



Sources of financial turbulence for private airlines in South Africa: An empirical study

Oswald Mhlanga
Hospitality Department
University of Mpumalanga, South Africa
Email: osward.mhlanga@ump.ac.za
Tel (office): 013 0020192

Abstract

Despite an increase in tourist arrivals in South Africa the potential of tourism in South Africa has not been realised due to the poor performance and high failure rate of private airlines. This article focuses on factors negatively impacting on the performance of private airlines in South Africa. The research involved an extensive literature search of the factors negatively impacting on the performance of private airlines in South Africa, followed by several interviews with former executives in defunct private airlines in South Africa. From the study, it is clear that the performance of private carriers is negatively impacted by inefficient management, use of an aged fleet, bad landing slots, lack of fuel and labour efficient strategies. The fact that the state is competing with privately-owned airlines in a deregulated market presents the conundrum of the state wearing two hats, acting as both a “referee and a player in the market”. Therefore, partial and selective deregulation designed to maintain the protection of national carriers represents a considerable threat to private operators thereby rendering the aviation business unprofitable, something that stifles the country’s tourism prospects.

Keywords: South Africa, tourism, privately-owned airlines, national carriers, deregulation

Introduction

Travellers flying at OR Tambo International Airport (in Johannesburg, South Africa) on the easterly ‘Benoni’ runway, will have regular sight of dead aeroplanes parked with decaying tail-planes of Zambezi, Nationwide, Velvet Air, Air Malawi, Skywise and many other defunct airlines (Smith, 2015). The carcasses of aircrafts of failed airlines lie in the long grass next to the runway of the airport (Mhlanga and Steyn, 2017). This according to Smith (2015) bear testimony to the challenges facing private airlines in South Africa. Consequently, because of myriad challenges in South Africa many private airlines have failed whilst those that are still in operation are traversing through turbulent times and fighting for survival (Eze, 2016).

To indicate the high failure rate of private airlines, Mhlanga and Steyn (2017) claim that during the development of the airline industry in South Africa from 1929 to date (early 2017), twenty-one airlines have entered the airline industry, eleven have collapsed and ten are still operational. Only one private airline, namely Comair, has been operating for a lengthy period of time while the majority have had very short life-spans, some of them survived for only a matter of months (Smith, 2015). However, despite a difficult operational environment in the region, the industry has not been able to develop and implement necessary organisational and sustainable strategic changes (Heinz and O’Connell, 2013). Consequently, a clearer identification of the sources of failure will help management devise strategies to reduce the failure rate of private airlines and thereby boost tourism growth (Budd, Francis, Humphreys and Ison, 2014).

The purpose of the study on which this article is based, was to identify the reasons for the financial problems faced by private airlines 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).

Methodology

The research involved an extensive literature search of the factors impacting on the performance of private airlines in South Africa, followed by several interviews with former executives from defunct private airlines in South Africa, namely, Flitestar, Phoenix airline, Nationwide airlines, 1Time airline and Skywise. 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 and 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 former executive managers from collapsed airlines were interviewed. This criterion was used to ensure that selected respondents provided insightful answers to the questions which were asked (Wiid and Diggins, 2009).

Former executives from each mentioned defunct airline were approached for consent 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 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. Former airline executives were assured that their names would be treated as anonymous.

Findings

Flitestar

Flitestar was the first privately owned airline to enter the domestic market following deregulation. It began operations during October 1991 with newly leased Airbus 320s. It initially focused on the Johannesburg to Cape Town route, with the Johannesburg–Durban–Port Elizabeth routes following shortly thereafter. The completion of the 'Golden Triangle' was achieved in January 1992 with its entry into the Durban to Cape Town routes (Smith, 1998). In April 1994, the airline ceased operations after only 30 months mainly due to high costs as a result of a weakening exchange rate and the fact the aircraft lease agreement was settled in US dollars (Smith, 1998). The airline failed because of a variety of other reasons:

- Flitestar assumed that local passengers would desert SAA *en masse* since it offered lower fares than SAA, but this did not materialise perhaps in part due to SAA's frequent flyer/voyager programmes. The airline was therefore unable to achieve the load factors required to break even or to operate profitably (Bennett, 2005).
- The economic recession in 1992 took its toll on growth in local passenger levels. A depreciating Rand made spares increasingly expensive, and companies cutting back on travel expenses and insisting that frequent-flier benefits should go to the company and not to the individual, also contributed to lower load factors for Flitestar. The Rand's slide against the US dollar, and the fact that Flitestar leased its Airbus A320s and ATR 72 aircraft from Ireland's GPA and subsequently had to settle monthly rentals in dollars, was one of the major reasons for the airline's downfall (Ndhlovu & Ricover, 2009).



- Flitestar, targeting the growing peak-period business travel market between 07:00 and 09:00 in the mornings, made a critical operating error, either caused by gross mismanagement or SAA squeeze or a combination of the two. Flitestar missed the peak period with its 6:50 and 8:15 flights, which should leave on the hour at peak times (preferably 7am, 7:30 am and 8am) and Flitestar did not have enough aircraft to meet these time slots (Bennett, 2005). The allocation of landing slots by SAA, who controlled airports at the time, was also a critical factor leading to the demise of Flitestar, simply because it could not compete for the business class market.
- From within Flitestar there was mounting criticism of mismanagement. As this was compounded by shareholder dissent, many people believed that no clear management was evident. In the month preceding the closure, employees considered striking about being kept in the dark – a pay increase had not been granted during the past two and a half years despite assurances that passenger and baggage figures were up. Salaries were late and stalling tactics became the order of the day as management cancelled meetings at the last minute (Bennett, 2005).
- One report claimed that the demise of Flitestar could, ironically, be attributed to the poor financial performance of Luxavia. After many years of satisfactory financial performance, Luxavia succumbed to increased competition on the international route to and from South Africa. This occurred just as Flitestar was starting to record load factors in excess of 64%, which were required to break even. The report claimed that Flitestar had reached the turning point and that it was heading for better times (Bennett, 2005).
- Allegations of delays on landings and take-offs, and delays because security staff arrived late for inspections were also levelled at Flitestar. Other airlines were also allegedly forced to use distant parking bays. A well-known joke in the pilot fraternity was that if one did not have an orange tail (the SAA colour), one would have to wait (Bennett, 2005).
- Although its fares were more or less the same as those of SAA, Flitestar had to bear additional costs for equipment and services provided by SAA, its main competitor (Bennett, 2005).
- Some SAA executives furthermore argued that Flitestar chose to compete with the national carrier with the wrong strategy. Flitestar went all out for the lucrative business side of air travel, however the competition was just too much (Bennett, 2005).
- Flitestar's grounding confirmed the economically risky nature of the airline industry. When airlines succumb the ultimate losers are the passengers, both with regard to freedom of choice and the reduction of rivalry that helps keep fares to a minimum. Bad landing slots also contributed to the demise of Flitestar (Bennett, 2005).

Phoenix Airline

This airline began operations in December 1994 and focused on the Johannesburg, Durban and Cape Town routes (Smith, 1998). When entering the domestic market, Phoenix Airways aimed its service at the market that could not normally afford to fly, by introducing services at very low fares: the airline even undercut SAA, Sun Air, and Comair by up to R400 on flights between Johannesburg, Durban, and Cape Town. Although the airline was a small player, it entered the industry amidst controversy and opposition, as a result of its rock-bottom fares. The airline later discovered that in order to remain competitive it had to upgrade its service,



schedule a morning flight to Cape Town to target the businessman, and increase its prices. The airlines' low fares resulted in a perception by the public that Phoenix was an unsafe travel choice (Smith, 1998).

On 7 August 1995 Phoenix was taken over by Atlantic Airways (an airline that had operated air-taxi services for almost nine years) which wanted to 'rescue the ailing discount carrier' (and which went out of business a few months later). The airline ceased business in 1995 (Smith, 1998). The airline failed because of a variety of reasons:

- A lack of proper financial planning and management.
- The airline used old aircraft with high operating costs. The oldest aircraft of the airline dated back to 1965.
- Unrealistically low fares charged. The low fares charged by the airline also created the perception of low service standard.
- Strong competition from both Comair and Sun Air made things even worse for the airline.
- Bad landing slots (times and bays) also contributed to the demise of Phoenix.
- Poor yield management. Phoenix offered too many discounted tickets on its domestic routes, for example, a return flight of Phoenix from Johannesburg to Cape Town was priced at R604. Linden Birns of Plane Talking commented on this by saying: "You couldn't drive a bus to Cape Town (for that price), let alone a Boeing 727" (Mncube, 2014), and
- The weakness of the Rand against foreign currencies made it difficult to realise a profit, bearing in mind that services were offered at very low prices (in Rands), while the cost of providing these services (for example; the cost of leasing the aircraft) was in US dollars.

Nationwide Airlines

Nationwide Airlines was founded in 1995 by Chief Executive Vernon Bricknell and began operating charter services within Africa for the United Nations and the World Food Programme, as well as ad hoc passenger and cargo charters (Weavind, 2015). The airline operated scheduled domestic and international services to Livingston (Zambia) and London (England) (Mbanjwa, 2016). Domestic scheduled operations were started in December 1995 as Nationwide Airlines, which was one of four companies within the group including Nationwide Air Charter, Nationwide Aircraft Maintenance and Nationwide Aircraft Support (Leitch, 2012).

The airline primarily catered for the corporate market. Nonetheless, Nationwide was a loss-making airline that only posted a profit twice between 1995 and 2008. Consequently, on 29 April 2008 the Airline halted operations and was provisionally liquidated (Mbanjwa (2016). The airline failed because of a variety of reasons:

- Weavind (2015) avers that Nationwide failed because of the use of an aged fleet. The business model used by Nationwide saw it lease the oldest, cheapest fleet of aircraft possible, but these aircraft had high operating costs and were less fuel efficient (Rabkin, 2016). Most of Nationwides' fleet were BAC1-11 (Weavind, 2015). In this regard, Nationwide's cash flow problems showed a clear correlation with an increase



in fuel costs, a consequence of operating BAC1-11 aircraft (Leitch, 2012). The government had also passed a decision to prohibit BAC1-11 aircraft from flying above 25 000 feet meaning that all of Nationwide's BAC1-11 aircraft had to be replaced (Mbanjwa, 2016). Therefore, it is no surprise that Nationwide's biggest trade debts of R10-million were to the ACSA and to its fuel company (Weavind, 2015).

- The other cause of the airlines' demise was the lack of proper financial planning and management (Rabkin, 2016). Nationwide Airlines' debts were about four-and-a-half times its assets, which did not include aircraft (Weavind, 2015). The airline's assets were R48-million and debt was R217-million. Assets included "property, plant and equipment" worth R12.6-million, about R28-million owed to Nationwide and other unspecified assets amounting to R7.3 million. The debt included loans of R14.9-million, a bank overdraft of R10-million, a claim by Nationwide Air Charter for R60-million - apparently for aircraft rental - and claims by trade creditors for R133-million. The R133-million included "a contingent liability known as unutilised ticket liability" of R71-million. Consequently, the airline had a negative gearing ratio and had a negative balance sheet (Rabkin, 2016).
- According to Mbanjwa (2016) another cause of the airlines' financial problems was due to inefficient management in implementing a clear strategy for the airline. In January 2007, Nationwide stopped serving free meals on their local flights, but they never quite made the transition to low-cost carrier in the minds of the South African public (Rabkin, 2016). Leitch (2012) argues that it was not that their flight prices weren't low - in fact they were by some distance the cheapest airline in South Africa in 2007, however, the airline never advertised itself as a low cost carrier in the same manner that Kulula and Mango did. The fact that they retained their full service status on their long haul flights between London and Johannesburg and Livingstone and Johannesburg, made it harder for the airline to advertise the fact that they were low cost inside South Africa (Weavind, 2015).
- A further cause of Nationwides' financial problems was the lack of effective labour cost and control mechanisms (labour efficiency) (News24, 2008). The airline had a high employee-to-aircraft ratio, which was the highest among its peers at 222:1 compared to the global average which according to Saranga and Nagpal (2016) is 150:1. The salary bill which represents the major cost for many airlines needs to be managed as it can become a risk for business sustainability such as in the case of Nationwide (Mbanjwa, 2016). The leasing cost of the airline's fleet from Nationwide Charters (a completely separate company) was just too high and added to the menu list of the airlines' failure (News24, 2008).
- Another cause of the airlines' demise was its failure to comply with Civil Aviation Authority's (CAA) safety standards (Mbanjwa, 2016). The airline had a poor safety record with recurrent technical faults (Leitch, 2012). Numerous points of compliance raised by safety inspectors had remained open despite repeated inspections and audits and recommendations by safety inspectors (Ssamula, 2008). For instance, on 7 November 2007 a Nationwide Airlines Boeing 737-200 lost its right engine a few seconds after liftoff from Cape Town International Airport en route to Johannesburg OR Tambo International Airport. The official CAA report found that the Nationwide Aircraft Maintenance, the airline's air maintenance organisation had failed to implement the mandated service directive to inspect the rear engine mounting on the 737-200 series aircraft every 700 cycles and that this omission hid the existence of a stress fracture in one of the engine retaining bolts which failed at rotation (Leitch, 2012).



- Mbanjwa (2016) claims that bad landing slots also compounded the financial problems of Nationwide.

1Time Airline

In November 2012, 1Time collapsed after filing for liquidation (Henama, 2014). The airline failed because of a variety of reasons:

- During its period of operation, the rising cost of jet fuel surpassed staffing as the major cost in airlines (Henama, 2014). According to Magwaza and Speckman (2012) the first sign of trouble with 1Time was that it reported a loss of R43.5 million in 2012 compared with R33.9 million loss in 2011. The airline had been trying to institute a business rescue after failed attempts to find a resolution to the debt of around R320 million that 1Time had to repay. From August 2012, the airline was forced to seek protection from creditors, but after six months of unsuccessful negotiations with its creditors, the airline was forced to stop operations.
- According to Pauw and Dommissie (2012) in 2012 the airline had made a loss of R43.5 million as the costs of doing business had gone up, and the price of jet fuel was the biggest influence on the loss. The business rescue process that 1Time embarked on under the new CEO (Blacky Komani) was to appease the creditors. Henama (2014) argued that it emerged later that whilst under business rescue, the airline was presented with a plan to turn the six-month loss of R18 million into a six-month profit of R40 million by Christo Ebersöhn who was appointed by the union, Solidarity. This plan was not considered by 1Time as it presented restructuring of certain functions and highlighted the mistakes by the management of 1Time.
- Henama (2014) argues that 1Time operated an old and fuel inefficient fleet that saw the commercial viability of the entity compromised during times of escalating fuel prices. In this regard 1Time's financial fortunes showed a clear correlation with movement in energy costs, a consequence of operating technology that was four decades old (Makalang, 2016).
- Another cause for 1Times' failure was poor management decisions. 1Time generated R224 million in cash from operations for the 2009 fiscal, however management opted to use the funds generated to establish a maintenance facility as opposed to upgrading its fleet (Makalang, 2016). Therefore, the demise of 1Time can be attributed to poor management decisions, taking into cognisance the opportunity cost of capital investment decisions taken by management without taking sustainable business decisions (Pauw & Dommissie, 2012).

Skywise Airline

In March 2015 Skywise commenced, however, a few months later in December 2015, the airline ceased operations (Malik, 2015). The airline failed to continue operations due to unpaid debts to various creditors including ACSA for parking and other service fees. The airline failed because of a variety of reasons:

- Young (2015) claims that the main cause of the airline's demise was the wrong aircraft choice. Worldwide, successful low cost airlines operate with one of two aircraft, either the Boeing B737-800 or the Airbus A321 series (Malik, 2015). Both brands of aircraft compete in the same category and offer similar seating capacity in low-cost, high-density configurations. They offer similar fuel consumption figures and operating costs. Crucially, the two airliners offer seating for between 180 and 190 passengers



(Henama, 2014), in the specific case of the Boeing model, 189 to be exact. Both Comair brands (Kulula and British Airways operated by Comair) and SAA's Mango subsidiary make use of the Boeing 737-800 (Malik, 2015).

- Skywise, at the outset, leased a single Boeing 737-500 model which can only seat up to 140 passengers in its highest density configuration (Young, 2015); the Skywise operations had a 136 configuration. The passenger capacity difference between the Boeing 737-500 and the 737-800 meant that on every flight on the Cape Town/Johannesburg route, even if sold at a similar price for each seat (and taking the lowest advertised price), Skywise would realise (in round numbers) roughly R31 000 less revenue than any of its competitors. Taken on its initial 6 flights per day schedule, that meant the carrier was always going to be at least R190 000 per day, or R5.3million per month, behind any rival flying the 737-800 model (Young, 2015).
- These figures assume a 100% capacity on each flight but realistically many flights operated at only 50-70% capacity (Malik, 2015). Another aspect which the airline's management failed to realise is that the leasing costs for the B737-500 are much lower than those for a B737-800 (Henama, 2014). While that is true, it does not alter the fundamental issue that the airline's opportunity to generate revenue when it was most needed during its startup phase was compromised by opting for a single B737-500 and not a couple of B737-800s (Malik, 2015).
- A cause for the airlines' demise was the lack of capital and contingency aircraft. Young (2015) claims that to have had any hope of competing with the established carriers Skywise needed to budget for a lease on at least two B737-800s or two Airbus A321s. Therefore, four aircraft were needed to run a reliable and responsive airline on the Johannesburg/Cape Town route given the airlines' proposed flight schedule. A lack of appropriate aircrafts was a flaw in the basic plan and contributed to the demise of the airline (Malik, 2015).
- Furthermore, if an aircraft had a technical issue the airline needed to have a contingency plan on hand in the form of a reserve aircraft with which to maintain the service (Henama, 2014). Not to do so in a timely manner invited customer anger and an unrecoverable loss to the airlines' reputation. However, Skywise had too many "technical" no-fly instances (Malik, 2015). Consequently, Skywise attracted low passenger-numbers because of negative word-of-mouth from stranded passengers (Young, 2015).
- Another cause of the airlines' demise was the planned use of a Boeing 737-200 (Malik, 2015). After their initial grounding in October 2015, Skywise started operating again but then the unpaid bills to the aircraft leasing company became too high for the lessor to bear and the Boeing 737-500 was recalled (Young, 2015). As an option, Skywise acquired an older generation Boeing 737-200, with even fewer seats; another major problem. On the Cape Town/Johannesburg route the B737-200 uses up to 2 000 litres more A1 jet fuel than the B737-800 (Henama, 2014). According to Young (2015) each flight cost Skywise R12 000 more than any Kulula or Mango flight (using an average of ruling fuel prices at the two airports). The increase in fuel costs for Skywise became R72 000 or up to R2m per month using the same six flight schedule per day (Malik, 2015).
- Further, the airlines' demise was that Skywise senior executives lacked aviation experience (Henama, 2014). While it is not vital for the senior executives to know how to run an airline, or fly the aircraft in detail (such experience can be hired) it is important to have someone well-schooled in the industry at the helm so as to understand the



operational issues and the needs of the front-line staff when they need assistance or have to make decisions impacting on the company (Malik, 2015). According to Young (2015) Skywise executives lacked aviation knowledge and experience.

- The Rand's depreciation, the hike in interest rates, and a generally poor trading environment impacted costs of operating an airline because of the Dollar/Rand exchange rate as the cost of providing these services (for example; the cost of leasing the aircraft) was in US dollars.
- Skywise pursued a wrong business model because it operated only between Johannesburg and Cape Town; this route is over-serviced by airlines leading to low profit margins. Competing airlines use other routes to cross-subsidise the low margins on the Johannesburg/Cape Town route. Johannesburg/Bloemfontein and Johannesburg/East London are some of the more expensive routes where airlines charge higher prices because of lower competition. This reflected poor management decisions.

From the preceding points, it is evident from that during the historical development of the airline industry in South Africa, most private airlines have failed. Table 1 provides a summary of the factors that have impacted on the performance of private airlines in South Africa.

Table 1: Factors affecting the performances of private airlines in South Africa

Factors affecting the viability of airlines (Failure)	Private airlines				
	Flitestar	Phoenix	Nationwide	1Time	Skywise
Efficient management	X	X	X	X	X
Fuel efficiency	X	X	X	X	X
Labour efficiency	X	X	X	X	X
Bad landing slots	X	X			X
Aged fleet	X	X	X	X	X
OUTCOME	F	F	F	F	F

X indicates a negative impact; F indicates failed airlines

It is evident from Table 1 that the factors that negatively impact on the performance of private airlines are inefficient management, use of an aged fleet, bad landing slots, lack of fuel and labour efficiency strategies.

Implications and Conclusions

The fact that the state is competing with privately-owned airlines in a deregulated market presents the conundrum of the state wearing two hats, acting as both a "referee and a player in the market". As such, the state-owned airline (SAA) has driven private carriers out of the market. This has ensured that there is limited competition in the domestic airline market and prejudiced the tourism industry. Therefore, partial and selective deregulation designed to maintain the protection of national carriers represents a considerable threat to private operators thereby rendering the aviation business unprofitable, something that stifles the country's tourism prospects. To improve tourism development, the South African government must create a level playing field for private and state carries. It makes no sense for the government to pit private airlines against a competition that is so heavily subsidised and otherwise protected. The very notion of competitiveness itself is at risk. Since the age of fleet used significantly impacted on the performance of private airlines, the researcher recommends that state airlines replace their obsolete fleet with modern aircrafts. Operating new generation aircraft would reduce operating costs, increase reliability and reduce ground



time (for servicing), (Taumoepeau & Kissling, 2008). This would, in the long-term, positively impact the balance sheet.

To improve their performance, the researcher recommends that private carriers select the correct aircraft for their particular operational needs. For instance, LCCs should make use of either the Boeing B737-800, or the Airbus A321, rather than the Boeing 737-500 or B737-200 model. A Boeing B737-800 or the Airbus A321 is more fuel-efficient than Boeing 737-500 and B737-200 models. Furthermore, a Boeing B737-800 or the Airbus A321 has a seating capacity of between 180 and 190 passengers whilst the Boeing 737-500 model can only seat up to 140 passengers in its highest density configuration. Therefore, to compete with the established carriers, LCCs need to make use of a Boeing B737-800 or the Airbus A321 model to run a reliable and responsive airline. Not to have these aircraft is likely to result in higher fuel and operational costs and less load factors due to low density configuration. Making an incorrect aircraft choice is likely to result in higher fuel and operational costs and less load factors due to low density configurations.

Since management efficiency issues significantly impacted on the performance of private airlines, the researcher recommends that private carriers hire efficient managers with experience in aviation. While it is not vital for the senior executives to know how to run an airline or fly the aircraft in detail, as such experience can be hired, it is important to have someone well-schooled in the industry at the helm so as to understand the operational issues and the needs of the front-line staff when they need assistance or have to make decisions impacting on the company.

Limitations

Although the researcher took great effort to enhance the trustworthiness and the validity and reliability of the research processes, as with any study, there remained certain limitations. These limitations expose weaknesses of this study, which could help researchers in future to design and conduct their research on critical success factors and challenges in the airline sector more effectively. Firstly, obtaining permission from former executives from defunct airlines was time-consuming and some former airline executives/managers refused to participate in this study. The viewpoints of former airline executives/managers who refused to participate in the study are lacking.

Secondly, the research was based on identifying the sources of failure for private airlines in South Africa. Caution is therefore required when generalising the findings of this study to other private airlines in other geographic areas. Private airlines from other geographic locations could have different sources of failure challenges, hence they might need to employ a wide range of different strategies. Lastly, the study is also limited in sample size (five airlines) as a result of the scope. A larger sample size of a greater variety of airlines could also possibly generate other important insights.

References

- Babbie, E.R. (2010). *The Basics of Social Research*. (12th ed). USA: Wadsworth Cengage Learning.
- Bennett, J.A. (2005). *Managing Tourism Services: A Southern African Perspective*. (2nd ed). Pretoria, Van Schaik Publishers.



Brandt, E. (2016). *African airlines to lose N\$8 billion in 2016. Air Namibia needs bold decisions to improve profitability*. Available from: <http://www.newera.com.na/african-airlines-lose-n8-billion-air-namibia-bold-decisions-improve-profitability>. [Accessed 28 June 2016].

Brophy, S. (2016). *Lucrative Africa airline industry 88% outsourced to international carriers*. <http://traveller24.news24.com/News/lucrative-africa-airline-industry-88-outsourced-to-international-carrier-20160510>. [Accessed 15 July 2016].

Budd, L., Francis, G., Humphreys, I. & Ison, S. (2014). Grounded: characterising the market exit of European low cost airlines. *Journal of Air Transport Management*, 34(7): 78-85.

Cooper, D. R. & Schindler, P. S. (2003). *Business Research Methods* (7th ed). London: McGraw-Hill Companies Inc.

Culture, Arts, Tourism, Hospitality and Sports Sector Education and Training Authority (CATHSSETA). (2017). *Tourism and Sport Skills Audit*. Sandton: Tourism, Hospitality and Sport Education and Training Authority. Available from: <http://www.cathsetta.gov.za>. [Accessed 22 December 2016].

Eze, C. (2016). Nigeria: airlines to earn U.S. \$39.4 billion in 2016, Africa Carriers to Lose U.S. \$0.5 Billion. Available from: <http://allafrica.com/stories>. [Accessed 9 July 2016].

Heinz, S. & O'Connell, J.F. (2013). Air transport in Africa: toward sustainable business models for African airlines. *Journal of Transport Geography*, 31:72-83.

Henama, U.S. (2014). The demise of 1Time airline and the reaction of various interest groups. *African Journal of Hospitality, Tourism and Leisure*, 3(2):1-11.

International Air Transport Association (IATA). (2016). *Demand for Air Travel in 2015 Surges to Strongest Result in Five Years*. <http://www.iata.org>. [Accessed 22 December 2016].

Leedy, P.D. & Ormrod, J.E. (2013). *Practical Research: Planning and Design*. (10th ed). Upper Saddle River, New Jersey, USA: Pearson Education.

Leitch, G. (2012). *Mango 'was direct cause' of demise of Nationwide and 1time*. Available from: <http://www.bdlive.co.za/business/mango-was-direct-cause-of-demise-of-nationwide-and-1time>. [Accessed 30 March 2016].

Magwaza, M. & Speckman, A. (2012). JSE to investigate 1Time's closure announcement. *Business Report*, 05 November 2012.

Makalang, G.M. (2016). *Budget airline industry struggling: Leitch*. Available from: <http://www.sabc.co.za/news/Budgetundefinedairlineundefinedindustryundefinedstruggling:undefinedLeitch>. [Accessed 22 December 2016].

Malik, J. (2015). *Those darkest days in Skywise's history*. Available from: <http://www.iol.co.za/business-report>. [Accessed 24 December 2016].

Mbanjwa, X. (2016). *Nationwide fights SAA*. Available from: <http://citypress.news24.com/Business/nationwide-fights-saa>. [Accessed 31 March 2016].

McMillan, J. H. & Schumacher, S. (2010). *Research in Education: Evidence-Based Inquiry*. (7th ed.). Boston, MA: Pearson.



Mhlanga, O. & Steyn, J.N. (2016). The aviation industry in South Africa: A historical overview. *African Journal of Hospitality, Tourism and Leisure*, 5(4):1-13.

Mhlanga, O. & Steyn, J.N. (2017). Impacts of the macro environment on airline operations in southern Africa. *African Journal of Hospitality, Tourism and Leisure*, 6(1):1-15.

Mncube, L. (2014). *Competition and regulatory issues in the civil aviation sector*. Available from: <http://www.compcom.co.za>. [Accessed 22 January 2017].

Moolman, H.J. (2011). Restaurant customer satisfaction and return patronage in a Bloemfontein shopping mall. *Acta Commercii*, 6(8):129-146.

Ndhlovu, R. & Ricover, A. (2009). *Assessment of potential impact of implementation of the Yamoussoukro Decision on open skies policy in the SADC region*. (GS 10F-0277P). Gaborone: USAID Southern Africa.

News24. (2008). *Failed airline is deeply in debt*. Available from: <http://www.iol.co.za/news/failed-airline-is-deeply-in-debt>. [Accessed 30 March 2016].

Pauw, J. & Dommissie, J. (2012). 1Time ignored plan that could have kept it flying. *City Press*, November 11, page 5.

Price Waterhouse and Coopers (PWC). (2016). *2015 Aviation Trends*. Available from: <http://www.strategyand.pwc.com/perspectives/2015-aviation-trends>. [Accessed 19 July 2016].

Rabkin, F. (2016). *Nationwide hits broke SAA with damage suits*. Available from: <http://www.bdlive.co.za/business/transport/2016/02/02/nationwide-hits-broke-saa-with-damages-suit>. [Accessed 29 March 2016].

Republic of South Africa National Department of Tourism (RSA NDT). (2011). *National Tourism Sector Strategy*. Pretoria: Department of Tourism.

Saranga, H. & Nagpal, R. (2016). Drivers of operational efficiency and its impact on market performance in the Indian airline industry. *Journal of Air Transport Management*, 53(7):165-176.

Smith, E. (1998). *An evaluation of the impact of air transport deregulation in South Africa*. Available from: <https://ujdigispace.uj.ac.za/handle/10210/6196>. [Accessed 5 March 2016].

Smith, C. (2015). *Africa aviation faces four big challenges - IATA*. Available from: <http://www.fin24.com/Companies/TravelAndLeisure/Africa-aviation-faces-four-big-challenges-lata-20150610>. [Accessed 28 June 2016].

Ssamula, B. (2008). *Strategies to design a cost-effective hub network for sparse air travel demand in Africa*. Unpublished doctoral thesis. University of Pretoria. Available from: <http://upetd.up.ac.za/thesis/available/etd-07242008-093606>. [Accessed 28 December 2016].

Statistics South Africa (SSA). (2015). *Tourism Satellite Account for South Africa, final 2011 and provisional 2012 and 2013*. Pretoria: Statistics South Africa.

Statistics South Africa (SSA). (2016). *Draft Tourism Satellite Account, 2016*. Pretoria: Statistics South Africa.

Taumoepeau, S. & Kissling, C. (2008). Economic sustainability of airlines in the South Pacific. *31st Australasian Transport Research Forum*, 5(2):373-383.



Tustin, D.H., Ligthelm, A.A., Martins, J.H. & Van Wyk, H.de J. (2010). *Marketing Research in Practice*. Pretoria: Unisa Press.

Weavind, T. (2015). *Low cost airlines: Turbulence at Skywise*. Available from: <http://www.financialmail.co.za/low-cost-airlines-turbulence-at-skywise>. [Accessed 30 March 2016].

Wiid, J. & Diggins, C. (2009). *Marketing Research*. (5th ed). London, UK: Juta.

World Travel and Tourism Council (WTTC). (2016). *Travel and Tourism Economic Impact Summary*. Available from: <http://www.wttc.org/bin/temp/exec-summary-final>. [Accessed 3 January 2017].

Young, M.D. (2015). *Why Skywise was never going to fly*. Politicsweb. Available from: <http://www.politicsweb.co.za/news-and-analysis/why-skywise-was-never-going-to-fly>. [Accessed 20 May 2016].