



SAINT MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**THE EFFECTS OF ALLIANCE STRATEGY OF ETHIOPIAN
AVIATION GROUP ON ITS OPERATION: THE CASE OF STAR
ALLIANCE**

**BY
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DECLARATION

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

Name _____ Signature _____

St. Mary's University, Addis Ababa

June, 2014

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

Advisor

Signature

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ABSTRACT

Strategic alliance are becoming the reality of the contemporary world so as to serve any sector as optimum as possible with the collaborative activities that brings synergy and brings the concept of optimization of resources, finance, time, and others for the organization itself as well as the clients of the given organization. In the airline industry, it has been since a while that airline's create constellations each other to provide esteemed service to passengers, product development, wining market competition, network optimization as well as cost minimization through economies of scale, sharing of resources, harmonized sells and marketing structure, brand and quality of service. The paper intention is to provide the impacts of alliance strategy of Ethiopian aviation group after join of Star Alliance; its competitiveness role, performance outcomes, operational effects. Moreover, the study used mixed research design method to measure the star alliance effect on the operation of Ethiopian aviation group. Further, the findings show that, the impact of star alliance is significant in changing positively the customer service role, the market development and revenue increment. Finally, the results found suggested that to work more aggressively to outperform from the competitors ' side by bringing attention on starting all core values of star alliance operations as well as in widening the loyalty customers.

Key words: Strategic alliances, Star alliance, Shebamiles, outcomes, operational changes

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ACRONYMS

APK	Available Seat Kilometer
CAB	Civil Aeronautics Board
FFP	Frequent Fliers Program
HR	Human Resource
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IMF	International Monetary Fund
MAB	Man and the Biosphere
M&A	Merger and Acquisition
MRO	Maintenance Repair and Overhaul
MUOR	Move under one Roof
PESTEL	Political, Economical, Social, Technological, Ecological and Legal
PKM	Passenger per Kilometer
RPK	Revenue Passenger Kilometer
SAS	Scandinavian Airlines System
SAUA	Star Alliance Upgrading Award
SCC	Star Alliance Connection Centre
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organization
WCN	World Conservation Union

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Strategy is a managerial choice among alternatives and signals organizational commitment to specific markets, competitive approaches, and ways of operating.

Why company strategies evolve? Plainly, every company encounters occasions in which it needs to adapt its strategy to shifting industry and competitive conditions, newly emerging buyer preference and requirements, the initiatives of rival firms to grab increased market share, the appearance of fresh opportunities and threats, advancing technology, and significant events that affect its business (Thompson, 2003).

According to Porter's five forces model of competition, an organization can survive if it successfully develops strategies to confront five competitive forces that shape the structure of competition in its industry, which are threats of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, and rivalry among competing firms in the industry (Fred, 1996).

Among from different competitive strategies developed by porter, alliance strategy is one of the key strategy to get competitive advantages for the business organization by creating new business linkages and alliances with customers, suppliers, former competitors, consultants, and others .

Strategic alliances have become increasingly popular methods of corporate restructuring allowing companies to pursue market power, enter new markets and increase their operational and technological capabilities. Moreover, the capacity a single firm to provide all kinds of resources is very unattainable as it cannot produce all baskets of commodities with full employment. Since, there is a budget constraint on human, physical, as well as financial capabilities; companies utilize alliance strategy for sharing capabilities so that maximization of profit takes place. Consequently, firms are widely curving a strategy of alliance rather than

merger and acquisition which helps them to share resources and again gaining comparative advantage of economies of scale, market expansion, product expansion, corporate citizenship, diversified work force skill, etc...

According to Chris (2003), some of benefits of alliances are.

- > Ensuring continuity of supply in markets where the supply side dominates, or where supplies are liable to seasonal or some other volatility or can be subject to interruption from time to time.
- > Less competitive friction with suppliers.
- > Raising exit barriers to customers and suppliers.
- > Lower transaction costs, because partnerships that are properly constructed reduce, or in some cases eliminate, costly transactions between firms.
- > More opportunities for profit making, since it is more probable that two partners working closely together can create synergistic energy that can be directed into profit building actions.

Alliance strategy is vital for airlines like Ethiopian to be a leading career in reaching its services beyond concentrated African market to global market sourcing. However, the airline as a new member credit in opportunities are difficult to adapt and start all operations at a time, otherwise tradeoff arises from alliance member airlines in exploitation of market and all capabilities of the new airlines. The paper tried to add on the previous few abstract works, such as Fekadu (2013), and Meaza (2012).

1.2. Overview of Star Alliance and Ethiopian Aviation Group

Star alliance is an alliance which was founded on 14 May, 1997 with alliance of five airlines from three continents - United Airlines, Lufthansa, Air Canada, Thai Airways International and Scandinavian Airlines System (SAS) that came together to launch Star Alliance. The five airlines shared the traditional star logo from the beginning with the five points representing the five founding airlines. The alliance also adopted their first slogan "*The Airline Network for Earth*" with the goal being to have "an alliance that will take passengers to every major city on earth"(www.staralliance.com).

Vision

“To be the leading global airline alliance for the high-value international traveler.”

Mission

“To contribute to the long-term profitability of its members beyond their individual capabilities.”

Currently, star alliance is the biggest alliance compare to one world¹ and sky team with having 27 member airlines operating revenue of over 185 billion US dollars. The annual passengers carried has grown instantly, with presence of 21956 daily departures flight, more than 697 million annual passengers has been carried in 2012. In addition to that, the destinations airport served 1358 with the 193 countries served (Airline Business, 2012).

The purpose of Star Alliance is to serve the airlines in cost reduction and market penetration with offering harmonized services and products to member carriers’ frequent travelers, enhancing air travel benefits and experiences for the premium customer, enabling each member carrier to become a representative for the others across the network, and providing more opportunities to generate revenue and operate in new markets where an airline did not have a significant presence, and also reducing costs through common development of new products, joint purchasing possibilities and shared facilities major services(Marchand, 2000).

Ethiopian Airlines began operations in 1946 as a joint operation managed by the American carrier TWA, using World War II aircraft acquired from the U.S. military to transport passengers and cargo to Cairo and other nearby destinations. During the 1960s and 1970s, the government-owned airline expanded service across Africa and to several European and Asian capitals. Regular service to the United States began in 1998. In 2011, the airline became the third African carrier to join the Star Alliance [www.wallafrica.com].

Ethiopian airlines became a member of star alliance, the biggest alliance in 2011 after fulfillment of several audit substantiation reports of star alliance. Presently, the airline is signing bilateral

¹ One world and Sky teams are competitor alliances of star alliance.

agreements to have a code share agreements beyond non star alliance member carriers such as Rwanda Air, Kuwait airways, Malaysian Airlines, etc... to have competitive advantages. In addition, the airline is harmonized its products and services with the star members in its operational as well as functional strategies such as network optimization with using the member airlines flights with Ethiopian airlines flight number to take advantage of an extended “hub and spoke” system², regulatory influence, passenger benefits in frequent traveler program, resource sharing, etc(www.portal.ethiopianairlines.com).

Vision

“Ethiopian will be the most competitive and leading aviation group in Africa by providing safe, market driven and customer focused passenger and Cargo Transport, Aviation Training, Flight Catering, Maintenance Repair and Overhaul (MRO), Ground Services, Domestic regional services by 2025.”

Mission Statement

- To become the leading Aviation Group in Africa by providing safe and reliable passenger and cargo transport, aviation training, flight catering, MRO and ground services whose quality and price “value proposition” is always better than its competitors.
- To ensure being an airline of choice to its customers, employer of choice to its employees and an investment of choice to its owner.
- To contribute positively to the socio-economic development of Ethiopia in particular and the countries it operates in general by undertaking its corporate social responsibilities and providing vital global air connectivity.

Ethiopian Aviation Group branches out its operations as a strategic business unit: International Services, Cargo Services, Regional Services, MRO Services, aviation academy, in flight catering services and ground handling services. The aviation group performs historical profit boost of 165 percent in 2012-2013 fiscal year, by carrying passengers 5.5 million passengers and extending its branches 74 destination with increasing the hubs in accordance with their gain in geographical

² The hub and spoke system first became popular in domestic air travel in the United States after deregulation of the route structure. In this system, the main airports in the country served as hubs through which passengers were channeled from and to various spokes that connected the hub to the ultimate destinations.

and economical from main hub; Addis Ababa to Lome, Malawi, and Congo(portal.ethiopianairlines.com).

1.3. Statement of the Problem

In this contemporary world, owning resources and penetrating to the market are becoming tough due to stiff competition and high cost of capital. As a result, companies are utilizing comparative advantages of one resource to the other alliance units. Most of the companies in the world are creating an alliance to address global demand progression with the coordination of their strategies to bring efficiency on market as well as on production through joint activities.

According to Barney and Hesterly (2010), opportunities associated with strategic alliances fall in to three large categories. First, these alliances can be used by a firm to improve the performance of its current operations. Second, alliances can be used to create a competitive environment favorable to superior firm performance. Finally, they can be used to facilitate a firm's entry into or exit from new markets or industries.

At the same time, improving of current operations will arise due to alliance of strategies, which can be clearly shown by creating a room for firms potential to exploit economies of scale advantage, easy access for room for learning from competitors, managing risk and sharing costs, creating competitive environment favorable to superior performance, facilitating the development of technology standards, facilitating low cost for entry and exit...

One potential path of partnership is sustainable profitability: However, the road to alliance is sometimes facing causalities, caused mainly because an imperfect understanding of the term exists, or because one side has in mind an unequal partnership, for instance, using the word alliance as a code for gaining margin at their suppliers expense and again using the alliance name to attract customers rather than providing harmonized services and products (Chris, 2003).

Just as there are incentives to cooperate in strategic alliances, there are also incentives to cheat on these cooperative agreements. Indeed, research shows that as many as one third of all strategic alliances do not meet the expectations of at least one alliance partner. Cheating can

occur in at least the three different ways; such as adverse selection³, moral hazard⁴, holdup⁵ (Barney and Hesterly, 2010).

The previous studies had done the impact of alliance strategies in different companies which have made a positive impact on the performance of the service industries, such as General Motors, Boeing, Coca Cola companies, and so on. But, there is no detail emphasis given to the airline industry especially in Africa. Fekadu (2012) tried to show the impact of globalization and embodied briefly the airline's alliances. Apart from that, as star alliance on Ethiopian aviation group is recent phenomena not deeply endeavored and researched critically. Hence, the study will give deep emphasis on the alliance strategy on its opportunities, effects and impact on Ethiopian Aviation Group.

Therefore, the paper tries to analyze the impact of star alliance on the operations such as market development, customer satisfaction, economies of scale of service and resources and capabilities sharing, human resource development.

Does the opportunities come across from the alliance are well utilized? At this infancy stage of alliance constellation of Ethiopian aviation group, the operations especially marketing and sales duties are codified to adhere as like as the group member operation structure. However, Ethiopian Aviation group, as a new member not yet started intensely the products and benefit packages of star alliance such as star fares, resource joint order purchase, not comparatively worked on Star alliance upgrading (SAUA) systems by the loyalty customers and others, which lags the airline operation relatively with the member airlines. Therefore, partners exploit the transaction specific investments made by Ethiopian aviation group in the alliance; since most of the airlines have practiced for a long time and having comparative advantage especially on IT, network, human resource, and customer's responsiveness in using online browsing travel software.

³ Adverse selection happens when potential partners misrepresent the value of the skills and abilities they bring to the alliance.

⁴ Moral hazard: partners provide to the alliance skills and abilities of lower quality than they promised.

⁵ Holdup: partners exploit the transaction specific investments made by others in the alliance.

The paper tried to investigate the impact of alliance in positive changes of performance, especially , in the airline industry, that can easily seen on the load factors, market share, revenue passenger per kilometer, operating profit, number of departure, and so on...

1.4. Research Questions

The basic objective of this research is to try to answer the following questions:

1. What are the benefits of star alliance for Ethiopian aviation group?
2. What are the benefits of star alliance for Ethiopian aviation group customers as well as for human resource?
3. What are the key changes on the operation of Ethiopian aviation group after Ethiopian aviation joined star alliance?

1.5. Objective of the Study

The paper has general and specific objectives:

1.5.1. General Objective

The paper has the following general objective:

The paper is planning to clearly put analysis of the star alliance group in terms of operation importance on Ethiopian aviation group.

1.5.2. Specific Objective

The paper has the following specific objectives:

- . To examine the opportunities of star alliance after Ethiopian aviation group joined
- . To evaluate the features of star alliance core values in creation of competitive advantage
- . To clearly show the positive as well as negative impacts of star alliance strategy
- . To analyze the operational changes on the international services of Ethiopian aviation group

1.6. Significance of the study

The major significance of the study is to look deeply and analyze into the empirical situation of alliance strategy of Ethiopian aviation group since then a member of star alliance on its quality and again quantifiable measurements; such as the marketing advantages, customer service advantage, cost minimization and overall positive experiences.

In addition, it added to literatures the alliance strategy importance and challenges to create globalization, in contrary to focusing on local market and niche markets and disadvantages associated with alliance strategy to compete tough competition after the deregulation of the airline industry.

Furthermore, it had shed lights for Ethiopian aviation group on their stand on the strategy and its cost benefit analysis as well as in supplementing proactive strategies.

1.7. Delimitation/Scope of the study

The delimitations of the study is only incorporating the international services and regional services strategic business units of Ethiopian aviation group as those units are significantly affected by operational changes of star alliance strategy. On the other hand, the scope of the study is only incorporating on the effects of Star alliance core values such as loyalty program, market development, ancillary revenues associated with operational changes come across star alliance strategy.

Hence the final findings from the given might not capture the whole variations that determine the positive change in the overall operations of Ethiopian Aviation Group, as the aviation consists of seven strategic business units.

1.8. Organization of the research report

This study consists of five distinct chapters. Chapter One presents an introduction which focus on the overview of the Alliance Strategy, and the highlights of the Star Alliance group and Ethiopian aviation group, statement of problem, objectives, methodology, and significance.

Chapter Two has got two sub parts which treat the theoretical and the empirical part, the theoretical part contains different theories which related with alliance strategy, performance indicators, and Star Alliance importance and the empirical part contains different statistical data's collaborated with prevailing reality. Chapter Three focuses on the methods of the study which is quantitative and qualitative data's and the analysis. Chapter Four presents findings and results which found in the manipulation process.

Lastly, Chapter Five signifies some summary, conclusion and recommendation which are drawn from the whole chapters.

CHAPTER TWO

LITERATURE REVIEW

In this chapter, the alliance strategy impacts on the performance of a firm and the effects of star alliance to the Ethiopian aviation group are reviewed from previous literatures, such as, books, journals, magazines as well as electronic media. Empirical reviews also incorporated in a manner that supports the sole idea of the research, that is, the operational changes coming from the alliance strategy which allied with harmonized objectives to reach high performance by bringing economic of scale advantage, cost minimization, minimizing competitive friction within the alliance member, product development and others.

2.1. Why strategy

A strategy is a set of actions that managers take to increase their company's performance relative to rivals. If a company's strategy does result in superior performance, it is said to have a competitive advantage. In the airline industry, how is it that Southwest Airline has managed to keep increasing its revenues and profits through both good times and bad, while rivals such as US Airways and United Airlines have had to seek bankruptcy protection? Southwest Airline has had different product type and marketing strategy (Charles and Gareth, 2012).

Strategy nowadays is 'big stuff'- the top levels of the organization are generally involved in preparing plans for the future- for instance, and growth by acquisitions, innovation in products, developing new markets and increasing internal efficiency(Ritson , 2013).

A firm's strategy is its theory of how to gain competitive advantages. These theories, like all theories, are based on assumptions and hypotheses about how competition in an industry is likely to evolve. When those assumptions and hypotheses are consistent with the actual evolution of competition in an industry, a firm's strategy is more likely to be able to generate a competitive advantage (Barney and Hesterly, 2010).

2.1.1. The Concept of Alliance Strategy

Strategic alliances, which are cooperative strategies in which firms combine some of their resources to create competitive advantages, are the primary form of cooperative strategies. Whatever forms joint venture, equity based or non equity based, strategic alliance assist in ensuring the economic value addition, multidimensional inter-firm network, and inter-organizational coordination (Mohammed and Bilkis, 2011).

The use of strategic alliances to manage economic exchanges has grown substantially over the last several years. In the early 1990s, strategic alliances were relatively uncommon, except in a few industries. However, by the late 1990s they had become much more common in a wide variety of industries. Indeed, over 20,000 alliances were created worldwide in 2000 and 2001(Barney and Hesterly, 2010).

The achievement of competitive advantages is not possible by one firm itself as it does not possess required all resources and knowledge to be entrepreneurial and innovative in dynamic competitive markets. However, Inter-organizational relationships create the opportunity to share the resources and capabilities of firms while working with partners to develop additional resources and capabilities as the function for new competitive advantages (Kuratko et al, 2001).

The strategic alliance enable firms to have access to market seeking, acquiring means of distribution, gaining access to new technology, learning and internalization of tacit, collective and embedded skills, obtaining economies of scale, achieving vertical integration, recreating and extending supply links in order to adjust to environmental changes, diversifying into new businesses, restructuring, improving performance, cost sharing, pooling of resources, developing products, technologies, resources, risk reduction & risk diversification, developing technical standards, achieving competitive advantage, Cooperation of potential rivals, or pre-empting competitors, complementarities of goods and services to markets, co-specialization, overcoming legal or regulatory barriers (Emanuela and David, 2005).

2.1.2. Concept of Star Alliance

The Star Alliance network was established in 1997 as the first truly global airline alliance to offer worldwide service, recognition packages and seamless service to the international traveler. Its acceptance by the market has been recognized by numerous awards, including the Air

Transport World Market Leadership Award and Best Airline Alliance by both Business Traveler Magazine and Skytrax. The member airlines are: Adria Airways, Aegean Airlines, Air Canada, Air China, Air New Zealand, ANA, Asiana Airlines, Austrian, Avianca, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAM Airlines, TAP Portugal, Turkish Airlines, THAI, and United Airlines. Overall, the Star Alliance network offers more than 21,000 daily flights to 1,300 airports in more than 195 countries (Star alliance, 2014).

Further, star alliance member airlines jointly serve different services to the customers through a program so called 'loyalty program'. This program enables member airlines to retain their frequent service user clients by creating their own profile on the database and it has three distinct tier levels, that are Star alliance Gold, Star alliance Silver, Star alliance blue. By the time the clients fly the actual distance will be credited to the profile, when the miles accumulated become enough for award ticket the passengers redeem and use for a ticket (Star alliance, 2014).

Furthermore, Ethiopian aviation group joined star alliance in Dec, 2011. Since then, the airline widens its service and structures as like star alliance. The Shebamiles program is a loyalty program of Ethiopian airlines which enables to retain loyal customers to the airline.

The shebamiles member customer can redeem on the service of Ethiopian aviation group as well as the other member airlines of star alliance, vice versa (www.ethiopianairlines.com).

Every airline has its own individual guideline of their own loyalty program and also scheme of redemption ticket points, in addition the airlines harmonized their IT platforms on the reservation and inventory, availability and schedules, fare quote and ticketing, departure control systems(Star alliance, 2013).

2.2. The Airline industry

The airline industry is a service industry representing the business of transporting people and their belongings as well as products. The major characteristics of the industry include the following: capital intensive, high cash flows, labor intensive, highly unionized, seasonal. Apart from that, not all airlines are created equal. As in most businesses, there is a sort of stratification of airlines .Airline industry has four strata's, which are:

Major airlines- these are the heavyweights of the airline industry, and you will often hear about them in the news. A major is defined as an airline that generate more than \$1 billion revenue annually.

National Airlines- just one step down from the major airlines, these are scheduled airlines with annual operating revenue between \$100 million and \$1 billion. These airlines might serve certain area of regions of the country, but may also long distance route and some international services.

Regional Airlines- as the name itself suggests, these airlines serves particular areas of regions filling the niche markets that the major and national airlines may overlook.

Cargo Carriers- are airlines which transport only cargo carriage goods and products (Ethiopian Aviation Academy Manuel, 2008).

According to the International Air Transport Association (IATA) the industry growth outlook is positive for 2014. Despite this growth outlook, the economic crises prevailing in major economies of world, mainly in US and in Europe, may affect the expected projection. On the other hand, the strong demand compensates the challenges of higher fuel costs related to geo-political instability. The aviation industry retains on average \$5.65/passenger in net profit. This has improved from \$2.05 in 2012 and \$4.13 in 2013. But it is below the \$6.45 achieved in 2010. The efficiencies of improved industry structure through consolidation and joint ventures is providing more value to passengers and helping airlines to remain profitable even in difficult trading conditions. Hence, while passenger demand was 5.3% in 2013, it is expected to increase to 5.8% in 2014. Besides, over \$6 trillion of goods are now annually carried by air, 35% of world trade is carried by air; a key enabler of globalization.

Airlines improved fuel efficiency by 46% over the period between 1990 and 2012. During the same period, airlines saved 5 billion+ tones CO2 Comparison of actual emissions with the level had fuel efficiency remained frozen.

Comparatively, the profitability of African airlines is the lowest. It only amounts to \$100 million in 2013, where as the North American airlines are leading the industry with profit of \$8.6 billion, reflecting the economic recovery in the US and the efficiencies gained through consolidation and

the contribution of ancillary revenues⁶, which are most developed in the North American market. In contrary, the African airlines are suffering from the lack of a holistic vision for the development of connectivity across its vast distances. Poor regulation and high infrastructure costs and an array of taxes and charges continue to hinder development. And intra-Africa connectivity is hampered by market access restrictions despite the commitments to liberalize recorded in the Yamoussoukro Declaration ⁷(Ibid).

The current reality of the airline industry is far away from the imagination of science fiction, literatures and scholars from the past. Because of their potentials of creation of ‘global village’ enabling people to travel to far-flung locations in a matter of hours and transporting heavy tons of cargos to different areas of world so that the foreign trade boosts. However, the growth of the airline industry is growing well, there are factors hindering the airlines growth. Such as, the tough competitions of rivalry careers, the high cost of infrastructure that arose from driven demand of the industry, instantaneous fuel price increment. Overall, the vertical and horizontal integration become a solution to perform efficiently in the market. For instance, many airlines are cutting as well as ceasing operation, such as Qantas airways, KLM, British airways .. .Because of tough competition (Airline Business Magazine, 2012), the complexity nature of the airlines operations which needs high level of synergy which needs high intensity of skilled man power.

2.2.1. Regulated competition in the global airline industry

Traditionally, the industry had been regulated by national governments in a multitude of ways. For the most part, routes had to be approved and licensed by government agencies; prices were set by negotiation between governments and by national authorities; foreign ownership was restricted in national airlines; and airlines were restricted to flying only to and from their home countries. International rules of “*cabotage*” restricted airlines from operating domestic flights in countries other than their home bases. In other words, a German airliner was allowed to fly from

⁶ Ancillary Revenues: Airlines continue to introduce new product options for passengers which are boosting ancillary revenues.

⁷ African Ministers responsible for Civil Aviation held a special conference in Yamoussoukro, Cote d’Ivoire, in October, 1988, and agreed on a New Air Transport Policy for Africa which envisaged the phased integration of their national airlines over an eight-year period (www.africaaviation.com).

Germany to the United States and back, but not between two cities in the United States (Merchand, 2000).

The restrictions of airlines except providing flight service inside the country affects the industry growth despite the opportunities that the industry provides. The nation's assumption in protecting the home airline was extreme and the probability that the foreign airline get flight right was improbable. The industry was given its service for respected officials of government and wealthy businessmen because of its expensive fares, travel was assumed to be an enjoyment and holiday.

From 1938 to 1978, decisions regarding airline service and fares were made by five presidential appointees on the now abolished Civil Aeronautics Board (CAB). Created to help protect the public and maintain order in the rapidly growing field of commercial aviation, the CAB was also launched with the blessing of the existing carriers that, in the immortal 1938 comment to Congress of one airline executive, wanted protection from “destructive competition”.

As airline regulation evolved, the carriers were treated like regulated utilities. The CAB became a textbook case of how the regulatory process can overwhelm substance and how regulation protected the airlines from competition at the expense of consumers and competitors. The CAB would hold extensive and elaborately-staged hearings on nearly every single request regarding routes or prices, including requests by existing and new carriers to start additional service between two given cities. More often, requests to establish new routes were denied or approved with restriction.

The origin of deregulation made the industry, a competitive and efficient system that provides more service, to more people, to more cities, at lower prices than ever before (John, 1998).

2.2.2. Deregulation of airline industry

The birth of airline alliances came as a result of deregulation. Starting in the U.S. in 1978 and spreading to the European Union (EU) in 1993, a wave of deregulation loosened restrictions on pricing and on routes. Europe-Union airlines were also permitted the right to fly to and from all international destinations within the EU area. In April 1997, law makers in EU countries gave the right to carriers from one country to travel domestically within other EU countries,

modifying the long-standing rules of *cabotage*. However, travel to and from non-EU countries was still subject to bilateral negotiations and the traditional *cabotage* rules (Merchand, 2000).

The Yamoussoukro Decision will be recorded as a monumental example of indecision by the African continent for airlines liberalization in 1988. Despite, the role of the Yamoussoukro has not been successful still the continent controlled by restriction of open skies (African Aviation, 2014).

The rise of deregulation helps the airline industry as well as the travelers to attain different advantages such as:

- *Lower fares-fares* after deregulation are 22 percent lower today than they would have been if the industry had stayed under government control and the annual savings to air travelers at \$12.4 billion thanks to deregulation (Steven and Clifford, 1995).
- *More passengers and service-* A dramatic rise in passenger traffic reflects the fact that airline tickets are an economical, competitive value, and reaches of most American as like pocket books. In 1978, 275 million people flew on domestic carriers. In 1997, that number had more than doubled to 600 million passengers (John, 1998).
- *More competition and jobs-* Competition is keener than it was before deregulation despite a number of mergers and some highly publicized bankruptcies. One way to measure competition is by looking at routes (Doganis, 2006).
- *More service for smaller communities-* During their last decade under government regulation, the airlines abandoned—with CAB approval—routes serving many small and midsized communities. In the twenty years since then, competition has brought enhanced service to those markets, primarily aboard small, economical turbo-prop planes. Since 1978, the number of flights to smaller communities is up more than 50 percent (John, 1998).

2.3. Airlines strategic alliance

The evolution of alliance started in the U.S in 1978 and spreading to the European Union (EU) in 1993, a wave of deregulation loosened restrictions on pricing and on routes. Europe-Union airlines were also permitted the right to fly to and from all international destinations within the EU area through bilateral agreements and open skies agreements (Marchand, 2000).

The first airline alliance started in the 1930s, as *Panair do Brasil* and parent company Pan American World Airways agreed to exchange routes to Latin America. The first large alliance started in 1989, when Northwest Airlines and KLM agreed to code sharing on a large scale (Encyclopedia, 2013).

Airline alliances help to address the constantly changing realities of global travel. They focus on the airlines' common interests to enhance air travel benefits and experiences for their targeted customer. The goal is to create a competitive business advantage for the member carriers. To be successful, it is not enough to be driven by change. It is essential to drive change. A successful alliance must anticipate new customer needs and creatively turn them into competitive advantages by transforming them into concrete products and services - before the competition (Star Alliance, 2014).

At present, there are three big alliances in the world, which are Star Alliance, SkyTeam and One World with serving the airline industry with the common interest of its members with harmonized services and products. Among others, Star Alliance is the first alliance in the history of alliance along with having the largest network coverage as well as in a number of member airlines, 28 airlines with strong alliance network. In addition, more than 720 million passengers per year use the services provided by the longest serving international airline alliance, which currently offers seamless travel across more than 21,900 daily flights to 1328 airports in 195 countries. In addition to seamless global travel, the Alliance provides a variety of customer benefits over and beyond what a single airline can offer. Giving most valued benefits, with members to customers such as: Priority Check-in increased Baggage Allowance, access to more than 1,000 lounges and Priority Baggage Delivery (Airline Business Magazine, 2014).

2.4. Competitiveness through Star Alliance

Each year the number of alliances is growing constantly for the reason that one firm cannot able to supply all the necessary factors of production and again cannot provide all demands in the market. In addition, alliances are bringing success and strengthen the firm's potential to fight the competitors by capacitating their level of production and working together so that economies of scale prevail is a threat for new firms to enter to the market.

In addition, alliances are increasing their efficiency with setting harmonized strategies of developing a product as well as using resources in full employment level. By alliances carriers

can increase the loyalty of their passengers and again higher switching costs allow airline alliances to earn a premium on their flights and be more effective in their response to competitors (Doganis, 2006). Many firms, especially large global competitors establish multiple strategic alliances. General Motors' alliances, collaborated with Honda and internal combustion engines, with Toyota on advanced propulsion, with Renault on medium- and heavy-duty vans for Europe and, in U.S., with AM general on the brand and distribution rights for the incomparable Hummer' (Mohammed and Bilkis, 2011). The success of alliances depends on several factors such as, actively involvement in problem solution, trustworthiness; to create value combining partner's resources and capabilities, and persuasion among the partners for cooperation and coordination of facilities in the cooperative organizational behavior. Conflict management practice and desire of achievement of competitive advantages in market also foster the alliance success (Tiessen and Linton, 2000).

According to Porter (1997), two competitive dimensions are the keys to business-level strategy. The first dimension is a firm's source of competitive advantage. This dimension involves whether a firm tries to gain an edge on rivals by keeping costs down or by offering something unique in the market. The second dimension is firms' scope of operations. This dimension involves whether a firm tries to target customers in general or whether it seeks to attract just a segment of customers. Four generic business-level strategies emerge from these decisions: (1) cost leadership, (2) differentiation, (3) focused cost leadership, and (4) focused differentiation. Therefore, competition through the Star strategic alliance provides room to develop operation performance and eliminate obstacles for potential growth. For instance, through ancillary's packages of the service industry, airlines especially have earned great results in adopting ancillary revenues. In 2014, the average fare per departing passenger is expected to be about \$181. Ancillary services may add almost \$14 on top of this. Industry consensus continues to build on the need for New Distribution Capability. Modernizing distribution standards will enable airlines to develop further innovations which enhance consumer choice and add value to the travel experience (IATA, 2014), apart from that a product differentiation by creating value on the service such as, special discounted fares⁸ like the "Round the World" fare, Group fares⁹ and

⁸ Fare is a price given to a journey.

⁹ Group Fare is a special discounted fare for passengers traveling in group, which contains >10 passengers.

Redemption tickets¹⁰. Cost strategy is the crucial role on the strategy of alliance by creating joint batch order, joint purchase order, resource sharing. In terms of cost minimization role star alliance has got a product that enables the member airlines to share resources.....Since 2008, the Alliance has held regular workshops where carriers exchange information, which helps each airline learn from the experiences of every member.

Star Alliance has determined that more than a million kilograms of fuel can be saved daily by Alliance member carriers if every airline reduces fuel use by just 50 kilograms per flight. With 20,000 flights each day, airlines can save more than \$1 million each day, and reduce CO2 emissions by some three million kilograms daily. To save fuel, airlines first looked at relatively easy ways to reduce fuel use by removing heavy items such as excess potable water, galley ovens, publications and unused catering. In addition, a fuel efficiency workshop, EGYPTAIR was able to convince Air Traffic control to increase capacity in Cairo through reduced aircraft separation for arriving aircraft, which resulted in yearly savings of some 4,000 tons of fuel for the member carriers flying into Cairo (star alliance, 2011).

Moreover, the star alliance gives attention on simplified interline settlement with avoiding paper work of billing and reconciliation deeds which has been done before to electronic invoicing system which removes 200 tons of invoices and supporting documents are shipped between airlines around the world each year(Ibid).

Generally, the star alliance is increasing the competitiveness of the sector by creating synergy between member airlines and bringing to the market new ancillary products. The consumer benefits package also increasing time to time with the development of shared strategies of keeping the loyalty program of star alliance to the peak level.

2.5. Significance of Star Alliance on Airline's Operation

Star Alliance has got enormous significance in the operation of airlines by providing esteemed service plus maximizing the airline profit. Strategic alliances have become a key feature in many sectors of the economy, from manufacturing to service industries. Forces in the global marketplace increasingly require companies to collaborate with local and overseas partners for

¹⁰ Redemption Ticket is a ticket having zero fare amounts, only supplementary charges.

market efficiency and responsiveness (Ohmae, 1989). Firms in strategic networks, it is argued, will enjoy significant market advantages (Achrol and Kotler, 1999).

2.5.1. Network optimization

Star promised to allow its member airlines to take advantage of an extended “hub and spoke” system. The hub and spoke system first became popular in domestic air travel in the United States after deregulation of the route structure. In this system, the main airports in the country served as hubs through which passengers were channeled from and to various spokes that connected the hub to the ultimate destinations (Marchand, 2000).

Star alliance is serving more than 1350 networks globally in to seventh continent, which counts for a member airlines to access those routes and provide service beyond the past bilateral agreement based service. Further, as one airline cannot cover world, alliance carriers able to code other member airline schedule flight service into their own flight number which enables to give seamless travel service for consumers. In terms of bringing market development, it plays major role in reaching untouchable service areas and also in increasing connectivity of different hubs to spokes.

Likewise, the total revenue generated by star alliance group in 2013 was \$173.12 billion. Besides, the total number of passengers carried by the star group reaches around 638 million passengers in 2013(Star Alliance, 2014).

With the exception of operations on city-pair markets with dense passenger flows, airlines are forced into seeking commercial partnerships with other airlines by the economics of running a network and by the needs of their customers. Airlines cooperate to differing degrees to join up their networks because consumers want network scope and depth, and the economics of providing this is not possible for a single airline, particularly while cross-border merger and cabotage prohibitions remain in many jurisdictions (IATA, 2012).

An alliance helps keep traffic and revenue numbers intact even if carriers cut capacity and reduce fleets. Code sharing allows one Star Alliance member to sell tickets on flights operated by

another member carrier, using itself airline code. In this way, reducing an airline's network does not necessarily mean giving up market presence. A destination can still remain part of a carrier's timetable. At the same time a carrier's costs are reduced since one of its own aircraft does not need to fly there. And when the economic climate improves flights can easily be resumed (Star Alliance, 2009).

2.5.2. Enriching Passenger Benefits

One of the key significance of alliance is developing product, technology, resources (Emanuela and David, 2005). Increasing through alliance the service benefits by putting different ancillaries in to the product are easily seen in the airlines industry. The formation of Star Alliance provided customers with an integrated worldwide airline network with global recognition. Focusing on customer relations, this alliance aimed to enhance global travel; making it more convenient and simple for its customers, while meeting their needs in ways that individual airlines could not. Major product benefits are:

I. Making the right connections

By creating seamless travel, passengers enabled to transfer quickly and easily from one carrier to another. "Today, more than a decade after the Alliance was launched, this aim is still a fundamental tenet for all of our airlines" said Lee Hock Lye, VP- Products & Services Star Alliance. Star alliance has got a strategy and operating on, the so called "Move under one Roof (Muor)". This strategy enables the passenger to:

- Only need to check in once
- Don't have to worry about luggage again until it reaches my final destination
- Get through customs, immigration and security without undue stress
- Transfer from carrier A to carrier B is smooth and straightforward
- Confident of passenger increased at the level which they will be looked after, kept informed and kept safe every step of the way

According to star alliance (2011), Star Alliance Connection Centre (SCC) opened in 2002 in Los Angeles, the idea was that customers who needed to get from one airplane to another in a hurry

could rely on SCC personnel to get their bags to their connecting flights. There are currently, 12 Star Alliance Connection Centers: Bangkok, Charlotte, Chicago, Denver, Frankfurt, Los Angeles, Munich, Philadelphia, San Francisco, Tokyo-Narita, Toronto and Washington. In 2010, SCCs handled more than 203,000 bags and customers, resulting in a saving to airlines of more than €13.5 million.

II. Giving recognition to most valuable customers

Star alliance has a program, the so called “Frequent Fliers Program”. This program enables the star members to give recognition to their frequent users of their services by classifying on tier status, such as Gold level, Silver level, and Blue level in accordance on their points/miles the passengers fly on one fiscal year. Star Alliance’s 20 FFPs have 187 million members — a population that ranks among the world’s 10 largest countries — and the total includes two million Gold and almost four million Silver status holders (Star Alliance, 2012). “Customers recognize that the ability to earn and burn miles across the airlines is a major benefit,” said Christopher Korenke, VP Commercial, 2012.

This program enables the esteemed passengers to access:

- *Free lounge access*- star has got enormous lounges around the globe. Apart from accessing the member airlines lounges located in the member’s hub, The Alliance has four lounges in common for its members - at London, Nagoya, Los Angeles and Paris. London is a good example of where individual lounges would not be cost effective, but where a single shared lounge makes sense, given the importance of the hub for travelers (airline business, 2011).
- *Mileage Accrual*- passengers can accrue miles with all the member airlines.
- *Redemption award ticket*- frequent travelers can able to redeem their accumulated miles to burn by using the member airline services through their points/mileage.
- *Upgrade awards*- star has a program Star Alliance Upgrade Awards (SAUA), member can redeem the currency of their program to upgrade a segment flown by another carrier within the Star Alliance.
- *Carry on allowance*- can carry limited free excess luggage.
- *Priorities on check-in* - passengers are recognized by giving priority while check-in.

- *Priority on baggage check-in and delivery-passengers* able to check-in as well as get their luggage in the first place.
- *Priority waiting lists-* to be putted priority on the waiting list of the airlines central reservation system.
- *Discounted fares-* consumer access discounted fares which proposed and published by the star carriers like round the world fares, circle fares, air passes. In addition, meeting plus has joined Star Alliance's lineup of products that help meeting and event organizers get the most from their travel budgets. It allows member airlines to offer a single meeting agreement to smaller corporate customers, which includes a discount off published fares for those attending international meetings. On top of that, star has got convention plus and corporate plus different feature products (Star Alliance, 2009).

2.5.3. Cost minimization through joint order program

Airline alliances create substantial opportunities for generating economic benefits, many of which are dependent at least in part on the closer integration achievable only with antitrust immunity. These benefits can be viewed as demand-side - relating to the creation of new or improved services through expanded networks or seamless service, or supply-side - essentially the ability to produce the same services at lower cost taking advantage of traffic densities, improved utilization of capacity and lower transaction costs. Supply-side efficiencies include cost reductions through economies of traffic density, cost reductions through sharing of facilities, and cost reductions through pricing and yield management, capacity (IATA, 2012).

Star alliance provides synergy for minimization of cost through different joint venture operations, such as the joint fuel purchase program has brought the minimization of cost of purchase by the member airlines (Star Alliance, 2009). Through star alliance collaboration effort of ordering on batch bases which creates inventory cost reduction and on the suppliers side, it leads the suppliers to give lower price of oil for airlines since the wide-ranging joint purchase of oil take place which results the member airlines to gain comparative advantage on saving of fraction cost per barrel gain from the join purchase.

Further, the minimization of cost become applicable again through sharing of resources with the member airlines such as , lounge access for passengers which yields higher cost bill for airlines before, since APR 2009, star alliance established "Star Alliance Global Lounge Cross Charging

Rate” which reduces expenditures of lounge provision for passengers on the bilateral base (star alliance, 2009), the sharing of mechanical assisting resources such as machineries and equipments at the airport yields a downward change on expenditure of the member airlines that had been paid much higher in the past, the arrival of interline billing system which enables the member airlines to bill each other quickly compare to the older system with the new application of electronic billing mechanisms which reduces the cost of paper works for the process of bills.

2.5.4. Market Development

Star alliance creates an opportunity for selling present products in to new markets through opening of new distribution channels in the additional routes of flights that served by the member airlines. The alliance develops the niche market that a single airline concentrates in to the widen coverage area of market provision alliance agreements. Star alliance gives room for expansion of market in availing wide flight network service; since there is most suitable connectivity, a potential demand growth from passengers’ side drives to get the easy connection, direct flights. At the very least, an alliance airline can offer more itinerary choices to its passengers than non-alliance airlines of similar size (Sultan and Simpson, 2000). Further, with availing a product in cheapest fares, due to cost reductions and economies of scale, scope and density of producing the product, made the alliance competitive in the industry (Mak and Go 1995).

In addition, passenger’s also attaining benefits from the star alliance loyalty program packages such as mileage accruals, free lounge access, free carry on excess baggage.

Moreover, the other opportunity of market enlargement through star alliance role on advertising of the star brand, from the beginning, the Star Alliance brand has been a strong component of building the association between Star Alliance and the member carrier’s corporate identity. For instance, almost 80 aircraft in member fleets are painted in the Alliance livery (Star Alliance, 2009).

Furthermore, the market share growth because of the interline agreement rise between alliance members, that is, the giving and taking of new markets creates a huge increments for the market growth.

2.5.5. Ancillary Revenue

Ancillary's revenue is meant for expanding the product quality and bringing different features to the consumer in terms of features, design, quality, durability, accessibility. Star alliance has produced different product types at different times to win the passengers choice. For instance, the development of E-services such as E-Ticket, E-Check in, E-Comment, Promotional Fare Packages such as Meeting plus, Convention plus and others developed by the collaboration frame work of star members. In addition, star has got research and development department who are reliable to creation of ultimate service giving mechanisms.

Ancillary revenue is becoming popular in the airline industry and a key for competition instruments, by developing products which fit the market. In 2014, ancillary revenues count from the total revenue \$12 per passenger which minimizes cost (IATA, 2014).

2.5.6. Internal financial gain through retro mile credit

Star alliance enables passengers to accrue miles from all member airlines through the program called "Frequent Traveler Program". This program enables frequent travelers to accrue miles when they take a flight by one of the member airlines in star alliance. Each airline has got a unique name and style but harmonized procedures to entertain its frequent travelers and the application system interface is harmonized so that frequent travelers accrue miles by just giving their membership number on the system. despite the fact that, there are certain problems that malfunction the accrual of the frequent traveler such as the network problem, the airlines agents problem in handling the reservation of the frequent traveler, the profile mismatch of the reservation and again the frequent travelers negligence in presenting their membership card before the flight taken. For the reason that , the member airlines agree to credit those miles upon presentation of the documents such as the boarding pass, the ticket, and travel documents to credit manually on the frequent travelers profile, which named " Retro mile credit request" .

Each retro mile credit request will be entertained through the alliance with billing of charges, which is currently significant. For instance, the retro mile credit request per flight costs\$5 and its cumulative effect become high (star alliance, 2013).

2.5.7. The role on Human resource

An employee represents the star alliance as a whole rather than representing the single airline who hired the employ because the product and service given in one airline affects the other member airline. Hence, employees are expected to provide a globally recognized level of professional service. Each Star Alliance carrier has an impressive history as an internationally recognized service provider.

Although each carrier may offer a portfolio of stylized services, star alliance has got more than 430000 employees who work in harmony to create value add product(star alliance,2011).Star Alliance launched its Learning Network, a growing set of training courses that can help employees at the member airlines better understand the Alliance and serve customers better. Cross cultural awareness is crucial in star alliance since the alliance members are serving multi cultural background customers.

2.6. Star Alliance and Environmental Protection

On 14th May, 2007 in Copenhagen, Denmark - Star Alliance announced the launch of “Biosphere Connections,” a partnership with three of the world’s leading international organizations promoting environmental sustainability. “Biosphere Connections” teams Star Alliance network with the Man and the Biosphere (MAB) Program of the United Nations Educational, Scientific and Cultural Organization, UNESCO and its global biosphere reserve network of internationally recognized ecosystems, including World Heritage sites; the World Conservation Union (WCN), the world’s largest environmental network, and, Ramsar Convention On Wetlands, a global convention covering wetlands.

Under the partnership Star Alliance will assist field workers from the three environmental agencies with transport to relevant meetings, conferences and events. “Biosphere Connections” fits within the framework of the Star Alliance CEO Environmental Policy Statement signed by the then member airlines in 1999.

Many of the biosphere reserves and wetlands, including World Heritage sites, covered by these international organizations, are located in regions and countries serviced by the Star Alliance network (Star Alliance, 2007).

Biosphere Connections has benefited more than 140 field workers with tickets for travel since 2007 (Star Alliance, 2009).

2.7. Competitiveness of Ethiopian airlines through alliance strategy

The rise of competitive aggressiveness is becoming dominant in the airline industry, especially Middle East carriers such as Emirates, Qatar Airways, Ethad, Fly Dubai, and Saudi Arabian Airlines. Those carriers increase the tendency of competition intensely and directly challenge by price-cutting and increasing the marketing, quality, and production capacity their revelries in the industry. Further, Ethiopian is one of African airline challenged by the Middle East Airlines which was reviewed by different researchers.

Industry competitiveness through alliance strategy is declining within the member airlines of same alliance group. The collaboration and the harmonization of working together are the main reasons for the same alliance group carriers' rivalry competitiveness reduction (Matthew et al., 2012). In contrary, other competitors are the other alliances which are Sky Team and One World generating high revenue next to the Star Alliance group through creation of different strategies such as the cost minimization strategy, growth strategy, product differentiation strategy, and innovation strategy. Sky team is especially known in providing different product and one world in creating enormous quality (Airline Business, 2012).

Ethiopian Aviation Group as part of star alliance group is getting a plus in operation. Among others, some of are:

- Network optimization through accessing the member airlines route. In addition, it creates a room for accessing traffic rights by a member airline's constellation and further to economic and political collaboration of states (Marchand, 2000).
- Market development by selling new destination which Ethiopian Aviation does not reach before and promotional advantage on new customers joining. For instance, the marketing advantages via growth of integrated frequent fliers program and one branding at all international airport has advantage on the profit of the airlines (Martin et al, 2007).

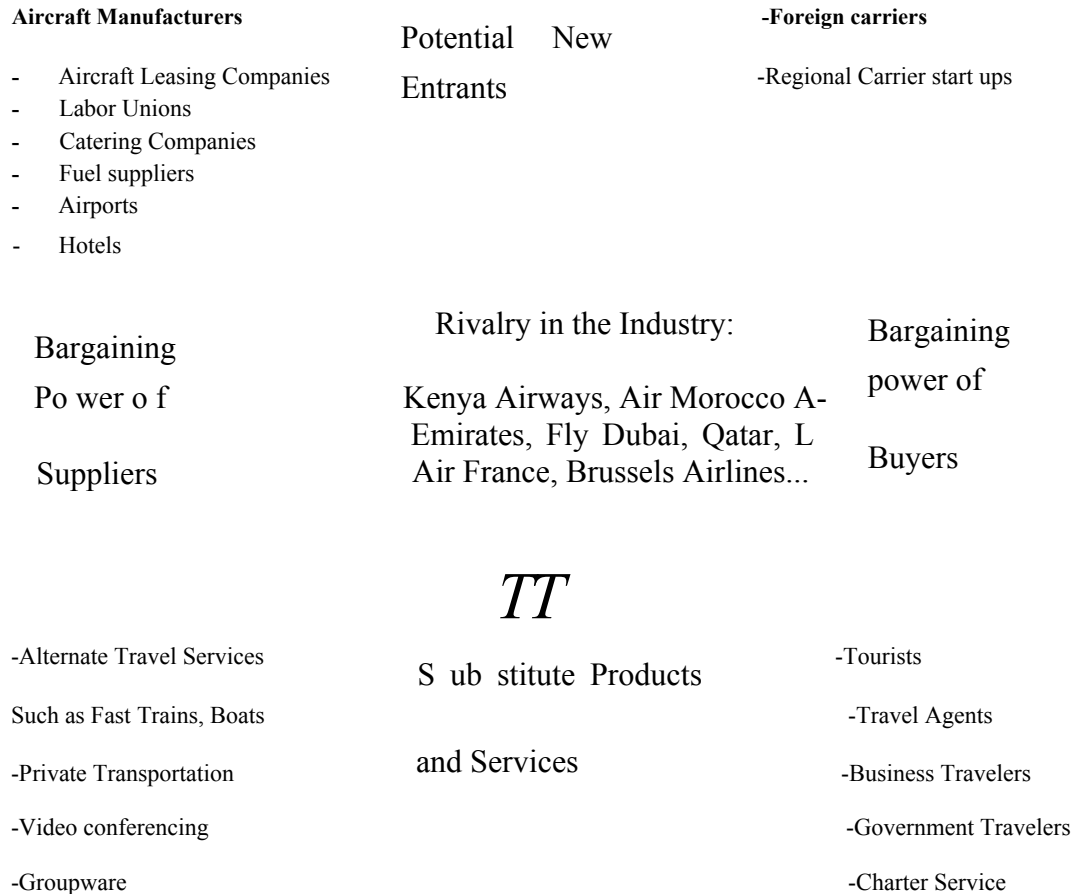
- Cost minimization through resource sharing and ability to give high economic of scale, According to Gellman Research Associates (1994) , carriers enter into transnational alliances to take advantage of economies of scope and density by increasing the size and reach of their networks. In terms of cost, it has got enormous advantages in creating a room for cost reduction by sharing resources and branding in common. The spreading of common costs for marketing over a larger number reduces the average costs of marketing (Hanlon, 2003).

Those opportunities create favorable climate by creating barrier to entry for the aviation group such as the new entrants carriers like Middle East carriers.

Moreover, the supple providers are attractive on supplying their resources since there is an opportunity of enormous market in the alliance industry rather than serving single airlines (John, 2010).

The other threats of customer power are well addressed by star alliance via different benefit packages for users. Hence, Ethiopian also harmonized its product and service as like Star Alliance Group, it adds value on the service given airline by giving wide opportunity of seamless networks, benefits to frequent fliers as well as group travelers through star alliance program, FFPs(Frequent Fliers Program). The frequent travelers program enabled Ethiopian aviation group customers to access all the benefits given in the member airlines of Star Alliance, rather than accessing only the Ethiopian Aviation group services.

Figure 2.1. Factors affecting Ethiopian Aviation Group in the competition of airline's industry



Source: Own illustration using Porter Five Forces Model of Competition

2.8. The reality of star alliance effect on operations

Researchers on the area claims that the star alliance has got two effects that significantly affect as a broad. That are concerning the benefits of airline global alliances are reviewed from the viewpoint of air travelers, as against airline operators.

On the other hand, the benefits gives to the airline operators claims to be an outward shift of alliance growth, especially, airline alliances are growing instantly in every year. According to Airline Business (2013), in July 1994, there were more than 280 alliances between 136 airlines

(Airline Business 1994). Six years on, in July 2000, this number had grown to 579 alliances between 220 airlines (Airline Business 2000). Currently, airline alliance reaches more than between 3500 airlines. The view is that airlines that do not participate in alliances will be severely disadvantaged (Mak and Go 1995).

According to Kevin and Mark (2012) study, the benefits to the global alliances have resulted in greater network access and enhanced FFP (Frequent Fliers Program) benefits - 62% of respondents 'agree' or 'strongly agree' about the enhanced benefits of airline alliance .For instance, One world is based on consumer marketing (i.e. co branding, lounge access, customer support and integrated frequent flyer programs). The Star Alliance takes advantage of more than just consumer marketing, giving emphasis to extensive code sharing, coordinated schedules and route planning, joint pricing and inventory management, integrated information technology, integrated frequent flyer programs and joint purchasing (Ionides 1999).

According to Brueckner (2003), for the star alliance estimate 27 lower fares in the year 1999 and an increase in consumer rent of about US-\$ 100m. For the four alliances KLM/NWA, BA/USAir, and Lufthansa/United Airlines, Park and Zangh (2000) estimate a welfare gain due to about 20% lower air fares for the period 1990 to 1994 because of the largely complementary networks. The gain in consumer surplus was estimated to be \$ 193 million for KLM (Dutch's Airlines) and North West Airlines, 223 million for BA (British Airways and US (United States Airlines) and 122 million for Lufthansa/United respectively.

According to Star alliance (2012), the economic contribution of star alliance to Ethiopian aviation group reaches 7.8 million Euros which consists of network revenue that arises from enhanced connectivity and strong city presence, loyalty revenue due to the additional flight purchases and wide loyalty proposition of star alliance-Earn and Redeem miles as well as status benefits , and sales revenue of larger share of wallet of multinationals so that participating carriers get access and the presence of fare and discount products targeted additional customer groups.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

The study used the mixed research design method which contained quantitative and qualitative type of data. Mixed methods research is an approach to inquiry that combines or associates both qualitative and quantitative forms. It involves philosophical assumptions, the use of qualitative and quantitative approaches, and the mixing of both approaches in a study. Thus, it is more than simply collecting and analyzing both kinds of data; it also involves the use of both approaches in tandem so that the overall strength of a study is greater than either qualitative or quantitative research (Creswell and Plano Clark, 2007). The study used specifically the concurrent mixed research design method, which convergence and merging will be applied on quantitative and qualitative research design methods.

As the main purpose of the study is to access the effects of the alliance strategy of the Ethiopian Aviation Group in the case of Star Alliance, the study covered time frame from 2012-2014 and for comparison the study incorporates 2010 and 2011 years. In Dec, 2011 after fulfilling all the relevant audit reports of star alliance, Ethiopian Aviation Group became a full member of Star Alliance Team. Since then, the airline has changed its operation structure as well as scope of activities widely starting from 2012. Hence, the mixed research design method will capture the significant changes of the aviation group since 2012.

The quantitative research design method conducted by using primary data and secondary data which collected through research instruments such as questionnaires and surveys.

The qualitative research design method also conducted through the studies made in the past, case studies, surveys which contained an open ended questions. Those data's collected from journals, magazines, books, and websites and again from the point of service, Ethiopian Aviation Group.

Data's which collected are related to the key operational outcomes and performance indicators such as the interline marketing data of Star Alliance members to Ethiopian Aviation Group which are cross sectional and time series data, Financial statements of the airline, financial cost of fuel, overhead costs, operational data such as Revenue Passenger Kilo meter(RPK), Available

Seat Kilometer(APK), number of passenger, number of destination, Customer service level data through questionnaires and surveys.

3.2. Research Methodology

As the mixed research design method used, it had used quantitative data and qualitative data through experiments such as questionnaires, surveys, case studies. In addition, the analytical method incorporated that deals with directly measurable and quantifiable phenomenon and makes critical evaluation on the dependent variables such as the positive changes on overall operation after Ethiopian aviation group has joined the star alliance since 2011. Besides, the qualitative changes on the service, operation, product features entertained through interviews with management staffs, non management staffs and customers.

Furthermore, the study examined the perceptions about performance of qualitative services after Ethiopian Aviation Group become a member of known alliance, the so called “Star Alliance”. The questionnaires items were placed on a 5-point Likert Type scale(1 - strongly disagree/dissatisfied up to 5- being strongly agree/satisfied). In order to collect the data, the researcher personally participated and also used customer service agents to reach the respondents through distributing and collecting the questionnaires.

3.3. Sampling Method and Sample Size

The area of the study focuses on Ethiopian Aviation Group’s relative change in operation since the airlines became the full member of Star Alliance group. Hence, the researcher used sampling study from the total population of the staff of Ethiopian Aviation Group, customers of the Ethiopian Aviation Group.

Ethiopian Aviation Group consists of seven structural business units: Ethiopian International Passenger Service, Ethiopian Regional Passenger Service, Ethiopian Cargo Service, Ethiopian Aviation Academy, Ethiopian In-flight Catering Service, Ethiopian MRO (Maintenance Repair and Overhaul) service, and Ethiopian Ground Service.

Whereas, the study conducted sampling among the seven strategic business units, the international and regional passenger service strategic business units. Because, international and

regional business units are directly related and working together in harmony by changing their previous marketing structure, loyalty programs, resource structures in to star alliance operation.

The study used stratified sampling techniques on the Ethiopian aviation group by stratifying in two groups:

1. Ethiopian Aviation Group Management staff
2. Non- Management staff.

On the other hand, from the Ethiopian Aviation Group customers; the Shebamile¹¹ frequent flier program members which are frequent users of the service of the aviation group and counts in number +800,000 (Selameta Magazine, 2014) are chosen by judgment of the researcher as a focal point. Hence, the judgmental sampling techniques carried on to access the significance of the Star Alliance Products and services impact on overall service delivery.

Generally, the researcher have taken the airlines employees in international and regional services(over 2000) as a study population, along with stratified in management staff(+200) and non-management staff(1800) are going to be the sample size and that can represent the effects in the entire branches of the airlines in the hub country.

- From the study Ethiopian International and Regional services population, the researcher has taken 25 management staffs and 100 non management staff as a samples based on judgmental sampling method.
- From the study Ethiopian International and Regional services customers who is a member of Shebamile Frequent Flier Program, the researcher has taken 300 customers basing in Addis Ababa (Hub of Ethiopian Aviation Group), and different cities residents using the services of Ethiopian Aviation Group through questionnaires those customers touching Addis Ababa as a transit point.

¹¹ Shebamile is a loyalty program of Ethiopian Aviation Group for those who use the international and regional services of the group. The program consists of mile accruing and redeeming with different packages of benefits (www.ethiopianairlines.com).

3.4. Procedure for Data Analysis

Once the data are gathered from different sources by using diverse instruments with the consideration of accuracy and reliability then analyzed, using bar graphs, percentages, mean, standard deviation, ranking, cross tabulations, ratios. Those data evaluated and tested in accordance with the ground theories, explanation, variables, and hypotheses. So that, integrated and verified conclusion drawn from the data collected.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter, the researcher presents, the quantitative and qualitative data which is collected from the sample data as well as from the point of service of Ethiopian airlines which are primary data, in a manner that helps the sole idea of the research problem.

4. Operational impacts of star alliance on Ethiopian aviation group

The impacts of star alliance on the operation of Ethiopian airlines are significant as the operations of Ethiopian aviation group as changed in a manner that entertain the harmonized services of member airlines of star alliance, for instance, the changes in the operation of the customer service treated on the variables such as ground service, in-flight service, price factors, safety factors. Regarding the market development, the researcher contained the time series data of interline market given and received between the member airlines of star alliance and Ethiopian aviation group. Finally, the impact of ancillary revenues through the product development of star alliance, which are the upcoming of new star alliance fares and discounted products are analyzed through the time series data.

4.1. The Star alliance impact on changing the customer service operation

Since Dec, 2011, Ethiopian aviation group changes its structure as well as service level to cope up with the star alliance management set up. This results the appearance of different customer service standards starting from ground handling, in flight service until the customer reaches its final destination and beyond.

4.1.1. Customer Loyalty

One of the core values of Star alliance group is “Customer Loyalty” meaning enriching the benefits of customers so that customers will be loyal to the member airlines over and above the star alliance group. Hence, Star alliance provides a guideline to harmonize the service level by the member airlines that will be surveyed on “ Online customer service survey” and “customer compliance survey” on a quarter base’s which help to affirm the service level where the member

airlines are currently exhibiting and their expected remedy for the compliance availed through the survey. Further, the star alliance management group also reviews and put on a pressure so as the audit report has a room of change in quality of service.

Moreover, the customer loyalty programs of each member airlines will be managed by themselves, for instance, Ethiopian aviation group has got a loyalty program the so called “shebamiles” which currently having a member of more than 900,000 frequent fliers as well as loyal to Ethiopian airlines service(www.Shebamile.com).

Given that, airlines are very concerned about customer loyalty, there has to be a room for review and reexamine their alliance strategy to get out of more customer loyalty and as the same time to remain competitive. According to Natalisa and Subroto (2003) suggested that domestic airline operators need to honor promises made in their promotional and external communication materials, continuous training activities should also be provided to frontline operators, in addition to developing various kinds of loyalty programs to ensure continued customer loyalty. Chin (2012) stated that an attractive frequent flier program could actually contribute to increased loyalty from the repeat business of an increased number of customers. On top of that, Dick and Basu (1994) suggested that reliability and confidence might encourage loyalty to the service provider.

Star alliance has put a change on operations of Ethiopian aviation group by putting a better service delivery system; loyal customer enables to access through flight check-in, priority boarding, priority baggage check-in and delivery, priority waiting list and seamless connection through the program the so called “Move under one roof” so that loyal customers can access the benefits such as only need to check in once, don’t have to worry about luggage again until it reaches my final destination, and get through customs, immigration and security without undue stress.

In addition, the benefits goes to gaining for customers of shebamiles member’s free ticket, free extra baggage allowance, free lounge accessibility, upgrade awards and also accessing the discounted fares.

The researcher developed a questionnaire to evaluate the benefits of the loyal customers on a customer service bases under judgmental sampling method of 300 respondents of frequent

travelers on stratified bases, that is, in terms of membership tier level. The respondents are Ethiopian aviation group frequent fliers who are a member of Ethiopian aviation group loyalty program, Shebamiles. The data are distributed on Ethiopian aviation group major sales office branches to assess variation, which are:

Hilton Ticket Office- Which hosts frequent travelers that frequently fly to USA, Europe, Middle East, and Asia.

Africa Union Ticket Office- Which hosts frequent travelers that frequently fly to African continent.

UNECA Ticket Office- Which hosts frequent travelers that fly usually to Africa, and Europe as well as USA.

4.1.2. Characteristics of distribution of loyalty customers

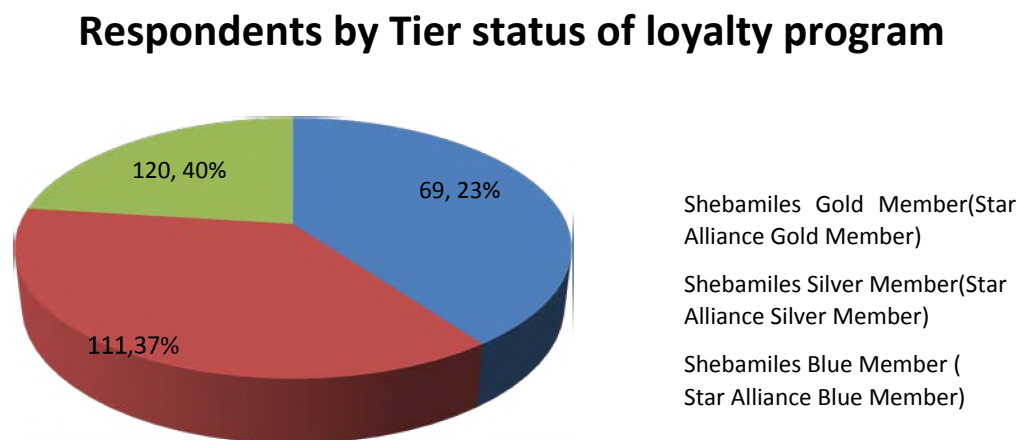
As the researcher sampled the frequent travelers of Ethiopian aviation group which contains three tier status level, which are Shebamiles Gold Member (Star Alliance Gold Member), Shebamiles Silver Member (Star Alliance Silver Member), and Shebamiles Blue Member (Star Alliance Blue Member). The following are the features of the loyalty customers collected through questionnaire:

Table4.1. Educational qualification of respondents

	Frequency	Percentage
Primary Education (Grade1-8)	5	0.02
Secondary Education (Grade 8-12)	82	0.27
College Diploma	51	0.17
University First Degree	91	0.30
University Second Degree	41	0.14
Other	30	0.10
Total	300	100%

Source: Questionnaire Analysis, 2014

Figure4.1. Loyalty customers of Ethiopian aviation group respondents by tier frequency



Source: Questionnaire Analysis, 2014

Table4.2. Frequency of flight taken by loyalty customers

	Frequency	Percentage
Three times a year	21	0.07
Four times a year	53	0.18
Five and more times	226	0.75
Total	300	100%

Source: Questionnaire Analysis, 2014

4.1.3. Overall customer service variables and results

After the questionnaire distribution, the sample data collected regarding the parameters which measured the ground service improvement by bringing new system that enlarge the service level, the in-flight service advancement, the employee responsiveness regarding the professionalism and other multitude like empowerment, confidence, the price fairness, and the safety issues, are

covered under in way that links the core value of the star alliance role of loyalty customer on the operational change of Ethiopian aviation group.

Hence, the results found from the instrument developed by the researcher presented as follows:

Table4.3. Ground services result on Ethiopian aviation after membership of star alliance

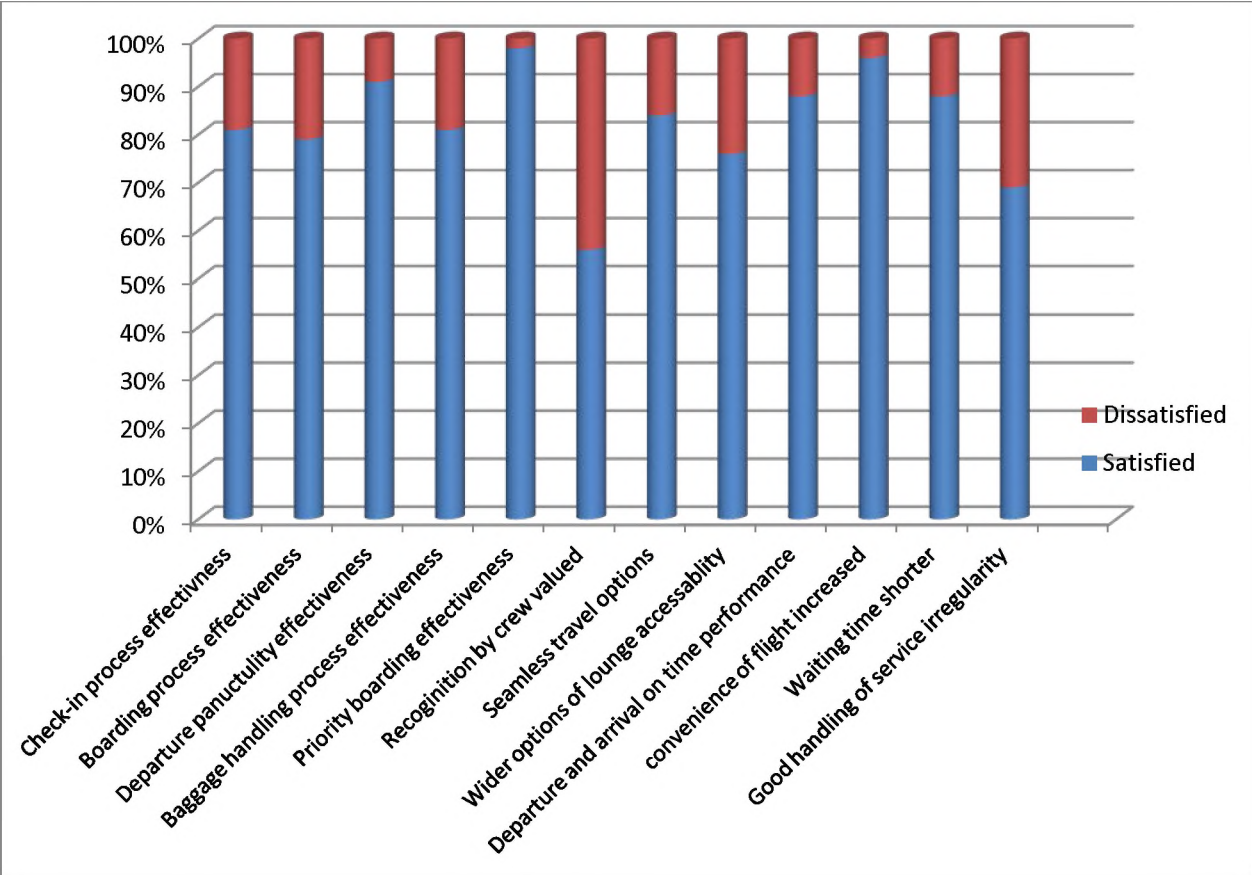
Scale (1-Strongly Disagree; 2-Disagree; 3- Somehow Agree; 4-Strongly Agree; 5-Agree)

		Scale										Total	
		5		4		3		2		1		No	%
		No	%	No	%	No	%	No	%	No	%		
1	Overall Check-in process efficiency	29	0.09	75	0.25	141	0.47	35	0.12	20	0.07	300	100
2	Overall boarding process efficiency	33	0.12	71	0.23	134	0.44	44	0.15	18	0.06	300	100
3	Departure punctuality efficiency	54	0.18	145	0.48	76	0.25	15	0.05	10	0.04	300	100
4	Baggage handling at arrival process efficiency	45	0.15	102	0.34	97	0.32	26	0.09	30	0.10	300	100
5	Priority boarding efficiency	201	0.67	89	0.30	3	0.01	4	0.01	3	0.01	300	100
6	Recognition by cabin crew Efficiency	103	0.34	51	0.17	15	0.05	71	0.24	60	0.20	300	100
7	Ability to access seamless travel availability	129	0.43	45	0.15	79	0.26	27	0.09	20	0.07	300	100
8	Wider options of Lounge's accessibility availability	151	0.50	41	0.14	35	0.12	54	0.18	19	0.06	300	100
9	Departure and arrival time are promised	59	0.20	135	0.45	69	0.23	27	0.09	10	0.03	300	100
10	Convenience of flight increased	171	0.57	101	0.34	15	0.05	7	0.02	6	0.02	300	100
11	Waiting time become shorter	142	0.47	95	0.32	27	0.09	31	0.10	5	0.02	300	100
12	Ground handling of service irregularities minimized	101	0.34	75	0.25	31	0.10	81	0.27	12	0.04	300	100

Source: Questionnaire Analysis, 2014

The above table can be expressed using a bar graph, and presented accordingly as follows:

Figure4.2. Ground service overall changes after star alliance membership



Source: Questionnaire Analysis, 2014

Generally speaking, regarding the ground services after Ethiopian aviation group became a full member of star alliance are overall changing the ground service efficiency as well as an increment on the service level of Ethiopian by putting some other additional benefits and network accessibility to the Ethiopian customers. Moreover, the researcher sampled loyal customers who fly more than 3 times within one fiscal year, for instance the collected data shows more than 75 percent of the sampled respondents fly more than 5 times within a year, and there response to the specified ground service variables is above average satisfied which affirms getting of new opportunities upon the prevalence of the star alliance operational positive change effects.

Regarding Item1-Item 5, on Table4.3, 81 percent of respondents almost majority of the respondents agree that the Ethiopian aviation group efficiency in availing the required ground services upon the join of the big alliance group, Star alliance, 81 percent agree efficient Check-in process, 79 percent of respondents agree boarding process efficiency, 91 percent of respondents agree Departure punctuality, 81 percent of respondents agree Baggage handling at arrival process, and 98 percent of respondents agree the efficiency of the Priority boarding, respectively.

Overall, the majority of the respondents respond on the bases of somehow agrees, agree and strongly agree, and above 75 percent agree regarding Item1-Item5 and this shows the positive impact of the star alliance to the Ethiopian aviation group in availing all amenity provisions.

Regarding Item6, on Table4.3, according to the respondent's the recognition by crew of ground staff are agreed 56 percent almost near to average but 44 percent of the respondents disagree to the recognition by the ground crew, which affects the first impression role of the customer service.

About Item7-12, on Table4.3, most of the respondents agree above average, for instance, Item7 was agreed by respondents at 84 percent regarding the issue of ability to access seamless travel, 76 percent of respondents agreed about the wider options of Lounge's accessibility, 88 percent of respondents agreed on time Departure and arrival time punctuality, 96 percent of respondents agreed with the Convenience of flight quality, 88 percent of respondents agreed on Waiting time become short, and 69 percent of respondents support the idea of service irregularities minimized.

In general, the overall effect of Star alliance impact to the Ethiopian aviation group regarding the ground services are positive and supports in a manner that helps to retain more loyal customers and also attractive for new comers.

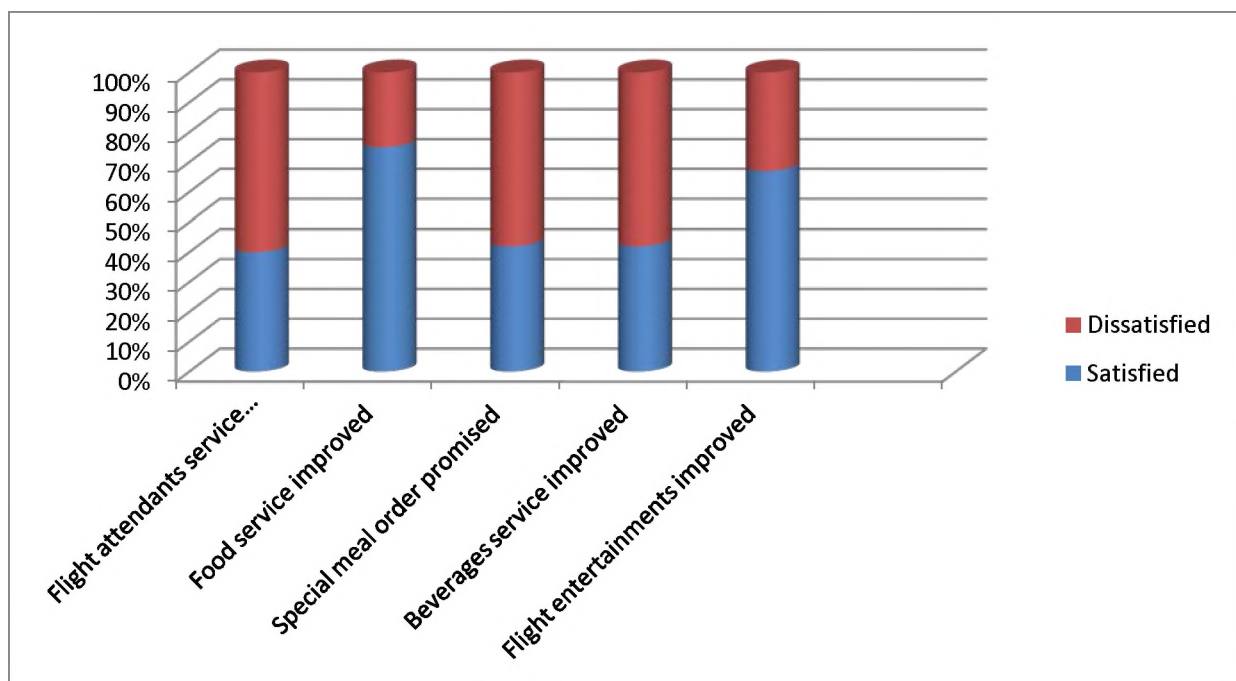
Table4.4. In-Flight service changes after star alliance membership

Scale (1-Strongly Disagree; 2-Disagree; 3- Somehow Agree; 4-Strongly Agree; 5-Agree)

		Scale										Total	
		5		4		3		2		1		No	%
		No	%	No	%	No	%	No	%	No	%		
1	Flight attendants service professionalism	51	0.17	44	0.15	25	0.08	101	0.34	79	0.26	300	100
2	Food service improvement	61	0.20	74	0.25	90	0.30	50	0.17	25	0.08	300	100
3	Special meal order promised	31	0.10	42	0.14	53	0.18	101	0.34	73	0.24	300	100
4	Beverages service improved	31	0.10	55	0.18	41	0.14	89	0.30	84	0.28	300	100
5	Flight entertainments improvement	90	0.30	82	0.27	31	0.10	38	0.13	60	0.20	300	100

Source: Questionnaire Analysis, 2014

Figure4.3. In-Flight changes after star alliance membership using bar graph



Source: Questionnaire Analysis, 2014

In flight service is very crucial in the satisfaction of customers specially to retain customers who are loyal to the airlines. Based on this, the researcher collected sample data results presented as follows:

Regarding Item1-5, on Table4.4, almost majority of the respondents don't support the improvement on the service level of Ethiopian aviation upon a member of Star alliance group, for instance, 60 percent of respondents disagree about the level of flight attendants service on the planes regarding their professionalism, 75 percent of respondents agree the food service improved, 58 percent of respondents disagree that the special meal order promised, 58 percent of respondents disagree about beverage service improvement, almost 67 percent of respondents agree on the increment of flight entertainments, respectively.

In general, the overall in-flight service is worsen after the Ethiopian aviation group service joined star alliance and this negatively affect the service level and the airline strategy to become 4 star service deliverer.

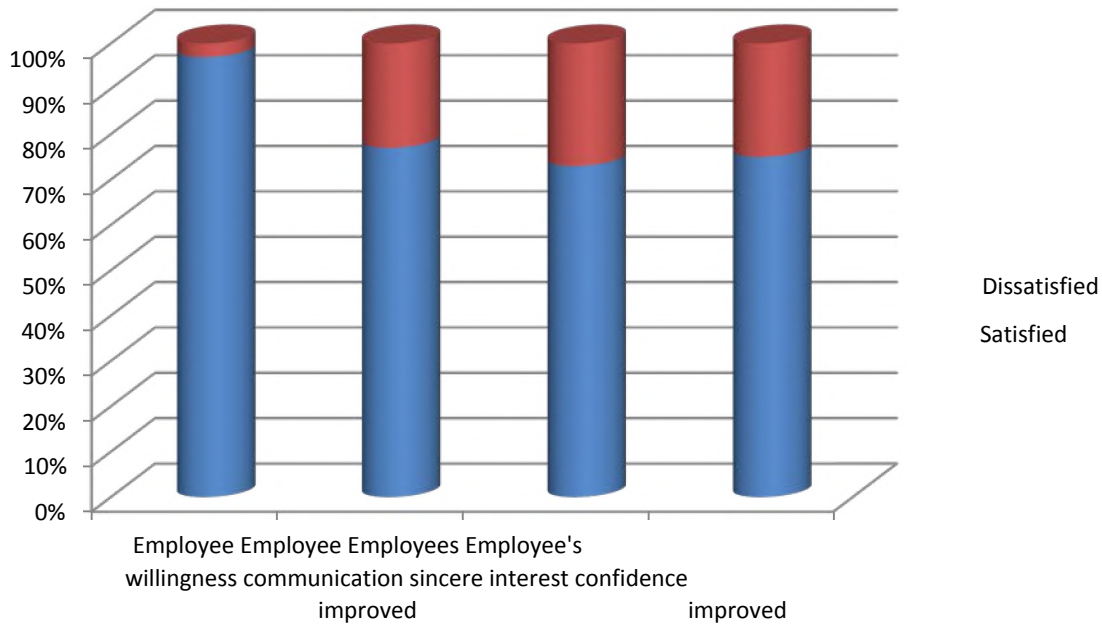
Table4.5. Employees responsiveness after star alliance membership

Scale (1-Strongly Disagree; 2-Disagree; 3- Somehow Agree; 4-Strongly Agree; 5-Agree)

		Scale										Total	
		1		2		3		4		5		No	%
		No	%	No	%	No	%	No	%	No	%		
1	Employ willingness to help customers improvement	140	0.47	100	0.33	50	0.17	4	0.01	6	0.02	300	100
2	Employee communication improvement	128	0.43	57	0.19	45	0.15	40	0.13	30	0.10	300	100
3	Employees sincere interest improvement	102	0.34	92	0.31	23	0.08	45	0.15	38	0.13	300	100
4	Employee's confidence improvement	97	0.32	83	0.28	45	0.15	50	0.17	25	0.08	300	100

Source: Questionnaire Analysis, 2014

Figure4.4. Employees responsiveness after star alliance membership



Source: Questionnaire Analysis, 2014

Regarding the issue of the employ responsiveness after the arrival of star alliance to the operation of Ethiopian aviation group is rated by loyalty customer as follows:

On Item 1-4, on Table 4.5, rated above average by the respondents, 97 percent of respondents agree that the employ willingness to help customers increased, 77 percent of respondents agree on the idea that the employee communication improvement, 73 percent of respondents agree that employees sincerity interest in solving problems improvement, 75 percent of respondents also support that the confidence of the employee’s improved, respectively. This clearly indicates the overall significance level of employees for the loyalty customer’s satisfaction is potential and the airline stands in a good possession regarding the employee’s responsiveness.

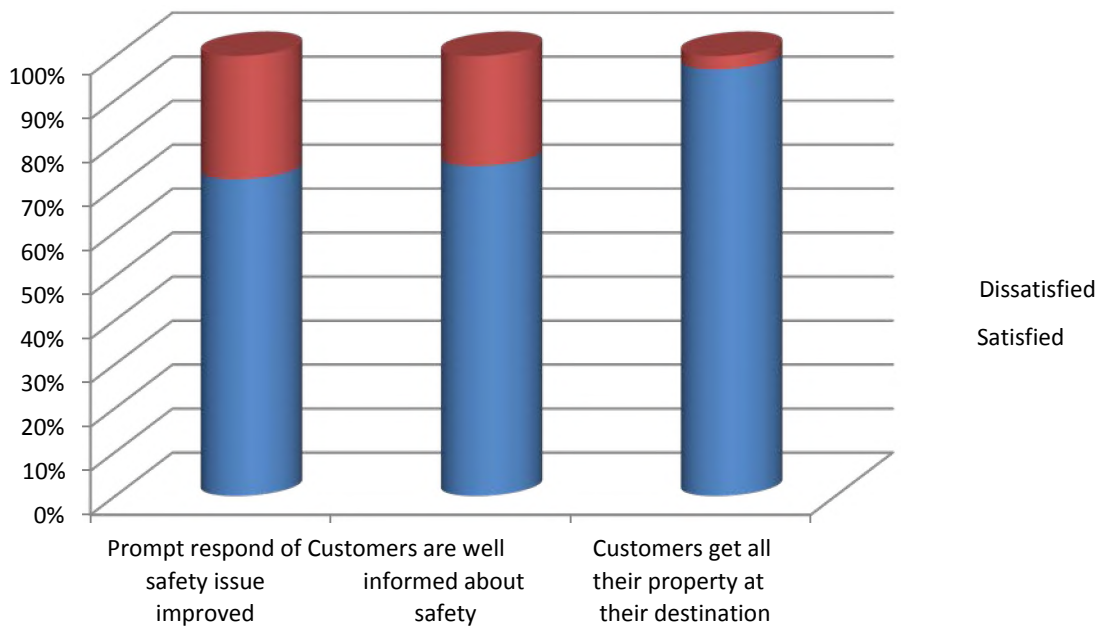
Table4.6. Safety factors as part of star alliance group

Scale (1-Strongly Disagree; 2-Disagree; 3- Somehow Agree; 4-Strongly Agree; 5-Agree)

		Scale										Total	
		5		4		3		2		1			
		No	%	No	%	No	%	No	%	No	%	No	%
1	Prompt respond of safety issue improvement	71	0.24	38	0.13	104	0.35	42	0.13	45	0.15	300	100
2	Customers are well informed about safety	52	0.17	33	0.11	140	0.47	32	0.11	43	0.14	300	100
3	Customers get all their property at their destination	141	0.47	70	0.24	79	0.26	3	0.01	6	0.02	300	100

Source: Questionnaire Analysis, 2014

Figure4.5. Safety factors through bar graph as part of star alliance



Source: Questionnaire Analysis, 2014

Regarding safety factors that prevail on Ethiopian safety quality measurements which are illustrated below:

Item1-3, on Table4.6, almost 72 percent of respondents are agreed on prompt respond of safety issue improvement, 75 percent of respondents also agreed on the information provided before the flight on the screen of Ethiopian aviation media sources, 97 percent of agreed on the customers getting all their property at their destination, respectively. Overall, safety is not compromised on the service of the Ethiopian aviation group according to the data collected.

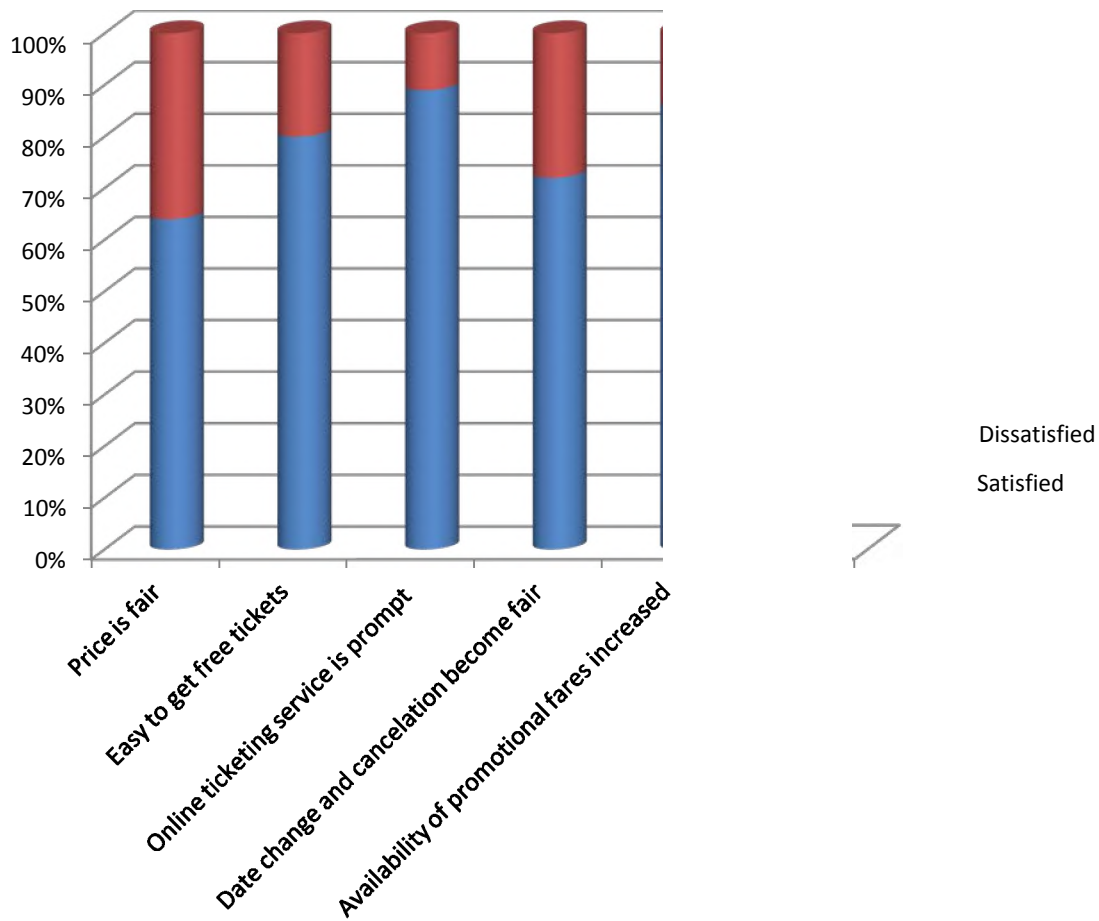
Table4.7. Price issues after Ethiopian aviation part of star alliance

Scale (1-Strongly Disagree; 2-Disagree; 3- Somehow Agree; 4-Strongly Agree; 5-Agree)

		Scale										Total	
		5		4		3		2		1			
		No	%	No	%	No	%	No	%	No	%	No	%
1	Price is fair	50	0.18	38	0.12	102	0.34	19	0.06	91	0.30	300	100
2	Easy to get free tickets beyond Ethiopian	104	0.35	73	0.24	64	0.21	30	0.10	29	0.10	300	100
3	Online ticketing service is prompt	104	0.35	71	0.24	94	0.30	11	0.04	20	0.07	300	100
4	Date change and cancelation become fair	105	0.35	41	0.14	70	0.23	48	0.16	36	0.12	300	100
5	Availability of promotional fares increased	121	0.40	74	0.25	62	0.21	23	0.08	20	0.06	300	100

Source: Questionnaire Analysis, 2014

Figure4.6. Price and other ticketing issues after star alliance membership



Source: Questionnaire Analysis, 2014

Regarding the price parameters, the Ethiopian aviation appraisal through questionnaire by its loyalty program members is listed as follows:

Item1-5, Table4.7, above average almost majority of respondents agree that the changes on the pricing and other ticketing parameters are being improved, for instance, 64 percent agreed about the price is becoming fair question, 80 percent agreed on the redemption ticket which is free ticket accessibility on the other member airlines of star alliance, 89 percent agreed online ticketing service is prompt, 72 percent of respondents agreed on the fairness of date change and

cancelation penalties, 86 percent of the respondents are agreed on the availability of promotional fares wider availability, respectively.

Finally, regarding the customer loyalty program of Ethiopian aviation group influenced positively on overall changes of operation on different key service areas for the airline user due to the join to Star alliance group. Further, it is affirmed by the data from the customer side.

4.2. Ancillary Revenue through Star Alliance Products and Discounted fares

Apart from benefiting the customers of Ethiopian aviation group, those star alliance products are becoming ancillary revenue for the airline itself. The existence of different promotional packages by the star alliance marketing team such as Round- the- World fare which is a promotional fare for passengers allows member airlines to offer a single fare that the journey passes the Atlantic covering region along with the pacific covering region, and the fare published with the participation of all member airlines of star alliance on discount bases.

The other star alliance product is Air pass joins the Alliance's other products — Round-the-World Fares, Circle Fares — to generate large amounts of revenue that carriers might not otherwise see. Since, the introduction of global fare products in 2001, revenue has grown each year to the point that collectively almost US\$2.7 billion goes to the member carriers each year (Star Alliance, 2013).

Generally, Ethiopian aviation group gains a benefit for customers as well as for airline itself by getting more revenue and new markets from around the world that uses those star alliance products.

After conducting time series data starting from 2013, the Ethiopian aviation group extends its service by providing the star alliance products, such as Round-the-World fares and Air passes.

Table4.8. Revenue generated from Star alliance fare and discount products

Star Alliance Fare and Discount products

Airline	Ethiopian aviation group		<i>Total Coupons flown</i>	<i>Total Revenue (net)</i>
Currency	USD	RTW	1,142	758,985
		Air pass	54	8,447
Period start	1/1/2013	Total	1,196	767,432
Period end	28/2/2014			

Source: Data Analysis, 2014

According to the time series data, the total revenue generated from the existence of star alliance fare and discount products, especially from the round the world fare Ethiopian generated high amount of ancillary revenue which is \$758,985 and from air pass the airline gains net revenue of \$8447. The total sum of gains from the star alliance products from Jan, 2013-feb, 2014 reaches \$767,431.

As a result, the aviation group attained a positive change on incremental revenue from the star alliance discounted products clearly shown on the above table. Moreover, the total coupons flown shown also the attained new markets size from those products of star alliance.

4.3. Market development role of Star alliance on Ethiopian aviation group

One of the key roles of the star alliance core value strengthens the member airlines market power and also serves for survival from stiff competition of the airline industry. The incremental revenue generated from the member airlines through interline marketing by developing common channels and easy access of the untouched market areas leads the member airlines to enlarge the market size. Such as, the giving and receiving of business counts the major alliance function for the seamless travel for customers and bringing new market for the airline operators too so that the customers will not escape from the alliance and went to the other alliance.

Moreover, endorsing tickets and transferring passengers when irregularities happen also the other key activities bring market inside the alliance by recovering the service.

Ethiopian has got a major advantage of geographical position and its wider networks in Africa at the first stand; this leads an advantage on the other member airlines to reach to African continent so that new market advantage prevails on Ethiopian aviation group. In contrary, the Ethiopian aviation group doesn't have ample service in America as well as in Asia and Europe too, by then it uses the opportunity of accessing the networks of star member airlines by selling aggressively like its product associating with its own flight number so that the customer will be served as like as same service of Ethiopian aviation group.

Therefore, the researcher collected time series data starting from 2010 and 2011 before Ethiopian aviation academy become part of star alliance and the previous interline agreement was based on code share agreement, that is between two airlines but after Ethiopian aviation group became part of star alliance the airline access the major services and beyond the code share agreement the airlines can access alliances more than one to one sells but it also gains more recognition and ample benefits to the loyal customers, access of networks and pricing agreements through star alliance fare.

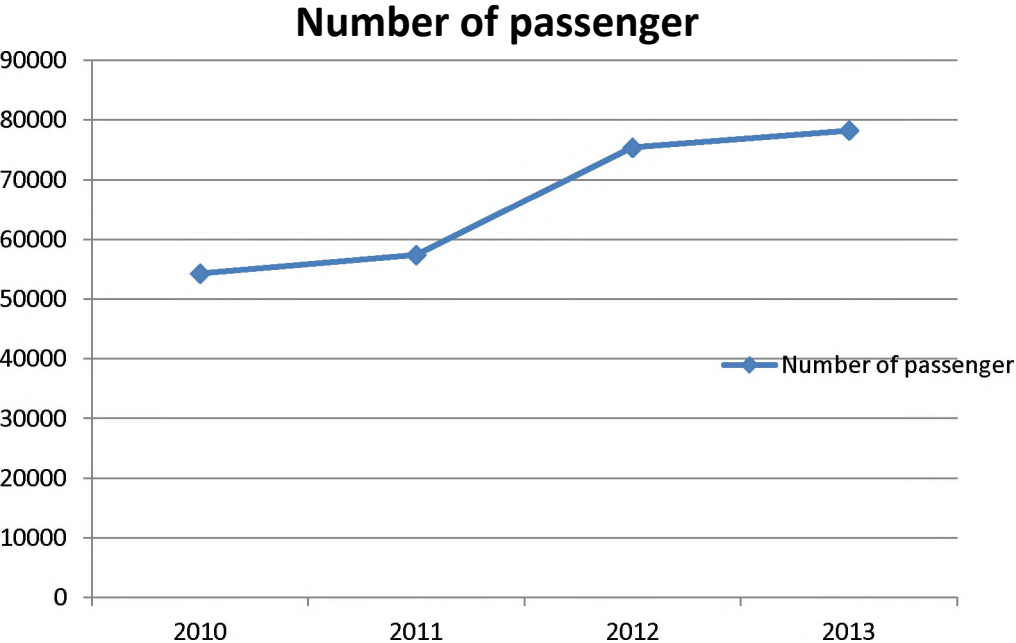
Hence, the researcher collected business given and received data starting from Jan, 2012-Apr, 2014 to access the sales and marketing operational changes after the full membership of star alliance. The following table shows the incremental revenue generated from the interline marketing between the member airlines of star alliance:

Table4.9. Business received from interline marketing

Interline Market	Year	Number of passenger	Amount
Before Star alliance	2010	54,253	15,434,274
	2011	57,397	17,729,124
After star alliance	2012	75,370	23,466,052
	2013	78,232	26,699,402
	2014 up to April	18,192	6,019,539

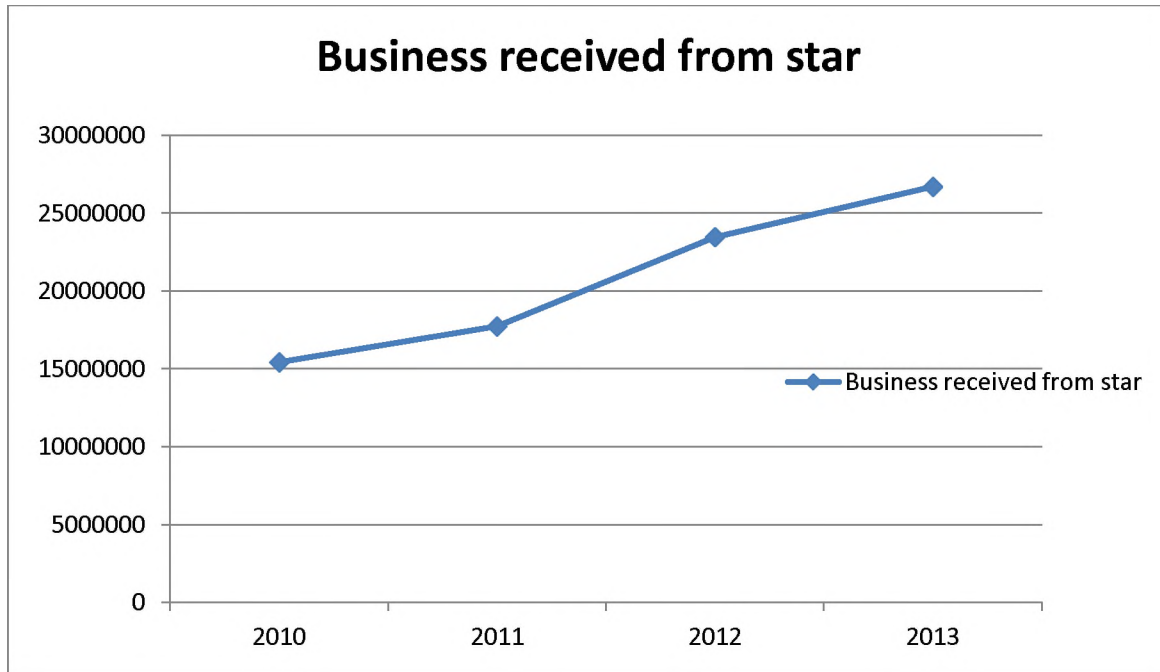
Source: Data Analysis, 2014

Figure4.7. before and after membership on the growth of interline passenger received



Source: Data Analysis, 2014

Figure4.8. before and after membership on growth of interline business received



Source: Data Analysis, 2014

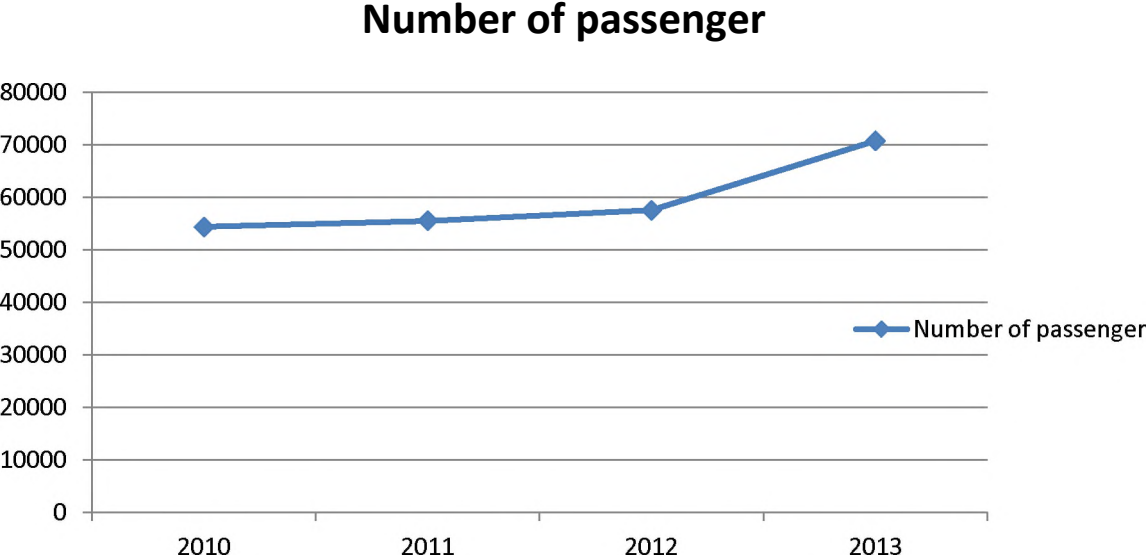
Generally, as the data shows the instantaneous change in the passenger size received and the business received from star alliance member airlines, due to Ethiopian aviation group became part of star alliance so that the star member airlines can sell with their own flight number, endorse, priority business arrangement, interline easy access of fares, sharing of central reservation system and others bring an outward shift with very steep slope change of growth in terms of passenger size as well as the new market received. For instance, after Ethiopian became part of star alliance group received a total of 229191 passenger and \$73914117 business.

Table4.10. Business given from interline marketing

Interline Market	Year	Number of passenger	Amount
Before Star alliance	2010	54,321	32175425
	2011	55491	32275672
After star alliance	2012	57485	39703618
	2013	70717	46340180
	2014 up to April	17609	9738434

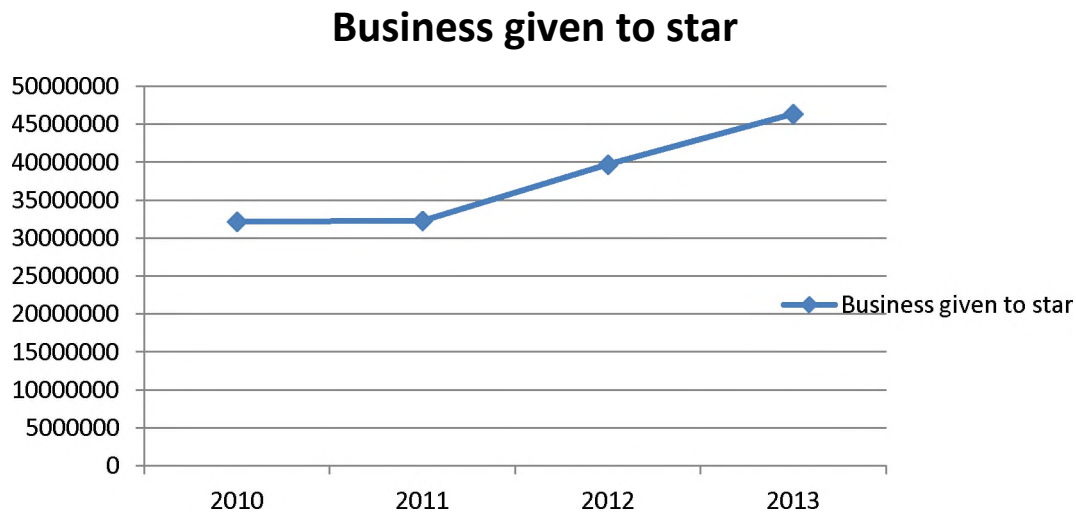
Source: Data Analysis, 2014

Figure4.9. before and after membership on growth of interline passenger given



Source: Data Analysis, 2014

Figure4.10. before and after membership on growth of interline business given



Source: Data Analysis, 2014

To end up, the growth of the interline business given and passenger given counted to the Ethiopian aviation group after becoming part of star alliance as the Ethiopian aviation group growth of its business through its favorable accessibility of the member airlines huge networks, document access of member airlines, mile exchange benefits, seamless travel creation, lounge accessibility and others... results in to give businesses to the star members as if counting the member airlines as own market structure and which directly benefits passengers to access the star core values.

Likewise, Ethiopian gave 145,811 passengers and \$95,782,232 to the member airlines of star alliance. Therefore, after the full membership level of Ethiopian aviation group to the star alliance, the airline is growing positively and getting advantage in terms of marketing benefit and retaining passenger who migrate to other airlines due to the insufficient network accessibility as well as loyalty benefits from the Ethiopian aviation group's loyalty program. Since then as part of star alliance, the airline is getting market development and product enlargement opportunities.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Summary of Findings

On this part, the researcher summarized the main findings after data analysis and presentation chapters of the paper.

One of the star alliance core values is enriching passenger benefits through the customer service role of the shebamiles loyalty program and this helps the airline to retain more loyal customer on the loyalty program and again attract new customers.

According to the sample data taken from Ethiopian aviation group loyalty customers also ascertain that the idea of customer loyalty to go beyond further to give esteemed customer service, for instance the hospitality of Ethiopians, wider network coverage in Africa, highly dedicated employee, and the geographical location are strengthen the airline to become first chose by the customers and spread its loyalty program benefits and amenities throughout the world. Especially, after becoming part of the big alliance, star alliance, the airline was routinely able to sell and accept each member's ticket, transfer luggage between each member's flight, offer free lounge accessibility options, giving award tickets beyond the service of Ethiopian aviation group and other conveniences, it is always seems logical for non competitive airlines to take that kind of cooperation to the next level, sharing codes, creating joint fares and participating each other's frequent flyer programs that can help the airline to get comparative advantage in terms of customer loyalty and reliability compare to those airlines which are not a member yet.

Likewise, the ample network availability also made the airline to become preferred by customers because of its significant advantage gotten from star alliance seamless travel availability. Moreover, it can be summarized the customers are happy on the availability of the star alliance networks. On the other hand, the airline itself gains an advantage on network optimization through the benefits that has got thorough incremental network revenue.

In terms of growth in market development through the smooth relationship of member airlines made an increment on market and sells advantage. The previous interline agreement was widened by the new alliance agreement that brought the Ethiopian aviation group acceptance on the eyes of the member airlines and gaining more market through the prioritization on the market given.

But, as Ethiopian is a new member airline and comparatively smaller in size from the member airlines lead the airline to transfer more business to the member airlines due to their economic of scale advantages. That costs in the long run an opportunity of marketing advantage to the other partners and creates a room to the anti-trust issues.

Beyond the market development advantage of star alliance, the other core value is revenue generating ancillary products which enables to gain much advantage on revenue wise as well as in creating a room for product differentiation for Ethiopian aviation group to compete other non-member airlines. However, the African continent as comparatively very low in terms of technological advancement and internet services are hindering the growth of e-services such as e-commerce, e-check-in, e-comment. In fact, compare to other member airlines Ethiopia aviation group is not benefited much from ancillary revenues as most of the products needs online sells.

Further, the sample data gathered shows on each level of the service area, such as; the ground service has been improved very well after the Ethiopian aviation group became full member of Star alliance, the in-flight service delivery also improved but a single variable embodied in the in-flight service- that is the flight attendants service and special meal and beverage service has been worsen after Ethiopian aviation group became part of star alliance and this infers for the airline to work hard on those variables, regarding the employee responsiveness level was improved after the star alliance according to the data which entails to keep it up, the safety issue also one of the factor that has got good respond from the respondents and this entails the promised service delivery to the clients, the pricing issues also overall supported by loyalty member passengers in a good faith on it.

5.2. Conclusion

In general, it can be concluded that the airline gets much benefit on the overall service delivery process, this enables strategy of becoming four star with five star service level to be successful.

Regarding the major core value of star alliance which is customer loyalty, the satisfaction level from the analysis entails the loyal customers are benefiting and very satisfied above average on the service delivery process as well as on the associated benefits of the loyalty program.

The ample network advantage for the airline helps to get economies of density advantage. Perhaps one of the most fundamental potential benefits from closer alliance and integration arises from economies density and service delivering and connecting traffic can increase the traffic density on a city -pair, allowing to operate larger, permitting more efficient air craft to spread end point, and likely with lower fixed cost over a large number of passengers can be carried thorough partnership. Hence, the airline defiantly gets advantage on cost minimization strategy.

The other core value of star alliance effect that shown on Ethiopian aviation group is the change in incremental revenue generated from the ancillary revenue of star alliance fares and discounted prices through the new product development of Round the world fares and air passes. The airlines benefited those loyalty program members through a discounted package that enables to retain the customers and weakness the competitor's effect especially from those produce substitute service products similarly with Ethiopian aviation group, that are members of other alliances such as Emirates, Qatar Airways, Kenya Airways and others. Precisely, the airline gets net revenue of those products.

Further, the market development role of star alliance on Ethiopian aviation group is the other key operational change prevails after Ethiopian aviation group became a member of star alliance group in 2011, this alliance enable Ethiopian to get more market from the star member airlines through their smooth relationship and easy access of the reservation system as well as the harmonized structure of sales and marketing operations; especially the loyalty programs have been a vital marketing tool for the star alliance member airline's that has enabled them to constantly add value and de-commodities their services and offerings through joint works so that the airlines get beyond the old interline agreement.

Apart from that, the business given to the alliance also grown after Ethiopian became part of star alliance due to easy availability options of new marketing agreements and opening of other member airlines their flight operations widely than ever, this enables the airlines to cope up own customers to touch the ample networks of star alliance associated with the amenities and Co-operation between alliance carriers also improved schedule with increasing route frequency which directly positively aggravate on the market development. But with comparison to the business received, the airlines business given is much more than the received which affects to be another competition inside the alliance and results loosing of loyalty customers to other member airlines.

Finally, Ethiopian aviation group has been getting benefits from the star alliance, especially in retaining the international passenger service more clients by giving more options and amenities, market development, ancillary revenue, and also using prestigious brand of star alliance, environmental protection and others after becoming part of star alliance.

5.3. Recommendation

Overall the Ethiopian aviation operational changes has brought a positive result on the operations of the airline but as the airline industry is surrounded with stiff competition especially the competition come across from the Gulf airlines which are subsidized plus getting the major cost oil advantages. Hence, some of the researcher recommendations are:

- As one of the core value of star alliance is benefiting the customers and on the other hand getting more revenue from frequent flyer. Hence, Ethiopian aviation group has to enroll more loyal customers to the shebamiles program so that the airline will get much more revenue from millage exchange and retro mile credit request as well as the direct revenue obtained from the direct ticket sells and amenities provision sells.
- Service provision through internet, intranet and extranet hence Ethiopian aviation group has to recover the network coverage through satellite technology to capture more e-commerce benefit package such as star alliance upgrading (SAUA), online through check-in, online updating star alliance profile, e-booking, e-billing and others.
- Among others, one of the star alliance core value is coordinating facilities so that economies of scale prevail, for instance the alliance has joint purchasing programs like

fuel purchase to gain comparative advantage on lowering fuel price on batch order, joint billing program for settlement of finance credit in and out, joint sharing airport facilities. Therefore, Ethiopian aviation group has not yet start the major programs which lags the main benefit package. So, it is advised aggressively those facilities to get rid of incremental costs.

- Additionally, the presented data shows esteemed service delivery deviation which is not advised in the industry as the substitute product by competitors are presented in wide manner. Therefore the Ethiopian aviation group has to improve in flight service especially improving the professional service of the cabin attendants, beverage and meal service, in flight entertainments to cope up the stiff competition by competitors.
- Another area of recommendation goes to the interline marketing which as shown significantly affected the airline business in a positive manner but had it been very aggressively working on the area of harmonizing level and increasing the level of service delivery as well as the level of customer survey which affect the choice and confidence of the consumers, has to grow intensely so that the airline receives more customers by injecting new promotional fares, quality service, enough amenities, and increasing African network advantages.
- Lastly, the Ethiopian aviation employees has to have advance knowledge and skills about star alliance fares to recover more confidence to work much on star alliance products which affect positively on the role of marketing techniques. Hence, the airlines has to give adequate training and human resource developments through facilitating with star alliance training academy and experts so as to achieve the alliance strategy well worked out. Moreover, the airline brand of star alliance will be much promoted and bring advanced change on overall industry.

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ANNEXES

Annex 1

Saint Mary's University
School of Graduate Studies
Department of Business Administration

Dear respondent,

The objective of this questionnaire is to gather firsthand information that will help to assess the increment on service quality and overall customer expectation on the service delivery process after Ethiopian aviation group became a member of star alliance group. This study is undertaken as a partial requirement for the completion of Masters of Business Administration.

All data and information that will be gathered through this questionnaire will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge. There is no need to write your name on the questionnaire.

Thank you in advance for your time and kind cooperation.

Section I. General Profile (*Please use the blank space for question requiring your exact answer and for the rest of questions put V or X that best represent you in the selected box*)

1. How frequently you use the service of Ethiopian aviation international passenger services? _____
2. How long have you been a member of Shebamiles Frequent Flier Program? _____
3. Educational Status
 - Primary Education (Grade 1-8)
 - Secondary Education (Grade 8-12)
 - College Diploma
 - University First Degree
 - University Second Degree
 - Other _____
4. What your membership status at Shebamiles Frequent Flier Program?
 - Blue Member
 - Silver Member
 - Gold Member

5. Since when you become part of the shebamiles program? _____

Section II. Regarding Ethiopian aviation group

Operational Activities

Please indicate your degree of agreement or disagreement with the following statements by *encircling* the appropriate number (1-Strongly Disagree; 2-Disagree; 3- Somehow agree; 4- Strongly Agree; 5-Agree).'

No	Variables	SD	D	N	A	SA
Ground Services						
6.	Overall Check-in process has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
7.	Overall boarding process has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
8.	Departure punctuality has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
9.	Baggage handling at arrival process has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
10.	Priority boarding after process has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
11.	Priority baggage handling process has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
12.	Recognition by cabin crew has been efficient after Ethiopian aviation group joined star alliance	1	2	3	4	5
13.	Ability to access seamless travel increased after Ethiopian aviation group joined star alliance	1	2	3	4	5
14.	Wider options of Lounge's accessibility increased after Ethiopian aviation group joined star alliance	1	2	3	4	5
15.	Departure and arrival time are promised after Ethiopian aviation group joined star alliance	1	2	3	4	5
16.	Degree of accuracy increased after Ethiopian aviation group joined star alliance	1	2	3	4	5
17.	Convenience of flight increased after Ethiopian aviation group joined star alliance	1	2	3	4	5
18.	Waiting time become short after Ethiopian aviation group joined star alliance	1	2	3	4	5

19.	Procedure of complaint handling is straight forward after Ethiopian aviation group joined star alliance	1	2	3	4	5
20.	Good handling of service irregularities minimized after Ethiopian aviation group joined star alliance	1	2	3	4	5
21.	Capacity to respond to canceled or delayed flights have improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
In flight services						
22.	Flight attendants service is professional after Ethiopian aviation group joined star alliance	1	2	3	4	5
23.	Food service improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
24.	Special meal order promised after Ethiopian aviation group joined star alliance	1	2	3	4	5
25.	Beverages service improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
26.	Flight entertainments increased after Ethiopian aviation group joined star alliance	1	2	3	4	5
Employees responsiveness						
27.	Employ willingness to help customers increased after Ethiopian aviation group joined star alliance	1	2	3	4	5
28.	Employee communication improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
29.	Employees sincere interest in solving problems improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
30.	Employee's confidence improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
Safety issues						
31.	Prompt respond of safety issue improved after Ethiopian aviation group joined star alliance	1	2	3	4	5
32.	Customers are well informed about safety after Ethiopian aviation group joined star alliance	1	2	3	4	5
33.	Customers get all their property at their destination after Ethiopian aviation group joined star alliance	1	2	3	4	5
Prices issues						
34.	Price is fair after Ethiopian aviation group joined star alliance	1	2	3	4	5
35.	Easy to get free tickets beyond Ethiopian aviation group destinations after star alliance	1	2	3	4	5
36.	Online ticketing service is prompt after Ethiopian aviation group joined star alliance	1	2	3	4	5
37.	Date change and cancelation become fair After Ethiopian aviation group joined star alliance	1	2	3	4	5

38.	Availability of promotional fares increased After Ethiopian aviation group joined star alliance	1	2	3	4	5
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