Factors negatively impacting on the performance of state airlines in southern Africa: A case study of four state carriers

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Abstract

Despite a global increase in tourists the potential of tourism in southern Africa has not been realised due to the poor performance of state-carriers in the region. This article focuses on factors negatively impacting on the performance of state airlines in southern Africa. The research involved an extensive literature search of the factors negatively impacting on the performance of state airlines in the region, followed by several interviews with key personnel in state carriers in southern Africa. From the study, it is clear that the performance of state carriers in the region is negatively impacted by inefficient management, political interference, high management turnover, an aged fleet and poor safety records something which stifles tourism development. To improve tourism development, it is recommended that SADC countries privatise state airlines. It makes no sense for southern African countries to pit private airlines against a competition that is so heavily subsidised and otherwise protected. The very notion of competitiveness itself is at risk.

Key words: Tourism, Air transport, protection, privatise, southern Africa

Introduction

Tourism has become one of the world's biggest and fastest growing industries because of the popularity of global leisure activity (PWC, 2016). More people are now travelling for leisure, recreation, business purpose and most of them are travelling as a part of their employment than ever before (WTTC, 2016). According to the United Nations World Tourism Organisation (UNWTO, 2016) international tourist arrivals grew by 4.4% in 2015 to reach a total of 1 184 million in 2015 with 50 million more tourists (overnight visitors) travelling to international destinations around the world in 2015 compared to 2014.

According to IATA (2016) the increase in tourist numbers has triggered a 2% increase in international airline passenger traffic for the year (2015), while domestic passenger numbers, which make up 70% of total traffic, were up 3% and regional traffic rose 6%. In South Africa, for the period January to November 2016 tourist arrival numbers increased to nine million, an increase of over one million arrivals from 2015 (Daily Maverick, 2017). This represents a 13% growth in tourist arrivals (Daily Maverick, 2017).

However, despite this immense growth in airline passenger traffic stimulated by an increase in tourist numbers, the profitability of state-airlines in southern Africa has plummeted to unprecedented levels with all national carriers struggling with colossal losses (South African Airways, Air Namibia, Air Zimbabwe and Botswana Airways) (The Herald, 2016). Consequently, various scholars (Roese & Smith, 2015; Ssamula, 2012; Eze, 2016) have long pondered the enigmatic question of why southern Africa has become an airline graveyard.
The purpose of the study on which this article is based, was to identify the reasons for the financial problems faced by state carriers in southern Africa. The findings of this study could inform policy makers of strategic implications which could be useful for the aviation industry and tourism development since air transport is indispensable for tourism.

**Theoretical background**

Tourism is one of the fastest growing industries around the world (Moolman, 2011). The World Travel and Tourism Council (WTTC, 2016) reports an increase in the global travel and tourism industry’s contribution towards gross domestic product (GDP) from 8.6% in 2011 to 10% in 2015. The WTTC (2016) furthermore expects an increase in global employment by the travel and tourism industry from over 108 million jobs in 2010 to more than 126 million people by 2024. According to the Republic of South Africa National Department of Tourism (RSA NDT, 2011) the South African tourism industry is also regarded as one of the fastest growing sectors of the country’s economy.

According to the Culture, Arts, Tourism, Hospitality and Sports Sector Education and Training Authority (CATHSSETA, 2017) in South Africa, tourism directly employs more people than the mining, communication services, automotive manufacturing and chemicals manufacturing sectors. To illustrate this point, of the total employment in South Africa, including both formal and informal sectors, 1 in 25 individuals work in the tourism sector (SSA, 2016). To be precise, 4.5% of the total workforce was directly employed in the sector during 2014 (CATHSSETA, 2017).

The airline industry is classified as one of the subsectors of the South African tourism industry (CATHSSETA, 2017). The Tourism Satellite Account for 2013 (SSA, 2015) estimated that the subsector constituted 2.1 per cent of the South African gross domestic product (GDP), which is about R51bn a year and provided for 227 000 jobs or 2.6 per cent of the South African workforce in 2014. The annual value added (or GVA) by each employee in air transport services in South Africa was R721 132, over four times higher than the South African average of R163 901 in 2014 (SSA, 2016). The tourism spin-off is even more significant because approximately 20% of all tourism-related jobs in South Africa are supported by international visitors arriving by air. The airline industry is therefore a small segment of the tourism industry with an economic impact higher than that of the sport, recreation and fitness subsector (CATHSSETA, 2017).

Furthermore, the airline subsector pays nearly R6.0 billion in tax (SSA, 2016). Taxes paid by aviation firms and employees contribute around R3.5 billion towards this figure, with passenger departure taxes including VAT contributing a further R2.4 billion (SSA, 2015). It is estimated that an additional R5.0 billion of government revenue is raised via the aviation sector’s supply chain and R2.3 billion through taxation of the activities supported by the spending of employees of both the aviation subsector and its supply chain (CATHSSETA, 2017). The airline subsector therefore, plays a significant role in the economy as a modern-day engine of economic growth (SSA, 2016).

According to Price Waterhouse and Coopers (PWC, 2016) the airline industry is regarded as one of the largest sectors in Western economies. It is one of the largest private sector employers in the United States of America (USA), directly employing nearly 255 000 full- and part-time workers in 2013 (IATA, 2016). Including indirect, induced, and enabled impacts, general aviation, in total, supported 1.1 million jobs and US$219 billion in output (IATA, 2016). The airline industry also generated US$69 billion in labour income (including wages and salaries and benefits as well as proprietors’ income) and contributed US$109 billion to US gross domestic product (GDP) in 2013 (PWC, 2016). Overall, total GDP impact attributable to general aviation amounted to US$346 per person in the United States in 2013 (IATA, 2016).
At the national level, each direct job in the general aviation industry supported 3.3 jobs elsewhere in the economy (PWC, 2016).

Measured by revenue, the aviation industry has doubled over the past decade, from US$369 billion in 2004 to US$746 billion in 2014 (IATA, 2016). The growth in the aviation industry over the past years can be attributed mainly to three key demand drivers: living standards, population and demographics, and price and availability (Brophy, 2016). Although the global airline industry continues to grow, the failure rate of airlines has been very high in Africa, with southern Africa being the hardest hit (PWC, 2016). To survive, airlines should therefore identify critical success factors to overcome challenges and thereby improve the financial performance in a sustainable way (Brandt, 2016).

Research Methodology

The research involved an extensive literature search of the factors impacting on the performance of state airlines in southern Africa, followed by several interviews with key personnel at six state carriers in southern African, namely, Mango, South African Express, South African Airways (SAA), Air Zimbabwe, Air Botswana and Air Namibia. In order to select respondents purposive sampling, which is a non-probability based sampling technique (Babbie, 2010), was used. Choosing respondents with a specific objective in mind is termed purposive sampling (Tustin, Ligthelm, Martins & Van Wyk, 2010). Purposive sampling was used to choose respondents that were deemed to have sufficient relevant knowledge to participate in the interview sessions. Only CEOs were interviewed. This criterion was used to ensure that selected respondents provided insightful answers to the questions which were asked (Wiid & Diggines, 2009). In purposive sampling the researcher chooses the sample based on who is thought would be appropriate for the study (Cooper & Schindler, 2003). This method is useful in situations when there is a limited number of people who have expertise in the area being researched (McMillan & Schumacher, 2010).

The office of the CEO from each mentioned airline was approached for permission to conduct interviews. This was supported by a letter of introduction to the study. Interviews were conducted in June and July 2016. This study was conducted according to the research ethics guidelines of informed consent and confidentiality as given by Leedy and Ormrod (2013). As such, the airlines and respondents engaged were only those that expressed interest to participate in this study; participation in this study was voluntarily since it was based on oral consent. Furthermore, all respondents’ information and responses shared during the study were kept private and the results were presented in an anonymous manner in order to protect the identities of the respondents. Airline managers were assured that their names would be treated as anonymous.

Findings

South African Airways

South African Airways was established on 1 February 1934 after the South African Government took over the assets and liabilities of the Union Airways. The airline flies to 38 destinations worldwide from its hub at Johannesburg’s OR Tambo International Airport, using a fleet of 54 aircraft. SAA has proven unprofitable and has become a fiscal black-hole into which billions of taxpayer-Rands have been ploughed with negative results (Raborife, 2016). The airline has lost R18 billion over the past decade (2006-2016) and needs a R5 billion guarantee from Government to continue operations (OBG, 2017). SAA had more than doubled its net loss for the 2015 financial year to R2.5bn from R1.17bn in 2014. However, there is increasing pressure for the state-owned airline to improve its operational efficiency and profit levels in an environment characterised by calls for privatisation, rationalisation through
alliances with foreign airlines, and increasingly stringent operating, environmental and economic regimes (Ssamula, 2014). There are various reasons for the airlines’ financial problems:

- Due to political interference, SAA has a history of appointing inefficient managers hence the airline has been unable to reach operational efficiency and profitability (Ssamula, 2014). In 1998, SAA appointed an American, Coleman Andrews, as Chief Executive Officer (CEO) and charged him with putting the airline back on the road to profitability (Vermeulen & Williams, 2001). Andrews bought 737-800s to renew the domestic fleet, sold off 20% of the airline to Swissair and did some clever internal restructuring (Birns, 2009). In 2000 many thought he had turned SAA around after the airline reported profits of R350 million, but an investigation of the financial statements revealed that this figure was swelled by the once-off sale of obsolete aircraft (Flottau, 2013). If the aircraft sales were stripped from the financial statements, SAA showed a loss (Vermeulen & Williams, 2001).

- Furthermore, during Andrews’ time, SAA had a fleet of its own aircraft and those aircraft were sold and leased back to SAA (CAJ News, 2015). Cordeur (2015) argues that by selling its aircraft SAA depleted its own asset-base on the balance sheet and started losing money. Maqutu (2015) claims that a particularly spectacular bungle during Andrews’ tenure had to do with the acquisition of new aircraft. Andrews ordered 21 new Boeings, but incorrect specifications on avionics and cabin interiors were transmitted to the suppliers (Vermeulen & Williams, 2001). The result was a dramatic cost increase and a lengthy delay while the aircraft were refitted (Kemp, 2008). These decisions are still impacting SAAs’ profitability in 2017.

- Under the leadership of Andrews SAA paid out more than R1 billion without making sustainable profits (Vermeulen & Williams, 2001). Andrews’ salary was more than US$1 million (about R8 million at the time) a year, excluding perks such as a yearly bonus of 125 percent of his salary and options on 18 million SAA shares at one cent each (Birns, 2009). In total, Andrews earned more than R220 million during his 20 month stay at SAA (Oosthuizen, 2013). Consequently, he was accused of manipulating an excessive profit on his salary (Vermeulen & Williams, 2001), failing to deliver on his promise of returning SAA to a profitable position.

- After the departure of Andrews, Andre Viljoen took charge as the CEO in 2001 (Maqutu, 2015). Viljoen cancelled Andrews’ order for the Boeings albeit some had already been delivered and placed a new order with Airbus in Europe (Oosthuizen, 2013). The Airbuses were reportedly cheaper than the Boeings, but considering the initial bungle on the interiors, the cancellation fees to Boeing, and the pilot and service retraining costs (almost all of SAA’s fleet were currently Boeings) the cost of this series of misadventures were considerably greater than if the airline had stuck with Boeing (Cordeur, 2015). Viljoen also signed an agreement to bring South Africa Airways into the Star Alliance group. However, when Swissair failed the Government had to buy back the stake in that airline (Kemp, 2008).

- Maqutu (2015) claims that as a result of pressure from the SAA Board (SAA board members were political appointees), Viljoen had to pursue a black political agenda, promoting “Affirmative Action” policies where SAA systematically replaced whites with black employees (Maqutu, 2015). This included lowering the compulsory retirement age for pilots to 50 years, down from the industry standard of 60 (Ismael, 2015). This policy was an attempt to move whites out of the command chain as quickly as possible. SAA also deliberately established a policy of not hiring white trainee-pilots if there were
(suitable) non-white candidates (CAJ News, 2015). The criteria followed for appointing pilots was very stringent for whites, and less so for other racial groups (Meyer, 2015).

- SAA also offered white technical staff retirement packages to withdraw and make way for black technicians (Birns, 2009). Many whites accepted, particularly after the Australian airline, Qantas, and the Spanish airline, Iberian Air, heard about the offers and set up recruiting offices in Johannesburg (Kemp, 2008). Consequently, SAA was stripped of many of its experienced repair and service personnel overnight, which resulted in recruiting and (re) training of new staff at increased costs, and higher salaries (Maqutu, 2015). SAA had also closed in crew-training centre which had previously trained pilots.

- The result was that SAA suffered an increasing number of equipment failures (Kemp, 2008), including navigation or communication equipment-breakdowns (called “snags”) which are supposed to be fixed before an aircraft is flown. It became common for SAA aircraft to fly even long-haul with significant “snag lists,” which had either not been repaired, or had been “repaired” but were still broken (CAJ News, 2015). In April 2001, a London flight had to be aborted twice in 12 hours because of engine malfunctions on take-off (Birns, 2009). The faulty engine was removed, serviced by SAA technical staff and put back-only to fail once again as the aircraft was attempting to take off (Meyer, 2015). In August 2002 two separate flights suffered engine failures on the same day, stranding nearly 600 passengers (Birns, 2009).

- By October 2002 the affirmative action program at SAA had ensured that 51 percent of all staff were black, with cabin attendants having the highest black complement at 64 percent (Kemp, 2008). At one point, all cabin crew were “fired” under cover of a “restructuring” process, and had to reapply for their positions. This was an opportunity to shed another 500 white staff members by simply not reappointing them and cabin crew for international services at considerable revenues and prestige for SAA (CAJ News, 2015). At the beginning of 2003, there were some 2 400 cabin crew at SAA, and the sudden increase in black staff had, what cynics would suggest, were predictable results (Cordeur, 2015).

- Political interference continued, creating instability and making it impossible for the airline to turn the corner to profitability (Maqutu, 2015). The SAA Board apparently regarded reaching “Affirmative Action” targets as more important than operational efficiency. Eventually, after constant clashes with the SAA Board and other setbacks to his operational plans, Viljoen left in 2004 (Birns, 2009).

- The requirement of profitability necessitates an efficient and a supremely focused CEO who is suitably qualified, experienced and prepared to raise his/her collective head above the parapets (Oosthuizen, 2013). It is little wonder then that SAA, with a history of unsuitable and ill-qualified individuals holding key positions at board and executive level, has been unable to reach operational efficiency and profitability (The Economist, 2013). Respected and capable executive leadership attracts good managers and, like the rot in the proverbial fish’s head, the appointment of inefficient leadership at SAA has permeated to almost all areas of senior and middle management leading to operational inefficiency and losses for the airline (Ensor, 2016).

- Another cause of SAAs’ financial problems has been the frequent turnover at the chief executive and Board level (McKune, 2015). According to Mantell (2015) any airline that has had five changes of CEOs in three years has a problem. The airline’s revolving door of CEOs, began with Khaya Ngqula. With the airline still losing money, Ngqula offered his turnaround plan in 2007 (McKune, 2015). The idea was to spin off subsidiaries, reverse some incorrect fleet decisions and to retrench a lot of staff since
the airline was overstaffed. He grounded the 747s and did save a lot of costs. However, he quickly took the 747s back out of retirement to fly them on routes within Africa. Then he quickly fell out of favour for engaging in a series of personal advancements to the detriment of SAA (Mantell, 2015).

• According to McKune (2015) Ngqula apparently treated the airline as his personal playground. He enriched his friends with retention bonuses, and sponsored golfers and tennis events so he could travel with his friends. He also awarded jet fuel contracts to companies in which he had an interest. Ngqula was sacked in 2009, but SAA went back to him and tried to get him to repay US$4 million to recoup the money he had swindled from the airline.

• After Ngqula left, Chris Smyth came in on a temporary basis in 2009 (McKune, 2015), but was replaced by Siza Mzimela in 2010 before he could implement any of his turnaround plans. Mzimela finally retired the 747s for good, but the airline still remained unprofitable. Mzimela, together with eight Board members, resigned in October 2012 in a move airily dismissed in a company statement as “turbulence of a temporary nature” (McCann, 2015).

• When Mzimela left, Vuyisile Kona took over as acting CEO, however, a couple of months later, in February 2013, he was suspended. Nico Bezuidenhout (the then CEO of Mango airlines) took over as acting CEO until April 2013 when Monwabisi Kalawe was appointed CEO. At that time South African Airways was operating in the Department of Public Enterprises. The Public Enterprises Minister, Lynne Brown, removed six directors on the Board of the airline. With the Board of Directors gone, the Board Chair, Dudu Myeni, suspended Kalawe at the end of October 2014 after only 16 months at the helm. Nico Bezuidenhout was brought back again as acting CEO. Bezuidenhout drafted a new strategic turnaround plan but was unable to implement it due to government resistance and political infighting (Ismael, 2015).

• In August 2015 Thuli Mpshe was appointed CEO and Bezuidenhout was moved back to Mango Airways. Mpshe became the sixth CEO at SAA in three years, if Bezuidenhout’s two stints in the position are counted separately. In March 2016 Mpshe, together with chief financial officer Wolf Meyer and the head of commercial enterprises Sylvain Bosc, fell out with the SAA Board Chair Myeni and they resigned. The cause of conflict was that Mpshe, Meyer and Bosc were critical of Myeni’s (SAA Chairperson) attempts to renegotiate a contract with Airbus to lease five A330 aircraft in a deal that the Treasury had warned would have negative financial consequences (Paton, 2015).

• In March 2016 SAA had its seventh CEO in three years when Musa Zwane replaced Thuli Mpshe (Rabkin, 2016). However, despite serious criticism and serious attempts to remove her, Myeni remains Chair of the Board, supported specifically by the SA President, Jacob Zuma (Rabkin, 2016). Management issues at Board level certainly contributed significantly to the financial problems of SAA.

• Almost the entire SAA management team has left since mid-2015, resulting in more instability for an airline that has already seen a large succession of CEOs over the last decade (CAPA, 2016). With such a high turnover of executives it is therefore difficult for SAA to set a long-term vision. For instance, in 2015, the airline announced its ninth turnaround plan in 15 years, the so-called long-term turnaround strategy (LTTS). Consequently, because of high turnover of executives SAA has had many rescue operations to try to restore profitability and stability (McKune, 2015).
Mazzone (2016) claims that Myeni has been trying to set up SAA routes between Cape Town and Port Elizabeth and Cape Town and Durban which would have resulted in a further loss of R256 million per year, if former Finance Minister, Nhlanhla Nene had not rejected this idea (which ultimately cost him his job). In this, Myeni ignored SAA management and executives who did not support this proposal. The request for these new routes was at the behest of several ANC MP’s who did not want to fly on low-cost economy flights that already travel these routes (Raborife, 2016).

Furthermore, Ensor (2016) claims that Myeni wanted to instate a direct flight route between Cape Town and Durban at a huge loss of R200 million a year so that ANC MPs from KwaZulu-Natal could travel in style. Myeni allegedly submitted her plan directly to the treasury without the knowledge of SAA’s executive committee and the group executive committee after both these committees had rejected the proposal (Raborife, 2016). This is indicative of the skewed priorities that Myeni has (Ensor, 2016). Comfort and patronage outweighed proper financial management under Myeni (Mazzone, 2016).

Another cause of SAAs financial problems has been a legacy contract with Airbus. According to McCann (2015), SAA had been due to take delivery of 10 A320 narrow-body aircraft from Airbus in 2017, part of a legacy contract dating back to 2002. SAA had to make pre-delivery payments to Airbus in advance of delivery (Paton, 2015). More than a decade after the contract was signed the terms had become onerous for SAA (McKune, 2015). Price escalations meant SAA was being forced to buy the aircraft at higher than market rates, fast eroding its already weak balance sheet, according to SAA documents (Mantell, 2015). SAA ran out of cash in 2015 so it could not afford to make the payments to Airbus, some of which were already overdue (McKune, 2015). For every month payments were overdue Airbus could set back the delivery date and charge interest (Cordeur, 2015). This contract is one of the critical factors driving SAA to bankruptcy (Paton, 2015).

A further cause of SAAs financial problems is the lack of effective labour costs and control mechanisms (labour efficiency) at SAA (McCann, 2015). In terms of labour productivity, head-count and aircraft movement, SAA benchmarks itself against its best period, 2009, when it underwent a cash conservation process and business restructuring (Ismael, 2015). By that measure the airline, which employs more than 11 000 people, has 1 300 more staffers than it did in 2009 (Paton, 2015). However, some authors (Ensor, 2016) claim that SAA would have to get staff levels down to 8 500-9 000 employees to operate optimally in the long term.

Headcount in 2015 reflected a 4% increase in staff numbers to more than 11 000 (Maqutu, 2015). In 2014, SAA had more than 11 000 employees and when divided into the R5.5bn salaries and benefit bill equates to R478 000 per employee (Mantell, 2015). McCann (2015) claims that salaries at SAA are way above what is market related. Therefore, trimming 2 000 employees off the headcount will result in a cost saving of R1 billion or more a year (Cordeur, 2015).

Similarly, Cordeur (2015) posits that SAA has high labour costs with an employee-aircraft ratio of 184:1, higher than the global average which according to Saranga and Nagpal (2016) is 1:150 forcing the airline to spend R4.7bn on salaries and benefits in 2014, its second-largest single expense after fuel.

According to Maqutu (2015) in November 2015, SAA had 23 pilots more than it required, so it could save R75 million by renegotiating excessive pilot contracts. SAA pilots clock up nowhere near maximum flying hours and are allowed multiple stopovers even though there is no legal requirement for this (Mhlanga & Steyn, 2016). Pilots are
also allowed 35 to 40 days leave a year but do not take it (Maqutu, 2015). This results in the airline having to pay out leave in excess of the accumulation every year, costing it R17.8 million annually (Ensor, 2016).

- Poor route optimisation strategies are another cause of SAAs financial problems (McCann, 2015). All the airline’s international routes are loss-making yet it continues to fly them (Maqutu, 2015). For example, the carrier reported a R1.6 billion loss on its international flights in its 2014 financial results, up from R1.4 billion the previous year (Ensor, 2016). SAA was losing R300 million per annum since the Johannesburg-Beijing route was launched in 2012 (McKune, 2015). In August 2012 SAA cancelled the London/Cape Town route in favour of the less lucrative Beijing route that plays a strategic role in growing economic relationships and dependencies between the BRICS countries (Brazil, Russia, India, China and South Africa) (McCann, 2015), and this, according to McCann (2015), is a direct result of a politically motivated process favouring stronger relations with BRIC countries at the expense of traditional European connections, but without due consideration to the financial implications thereof. Consequently, it is difficult to see a future where SAA turns a profit while serving a strategic role and a commercial mandate in a competitive industry (Mhlanga & Steyn, 2016).

Air Zimbabwe

At Independence in 1980 Air Zimbabwe had 18 aircrafts and was a major player on the regional and international scene (Mutambirwa & Turton, 2000). Today (in 2017), Air Zimbabwe has ten aircrafts with only four of these in use while the remaining six aircraft are on care and maintenance. Air Zimbabwe has been facing perennial losses since 1994 (Malaba, 2016). There are various reasons for the airlines’ financial problems:

- The main cause of Air Zimbabwe’s financial problems has been the lack of a stable management at Board and top management level (Chibamu, 2016). For three years (from 2013 to 2016) there had been an acting Chief Executive Officer without any substantive experience to provide strategic leadership and direction. The airline has had five different Board chairpersons in seven years (from 2010 to 2016) (Mananavire, 2016).

- Furthermore, the airline has suffered huge losses brought about by declining passenger numbers, and mounting debt (Zhou, 2012). After the controversial Zimbabwean land reform policies many European countries issued travel warnings about Zimbabwe, and this slowed down the number of tourists travelling to that country. Consequently, passenger numbers dwindled as tourist numbers declined (Malaba, 2016).

- Air Zimbabwe’s financial problems have been compounded by the appointment of inefficient managers (Chibamu, 2016). Most of the Board members are incompetent political appointees without any aviation knowledge and experience. An airline with a Board of Directors consisting of professionals has a greater chance of being managed prudently than an airline whose board of directors does not have professional management competencies (Zhou, 2012). Therefore, Ndlovu (2016) warns that an overhaul of the management and operations structures and systems at Air Zimbabwe is desperately needed.
Accusations of mismanagement and corruption have for long been associated with Air Zimbabwe resulting in its placement under judicial management in 2012. A forensic audit in 2016 pointed to alleged fraudulent activity by the airline's management. Findings released revealed that between 2009 and 2013, five executives prejudiced the airline of €5895 695.49 and US$1 298 827.88 totalling around US$10 million (Chibamu, 2016). The fraud contributed to the financial problems the airline is facing (Malaba, 2016).

According to Ndlovu (2016) another cause of Air Zimbabwe’s financial problems is an aged fleet. Air Zimbabwe operates an antiquated fleet with an average age of 25 years and this has greatly compromised quality and increased costs rendering the airline uncompetitive (New Zimbabwe, 2016). There is a direct relationship between the age of aircraft and the maintenance costs; the older the aircraft the higher the maintenance costs. An aged fleet also increases the ground time required for maintenance thereby affecting the airline’s on-time performance and reliability. According to Malaba (2016) the airline spends between 15 and 25 percent of its budget on maintenance.

The world economic crisis has caused and compounded foreign currency shortages, and the lack of fuel has increased the operational difficulties of Air Zimbabwe. Therefore, Air Zimbabwe’s financial problems are also attributed to the volatile economic environment which has been characterised by the shortage of foreign currency as well as hyperinflation which was above 100% in 2010 (Zhou, 2012).

Political interference has also compounded to Air Zimbabwe’s financial problems (Mananavire, 2016). The Zanu PF Government continues to abuse the transport parastatals for populist gain while failing to ameliorate their viability problems (Malaba, 2016). On commercial routes scheduled flights are often cancelled at short notice to accommodate the wishes of the political leadership (News Day, 2014).

A further cause of Air Zimbabwe’s financial problems is the lack of effective labour cost and control mechanisms (labour efficiency) (Mananavire, 2016). Air Zimbabwe has a monthly wage bill of US$1.2 million with more than 700 employees. Although the airline concedes that it is overstaffed it is struggling to lay off a planned 234 workers as it does not have funds to pay them off (New Zimbabwe, 2016).

Lack of advanced/new technology has also negatively impacted on Air Zimbabwe’s performance. According to Ndlovu (2016), Air Zimbabwe makes use of old and outdated technology in comparison to other airlines. The airlines’ equipment is so old that customers doubt the safety of the aircraft. Lack of adoption to new technology owns to their failure to meet the costs for procuring the technology (Ndlovu, 2016). This has led Air Zimbabwe into buying substandard goods. An example is when, in 2014, management of Air Zimbabwe cancelled the order for new interiors from Avis and ordered 2nd hand interiors from American general suppliers (Malaba, 2016). This lack of adaptation to new technology is leading to the airline being uncompetitive in the market (New Zimbabwe, 2016).

Air Namibia

Although Namibia has experienced an increase in tourist arrivals hitting 1 million and contributing US$11.5 billion to Namibia’s economy in 2009, the airline industry in Namibia has been fraught with challenges and the national airline, Air Namibia has not been spared (Asheeke, 2016) as discussed below.
Air Namibia is the national airline of Namibia, headquartered in the Trans Namib Building in Windhoek. Air Namibia was founded in November 1946 (Konjore, 2013). In addition to domestic services, the carrier also operates regional and international passenger and freight services to destinations in Africa and Europe. The carrier's international hub is at Windhoek Hosea Kutako International Airport with a domestic services hub at the smaller Windhoek Eros Airport. Air Namibia is wholly-owned by the Namibian government (Masawi & Halwoodi, 2014).

Since inception, Air Namibia has been making losses and survives on perennial bailouts through taxpayers’ money. The airline has over the past three years alone (2014 to 2016) received N$2.4 billion from treasury and it is projected that the airline will receive further bailouts of over N$2 billion in the next three years (2017 to 2019), including N$730 million for 2017/18 and N$756 million for the 2018/19 financial year. There are various reasons for the airlines’ financial problems.

- In terms of Air Namibia (Pty) Ltd the demand for its services is limited due to a small population in comparison to other countries such as South Africa and Angola (Joseph, 2016). Namibia’s population is made up of young and aged people who do not use air travel (Kahiurika, 2016). This significantly affects the performance of the airline particularly the domestic market.

- According to Asheeke, (2016) competition from road transport is negatively affecting the performance of Air Namibia since 70 percent of Namibia’s arrivals are by road and only 27 per cent use air transport.

- Another cause of Air Namibias’ financial problems is the constant trend of legal tussles with aircraft service providers (Kahiurika, 2016). In January 2015 Air Namibia was forced to pay millions of Namibian dollars after it lost a case against Challenge Air, a company which leased aircraft to Air Namibia. After 15 years of delay, the case was concluded through arbitration and Air Namibia was ordered to pay N$337 million (Kahiurika, 2016). In March 2016, Air Namibia was forced to pay lease and maintenance fees amounting to N$17 million to Intrepid Aviation for two aircraft.

- In 2015 Air Namibia was embroiled in lawsuits of US$77 million (N$1 billion) with a company called BCI Aircraft Leasing Incorporated. Air Namibia sued BCI in a British court during the last quarter of 2015 for US$13 million (N$174m), after the Irish company allegedly breached their contract in the delivery of two A340-300s (Joseph, 2016). In return, however, BCI issued a counterclaim of N$1 billion for the two aircraft, alleging that Air Namibia failed to return the aircraft as required (Kahiurika, 2016).

- According to a draft audit report by Deloitte and Touche, Air Namibia had originally entered an agreement with Gie Lara in 2005, for the lease of two A340-300 aircraft. This agreement was for a period of seven years and it cost the airline N$14 million per month for the two aircraft (Sasman, 2016). BCI and Air Namibia’s disagreement revolved around technicalities about the delivery and return of the aircraft (Joseph, 2016). A report by the airline’s manager for operations, Jonas Sheelongo, stated that Air Namibia had no prospect of winning the BCI case since there was no delivery certificate signed by either party and there was no evidence that the hand-over was found acceptable by either Air Namibia or BCI (Kahiurika, 2016).

- A further cause of the airlines’ financial problems is the high operational and salary costs (Julho, 2016). Air Namibia has around 30 managers who, according to Joseph (2016) take up nearly 30 percent of the wage bill, and the company has at least three levels of management leading to high salary costs.
• Sasman (2016) avers that the airline is sitting with same aircraft without a valid lease agreement and the airline is paying a lot of money until this situation is remedied. A breakdown of the payments shows that Air Namibia had been paying US$530 000 (approximately N$5.3m) each for two aircraft and an additional US$2m for the two other aircraft at a rate of US$1m (approximately N$11m) each per month for nine months during 2013 (Konjore, 2013). The airline also paid out an astounding US$6.5m (approximately N$65m) to the leasing company authorised by the acting General Manager and Chief Operations Officer Rene Gsponer a Swiss National given the reins by the Air Namibia Board to steer the company’s turnaround (Masawi & Halwoodi, 2014).

• Air Namibia had lost about US$27m (N$270m) in leasing and maintenance fees and an additional US$40m (approximately N$400m) of depositors’ fees for a period of between three to 12 months for aircraft that they were not using, (Konjore, 2013). This comes after the airline failed to acquire an Aircraft Technical Record (ATR) for the four aircraft that they are leasing but not using (Julho, 2016). The state-owned airline is leasing two aircraft which are grounded in Europe because their lease license expired, while it also had two more A340 aircraft owned by the government, and two A330 airliners which were acquired to replace an aged fleet. Investigations show that Air Namibia’s first lease agreement expired on 30 April 2013 before being extended by nine months, while the other lease agreement expired on June 2013 and was also renewed for only nine months (Sasman, 2016).

• In 2014 the airline was also caught in a predicament because the Board chairperson extended the engagement with Lufthansa by 36 months but could not get a sovereign guarantee from the State and the financier, RMB bank of South Africa, bailed out of the engagement with the Airline (Masawi & Halwoodi, 2014). The fact that while the airline would have benefited from a nine month engagement, Lufthansa carried over the old agreement without amendments taking into consideration that the airline now had new aircraft (Sasman, 2016). This resulted in the airline losing more money and failing to access a discount that was initially negotiated (Julho, 2016).

• The airline also has the latest A330 aircrafts leased from Intrepid Aviation. Ironically, the two leased A319 aircrafts are the cause of Air Namibia’s financial troubles as they were grounded elsewhere in Europe and are forcing the state-owned company to continue paying leasing fees until they are returned to Intrepid Aviation (Sasman, 2016). Sasman (2016) further claims that Air Namibia sourced the services of a consultant company to facilitate management transition, which did not come cheaply. The Airline however failed to do that in time and has been liable to paying leasing and maintenance fees for aircraft that they are not using (Konjore, 2013). Air Namibia finally contracted Lufthansa Techniques, a German company to do their management transition.

• Furthermore, the airline pays monthly rental and maintenance on leased aircraft in US$. The depreciating and weak Namibian currency is making spares increasingly expensive, while the airline has high labour costs; 23%, higher than the 20% global labour costs for the airline industry (Joseph, 2016). In addition, there is still concern over the falling load factors on international flights and the cost implications thereof over the medium to long term (Joseph, 2016).

• Accusations of mismanagement and fraud have also contributed to the airlines’ financial problems (Sasman, 2016). A major audit discovery (in 2015) by auditors PWC unearthed a fraud case in the cargo department amounting to US$2.5 million (Joseph, 2016). This, and several other discrepancies, resulted into staggering losses and
airline debts amounting to US$29 million (Joseph, 2016). Its over-bloated highly remunerated top-heavy structure has gobbled over 30 percent of the airline company’s total annual wage bill (Sasman, 2016). In 2016, the Malaysian-recruited Managing Director, Jaafar bin Ahmad, was said to be earning over US$12 000 per month while ordinary senior managers are in receipt of not less than US$4 000 monthly (Joseph, 2016).

- Despite its constant financial problems, Air Namibia had reportedly spent about N$11 million for the lease of a Portuguese aircraft and crew in 2012 (Cruywagen, 2013). A “wet lease” arrangement is where a company leases its aircraft and flight crew to another airline. Air Namibia spent US$736 330 (about N$11 million) to pay Hi Fly for the leasing of its aircraft and a complete crew between 13 and 29 May 2016. According to the agreement, US$368 165 (about N$5.7 million) was due to be paid to Hi Fly on 12 May 2016 and the remainder on 19 May 2016. Air Namibia claimed that the lease was necessitated by the illness of some of its senior pilots, who reportedly all fell ill at the same time (Joseph, 2016).

Air Botswana

Air Botswana is the country’s state-owned national flag carrier, with its headquarters located in Gaborone (Thatayamodimo, 2016). It operates scheduled domestic and regional flights from its main base at Sir Seretse Khama International Airport (Baatweng & Kologwe, 2014). Air Botswana has been loss-making for several years (Sunday Standard, 2009). There are various reasons for the airlines’ financial problems:

- The main cause of Air Botswana’s financial problems has been the poor safety record (Majube & Newel, 2013). Due to its poor safety record the airline was suspended from IATA and also failed IATA Operational Safety Audits (IOSA) since 2007 (Baatweng & Kologwe, 2014). According to the Sunday Standard (2009) when IATA audited Air Botswana they discovered some gaps regarding safety standards. The airline has a high number of accidents. In June 2012 passengers escaped unhurt when the engine of a Johannesburg-bound aircraft blew apart soon after take-off (Bapotlhale, 2015). The incident was the third in a period of six months. In 2011 another Air Botswana aircraft had to make an emergency landing after its engine exploded. That incident occurred a week after another one had experienced a similar problem (Majube & Newel, 2013). Such a poor safety record has significantly impacted on the airlines’ performance.

- Another cause of Air Botswana’s financial problems has been the use of an aged, fuel inefficient fleet (Balise, 2007), and maintenance problems have impacted aircraft availability to support the published schedule. A number of aircraft in the airline’s fleet are old and are going through heavy airframe maintenance checks, with most of the fleet being eventually grounded for good (Majube & Newel, 2013).

- A further cause of Air Botswana’s financial problems is the lack of effective labour costs and control mechanisms (labour efficiency) (Bapotlhale, 2015). According to Lute (2016) Air Botswana has an organisational structure that requires only 350 employees as opposed to the current headcount of 522.

- Political interference has also compounded Air Botswana’s financial problems (Majube & Newel, 2013). Hamel (2015) claims that every time a new minister of Transport and Communications is appointed in Botswana a new Board is announced at Air Botswana. For example, Tshenolo Mabeo (the then newly appointed Transport and Communications minister) got rid of Air Botswana Board members that former
Transport and Communications minister Johnnie Swartz had appointed. Due to political interference, Air Botswana has a tendency of appointing inefficient managers. In March 2016 Transport and Communication minister fired the General Manager and dissolved the whole Board even though the then General Manager was being lauded for spearheading the airline in the right direction when he had taken over (Business Weekly, 2016).

In April 2016 the airline appointed less experienced former Botswana Defence Force Commander, Lieutenant General Tobogo Masire as the Chairman of the airline (Lute, 2016). Such political interference has caused instability at Board level and adversely affected the performance of Air Botswana (Lute, 2016).

- Poor customer service coupled with delayed flights has compounded the airlines’ financial problems (Balise, 2007). The airline has a bad reputation due to constantly delayed flights and poor customer service. On several occasions Air Botswana passengers at various airports across the country are left confused due to delayed or cancelled flights (Baatweng & Kologwe, 2014).

- A lack of proper financial planning and management resulting in the leasing of aircraft at exorbitant prices, complicated contracts devoid of exit clauses, shortage of pilots and a host of problems emanating from the unclarified status of the privatisation process (Balise, 2007). The airline constantly suspends its flights due to a shortage of pilots simply because its pilots’ flying time expires (Bapotlhale, 2015).

- The airline’s financial problems are exacerbated by the frequent turnover of senior managers (Baatweng & Kologwe, 2014). The airline has been operating for five years without a permanent General Manager (Thatayamodimo, 2016). The airline has never been stable since the departure of Joshua Galeforolwe as all the past substantive General Managers appointed resigned before the end of their contracts. With the departure of Galeforolwe, the then Finance Manager, Cornwell Muleya was appointed on an acting basis. This was shortly before the appointment of Willie Mokgatle who later resigned.

Other subsequent appointees include Beatrice Selotlegeng, who was also appointed on an acting basis before she paved the way for Lance Brogden. It was after Brogden left Air Botswana that the then Finance Manager Mphi Tlhomelang and Maemo Bantsi (Head of Human Resources) were appointed (in acting capacities). The Air Botswana Board was later to appoint a British national Mike Higgins. Higgins resigned within three months of his appointment and was replaced with Reiling. But after just under two years at the helm, Reiling, who was also the first female head of the airline in 2011 resigned in March 2013 (Baatweng & Kologwe, 2014). The airline has an acting general manager making it difficult to turn the airline around (Thatayamodimo, 2016).

- Competition from foreign airlines, such as South African Airways (SAA), Ethiopian Airlines and Kenya Airways, have flooded Botswana skies, slowly taking over the opportunities in the local market (Thatayamodimo, 2016).

**Conclusion**

From the preceding points, it is clear that the performance of national airlines in southern Africa is negatively impacted by inefficient management, political interference, high management turnover, an aged fleet, poor route optimisation and poor safety. To improve
tourism development in southern Africa it is recommended that southern African countries privatise state airlines. Many nationalised airlines have turned losses to profits in the run-up to privatisation. British Airways, once a large burden on the British taxpayer, is now one of the world’s most profitable airlines. After the privatisation of Air France, Alitalia and Iberia, all three now turned from loss-making concerns into profitable airlines. It makes no sense for southern African countries to pit private airlines against a competition that is so heavily subsidised and otherwise protected. The very notion of competitiveness itself is at risk.

Despite clear gains that emanate from privatising state-airlines, most states in southern Africa continue to insist on postponing privatising state-airlines arguing that they need time to enable their airline industry to restructure and thereby position themselves before deregulation. However, these states have so far failed to indicate the time by which their state-airlines will be privatised. Except for general assertions about the merits/demerits of privatising state-airlines, an empirical understanding of the impacts of inefficient state-airlines on tourism development in southern Africa remains rudimentary. The industry cannot wait indefinitely and therefore it is time to remind states that are overly protective of their state carriers that “over-protection breeds inefficiency and kills”.

References


