

*Citizens' Periodic Reports on the Performance of State Institutions*

# Pakistan International Airlines

## A Performance Analysis 2013-2015

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Pakistan Institute of  
Legislative Development  
And Transparency

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# CONTENTS

*Preface*

*Abbreviations and Acronyms*

*About the Author*

*Executive Summary*

<b>Introduction</b>	11
<b>Case Study Qatar Airways (QR)</b>	14
<b>Financial Headwinds</b>	15
<b>Financial Restructuring</b>	17
<b>Analysis</b>	19
<b>The Way Forward</b>	20
<b>List of Figures and Tables</b>	16
Figure 1: Seat Factor (2012-2014)	11
Table 1: PIA Fleet Status as on November 30, 2014	12
Table 2: Employee to Plane Ration Comparison for 2014	15
Table 3: Liabilities Breakdown PIAC (2014)	16
Table 4: Cash or Equity Injected	16
Table 5: Impact of Fuel Cost Reduction	16



## Preface

The Pakistan International Airline Corporation is the national-flag carrier airline of Pakistan. The PIA was incorporated under the PIAC Act 1956 and is listed on all three domestic stock exchanges, with the Government of Pakistan as the principal shareholder with 85 per cent of the share capital.

The paper **Pakistan International Airlines: A Performance Analysis 2013-2015** has been commissioned by PILDAT as part of the Democracy and Governance programme to assess the performance of key democratic State Institutions under PILDAT's initiative of Citizens' Periodic Report on the Performance of State Institutes. **Ms. Nargis Sethi**, Former Federal Secretary of Defence, has authored the paper. While she sheds light on various aspects of the corporation, she mainly presents a detailed overview of PIA's current economic conditions and the way forward. The author has used data in this paper has mostly from the PIA Annual Report 2014 and from a few summaries presented by the PIA management in different meetings.

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### Disclaimer

The views expressed in the paper are those of the author and do not necessarily represent the views of PILDAT or DANIDA, the Government of Denmark, and the Royal Danish Embassy, Islamabad.

Islamabad  
October 2015

**Abbreviations and Acronyms**

APTA	All Pakistan Travel Agents
ASAs	Air Services Agreements
ASM	Available Seat Mile
BOD	Board of Directors
CAA	Civil Aviation Authority
CBA	Collective Bargaining Agents
CEO	Chief Executive Officer
EFF	Extended Fund Facility
EOBI	Employees Old-Age Benefits Institute
GOP	Government of Pakistan
IFIs	International Financial Institutions
IMF	International Monetary Fund
PIAC	Pakistan International Airlines Corporation
PIAIL	PIA Investments Limited
PM	Prime Minister
PSE	Public Sector Enterprise
PSO	Pakistan State Oil
Pvt Ltd	Private Limited
QR	Qatar Airways
RPM	Revenue Passenger Mile
SECP	Securities and Exchange Commission of Pakistan
SRL	Skyrooms Private Limited

## About the Author



As a career public servant, Ms. Nargis Sethi has served at key top level and versatile positions throughout her 34 years of service. She held several important portfolios including Cabinet, Defence, Water & Power, Health and Economic Affairs. She also had the privilege of being the first ever woman to serve as Principal Secretary to the Prime Minister of Pakistan from 2009 to 2011.

Ms. Sethi served in the Ministry of Defence (Aviation) from 1994 to 2001 as Deputy Secretary and Joint Secretary Aviation. In these positions, particularly as Joint Secretary, she was responsible for all matters pertaining to the Aviation Sector that included several matters related to the PIA. Later she assumed office as Secretary Defence in 2012. Therefore, during her entire career in civil service, her association with aviation has been the longest.

As a practitioner of public policy, Ms. Sethi strongly feels that public officials have the ability to enrich the lives of millions of people and the impact that their decisions make on the future generations of this country. She is now pursuing her passion for public service through writing and speaking on different aspects of public policy and its implementation.





## Executive Summary

Over the past few decades, PIA's performance has consistently been deteriorating and it is no longer the airline of choice for passengers in Pakistan. This marked decline in PIA's performance has attracted significant media attention along with strident criticism from the public about the airline's dismal state of affairs. Many efforts to "revive" PIA's past glory have not materialized and PIA has become a public sector caricature marred by patronage, corruption and inefficiency.

This paper attempts to identify factors contributing to PIA's downfall. In terms of who is to blame, various stakeholders are quick to point fingers. The national carrier cites policies that increased competitiveness as one of the reasons that has contributed to PIA's downward spiral. Incumbent governments assign blame to the political interventions of their predecessors, while economists insist that the free market economy is merely taking its natural course, where the weakest competitors are eliminated and only the fittest survive.

It is argued that previous governments in Pakistan have handled PIA in an unprofessional manner and one that certainly exceeds their jurisdiction. Politicians have deliberated directives concerning several operational matters. Sustained political interference in any commercial enterprise has a detrimental effect on service delivery and interference in this context has hindered the implementation of merit-based decisions that could have been made in the larger interest of the airline.

The report also presents a brief case study comparison with the Qatar Airways (QR), which was established 38 years after PIA. One should bear in mind that while both airlines receive government support, there remains a marked difference in their style of management. To this end, QR follows a business model while PIA is run like a government department. QR is part of a larger socio-economic context in which the Government of Qatar is heavily invested in presenting itself as an international business and tourist destination, in keeping with other image-building measures.

A review of PIA's Annual Report for 2014 shows a marked reduction in loss before tax by 34 per cent as compared to the previous year. This paper identifies a three factors contributing to this reduction in losses:

- i. Fleet modernization
- ii. Route rationalization, and
- iii. Cost cutting
- iv. In addition to effective measures taken by the management, the Passenger Revenue, with a combined effect of increased in-seat factor to 72 per cent led to 8.8 per cent increase in passenger revenues.

The Government of Pakistan has come to the rescue of the airline each time it has sought help in the form of financing provided by a sovereign guarantee issued by the Ministry of Finance, or by injecting equity through a handout or cash support for the airline. Moreover, the recent slump in oil prices has benefited the aviation industry across the globe as lower fares have led to higher number of passengers. Unfortunately, PIA did not maximize on this fuel advantage. Considering the fact that the fuel prices took a nosedive around the globe, and also the expenditure of PIA under fuel head decreased by 49 per cent for the first quarter of current year, the national airline was unable to curtail its losses in an efficient manner.

Financial restructuring plans have been presented in official meetings to several high officials and the Honourable Prime Minister of Pakistan frequently. Commitments to the International Financial Institutions (IFIs) made by the Government regarding cutting down subsidies to ever-bleeding public sector enterprises, also includes privatizing PIA. Under the on-going Extended Fund Facility (EFF) with the International Monetary Fund (IMF), the Government of Pakistan is committed to initiate the process by end of December 2015. There is speculation that the government is considering a 'Strategic sale and transfer of management through 26% sale to a strategic partner.' An out-of-the-box solution or a privatisation model will have to be developed not only to meet international commitment but also to safeguard national interest.

As a general principle, most people blame the problems of PIA's failure on high labour costs. However, poor management and political interference in developing countries remain responsible as business norms differ from the developed world. Hiring unqualified and ill-equipped individuals for technical and professional jobs, overstaffing,

multiple layers of management, inadequate market strategy and the failure to plan for contingencies are some of the factors in aviation literature that point to airline failure.

As a first step, the non-core functions can be separated from the PIA, giving them an autonomous identity through self-sustaining measures. These non-core functions include flight kitchen, maintenance repair, overhaul and the Speedex courier services. This would result in the elimination of 4,300 staff positions, which would lead to a better employee to aircraft ratio in PIA.

Financial restructuring of PIA with definite timelines should be undertaken by a dedicated team of professionals without any vested interests and association with the organisation. The management should be able to exploit to the advantage of the ongoing low fuel prices to make the airline profitable, competitive and passenger friendly airline. The Government should maintain a majority share with an absolutely independent BOD and empowered management. Privatisation of the airline, without an in depth analysis of the requirements of transportation for Hajj, Umra and defence has implications which cannot be ignored.

Gradually off-loading first the non-core activities will provide the government an opportunity to re-assess the balance sheet of the corporation. Further divestiture through the equity markets can subsequently follow as a way forward. An out-right sale of a national asset like PIA, which also is a symbol of national cohesion, is a recipe for creating social and political un-rest with little economic gain, except may be a successful quarterly review of the IMF.

A complete turnaround of the aviation sector should be the focus of the government instead of looking at only PIA that is merely one aspect of the larger picture.

## Introduction

Pakistan International Airlines Corporation - abbreviated to PIAC and colloquially known as PIA is the national carrier of Pakistan and was once a household name that inspired pride in Pakistan's citizenry. However, over the past few decades, PIA's performance has consistently been deteriorating and it is no longer the airline of choice for passengers in Pakistan. This marked decline in PIA's performance has attracted significant media attention along with strident criticism from the public about the airline's dismal state of affairs. Many efforts to "revive" PIA's past glory have not materialized and PIA has become a public sector caricature marred by patronage, corruption and inefficiency. So what are the various issues that have contributed to PIA's current conundrum? In order to address this question with some measure of clarity, this paper is divided into four sections:

- i. A summary of problems currently faced by PIA
- ii. A comparative analysis with Qatar Airways
- iii. A financial analysis with a sub-section on restructuring and
- iv. Recommendations supplemented with analysis for the way forward

To begin with, a few basic facts: PIA was incorporated under the PIAC Act 1956 and is listed on all three domestic stock exchanges, with the Government of Pakistan as the principal shareholder with 85 per cent of the share capital. At present, the only advantage PIA offers its passengers is a direct connection that saves them the hassle of changing flights and having to endure long waits at foreign airports. Both of the aforementioned can double or sometimes treble the time needed to reach a particular destination. The "Open Skies" policy - that liberalizes regulations

concerning air travel - ended PIA's monopoly over the national skies and as a result, allowed Gulf-based airlines, like Emirates, Qatar and Etihad, access to the local market. This led to a decrease in both PIA's market share and revenue. Unfortunately, the competition did little to improve PIA's services and has in fact, made matters worse.

In terms of who's to blame, various stakeholders are quick to point fingers. The national carrier cites policies that increase competitiveness as one of the reasons that has contributed to PIA's downward spiral. Incumbent governments assign blame to the political interventions of their predecessors, while economists insist that the free market economy is merely taking its natural course, where the weakest competitors are eliminated and only the fittest survive.

In reality, all previous governments in Pakistan have handled PIA in an unprofessional manner and one that certainly exceeds their jurisdiction. Politicians have deliberated directives concerning several operational matters; these include matters concerning departure areas, domestic and international postings, and even the attire of the cabin crew. It is important to reiterate that these decisions unequivocally fall outside the purview of political actors and should only be taken by senior management or the Board of Directors (BOD). Sustained political interference in any commercial enterprise has a detrimental effect on service delivery and interference in this context has hindered the implementation of merit-based decisions that could have been made in the larger interest of the airline.

Although PIA has a large number of personnel that work in non-core services, the revenue from these services - such as Cargo, Engineering, Flight Kitchen, Speedex Courier Service - remains meager. For instance, only 5 per cent of the revenue is generated from the Cargo service. This could significantly be

**Table 1: PIA Fleet Status as on November 30, 2014**

No.	Aircraft Type	Total fleet	Active fleet	Airworthy aircraft	Permanently Grounded
1.	B747	4	1	1	3
2.	B777	9	9	9	0
3.	A-310	12	6	6	6
4.	B0737	3	0	0	3
5.	A-320 (Dry Lease)	3	3	3	0
6.	ATR42	6	6	6	0
	<b>Total</b>	37*	25	25	12

\*Excluding 06 aircraft on Wet lease

increased if operations were run in a more efficient manner.

Unfortunately, at present PIA is not being run like a commercial entity because it does not follow a business model; a necessary framework for any revenue generating business. For example, the employee to aircraft ratio in the Annual Report released by PIA in 2014 puts average regular employees at 16,243. This means that the ratio of employees to an aircraft is approximately 650, on the basis of active aircraft and regular employees. This number, as is abundantly clear, is far too high and has an adverse effect on the efficiency and financial profile of the company. Looking at industry standards i.e., 150 to 200 employees per aircraft, one can easily evaluate that the aircraft to employee ratio is certainly disturbed in case of PIA. Contributing to this high ratio is the number of employees that are employed to perform the services like ground handling, flight kitchen, maintenance work which is usually outsourced in case of other airlines world over. A huge workforce is employed to perform these non-core services. Comparing with the Qatar Airways, the group employs the workforce of 39000 workers with the total fleet of 162 aircrafts, so this ratio comes out to be approximately 240, which is far less than PIA and is one of the reasons behind the success of Qatar Airways.

### PIA Subsidiaries

Pakistan International Airlines has a number of Subsidiaries and Associates such as:

#### Skyrooms (Pvt) Ltd

Skyrooms (Pvt) Ltd was incorporated on May 20, 1975 in Pakistan as a private limited company under the Companies Ordinance, 1984. SRL owns and manages Airport Hotel, Karachi. The SRL is a wholly owned subsidiary of the Pakistan International Airlines Corporation.

***This means that the ratio of employees to an aircraft is approximately 650, on the basis of active aircraft and regular employees. This number, as is abundantly clear, is far too high and has an adverse effect on the efficiency and financial profile of the company***

#### PIA Holding (Pvt) Ltd & PIA Shaver Poultry Breeding Farms (Pvt) Ltd.

PIA Holding (Pvt.) Ltd & PIA Shaver Poultry Breeding Farms (Pvt) Ltd. had applied under the 'Easy Exit Scheme' announced by the Securities and Exchange Commission of Pakistan (SECP) for voluntary winding up. Assets and liabilities of these subsidiaries were taken over by the Pakistan International Airlines Corporation.

#### Abacus Distribution Systems Pakistan (Pvt) Ltd

Abacus Distribution Systems Pakistan (Pvt) Ltd was incorporated in October 2004. The principal activity of the company is to market and distribute the computerized reservation system, which perform flight, hotel, car rental and other travel related services and ticket issuance. Pakistan International Airlines Corporation holds 70 per cent equity in Abacus Distribution Systems Pakistan (Pvt) Ltd.

#### PIA Investments Limited (PIAIL)

PIA Investments Limited (PIAIL) is a 100 per cent owned subsidiary of Pakistan International Airlines Corporation. The PIAIL was incorporated on September 10, 1977 in Sharjah, United Arab Emirates, as a limited liability company. The principal activity of the PIAIL is to carry on business as promoters of and

**Table 2: Employee to Plane Ration Comparison for 2014**

No.	Year 2014	Qatar Airways	PIAC
1.	Total Fleet	162	37
2.	Active Fleet		25
3.	Employee to Plane Ratio*	240	440

\*Employee to Plane Ratio based on Total Fleet

investors in projects related to construction, development and operation of hotels, motels and restaurants throughout the world. PIA Investments Ltd manages Roosevelt Hotel in New York and Scribe in Paris, France.

**Minhal Incorporated - Sharjah**

The Minhal Incorporated (Minhal), Sharjah was incorporated on January 1, 1977 in Sharjah, United Arab Emirates. Pakistan International Airlines Corporation holds 40 per cent equity in Minhal.

The Hotels owned by PIA Investments in New York and Paris are such assets which add value not only to PIA but also gives a presence and visibility to Pakistan overseas which is great for the country's image. Till such time that a decision regarding PIA's subsidiaries and noncore businesses is taken, it will be financially prudent if aggressive marketing is done to make maximum use of these to improve PIA's financial health. For instance PIA's hotels in New York and Paris should be used by our VVIP's during their overseas visits; this will give positive projection to Pakistan's image.

Before we take up the financial and operational diagnostics of PIA, it would be instructive to review a short case study of an airline established 38 years after PIA. Despite its relatively new status, it has been ranked as a top airline several times in recent years.

### Case Study Qatar Airways (QR)

Qatar Airways (QR) started operations in 1994 as a small regional airline. The airline was subsequently launched in 1997 with the goal of transforming it into an international air carrier. Currently, QR is the national airline of the state of Qatar and is one of the fastest growing carriers in the world. 14 years after its re-launch, QR was declared “Airline of The Year” in 2011 at the annual Skytrax World Airline Award. The airline went on to win the same award twice in 2012 and 2015. QR covers Europe, the Middle East, Africa, South Asia, Asia Pacific, North and South America with a modern fleet of more than 160 passenger and cargo aircraft. From only 4 aircraft in 1997, the airline operates more than 160 aircraft to 140 destinations worldwide. It has the industry's youngest fleet with an average age of the aircraft being 4 years.

QR is owned by the Government of Qatar and is under complete government control since July 2013, following the buyout of a 50 per cent stake from a former foreign minister and other shareholders.

QR has many divisions including:

- i. Qatar Aircraft Catering Company
- ii. Doha International Airport
- iii. Qatar Airways Holidays
- iv. Qatar duty Free
- v. Qatar Aviation Services
- vi. Qatar Distribution Company
- vii. Qatar Executive

A cursory look at both entities would reveal that PIA and QR share common features as both are state-owned airlines with multiple businesses under their purview. Nonetheless, an interesting point of departure emerges

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***A cursory look at both entities would reveal that PIA and QR share common features. Nonetheless, QR has been subject to increasing amounts of government control while analysts in Pakistan insist that privatisation is the only way forward for a bloated bureaucracy such as PIA***

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as QR has been subject to increasing amounts of government control while analysts in Pakistan insist that privatisation is the only way forward for a bloated bureaucracy such as PIA. This begs the question, which approach is better suited for our national carrier?

One should bear in mind that while both airlines receive government support, there remains a marked difference in their style of management. To this end, QR follows a business model while PIA is run like a government department. This result in a qualitative difference in performance with QR demonstrating greater levels of efficiency compared to an organization such as PIA, which occupies the lower end of the ladder in terms of service delivery.

There also remains a key difference between the socio-economic landscapes that PIA and QR individually operate in. One must be cognizant of the fact that airlines like QR are driven and facilitated by more than just a market-oriented style of management. QR is part of a larger socio-economic context in which the Government of Qatar is heavily invested in presenting itself as an international business and tourist destination, in keeping with other image-building measures. This active interest means that the Government of Qatar has an incentive to not only invest in but also to maintain the level of service offered by the national carrier.

## Financial Headwinds

A striking feature in PIA's Annual Report for 2014 is the celebration of a reduction in loss before tax by 34 per cent as compared to the previous year. When a corporate entity established to generate commercial revenue is forced to celebrate victories of such nature, clearly liability headwinds appear to be dragging the entity down. The Annual Report 2014 (Page 18) further elaborates that as a result of effective measures taken by the management, the Passenger Revenue, with a combined effect of increased in-seat factor to 72 per cent led to 8.8 per cent increase in passenger revenues. This was achieved through:

- i. Fleet modernization
- ii. Route rationalization, and
- iii. Cost cutting

Even if a rudimentary analysis of these revolutionary measures is carried out; the first one entails cost, as fleet modernization in layman's language means spending money and ultimately creating more liability. The spin-

off from such capital expenditure appears over the medium term, reflected in higher in-seat factor with correspondingly higher earnings. The second one is operational management. The frequency of loss making routes is reduced by increasing flights to more profitable route.

The third measure leading to 10.6 per cent decrease in expenses and other financial costs is admirable and simultaneously mind-boggling.

If one were to pick up three major components of the liabilities, i.e., fuel, aeronautical charges and the Provident Fund related to the work force that provides technical support; these alone constitute 71 per cent of the total liabilities. From an industry standpoint, aeronautical as well as fuel charges constitute aviation activity, which in turn generates revenue. With such high percentage of revenue generating liabilities, the falling number of revenue passengers to 20 percent between 2012 and 2014 (Annual Report 2014) despite incurring expenditures is inexplicable.

On the other hand, the Government of Pakistan has

**Table 3: Liabilities Breakdown PIAC (2014)**

No.	Liabilities	Rs. (in Billions)	Per cent of Total Liabilities
1.	Fuel PSO	13,100	17
2.	Fuel Others	1,058	1
3.	Taxes & EOBI	5,773	7
4.	Provident Fund including Mark-Up	11,014	14
5.	CAA, Pakistan	23,569	31
6.	Foreign CAA	7,004	9
7.	Overflying-Other Countries	500	1
8.	Stores & Engineering	6,306	8
9.	Fleet Insurance	219	0
10.	Crew Allowance	500	1
11.	APTAAgents-Commission on Fuel Surcharge	1,326	2
12.	Mark-Up Payable Banks Only	6,704	9
		<b>77,073</b>	<b>100</b>

Source: 2014 Annual Report



come to the rescue of the airline each time it has sought help. This has been in the form of financing provided by a sovereign guarantee issued by the Ministry of Finance, or by injecting equity through a handout or cash support for the airline.

Moreover, the recent slump in oil prices has benefited the aviation industry across the globe as lower fares have led to higher number of passengers. PIA seems to have missed the bus once again. Considering the fact that the fuel prices took a nosedive around the globe, and also the expenditure of PIA under fuel head decreased by 49 per cent for the first quarter of current year, the national airline was unable to curtail its losses in an efficient manner. The fuel expenditure was 14.73 billion as of first quarter of 2014, which was reduced to 7.55 billion by the first quarter of 2015 because of dip in oil prices; the airline was just able to reduce its losses to 1.94 billion in the first quarter of current year from 1.98 billion in the first of 2014. For the year 2014, the fuel expenditure was Rs.55 billion, which is expected to fall to Rs.46 billion this year. This clearly reflects that the airline was unable to substantially exploit the cut in fuel prices in its favour.

If these figures are taken at face value and compared with industry standards, it may appear that matters are improving. Nevertheless, there should be a commensurate impact on the balance sheet and currently that does not seem to be the case.

Air transportation is a service industry; airlines perform a service for its customers transporting them and their belongings or their product from one point to another. Airline business is somewhat like banking, insurance, etc., there is no product given in return for money spent. The breakeven load factor for the industry in recent years has been approximately 66 to 70 per cent. For airlines with higher administrative expenses the load factor is even more. It is very important to have a high seat factor as profitability is directly related to it as more than 75 per cent of airline revenue is generated through passengers.

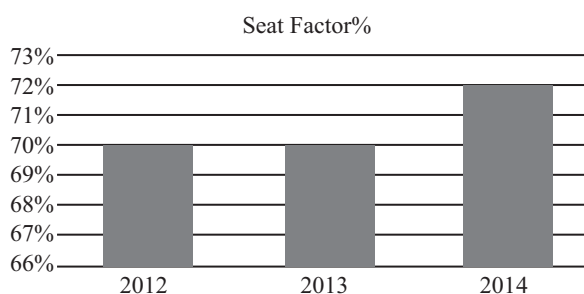
**Table 4: Cash or Equity Injected**

No.	Dates	Source	Amounts
1.	Jan 2013	GOP Guarantee	Rs. 3.4 billion
2.	Dec 2013	Cash support	Rs. 16.3 billion
3.	Dec 2014	GOP Equity	US \$. 52 million

**Table 5: Impact of Fuel Cost Reduction**

No.	Fiscal Year	2015 (Rs. Billion)	2014 (Rs. Billion)
1.	Fuel Cost (for first quarter)	7.55	14.73
2.	Fuel Cost (for whole year)	46	55
3.	Loss after Taxation	1.94	1.98

**Figure 1: Seat Factor (2012-2014)**



## Financial Restructuring

A financial restructuring plan of the airline has been mentioned, proposed, and presented in official meetings before the Secretary Defence, Aviation, Special Assistants to the Prime Minister, the Finance Minister and not to mention the Honourable Prime Minister of Pakistan frequently. Keeping a tally of previous presentations and the differences in focus, tone and financial requirements needs a separate study. However, a peculiar combination of forced optimism, sentimentalism and the excuse of the negative impact of aviation liberalization, have so far kept PIA afloat. These factors lead government to take decisions that are not always best and most transparent for the airline.

It is pertinent, at this juncture, to mention major flaws in the system's way of assessing, evaluating and deciding upon mega-projects. Ever since PowerPoint presentations have become the norm for project appraisals, intensive in-depth analyses and thorough explanations of potential socio-economic and financial repercussions of projects are often glossed over. Intrinsic to the format of a PowerPoint presentation is the fact that the presenter is in complete control of the narrative and can steer the audience in the desired direction by focusing on non-essential aspects, while keeping delicate issues out of the discussion. It may appear a facile point, but decision-making contingent on inadequate half-measures such as the above will not empower management with the ability to make informed choices.

In this regard, presentations seeking assistance for PIA at different forums have always focused on the financial shortfalls of the entity. Within the aviation business, there are a wide variety of measures that help ascertain an airline's capacity. Some of these include Available Seat Mile capacity (ASM), or the Revenue Passenger Mile (RPM), which measures productivity. Furthermore, the System-Wide Load Factor or Yield through Revenue per Passenger Mile are some calculations that help in identifying Optimal Utilization of Revenue per Available Seat Mile. Pleas for financial support seldom highlight these variables. For example, the cost per available seat mile, a basic measure of cost can help management review its aircraft capacity, destinations and the employee ratio. Unfortunately such analysis is done by aviation professionals and not by the pilots, businessmen and bureaucrats that usually form the top layer of management.

Management is often averse to comprehensively reading and understanding the Auditor's notes. In the

## ***Commitments to the International Financial Institutions (IFIs) made by the Government regarding cutting down subsidies to ever-bleeding public sector enterprises, also includes privatizing PIA. The Government of Pakistan is committed to initiate the process by end of December 2015***

Annual Report 2014, the 'Financial Risk Assessment' (Page 161) states that group activities expose PIA to a variety of financial and market risks that include currency risk, interest rate spike and fuel price risk. Since company earnings are affected by changes in the price of fuel, hedging fuel prices through use of derivatives contracts is a common tool. Despite huge opportunities due to fuel price volatility, being a Public Sector Enterprise (PSE) the management adopts a conservative approach even though it is a bulk purchaser.

Commitments to the International Financial Institutions (IFIs) made by the Government regarding cutting down subsidies to ever-bleeding public sector enterprises, also includes privatizing PIA. Under the on-going Extended Fund Facility (EFF) with the International Monetary Fund (IMF), the Government of Pakistan is committed to initiate the process by end of December 2015.

It goes to the credit of the present Government that a clear three-pronged approach has been adopted for the privatisation of PSEs, which includes:

- i. Outright sale of an entity
- ii. Divestiture of shares through the equity market
- iii. Strategic sale and transfer of management through 26% sale to a strategic partner

With regard to PIA, there is speculation that the Government is considering a third option, i.e. 'Strategic sale and transfer of management through 26% sale to a strategic partner.' Considering a similar transaction that occurred earlier, where despite the transfer of management, US \$800 million remain outstanding; it is questionable whether the Government should

undertake such a risky transaction. To avoid recurrence of such transaction like the outcome of the telecom deal which was a result of a combination of inadequate financial safeguards and weak management. An out-of-the-box solution or a privatisation model will have to be developed not only to meet international commitment but also to safeguard national interest.

In order to make PIA profitable and efficient, it is essential that the following reforms are implemented to improve the performance of the airline:

- i. PIA may consider getting listed under one stock exchange now that we have Pakistan's Stock Exchange. This would provide PIA more focused business visibility.
- ii. The Government must display unwavering political commitment to reviving the airline. The management must implement all decisions taken by the Board of Directors (BOD). The Government must maintain its resolve and composure in the face of any external resistance, as management will only be able to ensure the implementation of decisions of the BOD when it enjoys the fullest support of the Government.
- iii. The transportation of dignitaries like the President or the Prime Minister of Pakistan on overseas visits should be separated from the airline, as it has a negative impact on the overall schedule along with being an inconvenience to passengers and a financial loss to the airline. All VVIPs must arrange for their own travel needs that are not linked to PIA aircraft, crew and kitchen in any way.
- iv. Unions and Associations representing various Groups and Cadres of PIA employees should be depoliticized to prevent exploitation at the hands of political parties looking to achieve their own ends. This stance should be maintained until the economic future of the airline is stable. Whenever a particular party is in power, unions and associations also come into office with a leaning towards the government which has major implications for independent decision making. Because of their political leanings these elected bodies also lose objectivity which should be their hallmark as Collective Bargaining Agents (CBA).
- v. The BOD must be constituted by the shareholders apolitically. The composition of the BOD should comprise individuals that have sound knowledge of the airline industry, qualifications, and the right experience with a reputation for integrity. Additionally, the BOD is fully empowered to formulate policy-making decisions without any external influence. Any individuals with conflicts of interest should not be on the BOD.
- vi. The Government should refrain from issuing directives to PIA about operational matters that fall within the purview of the BOD or the Executive. All appointments, postings and promotions should be approved as per established policy and procedure. These must not be dictated by any authority higher than the BOD.
- vii. It is unfortunate that Government talks ad nauseam about merit yet continues to give precedent to politics in appointing the Chief Executive Officer (CEO). To make matters worse, experts are also of the opinion that half of the employees are unable to meaningfully contribute to the airline because they are not qualified or lack the capacity to successfully execute their job requirements. Overstaffing with disregard to the actual requirements of an organization will be a big financial drain on any airline. Perks and privileges provided to serving and retired employees are a major reason for the poor financial health of the airline and should be stopped.
- viii. Services required for the running of the airline are being provided by businesses and firms owned by past and present employees. This contributes to a lack of transparency and to a compromise in the standard and quality of services being rendered. Without mentioning names, a number of airline individuals have business interests in area such as food, travel, etc. which result in decisions being taken which are not always transparent and in the best interest of the organization.
- ix. Till the performance of the airline improves, the provision of discounted tickets should be discontinued. The provision of this facility leads to a nexus among employee, reservation and traffic departments that is detrimental to the commercial interests of the airline.

The present Government should undertake an exercise to analyze the advantages of various cash injections given to the airline during the last ten years.

## Analysis

As a general principle, most people blame the problems of airline failure on high labour costs. However, poor management and political interference in developing countries remain responsible as business norms differ from the developed world. Hiring unqualified and ill-equipped individuals for technical and professional jobs, overstaffing, multiple layers of management, inadequate market strategy and the failure to plan for contingencies are some of the factors in aviation literature that point to airline failure. One must remember that the airline industry is a cyclical industry. Economic downturns have corresponding impacts and airlines also benefit when economic upturns take place. Although, there remains a tendency to blame the unions; it has been observed that workers are more tied to the company than management.

Overall, the experience of the Government of Pakistan can be categorised as fair. This categorisation is the result of offloading a large number of financial institutions during the last two decades. Financial institutions have a clear structure with a balance sheet and operational network. The Government, before privatising entities, cleaned up their balance sheets by assuming liabilities and through loans from multilateral institutions was able to implement severance package for employees. Thus, a clean balance sheet and a right sized financial institution with a captive market through an elaborate network of operations in Pakistan and overseas were bound to be successful. The remaining entities had real estate values and were thus successfully privatised.

PIA is not only a commercial entity but also a national asset. Any decision concerning PIA must be taken,

keeping in mind the fact that PIA looks after the social, political, and defence requirements of the country.

In September 2013, the Government decided in principle to partly privatise PIA by floating 26% of its shares and by privatising its management. In contrast, the airline management insists that there will be restructuring and no privatisation. The management is of the view that new generation fuel efficient aircraft are required but this cannot solve PIA's management issues.

Successive governments have been appointing individuals on top positions on contract basis. The appointment of these lateral entrants create insecurity amongst regular employees who instead of investing their energies in the airline get busy in protecting their own positions, which affects the overall performance of the airline. The airline is a top-heavy organisation with 11 directors, 35 to 40 general managers and hundreds of deputy general managers. All these cost the airline exorbitant amounts and make it very difficult to justify bailout packages for them.

The present Government has a long list of entities that it would like to privatise and PIA is one of them. PIA affairs have long been driven by a pattern of government dominated adhoc, whimsical and crisis-driven decision making as the focus was on immediate or short term advantages and gains. The privatisation or otherwise of PIA should certainly not be a political decision as PIA with all its assets includes a large number of the Air Services Agreements (ASAs) with foreign countries in which it is the designated carrier of Pakistan.

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## **The Way forward**

As a first step, the non-core functions can be separated from the PIA, giving them an autonomous identity through self-sustaining measures. These non-core functions include flight kitchen, maintenance repair, overhaul and the Speedex courier services. This would result in the elimination of 4,300 staff positions, which would lead to a better employee to aircraft ratio in PIA.

Consequently, this would lead to more efficient management of these services and also contribute to a reduction in the overall corruption rampant in PIA. Simultaneously, financial restructuring of PIA with definite timelines be undertaken by a dedicated team of professionals who have no vested interest and association with the organisation. The management should be able to exploit to their advantage the ongoing low fuel prices to make the airline profitable, competitive and passenger friendly airline. The government should maintain a majority share with an absolutely independent BOD and empowered management. Privatisation of the airline without an in depth analysis of the requirements of transportation for hajj, Umra and defence has implications which cannot be ignored.

The Government should outsource management with a time bound performance contract. Once the airline become profitable then the government can deliberate on pros and cons of offloading the share holdings along with a certain percentage.

It must be remembered that as an intervention proposed by the International Monetary Fund under a structural adjustment programme is merely focused on the reduction of the fiscal deficit of the Federal Government. The purpose is not to reform the PSEs but only to stop the financial hemorrhage. In recent times, enough has been written in economic literature about the “one fit all” approach of the desk economists of the IFIs who are far removed from ground realities of the developing world. Since during the initial period of economic reform, public sector is the driver of growth, as such PSEs provide service to the people in countries like Pakistan.

Therefore, gradually off-loading first the non-core activities will provide the Government an opportunity to re-assess the balance sheet of the corporation. Further divestiture through the equity markets can subsequently follow as a way forward. An out-right sale of a national asset like PIA, which also is a symbol of national cohesion, is a recipe for creating social and political un-rest with little economic gain, except may be a successful quarterly review of the IMF. A complete turnaround of the aviation sector should be the focus of the government instead of looking at only PIA which is merely one aspect of the larger picture.



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