018). This requires a suitable FSCM-based and well-organized approach. As a result, the most important aspect of an excellent FSCM is prominence over activities such as order-to-cash cycles and purchase-to-pay and operations such as ordering, creating invoices, reconciling, and eventually paying (Sagner, 2011).

Striano (2010) argued that numerous business organizations around the world now optimize FSCM by efficiently coordinating the different stakeholders in order to enhance efficient goods flow, efficient information sharing, and financial transaction flows through the whole supply chain. However, given the paucity of research in this area, it is still unclear how airline firms manage their financial supply chain. That is why the current analysis is based on Kenyan low-cost airline operators' FSCM and operational performance.

### **1.1.2. Operational Performance**

The measurable properties of process outcomes for a company, for example reliability, production cycle time and inventory rotations, are known as operational efficiency (Azim et al, 2015). Measures for an entity's performance like having satisfied clients, enhanced share of the market, on time performance, accelerated growth rate in terms of new route development and cost saving are therefore influenced by operational success of a given normal organization (Sirengo & Nafula, 2009). As a result, these deliverables have assisted low-cost airlines to build customer loyalty as their major operational performance measure.

Specific product and operating aspects, distinguish the low-cost model from FSCs by capitalizing on minimal, unrestricted and modest prices; high frequencies; point-to-point flights; no interlining; ticket-less travel via travel agencies and call centers; single-class, high density seating; no seat assignments; and no meals or free alcoholic beverages among other product characteristics (Aomo et al., 2016). Single-type aircraft with high utilization, use of secondary or traffic free airports with quick aircraft turnaround, short sector length, and competitive salaries with margin sharing and high throughput are among the operating characteristics (Aomo et al., 2016)

### 1.1.3 Low-Cost Airline Firms in Kenya

In the last couple of years domestic airlines have been seeing considerable growth (see Table 1.1) in spite of the escalation of their global and regional competitors in Kenya. They have been using strategies that balance their working capital, reduce supply costs, simplify order processes and improve customers' demand. Air Transport Action Group (2005) noted that there are now around 33 low-cost airlines in the nation that offer cargo and passenger services. Kenya's domestic aviation sector is measured largely by the quantity of the fleets, sum of locals, level of the cargo and the enhanced deployment of current industry technology (Mhlanga, Steyn, & Spencer, 2018). As a result, flying within Kenya became synonymous with luxury and comfort. Table 1.1 depicts the expansion of Kenya's low-cost domestic carriers.

**Table 1.1: Growth of the Kenyan Domestic airlines**

<b>Indicators of growth</b>	<b><u>2016-2017</u></b>	<b><u>2017-2018</u></b>	<b><u>2018-2019</u></b>
Number of fleets	19.1%	24.9%	27.4%
Number of local operators	2.9%	3.8%	4.2%
Cargo level	38.4%	56.7%	61.6%
Passenger growth	40.8%	44.4%	53.6%

**Source: IATA Report (2020)**

The industry is strategic for economic growth, particularly in developing nations like Kenya. The industry helps in passenger transport, delivery of mail and transportation of cargo (Lock, Fattah, & Kirby, 2010; GOK, 2014). Through the local airlines, airport operators, airport on-site business enterprises and navigation, air service providers have provided the source of livelihood for over 18,000 people in Kenya as at 2019 (Robertson, 2015). Moreover, through purchase of goods and services from domestic suppliers the airline sector provides another 130,000 jobs. The industry is said to have contributed immensely to the growth of both local and foreign tourism (Kwoba, 2018).

According to Oxford Economics (2011), the local airline stakeholders are both internal and external, which may entail airlines, direct and indirect employees, tenants, commuters, unions, government authorities, suppliers, local communities and media. This indicates that airlines on their own sort are multidimensional installations involving a range of stakeholders with various goals. However, the KCAA, which was created in 2002 by the Civil Aviation Amendment Act, 2002 and designed within the context of the worldwide standard avionics criteria, directs and manages the airline sector, whether domestic or international. As a result, the Kenya Airports Authority (KAA) is in charge of managing the local airlines, as well as promoting, fostering, and protecting the interests of the industry's stakeholders.

Local airlines in Kenya have embraced SCM techniques that promoted service quality, effective procurement activities, fewer supplier rejections, largely flexible, and minimal-cost supply chains (GoK, 2018; Gwako, 2008). Major SCM criteria are regularly evaluated by the airline superintendents, and the findings are communicated between internal and external stakeholders (IATA, 2011). Striano (2010) further believes that SCM is growing in the airline sector and that aviation companies continue to impact airline competitiveness and worldwide technology in the companies' operation. In particular, the interest and importance of using FSCM in the dynamic market is explored by most local airline firms.



## **1.2 Statement of the problem**

In every rapid business setting, FSCM is crucial. Kenya's economic development vision for 2030 emphasized the aviation industry as the expansion of the economy model (GoK, 2020). Kenyan low-cost airlines have been profitable; nevertheless, fierce competition, high operating expenses, and corruption have created uncertainties in the near future (GoK, 2020; Lock et al, 2010). In 2012 for example, Kenya Airways' earnings fell by half in 2012, and it lost Kshs. 7.5 billion, Kshs. 13 billion, and Kshs. 36.57 billion for 2018, 2019, and 2020, respectively. (Kenya Airways, 2020; Jambojet, 2019). The airlines therefore, needed urgent and priority measures to regain competitive advantage and to gain relevant global competition.

In Hong Kong, China, Lai (2012) evaluated its performance in transport logistics and concluded that FSCM was rapidly gaining significance within corporate entities to achieve and maintain competitiveness and to increase operating capital of companies both domestically and externally and that this optimization might perhaps be realized via collaboration in the areas of accounts payable, accounts receivable, and general risk management. However, the findings of Lai et al, (2012) were limited to the general transport industry and not specifically on the airline industry. Miyare (2014), also investigated SCM in Kenol- Kobil's organizational performance and concluded that excellent FSCM procedures supported proper plans, controlling and management of the flow of money in the SC that facilitated effective movement of SC materials. However, this study focused on a single oil company; Kenol-Kobil Limited and not low-cost airline companies.

Research on FSCM in the airline industry cannot be over emphasized. Most studies have focused on the general performance of SCM with little attention on FSCM and its implication on the performance of the low-cost airline firms. Dong & Xu (2012), for example, examined the impact telecommunication on inventory management amongst small airlines in Japan and

showed a clear relationship between systems for communication and inventory control. Nevertheless, the FSCM did not show its implications for the operational performance of these companies in these airlines. Also, investigation of the airline supply chain industry's performance measurement, Gwako (2008) found that SCM is increasingly being administered in the airline business in conjunction with continued technological developments which saved costs and kept the airlines competitive. Nonetheless, the outcome of Gwako did not reveal the components of FSCM and its involvement to attainment of organizational performance of the low-cost airline firms.

Other studies like Ingutia, (2020) focused on SCM strategy, while King'oo, (2013) addressed governance in SCM. The research produced little empirical evidence on the FSCM and/or operating performance of the low-cost airlines and their influence on their operational performance. There was therefore a lacuna of knowledge on how FSCM has contributed to higher operational performance in the Kenyan low-cost airline firms. As a result, the goal of this study was to find FSCM in Kenya's low-cost airline companies.

### **1.3 Objectives of the Study**

The study's overall goal was to ascertain the impact of financial supply chain management on operational performance among Kenya's low-cost airline companies.

#### **1.3.1 Specific Objectives.**

- i. To establish the level of adoption of financial supply chain management by low-cost airline companies in Kenya
- ii. To determine the impact of financial supply chain management on operational performance of low-cost airlines firms in Kenya.

### **1.3.2 Research Questions**

The study was steered by these subsequent questions;

- i. What is the level of adoption of financial supply chain management by low-cost airline companies in Kenya?
- ii. What is the impact of financial supply chain management on operational performance of the low-cost airline companies in Kenya?

### **1.4 Value of the Study.**

The study is beneficial to the Kenyan corporate sector since it gives in-depth information and benchmarks of FSCM best practices, as well as how these practices affect the company's operational success.

The results of this study enable management of low-cost airlines to increase the management of their financial supply chain, to promote appropriate planning, management and control of cash flows and eventually facilitate movement of the supply chain. The study will also help management recognize the importance of the efficient and optimal management of working capital for business operations even in times of trouble. It will also help airline managers to devise actions and plans that will enhance their financial and business performance and make the company more competent. Finally, the results will aid the academic community by providing empirical information on FSCM practice, which would shape the premise of this subject by filling the crevices overlooked.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Review of literature summarizes data that is available about a certain subject, challenge, or query (Tanczer, 2019.). This chapter will therefore provide theoretical review, empirical research on FSCM and operational performance and its conceptual framework.

#### **2.2 Theoretical Review**

This research was based on the Theory of the Firm, the RBV and the Supply Chain Network theory with the anchoring theory being the theory of the firm as it significantly explains the relationship between tenets of FSCM and organizational performance.

##### **2.2.1 Theory of the Firm**

This is a collection of economic ideas that aims at forecasting and defining the nature of an entity's behavior as well as its connection to the market (Kantarelis & Demetri, 2007). According to this notion, companies or businesses exist and execute decisions so as to achieve profit maximization. The theory aimed at addressing problems like why this type of business arose, the border between the business and the market, why the business was built in such a particular manner, and lastly what motivated the business's various effectiveness and operations (Bratton, 1989). It also analysed the company's quest to maximize profits from the aspects of production technology, production quantity, freight price and operational performance (Hart & Oliver 2011).

The behaviour of the firm in pursuit of profitability is examined in terms of the inputs, supply chains, amount produced, and pricing (Kantarelis & Demetri, 2007). This theory was very relevant to the pricing model adopted by low-cost airlines, because the price is often lower than

the full-service cost (FSC) counterparts (Winnie & Jane, 2017). The theory of the firm therefore examined the factors that limited the size and output diversity of businesses. This involved how businesses may combine labour and capital to decrease the average cost of output, culminating in fair pricing and more revenue, as well as greater returns and enhanced operational performance.

### **2.2.2 The Resource Based Theory**

A company's sustainable competitiveness in a stem from its precious, rare, inimitable and irreplaceable resources, as well as their unique use of core competencies (Andersen, 2012; Gold, Seuring & Beske, 2014). The theory focused on the financial and operational aspects deployed in identifying and developing key resources that help ensure the achievement of operational goals, societal and economic performance in the supply chain. For example, working capital management is one of the techniques used by businesses to establish a unique synergy in their assets, resources, and capabilities in order to achieve operational excellence (Gold, Seuring & Beske, 2014).

Ultimately, operational performance can be accredited to possession of resources with value that enable an entity to perform its operations better than its competitors (Muketi, 2009). In this case, a low-cost airline's pricing model and specific product and operating aspects, distinguish the low-cost model from FSCs by capitalizing on minimal, modest, and unobstructed prices; high frequencies; point-to-point flights; no interlining; ticket-less travel via travel agencies and call centers; single-class, high density seating; no seat assignments; without alcohol and food among other product characteristics (Aomo et al, 2016). The RBV was important to the current study since the FSCM responses that improve organizational performance were determined by the firm's competitive advantage derived from internal resources and skills.

### **2.2.3 Supply Chain Network Theory**

The SCN theory was established in the 1970s and 1980s to describe the interactions that exist between organizations, suppliers, consumers, and purchasers. Every firm is regarded as benefiting from networks because of the investments and the actions of other stakeholders who are participating in the process (Wellenbrock, 2013). In a competitive market, a single company working alone will not be able to fulfill all managerial and operational objectives. Companies must take steps to coordinate duties across the supply chain as consumer demands grow and become more precise in order to enhance service and decrease costs (Pohja, 2004.). As a result, in order to locate suitable suppliers, businesses must participate in sourcing strategically as well as in making informed decisions to attain the same.

This theory encompasses, in addition to managing the whole supply chain, the managing of associations with regard to capitalizing the supply base efficiently so as to comprehend the intricate environment where organizations operate (Chicksand, et al., 2012). This theory's relevance was in providing empirical information to improve the efficiency of purchase-to-pay operations, an aspect of FSCM and supply-base management to achieve operational performance (Wei, 2014).

### **2.3 Financial Supply Chain Management**

To attain long-term financial efficiency, businesses require integrated and practical systems for liquidating management, achieving key performance indicators, and meeting quantifiable targets (Chen, 2018). As a result, the primary purpose of effective FSCM should include visibility into processes such as order-to-cash cycles and purchase-to-pay, as well as procedures including ordering, invoicing, reconciling, and eventually payment (Sagner, 2011).

Working capital management (WCM) is involved with the management of available assets and obligation elements in order to reduce the threat of bankruptcy while improving return on assets

(FTC Foulks Lynch, 2005). Therefore, it entails cash management, inventory management, payables management, and receivables management procedures (Wambugu, 2013). The WCM has a robust significant correlation with the firm's profitability and overall operational performance (Garcia-Teruel & Martinez-Solano, 2017; Shin & Soenem, 2018). Proper WCM through the cash conversion cycle is a potential performance metric that was used to evaluate the efficiency of a business organization managing its liquid assets (Preve, Sarria-Allende, 2010). Consequently, WCM strives to achieve the best possible equilibrium amongst each of the working capital components, namely payables, cash, inventories and receivables so as to cost save and establish the firm as a going concern.

The length of time money is held in working capital is termed as the cash conversion cycle (CCC) and is generally regarded as the standard measure of WCM (Brigham & Houston, 2007). Minimizing the amount of time cash is locked up in the CCC enhances a firm's profitability and market value, emphasizing the importance of effective cash management techniques in boosting operational performance (Ross et al, 2008). Wuttke et al, (2013) also in their study on how FSCM influences organizations performance in terms of cost also revealed that an entity with lower CCC is additionally efficient due to the fact that it will frequently turn its working capital and as a result, the return on capital employed would be higher. (ROCE). Grosse-Ruyken, Wagner, & Jönke, (2011) also examined how CCC would influence an entity's operational performance. The outcome indicated a noteworthy negative correlation amongst CCC and return on capital. The study further suggested that the ideal extent of CCC for reactive FSCM approaches should be evaluated wholly because optimal WCM relies on the model of the business, its precise financial supply chain designs and risk aspects associated with the supply chain.

When a company invests its resources to purchase fixed assets or increase the worth of current fixed asset with a convenient life that spreads past the taxable year, it is referred to as capital

expenditure (McConnell & Muscarella, 1985). For investors to regard a capital expenditure acquisition as a viable spend for an organization, it must correspond to a realistic and lucrative ROI that is in line with the firm's operational strategy of cost saving (Mwangi & Wachanga, 2014). Optimum capital expenditure also positively impacts operational performance as measured through return on assets (ROA), (Al Farouque, Tony, Dunstan & Karim, 2005). Craig & Günter (2016) further point that well-structured FSCM provides a good framework that would aid in managing the arising prospects of collaborative investment options i.e., increased capital expenditure, managing debts jointly, and means to jointly sway the costs of working capital. Capital expenditures are typically expected to provide upcoming economic advantages that will last longer than a single tax or financial year hence the process of capital budgeting should guarantee that decisions affecting capital expenditure are executed based on investment alternatives which will result in high profitability and cost saving for the company (Amalia Fachrudin & Absah, 2021).

Demand and supply market analysis is studying how purchasers and vendors associate to transact quantities and cost (Al Farouque et al., 2005). This was done by looking at historical sales data that has been adjusted for climate, seasonality, and special events, aspects that are common in the aviation industry. One of the most powerful economic impacts on sales volume, price, revenue, profit margin, and customer satisfaction is the amount of supply and demand for a specific product (Neil, 2018). Some businesses prioritize short-term profit maximization, while others focus on establishing a wide client base and gaining loyalty by offering cheap starting prices. Either way, in order to capitalize on market possibilities, a firm must develop appropriate pricing strategies and successfully advertise its product's value proposition to enhance customer satisfaction and ensure growth in all its operations (Eastin & Arbogast, 2011). Yang & Birge (2011) adopted a model that clearly explains the interaction among business organizations operations that would effectively manage financial risks in the supply



chain system. The study demonstrated that with the demand and supply uncertainty, FSCM would be efficiently improved, through trade credit and by coming up with proper risk sharing mechanisms.

Procure-to-pay, also known as purchasing or purchase-to-pay, is the activity involved in remunerating, obtaining, commandeering, acquiring and accounting for services and products, and it covers the full process from ordering to paying (PwC Oracle Practice, 2012). According to (Amalia, Fachrudin & Absah, 2021), purchasing processes that are both effective and efficient, as well as collaborative connections, are critical in achieving organizational goals, cost reduction, and operational performance. For instance, Wagner, (2016) explained that, given that the average cost of purchases and services in most of the business firms frequently surpasses 50% to 60% of the overall cost of operations, the efficient product management, flow of information along the chain and the complete financial chain is vital.

#### **2.4 Operational Performance Measurement.**

The design, development, and management of conversion processes that produce worth by transforming inputs like labour, raw materials and/or customers into outputs like products or services is known as operational management (Nagurney, 2012). The most important role of any company is operational management; finance, marketing etc. However there have been limited studies of operational performance in the low-cost airline industry unlike other industries like manufacturing, transport, governance and tourism (Lai et al., 2012; Miyare, 2014).

Performance measurement is a key tool for the operational performance measurement systems and plays a critical part in all organizations because they are generally considered forward-looking pointers that can help decision makers in predicting the firm's economic performance and often disclose what may happen in operations dynamic needs (Azim et al., 2015). Austin,

(2013) argues that organizational performance encompasses three main areas of an organization's results i.e., return on equity (ROE), return on investment (ROI) and profitability. Many businesses are currently attempting to use the balanced scorecard technique to measure organizational performance. This technique entails tracking and assessing many aspects of performance, including financial performance, growth, customer satisfaction and cost saving (Garcia-Morales, Jimenez-Barrionuevo & Gutierrez, 2012). FSCM efficiency and effectiveness is another indicator of organizational performance.

The main differences amongst low-cost carriers and regular airlines, often known as full-service carriers (FSCs), may be divided in triple categories: service, overhead savings and operational (Aomo et al., 2016). Low-cost airlines, also referred to as LCCs, have lower expenses than their counterparts, FSCs. Their business approach is primarily defined by product simplicity, minimal operational expenses, and a unique positioning that allows them to provide reduced pricing to customers without providing a lot of additional services such as meals and beverages (Klophaus, 2015). By consistently delivering goods and/or services in a timely manner, on time performance may boost customer satisfaction. The operational cost, always linked to operational efficiency, focuses on cost reduction and profit maximization (Liu et al., 2020).

Owing to the fact that most costs are mid-term fixed and long-term variable, profitability in the low-cost industry is mainly as a result of revenue maximization through high utilization of aircrafts, capitalizing on ancillary revenues, adoption of a simple pricing model etc. It is vital to remember that pricing policy is crucial to the low-cost industry's performance since it determines demand and supply, client base, and competitive position. They also seek a low-cost management style with product simplification and no supplementary services in order to cut costs and score higher in their ROI and ROE (Kinnock, 2014)

## **2.5 Financial Supply Chain Management and Operational Performance**

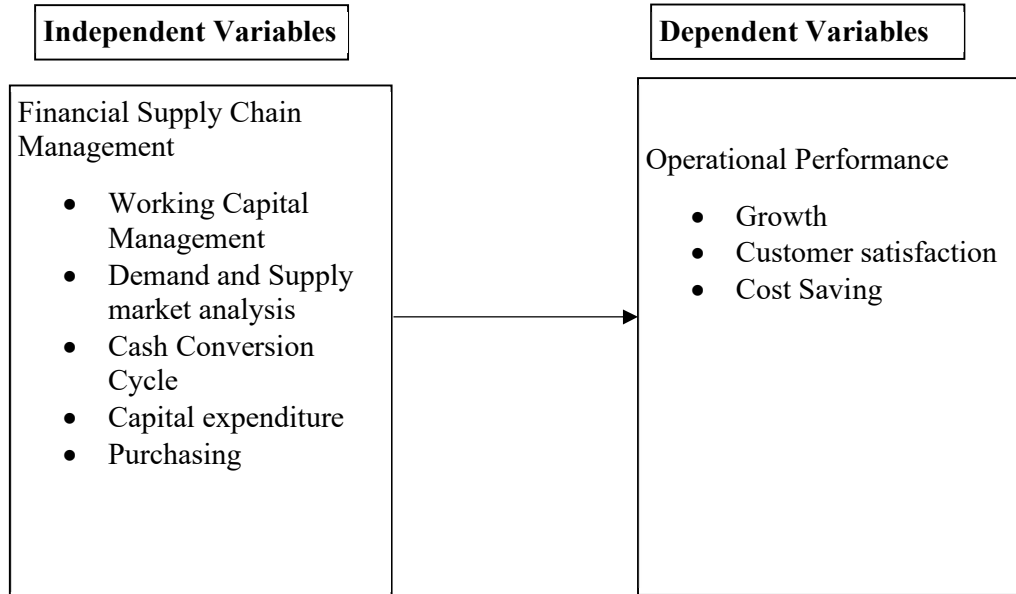
In every SC, performance measurement is a crucial subject to address (Rahiminezhad Galankashi & Helmi, 2016). As a result, rather than focusing on individual components, it is important to boost operational performance of the whole chain (Behrouzi & Wong, 2013). Modern SCM performance measurement research has emphasized the requirement of taking mainly financial indicators into account and not non-financial indicators while utilizing a variety of techniques (Dossi & Patelli, 2010). As a result, despite the fact that the idea of performance measurement has been extensively researched in earlier work (Taticchi et al., 2015), just minimal study papers on financial and operational performance metrics of supply chains have been undertaken (Tangen, 2004).

With several financial performance metrics to investigate in supply networks, past work has largely focused on cost (Lawton & Solomko, 2005). To break this line of thought, a European study conducted by Ceccarello et al., (2012) on financial pointers and SC assimilation that adopted the Supply Chain Operations Reference Model (SCOR) as a yardstick for five financial indicators namely stock, receivables, payables, return on investment (ROI) and asset turnover as the extent of incorporation relationship. A substantial association amongst SCM and these financial metrics were witnessed. Elmuti, (2012) on the impact of FSCM on business performance so as to find out challenges that may impacts the success of the SC. It was ascertained that most of the business firms that were successful in managing and controlling their supply chains attained noteworthy improvement in firm performance, however, they had not optimally attained enhancements attributed to good FSCM. As can be seen, the majority of prior research has concentrated on the development of performance measuring frameworks in other industries and not in the low-cost industry, hence the quest to bridge this gap.

## 2.6 Conceptual Framework

This is a precise description of the concepts being investigated, conveyed by graphic or visual descriptions of the main constructs of the research, Mugenda & Mugenda (2008). Previous research had identified three major prerequisites for low-cost airlines' operational performance, including cost saving, growth and customer satisfaction (Bieger & Wittmer, 2011). The conceptual framework of this study will show the correlation amongst the independent variable (FSCM) and the dependent variable (Operational performance), as depicted in figure 2.1.

**Figure 1: Conceptual framework**



**Source: Author (2021)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This segment describes the methodology utilized in conducting the study. Specifically, focus will be on design, target population, data collection and analysis procedures.

#### **3.2 Research Design**

This is a structure that aids the study process of information acquisition, analysis, observing and translating (Eriksson & Kovalainen, 2015). It also gives the researcher a blueprint for the data collecting techniques that will be most successful in answering the study's research questions (Mugenda & Mugenda, 2008). The inquiry employed a cross-sectional survey research design. This approach was selected for the study because it allows for a rapid, efficient, and accurate assessment of population information and is more suited when secondary data is scarce. A descriptive research approach was also used in the study. Descriptive study allows researchers to obtain accurate and systemic primary data from several low-cost airline companies in a set period of time (Cooper & Schindler, 2006). The study also guarantees that the restrictions and interferences was minimized. The descriptive research design provides phenomena with pragmatic general inferences from the facts discussed (Sekaran & Bougie, 2016). Descriptive design also includes sufficient safeguards for avoiding bias and enhancing dependability (Kothari, 2017).

#### **3.3 Target population**

The target population consisted of 33 low-cost airlines operating in Kenya (Appendix I). Due to the minimal population, a census was conducted to acquire information from all the low-

cost airlines. Therefore, the study targeted two respondents from each of the 33 low-cost airline firms in Kenya i.e., the Chief Finance Officer (CFO) or Finance Manager and the Supply Chain Manager.

### **3.4 Data Collection**

Information was gathered through primary and secondary sources. Secondary information was acquired from the 33 low-cost airlines' management and key supply chain workers to demonstrate the total fleets, domestic operators, cargo volume, and increase in passenger numbers over the previous five years (2016-2020). This was used to evaluate the percentage growth rate of the low-cost market share in the past five years.

Semi-structured questionnaires comprising of closed and open-ended based enquiries were used for primary data (Cooper & Schindler, 2003). A questionnaire helps in gathering primary information from respondents in a particular time (Lumpkin & Dess, 2001). The questionnaire was utilized to explore respondents' fact-based answers and opinions on FSCM and how it impacts the operational performance of the low-cost airline entities. The questionnaire was structured in three parts to gather information on various aspects of the study. This implies that Section 1 pertained background information, Section 2 on the level of FSCM integration in Kenyan low-cost airlines while Section 3 covered the operational performance measures adopted by these firms. The Likert Style rating scale was used for closed ended questions.

The university was requested to provide a letter of introduction for a research student, which was subsequently provided to the airlines upon request. The analyst at that point built up affinity with the respondents and clarified the point of the study to them. The surveys were conveyed in person to individual offices of the 33 airlines at their airport offices and at their headquarters. However, owing to physical access restrictions, certain questionnaires were

delivered electronically using Google Sheets to save time.

### 3.5 Data Analysis

This study embraced content analysis for analysis of open-ended questions on the given survey questionnaire. The whole data gathered was thoroughly reviewed, edited, coded, and interpreted, and the quantitative data given was evaluated using SPSS. Descriptive statistics was used to estimate the aggregate score of every airline and to determine the FSCM solutions adopted by the Kenyan low-cost airlines. Inferential statistics such as standard deviation was used to determine the variations from the anticipated state whereas to assess the causal connections between the elements under investigation and analyzed through regression analysis.

A linear regression was generated since it reveals statistical relationships between research variables and can assist in estimating the behaviors of these variables (McCartney. 2006). As mentioned in the conceptual framework, a linear multiple regression analysis aided in demonstrating how financial supply chain management influences operational performance of Kenyan low-cost airlines. The projected regression analysis equation was as indicated below; -

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \pi$$

Where;

Y= Operational performance as conveyed by growth in terms of new route development, customer satisfaction and cost saving

$\beta_0$  = Intercept, which is the value of Y when X values are zero.

$X_1$  = Cash conversion cycle (CCC)

$X_2$  = Working Capital Management (WCM)

$X_3 = \text{Capital Expenditure (CapEx)}$

$X_4 = \text{Purchasing (P}_2\text{P)}$

$X_5 = \text{Demand and Supply}$

$\pi$  = is the error term normally distributed about the mean of zero

$\beta_1, \beta_2, \beta_3, \beta_4,$  and  $\beta_5$  are coefficients for CCC, WCM, CapEx, P<sub>2</sub>P, and demand & supply respectively.

Validity refers to what an instrument quantifies and how well it does so, whereas reliability refers to how confident one may be in the data acquired via the use of the same research instrument, i.e., how well any measuring tool accounts for random error (Mohajan & Mohajan, 2017). Therefore, this research strived to enhance the validity and reliability of the gathered data by employing a variety of ways to collect data in order to acquire genuine information.



## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

#### **4.1 Introduction**

This section presents the results and refers to relevant research as guided by the methodology. The outcome is on are the FSCM practices adopted by the low-cost airline firms in Kenya.

#### **4.2 Analysis of Response Rate**

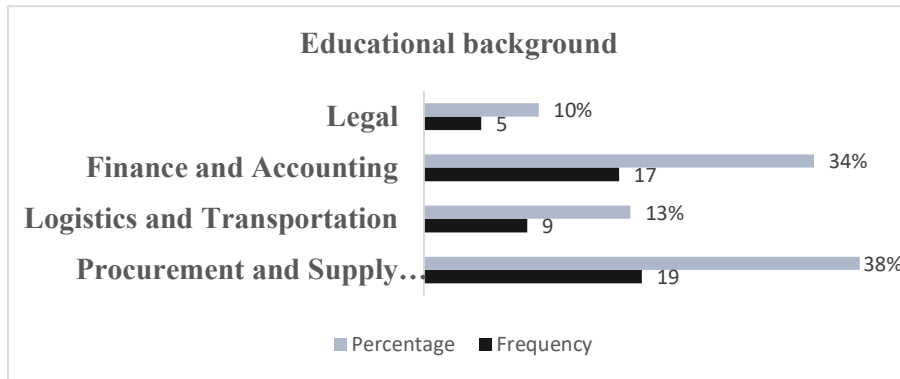
Two respondents from each of the 33 low-cost airline firms in Kenya i.e., the Chief Finance Officer (CFO) or Finance Manager and the Supply Chain Manager, out of which 50 of them filled and gave back the questionnaires hence generating a response rate of 75.6%.

As per Mugenda & Mugenda (2009), a response percentage exceeding 50% is considered excellent for statistical reporting. On single response questions, the study used frequencies (absolute and relative).

##### **4.2.1 Respondents' Educational Background**

The aimed at knowing the educational background of the study's participants. The outcome indicated that (38%) of the respondents had a background in procurement and supply chain management, 34% had finance and accounting background, 18% had logistics and transportation experience, and 10% had legal knowledge as shown in figure 4.2.1.

**Figure 4.2.1 Educational background**

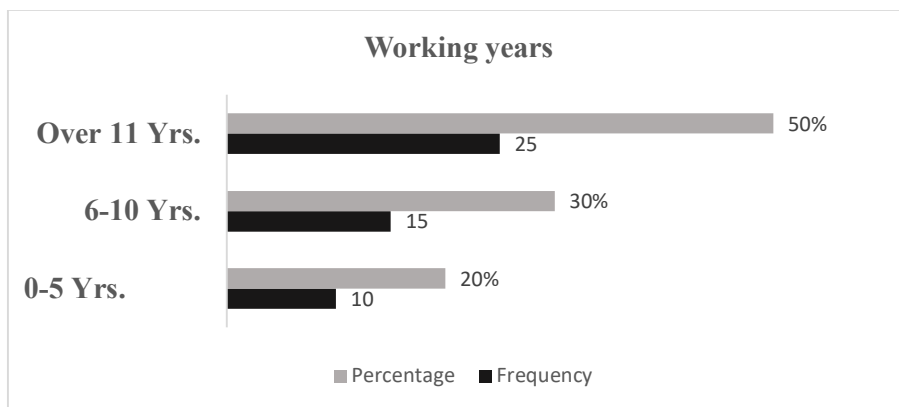


**Source: Researcher, 2021**

#### **4.2.2 Duration of Employment in the Airline**

The researcher sought to ascertain how long the respondents served in the firm. It was noted out that a larger percentage of study's participants (50%) had worked for the airline for 6-10 years, 30% for over 11 years and the remaining 20% for 0-5 years as presented in Figure 4.2.2. Because a huge percentage of the responders had over 6-10 years of work experience with the airline, this suggests that they were providing adequate information for the study.

**Figure 4.2.2: Respondents' working years in the airline**

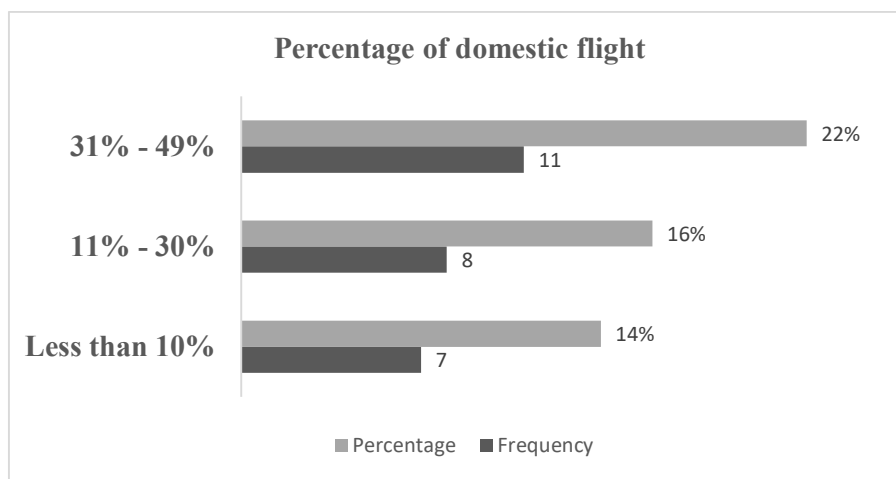


**Source: Researcher, 2021**

### 4.2.3 Domestic Flights

The researcher sought to understand the percentage of domestic flights operated by these Kenyan low-cost airlines and based on the results, 48% with the greatest frequency of 24 operating as domestic flights followed by 22% with a frequency of 11, 16% with a frequency of 8, and less than 15% with a frequency of 7. This implies that the majority of the 33 airlines fly domestically. Figure 4.2.3 presents percentage of total domestic flights

**Figure 2.2.3.: Percentage of total domestic flights**

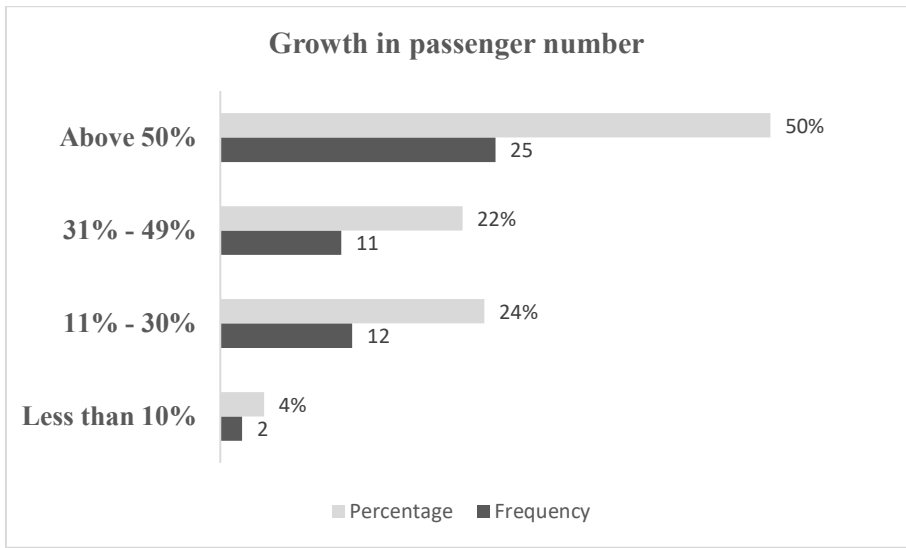


**Source: Researcher, 2021**

### 4.2.4 Growth in Passenger Numbers in the Past 5 Years

The intention of this metric was to find out the passenger growth rate of the Kenyan low-cost firms in the past 5 years. From to the findings, the proportion with the largest passenger increase is over 50%, with 50 percent, followed by 11% -30% with 24 percent, 31% -41 % with 22 percent, and less than 10% with 4 percent. This means that during the last five years, airlines have experienced a 50% rise in passenger growth as shown in Figure 4.2.4 below.

**Figure 4.2.4: Percentage growth in passenger numbers in the past 5 years**

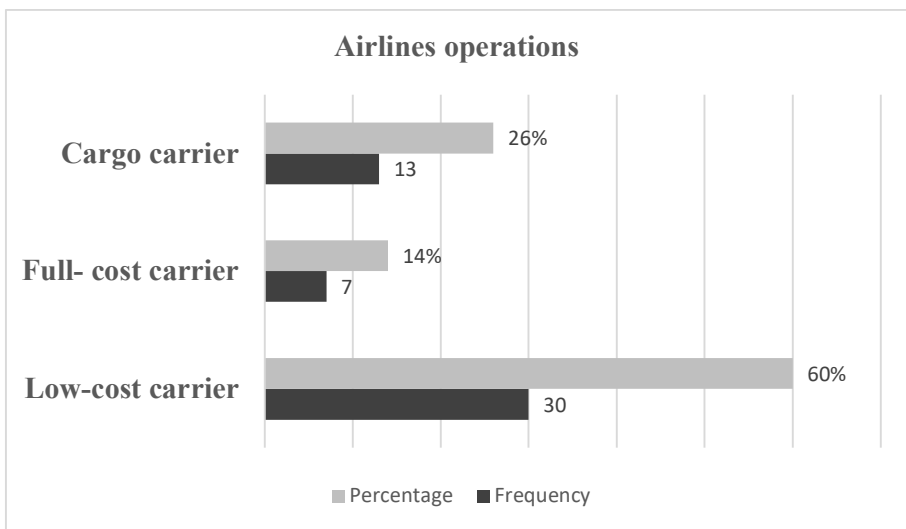


**Source: Researcher, 2021**

**4.2.5 Airlines Operations**

The study also aimed at determining the percentage of the main operations in the airlines under investigation. According to the findings, the majority of the airlines (60%) were low-cost carriers, while 26% were cargo carriers and 14% were full-service carriers. According to this data, the majority of airlines operate as low-cost carriers. Shown in the Figure 4.2.5 below.

**Figure 4.2.5: Airlines Operations**



**Source: Researcher, 2021**

### 4.3 Financial Supply Chain Management

This study sought to establish the financial supply chain management adopted by Kenyan low-cost airline firms in Kenya.

#### 4.3.1: Cash Conversion Cycle

The author wanted to identify the extent of agreeableness of study's participants on the statements presented in the questionnaire on the concept of the cash conversion cycle in their firm as depicted in table 4.3.1 below.

As per the outcome, majority of the study's participants agreed that; the collection timeframe for debtors is determined regularly to decrease the accounts receivable days (Mean=4.40); Negotiation of credit facilities from suppliers helps in reducing current liabilities (Mean=4.10); Negotiating favorable payment terms from suppliers/vendors (Mean=3.92); Developing an optimal cash conversion cycle (CCC) through proper cash budgeting and forecasting (Mean=3.46); Extension of credit policies to customers increases cash collection (Mean=3.25); Cash conversion cycles that are shorter are preferable than those that are longer (Mean=3.10) and Regular tracking and computing creditors' repayment period (Mean=3.06) respectively. The findings portray that the cash conversion cycle has a substantial influence on supply chain operations efficiency. It allows airlines to set timeframes for debtor collection in order to reduce accounts receivable days and negotiate credit terms with suppliers in order to reduce current liabilities.

**Table 4.3.1: Agreement level on the various aspects of the cash conversion cycle**

STATEMENT	Mean	Std Dev
Developing an optimal cash conversion cycle (CCC) through proper cash budgeting and forecasting	3.46	0.05
Cash conversion cycles that are shorter are preferable than those that are longer.	3.10	0.18

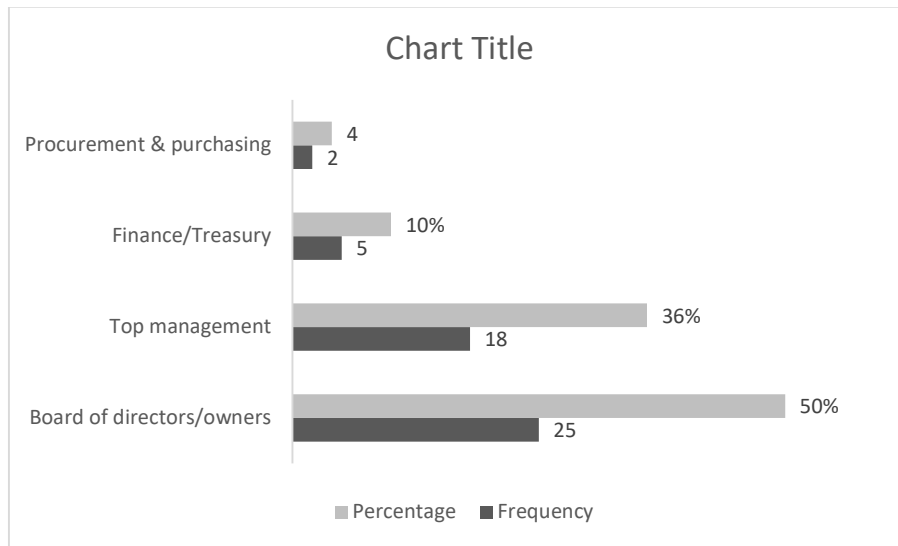
The collection timeframe for debtors is determined regularly to decrease the accounts receivable days	4.40	0.76
Negotiating favorable payment terms from suppliers/vendors	3.92	1.32
Regular tracking and computing creditors' repayment period.	3.06	0.20
Extension of credit policies to customers increases cash collection	3.25	0.01
Negotiation of credit facilities from suppliers helps in reducing current liabilities.	4.10	0.98

**Source: Survey data, 2021**

### **4.3.2 Working Capital Management**

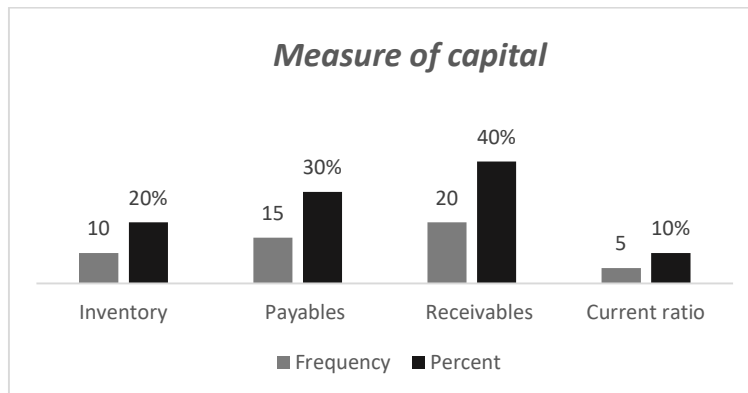
The researcher sought to identify various aspects of working capital management, decision making and implementation and KPIs of measurement in the airlines. The finding was that, the highest number of the respondents (50%) affirmed that board of directors/owners within the airlines are accountable for implementation and decision making, 36% indicated that the top management are responsible, 10% indicated that the finance/ treasury was accountable and 4% of the respondents indicated that procurement& purchasing were accountable for decision making as indicated on figure 4.3.2 below. This shows that within a certain airline, some positions are responsible for working capital management implementation and decision-making, as evidenced by the fact that the majority of respondents said the board of directors/owners of the airline are responsible for the same.

**Figure 4.3.2: Posts accountable for implementation and decision making**



**Source: Researcher, 2021**

**Figure 4.3.2.1: KPIs used to measure working capital**



**Source: Researcher, 2021**

The researcher sought to identify the main KPI's used by management to measure working capital management. Most of the respondents (40%) indicated receivables is the key KPIs used to measure working capital, 30% of the respondents stated that payables are the measure used while 20% indicated that inventory is the key and least (10%) indicated that current ratio

is the measure for capital as indicated on Figure 4.2.2.1 above. This demonstrates that various airlines employ different KPIs to track their working capital.

**Table 4.3.2.2: Areas of working capital that have impact on the operation success.**

STATEMENT	Mean	Std Dev
Working capital management is a key cornerstone of operational success.	3.46	0.05
Working capital is utilized as a key performance quantifier in the airline's internal reporting.	3.10	0.18
Liquidity ratios are kept at an ideal level.	4.40	0.76
The value of current assets is kept greater than the value of current liabilities.	3.92	1.32
The airline evaluates the optimal and minimal levels of liquidity on a regular basis.	3.06	0.20
As a proportion of total assets, the company sustains a low level of current assets.	3.25	0.01
The company keeps a high amount of current liabilities in relation to total assets.	4.10	0.98
The company's long-term investments are used to finance current assets.	3.33	0.77

**Source: Survey data, 2021**

To find out the respondents' take on the various areas of working capital management that have the most impact on operational success of a given airline, the findings shows that majority of the responded believe that; Liquidity ratios must be kept at an ideal level (Mean=4.40), the company should keep a high amount of current liabilities in relation to total assets (Mean=4.10), the value of current assets should be kept greater than the value of current liabilities. (Mean=3.92), Working capital management is a key cornerstone of operational success (Mean=3.46), The company's long-term investments should be used to finance current assets (Mean=3.33), As a proportion of total assets, the company must maintain a low level of current assets (Mean=3.25), and Working capital should be used as a key performance



measurement in an airline's internal reporting (Mean=3.10) respectively. This suggests that majority of the airlines have a working capital management system, as evidenced by the fact that the majority of respondents use liquidity ratios that are kept at an optimal level. Table 4.3.2.2 above.

#### **4.3.3: Procure to Pay Cycle (P<sub>2</sub>P)**

The respondent's feedback were interpreted with the intent of computing the means and deviations of the common feedbacks so as to establish the effect of management of the procure to pay cycle on operational success of a given airline. The findings show that, alignment of buyer and supplier objectives through participation in system implementation (Mean=4.05), development of a standardized procure to pay cycle (P<sub>2</sub>P) (Mean=4.00), Integration of the procure to pay cycle with payment solutions like ERP, TMS and Bank/lender platforms (Mean=3.34), and streamlined O<sub>2</sub>P/O<sub>2</sub>C cycles as a result of automated invoicing i.e., 3-way matching (Mean=3.25) are the areas of P<sub>2</sub>P cycle that impact the operational success of low-cost airlines. The majority of respondents feel that aligning buyer and supplier objectives through participation in system implementation as part of procure to pay cycle has an influence on the operational system, as evidenced by these findings on table 4.3.3 below.

**Table 4.3.3: Degree of agreeableness on areas of procure to pay cycle that impact operational success.**

<b>STATEMENT</b>	<b>Mean</b>	<b>Std Dev</b>
Development of a standardized procure to pay cycle (P2P)	4.00	0.56
Integration of the procure to pay cycle with payment solutions like ERP, TMS and Bank/lender platforms	3.34	0.77
Streamlined O2P/O2C cycles as a result of automated invoicing i.e., 3-way matching.	3.25	0.45
Alignment of buyer and supplier objectives through participation in system implementation.	4.05	0.34

**Source: Survey data, 2021**

#### **4.3.4: Capital Expenditure**

The study aimed at ascertaining the capital expenditure policies adopted by low-cost airline firms in Kenya beginning from decision making, capital budgeting reviews and approaches.

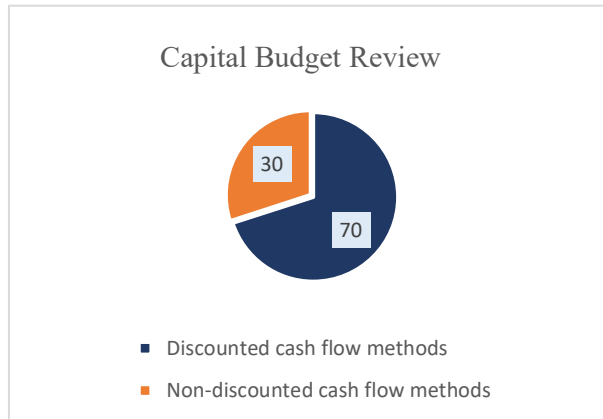
The highest number of the respondents (50%) indicated that Finance/Treasury within the airlines are accountable for capital expenditure decisions and implementation, 30% indicated that Board of directors/owners are responsible and 10% indicated that Top management and procurement & purchasing respectively were accountable. This shows that within a certain airline, some roles are in charge of capital expenditure implementation and capital expenditure choices as tabulated in 4.3.4 below.

**Table 4.3.4: Position responsible for capital expenditure decisions and implementation**

	<b>Frequency</b>	<b>Percentage</b>
Board of directors/owners	15	30
Top management	5	10
Finance/Treasury	25	50
Procurement & purchasing	5	10
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Survey data, 2021**

**Figure 4.3.4.1: Capital budgeting review**



**Source: Researcher, 2021**

Most of the respondents 70% responded that discounted cash flow methods are what their firm employs for capital budgeting review whereas the rest 30% responded that their firm use the non-discounted cash flow methods as seen on figure 4.3.4.1 above. This illustrates that capital budgeting review is maximized differently considering different airline firms.

#### **4.3.4.2 Capital Budgeting Approaches.**

In order to further determine the numeric number that corresponds to the frequency which the airlines employ, the participants were requested to provide their agreement level of the diverse capital budgeting decisions. The feedback were ranked using a 5-point Likert scale where: 1- Always, 2- Mostly, 3- Often, 4- Seldom and 5- Never and the outcome are tabulated in 4.3.4.2.

**Table 4.3.4.2: Frequency of the capital budgeting approaches.**

STATEMENT	Mean	Std Dev
Accounting Rate of Return (ARR)	4.00	0.54
Payback Method (PB)	4.00	0.66
Discounted Payback Method (DPB)	3.98	0.98

Modified Internal Rate of Return (MIRR)	3.67	0.89
Net Present Value (NPV)	4.01	0.16
Internal Rate of Return (IRR)	3.70	0.12
Net Present Value Index (NPV/Initial capital)	3.99	0.22

**Source: Survey data, 2021**

The outcome show that, Net Present Value (NPV) (Mean=4.01), Accounting Rate of Return (ARR), Payback Method (PB) (Mean=4.00) respectively, Net Present Value Index (NPV/Initial capital) (Mean=3.99), Discounted Payback Method (DPB) (Mean=3.98), Internal Rate of Return (IRR) (Mean=3.70), and Modified Internal Rate of Return (MIRR) (Mean=3.67) as the main capital budgeting approaches. The majority of respondents use Net Present Value (NPV) for capital methods, according to these findings. This demonstrates that various airlines have varied methods to capital budgeting.

#### **4.3.4.3. Capital Budgeting Decisions**

From the findings respondents responded that, Marketing programs to enhance brand recognition and to promote product or service (Mean=4.53), restructuring of the supply chain (Mean=4.30), make or buy decision (Mean=4.10), Developing or discontinuing new product or service (Mean=4.00), Acquisition or disposal of assets(Mean=3.50), Purchase (or sale) of plant & equipment (Mean=3.42), Entry into new markets( Mean=3.36) and Acquisition or disposal of new premise, property, lease or rental (Mean=3.01) respectively as the capital budgeting decisions. These findings demonstrate that the majority of respondents use marketing initiatives to increase brand awareness and promote a product or service as a capital budgeting choice. Table 4.3.4.3 below. As a result, capital budgeting decisions are critical, and each airline employs different techniques to meet its goals.

**Table 4.3.4.3: Various capital budgeting decisions.**

<b>Capital budgeting decisions</b>	<b>Mean</b>	<b>Std Dev</b>
Make or buy decisions	4.10	0.78
Acquisition or disposal of assets	3.50	0.86
Purchase (or sale) of plant & equipment	3.42	0.23
Acquisition or disposal of new premise, property, lease or rental	3.01	0.98
Developing or discontinuing new product or service	4.00	0.22
Marketing programs to enhance brand recognition and to promote products or service	4.53	0.23
Restructuring of the supply chain	4.30	0.12
Entry into new markets	3.36	0.44

**Source: Survey data, 2021**

The findings show that, Development of an optimum capital expenditure policy (Mean=4.32), CaPeX projects be completed on time and on budget (Mean=4.23), the organization has saved money by implementing CaPeX initiatives (Mean=4.00), and regular estimation of cost of capital can be achieved through WACC, CAPM or APT (Mean=3.56) respectively have impact on the operational success. As a result of these findings, the majority of respondents feel that developing an optimal capital spending policy has an influence on operational performance. The capital expenditure component of every airline has a distinct influence on operational performance in different aspects, and the airlines also have different perspectives on the subject.

**Table 4.3.4.4 Degree of believe on areas of capital expenditure aspects that impact operational success.**

STATEMENT	Mean	Std Dev
Development of an optimum capital expenditure policy.	4.32	0.87
CaPeX projects are finished using the set budgets and on time	4.23	0.78
The organization has saved money by implementing CaPeX initiatives.	4.00	1.10
Regular estimation of cost of capital can be achieved through WACC, CAPM or APT	3.56	0.56

**Source: Survey data, 2021**

#### **4.3.5 Demand and Supply Market Analysis**

Outcome from the table above shows that most of the responded that; Pricing is computed as a percentage above cost (mark-up) (Mean=4.52), forces of market demand & supply determines the price (Mean=4.46), Competition is a key performance indicator in the supply and demand analysis (Mean=3.56), Regular demand and supply analysis helps in staying ahead of the competition (Mean=3.30) and Demand planning enables better visibility of supply chain costs (Mean=3.24) as the areas of demand and supply that impact operational systems. The data demonstrate that the degree of belief in demand and supply has an influence on operational success, and most airlines use a percentage over cost pricing model.

**Table 4.3.5 Areas of demand and supply that impacts operational success.**

STATEMENT	Mean	Std Dev
-----------	------	---------

Forces of market demand & supply determines the price	4.46	0.15
Pricing is determined from prevailing market prices	4.50	0.23
Pricing is computed as a percentage above cost (mark-up)	4.52	0.56
Promotional campaigns like advertising and price reduction increase sales	3.52	0.78
Competition is a key performance indicator in the supply and demand analysis	3.56	0.89
Regular demand and supply analysis helps in staying ahead of the competition	3.30	0.12
Demand planning enables better visibility of supply chain costs	3.24	0.77

**Source: Survey data, 2021**

#### **4.4 Operational Performance**

In order to further determine the numeric number that corresponds to the demand planning elements that affect supply chain cost reduction, the participants were requested to specify the level of understanding of their airline’s operational performance management. The feedback were rated on a four-point Likert scale with: 1- very large extent, 2- Large extent, 3- Little extent and, 4- No effort and the results are tabulated in 4.4.1

##### **4.4.1 Cost Saving**

From the findings respondents responded on the demands planning elements that; Sales inventory and operations planning (Mean=4.57), Supply chain integration (Mean=4.38), Market intelligence and information sharing (Mean=4.00), Materials requirement planning (Mean=3.88), and Maximization on ancillary revenue sources (Mean=3.66) respectively. As per the outcome a bigger percentage of respondents believe that sales inventories and operations planning are the determinants of SC and cost reduction.

This demonstrates that the demand planning aspect has a distinct influence on supply chain cost reduction in each airline.

**Table 4.4.1: Demand planning elements that affect supply chain cost reduction**

<b>STATEMENT</b>	<b>Mean</b>	<b>Std Dev</b>
Sales inventory and operations planning	4.57	0.77
Supply chain integration	4.38	0.68
Market intelligence and information sharing	4.00	1.23
Materials requirement planning	3.88	0.68
Maximization on ancillary revenue sources	3.66	0.90

**Source: Survey data, 2021**

#### **4.4.2: Customer Satisfaction**

In order to further ascertain the level of customer of satisfaction on the services provided, the respondents were requested to indicate the rate that applies to their airline’s operations. The responses were ranked on a 5-point Likert scale where: 5- Extremely satisfied, 4- Satisfied, 3- Neutral, 2- Dissatisfied and, 1- Extremely dissatisfied and the outcome are illustrated in Table 4.4.2 below

**Table 4.4.2: Rate of customer level of satisfaction on customer service provided**

<b>Customer service</b>	<b>Mean</b>	<b>Std Dev</b>
Highly competent staff (crew)	3.26	0.20
On time performance	4.26	1.00
Helpfulness of support staff through calls, emails	4.20	1.00
Technology (inflight support)	3.25	0.05
Physical facilities i.e., comfortable leg room	3.98	0.30



Quick and prompt delivery of services	4.00	0.98
Ancillary services provided	3.56	0.36
Corporate social responsibility	3.20	0.38
Safety and informative materials availability	4.03	0.80
Customer centricity	4.05	0.90
Employees' attention to detail	4.00	0.89
Customer complaints and disputes are handled with ultimate professionalism	3.99	0.23
<b>PRICING</b>	<b>Mean</b>	<b>Std Dev</b>
Effective and efficient modes of payment	3.98	0.77
Flight price fluctuations are in line with industry requirements	3.26	0.68
More affordable products	3.57	1.23
Pricing is in line with the low-cost model	3.20	0.68
Customer incentives and discounts	3.30	0.50
Consideration of the marketing variables when pricing products	3.00	0.20

**Source: Survey data, 2021**

The results shows that, majority of the participants indicated that they had On time performance( Mean=4.26), Helpfulness of support staff through calls, emails (Mean=4.20), Customer centricity (Mean=4.05), Safety and informative materials availability(Mean=4.05), Quick and prompt delivery of services and Employees' attention to detail (Mean=4.00), Customer complaints and disputes are handled with ultimate professionalism ( Mean=3.99), Physical facilities i.e., comfortable leg room (Mean=3.98), Ancillary services provided (3.56),

Highly competent staff (crew) (Mean=3.26), Technology (inflight support) (Mean=3.25), Corporate social responsibility (Mean=3.20). As a result, the majority of customers expressed pleasure with the services given, and on-time performance service was highly rated, suggesting that consumers were pleased with the airlines' initial performance, which helps to create the kind of connection that most businesses require.

On the pricing rates the respondents rated, Effective and efficient modes of payment (Mean=3.98), More affordable products (Mean=3.57), Customer incentives and discounts (Mean=3.30), Flight price fluctuations are in line with industry requirements (Mean=3.26), Pricing is in line with the low-cost model (Mean=3.20) and Consideration of the marketing variables when pricing products (Mean=3.00) respectively. The majority of customers were happy with the airlines' effective and efficient ways of payment, while the least satisfied were with the inclusion of marketing elements when pricing items. This suggests that airlines should make changes to their services to ensure that customers feel their demands are satisfied.

#### 4.4.2.1 Pricing Strategies

In order to further determine the extent that the subsequent factors impact the choice of pricing strategies employed in the airlines, the participants were asked to show their rate. The responses were rated on a four-point Likert scale where: 1-Very large extent, 2-Large extent, 3-Little extent, 4-No effect. The results are tabulated in 4.4.2.1

**Table 4.4.2.1 Extent that the subsequent factors impact the choice of pricing strategies**

STATEMENT	Mean	Std Dev
Competitive policies and strategies	4.00	0.80

Market demand and supply analysis	3.90	0.60
Marketing strategies	4.01	1.00
Government policies	3.00	0.50
Company objectives	3.98	0.86
Customer taste and preferences	4.01	1.00
Economic conditions such as inflation and recession	3.36	0.20

**Source: Survey data, 2021**

The outcome shows that majority of the responded that; customer preference and marketing strategies impact the choice of pricing strategies (Mean=4.01), company objectives (Mean=3.98), market demand and supply analysis (Mean=3.90), economic conditions such as inflation and recession (Mean=3.36) and Government policies (Mean=3.00). Marketing techniques, as well as customer taste and preferences, are elements that influence airline pricing strategies, according to the research.

#### **4.4.4: Growth**

In order to further determine the techniques mostly applied in the airlines to determine their growth levels, the respondents were requested to indicate their rate. The feedback was ranked on using a Likert scale where: 1=strongly agree, 2=agree, 3=neutral, 4= disagree, 5=strongly disagree and the outcome are tabulated in 4.4.4

**Table 4.4.4: Rank of growth technique mostly applied**

<b>Growth technique</b>	<b>Mean</b>	<b>Std Dev</b>
Product and service diversification	4.00	1.00

New service and product development	4.00	0.98
New market penetration	3.98	0.66
Mergers and collaborations	3.99	0.70
New route development	3.26	0.23
Acquisition of new aircrafts (fleet)	3.00	0.10

**Source: Survey data, 2021**

The study findings shows that majority of the responded that; product service diversification and new service and product development are the techniques employed by airlines to help them grow (Mean=4.00), merges and collaborations (Mean=3.99), new market penetration (Mean=3.98) new route development (Mean=3.26) and acquisition of new aircrafts (fleet) respectively. The data reveal that airlines employ a variety of strategies to help them expand, but the majority favor product service diversification and new service and product development as a corporate strategy.

**Table 4.4.4.1: Consideration that might have led the airlines adopt one growth strategy over another**

<b>Growth strategy</b>	<b>Mean</b>	<b>Std Dev</b>
Competition	4.27	1.00
Economic factors i.e., recession, inflation	3.10	0.45
Political factors	3.20	0.26
Technological advancement	3.10	0.32
Change in senior management	4.00	0.98
Resource availability	4.00	0.98
New research and development investments	4.10	1.00

**Source: Survey data, 2021**

Table 4.4.4.1 portrays that the majority of the study’s participants that; competition was the major consideration that led to adoption of new growth strategy (Mean=4.27), change in new management and resource availability (Mean=4.00), political factors (Mean=3.20) and that economic factors and technological advancement (Mean=3.10) respectively. Thus, it demonstrates that competition is a core indicator in airlines' decision to pursue a expansion strategy

#### **4.4.4.2. Limits of company expansion imposed by government policy**

The study found 70 percent said that government policy does not limit company expansion, whereas the other 30 percent said that government policy does restrict company expansion. This shows that companies can only develop so much before the government becomes involved in policing the techniques and strategies the companies use to acquire new assets.

#### 4.4.4.3: Impact of Marketing Variables on Growth

In order to further determine the degree of believe that marketing variables impact company growth, the feedback was rated using a five-point Likert scale and the outcome are tabulated in 4.4.4.3

**Table 4.4.4.3: Degree of believe that marketing variable impact company growth**

<b>Marketing variable</b>	<b>Mean</b>	<b>Std Dev</b>
The pricing of goods and services.	4.00	0.68
Implementing sales and marketing strategies	4.10	0.77
Customer acquisition and retention marketing tactics	4.20	1.23
Effective supply chain networks	3.10	0.68
Market size constraints	3.26	0.55

From the outcome in the table above, the majority of the respondents believed that; Customer acquisition and retention marketing tactics impact company growth (Mean=4.20), implementing sales and marketing strategies (Mean=4.107), the pricing of goods and services (Mean=4.00), market size constrains (Mean=3.26) and effective supply chain networks (Mean=3.10) respectively. The findings show that customer acquisition and retention marketing tactics are critical in impacting the company's growth.

**Table 4.4.4.4: Measure of growth in the airline**

<b>Measure</b>	<b>Frequency</b>	<b>Percentage</b>
By using income	10	20
By using sales	40	80
<b>Total</b>	<b>50</b>	<b>100</b>

The majority of respondents (80%) said that sales are used to measure their company's growth, while 20% said that income is used to assess their company's growth. This shows that sales are the primary indicator of a company's growth.

#### **4.5. Financial supply chain management and operational performance**

The researcher used a multiple regression analysis to evaluate the link between variables (independent) in Kenyan low-cost airline businesses' financial supply chain management and operational performance (dependent). To code, input, and compute the measurements of the multiple regressions for the study, the researcher used the statistical package for social sciences (SPSS V 17.0).

The coefficient of determination describes how much variation in the dependent variable (operational performance) can be explained by changes in the independent variables, or the percentage of variation in the dependent variable (operational performance) that can be explained by all the independent variables (working capital management, demand and supply market analysis, cash conversion cycle, capital expenditure and purchasing).

##### **4.5.1 Model Summary**

**Table 4.5.1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.919	0.845	0.789	0.6273

The working capital management, demand and supply market analysis, cash conversion cycle, capital expenditure and purchasing explain only 84.5% of the financial supply chain management and operational performance in Kenyan low-cost airline companies as portrayed by the  $R^2$ . This infers that different factor not explored in this study attributes to 15.5% of the financial supply chain management and operational performance in Kenyan low-cost airline

companies. Hence supplementary studies need to be conducted to ascertain the diverse factors (15.5%) that affect operational performance.

#### 4.6 ANOVA Results

**Table 4.6.1: ANOVA of the Regression**

<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	2.534	2	1.267	6.53	.000 <sup>a</sup>
	Residual	9.307	48	0.194		
	<b>Total</b>	<b>11.841</b>	<b>50</b>			

The significance value is 0.000 which is less than 0.05 inferring that the model is statistically pertinent in predicting how working capital management, demand and supply market analysis, cash conversion cycle, capital expenditure and purchasing affect operational performance. The F critical at 5% level of significance was 6.23. Since F calculated (1.267) is lower than the F critical (value = 6.53), this shows that the overall model was significant.



#### 4.7 Coefficient of determination

**Table 4.7.1: Coefficient of determination**

Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	1.147	0.2235		5.132
	Working Capital Management	0.752	0.1032	0.1032	7.287
	Demand and Supply market analysis	0.487	0.3425	0.1425	3.418
	Cash Conversion Cycle	0.545	0.2178	0.1178	4.626
	Capital expenditure	0.439	0.1937	0.0937	4.685
	Purchasing	0.422	0.1834	0.1034	4.678

**Source: Survey data, 2021**

Multiple regression analysis was conducted as to determine the correlation between financial supply chain management and operational performance in Kenyan low-cost airline companies. As per the SPSS generated table below, regression equation

$(Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon)$  becomes:

$$(Y = 1.147 + 0.752X_1 + 0.487X_2 + 0.545X_3 + 0.439X_4 + 0.422X_5)$$

The regression equation established infers that taking all five factors into consideration, (working capital management, demand and supply market analysis, cash conversion cycle, capital expenditure and purchasing) constant at zero, operational management will be 1.147.

The analyzed outcome also portray that taking all other independent variables at zero, a unit increase in Working Capital Management will lead to a 0.752 increase in operational performance; a unit increase Demand and Supply market analysis will lead to a 0.487 increase in operational performance; a unit increase in Cash Conversion Cycle will lead to a 0.545 increase in operational performance; a unit increase in Capital expenditure will lead to a 0.439 increase in operational performance while a unit increase in Purchasing will lead to 0.422 increase in operational performance.

This implies that working capital management accounts for the most to the operational performance trailed by demand and supply market analysis. Working capital management, demand and supply market analysis, cash conversion cycle, capital expenditure and purchasing were also significant in operational performance.

#### **4.8 Discussions of findings**

The outcome of the study was discussed as per the objectives.

##### **4.8.1 Working capital and its influence on operational performance.**

The analysis of growth was done through descriptive and regression analysis. The majority of the respondents (Mean=4.40) indicated that Liquidity ratios are kept at an ideal level impact operational performance. The regression analysis indicated that working had an affirmative and significant effect on operational performance. The results were corroborated by these statistics which gave,  $\beta = 0.752$ ,  $t = 7.287$ , and  $p < 0.000$ . In line with the study, according to FTC Foulks Lynch, working capital management (WCM) considers the management of current assets and obligation aspects in order to decrease the risk of bankruptcy while enhancing return on assets (2005). As a result, WCM aims to create the best possible balance among each of the working capital components, namely payables, cash, inventory, and receivables, in order to save money and keep the company afloat. In their study on how FSCM impacts companies' cost performance, Wuttke et al, (2013) discovered that an entity with a lower CCC is also successful

since it will often flip its working capital and, as a consequence, the return on capital employed will be greater.

#### **4.8.2 Demand and supply market analysis and its influence on operational performance.**

The descriptive and regression analyses were used to examine this variable. Based on the data, the majority of respondents (Mean=4.52) believe that pricing calculated as a percentage over cost has an impact on operational success. These findings were backed up by regression analysis, which revealed that cost cutting has an impact on operational performance. The results were confirmed by the following statistics:  $\beta = 0.487$ ,  $t = 3.418$ , and  $p < 0.000$ . In line with the study, Eastin and Arbogast (2011) opine that demand and supply market analysis is studying how buyers and sellers collaborate to determine transaction volumes and costs. This is accomplished by analyzing historical sales data that has been adjusted for climate, seasonality, and special events, all of which are factors that are frequent in the aviation business. The quantity of supply and demand for a given product, according to Neil (2018), is one of the most important economic influences on sales volume, price, revenue, profit margin, and customer satisfaction. According to Eastin and Arbogast (2011), some firms prioritize short-term profit maximization, while others focus on building a large client base and fostering loyalty by giving low starting pricing. In any case, a company must create suitable pricing strategies and properly advertise its product's value proposition to improve customer satisfaction and assure growth across all of its activities in order to capitalize on market opportunities. Yang and Birge (2011) established a model that describes how business organizations interact in order to efficiently manage financial risks in the SC system. It was found that, in the face of demand and supply uncertainty, FSCM may be enhanced more effectively by using trade credit and developing suitable risk-sharing arrangements.

#### **4.8.3 Cash conversion and its influence on operational performance.**

The descriptive and regression analyses were used to examine this variable. According to the data, the majority of respondents (Mean=4.40) believe that the collection timeframe for debtors is established on a regular basis in order to reduce accounts receivable days, which has an influence on operational performance. The cash conversion has an impact on operational performance, according to the regression study. The regression analysis results of  $\beta = 0.545$ ,  $t = 4.626$ , and  $p < 0.000$  backed up this claim. According to the study, Proper WCM during the cash conversion cycle, Preve, Sarria-Allende (2010) suggested that it is a possible performance indicator that will be used to evaluate the efficiency of a company organization managing its liquid assets. According to Ross et al. (2008), reducing the length of time cash is locked up in the CCC improves a firm's profitability and market value, stressing the necessity of good cash management strategies in improving operational performance.

#### **4.8.4 Capital expenditure and its influence on operational performance.**

The descriptive and regression analyses were used to look at this variable. The majority of respondents (Mean=4.32) believe that creating an optimum capital spending policy has an impact on operational performance, according to the data. Capital spending has an impact on operational performance, according to the regression analysis. The regression analysis statistics,  $\beta = 0.439$ ,  $t = 4.685$ , and  $p < 0.000$ , backed up this theory. According to the findings of the study, capital expenditure occurs when a firm invests its resources to purchase fixed assets or improve the value of present fixed assets with a useful life that extends surpassing the taxable year.

According to Mwangi and Wachanga (2014), for investors to consider a capital expenditure acquisition as a feasible spend for an organization, it must correlate to a realistic and attractive ROI that is consistent with the firm's cost-cutting operational plan. Al Farouque, Tony,

Dunstan, and Karim (2005) and Craig & Günter (2016) ascertained that optimal capital expenditure has an affirmative impact on operational performance as quantified by return on assets (ROA). They also found that a well-structured FSCM provides a good framework for managing the arising prospects of collaborative investment options, such as increased capital expenditure, joint debt management, and means to mutually sway working capital costs. According to Amalia Fachrudin & Absah (2021), capital expenditures are typically expected to provide future economic benefits that will last longer than a single tax or financial year, so the capital budgeting process should ensure that capital expenditure decisions are made based on investment options that will result in high profitability and cost savings for the company.

#### **4.8.5 Purchasing and its influence on operational performance.**

The descriptive and regression analyses were used to examine this variable. As per the results, the majority of study's participants (Mean=4.05) believe that matching buyer and supplier objectives through participation in system implementation has an impact on operational performance. The outcome of the regression analysis disclosed that purchasing had an impact on operational performance. The regression analysis figures of  $\beta = 0.422$ ,  $t=4.678$ , and  $p < 0.000$  backed up this claim. According to the study, purchasing procedures that are both effective and efficient, as well as collaborative connections, are essential in attaining corporate goals, cost reduction, and operational performance, according to Amalia, Fachrudin, and Absah (2021). Wagner (2016), for example, noted that, because the average cost of purchases and services in most businesses exceeds 50% to 60% of the total cost of operations, effective product management, information flow throughout the chain and the full financial chain are critical.

## CHAPTER FIVE

### SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter showcases the summary, conclusion and recommendations on financial supply chain management and operational performance in the low-cost airline firms in Kenya

#### 5.2 Summary

The goal of this study was to see how financial supply chain management affected the operational performance of Kenya's low-cost airlines. The study's target population included 33 Kenyan low-cost carriers. The study achieved all of its specific objectives as mentioned in Chapter one. The Kenyan airline market had more low-cost carriers than full-cost carriers, according to findings on type of operation. It was also confirmed that the responders had a background in finance or supply chain management, and hence were trustworthy in providing the researcher with the information he needed. Last but not least, the majority of employees employed by these airlines had significant experience, having served in the industry for a period exceeding 6 years, indicating that they were experts in the sector.

Financial supply chain management is favorably associated to organizational success, according to the findings. As a result, supply chain and finance executives should make significant investments in FSCM to improve organizational performance. The research also found that having a good working capital management policy is linked to a good organization's success. As a result, businesses should maintain optimal liquidity ratios, with larger levels of current liabilities compared to overall asset value, and current assets retained in excess of current liabilities' value.

Study finding also shows that supply and demand market analysis was also critical to operational performance whereby the process was positively related with organization performance. The market forces of demand and supply determine the price and competition

that is a key performance indicator in supply and demand analysis, and demand planning provides better visibility of supply chain costs.

The study also found that capital spending improved operational performance because, in order to save money through CaPeX initiatives, airlines must create an optimal capital expenditure strategy, finish CaPeX projects on time and on budget, and conduct frequent cost of capital estimations. This was accomplished by negotiating lower prices to enhance cost saving. To get the most out of their investment, companies should always review their capital expenditure initiatives using market pricing indexes to realize positive values for their investments.

Finally, maintenance of optimum cash conversion cycle was positively related to organization performance as a consequence of automated invoicing an aspect of the P<sub>2</sub>P cycle. Hence the procurement process was streamlined, allowing airlines to better match their buyer and supplier objectives, as well as their systems and payment solutions like ERP TMS and Bank/lenders platforms, in order to improve their operational efficiency.

### **5.3 Conclusions**

The outcomes of the study showed that FSCM has a major beneficial impact on organizational performance since it serves as a "blueprint" for the supply chain and finance departments to satisfy the needs of other departments. The research also shows that FSCM appears to have a significant impact on organizational performance. Low-cost airlines, in particular, with effective FSCM policies, are more likely to achieve better levels of operational efficiency.

The researcher also concluded that demand and supply analysis was a key strategy required to enhance the operational performance in low-cost airline firms in Kenya since pricing largely depends on it. Cash conversion also had an impact on performance because the airlines had to have a debtor collection timeframe that was determined on a regular basis to reduce accounts receivable days, negotiate credit facilities from suppliers to help reduce current liabilities and

negotiate favorable payment terms from suppliers/vendors. Capital spending was essential in improving operational performance. Capital spending improved operational performance because, in order to save money through CaPeX initiatives, airlines must create an optimal capital expenditure strategy, finish CaPeX projects on time and on budget, and conduct frequent cost of capital estimations. Purchasing also had a substantial influence on operational success. The study also revealed that purchasing was a critical component of airlines' operational performance in aligning buyer and supplier objectives through participation in system implementation, development of a standardized procure to pay cycle, integration of the procure to pay cycle with payment solutions such as ERP TMS and bank/lender platforms, and streamlining the O2P/O2C cycle.

#### **5.4 Recommendations**

According to the findings, FSCM has a favorable impact on organizational performance. As a result, the study advises that FSCM be applied in businesses to enhance operational performance. It is recommended that low-cost airlines must maintain an optimum working capital, cash conversion cycle and capital expenditure policies. They should also conduct regular demand and supply markets analyses so as to have visibility in market requirements to ensure customer satisfaction. The procure to pay cycle should also be automated in order to enhance supplier/vendor relationships. The implementation of the above FSCM strategies will enhance operational performance and as a result of this their business competitiveness in the aviation industry will improve significantly.

#### **5.5 Suggestions for further studies**

Since this study was on the FSCM and operational performance in the low-cost airline firms in Kenya, the study recommends that;



The study only analyzed Kenyan low-cost airline firms. An identical study could be conducted in different airlines outside of Kenya for comparison and to enable for generalization of the outcome on FSCM and operational performance in low-cost carriers. Similarly, the conclusions were dependent on a limited sample size, which might have affected the nature of the outcome. It is thus necessary to increase the sample size and conduct comparable study with the addition of larger airlines in order to make conclusions and offer appropriate data for policy formulation.

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## Appendices

### Appendix I: Questionnaire

This research is required for partial fulfilment of the University of Nairobi's Master of Business Administration program. Please take the time to complete all of the questions on this questionnaire. The feedback you submit will be kept with absolute privacy and will only be used for the purposes of this research project. The aim of this research is to look into the financial supply chain management and operational performance of Kenyan low-cost airlines.

Your airline has been chosen as one of the respondents in this research. The findings of this study will offer management and other researchers' crucial information on the financial supply chain management practices employed by the Kenyan low-cost airlines.

#### **Section I: Background Information**

Kindly where applicable, please tick (✓) the box that most applies to your airline.

1. Name of the airline (Optional).....  
.....
2. How many aircrafts does your airline have in its fleet?  
.....
3. What is your position/title in the organization?  
.....
4. What is your educational background?
  - Procurement and Supply Chain Management
  - Logistics and Transportation
  - Finance and Accounting
  - Legal
  - Other
5. How many years have you worked in the airline?
  - 0-5 Yrs.
  - 6-10 Yrs.
  - Over 11 Yrs.
6. What percentage of your total flights are domestic?

- Less than 10%
  - 11% - 30%
  - 31% - 49%
  - Above 50%
7. What percentage represents growth in passenger numbers in the past 5 years?
- Less than 10%
  - 11% - 30%
  - 31% - 49%
  - Above 50%
8. The airline operates as a: -
- Low-cost carrier
  - Full- cost carrier
  - Cargo carrier
  - Other

**Section II: Financial Supply Chain Management**

Financial supply chain management is required by organizations in order to have efficient supply chain operations.

*(Key: SA- Strongly agree, A - Agree, UD- Undecided, D- Disagree, SD- Strongly disagree)*

9. To what degree do you believe that the following areas of cash conversion cycle have an impact on the operational success of your airline? Tick (√) as appropriate.

STATEMENT	SA	A	UD	D	SD
Developing an optimal cash conversion cycle (CCC) through proper cash budgeting and forecasting					
Cash conversion cycles that are shorter are preferable than those that are longer.					
The collection timeframe for debtors is determined regularly to decrease the accounts receivable days					
Negotiating favorable payment terms from suppliers/vendors					

Regular tracking and computing creditors' repayment period.					
Extension of credit policies to customers increases cash collection					
Negotiation of credit facilities from suppliers helps in reducing current liabilities.					

10. Which post within the airline is accountable for implementation and decision making of working capital management?

- Board of directors/owners
- Top management
- Finance/Treasury
- Procurement & purchasing
- Other

11. What key KPIs does your airline use to measure working capital?

- Inventory
- Payables
- Receivables
- Current ratio
- Any other

12. To what degree do you believe that the following areas of working capital management impacts on the operational success of your airline? Tick (√) as appropriate.

STATEMENT	SA	A	UD	D	SD
Working capital management is one of the cornerstones of operational success.					
Working capital is used as a key performance measurement in your airline's internal reporting.					
Liquidity ratios are kept at an ideal level.					
The value of current assets is kept greater than the value of current liabilities.					

The airline evaluates the optimal and minimal levels of liquidity on a regular basis.					
As a proportion of total assets, the company maintains a low level of current assets.					
The company keeps a high amount of current liabilities in relation to total assets.					
The company's long-term investments are used to finance current assets.					

13. To what degree do you believe that the following areas of the procure to pay cycle impacts on the operational success of your airline? Tick (√) as appropriate.

STATEMENT	SA	A	UD	D	SD
Development of a standardized procure to pay cycle (P2P)					
Integration of the procure to pay cycle with payment solutions like ERP, TMS and Bank/lender platforms					
Streamlined O2P/O2C cycles as a result of automated invoicing i.e., 3-way matching.					
Alignment of buyer and supplier objectives through participation in system implementation.					

14. Which position within the airline is responsible for capital expenditure decisions and implementation?

- Board of directors/owners
- Top management
- Finance/Treasury
- Procurement & purchasing
- Other

15. What method of capital budgeting review does your firm employ?

- Discounted cash flow methods

- Non-Discounted cash flow methods
- Other (Please outline below)

.....  
 .....

16. Please select the numeric number that corresponds to the frequency with which your airline uses these capital budgeting approaches. Tick (√) as appropriate.

*(Key: 1-Always, 2-Mostly, 3-Often, 4-Seldom, 5-Never)*

<b>Capital Budgeting Technique</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Accounting Rate of Return (ARR)					
Payback Method (PB)					
Discounted Payback Method (DPB)					
Modified Internal Rate of Return (MIRR)					
Net Present Value (NPV)					
Internal Rate of Return (IRR)					
Net Present Value Index (NPV/Initial capital)					

17. Please select the numeric number that corresponds to the frequency with which your airline employs these capital budgeting decisions. Tick (√) as appropriate.

*(Key: 1-Always, 2-Mostly, 3-Often, 4-Seldom, 5-Never)*

<b>Capital budgeting decisions</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Make or buy decisions					
Acquisition or disposal of assets					
Purchase (or sale) of plant & equipment					
Acquisition or disposal of new premise, property, lease or rental					
Developing or discontinuing new product or service					
Marketing programs to enhance brand recognition and to promote products or service					
Restructuring of the supply chain					
Entry into new markets					

18. To what degree do you believe that the following areas of the capital expenditure aspects impact the operational success of your airline? Tick (√) as appropriate.

STATEMENT	SA	A	UD	D	SD
Development of an optimum capital expenditure policy.					
CaPeX projects are completed on time and on budget.					
The organization has saved money by implementing CaPeX initiatives.					
Regular estimation of cost of capital can be achieved through WACC, CAPM or APT					

19. To what degree do you believe that the following areas of demand and supply impacts on the operational success of your airline? Tick (√) as appropriate.

STATEMENT	SA	A	UD	D	SD
forces of market demand & supply determines the price					
Pricing is determined from prevailing market prices					
Pricing is computed as a percentage above cost (mark-up)					
Promotional campaigns like advertising and price reduction increase sales					
Competition is a key performance indicator in the supply and demand analysis					
Regular demand and supply analysis helps in staying ahead of the competition					
Demand planning enables better visibility of supply chain costs					

### **SECTION III: Operational Performance**

Kindly answer the following questions to get a better understanding of your airline's operational performance management.

20. In your business, how much do the following demand planning elements affect supply chain cost reduction? Tick (√) as appropriate.

**(Key: 1-Very large extent, 2-Large extent, 3-Little extent, 4-No effect**

STATEMENT	1	2	3	4
Sales inventory and operations planning				
Supply chain integration				
Market intelligence and information sharing				
Materials requirement planning				
Maximization on ancillary revenue sources				

21. Please tick to rate your customers' level of satisfaction with the following aspects of customer services provided by your airline. Tick (√) as appropriate.

**Where; 5= extremely satisfied, 4=satisfied, 3=neutral, 2=dissatisfied, 1=extremely dissatisfied.**

Customer service	1	2	3	4	5
Highly competent staff (crew)					
On time performance					
Helpfulness of support staff through calls, emails					
Technology (inflight support)					
Physical facilities i.e., comfortable leg room					
Quick and prompt delivery of services					
Ancillary services provided					
Corporate social responsibility					

Safety and informative materials availability					
Customer centricity					
Employees' attention to detail					
Customer complaints and disputes are handled with ultimate professionalism					
<b>PRICING</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Effective and efficient modes of payment					
Flight price fluctuations are in line with industry requirements					
More affordable products					
Pricing is in line with the low-cost model					
Customer incentives and discounts					
Consideration of the marketing variables when pricing products					

22. Kindly indicate the extent that the subsequent factors impact the choice of pricing strategies that your airline employs. Tick (√) as appropriate.

*(Key: 1-Very large extent, 2-Large extent, 3-Little extent, 4-No effect)*

<b>STATEMENT</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Competitive policies and strategies				
Market demand and supply analysis				
Marketing strategies				
Government policies				
Company objectives				
Customer taste and preferences				
Economic conditions such as inflation and recession				



23. To help your airlines grow, a variety of techniques may be employed. Please rank the methods that apply the most to your company on a scale of 1 to 5 where;

*1=strongly agree, 2=agree, 3=neutral, 4= disagree, 5=strongly disagree*

<b>Growth technique</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Product and service diversification				
New service and product development				
New market penetration				
Mergers and collaborations				
New route development				
Acquisition of new aircrafts (fleet)				
Any other (please specify)				

24. The following considerations might have led airlines to adopt one growth strategy over another. Please select those that best fit your needs on a scale of 1 to 5. Tick (√) as accordingly.

<b>Growth strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Competition				
Economic factors i.e., recession, inflation				
Political factors				
Technological advancement				
Change in senior management				
Resource availability				
New research and development investments				
Any other (please specify)				

25. Are there any limits on your company's expansion imposed by government policy?

Yes

No

If yes, kindly mention some of them.....

.....

26. To what degree do you believe the following marketing variables impact your company's growth? Tick (√) as appropriate.

*1=strongly agree, 2=agree, 3=neutral,4= disagree, 5=strongly disagree*

<b>Marketing variable</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
The pricing of goods and services.				
Implementing sales and marketing strategies				
Customer acquisition and retention marketing tactics				
Effective supply chain networks				
Market size constraints				
Any other (please specify)				

27. How does your airline measure growth in the company?

- By using income
- By using sales
- Other (kindly indicate below)

.....

## Appendix II: Low-cost airlines in Kenya

S/No	Company
1	Aberdair Aviation
2	Acariza Aviation
3	Aeronav Air Services
4	AeroSpace Consortium
5	<u>African Express Airways</u>
6	<u>Airkenya Express</u>
7	Airlink (Kenya)
8	AirTraffic Africa
9	<u>ALS - Aircraft Leasing Services</u>
10	<u>Astral Aviation</u>
11	<u>Blue Bird Aviation (Kenya)</u>
12	<u>Blue Sky Aviation Services</u>
13	Capital Airlines (Kenya)
14	DAC East Africa
15	<u>Fly540</u>
16	<u>Fly-SAX</u>
17	Global Airlift
18	Great Airways
19	<u>Jambojet</u>
20	Jubba Airways (Kenya)
21	KASAS
22	<u>Kenya Airways</u>
23	Knight Aviation
24	LadyLori
25	Pan African Airways
26	Phoenix Aviation (Kenya)
27	Queensway Air Services
28	Ribway Cargo Airlines
29	Safari Express Cargo
30	Safe Air (Kenya)
31	Skyward International Aviation
32	Tamarind Air
33	Trans World Safaris

**Source: IATA (2021)**