Airline success is not just about profitability - it's about delivering on shareholder objectives

By James Geldenhuys

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One of the most common responses to the struggles experienced by any state-owned enterprise the world over is to suggest that it be privatised. Recently the South African SOE that has been the primary target of such recommendations by the public is our national carrier, South African Airways (SAA). But, while it's understandable that the long-suffering South African taxpayers have had enough of watching their tax money being thrown at what they consider a lost cause, selling off any state-owned airline to the highest bidder is not really a viable solution to its financial challenges.

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For starters, finding bidders will usually prove more than a little tricky given the likelihood that, by the time the airline is at the point where people feel it needs to be privatised, there will probably be very little value left to privatise.

Of greater relevance to the argument against the typical state-owned airline privatisation call, however, is the fact that the long-term success of any airline is not, and should not be, measured solely against its ability to turn a profit. In reality, such success is a measure of the airline's achievement of the objectives of its shareholders. As such, the performance of any airline is more often than not, a direct consequence of shareholder behaviours and decisions, not merely its ability to pack people into seats.

To understand this broader success metric, it's necessary to consider that there are essentially three forms of airline ownership. The first, and most common of these in Africa, is 100% government ownership. The second is full or majority ownership by a large corporation or commercial conglomerate. And the third is individual ownership by an affluent individual or an organisation that, in turn, has one major individual shareholder.

The reason why it is so important to understand these three possible forms of airline ownership is that each creates its own measure of success for the entity. And when we fully understand these unique performance benchmarks, we also have insight into why the shareholders behave the way they do. This, in turn, prevents knee-jerk reactions to apparent underperformance against any one of the metrics, because calling for a change of ownership effectively means also calling for a change of strategic focus. Which is not necessarily of benefit to the country in which the airline operates, or its citizens.

So, for most government-owned airlines, profitability is not an end in itself, but rather a means to an end. And, more often than not, that 'end' involves economic growth facilitation and/or the avoidance of economic isolation as a result of the country's location. Emirates is a good example of a government-owned airline that successfully turned fairly limited capital into significant economic growth facilitation. And Singapore Airlines is a prime example of how a state-owned national carrier can help a country to overcome its geographic limitations and political challenges and remain well integrated within the international economy.

Obviously, both of these strategic objectives can, and must, apply to SAA, particularly given the very challenging location of the country, which prevents it from becoming a global travel hub, as well as the important role that a national carrier should play in facilitating sustainable economic growth by, quite literally, bringing people and goods from all over the world to the southern tip of Africa.

An airline with a corporation or individual investor as its main or only shareholder obviously has vastly different objectives, most of which have little, if anything to do with the national economic good, and everything to do with a growing bottom line. So, while the natural reaction to a failing national carrier is to call for it to be privatised, one has to question whether such a course of action really is in the best interests of the country or its people. Yes, it may stop the short-term haemorrhaging of tax money to keep the entity in the air, but it also transforms the purpose of the airline, potentially removing any potential it had to drive sustainable economic growth, which might have benefitted all citizens.

Of course, in all of these ownership examples, there is one factor that has the potential to make or break any airline, and that is the nature and level of interference that the operator experiences from the shareholder. Irrespective of who owns an airline, if they are putting money into it, the chances are good that they will want to have a say in how it is run. While such involvement can be positive and supportive of the objectives set for the entity, they can just as easily be (and often are) negative, especially when they involve interference in day-to-day decisions and appointments.

Ultimately, then, a successful airline is one in which the shareholder behaviour is conducive to the achievement of strategic and/or financial objectives. In the case of a state-owned carrier, that requires a delicate balance between measured profitability and sustainable delivery against clearly identified strategic socio-economic objectives. It's a tricky balancing act, but certainly not unattainable, as evidenced by numerous global airlines, including some African airlines, that have already successfully attained this balance.

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