INFLUENCE OF LABOR RELATIONS ON PERFORMANCE OF AIRLINE INDUSTRY: A CASE STUDY OF KENYA AIRWAYS LIMITED

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ABSTRACT

The aviation industry performance in Africa is behind from the global aviation industry, accounting only for less than three percent of revenue globally like Revenue Persons Kilometers (RPKs). The profitability of airline is nearly connected to the economic growth and development of a country. The purpose of this study was to establish the influence of labor relations on performance of airline industry by undertaking a case study of Kenya Airways Limited. To achieve this objective, the study adopted descriptive research design. The study targeted 300 employees from the three-management level (senior, middle and lower) working at Kenya Airways. The population was stratified as per position and for each stratum 30% was picked to obtain the sample size of 90. Data was collected by use of questionnaire which was both open and close ended questionnaire. The data was analyzed using descriptive and inferential statistics that covered means, standard deviations and regression analysis. The findings were presented in form of figures and tables followed by clear interpretation and formulation of generalization. The study established that labor relations have positive and significant influence on performance of Kenya Airways. The study concludes that labor relations are critical in performance of the airline industry. The study recommends that Kenya Airways should formulate policies and strategies that make the employees working condition favorable. Kenya Airways should be up to date and in line with the organization goals, mission and vision by so doing the study enhances service delivery, maintains and competitiveness. The policies and strategies used by human resource department should be in line with employee’s needs, expectation and meant to improve the working condition of the employees. Effective communication network should be established at Kenya Airways.

Key Words: *labor relations, performance, airline industry, Kenya Airways Limited*

INTRODUCTION

Organizations operate in an increasingly turbulent environment that comprises of internal and external forces. The internal and external environment of the firm is not statistic but keeps on changing every other time. The changes in these forces of the environment require that an organization to have effective response strategies for survival and performance. Performance compares to the improvement of the share price and the end of year dividend paid by the company, the end year net profit might be chosen by the manager who deals with plans concerning profit share, productivity on labor might be proposed by the production manager and the clients might be the one to propose quality of the products or the attractiveness of the cost (Anitha, 2014).

In Africa, the aviation industry is behind compared to the other aviation industries globally. Over the past years, the aviation industry has increased the number of the customer up to fifty percent and freight traffic expected to grow by eighty percent over the period of 2017 to 2020. This makes Africa to be the 3rd rapid developing region globally when it comes to global traffic having an average of 6.1% when compared to the international average of 5.8%, for Middle East is 7.9% and for Asia Pacific is 6.9%. North America, Latin America and Europe are predicted to have the lower global passenger development of 5.8%, 5.0% and 4.9% (Casey, 2017). The input of air transport goes beyond that of road transportation. Growth in air transportation has a direct link to economic growth through creation of direct and indirect jobs in the industry and other informal sectors such as tourism and related service sectors. With the air transport growing, it has opened up opportunities for local entrepreneurs by creating regional and global economic hubs. In 2010, the aviation industry in Africa led to creating about 7 million jobs (including 250,000 direct jobs) through the effect on travel and tourism which translates to USD. 67.8 billion of the continent's GDP. The African Development Bank Group report (2017) show that the aviation industry impacts on African economies and it has greater potential of growth. During the next 20 years, job creation by the industry is expected to be at 879,000.

According to Thomas (2015), the aviation industry environment is described by the Political Economical Social Technological and Legal (PESTEL) analysis, which assists in analyzing general, long-term airline market influences. This was a preferred tool to analyze the airlines environment. It acted as an analytical tool for knowing the declining market or if it's growing. This helped us understand the effects of political, legal, economic, social and technological factors for the business environment. Government interventions are one of the political factors that affect the airline industry (Sinthupundaja, Chiadamrong & Kohda, 2018). It may slow or hasten air transport operations. Putting into considerations many destinations that airlines fly to internationally, an airline working environment is affected by the political situation of the country they are operating in. Regulations are necessitated so as to protect the interests of customers' like safety regulations and customer's welfare of operations within the airline. The political atmosphere where these airline companies operate in must be favorable for them to survive. Some of the areas worth looking into are but not limited to the tax policy, international trade, war, terrorism (Gaffney, 2016).

STATEMENT OF THE PROBLEM

The profitability of airline is connected to the economic growth and development of a country. There is need of Kenya Airways (KQ) to come out and outline the need for a transformational change to make sure that it endures and succeed since it is operating in an environment that has many obstacles. It is for this reason that Kenya Airways. came up with a strategic plan that made sure that they survive in order to reduce the increased cost and improve their services, Kenya Airways. has many destinations form its JKIA hub that is locally, regional and internationally (Park, Lee, Kwon & del-Pobil, 2015). With reference to appendix ii, this trend is expected to continue in 2019 and 2020 due to a number of determinants, namely strong economic growth, resounding demographic growth, increased urbanization, and the quick growth of the middle class. However, Kenya Airways is a company that is operating in a very challenging environment, against competitors with much more capital such as the, Gulf three that is; Etihad Airlines, Emirates and Qatar Airways who most recently bought commercial planes worth over $150 Billion and the local airlines like Jambojet, Silverstone and Rwandair (Quest, 2017). The are many upcoming airline companies in Kenya leading to staff turnover at Kenya Airways going to be employed in the other companies which has been attributed to the intensive training and skilled manpower especially the crew. The challenging environment has affected performance of Kenya Airways as a whole. For instance, the year 2016 resulted into the worst level of financial performance where a net loss of Kshs.26, 225 million was recorded as compared to a net loss of 25,743 million in 2015 (KQ, 2017). This trend in performance of Kenya Airways warrants the need to establish its internal and external environment and how it relates with its performance. Myre (2015) conducted a study on the analysis of airline's influencing factors on financial performance. The study found that Full Service Carriers (FSC's) had made losses in the past years, whereas the low-cost carriers (LCC's) were more profitable and more favorably operating expense ratios. Similarly, the LCC's tend to achieve liquidity of a higher level and solvency than FSC's. The difference between them is that, FSC's provide some knowledge for why this is. Of importance is the cost advantage that LCC have been able to accomplish relative to FSC's. The consequences of FSC's attempting to reduce this cost gap, is that a situation arise where they compete on price with LCC's. The result indicated that travelers have faced difficulties in differentiating between both carriers' types. The study emphasized on the financial factors, therefore, the findings may not apply to this study. Nzioka (2016) conducted a study on strategic Quality Management Practices (QMP) and performance of airlines. Results findings of the study established a correlation value of 0.824 which indicates that there is a strong positive relationship between strategic QMP and organization performance like at 95% significant level. This study was concerned with the strategic quality management practices but not the determinants of performance in the airline, therefore the findings might not be applying to this study. All these studies were done on performance of airline but none of them looked at the determinant of the performance. This led to a knowledge gap in assessing the influence of labor relations on performance of Kenya Airways Limited.

GENERAL OBJECTIVE

The general objective of this study was to establish how labor relations affect performance of airline industry by undertaking a case study of Kenya Airways Limited.

THEORETICAL REVIEW

A theoretical review is a logically developed, described and elaborated connection of associating variable seen as relevant to the problem identified. A theoretical framework will introduce and describe the theories that will attempt in explaining the research problem being studied paying key focus on the specific variables under the study. William (2006) defined a theory as a set of interrelated concepts that can be used in study, the definitions, prepositions that have been put forward to explain or predict the scenario being studied. The relationship found in these theories and models will therefore reflect the literature concerning performance of the airline industry. The theories guiding this study were, Open Systems Theory and Institutional theory.

Open Systems Theory

Open System Theory was developed by Bertanlanffy in 1965. The theory defines a concept where all systems are characterized by combining of parts who are related which their relations make them interdependent (Scott, 2016). With a set of forces that surround the organization that affect how it operates towards or with it. The environmental forces that affect the open systems can be categorized as either specific or general. The specific environment includes the suppliers it deals with, distributers, agencies of government and the competitors in the same industry. The general environment evolves from the geographic area in which the organization exists and operates which includes legislation that shapes the policies and laws.

Environmental influences that affect open systems can be described as either specific or general. Economic factors for instance recessions, unemployment and economic upswings that may affect the company's ability to be successful (Davies, 1976). The legal environment that helps allocates power in the society and makes laws. The legal systems in the open system operates play a major role to determine the long-term stability and security of the future of organization. These systems are important to create a conducive environment for the business community but also responsible for enabling having regulations that are involved in taxing and operation that the extended community needs conform to operates (Scott, 2002).

The open systems theory also confirms that every large organization is comprised of smaller many subsystems which receive inputs from other systems and turns them to outputs for use by other systems. However, these sub-systems may not represent departments but may be some patterns of an activity. This theory is relevant to the study since it recognizes that organizations are in existence due to the extern larger environment which affects how the organization performs and hence it affected on how the organization reacts with it (Bertalanffy, 1950).

Institutional Theory

This theory holds that something identified at a higher level in organization structure is used to explain processes and outcomes at a lower level of analysis in an organizational setting (Scott, 2005). According to Scott (2008), institutions refer to humanly devised constraints that structure political, economic and social interaction. The institutions are "regulative, normative, and cultural-cognitive elements" that, together with associated activities and resources, provide stability and meaning to social life (Scott, 2014). Institutions structure actions in an organization by defining how things are carried out. They are like unwritten rules that dictate how things should happen. It considers the processes by which structures, including schemas; rules, norms, and routines, become established as authoritative guidelines for social behavior (Scott, 2001).

The theory recognizes the challenges experienced in the current operating environment that is becoming increasingly complex and integrated global economy posing a significant challenge for organizations in navigating institutionally diverse contexts (Peng, Wang & Jiang, 2008). This theory inquiries into how schemas, rules, norms, and routines are created, diffused, adopted and adapted over space and time; and how they fall into decline and disuse (Peng, 2003).

The institutional theory has faced criticism; For instance Drodi, Jang and Meyer (2006) argued that the assumptions of the institutional theory that organizational passivity and its failure to address strategic behavior and the exercise of influence in its conceptions .This theory is relevant for this study as it explains how the structure and flow of information across the organization structure affects the performance of the organization. It helps in explaining how institutionalization can be used as a unique capability in building competitive advantage to improve performance.

Dynamic Capability Theory

The dynamic capability theory was advanced by Teece, Pisano and Shuen in 1997b to explain the dynamic capabilities of the firm. According to Teece et al. (1997), dynamic capabilities refer to internal and external resources which are key for the firm to integrate, learn and reconfigure its assets and process to achieve improved performance. According to this theory, the differences at the firm level is influenced and shaped by capabilities that are found in their assets. Porter (1991) note that dynamic capability theory is used to explain the role played by capabilities of the firm in reconfiguration of its resources with the changes in the environment. This way, an organization is able to compete and survive in a rapidly changing business environment (Pisano, 2017).

While the firm strives to reconfigure its internal and external resources, it is important that efforts are made to come up with strategies of saving on costs while focusing on attainment of efficiency and effectiveness in operations (Teece, 2016). In order to effectively respond to environmental dynamics, Nonaka and Toyama (2015) indicates an organization should respond to changes in the market and competitors in a timely manner. This theory is relevant to the study because it links both external and internal resources to performance of an organization (Jeng & Pak, 2016). The theory indicates that an organization striving to compete and perform well in a dynamic environment should reconfigure its competences with the changes in external environment. In essence, the competences of an organization form part of the internal environment which should be aligned and reconfigured with changes in the external environment if the firm needs to remain competitive.

EMPIRICAL REVIEW

One of the roles of a good human resource practice is to ensure the performance of the employees is at a good level. This will be achieved through work place satisfaction having mangers that are proactive and unionized airlines that adopt a good management relationship where job satisfiers are materialized. By having this management feature, the employees will be motivated to perform better (Harvey & Turnbull, 2006). Trade unions are one of the most established and powerful employee movements in an economic environment. These trade unions play a major role in determining the wages, salary, allowances and contracts to be received by their members. By having a strong individual as a leader of trade union enables the demand for good working conditions. This may however also derail efforts of airline companies if a strike may ensue. Industrial actions by union members will affect heavily the image of a company and thus their performance which is huge capital intensive. Hence the reason labour movements and airline performance are inseparable as they can have a negative effect on the company financial performance (Pilarski, 2017).

Karanja and Anthony (2016) examined the employee relationships and organizational performance. The findings revealed the level of employee turnover was high because of poor communication, no motivation, no participation of employees and working conditions being poor. Skilled employees were employed more than unskilled ones. The findings also revealed that employee relationship directly affect the organization performance. The study recommended that working conditions should be improved, communication enhanced, employees be motivated and they be involved in decision making so as the relationship to improve thereby increasing the performance of organization.

Jalette and Bergeron (2013) conducted an investigation on the effects industrial relations have on the performance of organization. The study found that the work station is made up of three key pillars: Voice, which is associated with problems solving, management of labour, working conditions feedback, health and safety committee and trainings; Mobilization, which involves trainings, a plan for succession, performance appraisal, provision of incentives, bonding meetings and social activities; Involvement, where colloquium and system suggestions are associated. Finally, other parameters that were included in the estimates in order to test work climate influence included the work place climate index, absent days per employee, disciplinary actions per employee, turnover based, and lastly lost days due to work related accidents per employee

Otieno (2015) conducted a study on the relationship between labor relations practices and organizational performance in Kenya's horticultural sector. The study acknowledged that Labor relations are the mutual relationship that exists between an employer and employees in an organization or between union representatives in a work place where there are unions. The study adopted exploratory research design and descriptive statistics for analysis. The results of the findings indicated that employee engagement, employee communication and procedures in human resource were the main parameter influencing organization performance in the horticulture sector. The study recommended that, employees to be engaged more as they put more energy in interacting with clients.

Muthoka (2017) carried out an assessment on the Influence of Employee Relations Practices on Organizational Performance of Public Healthcare Sector in Kenya. The study acknowledged that training and development, recruitment procedures and employee relations both affected the performance of organizations depending on how they were handled. Descriptive research design was adopted and descriptive statistics used for analysis. The study found that employee relation practices have an influence on organization performance of the public health in Kenya. The study recommended that innovative practices that reinforce sense of self efficacy among healthcare workers should be adopted.

Mulunda, Were and Muturi (2018) conducted a study in Nairobi to investigate the effect of labor relations on performance of energy sector. The study adopted a descriptive research design and a total of 5,001 from 7 energy companies consisted of the study' target population. Stratified sampling technique was employed and a total of 356 staffs formed the study sample size. The researcher used structured questionnaires for data collection and SPSS was used for data analysis. Inferential statistics was used to establish the relationship between the variables. Findings of the study revealed that engaging employees in operations of the organization, performance appraisal and employee communication had a significant positive influence on the performance of the energy companies.

Worlu, Osibanjo, Ogunnaike, Salau and Igbinoba (2016) conducted a study in Lagos Nigeria to investigate the effect of employee relations on the performance of University. The study adopted a survey research design and a total of 1158 employees consisted of the study population. Sampling was conducted through Mason formula and a total of 212 represented the study' sample size. The study employed self-administered structured questionnaires for data collection and SPSS for analysis. Findings of the study revealed that equity, promotion and employee recognition had a positive influence on organization performance.

RESEARCH METHODOLOGY

Research Design

Research looks at the population or the surrounding in a valuable way. It is a plan to which participants are chosen, data collected, evaluated then analyzed. The research design that was used in the analysis is descriptive study since it provides the rationale behind the relationship between the dependent and independent variables. According to Lewis (2015) a descriptive research is a process of collecting data to answer questions concerning the current status of the subjects in the study. The study adopted a descriptive research design to illustrate the relationship between the variables.

Target Population

According to Creswell and Creswell (2017) they described target population as a common set of study units which the researcher wishes to generalize results. The target populations of this study was employees of Kenya Airways Ltd. Bernard (2017) define target population as units that have observable characteristics which the researcher intends to generalize findings of a study. The study targeted 300 employees from the three-management level (senior, middle and lower) working at Kenya Airways. The researcher obtained the population data form Kenya Airways.

Sampling and Sample Size

The sample size is a portion of the population of the study. The study adopted stratified random sampling to determine the sample size. For this study, the population was stratified as per position and for each stratum 30% was picked to obtain the sample size of 90. According to Taylor, Bogdan and DeVault (2015), a sample size was deemed ideal if picked from 10-30% of the population from each group. This study adopted a 30% from each stratum.

Data Collection Methods and Procedures

The study collected primary data to allow exhaustive response to research objectives and questions. Primary data was collected using a questionnaire designed and administered through drop and pick technique. As Mellenbergh (2015) state, questionnaires were appropriate for this kind of study since they were used to collect information that was not directly observable.

Data Analysis

The researcher employed both descriptive and inferential statistics for analysis (Thomas, Nelson & Silverman, 2015). Multiple regression analysis was computed to assess the relation between the study variables; the independent variables and the dependent variable. The Multiple Regression model was of:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$$

Where: Y is = Performance (Profitability, Stakeholder return and customer satisfaction); β_0 = Constant; β_1 is the coefficient of the relationship between labour relations and performance of Kenya Airways; X_1 = Labor relation (pay structure, turnover and strikes); ε = Error Term

RESEARCH RESULTS

From the findings, the study established that Kenya Airways has improved the working condition of the employees. Pay structure and evaluation of employees affect the performance of employees as revealed by the study findings. Industrial action by the employees in the form of strikes affects performance. The study identified that employees of Kenya Airways are motivated and their morale boosted and the organization employees skilled personnel. The study revealed that there communication has been enhanced within the organization. The study revealed that the organization has a work place that satisfies our employees. According to the findings, the study revealed that they have adopted innovative practices that reinforce sense of self efficacy. Lastly the study identified that labor turnover by employees who move to competitor airline companies affect performance.

The study sought to determine the effect of independent variable (labour relations) on dependent variable (performance). This was determined using regression analysis and presented on a Model Summary, ANOVA and coefficient Tables. The model summary of the study is presented using R and R^2. The findings are shown in Table 1.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.893[a]	.798	.787	1.10322

a. Predictors: (Constant), labour relations

From the findings, the value of R is 0.893, this is a clear indication that the independent variable (labour relations) was strongly correlated to dependent variable (performance). The value of R^2 is 0.798(79.8%); this clearly reveals that there are other factors that affect performance of Kenya Airways other than labour relations otherwise the value would have been 100%.

Analysis of Variance was conducted at 5% confidence level and a comparison made between the F-calculated and F- tabulated. The findings are shown in Table 2.

Table 2: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	351.614	4	87.903	72.224	.000[b]
Residual	88.848	73	1.217		
Total	440.462	77			

a. Dependent Variable: performance
b. Predictors: (Constant), labour relations

From the findings, F-calculated is 72.224 and F-tabulated is 2.495. It is clear that the value of F-calculated is grater that F-tabulated which proves that the independent variable was significant in determining performance of Kenya Airways. Therefore it can be concluded that labor relations affect performance of Kenya Airways.

Table 3 presents the degree at which independent variable affect performance of Kenya Airways. This presentation is done by comparing the P-values and B-coefficient.

Table 3: Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	.463	4.217		.110	.000
Labor relations	.428	.026	.913	16.418	.000

a. Dependent Variable: performance

At 5% level of significance, the study documents that labor relations ($p<0.05$) with a positive beta coefficient. This shows that labour relations have a positive and significant effect on performance of Kenya Airways. Therefore, an improvement in labor relations is more likely to result into an increase in performance of Kenya Airways. The findings are in line with Otieno (2015) who identified that employee engagement, employee communication and procedures in human resource were the main parameter influencing organization performance in the horticulture sector. The study recommended that, employees to be engaged more as they put more energy in interacting with clients.

CONCLUSION

Labor relation has postive and significant influence on performance of Kenya Airways. KQ has improved the working condition of the employees. Pay structure and evaluation of employees affect Kenya Airways employees' performance. Industrial action by the employees in the form of strikes affects performance. Employees of Kenya Airways are motivated and their morale boosted and the organization employees skilled personnel. Communication has been enhanced within the organization. The organization has a work place that satisfies our employees. The organization has adopted innovative practices that reinforce sense of self efficacy and labor turnover by employees who move to competitor airline companies affect performance.

RECOMMENDATIONS

The study recommends that Kenya Airways should formulate policies and strategies that make the employees working condition favorable as they directly have an impact on the performance of the organization. The payment structure and evaluation of the employees should be in line with the organization objective and in line with employee's needs. The study lastly recommends that Kenya Airways should use the organization employment procedure that should be well formulated and known by every member of the organization; this would boost their work place morale and increases work commitment.

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