# Strategic Management

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## Introduction

According to Cesnovar (2006), strategic management is an approach used to examine all essential components in a company with the aim of enhancing performance. Originating from strategic planning, the concept is different from other management approaches that are only geared towards improving operational effectiveness.  In contemporary business settings, firms utilize the best methods to remain competitive in this ever-changing environment. Business outcomes are not only influenced by the internal components but by the external characteristics as well. It is necessary for firms to develop precise and well-thought approaches that maximize their outcomes. Strategic management comes with stages that serve different purposes and aim concrete results. Cesnovar (2006) observes that controlled and formal processes are used in the development of a management technique. Appropriate methods should be flexible and convenient to serve the different objectives enshrined by an organization. In this paper, we shall examine the strategic direction taken by Etihad Airways as well as propose recommendations that can improve the results and reduce the effects of business challenges.

Etihad Airways is a leading airline in the United Arab Emirates (UAE). The firm started the airline operations in 2003 and has since enjoyed positive growth. With current revenue of about 8 billion dollars, the firm is part Etihad Aviation Group. Headquartered in Khalifa City, Etihad Airways has about 20,000 employees. Despite posting good results, the company experiences challenges and threats that require appropriate strategic direction to enhance business performance. Firms utilize different organizational concepts due to the differences in characteristics, goals, resources, and business environment.  To maintain its long-term objectives and positive performance, Etihad Airways needs to adopt appropriate and well-thought plans that will overcome the current challenges such as competition and business uncertainties in the aviation industry.

The Review of Strategic Management

Companies use different management techniques hence getting different results. Traditional management techniques sought put greater emphasis on the operational effectiveness. However, many business leaders expressed their dissatisfaction with the emerging results. The selection of any given management approach is critical to ensure both the short-term and long-term objectives are realized. Cesnovar (2006) observes that the formulation of a strategic plan should be guided by the particular circumstances facing an organization. He further argues on the importance of identifying the right techniques while avoiding costly mistakes for employing inappropriate approaches. In their study of strategic re-orientation for airlines, Lawton, Rajwani, and O'Kane (2011) assert that strategic management gives a range of techniques to enhance a company’s turnaround and performance. In their definition, the authors highlighted that strategic re-orientation depicts the capacity of a firm to withstand the changing business environment. As such, organizations need to have strategies to help them adjust their value proposition according to the main threats and opportunities. It is thus essential to contemplate the appropriate strategies to use in the turnaround process. Strategic management is also relevant to the organizational change.

A renowned management scholar, Mintzberg, identifies two main approaches in the strategy development; the intended and emergent strategies. He highlights that the intended approach encompasses functions and responsibilities set and performed by the senior executives (Lloyd 1992, p. 101). In his explanation, Mintzberg observes that the executives have a primary role in the supervising and formulating strategies that will enhance the realization of the intended goals. The executives are bestowed an important mandate since it is believed they are more qualified and experienced to manage an organization. Further, the intended strategy looks at the organized events and procedures that consider both the internal and external components (Karami 2007, p. 65). In the development of business strategies, different levels namely business-level and corporate-level approaches require detailed consultation and examination of the business frontier. As such, one is supposed to examine the strategic direction of an organization by conducting a well-thought stakeholder analysis. On the emergent strategies, Mintzberg asserts the importance of considering short-term goals and daily operations within a company. The approach requires the regular examination of the business processes and their contribution towards the attainment of long-term objectives. Often, issues emerge on a regular basis hence affect the performance and overall goals. Appropriate emergent strategies help in regular review of the existing approaches to conform to the prevailing circumstances. It is realized through logical incrementalism where the developed strategies experiment partially. The approach helps in steady implementation of business plan hence improving the quality of the results. It also helps to eliminate future risks and uncertainties in business (Pretorius, M. & Maritz 2011, p.27).

Major airlines throughout the world are recording declining performance owing to the challenges facing the industry. Strategic re-orientation provides a better technique for the industry operators to re-examine their strategies with the aim of enhancing their performance. In their assessment, Lawton, Rajwani, and O'Kane (2011) agree that the aviation sector has changed dramatically with traditional leaders facing enormous challenges in the market. In particular, the industry has experienced market deregulation, privatization of government companies, and low-cost carriers. As such, airlines have sought to devise better business models to remain competitive.

Other than dwell on maintaining their legacy, Etihad Airlines needs to rethink their business models. Former flag carriers such as Air France and United Airlines have reported declining performance. The low-cost carriers record positive growth and financial performance. Lean business models have seen firms started in the last 15 years trounce the legacy carriers. While Etihad Airways enjoys support from the government, the market is likely to change in the future. It is thus recommended that the firm adopts low-cost strategy as part of their investment. Legacy carriers are financially unattractive and antiquated. The company cannot continue relying on organic growth alone considering the myriad challenges facing the aviation sector. The market is already crowded hence the need to stress the importance of value proposition. Further, repositioning the company as the country's flag carrier has advantages regarding the reputation and market reach. Such a characteristic can be utilized to create partnerships with the other regional giants.

Moreover, it is considered that Etihad Airways need to categorize their strategic plan into two broad and distinct segments. Improvement and innovation components should consider the areas that need quality control, assessment, and enhancement (Brown 2005, p. 215). In this category, the company should seek to provide quality and innovative services that serve the interests of the stakeholders. Investing in a state-of-art customer service will ensure timely and efficient communication with the clients. Such a move would address the issues and feedback given by the clients. Additionally, the services need to consider the diversity of the clients irrespective of their religion and social class. The move would help build loyalty and trust with stakeholders. Restructuring the routes would assist in reducing the running costs. The second component encompasses extension and expansion to other markets. Already, the firm has formed partnerships with other leading airlines around the world. Nonetheless, the approach may not help much due to the differences in demographics. Setting regional and representative offices would assist in the expansion plans.

## About Etihad Airways

Etihad Airways is the second largest in UAE, with a fleet of about 122 aircraft. It operates in over 120 destinations around the world. With its main base at Abu Dhabi International Airport, the airline engages in passenger transportation, holiday, and cargo delivery. Etihad has no joined an airline alliance but has formed an own alliance, Etihad Airways Partners. The association comprises other airlines namely Jet Airways, Etihad Regional, and Air Berlin, among others. It is notable that the members of the coalition have a stake in the companies where Etihad Airways is a shareholder.

Etihad Airways is currently a national carrier for the UAE. The firm's success comes out of adoption of quality style in business administration. Committed leadership and business strategies through merger and acquisitions have helped in improving the firm's market share. The management adopts feasible business strategies that do not necessarily reflect what other companies did previously (Nataraja & Al-Aali 2011, p. 473). The quality of services helps in attracting and retaining clients, with the attractive nature of the country boosting the firm's fortunes.

Further, Etihad Airways has a culture that advocates a total commitment to customer satisfaction and innovation in all business aspects. With intense competition, Etihad Airways has adopted innovative approaches to reach out to the customers. Etihad Company strategy on innovation focuses on complete user experiences taking into consideration of the needs of the consumers. They have been involved in supporting corporate social responsibilities such as football (Nataraja & Al-Aali 2011, p. 475). Social initiatives act as a marketing tool for the company. Etihad Airways strategy on global operations has seen it form a partnership or acquire minority shareholding in major airlines. The move is coupled with improved operational procedures, a centralized flow of information and controlled systems.

Upon introducing Boeing 787 and Airbus A380s, the company created new cabins namely the Residence, Apartments, First class suite, Business Studio, and Economy Smart Seat. New cabins, introduced in 2014, are meant to serve the distinct needs and interests of the different clients. Nonetheless, not all aircrafts are fitted with the new cabins. Every section is fitted with state-of-art gadgets such as TV and WIFI. Assorted drinks and snacks are also served during the flight. The luxurious cabins are among the innovations that the firm hopes will attract and retain clients. New livery has also been introduced in the aircrafts. In-flight entertainment is offered, with the clients enjoying personalized audio, picture, and video media. To enhance the entertainment, the company has partnered with Panasonic Avionics to offer entertainment on both the internet and live TV. A frequent flyer program was introduced in 2006 to reward the clients as part of the loyalty program.

## Business Challenges

UAE's aviation industry is highly competitive. The emergence of low-cost carriers and reduced profit margins affect the financial standing of the flag carriers. The major challenges affecting the industry include economic instability, high fuel prices, curfews, insecurity, and infrastructure, among others. According to Etihad Airways' CEO, James Hogan, the firm faces challenges in convincing the government of the importance of making the company's services accessible. Mr. Hogan argues that the industry is dynamic and highly-evolving (Mike 2016, p.

379). Etihad Airways face bilateral constraints as well as fractured alliances. The CEO has over time stressed the need for partnerships to enhance the company's competitiveness. Connectivity model and the establishment of low-cost strategy have been taken up by many other firms (Lawton 2007, p. 18). As such, Etihad Airways face great challenges in expanding or maintaining its model in the developing market such as Africa and Asia.

Government involvement in the company's affairs has made it difficult for the firm to make decisions faster. It is notable that government bureaucracy tends to limit a firm reach and plans. Some approvals may take longer time hence jeopardize the realization of the expected results. Moreover, the firm experiences a shortage of human resources to serve in the different capacities as per the objectives. The issue forces the company to recruit non-Emirates nationals to fill the employment gaps. External recruitment is expensive hence increases the running costs. It is also challenging since most of the employees come to an area with different values, norms, and beliefs. Etihad Airways is also susceptible to external challenges facing the aviation industry. Industrial relations in Europe and conflicts in the Middle East have negative effects on the company's operations. Further, there is competitive tension between the European and Gulf carriers that hinders the company's efforts to create new networks. The firm's management has noted that the Gulf carriers generate significant threats to the legacy carriers and global airline alliances.

## Recommendations

Etihad Airways needs to re-examine its relationships and partnership with other airlines. In 2014, the CEO contended that the firm was experiencing challenges in partnerships. Apparently, the firm has a minority shareholding in the firms that create the Etihad Airways Partners. The firm thus has limited control over the operations of these airlines. There exist opportunities for the emergence of new hubs that supports the connectivity of flights hence enable feasible route planning. Etihad needs to utilize the opportunities appropriately to venture into the less-served markets in Africa. It is also notable that Abu Dhabi is a new center for tourism, trade, and partnerships hence the need to take steps that will make the firm attract and retain clients.

Training of staff will improve their skills to provide better services to the customers. It will identify the challenges brought out by diversity among the employees. On-the-job training is recommended for all new and old employees. The move has significant benefits such as employee motivation and increased productivity. Continuous investment in code-share partnerships and equity alliances will help the firm attain valid entry and expansion into the emerging and existing markets. Network evolution is another critical approach that can help the firm access the new markets (Shrestha & Devi 2013, p.196). To reduce the government's interest in the company, Etihad Airways should consider listing in the stock market. The CEO has been reported saying that the firm has to make decisions that require government approval. The process is sometimes lengthy and tedious hence leading to lost opportunities.

Low-cost carriers and better products/services can help the firm overcome the challenges arising from the stiff competition in the industry. In Kenya, for instance, low-cost carriers such as Fly 540 and Virgin Atlantic have made significant market growth. The model has been replicated in other emerging markets. Etihad Airways should also embrace the approach in their operations. The aim is to serve the low-class segment that is sometimes put off by the high flight costs. The approach has minimal running costs with high returns. In the current financial economy, changes exchange rates command great influence on the business operations and profitability. The changes are attributed to increased globalization, high fuel prices, and currency volatility. Management of exchange rate risks is a critical component in decision-making. Hedging has been an important approach in covering a firm against unforeseen risks associated with volatility in exchange rates and fuel prices. It helps in safeguarding transactions and profitability of a company. The strategies should be done strategically and on-the-need basis to reduce currency shocks on the balance sheet. Tactical strategic policies and economic modeling are necessary to reduce the risks associated with the changes in exchange rates and the general financial economy.

By increasing the quality of services, the firm will realize both the short-term and long-term goals such as increased growth, performance, and financial standing. The functional units identified in the strategic plans highlights important steps that will ultimately aid in the realization of both short-term and long-term goals (Hill & Jones 2012, p. 47). They are supportive of the activities identified by the firm in its quest to provide quality services. The tactics are effective in that they spelt out timelines and teams that will participate in the process of making the objectives operational. The tactics are also specific on the things to be done by every team, including the resources required to achieve the objectives. The realization of the short-term goals will be realized through implementation of innovative revenue management, enterprise resource planning, and scheduling systems.

## Conclusion

In the modern world, businesses cannot run away from strategic management if they want to remain competitive. The technique has seen many firms realize their obligations despite the company challenges and uncertainties. It is an approach that makes an organization responsive to the characteristics of the business environment. Further, it offers a planned and procedural approach, with significant consideration of the internal and external features. Etihad Airways need to formulate appropriate expansion strategies for the international market. It is notable that the competition is high in the aviation sector is high in the UAE. As such, Etihad Airways needs to develop innovative approaches that will see them retain their position as a market leader in the aviation industry. Low-cost plans will attract more clients to use the airline as well as reduce the operational costs. Moreover, the airline needs to consider its relationship with the stakeholders, including the government to help in creating a new revenue sharing model. It is high time that the firm invested in low-cost aircrafts, particularly in the Asian and African markets. As seen above, strategic management needs a regular examination to evaluate the emerging challenges and opportunities. It is also noteworthy that the internal stakeholders should be regularly trained and motivated to enhance their competence and productivity. Without quality services, the firm will not realize the intended goals.

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