

Airport Privatization – Success or Failure?

The Airport Performance Scorecard - A Theoretical Assessment Tool

This article proposes that the impact of airport privatization should be validated by analyzing airport performance through the eyes of stakeholders. It is being proposed that through interpretation of Jensen (2002) ideology of the Balanced Scorecard as a managerial equivalent to stakeholder theory; the underpinning assumptions of stakeholder theory and performance measurement are interlinked to test the efficiency claims of privatization.

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Efficiency gains through the transfer of ownership and management of state-owned enterprises into private hands are claimed to be the ultimate objective of privatization reforms. It is argued that private enterprises operate more efficiently when driven by the 'bottom line' of profitability. Privatization reforms have been introduced in various industries.

Little evidence, however, exists about whether the underlying reasoning and claimed results of privatization are correct, such as increased efficiency and profitability. Experts in the area of airport performance measurement and strategic performance management (Humphreys and Francis 2000; Humphreys and Francis 2002; Graham 2003; Walsh, Lok et al. 2005) imply that corporate performance measurement needs to take into account external, internal, and operational factors.

Privatization reforms enticed state-owned entities to become more efficient, profit-oriented and accountable to various stakeholders. Therefore, in line with Brenner (1995), stakeholders are the ones impacted by the organizations [performance]. Because accountability and public welfare are the prime concerns prior to privatization (other concerns relate to private operators not improving infrastructure and services), privatized airports are arguably accountable to the public and to their stakeholders.

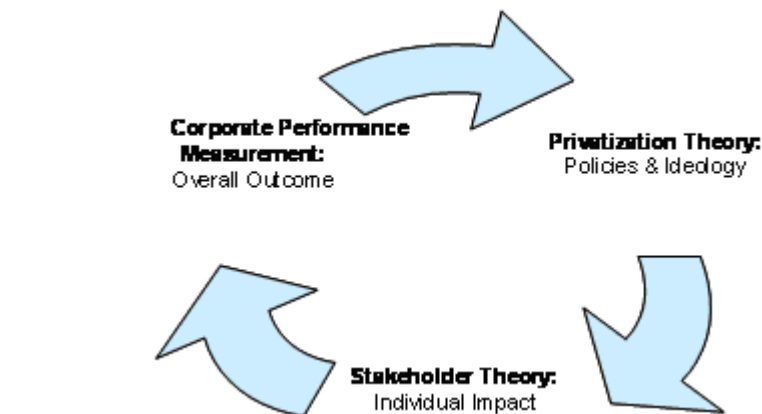


Figure 1: The Theoretical Framework

It is suggested here that the impact of privatization should be validated by analyzing airport performance through the eyes of stakeholders. Using Jensen's (2002) ideology of the Balanced Scorecard as a managerial equivalent to stakeholder theory, the underlying assumptions of stakeholder theory and performance measurement are interlinked to test the efficiency claims of privatization (Figure 1).

Australian Airport Privatization

Airports in Australia have been and are still seen as major tourism and trading gateways to large economic regions with a constant need of capital investment to meet domestic and international demand.

To date, airport operators claim that the privatization reforms have added value to international airport operations. The direct consequences of these privatizations in 1996 and 2002, as reported to the external stakehold-

ers, have been a boost in revenues, increased share prices and the commercial expansion of non-aeronautical activities.

New entrants into the airport business were financial consortia, which have become key players in financing, developing and operating airports. The first phase of airport privatization in Australia in 1996 included the sale of the Melbourne, Perth and Brisbane airports and was triggered by the country's discovered potential as a tourist destination and by pressure from global liberalization reforms on the aviation industry.

Privatization enabled companies to focus on profitability and to report their financial success stories through external reporting. Controversy exists over whether private managers act in the best interests of stakeholders. End consumers and small industry players, such as regional airlines, might actual-

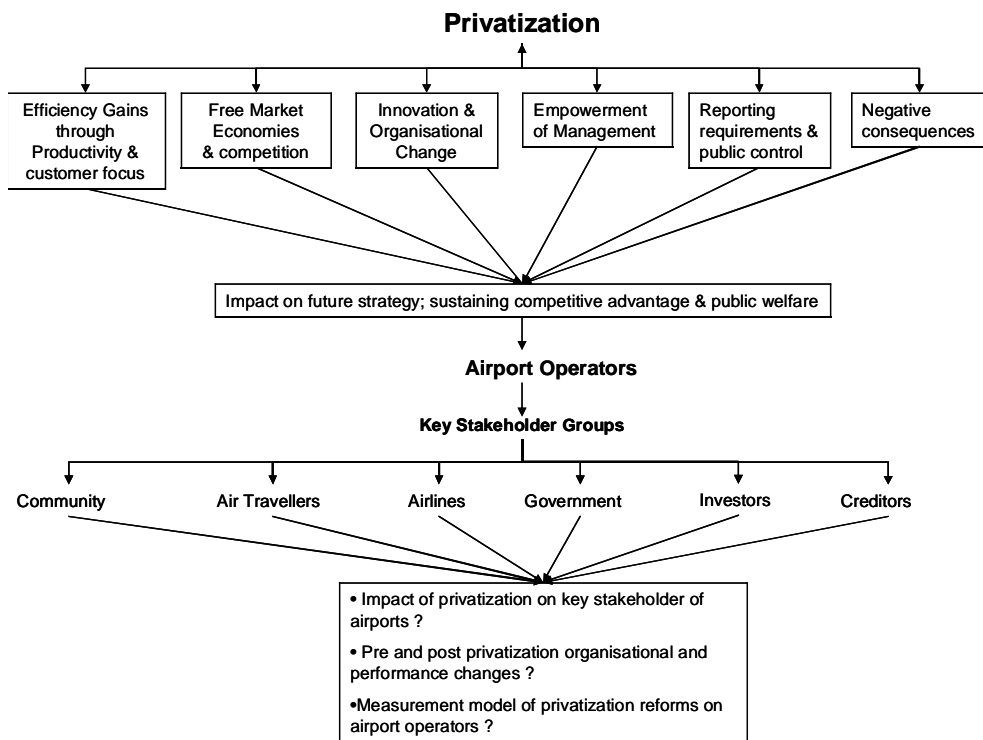


Figure 2: Impact of Privatization on Airport Key Stakeholder

ly experience the negative consequences of privatization. Figure 2 provides an overview of the potential impact of privatization and identifies the key airport stakeholders. According to the Airport Council International (2003), privatization in the air transport industry led to the emergence of niche industry players and enabled the airport operators to build on market power by raising additional capital, improve efficiency, reduce costs, seek new revenue streams, engage in market-oriented investments, become accountable to the public and enhance competition among airlines.

In Australia, the principal impact of privatization appeared to be related to the growth in non-aviation commercial activities at airports with the aim of increased company performance and shareholder wealth maximization, rather than traffic growth and satisfying airport stakeholders.

This growth and focus on commercial space is highlighted at Brisbane airport with the development of a retail outlet center on airport terrain, and at Sydney Airport with ongoing debates on planned expansion of extra office space, new retail and accommodation facilities, as well as expanding the car parks (Guardian 2005; Thomson 2005). Such a commercial-oriented approach at airports attracts more traf-

fic movements, increases congestion and pollution, and encourages public transport and expansion of the business environment surrounding the airport sites.

Although the government keeps control on noise and pollution and oversees airport charges (price regulation) in Australia, airports are not required by other regulatory provisions or social responsibilities to report on these matters.

Thus, performance measurement at airports calls for an assessment of the privatization impact on the various stakeholder groups. It needs to be verified whether privatized airport operators strategies are indeed profitable, efficient and acceptable or whether they are standing monopolies.

Stakeholder theory and Performance Measurement

An underlying principle of stakeholder theory is that organizations exist as part of and according to the values of society. Existing research in the field of corporate performance measurement supports Freeman's (1984) stakeholder theory in that organizations cannot be seen as purely private institutions, but, instead, as social institutions, claiming that a firm is not solely responsible to its shareholders but to all of its stakeholders that are

affected by the business. Broadly defined over the past decade, the stakeholder concept recognizes the existence of multiple parties having a legitimate interest or stake in the business. Stakeholders interact and give meaning to the corporation, placing moral obligations on managers and influencing their decision-making.

According to Savage (1991), stakeholders are in a relationship with the organizations, and Hill and Jones (1992) argue that stakeholders have an interest and influence in the actions of organizations, thus enabling the organizations' operations.

Empirical studies on performance measurement in high performance organization utilizing key performance indicators cover a vast field in academic and industry research. However, this field is criticized due to the underlying argument of tracing an organization's success to several tangible measures.

Traditional financial measures should not be the sole focus of corporate performance. Although literature on accounting and finance provides multiple generic measures that can be compared to and benchmarked against competitors and industry averages, these standard measures cannot be applied to all industries due to the nature of the various entities – airports in particular.

The impact of privatization on performance and efficiency gains of privatized companies is difficult to assess, as the political and economic effects of ownership, competition, regulation and technological changes need to be separated from the entities' present position (Beesley 1992; Emmons 2000; Parker 2003).

As pointed out, privatization covers a broad spectrum of economic and internal changes. So, assessing privatized entities based on just a few single economic indicators, such as profit or

employment figures, does not point out overall results.

Measuring the impact of airport privatization therefore needs to take into account the viewpoints and indicators related to key stakeholders. Stakeholders are vital to the overall success of business operations.

Thus, the proposed multi-dimensional airport performance scorecard (Figure 3 & 4) allows for a more thorough analysis of the actual impact and success of privatization reforms on airports and their stakeholders.

Theoretical Model to Assess Privatization Impact on Airport Performance

The challenges in measuring the outcome and impact of privatization reforms arise as the welfare gains from privatization have to address the distribution of the economic, political and business benefits between all consumers and investors (DeNeufville 1999; Barton 2000; Crozier 2001; Parker 2003; Rochfort 2005).

A firm's total performance needs to be assessed in dimensions beyond standard financial measures. Kaplan and Norton's (1996, 2001) ideology of the

The operational, financial and environmental perspectives (Figure 3) have been chosen in this model; each one has distinct key performance indicators (KPIs) supporting specific stakeholders' viewpoints in the airport business.

- **Operational perspective** - service & quality indicators from the clients' perspective (airlines, employees, airport operator & passengers);
- **Financial perspective** and analysis are carried out when evaluating business performance based on financial measures (FLAP indicators) and stakeholder power being ownership and capital structure;
- **Community perspective** relates to environmental indicators to evaluate airport performance from the community viewpoint.

As Australia and other nations are still subject to ongoing privatization reforms, it is evident that such reforms are accepted by the public. It is thus important to assess their impact on organizational changes, stakeholder groups and on the overall community.

model and the associated fieldwork at airports are aimed at answering the following questions:

- **Can** the development of a strategic airport performance scorecard be used to more effectively assess privatized airport operations?
- **How** would airport operators make more efficient decisions when using a multi-dimensional performance measurement tool; reflecting on the past, present and future performance whilst knowing the viewpoints of airport users?
- **In** what ways has the overall airport performance (financial and non-financial) at an airport changed?
- **How** did airport privatization affect individual stakeholders (action groups, community, clients/ customers etc.) and has it led to airport operators acting as monopolies?
- **Who** are the new "players" that have emerged within this privatized industry and what is their market power?
- **In** what way has the airports' strategic commercial positioning changed – from different perspectives?

The above suggests that an investigation at airports (post-privatization) can provide insight into the existing efficiency claims, increased economic performance rationale and stakeholders benefits of privatization policies.

The application of the performance scorecard and its implications is currently investigated at Sydney airport in an ongoing study.

The aim of the fieldwork at Sydney airport is to directly interact with stakeholder groups to get their view on the impact of privatization reforms on overall airport performance and to help validate claims of airport operators' monopolistic abuse of power.

Conclusion

This article introduced the airport performance scorecard, which is useful for analyzing the impact of privatization reforms on airport performance from key stakeholder perspectives.

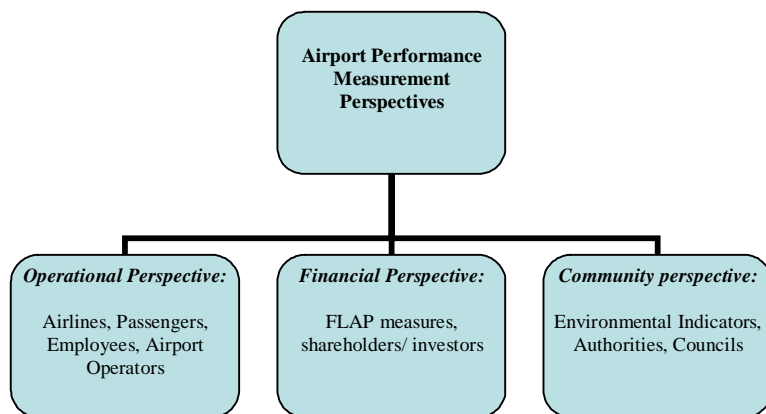


Figure 3: Perspectives for Airport Performance Assessment

Balanced Scorecard provides a framework of relational and integrated performance measures, for example independent stakeholders' perspectives, operational innovative process outcomes and corporate cultural values to obtain a complete picture of corporate performance.

The proposed Airport Performance Scorecard is based on the rationale of integrated performance measurement indices.

Such a model can assist in the analysis of airport performance as a result of policy changes. As various perspectives are analyzed, the claim of monopolistic market power of airport operators in Australia can be validated.

Figure 4 provides a general overview of the Airport Performance Scorecard that illustrates the airport specific measures for each identified stakeholder group. The currently proposed

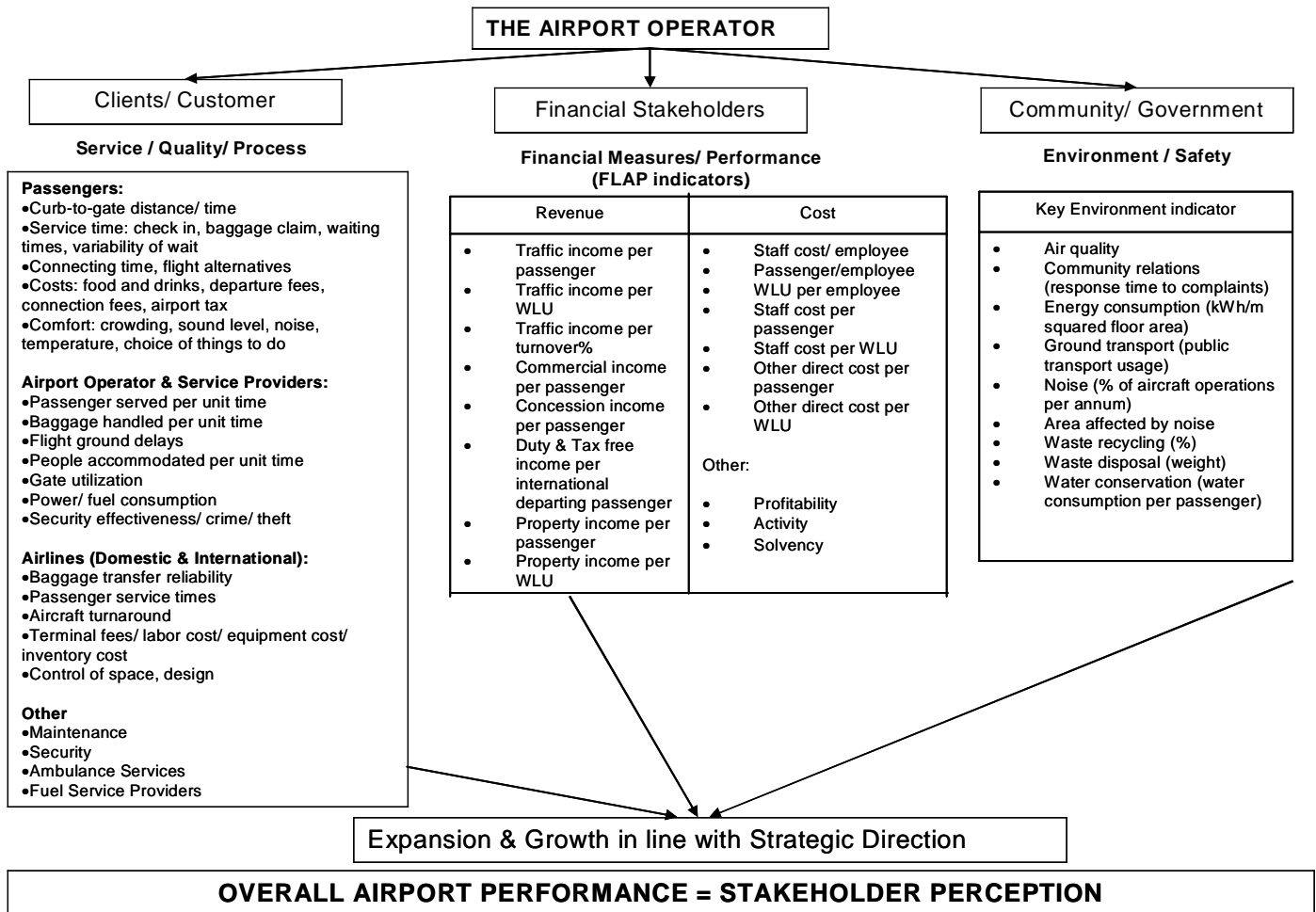


Figure 4: The Airport Performance Scorecard with Indicators

This paper claims that assessing privatized airport performance needs to be dissected and looked at from stakeholder perspectives.

To validate the proposed model; field-work is currently being undertaken at Sydney airport. Preliminary findings have indicated that the abovementioned approach is, by all means, an acceptable tool to investigate the existing efficiency claims of the privatization reforms at airports, and overall impact on stakeholders.

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