

PRIVATISATION OF COMMERCIAL AIRPORTS IN INDIA: CARRY OVER LEGACY, A NIGHTMARE MANAGING THE PEOPLE AGENDA

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ABSTRACT

Government's economic policy framework and agenda which is driving government owned enterprises to be divested of its ownership and transfer to private players or transferring the assets on build own transfer agreements is resulting in many business nuances associated with people management which is counter-productive and impacting corporate governance and progress of the enterprise. This study highlights the various gaps in the government policy and the positive and negative rub-offs of the strategy and its impact on business and performance. It also describes the flaws in the governance framework and the serious fall out on the people front in an organisation. The study is based on hard facts observed on the ground and scope for rectification in the future.

Key words: Airport Authority, Private Operator, Privatisation, Union, Greenfield, Brownfield, Transition

INTRODUCTION

The Ministry of Civil Aviation is the nodal ministry responsible for formulation of national policies/programmes for development/regulation of Civil Aviation in India. Its main objective is to ensure orderly growth of civil air transport in India. Its function extends to overseeing airport facilities, air traffic services and carriage of passengers and goods by air. Director General Civil Aviation (DGCA) and Airports Authority of India (AAI) work directly under Ministry of civil aviation (www.civilaviation.gov.in). Since 2009 there has been an independent economic regulator—the Airports Economic Regulatory Authority (AERA)—to regulate tariffs and other charges for aeronautical services and to monitor performance standards of airports. (a) to determine the tariff for aeronautical services, taking into consideration the specified factors ; (b) to determine the amount of the development fees; (c) to determine the amount of the passenger service fees; (d) to monitor set performance standards relating to quality, continuity and reliability of service as specified by the central government or any authority authorized by it; (e) to call for such information as may be necessary to determine the tariff under clause (a); and (f) to perform such other functions relating to tariff as may be entrusted to it by the central government or as may be necessary to carry out the provisions of the Act (<http://aera.gov.in>).

Slot allocation & Ground handling is with the private operator while ATC or air traffic control continues to be handled by AAI. Airport In-Terminal operations are also managed by the private operator. Operations of the airport consists of Air-side, Terminal/City side, Slot Allocation & Airport Operations Control Centre (AOCC), Public Grievances, RTI and Quality Management Issues and the functions include;

1. To ensure serviceability of all operational/passenger facility at all the time at the Airport
2. Airside Management

3. Terminal Management
4. Commissioning and operationalization of AOCC (Air Operations Control Centre)
5. Safety Management and coordination
6. Plan and project the requirements regarding construction/up-gradation of the aerodrome and related facilities for safe aircraft operations
7. Terminal Management
8. Coordinate with DGCA for safety assessment on the planning, construction & commissioning of changes to airport infrastructure, and maintenance programs
9. Liaise at apex level with the various ministries, regulatory bodies like DGCA and Bureau of Civil Aviation Security (BCAS), Immigration and Customs on issues related to Airport Management (Operations) and Aviation Security
10. Allocating night parking stands to domestic flight operators
11. Slot Management-Slot allocation for all the airlines operating domestic/ international flights.
12. Coordinate with Dept. of Engineering / Planning/ IT/ Security w.r.t. all planned/ modification / repair works in the terminals
13. Handling VIP Movements and aircraft emergencies

Airport Authority of India (AAI) came into being in April 1995 and was established primarily with a view to accelerate the development, expansion and modernisation of airports in the country. Clear focus was on passenger terminal, air traffic services, cargo operations and other operations areas. In line with this mandate, the AAI had complete control over the Indian airspace (excluding the defence), runways, taxiways, aprons, ground handling services, vehicular traffic inside airport zones, including, design, development of passenger and commercial terminals, communication and IT inside the airports, international and domestic operation, other passenger facilities etc (AAI.aero, 2020 a).

India has 449 airports/airstrips in the country, 126 airports managed by Airport Authority of India (AAI), 13 international, 85 domestic, 28 civil enclaves at defence, airfields (www.civilaviation.gov.in b). The country's aviation sector was plagued with inefficiencies, poor infrastructure and customer service and hence the government of India decided to privatise the major airports in the first phase and thereafter in a planned manner to extend the scope in the years to come.

Unfortunately, the infrastructure, technology and passenger amenities were inadequate and after changes in government policy the four major airports in the country Mumbai, Delhi, Bangalore and Hyderabad were opened up for privatization on a well planned and executed bidding process. The original plan of handing over the existing brown field airport at Mumbai and green field in Delhi, Bangalore and Hyderabad were not without its share of controversies.

Mumbai airport the busiest airport in the country and with only one operational run way at any given point in the heart of the city, with slums all around and airport land encroached was a unique situation not managed well by the government but handed over to the private sector operator without resolving legacy issues.

Government had handed over the Mumbai airport by a transaction governed by Operations Management and Development Agreement (OMDA), which was a 30-years concessions agreement with a further 30-year optional scope of renewal. The agreement had a mandatory capital expenditure program with key projects to be completed within timelines post transfer of assets. The agreement had provisions for liquidated damages for non-compliance. The agreement had a series of objective and subjective service standards to be adhered to. An independent regulator (AERA) will decide, limiting the use of land for non-aero purposes to 10% in Mumbai, generating a minimum non aeronautical revenue at 40%, most importantly retention of all staff

initially and then of a significant number even after 3-years by the private operator. However, ATC would still be under the control of AAI/DGCA (AAIAERO, 2021 b).

This case study is an effort to capture the various dimensions of the government's effort to privatize the Mumbai airport from a HR perspective since the people and talent related issues were not addressed in totality while embarking on the transition.

CASE OVERVIEW

This case is presented in a manner where introduction to the airport business, the various nodal agencies involved, the government's approach to privatisation, the fall out of people related issues which had a significant impact and all other issues related to the transition have been discussed.

On analysis after 5-8 years post transition to private players it has revealed that there is time overrun, cost over-run, stake holder's conflict, and debt repayment. In the case of brownfield project development issues pertaining to legacy matters have taken a toll. Land encroachment, slum relocation, various abattoirs/butchery units, illegal construction in and around the airport zone, theft of assets, political interference etc. Development of Brownfield airport have faced following problems of non-availability of adequate land for expansion, opposition of public residing nearby airport, due to noise and air pollution etc (Gupta & Agrawal 2013).

Privatization of airport means that private companies have been provided the lease of these airports, for a specific period of time. They would not only manage the airports but also carry out expansion and modernisation. However, the security of the airports will be under the home ministry and currently the CISF, Central Industrial Security Force are guarding the airports (Wikipedia, 2020).

The development of Brownfield and Greenfield airports was undertaken to ease airport congestion and ensuring value add to the passengers. Public Private Partnership (PPP) model i.e. Build Operate and Transfer (BOT), Build Own Operate and Transfer (BOOT) have been tried for development of Airports in India. Up gradation of existing facilities comes under brown field projects. These projects are developed under BOT model. Mumbai International Airport (India) has been developed under BOT contract.

The Mumbai and Delhi airports combined handled the bulk of Indian passenger and cargo traffic. Delhi and Mumbai airports together, accounted for over 70% of total passenger traffic and 80% of AAI's revenues. In 2000, the International Air Transport Association (IATA) conducted a survey of the biggest airports in the world. The airports at Mumbai and Delhi were ranked amongst the three least favourable airports in the Asia-Pacific region on all 19 service elements. The service at the two airports was considered to be inadequate despite the airports having a large administrative staff (ICMRindia.org, 2021 a).

Both Delhi and Mumbai airports handled twice as many aircraft movements as they were originally designed for, resulting in congestion for both aircrafts and passengers (icmrindia.org, 2021 b).

There has been a lot of debate over the rationale of privatization of airports as it was argued by the critics that given the importance of airport infrastructure, private players would overcharge and exploit the public. On the other hand, proponents of privatization argue on the basis of poorly managed public airports it was time that India modernises its airports to improve the economy (Ohri & Manoj, 2006).

Introduction Airport privatisation is a controversial, yet increasingly important, theme in government policy throughout the world. The first major privatisation occurred in the UK in 1987 and since then a number of other countries, both in developed and developing regions, have seen it become a significant political force. In a global study of 459 airports in 2007 it was found that 24% of airports had full or partial private ownership (Graham, 2011).

Airports are designed and developed to support and provide infrastructure facilities to airlines. Since many decades, the airports remained as natural and public monopolies with large economies of scale. Only recently and after the corporatization and privatization, airports come under economic regulation. Particularly, during last few decades the nature of the airport industry has undergone a drastic change. The business and commercial objective with profit/revenue maximization in a corporate frame work have been adopted by almost all airports worldwide including Indian airports in particular (Singh et al., 2015).

It is widely apprehended that handing over security matters to private players would result in deterioration of the safety and security standards of airports and aircrafts. The onus is on the government to ensure that such a situation does not arise. The interest of several parties are involved, hence the government needs to come up with a policy which is acceptable to everyone. However, it must be said in this matter that safety and security in aviation is of primary importance (Ray, 2014).

A similar situation existed specifically within Europe in 2008 where 13% of the airports were owned by public-private shareholders and 9% were fully privatised. However, these partial or total privately owned airports handled proportionally more European passenger traffic (48%), since private operators are predominantly found at larger airports (Graham, 2011).

Meanwhile in developing countries between 1990 and 2005, 38 low and middle-income countries entered into short and long-term airport privatisation transactions that attracted investment commitments of more than US\$18 billion (Andrew & Dochia, 2006). Such developments have transformed the structure of the global airport industry and have led to the emergence of multi airport international companies (Forsyth et al., 2011)

It is argued that privatisation policies are motivated by the belief that private sector will perform better, increase economic efficiency, be focussed on results. While governments may gain financially from converting fixed public assets into cash and subjecting the privatised firms to paying corporate taxes. Overall government and political involvement and control may be reduced as well as curbing public sector union domination. Profit maximisation objectives may lead to inadequate investment and impact on social justice.

People Transition and Dimension of the Airport Business

A large proportion of the AAI employees technical and non-technical including all the contract labour and staff transitioned to the private operator. Bulk of the hiring in the government attracted talent keep in mind social objectives and therefore skill, knowledge and behavioural attributes were not developed keeping with a view to develop world class service and operations. Though, some of the technical managers had vast experience but leadership aspects needed refinement.

The strengths of the AAI staff who have crossed over to the private operator is that the operations continued without any outages and they did coordinate well with the various foreign consultants and expatriates working with the private operator in ensuring smooth operations on the technical front. However, in the cargo, fire division, land side things weren't easy to handle and many complications arose which had to be defused from time to time. Handling of the

commercial terminal, including the passenger terminals improved substantially from the past and it had a positive rub-off on the passenger experience. Coordination with CISF security, Customs and Narcotics officers, IB-Intelligence officers improved with passage of time with understanding of each other's expectations in the management of the airport. Liaison with local police on law and order outside the airport also developed with passage of time.

Bulk of the staff and workers were unionised and it had deep roots in all departments and vitiated the professional working environment, since nothing could be kept confidential. The union leaders had influence on the management and had various contracts awarded to them including additional revenue as consultants while in service. If the airport had to be modernised it's the human resources who needed to play an active part and bulk of the operating staff unionised and carrying legacy was a huge challenge when the new hires were coming from the private sector and oriented towards a performance culture.

Management using trade union leaders (employees of the airport) part of the trade-off for various activities had an adverse impact in the work culture and working norms. The industry is surely in short of talent from business or engineering schools on airport operations, maintenance and management. The private operator had to manage two set of HR policies one for the employees who were transferred from AAI rolls and the other fresh hiring from the industry.

The AAI employees who moved to the private operator always believed in the right to entitlement without focus on productivity or performance. Large parts of the airside and cargo operations were managed by the employees who moved from AAI and hence plagued with legacy and union issues. The problem of multiple unions and fragmented worker-staff representation was a day-to-day challenge and inter union rivalry were an eye soar in the industrial relations climate in the organisation. Local political parties influencing or meddling in day-to-day governance adding to a weak management resulted in chaos and unstable set-up with most decisions taken based on political considerations rather the pragmatism. Collective bargaining was never a choice rather Union leader's unreasonable demands and ability to coerce and get maximum gain for personal or workers/staff was a common phenomenon owing to a management policy of divide and rule.

Policy Implications on Airport Privatisation

With the government keenly pursuing privatisation of airports, it seems essential to fix socio-economic and socio-legal issues before embarking on the policy frame work. Government hiring, training and retention have to be consistent with Privatisation. Private owners must invest on developing talent transitioning from Airport authority and bring them to speed on the skill, knowledge and behavioural front. Trade Unionism has to be consistent with the common good and not driven from a political perspective and derailing the industry. Hence, leaders have to be developed from within to avoid external interference and meddling.

Ownership Issues and Management Control

From the first phase of privatisation experience, the key take away must be that only leading business houses with a sound management experience, deep pockets, market standing, brand equity with a good track record of settling debts must be eligible for bidding of existing airports getting privatised. Failing which we will see a repeat of short term measures in handling the business and people agenda, resulting in a loss to the national exchequer and also increase in

costs of travel for the customers. Airport Management experience should be mandated for all future eligibilities to manage airports on build own transfer basis.

CONCLUSION

While the policy of privatisation of airports for economic considerations was the right step forward, transfer of employees from AAI to the private operator under the OMDA agreement seems counterproductive and a stumbling block in the development of the airports, enhancing value to air travellers or users of the airport. Rather, deputing employees for a year to eighteen months and thereafter, taking them back into the fold of AAI would have been a better option for both the private operator and the employees transferred from AAI. This option would have been better since there was a complete misfit in expectations, skill sets and ability to scale up to address the needs of privatisation, liberalisation and globalisation. Privatising the airport and tying the hands of the private operator or over burdening the private operator with legacy issues surely comes in the way of governance and development of the enterprise. In order to address the social issues the government should have adopted VRS (Voluntary retirement scheme) or transferred them to other AAI run airports.

Owing the vitiated environment professionals from the private sector were victims of unholy alliances of the Union leaders and the management and there was hardly any stability. The Union leaders, politicians were dictating terms on who should be in office or not was a disastrous human resource policy to further. Therefore, the private operator of the airport had employees transferred from AAI (unionised), private operator core employees who moved from their parent organisation, and direct hiring from the industry, with three distinct profiles in the same work environment having a negative rub-off on the work culture. Attrition of employees hired directly from the industry was very high and the organisation lacked stability. Consequence of governance issues, inability to settle the debt and consequentially the takeover by another private operator or business house in 2020 is a clear indication of the capabilities demonstrated by the private operator.

For the new investor or private operator, it is even more important to address the legacy issues with an iron fist and clear the issues derailing the organisation in a time bound manner to expand and leap frog into the future.

Privatisation of airports is welcome but the baggage of legacy issues needs to be addressed by the government in the socio-economic context if this experiment needs to fire with all cylinders. Post privatization the workers, staff and Officers aligning with the Union leaders and not owing allegiance to the new employer a cultural and management challenge. Skills, knowledge and attitudinal issues besides readiness for the future are big impediments in the progress of the airport and needs a close look from the employment practice and outcomes perspective.

Aviation industry in India is presently an expeditious growing industry in India visually perceived according to the report in the last three years. So, India is well-known as the third largest domestic aviation market in the world and is foreseen to be the third largest air passenger market by the end of 2024 (Kumari & Aithal, 2020), to meet the future projections the employees need to be up-skilled, employee relations have to be a primary focus area and prevention of union leaders meddling with the affairs of the business is essential.

Time has arrived for the new private operator of the airport who has acquired the business recently to put productivity and performance to the centre stage. Integrating all the employees into one culture and bring a sense of belonging and pride would be the next big challenge. Hire on fixed term contract basis might be an option to ensure all employees are service focussed and

aligned to business goals. This approach will help mitigate the risks and restore confidence of all stake holders and all future privatisation projects must bring in a clause of fixed term contract for employees transferred from AAI to avoid excessive unionism and lack of alignment.

Pandemic induced pain to the aviation sector and the airport management companies is a good stage to clean up some of the old un- resolved teething issues passed on by AAI during the transition and a new beginning could be foreseen.

Scope for Future Studies

Efforts should be made to do a comparative study in terms of cost-benefit analysis post transition, what if the government had improved the airports with the help of international consultants retaining management control or exploring public-private partnership rather than handing over control. Filtering the poor performers and/or unionised employees before transferring the employees to the new management. Whether opening up to multi-national companies while controlling the security tightly or MNC participation with Indian players to bring global experience and standards of airport management. All these need to be studied comprehensively to guide government policy.

Questions from the Case Study

1. Is it prudent and making business sense for Private operators to absorb government staff in the process of privatisation?
2. Can the Government develop resources keeping in mind privatisation before embarking on handing over airports under OMDA?
3. Why government employees fail to adapt to private sector work culture and work norms?
4. Is it not the responsibility of private airport operators to up-skill and develop government employees transferred to their rolls?
5. Could short term deputation of employees help solve this problem in this case?
6. Is privatisation the solution to airport development and up-gradation?

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