



State-owned Enterprises not Burden: A Case Study of Pakistan International Airline

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Abstract

Despite covering a large share of the Pakistan aviation industry, Pakistan International Airline Corporation (PIAC) has been facing financial crises and losses for the past few years. The government subsidizes it every year for about Rs 456 billion. This study examined the operating revenue and operating expenses of the Pakistan International Airline Corporation (PIAC). The study finds that the performance of Pakistan International Airlines is affected by high employee burden, lack of management, political interference, poor services, corruption, and human resource policies, etc. The study suggests reforms in PIA, Public-Private Partnerships, and Privatization of the PIA.

Key Words: State Owned Enterprises, Operating Revenue, Operating Expenses, Airlines

JEL Codes: L32, H27, H59, L93

1 Introduction

Pakistan International Airline Corporation is one of the largest airlines in Pakistan, with more than 30 operating aircraft. Pakistan International Airlines operates 100 flights daily, of which 18 are domestic and 25 are international destinations, including Europe, America, Asia, and the middle east. Pakistan International Airline Corporation also owns two hotels: one is in New York- the resolute hotel, and the other is the Sofitel Paris scribe hotel in Paris. The Government of Pakistan owns most Pakistan International Airline Corporation shares (86%), and the remaining 14% are by private shareholders. Pakistan International Airline Corporation is managed and controlled by the president, chief executive officer, and board of directors.

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Today the world has a competitive environment that demands that corporations and organizations, primarily state-owned enterprises perform efficiently. The critical way to enhance performance is realizing what and how to appraise. Therefore, praise is the main factor in refining endeavors, especially in the buildup of short- and long-run decisions. For this purpose, a large number of organizations are trying and researching to pin down the main and essential factors which bestow poor performance or success, not limited to their own corporation/organization but also to other organizations in the industry, with the aim of guideline in case of success and circumvent the same fallacy by hesitating the supremacy of such deterioration factors in case of poor performance.

In 2011 Pakistan International Airlines started losses continuously and needed Government subsidies due to competition. Pakistan International Airlines increased fair prices, corporate mismanagement, and overstaffing led to shrinking revenue. According to a report in 2016, there was a \$3 Billion loss. In 2018 it reached \$3.3 billion, which needed Government support for Operations. In 2019, Pakistan International Airlines (PIA) claimed that revenue equals operating costs. According to an audit report of 2019, there were 46 empty flights between 2016-17; Pakistan International Airlines lost \$1.1 million. At the end of 2019, the revenue of Pakistan International Airlines increased by 41% due to a cut in non-profitable routes and an increase in the utilization of airline cargo space.

2 Literature Review

The Financial performance of Pakistan International Airlines is weak. According to Lin (2012), Pakistan International Airlines scored 0.84 value. The Pakistan international airline (PIA) can reduce about 26% of inputs with a zero percent reduction in output. Furthermore, operating revenue from passenger services, international percentage of operation, operation focus, indirect cost, and fixed asset has positively affected efficiency. In contrast, the specialization in serving global and passenger markets exerts a negative effect. Pakistan International Airlines is operating in the international market: It has strengths, weaknesses, opportunities in the world market, and

threats from competition. (Selase, 2018) finds that the financial and service performance of Pakistan International Airlines is not satisfactory. The study suggests that Pakistan International Airlines can be the market leader if they save current market share, extend the market, expand market share, improve the customer service and food quality, cooperate with passengers, and revise ticket prices. In Pakistan several private airlines are operating flights directly. Berry and Jia (2010) analyzed the United States airline industry empirically. They find the industry problem and estimate the impact of demand and supply change on profitability. They conclude that compared to the 1990s, the demand for air travel was more sensitive in 2006. The preferences of the passengers were towards direct flights.

Additionally, the changes in marginal cost were in favor of direct flights. At last, they recommend increasing profit, and the airline should focus on direct flights and changes in demand because changes in demand and cost also relate to changes in the network. They should give less attention to hub airports with more to a large number of direct flights.

Saleem et al. (2017) intended the study to check the impact of service quality and trust repurchase interactions of Pakistan International Airlines. They developed two hypotheses (i) service quality is a directly and positive relationship to repurchase intentions. (ii) Service quality positively correlates with repurchase intention through customer satisfaction. They found a positive relationship between quality and repurchase intention, customer satisfaction and brand image and strongly support the hypothesis. The policy recommendation for the management of Pakistan International Airlines is to improve customer satisfaction, repurchase intention and brand image.

Baloch et al. (2017) Analyzed the service quality and reviewed the competitiveness of Pakistan International Airlines. They explained the main dimensions of service quality, such as tangible, reliability, responsiveness, assurance and empathy. The method is descriptive, and 200 samples were collected through questionnaires in which 50% of Passengers were domestic, and 50% were international. The result shows that service quality affects competition failure in quality services that will not favor

Pakistan International Airlines. The study recommends that Pakistan International Airline management should focus on the service quality standard at the international level.

Productivity is one of the main issues of Pakistan international airlines. Ahmad and Khan (2011) analyzed the productivity of some Asian airlines, including Pakistan International Airlines. They decided that, specifically, Pakistan International Airline, in the short run, could cut down the seating capacity. The data also show that Pakistan International Airlines has better performance in terms of available ton kilometer (ATK) Than Sri Lankan airlines while worse in terms of average employee productivity (AEP). They conclude that the airline industry plays an important role in economic growth. The study recommends that Pakistan International Airlines focus on increasing the average productivity, length, and unit cost. In Pakistan, especially in government organizations, there is a lack of proper training, research, and development. Ahmed (2017) investigated the impact of organizational comment on employee turnover of PIA. The factors behind lower turnover of employees are no or less support from the organization, non-availability of the training program, job satisfaction, and job autonomy. He suggests that individual must participate in training programs and need more attention to job satisfaction. Organizations should support, need job autonomy, and there should be learning opportunities.

Most of the routes operated by Pakistan international airlines are not profitable. Park and Zhang (2000) analyzed global airline alliance empirically in which they checked the impact of fair, passenger volume, and consumer surplus of four major airlines. They concluded that airline alliance increases the aggregate demand on alliance routes and decreases the fare and passenger volume.

3 Methodology

The paper's methodology is based on operational profit analysis; we used data from 2000-18. The chapter also includes a comparative study of PIA with some international airline.

3.1 Operating Profit Analysis of PIA

Operating profit is the profit that is generated through the operation. Operating profit is sometimes called profit before interest and tax and is calculated as operating expenses minus operating expenses.

4 Results and Discussion

The operating revenue and expenses are given in table 1 and figure 1 as per the net profit from 2000-18. As we can observe from the table as well as from the graph that from the year 2000-04 the net profit was positive and in 2006 and 2010 and the remaining years have negative net operating profit means that expenses were more than revenue due to which PIA is still bearing losses.

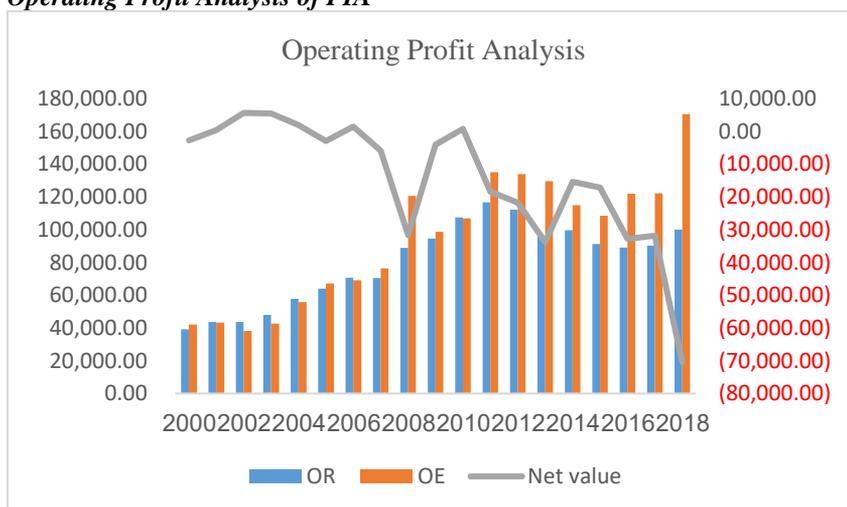
Table: 1
Operating Profit Analysis of PIA

Year	Operating Revenue (Million Pkr)	Operating Expenses (Million Pkr)	Operating Net Profit
2000	39,228	42033	(2,805.00)
2001	43,608	43242	366.00
2002	43,674	38097	5,577.00
2003	47,951	42574	5,377.00
2004	57,786	55872	1,914.00
2005	64,074	67075	(3,001.00)
2006	70,587	69164	1,423.00
2007	70,481	76415	(5,934.00)
2008	88,863	120499	(31,636.00)
2009	94,564	98629	(4,065.00)

2010	107,532	106811	721.00
2011	116,551	135023	(18,472.00)
2012	112,130	133930	(21,800.00)
2013	95,771	129588	(33,817.00)
2014	99,519	114944	(15,425.00)
2015	91,269	108478	(17,209.00)
2016	88,998	121863	(32,865.00)
2017	90,288	122193	(31,905.00)
2018	100,051	170447	(70,396.00)
Total Net value	1,522,925	1796877	(273,952.00)

Source: Pakistan Economic Survey, 2000-19

Figure 1:
Operating Profit Analysis of PIA



4.1 Comparative Analysis of PIA with Some International Airlines

Pakistan International Airlines (PIA) is facing a revenue shortage and is not recovering in the past few years. If we compare PIA with other airlines, the performance of PIA is financially very poor, service providing, etc. The basic reasons for PIA losses are staff overburden, corruption, political interference and poor governance. In this analysis, we are comparing PIA with other international airlines. Like Turkish airlines, Qatar airline, Emirates Airlines and Etihad Airways.

4.2 Aircraft and Employee

According to the PIA authority, there is a total of 29 aircraft, and the employees are 14500; on average, aircraft employees are 500, which is huge. If we compare with other airlines, Emirates airline has 269 aircraft, and the employees are 62356, which per aircraft is 231, Turkish airline has 329 aircraft and employees are 31000 which is 94 per airline, the Qatar Airways have 240 aircraft and employees are 46000 which is 191 employees per aircraft. Etihad Airways have 102 aircraft, and the total number of employees is 21530, which is 211 employees per aircraft on average. Conversely, PIA has an average of 500 employees per aircraft. According to Oxford Analytica, PIA has the highest employee-to-aircraft ratio globally. In the below table, we can observe the comparison of the airline.

Table 2:
Comparison of PIA with International Airlines

Airline	Number of Aircrafts	Employee per Aircraft
PIA	29	500
Emirates Airline	269	231
Turkish Airline	329	94
Qatar Airways	240	191
Etihad Airway	102	211

4.3 Services Quality

If we observe, the service provided by PIA is also poor. Sometimes, they leave the passenger luggage at the airport, and passengers wait to receive it for a few days. This scenario is very common with PIA. Sometimes, the late flight and passengers do not feel satisfied. If we compare these issues with Turkish airlines, Qatar airways etc., their service is very satisfactory, and we know that service quality affects the performance of PIA. According to Atalik et al. (2019), service quality matters in the airline business, especially seat comfort, which has the highest impact on value for money. According to Farooq et al. (2019), the service provided by PIA is not satisfactory, and customers are not happy PIA needs immediate improvement in services and to provide better food to the customer during flights. Ali et al. (2015) analyzed Pakistan international airlines service quality and customer satisfaction. They found that managers should focus on different dimensions of airline service quality to enhance customer satisfaction. Mohamed et al. (2008) also analyzed the improvement for airline quality services for Qatar airways, in which they found that airlines need improvement in service quality for customers satisfaction.

4.4 Corruption

Corruption exists everywhere, even in developed countries but not in developing countries. Corruption inhibits the growth of PIA. There are a lot of cases highlighted on media of the PIA corruption like managing director corruption case, in buying aircraft corruption etc., these are the mega scandals corruption cases, but we did not hear about mega corruption in Turkish airline, Etihad, Qatar airways etc. Nawaz et al. (2012) studied the factors underlying the failure of Pakistan international airlines. They find that nepotism, lack of management and poor services are backbone factors that decline the performance of Pakistan international airlines. Abbasi et al. (2018) analyzed the corporate governance of Pakistan international airline in which they find that corruption earned embarrassment to organization for several reasons such as deteriorating performance, mismanagement, conflicts between management and union, discriminatory human resource policies, overstaffing, inadequate number of aircraft in fleet staff involvement in smuggling, unsound practices of

transparency and accountability. According to the global competitive report of 2011-12, the level of corruption in Qatar airways was 0.0.

4.5 Political Interference

Political interference in public enterprises is common, bringing incompetence and hijacking enterprises. PIA is facing political interference due to which in PIA incompetent, unskilled and inefficient personnel entered which became debt instead of liability on PIA affecting the performance of PIA badly. The other airlines have low or no political interference. The governance structure of the PIA is very poor. According to annual and news reports from 2002-16, there is a lot of mismanagement, conflicts between management and union, overstaffing, inadequate numbers of aircraft in the fleet, discriminatory Human resource policies, and staff involvement in smuggling. Shah et al. (2015) investigated the decline in public sector employee performance in which they revealed that political interference has a significant impact on Pakistan international airline employee performance. PIA has consistently shown discouraging performance despite various equity injections and bail-out packages, while the governance performance of the Turkish airline, Qatar airways etc., is appreciable. (Annual audit reports 2016).

5 Conclusion and Policy Recommendations

Based on the results and the above discussion, it can be deduced that Pakistan's international airline is suffering financially and need the government to subsidize since for 2 decades almost. It is a burden on the Pakistan economy. In this respect, the policy and recommendations in the context of the study following recommendations are:

Reforms in PIA: The case of PIA is very critical. The policy maker should take steps in which airline reforms can be made, and PIA can be made profitable again. Air transport, especially national airlines, plays a vital role in the country's economic development. Comparing PIA with other international airlines, PIA has suffered from staff overburden, political interference, corruption and poor governance. Therefore, to improve the performance of PIA, we need to learn from other

international airlines and PIA should reduce the number of employees, hard and fast regulation to control corruption and need autonomy and freedom from politics and reforms in governance structure and the management PIA Must set Plan B in case of an uneven situation like covid-19 that cannot or less effect on PIA financially.

Public-private Partnership (PPP): We would not like to recommend that the government Privatize PIA Completely. The government should follow the policy “The Snake Gets killed, but the stick does not break”. The government should not keep PIA as a State-owned enterprise nor privatize it. The government should convert PIA into a shareholding system. The Pakistan government will own more than 51% of PIA assets, but the management will be private. This system will not only boost the efficiency of PIA but also generate employment opportunities and investment in the country. China adopted this system, and they are enjoying its benefits. Within the first year of this policy, labor productivity increased by 57%, profit and tax per worker by 85%, sales profit by 49%, profit/capital ratio by 39%, and the average wage by 44%. And they can also manage the routes through public-private partnerships. If one route is not profitable for PIA, these routes can operate with the mutual policy with private airlines on national and international levels.

Privatization: The 3rd option is to sell the PIA means privatizing the completion airline, and the government of Pakistan should sell PIA on open bidding. There will be two main advantages of privatization. First, now the government is subsidizing PIA for around 456 billion. This amount will be saved plus the amount received in bidding, which will reduce deficit financing in some sense. On the other hand, privatization negatively impacts the long run due to loss of income dividend, as we can observe in the case of Pakistan Petroleum Limited, Habib Bank Limited, PARCO, KAPCO etc.

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