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RECOMMENDED FUTURE STRATEGY
FOR THE MIDDLE EAST AIRLINES
AIRLIBAN, MEA

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DEDICATION

TO RAZMIG

WITH LOVE

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CHAPTER ONE

INTRODUCTION

I.- PURPOSE OF THE STUDY

The purpose of the research project is to examine the extent to which the management of Middle-East Airlines-Air Liban S.A.L. (MEA) applies strategic planning in its decisions and the type of policies implemented to achieve the company's objectives in a rapidly changing environment, such as the Lebanese environment. Environment is defined as the sum of political, economic and social changes observed in Lebanon over a specific period of time.

During the 1960s and the beginning of 70's, MEA was one of the best international airlines operating from the Middle East. Its passengers, cargo, and mail services were competitive and of high quality. Moreover, MEA aircraft maintenance service was one of the most advanced in the region.

In mid 1970's, MEA's operations started to deteriorate mainly due to the Civil War of 1975, which led to an unstable economic situation in Lebanon, an increase in inflation and unstable foreign exchange rates. As a result, Beirut lost its attraction as an important financial, economic and touristic center in the Middle East. Many foreign airline companies shut

down due to unsafe situation that caused frequent closure of Beirut International Airport (BIA). Consequently, MEA implemented a survival strategy in order to pass the hard times it confronted.

II.- STATEMENT OF HYPOTHESIS

With the end of the Lebanese Civil War and the good prospects for improvements in the security of the country, many foreign airline companies have resumed their operation. This development led to adverse impact on MEA market position when this sector becomes highly competitive. The hypothesis of this study is what Middle East Airline should implement strategic planning to survive competition.

III.- USES OF STRATEGIC PLANNING

Planning is one of the most important tasks of management in modern organizations. The work of strategic planning consists of the detection and consideration of opportunities for and threats to that may arise in the external environment of an organization, and strengths and weaknesses that may arise in the internal environment of an organization. Much of the work of strategic planning consists of obtaining thorough understanding of the relationships between individuals and groups both within and outside

the organization concerned. Strategic planning is a means of recognizing risk and a method of planning to take advantage of the rewards that it might offer. It is concerned with power and politics. It is a political process rather than an entirely mechanistic procedure. It is largely an intuitive and judgemental activity.

Companies were classified as having a formal and an informal strategic management system. The former is observed when the companies determined objectives for at least three years ahead and if they established specific action programs, projects, and procedures for achieving the objectives. The latter is denoted when the companies did not meet these requirements. As a matter of fact, a follow-up study of companies showed that those with formal strategic management systems continued to outperform those with informal systems and had, in fact, widened their margin.¹

IV.- METHODOLOGY OF STUDY & DATA LIMITATIONS

As a basic tool for data gathering, interviews were conducted with the department heads in MEA in order to get information about their actual decisions or present activities and their future plans. Other interviews were conducted with some travel agencies in order to

1.- Lloyd L. Byars, Strategic Management Planning and Implementation: Concept and Cases, (New York: Harper & Row, Publishers, 1987), p. 8.

evaluate the competition level between MEA and the other airline companies. The data collected from the annual reports of MEA and the other data sources were elaborated, tabulated and analyzed with the help of three computer software packages: Lotus 1-2-3, Excel, and DBase III Plus. Also, SPSS (Statistical Package for Social Sciences) were used in order to conduct a rigorous analysis and to build regression equations that will help in identifying major factors that are most likely to be associated to certain critical factors such as total number of passengers and revenue. The information analysed will be used to assess the planning system and its application in MEA.

The most serious data limitation faced were the records of 1991 and 1992 which are considered highly confidential. However, some major trends of MEA could be obtained from the interviews conducted.

Finally, after analyzing the external and internal environment of MEA, a recommendation will be presented on the procedures or methodology that MEA should follow in the airline industry in order to fulfill its objectives.

C H A P T E R

STRATEGIC PLANNING IN REVIEW OF L

I.- INTRODUCTION

This chapter presents respect to the application of strategic planning in profit and public organizations and specifically in airline companies. In addition, this chapter will also include a brief review of three case studies about the application of strategic planning in three airlines: Delta Airline, People Express, and Alia airlines. The first two are American companies while the third is Jordanian. Finally, due to the unavailability of specialized airline business journals and magazines in the AUB and BUC libraries in Lebanon, I did use the library of McGill University in Canada, in order to provide some useful articles about the deregulation of the airline industry in 1978 and its effect on the airline companies.

II.- THEORETICAL DEFINITION OF STRATEGIC PLANNING AND ITS PROCESS

A.- HISTORICAL BACKGROUND

Strategy in its most elementary form most likely

developed when the hunting party was formed by early humans to capture large prey that could not have been handled by a single individual. The word strategy is Greek in origin; it comes from "stratego" a combination of "stratos" means army and "ego" means leader. Thus, strategic planning originated and developed in the military world, as the "art" of army generals, and in time, specifically in the late 1950's it was introduced in the business world as an "art" of corporate management.²

In the 1960's and 70's strategic planning prospered as a centralized approach. In the 1980's it has been decentralized by becoming the responsibility of both top and line management. With the top management setting the overall direction, and the line management setting the operational direction. In other words, in the early 90's strategic planning is viewed as an interactive process, a continuous dialogue with participation from all levels of management.³

B.- DEFINITION OF STRATEGIC PLANNING

Strategic planning is the process of formulating

2.- John M. Bryson, Strategic Planning For Public and Non Profit Organizations, (New York: Jossey-Bass Inc., 1988), p. 22.

3.- James R Gardner, Robert Rachlin, H. W. Allen Sween, Handbook of Strategic Planning, (New York: John Wiley & Sons Inc., 1986), p. 1.

goals, objectives, and policies for any business or non business decision making unit, which intends to improve its performance in an ever changing environment, given limited financial human and physical resources and the attitude of management towards risk and uncertainty.

In other words, strategic planning is the process of selecting the method of competition with the greatest probability of success in achieving the various organizational goals and objectives, given the organizational mission, the specific strengths and weaknesses within its resources, and the specific opportunities and threats of the environment in which it operates.⁴

C.- THE PROCESS OF STRATEGIC PLANNING

Strategic planning is a term that has been introduced into the terminology of management in recent years to describe the task of choosing future directions and areas of concentration for an organization and implementing those decisions. The aim of strategic planning is to ensure that the present and future activities of an organization are appropriately matched to conditions in the environment in which it must operate. Strategic planning is equally applicable to public, private, non-profit and religious organizations.

4.- Rue T. Homser, Strategic Management, (New Jersey: Prentice-Hall Inc., 1982), p. 171.

The process of strategic planning is composed of five stages described as follows:

1.- Establishing an Organizational Philosophy

The organizational philosophy establishes the values, beliefs, guidelines for the manner in which the organization is going to conduct its business, and guides to action for employees of the organization. It establishes also the relationship between the organization and its stakeholders: employees, customers, shareholders, suppliers, government, and the public at large.⁵

2.- Defining the Organization's Mission

An organization's mission defines the current and future business activities of the organization. An organization's mission not only must be defined at its inception but also must be reexamined regularly.⁶

3.- Objective Setting Process

This stage is composed of four steps which are:⁷

a.- **Environmental scanning and forecasting.** In making decisions about an organization's future direction, management must set the objectives and should identify the organization's strengths and weaknesses as well as opportunities for and threats to the

5.- Byars, p. 9.

6.- Ibid, p. 12.

7.- Ibid, pp. 26 - 55.

organization from its environment. environmental scanning is the systematic methods used by an organization to monitor and forecast those forces that are external to and not under the direct control of the organization or its industry.

b.- Competitive analysis. Organizations operate within a competitive industry environment. Analyzing its competitors not only enables an organization to identify its own strengths and weaknesses but also helps to identify opportunities for and threats to the organization from its industry environment.

c.- Internal Organizational Analysis evaluates all relevant factors within an organization in order to determine its strengths and weaknesses. One specific method used in performing an internal organizational analysis is through the application of a comprehensive checklist of questions. This series of questions is normally developed for each functional area of the organization.

d.- Establishing long and short-range objectives. The objectives of an organization result from the interaction of the environmental scanning and forecasting, the competitive analysis, the internal organizational analysis, and the organizational culture. The first three items have been discussed in the previous paragraphs, while, the organizational culture

is the pattern of beliefs and expectations shared by the organization's members which powerfully shape the behaviour of individuals and groups within the organization. An organization's culture should develop and evolve from its statement of philosophy. Culture appears to develop in response to the specific environment in which the organization operates and the needs of its employees.

Finally, no one mix or combination of organizational objectives is applicable to all organizations. Ideally, an organization's objectives should be compatible with its culture and should match its strengths to opportunities, minimize threats to the organization, and estimate weaknesses in the organization.

4.- Strategy Selection

This stage is composed of two steps, which are:⁸

a.- Identifying Strategic Alternatives. Strategies exist at different levels in an organization and are classified according to the scope of their coverage. Strategies that address what business a multibusiness organization will be in and how resources will be allocated among those businesses are called corporate strategies. Corporate strategies are established at the highest levels of the organization and involve a long-

8.- Ibid, pp. 62 - 112.

range time horizon. Business unit strategies focus on how to compete in a given business. A third level of strategy is the functional- level strategy, it is concerned with the activities of the different functional areas of a business.

b.- Strategy evaluation and selection. An organization's strategy should be designed to take advantage of market opportunities and neutralize adverse environment impacts. At the same time, it should reinforce the internal strengths of the organization and improve on its perceived weaknesses relative to its competition. Several methodologies have been developed to assist organizations in making decisions, which are, business portfolio analysis, Competitive strategy analysis, Cluster analysis, and Profit Impact of Market Strategies (PIMS). These methods provide guidance in the strategy evaluation and selection process .

5.- Strategy Implementation

This stage is composed of three steps which are:°

a.- Matching strategy and organizational structure. The relationship between strategy and structure is highly complex, these two operate in a feedback system. As a matter of fact, no organizational structure is applicable to all situations. The contingency approach to organizing recognizes that the most appropriate

organizational structure depends primarily on the organization's objectives but also is influenced by the size and growth stage of the organization, the environmental conditions faced by the organization, and the technology employed by the organization.

b.- Functional strategy, budgeting, leadership, and motivation. After the establishment of the objectives, corporate-level and business unit strategies are selected and an organizational structure is chosen; several activities must take place in order to ensure that the strategy is successfully implemented. These activities are:

(i).- Developing Functional Strategies. It describes the means or methods that are to be used by each of the functional areas of the organization in carrying out the corporate-level or business unit strategy.

(ii).- Development of Resources Through Budgeting. Budgeting is the process by which the management of an organization specifies the resources it will employ to obtain the organization's objectives. It also provides the means of measuring the successful accomplishment of the stated objectives within a specific time period.

(iii).- Organizational Leadership. A leader is someone who may influence the attitudes and opinions of

others in an organization.

(iv).- Motivational

plans and rewards can bring about
in the likelihood that organizational o.
achieved.

c.- Strategy Control System. The strategy
system is needed in order to make sure that the chosen
strategy will achieve the organization's
objectives. There are three elements of control,
which are: developing quantitative and qualitative
criteria, evaluating performance and feedback. There are
several methods of control that can be applied such as
the administration of the budgets, by auditing the
financial reports, management performance , ... etc..

Finally, the five stages of strategic management
process are interrelated through feedbacks. These
feedbacks are a follow up that tells the manager that
corrective action may be necessary if performance
criteria are being met in a satisfactory manner.

III.- STRATEGIC PLANNING IN AIRLINES INDUSTRY

It is appropriate to present three cases about the
application of strategic planning in airline companies
as a prelude to examine strategic planning in the Middle
East Airline.

A.- DELTA AIRLINE OF THE U.S.A.¹⁰

Delta Airline is described as the most successful airline in the U.S.A. It has obscured the performance of the well known airlines much as Pan American, TWA, and other airlines.

1.- Historical Background

It is managed by a keen aviation fan Mr. Collett Everman Woolman, who began his life in the Huff Daland Dusters airlines as a salesman. Later in 1930, through mergers changed its name to Delta Air Corporation. It provides scheduled air transportation for passengers, freight, and mail over a network of routes throughout the U.S. and abroad. By 1976, Delta broke into the big five of the U.S. airlines, after being known as the big little airline for years. In 1981, Delta was in the number two spot for passenger boardings and sixth in revenue passenger kilometers among the U.S. airlines.

2.- The reason behind the airline industry's problems

The deregulation act of 1978, the increased cost of jet fuel, the unionism of the airline industry's labor force, the increasing cost due to computerization, and the expensive replacement and flight equipment are the reasons behind the decrease in the profits and the success indicators of eleven of the major airline

10.- Elizabeth Lavie and Larry Alexander, "Delta Air Lines: World Most Profitable Airline", Strategic Management Planning and Implementation: Concept and Cases, (June 1984), pp. 765 - 787.

companies in the U.S.A., since these airlines did a better planning process to face these problems.

3.- The Planning Process in Delta

Delta was organized along a functional basis, such as:

a.- Finance, where all investments are financed 85 to 90 % from internally generated funds. Delta has avoided leasing aircraft, preferring to buy the aircraft itself. Delta has been willing to spend a fleet modernization which has given it a competitive edge. In addition, in acquiring new fleets Delta has adopted a wait and see attitude about new technologies but now all new designs are designed by Delta itself. Finally, Delta has never suffered from losses even in recession, and it showed the best balance sheet among all competitors.

b.- Marketing department have two activities. First, traffic, where to develop new routes Delta tried to add routes that are strong. Second, marketing, where Delta spent a lot on advertisement in all media. Delta advertised for its image, new and better routes, prices and services. Moreover, Delta refused to decrease its fares after deregulation act of 1978 unless it was forced strongly by competition. Instead, Delta tried to offer a trip for free, after a number of flights for each customer.

c.- **The flight operations department** is responsible for the flight personnel, communication and flight control. When fuel prices increased, Delta bought fuel-efficient aircrafts, improved and modified actual flight equipment, conserved fuel, reviewed routes and traffics, and finally used hubs-and-spokes method where they scheduled short flights in a way that they interconnect with each other.

d.- **Technical operations department** is responsible for maintenance and engineering of equipment, developing and planning for new facilities, and quality of material and equipment control. This department had a problem due to the increase in the maintenance expenses 17.4% yearly which is greater than the industry 15% yearly increase. This may be due to a large number of employees in this department, and a relatively large number of managers compared to other airline companies. In addition, Delta doesn't throw any old equipment away but sells them at salvage value.

e.- **The personnel department** offers four major advantages. First, there is a strong culture, a high morale for employees as one family. Every employee is requested to meet a superior vice president, and this employee's manager is asked to leave during the meeting to allow him to discuss openly. Second, Delta has the highest job security, no one is laid off even in severe

economic recessions. In addition, Delta paid high salaries to its employees. These leave the company with nonunionism between employees, which means there is more flexibility in the company. Third, job vacancies are filled from inside Delta and every one starts at the bottom of the ladder. Forth, training is done on-the-job with a main tool, the manuals. In addition, experts in the company and the long experienced have to help.

f.- Passengers service department have received a low complaints records, because the departing flights wait until all incoming flights land, so that the departing aircraft takes all the connecting passengers. Moreover, Delta employees are trained to be friendly and helpful to the passengers. However, there are some disadvantages in passenger service system, such as seats are assigned by hand instead of the computer. So people have to wait in order to be seated, and this costs more to serve.

Two main policies are undertaken by the Delta management, which are, centralization and open door policy. These policies have developed a family atmosphere all over the company. Ultimately, Delta's mission is to be leader in the industry and the objectives of the company are to offer the best service for the passengers to have a better market share to reduce to minimum the financial leverage ratio, and

to have the best human relationships.

Finally, Delta was one of the few major airlines that has not diversified into other businesses to improve its profits. Rather, they have used an effective strategy to cut down on costs by a horizontal diversification.

B.- PEOPLE EXPRESS AIRLINES, INC¹¹

1.- Background Information

Donald Burr, president of Texas International Airlines, and his two associates Gerald Gitner and Melrose Dawsey left Texas International. In April 1980, they incorporated People Express Airlines. In October 1980, People Express was granted from CAB a certificate to operate as an interstate airline. People Express was the fastest-growing airline in the history of aviation, it became the biggest airline operating out of the Newark.

2.- The United States Airline Industry

In 1984, the United States scheduled airline industry began its 26th year of jet service. Safety, speed, reliability and convenience were major factors in boosting the number of passengers enplaned from 49 million in 1958 to an estimated 300 million in 1983. Industry revenues were approaching \$40 billion annually

11.- Arthur Thompson, "People Express Airlines, INC.", Strategic Management Planning and Implementation: Concept and Cases, (June 1984), pp. 307 - 342.

and there were about 14,000 daily flights. The deregulation act of 1978 had provided greater freedom for airline carriers to schedule flights into airports they had not served here to force to abandon unprofitable flight and routes, and to reprice their fares.

3.- Business Strategy of People Express Airlines, Inc.

Burr had ambitious growth plans to be implemented over the next two years, to expand the flights serving its 20 destinations, to add more routes, and to boost the company's fleet from 49 to 77 planes by June 1985. The company opted to provide low-price, no frills and high frequency passenger service to a selected number of cities, and to do so at costs below those customary in the airline industry. To operate profitably with low-price fares, People Express developed stream lined, budget-conscious operating systems and put together a net of flight schedules and rout patterns. Burr instituted some novel approaches to organization, staffing, and motivation, including a flat organizational structure, multiple-task assignments for all job categories, and stock options and bonus payments for all employees. The three major strategies adopted by People Express are:

a.- Pricing strategy. People Express believed that fare prices were not only much lower than other airlines

but also competitive with automobile, bus, or rail transportation. Thereby, increasing the total market for the company's services. A number of "unnecessary free services" were unbundled from the standard fare, passengers paid extra to have snakes and drinks on board, there were no free magazines.

b.- Cost strategy. To further its strategic objective of becoming the lowest-cost airline, People Express carried through with its plan for a hub-and-spoke route pattern; all flights were scheduled to make non stop round trips between Newark International Airport and a selected destination. In addition, all passengers flew coach class. People Express's planes were redesigned to increase seating capacity. The company arranged with independent contractors for the performance of substantially all aircraft maintenance and for much of the ground-handling services required at airports.

c.- Personnel strategy. Every employee was designated as a "manager" and only three job classifications were established: flight managers, maintenance managers, and customer service managers. The staffing emphasis was on cross-utilization and multiple-job assignments-no employee performed just a single function all of the time. Job openings were advertised in local newspapers. Those who survived the

weeding out at this stage were invited to attend training classes.

As a condition of employment, all full-time employees had to purchase at least 100 shares of the company's common stock. A profit-sharing plan for full-time employees was instituted, whereby the company contributed amounts based on pre-tax return on revenue.

In working environment which was conducive to personal responsibility, accountability, and commitment, Burr and his cofounders established a horizontal organization structure with only the three levels: First the managing officers, second general managers, and third flight managers, maintenance managers, and customer service managers.

4.- The Major Actions Taken by People Express After The Deregulation Act

People Express was not alone in trying to break into the airline business with a discount fare strategy. The established major and national airlines responded to the entry of the discounters by matching their fares and by heavily advertising their service advantages.

Several events, however, seemed to confirm the success of People Express is strategy of attracting more fliers with its discounted approach to pricing.

Price competition on People Express's routes continued to be vigorous, when People Express announced

fares on new routes, competitors flying that route promptly instituted matching discount fares and advertised them heavily.

A second profit sharing plan in 1982, the payments to employees were equal to a percentage of the quarterly base salary and ranged from 15 to 51 percent depending on position. Total payment under this plan could not exceed the company's quarterly net income.

During 1983, People Express's traffic volume improved each quarter. In several months of 1983, People Express had the highest load factor in the entire commercial airline industry. Advertising costs rose substantially over prior periods.

Donald Burr's plans for People Express was bold and ambitious. They expand the company's aircraft fleet to 77 planes by mid of 1985 using a combination of debt and lease financing.

Top management was shooting for a long-term growth in flights that averaged out to adding one and a half to two planes per month. Burr was getting managers deeply involved in the company's decision-making and policy-setting processes.

C.- ALIA: THE ROYAL JORDANIAN AIRLINE

1.- Historical Background

Founded on December 8, 1963. Alia is the Royal

Jordanian Airline, with Ali Ghandour as president and chairman of the board. It is among the first of the Middle East's airlines to fly to both North and South America. Today, they fly throughout the Middle East, Europe, and the Far East. Moreover, a subsidiary of Alia, Jordanian World Airways, shipped more than 15 percent by value of Jordan's imports.¹²

2.- Alia's Problems Due to Deregulation Act of 1978 ¹³

A deregulated environment which heralded a new order in civil air transport in the U.S. was initiated under a democratic administration that is less committed to the principles of Laissez-Faire than a republican one which now has taken over.

A certain important parameters affect the Jordanian airline industry, which are presented by Ali Ghandour during a conference:

- Civil aviation is deemed as a public service industry and that air travel is not prerogative of affluent but for all people to enjoy.

- The unfortunate thing is that, while governments are committed to promoting and developing tourism, air fares are probably the only commodity in recent times that has defied the upswing in the general level of

12.- "Alia the Royal Jordanian Airline", Annual Report, (Amman, 1988).

13.- Ghandour Ali, "Alia's Problems After Deregulation of 1978", International Civil Aviation Conference III, (Paris, June 1981).

prices, and therefore accelerated the flow of people in pursuit of business and leisure, yet government work in an opposite direction.

- Airports need to be expended and modernized in the interest of safe operations and more efficient handling of passengers and equipment.

- Fuel is another important area. While the introduction of a new generation of fuel-efficient engines has helped matters.

- The Jordanian aviation world become increasingly competitive and is continually subject to inflationary pressures, cost has become the watchword.

- Finally, Ali Ghandour affirm that in Alia they felt that any harmony between the big airlines within IATA or otherwise was at the expense of their interests, because they are out of the smaller and weaker carriers who had almost no voice, being silenced by the big ones, or having no voice at all because they were lacking in experience.

3.- The Planning Process and Recommendations¹⁴

Ali Ghandour had a survival plan to be implemented over the next years. In addition, he had some recommendations to the Jordanian government and IATA, in order to improve and solve Alia's problems. According to him, pressure must be brought to bear on government and

14.- Ibid.

even IATA to resolve these problems. For example, part of the tax has to be shifted and the resulting partial loss of income should be absorbed by the respective governments through other means. Ghandour stressed on that if world airlines, and a good number of them are privately owned, can put up with the risks and rewards of a deregulated environment, the respective government are even more equipped to meet the consequential tax loss so presented.

Moreover, Ghandour recommended on the fuel problem, where he recommended a reciprocity of advantageous prices can be established between the carriers who are party to a pool agreement, and the overall net benefits result should be favourable to the contracting parties. In addition, there is always much to be gained from collective representation. For example, IATA should be talking to aircraft manufacturers about producing aircrafts that are simpler to maintain and cheaper and safer to operate.

Finally, Ghandour affirms where he says that in their business it is extremely different, if not impossible, to achieve general consensus because of extremely diverse backgrounds and also political and economic forces continually at play. As a conclusion he added: "It is hoping against hope that the U.S. will change, or be forced into changing, its attitude and the

sooner that we adjust to the new realities the better it is in order that we do not dissipate our efforts towards a fruitless mission. Deregulation might be a lost cause with a few supporters outside the U.S., but in America it is being treated as a cause celebre."

D.- General Conclusion Based on These Three Cases

Delta Airline and People Express may recall us that using an effective strategic planning in the airlines industry will lead you to a better performance, a competitive and a leading company. While Alia proved that there are environmental factors that have stronger effects on the company despite the use of strategic planning in the most effective way.

IV.- DEREGULATION IN 1978

1.- Reasons Behind the Deregulation

In 1975 the Congress has seriously considered cutting back a major regulatory program, since the country was ready for deregulation and the airline industry seemed the most opportune place to begin. The reasons behind the deregulation was the high wages paid to the staff and the high proportion of the empty seats in the planes.

The deregulators are the Senators Edward Kennedy and Howard Canon, Presidents Carter and Ford, and even

the members of the Civil Aeronautics Board (CAB). Through the deregulation they wanted to prevent the CAB from setting prices and allocating routes and to force the airlines to compete in the open market. And this, according to their expectations will result lower fares, fuller aeroplanes, more travelers, and leaner, better managed airline companies.¹⁵

In October 1978, the Congress voted for the airline deregulation. Due to this act several changes were expected by airline companies' managers, such as:¹⁶

- The deregulation of airline industry will affect the nation's airports, in much the same way as it will affect the traveling public, and its patterns.

- Some small cities will lose airline service, and their airports will become tomb-like, while the airlines will be clamoring to add service at the big airports already saturated with both planes and people.

- For the smaller and medium-size cities, deregulation will mean fewer long-distance nonstop flights.

- The big companies are so large that entry to more routes will give the companies greater dominance over the industry. So that, instead of increasing

15.- Rush Loving, "The Pros and Cons of Airline Deregulation", Fortune, (August 1977), pp. 209 - 217.

16.- "How Deregulation Will Change Air Service", Business Week, (October 1978), p. 57.

competition, automatic entry will cause the industry to grow more concentrated, and less competitive.¹⁷

2.- The Effect and Problems After the Deregulation

A number of significant events transpired in the wake of deregulation, such as:¹⁸

- Because the major airlines were no longer required to serve obscure and unprofitable routes, new market opportunities opened up for smaller carriers with small planes to serve the less frequently traveled.

- Airlines could, under streamlined regulatory procedures, now register and obtain approval for a new fare within 24 hrs..

- The major carriers focused more emphasis on expanding their service between major population centers, opting to add more long-haul flights and to attain transcontinental coverage.

- The hub-and-spoke route pattern, pioneered by Delta Airlines, was adopted because of both marketing and operating advantages.

- As price wars erupted, airlines spent more on advertising to publicize their discount fares and to announce their promotional programs.

- Competition from new entrance, on low fares, cheaper labor costs, low overhead, and fuel-efficient

17.- Loving.

18.- Thompson, pp. 319 - 324.

aircraft.

- When one airline established a discount fare on a given route, competitors on that route usually do the same. However, competitors often placed restrictive conditions on the matched low-price fare.

- Deregulation has given more flexibility to move equipment around, and to use it more productively.¹⁹

- The fuel crunch and increase in price is hurting some airlines much more than others. So there is a necessity to move toward more efficient aircraft.²⁰

These developments had made all airlines very cost-conscious and had caused many to pursue cost-cutting programs, including renegotiation of labor contracts with employee unions. Most of the commercial airlines were unionized.

3.- The Impact of the Deregulation Act on MEA

For Lebanon, 1975 ended with large-scale civil disorder, and the battle of the skyscrapers, which destroyed several of the most famous hotels, made the area in which they were located largely uninhabitable. For Lebanon, and MEA, that meant the end of tourism for a long time to come. In addition, the frequent closures of BIA, and the damages of MEA caused by the shelling did not give a chance to the company to feel the effect

19.- "One Year After Deregulation: THE AIRLINES", Business Week, (November 1979), pp. 104 - 112.

20.- Ibid.

of the deregulation act of 1978, because MEA's losses were bigger. Moreover, from 1991 till now the situation was calm in Lebanon, with a more stable political situation. The foreign airline companies started to come back in 1992. This lead to a competitive position to all airline companies and specially to MEA. In order to fight this situation, MEA renewed its equipment, decreased its prices and offered better services. We may call that MEA is newly feeling the effect of the deregulation act.

CHAPTER THREE

MEA HISTORY & CURRENT PRACTICE OF PLANNING

I.- HISTORICAL PERFORMANCE OF MEA

MEA was founded in May 1945 by Saeb Bey Salam as a partnership, with an initial capital of LL 1 million. Saeb Bey Salam was the General Manager, with Fawzi El-Hoss, the technical manager. An agreement was concluded with the British Overseas Airways Corporation (BOAC) on 28th of August of that year, for technical assistance.

The first regular services began in January 1946. The "De Havilland Rapid" was the first type of aircraft MEA used, the number of employees was 47, and the total number of passengers during 1946 was 8964. At that time, the company's network included Aleppo, Cairo, Lybia, Baghdad, Istanbul, Kuwait, Bahrain, and Dahrán.

In 1949 an agreement between MEA and Pan American (PAN AM) was established whereby MEA was transformed from a private to a joint stock company. PAN AM acquired 36% of MEA shereholding and 3 out of the 7 seats on MEA's Board of Directors.

In 1951 there was a change of management which was to have a profound effect on the airline's future growth and standing in the world. Sheikh Najib Alamuddin, a graduate of AUB, former Inspector General of customs and

Chief Secretary to the government of Trans-Jordan, and lately businessman in Beirut Specializing in Telecommunications and Aviation Equipment. Later in 1955 MEA became an associate company of BOAC, which acquired 38.74% of MEA's shareholding and 4 out of the 12 seats on its Board of Directors. At the end of March 1955 PAN AM announced that it had sold its interest to Saeb Bey Salam, who became the president and principal shareholder of the company. Then in 1958 MEA borrowed from BOAC two successive loans to buy jet equipment at modest interest rates. The first, 2 million Sterling Pounds and the other 3 million sterling pounds.

1962 was the year when MEA became financially independent and a fully Lebanese owned company. In 1963 a full merger between MEA and Air Liban took place. Air France, an associate of Air Liban, acquired 30% of MEA's shares and 2 seats on its board of directors. The merger permitted the use of modern jets to serve the important West African routes, the intensification of services in the Middle East region, and the addition of Paris to the company's network. Consequently, in 1964 MEA was number 16 in IATA out of 93 members; in 1965, there was a full integration of MEA and Air Liban. During the next year a decision was taken to order three Douglas DC-8-62s to operate on the longer routes. In October, the collapse of the Intra Bank forced Douglas to cancel the

deal. The closing of Intra was a bitter blow to MEA. Not only did the bank hold 65% of the airline's stock, it also had all its working capital; consequently, all other banks took a 5 day holiday in sympathy, leaving MEA completely out of funds. In 1967 MEA signed a pool agreement with LIA which covered revenue from all routes flown by both airlines, and in 1968 B707-320G type were introduced. Then the following year, MEA took over the traffic rights of Air Liban and the employees of LIA, thus making her the only passenger airline in Lebanon.

In 1973, 50,000 of MEA's shares, representing 5% of the total shares, were allowed to be sold to the employees. So in 1974 the net profit was LL 35,514,000 , and half-way through 1975, despite the growing problems, the forecast was that once again profit would top LL 35 million. In 1975, B747 was introduced into service between Beirut and London, and the gulf and London. MEA's capital was further increased to LL 50 million and then to LL 75 million through retaining profit in an effort to strengthen its financial structure.²¹

MEA, the country's largest employer after the government with 5,000 staff, suffered tremendously from the Lebanese Civil War starting in 1975. For instance, in January 1976, MEA lost the flight 438 from Beirut to

21.- MEA, MEA History, (Beirut: Public Relations Department, 21 August 1991), pp. 3 - 8.

Dubai and Muscat. Then an aircraft, a Boeing 720B, crashed 30 miles north-west of Kaysumah, in the Saudi Arabian desert; all 82 people on board, 67 passengers and 15 crew, died. Internationally famous accident investigators all agreed that the crash was in no way the fault of MEA.²²

With a steadily falling revenues, April 1976 marked the start of a policy of retrenchment. In June 1976, BIA closed for the first time for nearly five months due to the tragic incident that resulted in the death of the captain and the first officer, when an MEA Boing 720B was hit by shell. Later on, until November 1976, a total of 24 offices in Europe, Africa, and America were closed, with inevitable redundancies among locally employed staff. In addition, MEA's training center was transformed into what the staff dubbed "Cedarjet Hotel". At one time the number of "sleepers", as employees living at the airport were known, rose to 1,585. The airline organized supplies of clothing, showers and medical facilities, even a doctor was always available. Moreover, many staff slept in their offices. Already plans were being made on the basis that sooner or later the airport might be completely cut off from the outside world. That way,

22.- Riginald Turnill, Battle for Survival, (London: Maxclif Publishing Company, 1977), pp. 5 - 15.

a stock of 1,650 beds was built up in a few days.²³ Eventually, in 1977 MEA leased part of its B747 fleet to Saudia.

In 1981 MEA lost LL 87.7 million, revenue from leasing decreased 42%, and the capital was increased to LL 150,000,000. A year later, a joint venture with Gulf Air and a pooling agreement with Alia helped sustain MEA's operations in the area, and regular flights to New York were started in 1983. In 1984, the company had 5,136 employees, the country's largest employer after the government. However, in 1987 MEA's losses reached LL 452 million; consequently, MEA's Board of Directors decided to cut down wages and salaries to 25%. These losses were caused by the shelling of BIA and the damage done to the 707 Boeing, which led to the closure of the airport for around six months and a half. But by the end of 1987, sound proof devices were added to the Boeing 707's, so that they could work on European lines. Therefore, in 1988 the number of passengers increased by 25% compared to the previous year.

In 1990 three weekly trips were made from BIA to Koleiaat Military Airport, due to the closure of important crossing roads between the East and the West sides of Beirut, which generated 87,000 passengers within the country. Outside the country the country the

23.- Turnill, pp. 8 - 21.

number of passengers reached 547,368 from and to BIA, since at that time MEA was the only operating airline. In addition, 87,000 passengers activated in Koleiaat-Beirut route. In 1991, MEA studied the feasibility of modernizing its fleet in 1992. Therefore, in January 1992, Mr. Salim Salam signed a final contract in London, with KLM Dutch company to rent two "Airbus 310" planes, and the delivery will begin in the end of March. This was done through a loan of \$15 million for 10 years at the market interest rate.²⁴

B. - ROLE OF PLANNING DEPARTMENT IN MEA

The Planning Department existed since the creation of MEA, but it prospered when Mr. Assad Nasr took over the department in 1952. In 1956, the Planning Department made a study about the costing of roots, the cost of living in Lebanon and abroad for employees. During the time of Nasr the major functions of his department were: route economics, commercial agreement, fees, budget preparation, fleet plans, recruitment of university graduate and training, thinking tang, new routes are thought in the planning department and studied, new plans are assessed to its economic value. Later Professor Asfour took over, and Yussuf Lahout followed him. In 1977, one of the planning activities

24.- MEA History, pp. 3 - 8.

called "Commercial Agreement" became the activity of a new commercial department. Lahout became the head of this new department and Mr. Mansour Bardawil took over him.²⁵

All the activities of the planning department didn't change, but since the activities were purely forecasting, Mr. Bardawil expanded these activities to feasibility studies, forecasting and analyzing the major plans, such as: study aircrafts, make forecast for future demand and study what are the aircrafts to be filled, assessment, number and types of aircrafts to be used, study the financial impact on MEA cash flow, fleet plan, and configuration.

The Planning Department created, in addition to First and Economy classes, a Business class called "Cedar Club". They started doing studies about direct flights or via Tounis, Marseille etc..., and found out that direct flights are less expensive and more profitable.

Since 1975, the country lost infrastructure, hotels, poor transportations, and because of this deficiency and insecurity, Lebanon is not attractive to tourist yet even if MEA was to promote, there isn't any room in hotels. So MEA strategy is not to attract and promote tourists, but rather to follow the Lebanese

25.- Interview with Mansour Bardawil, Planning Department Vice President, MEA, Beirut, April 1992.

where they go and open new lines to attract these customers. For example , to Australia through Singapore, to Africa, to USA through New York, and to Canada through Montreal. The New York line was stopped because of terrorist threats, and the negotiation of Montreal line will be successful if the Americans accept the reopening of New York line. Another MEA strategy is to repromote Lebanon as a place of meeting for business men.²⁶

The Planning Department in MEA started studying new routes to like Dakar and Senegal, since the number of Lebanese people there is considerable. They started making studies on route economic, study each route and assess economic. Where, you should not continue a route if it doesn't cover out of pocket expenses.²⁷

Other activities of MEA is leasing aircrafts to others. Several types of leasing is practiced by MEA such as:²⁸

- Dry leasing, which means to lease the aircraft without the crew.

- Wet leasing, which means to lease the aircraft with the crew.

26.- Interview with Wassim Abou Hamzeh, Marketing Department Vice President, MEA, Beirut, April 1992.

27.- Interview with Mansour Bardawil.

28.- Interview with Bshara Antonious, Scheduling Manager of the Operations Department, MEA, Beirut, April 1992.

MEA used to have a wet lease agreement on its two Jumbos during the tough war situation in Lebanon, and the contract expired in 1991.

In addition, MEA rents aircrafts from others. Several types of leasing is practiced such as:

- Capital lease, where at the end of the payment the plane belongs to MEA.

- Ordinary lease, where MEA is not responsible of any changes, since they don't own the plan.

An ordinary lease is practiced by MEA, where they leased two Airbuses 310 from KLM for three years, renewable for another three years, with an additional option to buy it after the first three years of lease and this will be done if the political situation in Lebanon will continue to ameliorate.²⁹

In summary, in 1990 a new internal line was opened from BIA to Koleiaat airport with around 100,000 passengers, due to the war situation in Lebanon. The line Damascus was opened for the same reason as line koleiaat, but now it is kept for political reasons even though the demand has decreased, because people prefer going to Syria by cars, since it is less expensive and they don't have to pay airport taxes.³⁰

Actually, MEA is interested in quality tourism and

29.- Interview with Abdel Hamid Fakhoury, Finance Department Vice President, MEA, Beirut, April 1992.

30.- Interview with Mansour Bardawil.

not mass tourism. Mr. Bardawil believes that they have more facility to have rich tourist such as business related tourism, and this is good for Lebanon's economic situation, since more money will pour into the country.

MEA is planning to expand in 1992 by 20%, they bought two Airbus 310 with 190 seats each , and are planning to buy two Boeing 747's later on. Some of the future plans of MEA is to sell its old aircrafts as airplanes or spareparts. Moreover, they forecast their traffic to increase by 10%. In addition, if the political and economic situation is conducive, MEA expects to expand by the same ratio each year.³¹

31.- Ibid.

CHAPTER FOUR

FORECASTING OF MEA ENVIRONMENT & IDENTIFICATION OF RELEVANT OBJECTIVES

The identification of relevant objectives for the MEA requires a forecast of political and economic environment coupled with competitive analysis.

I.- POLITICAL ENVIRONMENT

Since its independence in 1943, Lebanon has been greatly influenced by the political turbulence and the prevailing ideologies of the neighboring countries. Moreover, the sectarian structure of its population has further complicated matters. The escalation of the political differences among the sects, intensified by the constant interference of other regional forces in the internal affairs of Lebanon have culminated in a bloody civil war that began in 1975 and lasted for 17 years, leaving the country in dismal conditions with practically no infrastructure left, not to mention the suffering, displacement and death of many people. Fortunately, the Taif Agreement of 1989 and the election of a new president, Mr. Elias Hraoui, brought peace to the country and shed some hope for a better future. In fact the Taif Agreement laid the foundation for a unified country with a national government.

Today, reconstruction work is under way and there are promising prospects for Beirut to become once again, a vibrant banking and commercial center. With these positive prospects, some foreign airlines have resumed their operations, which, naturally, has created a competitive environment for MEA which has to compete along with other 21 airline companies. My political forecast is that stability will be accelerated in the coming five years.

II.- ECONOMIC ENVIRONMENT

For a country emerging from 17 years of civil war, the performance of the Lebanese economy has been obstructed by many problems. In Table 1 the macro indicators of the Lebanese economy will appear.

TABLE 1
EVALUATION OF MAIN ECONOMIC INDICATORS IN LEBANON
1983 - 1990 (In Millions of U.S. Dollars)

Years	1983	1984	1985	1986	1987	1988	1989	1990
1 - Gross Domestic Product (GDP)	4690	3529	3184	2313	2559	2599	2178	1993
2 - Public Revenues	796	279	240	70	44	40	126	104
3 - Public Expenditures	2264	1503	1412	394	315	520	1008	727
4 - Budget Deficit	1468	1224	1172	324	271	480	882	623
5 - Internal Public Debt	3953	3528	2971	924	427	984	1945	1880
6 - External Public Debt	242	182	180	207	239	230	230	230
7 - Internal Payments On Public Debt	295	271	323	123	54	151	300	79
8 - Exchange Rate (LL / \$)	3.81	5.49	8.89	18.1	87	455	530	505
9 - Average Inflation Rate (%)	7.2	14.8	54.3	95.2	487.8	127.9	48	62.8
10 - Exports	691	600	600	700	1000	1200	502	510
11 - Imports	3390	3000	2200	1900	1700	2000	2246	2396
12 - Trade-Balance Deficit	2699	2400	1600	1200	700	800	1744	1886
13 - Foreign Remittances	850	700	502	400	500	600	400	300
14 - Interest Payment on Public Debt / Public Revenues (%)	37	97	135	176	123	378	238	76

Sources: - Bank of Lebanon: (2) - (8).

- Beirut Chamber of Commerce and Industry: (1), (9).

- International Monetary Fund: (10) - (12).

Indeed, during the war, the collection of taxes and bills was hindered; therefore, the public revenues decreased drastically leading the Lebanese government to become unable to cover the public expenditures. Consequently, both the interest charges on internal and external public debt (see item 14 in Table 1), as well as all the public expenditures other than interest charges started exceeding the decreasing public revenues, which resulted in a continuous yearly budget deficit. The ratio of interest payments on public debt to public revenues increased till the year 1990, which implies that the Lebanese Government is unable to cover its interest charges (see item 14 in Table 1). The problem has been intensified due to the decrease in the GDP.

In fact, the Lebanese economy faced a substantial decrease in the consumption of the people living in Lebanon, caused mainly by the deterioration in the value of the Lebanese pound a result of high inflation starting in 1984, which affected people purchasing power. The decrease in the consumption of the people living in Lebanon was intensified by the effect of continuous immigration. Also, the gross domestic investments decreased, due to the instability of the political situation, and the imports have always exceeded the exports, which affected

negatively the gross domestic product balance.

To improve the economic situation, the Lebanese government has to consider several issues:

A higher taxation on imported goods must be adopted; thus, decreasing the level of imports for the sake of encouraging the local production and increasing the level of exports. Moreover, the Lebanese government must be able to absorb the foreign remittances and aids through a serious attempt to improve the political situation and adjust the deviations of the inefficient public administration.³² The Lebanese government has to work on collecting taxes and bills to increase the public revenues. If these issues are seriously considered, the public revenues will consequently increase leading the budget deficit balance to be improved. In addition, the exchange rates will decrease and stabilize and so does the inflation rate, which will improve the purchasing power of the Lebanese people and the domestic investments, thus, increasing the GDP.

However, the Arab Fund For the Reconstruction of Lebanon is delayed. After the Gulf war erupted, funds pledged by the oil-rich Arab countries failed to materialize; recession emerged in US while Western Europe discovered a vast underdeveloped region such as Eastern Europe and Russia, on its own doorsteps. Yet,

32.- "Twin-Pronged Plan To Rebuild Lebanon", Euromoney Supplement, April 1992, p. 4.

Italy remains the only country to step in with financial assistance since the civil war ended in October 1990.³³ Accordingly, the Lebanese government will lack funds to rehabilitate the public services; therefore, the collection of taxes and service-related bills will not proceed as adequately as it should. Also, the increase in salaries of the public employees will lead to a further accumulation of public debt and consequently an increase in the interest charges and in the budget deficit balance. The exchange rates will remain unstable and the economic situation will be worse; consequently, the foreign remittances will be delayed.

Such development will effect the future growth of MEA level of business which will recommend a modest rate of growth for MEA.

III.- COMPETITIVE ANALYSIS

The businessman passenger is the most important market segment in the airline industry where competition is very severe. Through several interviews with travel agencies in various parts of Lebanon, I have detected and identified type of the competitive environment in which MEA operates.

MEA's passengers are mainly businessmen and Lebanese immigrants. Due to the inflation and the bad

33.- "A Phoenix From The Ashes", Euromoney Supplement, April 1992, pp. 2 - 4.

economic and political situation in the past years in Lebanon, tourist travelers became rare. The coming years are more promising, so there will be more of tourist clients to MEA, since the civil war has ended and the rehabilitation programs have begun. Moreover, the amelioration of the political situation in Lebanon will lead to a high competitive environment to MEA since foreign airline companies started to reopen their offices in Lebanon. In 1991, around 22 airline companies' aircrafts were landing and taking off from BIA.

Of MEA's clients 75% go to Europe, North USA, and Canada; around 20% of the demand is for the Gulf, the Far East, North Africa, South USA, and Algeria; the remaining 5% is spread around other countries. Air France, Alitalia, KLM, Gulfair, Emirates, and Alia are among the most important competitors as all of them serve the same market segment as MEA.

Several reasons led MEA to consider itself in a tough competitive environment. Lebanese people admire French culture, so they like to travel with Air France. Moreover, most Lebanese do not appreciate the services they seek for low prices, and Alia and KLM are airlines which have low fares. In addition, MEA has several sales offices all around Lebanon, which has led to a competitive situation between MEA sales offices and the

travel agents, since MEA staff sell tickets at a lower price than the travel agents , by removing the commission of the latter.

On the other hand, MEA is at a competitive advantage compared to the other airlines, since the number of flights per week is higher than any other company. Moreover, it has the widest network taking off from Lebanon since MEA goes wherever the other 21 airlines go, while the opposite is not true. In addition, MEA has family fares, while the others do not have. Finally, MEA is the national airline which is backed by the government, and it is the price leader, When it decreased its prices by 20% in Fall 1992 on direct flights, other airlines followed it.

IV.- FORECASTING MEA TRAFFICS & OPERATIONS

MEA's balance sheet, profit and loss statements, sources and uses of funds statements, and the market share as of December 31, 1983 till 1990 are presented in Tables: 2, 3, 4, and 5 respectively. The first three tables and part of the fourth table have been taken from the audited Annual Report of MEA. While, the passengers traffic of BIA have been taken from the statistics of BIA. All the monetary items in the tables are converted to US Dollars by the yearly average exchange rates. These tables represent a detailed

comparison between MEA's eight years operations. The year 1983 was relatively a good year for Lebanon, so its prospects are used in the financial analysis to show the prospect of a good year. While, it is excluded from the statistical and regression analysis. The following are paragraphs of analysis of the TABLES shown below.

**TABLE 2
MIDDLE EAST AIRLINES AIRLIBAN SAL
BALANCE SHEET**

DECEMBER 31,	US\$(000)							
	1983	1984	1985	1986	1987	1988	1989	1990
CAPITAL	28,736	19,108	8,772	2,344	330	283	297	178
RESERVES								
Deferred Surplus on Sale of B747 Fleet	0	49,017	73,848	94,003	63,566	56,845	50,081	43,387
Revaluation - B747 Fleet	0	0	27,127	51,859	46,665	52,090	79,663	97,541
Revaluation - Other	97,039	56,695	21,635	5,637	773	646	660	387
Other	11,689	7,772	3,568	953	134	115	121	72
Profit and Loss Account	-73,474	-86,235	-66,124	-27,104	-7,302	-6,717	-28,606	-45,979
Unrealised Exchange Difference	0	0	0	-5,978	0	0	0	0
TOTAL SHAREHOLDERS' FUNDS	63,990	46,357	68,826	121,714	104,166	103,262	102,216	95,586
STAFF LEAVING INDEMNITIES	32,760	27,717	14,839	9,692	5,482	16,363	31,436	21,074
TERM DEBT	58,481	44,441	21,773	5,354	7,946	6,213	15,031	12,930
LEASE FINANCE	0	37,579	58,812	69,275	47,825	44,263	40,216	35,616
UNEARNED REVENUE	23,636	17,545	14,004	9,503	12,967	23,383	17,828	21,581
CURRENT LIABILITIES								
Accounts Payable and Accrued Expenses	42,602	44,780	30,779	25,460	18,133	17,897	22,740	26,829
Current Maturity of Term Debt	13,679	6,737	5,443	7,951	4,994	6,107	9,358	11,511
Bank Overdrafts and Short - Term Loans	14,469	9,685	3,326	0	0	0	297	1,474
Fleet Overhaul Position	1,098	1,709	655	983	1,199	1,224	2,875	2,756
TOTAL CURRENT LIABILITIES	71,848	62,911	40,203	34,394	24,326	25,228	35,270	42,570
	250,715	236,550	218,457	249,932	202,712	218,712	241,997	229,357
FIXED ASSETS	171,420	150,132	113,848	104,618	69,929	85,588	73,858	57,385
REVALUATION - B 747 FLEET	0	0	27,127	51,859	46,665	52,090	79,663	87,541
INVESTMENTS	481	320	147	39	6	5	5	3
BLOCKED FUNDS	0	0	0	0	0	0	20,396	15,000
CURRENT ASSETS								
Bank Balances and Cash	41,031	52,320	52,454	70,171	65,154	76,515	41,476	28,191
Marketable Securities	794	716	748	969	282	336	299	337
Accounts Receivable	28,489	28,416	21,353	20,071	19,489	21,496	21,774	26,361
Inventories	8,500	4,646	2,782	2,207	1,187	2,702	4,526	4,539
TOTAL CURRENT ASSETS	78,814	86,098	77,337	93,418	86,112	101,049	68,075	59,428
	250,715	236,550	218,457	249,932	202,712	218,712	241,997	229,357

Source: MEA Annual Reports

TABLE 3
MIDDLE EAST AIRLINES AIRLIBAN SAL
PROFIT AND LOSS STATEMENT

FOR THE YEARS ENDED DECEMBER 31,	IN US\$(000)							
	1983	1984	1985	1986	1987	1988	1989	1990
REVENUE								
Passenger	132,833	58,039	47,579	30,946	19,971	74,674	52,957	95,284
Cargo and Mail	23,426	11,043	12,629	8,312	4,327	14,779	8,006	12,275
Lease Charter and Pilgrimage	9,315	11,203	11,615	8,608	6,115	31,711	59,177	24,553
Traffic and Engineering	3,536	1,357	1,573	1,483	1,391	2,139	1,548	1,604
Other (net)	-1,473	4,789	1,408	4,774	-725	3,972	0	0
TOTAL REVENUE	167,637	86,431	74,804	54,123	31,079	127,275	121,688	133,716
EXPENDITURE								
Flying Operations	75,871	43,090	32,071	19,933	10,236	44,512	44,054	46,838
Maintenance	28,256	18,228	16,029	7,165	5,199	19,130	29,984	21,774
Fleet Depreciation	15,865	10,799	8,020	8,807	6,937	8,954	10,854	11,265
Ground Operations	22,377	12,887	9,808	6,828	4,743	15,668	15,633	15,805
Promotion and Sales	38,664	22,893	16,140	13,094	8,096	28,126	26,371	27,717
Passenger Services	22,751	12,359	8,828	5,557	2,582	11,353	9,762	12,219
General and Administration	15,120	8,422	6,644	5,393	1,855	7,958	9,700	8,317
Other (net)	0	0	0	0	0	0	4,293	3,099
TOTAL EXPENDITURE	218,904	128,678	97,540	67,777	39,648	135,701	150,651	147,034
LOSS BEFORE THE FOLLOWING:	-51,267	-42,247	-22,736	-13,654	-8,569	-8,426	-28,963	-13,318
Release of Deferred Surplus on Sale of B747 Fleet	0	0	5,383	9,027	6,753	6,756	6,755	6,765
Release from Revaluation Reserve-Other	7,530	4,869	821	143	20	17	18	9
Exceptional Items	0	0	-9,985	-4,954	-852	1,205	633	-22,278
Prior Year Item	19,292	0	0	0	-841	0	0	0
LOSS FOR THE YEAR	-24,445	-37,378	-26,537	-9,438	-3,489	-448	-21,557	-28,822
LOSS BROUGHT FORWARD	-49,030	-48,858	-39,588	-17,667	-3,812	-6,269	-7,049	-17,157
ACCUMULATED LOSS CARRIED FORWARD	-73,475	-86,236	-66,125	-27,105	-7,301	-6,717	-28,606	-45,979

Source: ibid.

TABLE 4
MIDDLE EAST AIRLINES AIRLIBAN SAL
STATEMENT OF SOURCES & USES OF FUNDS

FOR THE YEARS ENDED DECEMBER 31,	US\$(000)							
	1983	1984	1985	1986	1987	1988	1989	1990
SOURCE OF FUNDS:								
FROM OPERATIONS								
Loss for the Year	-51,266	-42,247	-26,536	-9,436	-3,490	-448	-21,556	-28,822
Release from Revaluation Reserve-Other	0	0	-821	-143	-20	-17	-18	-9
Items that Do Not Use Working Capital	26,988	4,530	1,681	11,891	17,928	26,174	13,589	19,008
TOTAL ABSORBED BY OPERATIONS	-24,278	-37,717	-25,676	2,312	14,418	25,709	-7,985	-9,823
FUNDS FROM OTHER SOURCES:								
New Term Debt	38,409	53,028	34,367	845	1,768	581	13,767	4,021
Disposal of Fixed Assets at Net Book Amounts	3,065	29,307	6,583	52	107	674	76	1,705
	41,474	82,335	40,950	897	1,875	1,255	13,843	5,726
	17,196	44,618	15,274	3,209	16,293	26,964	5,858	-4,097
Exchange Differences-Lease Finance and US Dollar Term Debt	0	0	22,916	59,816	48,246	7,814	-2,472	22,626
TOTAL SOURCE OF FUNDS	17,196	44,618	38,190	63,025	64,539	34,778	3,386	18,529
USES OF FUNDS								
Additions to Fixed Assets	11,220	3,736	1,239	917	5,222	5,975	19,113	6,289
Repayment of Term Debt	0	14,612	5,145	5,702	898	4,008	6,107	5,358
Movement in Blocked Funds	0	0	0	0	0	0	-4,158	2,767
Net Addition to Investments	0	0	0	0	0	0	0	0
Net Debt Reduced by Current Portion	13,193	6,737	5,443	6,497	0	0	0	0
	24,413	25,085	11,827	13,116	6,120	9,983	21,062	14,414
INCREASE OR (DECREASE) IN WORKING CAPITAL	-7,217	19,533	26,363	49,909	58,419	24,795	-17,676	4,115
ARISING FROM MOVEMENTS IN:								
Accounts Receivable	-9,055	9,473	8,309	14,365	16,665	4,766	-785	13,304
Inventories	-387	-1,007	650	1,464	877	1,883	1,890	1,825
Accounts Payable	-7,053	-14,092	-13,441	-23,733	-14,552	-2,330	-3,957	-13,191
	-16,495	-5,626	-4,482	-7,904	2,990	4,119	-3,052	1,938
NET LIQUID FUNDS	9,278	25,159	30,845	57,813	55,429	20,676	-14,624	2,177
	-7,217	19,533	26,363	49,909	58,419	24,795	-17,676	4,115

Source: Ibrd.

TABLE 5
MIDDLE EAST AIRLINES AIRLIBAN SAL
8 YEARS MARKET SHARE

FOR THE YEARS ENDED DECEMBER 31,	1983	1984	1985	1986	1987	1988	1989	1990
PASSENGERS TRAFFIC IN BIA	1,086,286	683,222	699,096	656,362	420,737	582,396	227,911	736,669
PASSENGERS TRAFFIC IN MEA	731,939	446,959	518,801	517,618	383,603	510,070	198,189	663,235
MEA MARKET SHARE IN %	67.39	76.62	86.76	93.20	91.17	87.58	86.96	90.03

NB: Beirut International Airport was closed for the following periods:

- 1983: 54 Days (August 10 - 15, August 29 - September 29, November 30 - December 15)
- 1984: 154 Days (February 6 - July 8)
- 1985: 4 Days (May 24, August 22, September 28 & December 7)
- 1986: 2 Days (July 3, December 2)
- 1987: 107 Days (January 8 - 10, February 1 - May 10, November 5 - 9)
- 1989: 196 Days (March 12 - September 23)

Source: Ibid., and BIA statistics.

A. - BALANCE SHEET

This part shows the movements of the items shown in MEA's balance sheet. An analysis of the sources and reasons of the movements and their effects on the other items of the Balance Sheet will appear in the following sections.

1.- The Liabilities of MEA

The term debt, the lease financing and the current liabilities are the main items featuring the liabilities of MEA. The term debt includes three foreign loans paying an interest rate of LIBOR plus 190 basis points, and to be repaid in equal installments. These loans have to be terminated respectively on the following dates October 1992, May 1994, and November 1995. Starting in 1983, the Term Debts of MEA started decreasing until they reached a minimal level in 1988, where it started to increase once again. The comparative balances of Term

Debt for the years 1983, 1987 and 1990 are shown in Table 6.

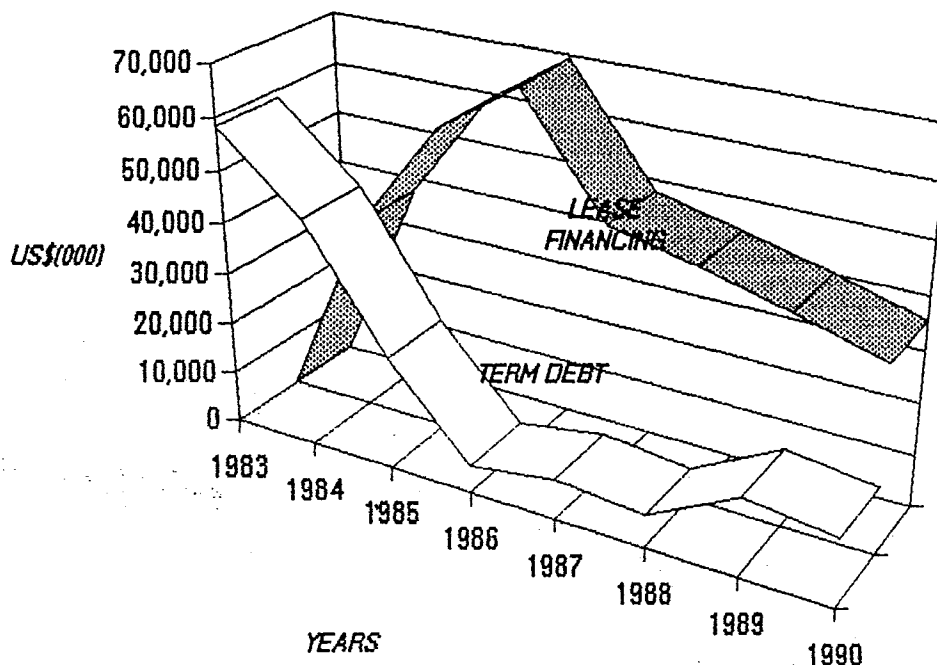
TABLE 6
COMPARATIVE BALANCES OF TERM DEBT
FOR THE YEARS 1983, 1987 & 1990

	<u>1990</u>	<u>1987</u>	<u>1983</u>
	<u>US\$(000)</u>	<u>US\$(000)</u>	<u>US\$(000)</u>
Term Debt			
in LL	3,527	1,113	48,689
in US\$	<u>16,314</u>	<u>8,691</u>	<u>23,471</u>
	19,841	9,804	72,160
Less:			
Current maturity portion of Term Debt:			
in LL	(2,126)	(437)	
in US\$	<u>(4,785)</u>	<u>(1,420)</u>	*(13,679)
	12,930	7,946	58,481

* sum of LL and US\$.

According to the lease financing term MEA has to pay an annual fixed interest charge based LIBOR. These have been continuously increasing starting in 1983 where they attained a maximum level of \$69,275,000 in 1986, after which they started moving downward thereafter. The movements of term debt and lease financing from 1983 till 1990 are shown in Chart 1.

CHART 1
MOVEMENTS OF TERM DEBT & LEASE FINANCING



The current liabilities of MEA consist mainly of accounts payable and accrued interests. The Current Liabilities of MEA have been decreasing starting in 1984 until 1988 where they started reincreasing.

2.- The Assets of MEA

The increase in the liabilities' accounts of MEA is reflected directly through a proportional increase in MEA's assets, which mean that the funds generated from the increase of debt are used to purchase assets.

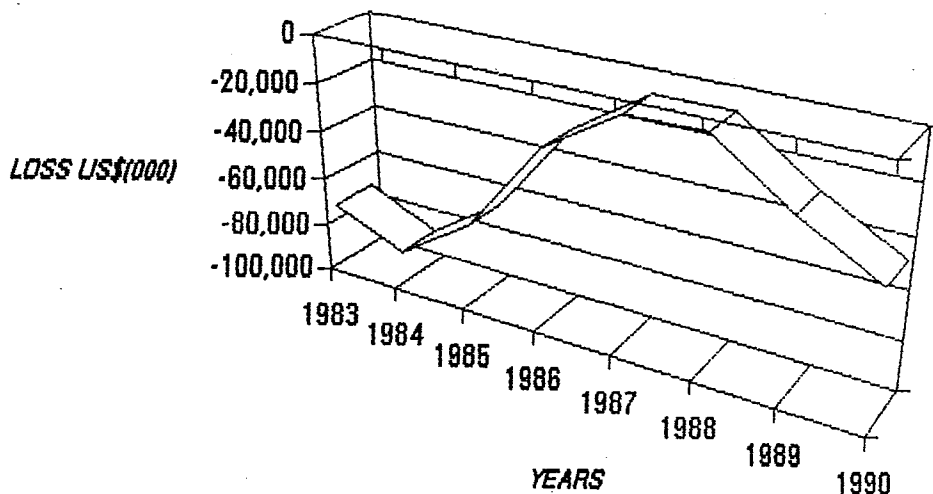
Similarly, the significant decrease in the cash and marketable securities balances of 1988, 1989, and 1990 is justified by the increase in the other assets' accounts. Consequently, the increases in the liabilities

and the decrease in the cash and marketable securities accounts starting 1988 are used to increase the Inventory level, to buy fixed assets, to increase the revaluation of B747 fleets account and to increase the blocked funds which increased respectively by 67%, 12%, 53% and 100% during the year (1989).

B.- PROFIT OR LOSS STATEMENT

Since the annual expenditures of MEA are always exceeding the revenues, even in the prosperous years such as 1983, the profit and loss statement shows a yearly deficit (see Chart 2), which when accumulated amounted \$46 million in 1990. In fact, it's clearly shown that the revenues decreased drastically during the closing of BIA in the war times although MEA operated partially from abroad through having dry and wet leases of their aircrafts.

**CHART 2
ACCUMULATED LOSS MOVEMENT CARRIED FORWARD**



The following paragraph will represent the financial ratio analysis. The return on investment, return on asset and return on equity ratios are excluded from the financial ratio analysis because MEA net profits' balance have always shown a loss. The financial ratios analysis includes the current ratio, quick ratio, ACP, inventory turnover, fixed assets turnover, total asset turnover, debt ratio and equity ratio. The related figures appear in Table 7 shown below.

**TABLE 7
FINANCIAL RATIOS FROM 1983 TILL 1990
COMPARED TO THE ACCEPTED AVERAGE**

Years	1983	1984	1985	1986	1987	1988	1989	1990	Accepted Average
Current Ratio (*)	1.09	1.36	1.92	2.7	3.5	4	1.93	1.39	2.5
Quick Ratio (*)	0.97	1.29	1.85	2.66	3.5	3.9	1.8	1.28	1
Average Collection Period (days)	61.2	118.4	102	134	221	60	64	71	36
Inventory Turnover (*)	19.72	18.6	27	24.52	26.68	47	26.8	29.46	9
Fixed Assets Turnover (*)	0.97	0.5	0.53	0.34	0.27	1.08	0.69	0.78	3
Total Assets Turnover (*)	0.67	0.36	0.34	0.22	0.156	0.58	0.5	0.58	1.8
Debt Ratio (%)	74	80	68.5	51	48	52	57	58	40
Equity Ratio (%)	26	20	31.5	49	52	48	43	42	60

As for the current ratio it has been either too high or too low as compared to 2.5* industry average, except for the year 1986 where this ratio was 2.7* which is quiet acceptable. The quick ratio didn't show any significant figure unless that of the year 1983, where it reached 0.97* which is approximately equal to the average 1* of the industry. However, as for the number of days recorded as an average time to collect the

receivables of MEA, extremely poor figures are observed from 1983 to 1990. The inventory turnover has been high as compared to the industry average, which means one of two things either the inventory level of MEA's balance sheet is too low as compared to its revenues' level, or the revenues of MEA are too high which is not the case, so one may conclude that the MEA's inventory levels of 1983 till 1990 have been too low with relation to its sales. In contrast, the fixed assets and total assets of MEA have been too high and even exceeding the revenues levels during the eighties; therefore the fixed assets and the total assets inventory turnover ratios have been too low. The debt ratio of MEA started decreasing gradually starting from 1985, where more equity financing started to be used allowing more risk to MEA until maximum equity financing is reached in 1988 and 1989 where the equity ratios were respectively 52% and 48% out of the total assets.

C.- SOURCES AND USES OF FUNDS

In analyzing the financial statements, the main sources of funds are the decrease in the assets accounts, the increase in the liabilities accounts and the increase in the depreciation on an asset owned. Whereas, the uses of funds are mainly caused by an increase in the assets accounts, a decrease in the

liabilities and the decrease in depreciation. As for MEA, the main sources of funds were the decrease in the investments which started with \$481,000 in 1983 and kept on decreasing until becoming only \$3,000 in 1990. Another source of funds was the decrease in the fixed assets accounts especially from 1983 until 1988 where it decreased respectively by 14%, 32%, 8%, 50% and finally 6% where it started to increase once again this time becoming a use of funds rather than a source especially in 1989 where the fixed assets increased by 13%. The decrease in the accounts receivable is also considered as a source of MEA's generated funds especially during the years 1985, 1986 and 1987. The repayment of the long term debt of MEA is one of the main elements of MEA's uses of funds. During the years 1983 till 1988, the term debt balance of MEA has been decreasing continuously until reaching a minimum of \$6.213,000 in 1988. Similarly the current debt accounts have been decreasing; thus, contributing during the years 1983 to 1988 to the uses of MEA's funds. A significant increase in MEA's blocked funds account in 1989 represented another factor contributing to uses of MEA's funds in 1989. The movements of sources and uses of funds are shown in Chart 3.

The Working Capital in years 1983 and 1989 have a negative balance since the net liquid funds are

respectively low and negative. The increase or decrease in the working capital is shown in Chart 4.

CHART 3
MOVEMENTS OF SOURCES & USES OF FUNDS

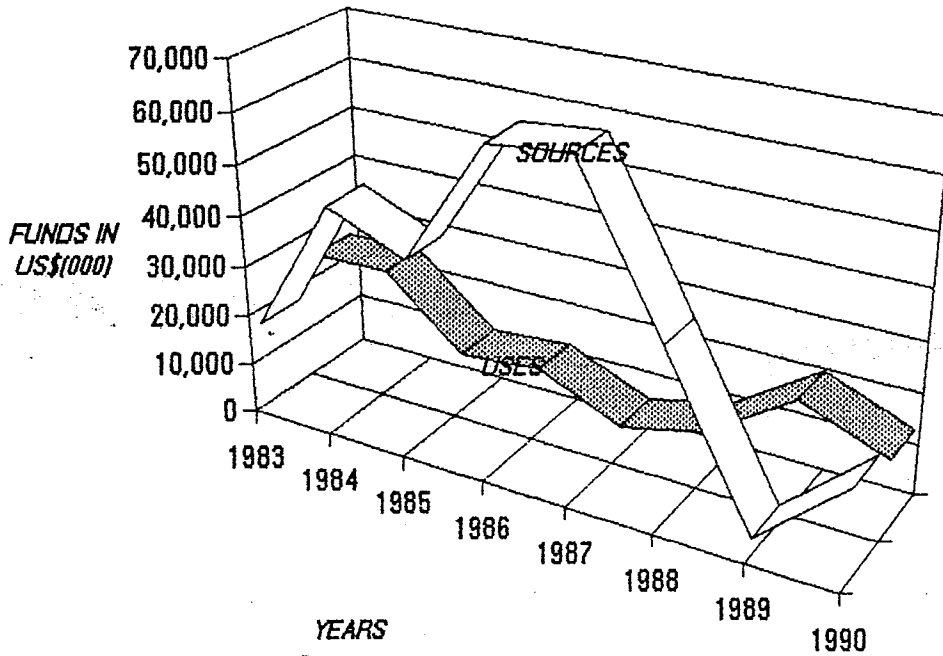
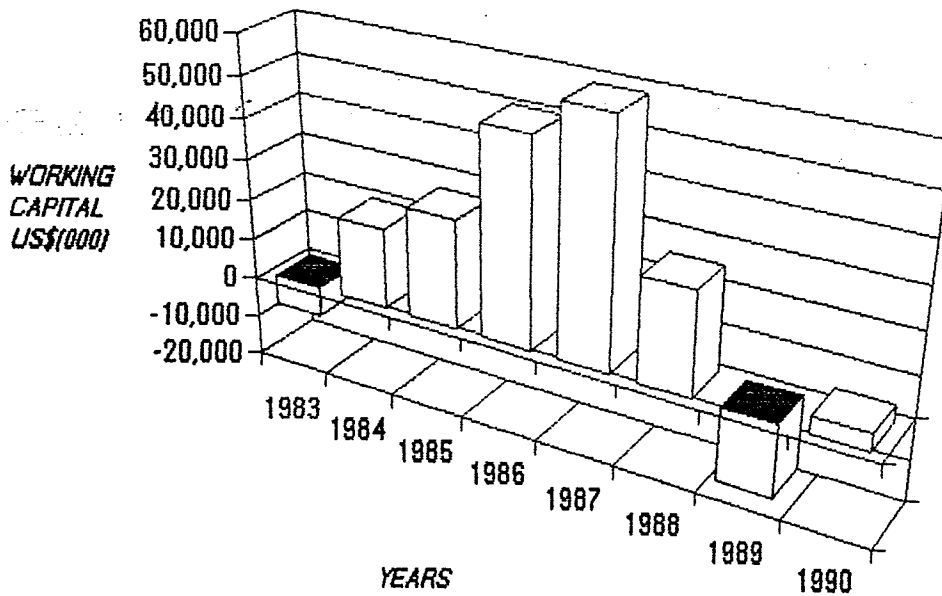


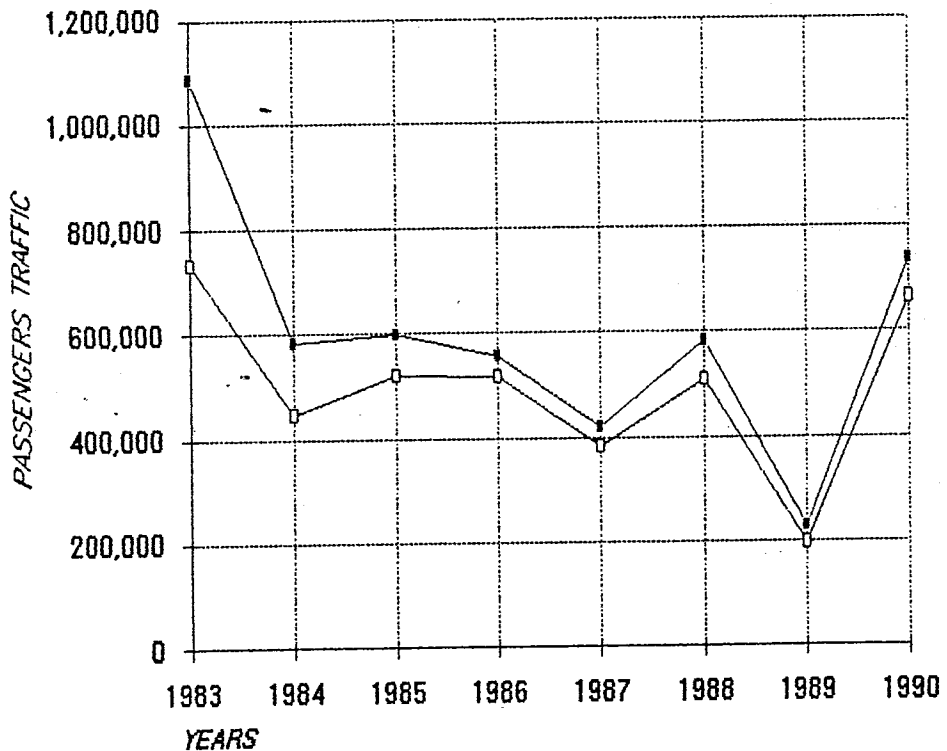
CHART 4
INCREASE OR DECREASE IN WORKING CAPITAL



D.- MARKET SHARE OF MEA

The instability of the political situation and war conditions forced most of the international airlines companies to stop operating from BIA. Therefore, unlike most of the financial statements and ratios of MEA, MEA's market share have been growing since 1983 until reaching a 90% market share in 1990, which doesn't reflect a sign of MEA's success but a war situation where MEA was an oligopolist. The passengers traffic in BIA and MEA is shown in Chart 5.

**CHART 5
PASSENGERS TRAFFIC: BIA & MEA**



- 1.- Passengers Traffic in BIA
- 2.- Passengers Traffic in MEA

E.- FORECASTING MEA'S PASSENGERS AND REVENUES

MEA has been facing a tough changing economic and political situation especially after 1984. The use of the mechanical extrapolation as a method to forecast the future passengers and revenues of MEA is useless because the trend that used to take place in the past is not expected to continue in the future. Therefore, another forecasting technique, the econometric model is used with the aim of relating the number of passengers and the revenues to some variables such as the prices of tickets in US Dollar, the war casualties, annual per capita income, and promotion. The econometric model measures the degree of dependence of MEA revenues and passengers on the already mentioned variables. Two situations are to be considered, first, the past records of MEA and the related equations will represent the war times. Where the second situation represents the future forecasts, where no war is assumed. The data collected for regression analysis is shown in Table 8. The outcome of the econometric analysis is an equation:

$$\begin{aligned} \text{Number of Passengers of MEA}_{(t)} \text{ (or Revenues of MEA}_{(t)} \text{)} &= \\ &A + BX_{\text{casualties}(t)} + CX_{\text{price of tickets}(t)} \\ &+ DX_{\text{per capita income}(t)} + EX_{\text{promotion}(t)} \end{aligned}$$

Where:

- "A" is the equation's constant or intercept.
- "B, C, D and E" are the casualties', price of

tickets', per capita income's and promotions' correlations with the number of passengers and revenues of MEA in a certain year.

- "X" of: casualties, price of tickets, per capita income, and promotion represent the numerical figures associated to these variables.
- "t" is the period or time index.

**TABLE 8
DATA COLLECTED FOR REGRESSION ANALYSIS**

Year	1984	1985	1986	1987	1988	1989	1990
Number of Passengers	446,859	519,801	517,618	383,603	510,070	198,189	663,235
Annual Per Capita Income (\$)	1,368,000,000	1,220,000,000	886,000,000	775,000,000	986,000,000	747,000,000	667,000,000
Promolon (\$)	22,893,000	16,140,000	13,094,000	8,096,000	28,126,000	26,371,000	27,717,000
Price (\$)	539	549	534	554	579	597	627
Casualties	26,677	11,208	10,989	11,281	11,495	16,683	9,795
Revenue (\$)	86,431,000	74,804,000	54,123,000	31,079,000	127,275,000	121,688,000	133,716,000

1.- Developing the Econometric Model for the Past years

a.- **The number of passengers.** The number of passengers is negatively correlated with the casualties-related variables, whereas the other independent variables seem not to be affecting MEA passengers. The regression equation developed for MEA number of passengers is as follows:

$$\text{Number of Passengers} = 826739.22 - 67.59344 * X_{\text{casualties}(t)}$$

In fact the lack of correlation between promotion, per capita income and prices of tickets, and MEA passengers may be easily justified through reading past records, where no significant trend is observed in the

number of passengers of MEA when any upward or downward movement occurs for the independent variables (see Table 8). Whereas only a clear negative relation is observed between the increase or decrease in casualties and the dependent variable. The statistical R^2 test shows that 60% of the variation in MEA number of passengers is explained by the variation in the casualties ($R^2 = 60.6\%$). Both the F test ($F = 7.69733$) and the T-test ($T = -2.774$) support this statement.

b.- The revenues. The MEA revenues during the war seemed to be negatively correlated with the casualties related variables and positively correlated with the promotion related variables, whereas the price of the tickets and per capita income proved to have no effect on the revenues of MEA. The revenues equation is as follows:

$$\text{Revenues of MEA}_{(t)} = 477342.78443 + 5.01707 * X_{\text{promotion}(t)} - 1470.04105 * X_{\text{casualties}(t)}$$

The independence of MEA revenues from prices of the tickets and per capita income is explained by the fact that no significant effect on the revenues is observed with the increase or decrease in the prices of the tickets and per capita income (see Table 8). The R^2 test states that 99% of the variation in the revenues is explained by the variation in security condition is measured by the number of casualties and promotion. The

F-test (F = 294.765128) and T-test (T = 24.279) proved this correlation.

2.- Developing the Forecasting Econometric Model for the Future

With the end of the war it has been useless to take into consideration the number of casualties as one of the variables the number of passengers and revenues are dependent upon. Since the number of passengers is only dependent on the number of casualties, no equation representing the future number of passengers has been developed. Consequently, the revenues of MEA after the war proved to be solely dependent on the promotion which is to be increased by 10% yearly during the coming years. The future revenues of MEA are represented by the following econometric equation:

$$\text{MEA Revenues}_{(t)} = -9174164.549 + 4.86766 * X_{\text{Promotion}(t)}$$

Once again, a positive correlation between MEA revenues and promotion in the future is observed. The R² test (R² = 96%) proves that MEA future revenues variation is 96% explained by the increase or decrease in promotion. The F-test (F = 127.64209) and the T-test (T = 11.298) proved to significantly support the equation developed.

Consequently, promotion will be the only determinant in the future revenues of MEA; however, since the revenues equation includes a negative intercept, the promotion has to be always above \$2 million in order to generate positive revenues, otherwise the positive effect or contribution of promotion will be offset by the negative effect of the negative constant. The futures variables affecting revenue are shown in Table 9, the promotion movement from 1990 till 1997 is shown in Chart 6, and revenues movements from 1990 till 1997 is shown in Chart 7.

TABLE 9
REVENUES PROFORMA

Years	Promotion US\$(000)	Revenue US\$(000)
1990	27,717	133,716
1991	30,489	139,234
1992	33,538	154,075
1993	36,891	170,400
1994	40,580	188,358
1995	44,639	208,111
1996	49,102	229,839
1997	54,013	253,741

CHART 6
PROMOTION MOVEMENTS FROM 1990 TILL 1997
(INCREASING BY 10% COMPARED TO 1990)

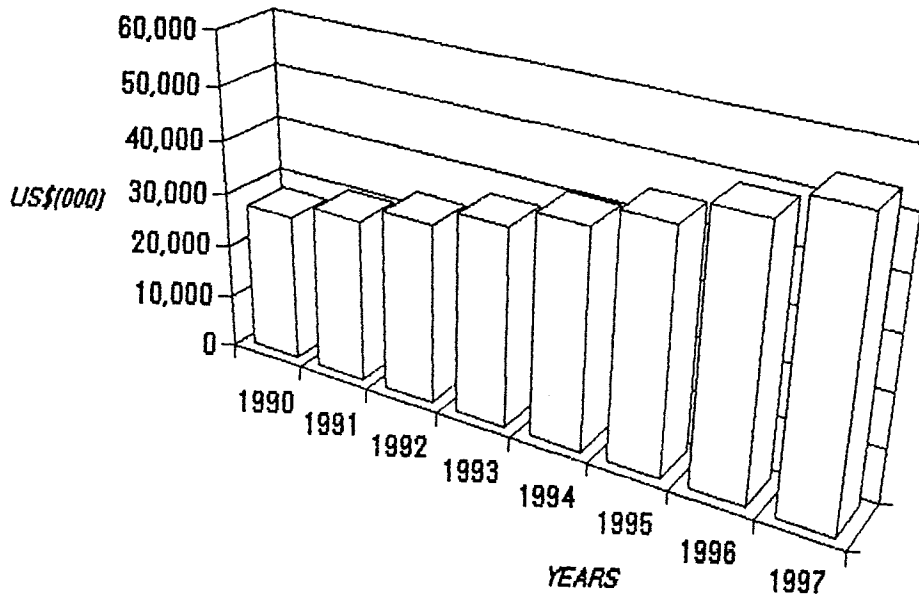
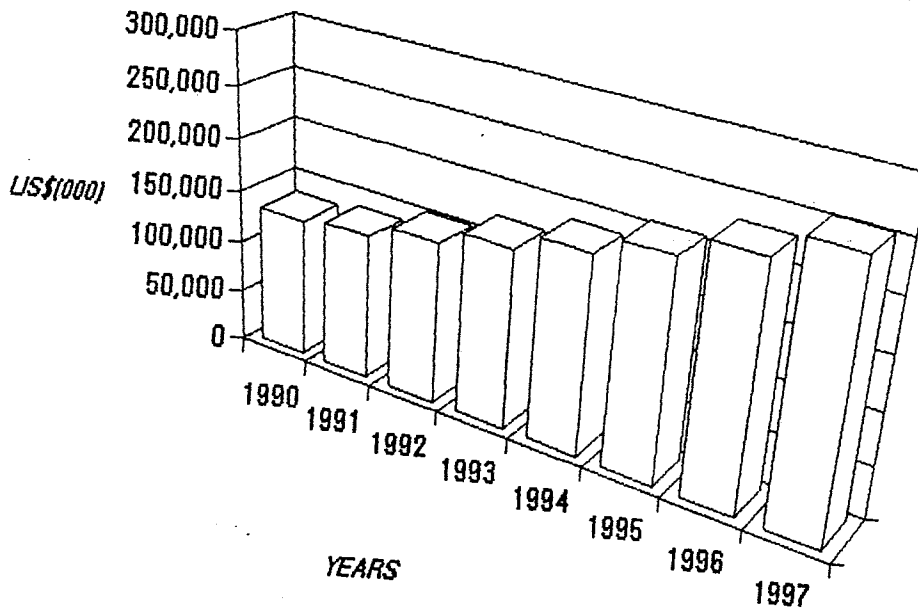


CHART 7
REVENUES MOVEMENTS FROM 1990 TILL 1997



V.- IDENTIFICATION OF RELEVANT OBJECTIVES

The objectives adopted by MEA are the outcome of the interaction among the environmental scanning and forecasting, competitive analysis, internal organizational analysis and the organizational culture of MEA. Interviews at different levels of management have shown that MEA has committed itself to one main objective namely to target for Lebanese immigrants who are living in Canada, Australia and USA. No other objectives have been specified. More specifically they are aiming at a 10% annual growth rate in passengers and cargo with an increasing promotion in cargo. Therefore, the objectives stated and discussed in the next section, are the outcome of the interviews and some personal analysis of what have said indirectly by the interviewees and which reflect unstated objectives.

1.- The Objectives

In addition to MEA stated objectives, other relevant objectives in Finance, Marketing, Operations, Human Resources and Customers services departments can be stated as follows:

a.- Finance. MEA's financial objective is to reduce the accumulated deficits balance to the minimal level.

b.- Marketing. MEA has to consider a yearly increase of 10% in its market share.

c.- Operations. MEA is looking toward increasing

the efficiency of its operations.

d.- Human resources. MEA has to improve the staff efficiency.

e.- Customers services. The customers complaints have to be reduced to the minimum.

2.- The Policies Used to Achieve the Stated Objectives

a.- Finance. To reduce the accumulated deficits, MEA management is trying to point out the major weaknesses and strengths in its financial statements. Therefore, they are trying to increase their revenues and decrease their expenses especially those related to interest payments on debt, and those which are related or resulting from inefficiency of operations and human resources.

b.- Marketing. Since no tourists have been visiting Lebanon during the war, the target customers of MEA are the Lebanese immigrants, especially those in Canada, USA, Australia and Africa who represent the majority of MEA customers. Therefore, to increase its market share, MEA has been working on adopting new travelling routes which fit to the immigrants in the above stated countries, at well determined prices. However, any decrease or increase in the price of the tickets seems to have an insignificant effect on the number of MEA customers.

c.- Operations. There is a tendency to develop the

maintenance system of MEA through excessive training of the engineers. Also, MEA is trying to have negotiations with some international airline companies and airports to allow them to have interconnected flights which increase the occupancy level of MEA flights and save many related expenses, especially those related close flights not yet interconnected.

d.- Human resources. To improve the efficiency of its staff members, MEA is trying to intensify the training programs provided by the training department at all levels of management.

e.-Customer services. The major policy used by MEA to reduce the customers' complaints is through starting to offer better on flight services. In fact, MEA is offering better food Quality with free alcoholic drinks, better on flight staff services where the airplane crew is trying to treat clients better, and be punctual on departures.

Consequently, the policies undertaken by MEA management to achieve the already stated objectives are not adequately sufficient. Other policies that will help MEA achieving its objectives are stated in the recommendations' section in Chapter Five.

CHAPTER FIVE

CONCLUSION & RECOMMENDATIONS

I.- CONCLUSION & BASIC FINDINGS

This study has demonstrated the applicability and the worthiness of applying strategic planning in MEA to survive competition and to achieve better performance.

A forecasting of political, and economic environment coupled with competitive analysis were conducted in order to scan MEA's external environment. In addition, MEA's internal environment was scanned through assessment of major resources, development and performance, that pushes MEA to be in a competitive position with other 21 airline companies now operating in Beirut International Airport. Thus, the various resources both tangible and intangible were evaluated, and analyzed. The strengths and weaknesses were identified, and a new strategy was proposed to achieve higher level of market share and a better overall performance of MEA, by following Lebanese Immigrants who are residing outside Lebanon in order to open new routes.

The internal and external environment scanning proved to be very important to detect MEA points of strengths and weaknesses which are presented in the following paragraphs.

The financial statements of MEA have shown continuously decreasing balances. Both assets and liabilities have been decreasing drastically; however, MEA assets have been decreasing at a lower rate than its liabilities, which was clearly observed in the financial ratios' analysis. The accumulated losses of MEA have been increasing since its overall revenues weren't able to cover its increasing expenditures. MEA sources of funds have been exceeding the uses of funds during some of the past years, which again reflects a related increase in MEA liabilities and accordingly an increase in its interest expenses. Nevertheless, MEA uses of funds have reached a maximum level in 1989 accompanied by a maximum decrease in the sources of funds. All the above stated conditions result in an unfavorable financial situation for MEA.

As for the manpower working at MEA, there are more than 4,000 employees, where MEA is the second highest employer after the Government in Lebanon. The inefficiency of MEA manpower is due to the political and sectarian factors that forces the managers of MEA to accept it as it is. Moreover, MEA's aircrafts are old except for the Jumbos and the new Airbusses leased from KLM. However, MEA maintenance department is well known for its efficiency. In addition, MEA has a reputation of proving bad passengers services, and actually MEA is

paying the price now.

Due to bad infrastructure, Lebanon is no more an attractive country for tourists. In addition, no qualified facilities are available to offer for them, such as good hotels, transportation, restaurants and so on. So the market of travelling companies are limited to businessmen and the Lebanese immigrants. Moreover, some big countries where Lebanese immigrants are located such as USA and Canada are not allowing MEA to land in their airports for security reasons. So this prevents MEA from expanding its network and consequently from increasing its market share. However, MEA has the biggest network, and this will keep MEA as the leader compared to the other 21 airlines actually operating in BIA.

II.- RECOMMENDATIONS

As shown earlier, the purpose of this study was to prove that the application of strategic planning is necessary to help meet MEA its the competitive environment and to succeed in achieving a higher market share. MEA has to apply a combined strategy where expansion has to be applied in some situations, and retrenchment is to be applied in others.

On the operations department the expansion strategy aims at improving the services offered and the

efficiency of operations. Therefore, MEA has to offer more attractive charter flights, which are more profitable than the ordinary flights. Moreover, some entertainment features have to be provided to MEA fleets, such as showing movies on board, providing with air to ground telephone services, offering musical entertainment, and others. The maintenance workshop of MEA has to be reactivated since MEA has mature experience, good reputation and is provided with cheap manpower.

On the management level, a little decentralization has to be provided to MEA staff as a motivating factor. Besides, written policies and objectives have to be permanently circulated to staff members, so that they remain aware of the modified objectives and actions to be performed.

With respect to marketing, customers' satisfaction must be monitored through collecting suggestions and complaints, conducting customer surveys, and comparing services whereby poor services may be easily detected and adjusted.

Retrenchment may be applied by cutting inefficiency through shutting down inefficient sales offices inside and outside Lebanon, and carefully adjusted the situation of other poorly performing offices where scrutinized overhead increase is observed. MEA has to

encourage travel agencies to sell MEA's tickets through increasing their commission.

Concerning the human resources department, MEA staff has to be excessively trained, since there is a training department which is under utilized although it is managed by experienced employees. Finally, motivation programs have to be provided on all levels of management.

MEA is not in a very favorable position in the airline market although it is still catching a substantially high market share. Its financial situation has to be first adjusted, then a deep analysis of the required policies to reach its stated objectives should be undertaken; otherwise, it will be very difficult in the future for MEA to achieve its goals and survive the fierce competition of its environment.

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