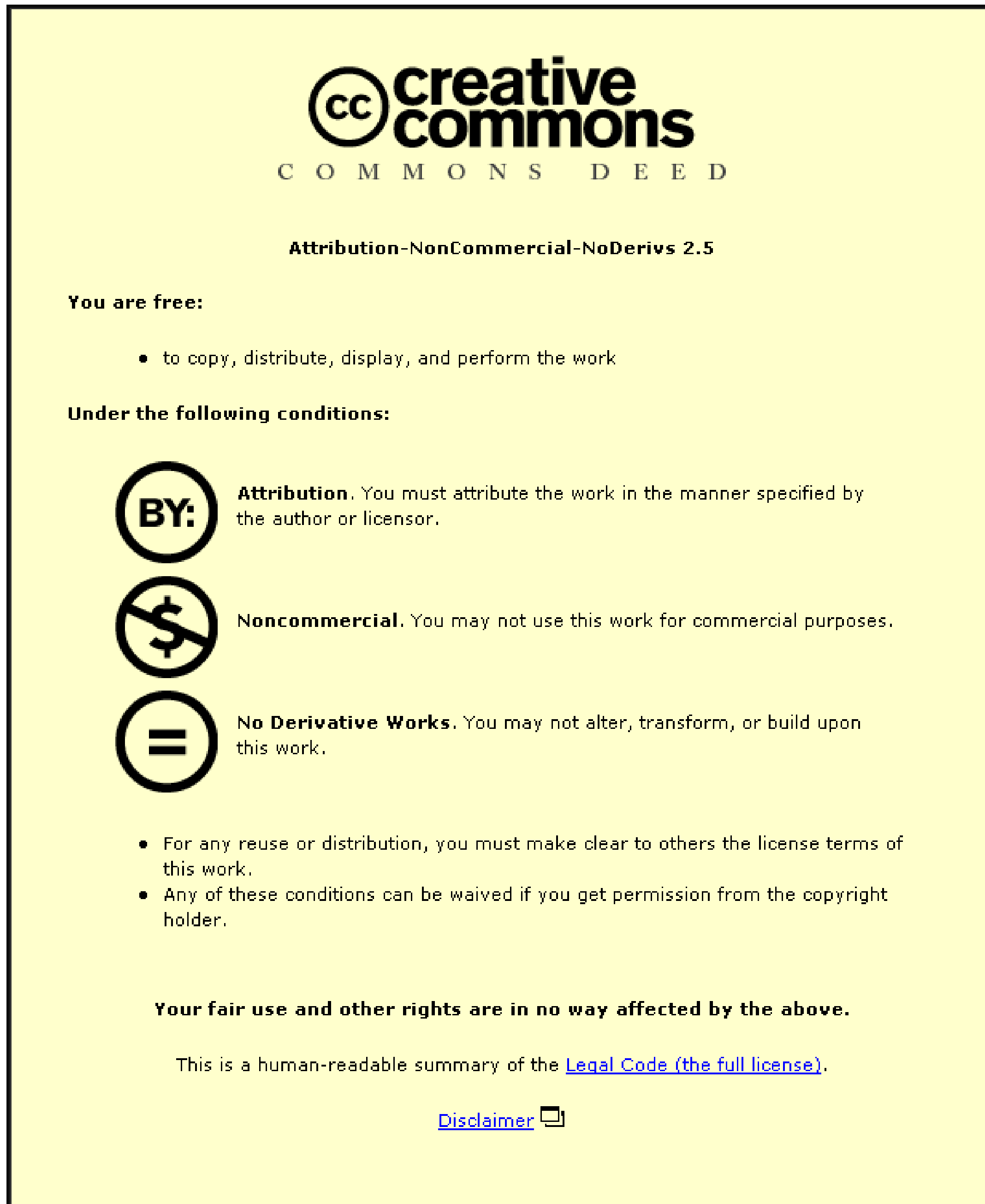


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The Strategic Management of Regional Airports in the UK:

A case study approach

by

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requirements for the award of the

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Abstract

The aim of the research reported in this thesis is to investigate and understand the strategic management of airports. More specifically, the research focuses on regional airports in the UK; it charts the ways in which their strategic management capacities have changed in recent decades with regard to external pressures associated with increasing commercialisation and government policy on the ownership and control of airports.

The significance of those external pressures is discussed, especially in the light of privatisation. Within this context, key concepts of strategic management are presented and the application of the *cultural web model* is discussed, in order to explore the links between strategic management, organisational behaviour and the external operating environment of regional airports.

Using a case study approach and qualitative research methods, two regional airports have been selected for an in-depth comparative investigation: Inverness (which remains in public ownership) and East Midlands (which is in private ownership).

The conclusions which emerge from the case study evidence suggests that there are significant differences in the strategic management capacities of regional airports in the UK, and these differences reflect their ownership and control. Although there is much evidence that differences between public and private airports are reducing – mainly due to the heightened commercial awareness of the former – it is clear that, unlike publicly owned airports, the transfer of ownership from public to private does indicate a transformation in organisational culture. Unlike their publicly owned counterparts, strategic objectives are clear and well established; minimising costs is a well focused strategic priority; and the pursuit of efficiency is a key strategic driver of change.

The thesis concludes with some critical reflections on the research undertaken and suggests areas for future investigation.

Keywords: Strategic management, UK regional airports, ownership, privatisation, regulation, case study, cultural web.

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Chapter 1

Introduction

1.1 INTRODUCTION

The air transport industry is known to be one of the biggest global industries in the world; it is also one of the newest and indeed one might say that although it started in the beginning of the twentieth century, it was only after 1945 that the airline industry really expanded. As a result of these major changes, more and better services from airports were required. In 1998, over 3021 million passengers passed through airports, generating £68.2 billion in revenue and employing about 1.5 million people worldwide (IATA 1999).

In the last 50 years, a consistently fast growth in passenger throughput has been recorded, well above the growth recorded in the world's gross domestic product (Hanlon, 1999). Only once in 1991 has world air traffic fallen during this period, the principal reasons for this being economic recession, the Gulf War and threats of international terrorism. These three elements combined to cause a drop of just three per cent (Hanlon, 1999). The forecast for the next 5 to 10 years is an increase of between 5 and 8 per cent per annum, according to industry sources (IATA, 1999; ICAO, 1998).

As a result of this anticipated growth, the air transport sector will require significant capital investments over the next fifteen years; one estimate, according to ICAO (1999), is in the vicinity of £160 to 220 billion. This will help to modernise aircraft fleets, improve airport infrastructure, introduce more sophisticated air navigation systems, and meet the demand of new and emergent markets in China, Eastern Europe, and the strong growth in Southeast Asia and Latin America (Ellis, 1998). The need for large investments, together with a redefined role for the state, is providing the imperatives for transforming the air transport sector.

As a result, airports too are being forced to change their role in the air transport industry and are now regarded as dynamic, commercially oriented enterprises, operated by a mixture of private, semi-private and government owners. For a large number, a clear profit-orientated business goal has replaced the traditional break-even operations biased goal of airport managers. Even for those which are wholly government-owned, many are being run as commercial businesses. Some airport companies are also no longer operating within the scope of their national boundaries and instead are taking their experience overseas by purchasing or managing airports in other countries.

1.2 PRIVATISATION

Government regulation of economic activity in many countries around the world has changed in the last 25 years, radically transforming relationships between the economy, the role of government and that of business itself.

Privatisation policies are currently in progress throughout the world. Privatisation can in this context be defined as the transfer of enterprises from state to private ownership (Bishop *et al*, 1994) and the changes involved are rather more complex than a straightforward shift from state bureaucracy to the pursuit of profit maximisation.

Among the main reasons for transferring assets is to reduce the level and scope of state ownership and financial responsibility in pursuit of greater economic efficiency and/or to raise finance (Wolfe, 1996). The twin imperatives of private ownership and the threat of bankruptcy purportedly compel managers to make choices that improve value for money (efficiency), facilitate making government regulation of private firms more overt and specific, and motivates higher productivity and responsiveness to consumer demands (Beesley, 1997; Flynn, 1990).

The pace and scope of privatisation in the UK has become more radical over the last few years. From 1979 to 1983 initiatives were limited and tentative, covering housing sales, tendering, and liberalisation in the telecommunication and energy sectors. Following this, the main drive in asset sales gained pace; 1979 saw the start of asset sales to the private sector, although after 1983 the larger public utility sales became the chief targets.

The elaboration of privatisation initiatives gained momentum as government ministers learned how to implement programmes better and gained confidence from previous successes.

In some countries, airports – rather than airlines – have been in the forefront of market competition and deregulation. In the U.S., where the initial leap towards the deregulation of civil air transport began, airports on the whole have remained firmly in the public sector. Partly because of the innovative financing procedures that have been practised for many years, that has meant there has been little political will to divest government of this responsibility.

Airports are, therefore, generally directly dependent for capital financing on central government in the form of grants and loans or loans that are subject to the approval and control of the treasury of central government. If governments continue to maintain a monopoly on airport ownership, they face the prospect of contributing to the public-sector borrowing requirement. Therefore, a number of countries moved rapidly in the late 1980s towards a radical change in the structure of airport ownership and in the form of capital financing used for developing the airport system.

The pressure to move airports out of the public sector is widespread throughout the world. The idea that major airports are revenue generators and, as such, can be moved out of the public sector, permitting them access to the commercial financial markets and subjecting management to commercial discipline, has a strong political attraction. Given that financing methods tend to follow current preference, or ‘fashion’, the move toward privatisation can be expected to continue at least in the next twenty years, thus the international financial markets will become even more important in the development of airport financing.

However, it is necessary to emphasise that despite a large number of countries that share a belief in the privatisation of airports, the approach and practice is different in each case. The threats and opportunities associated with privatisation vary depending on the circumstances pertaining in individual countries and airports.

1.3 AIM AND OBJECTIVES

The research on which this thesis is based aims to investigate and understand the key elements involved in charting changes to the strategic management of regional airports in the UK. It includes an in depth analysis of a publicly owned and a privately owned regional airport in the UK: Inverness Airport (INV) and East Midlands Airport (EMA). The specific objectives of the research include:

- To analyse reasons for privatisation and the objectives of privatisation, with the aim of mapping out and examining the changes in the airport industry that have contributed to airport privatisation.
- To review the literature on strategic management and associated concepts, and explore its relevance to UK public and private regional airports' strategies.
- To carry out two case studies – one of a public and the other of a privately owned airport – in the UK, and to identify the similarities and differences of significance within the strategic management adopted by these airports.
- To discover the reasons why and how the strategic management of both airports have changed over the years, and how these changes have influenced the attitudes and beliefs of senior airport managers.
- To compare the modifications to strategic management that have been made at an airport that has remained in public ownership (INV) and an airport that has been transferred from public to private ownership (EMA).
- To explore whether there are any relationships of significance between the strategies pursued by the two airports and their different ownerships.

1.4 RESEARCH MOTIVATION

Ten years ago, interest in measuring airport performance was restricted to a few trend-setting airport operators and a small number of academic institutions. Recently, however, interest in the subject has grown considerably and if airports are to be run as commercialised businesses and to be financially self-sufficient, as governments appear increasingly to want them to be, then they need to alter their strategic management approach and select a more appropriate management strategy.

Research into airport privatisation, which logically leads on to the question of whether privatisation has or has not achieved the aims of those who proposed it and to what extent, has been limited in both scope and depth.

With regard to privatisation in general, Vernon-Wortzel and Wortzel (1989) concluded that, regardless of the worthiness of the privatisation goal and the extent to which countries may embrace it, privatisation is proceeding slowly, at best. Specifically, their analysis indicated that:

- For the most part, countries have chosen candidates for privatisation opportunistically, rather than formulating and implementing a cohesive privatisation strategy for the country – this suggests that they have selected candidates for privatisation on the basis of some other criteria.
- For countries that have tried to develop privatisation strategies, and to tie these to countrywide economic goals, they have had great difficulty in successfully implementing such strategies.
- Where privatisation has been accomplished, the privatised enterprises may be more efficient than their state owned predecessors. However, where there have been goals for the enterprise other than efficiency, it is unclear whether the privatised enterprise is meeting those other goals.

Over the years, with the trend towards increasing commercialisation, the airport environment has become increasingly complex and challenging for its managers. Today, managers must not only possess the knowledge and skills needed to meet customer needs and business expectations (in terms of, for example, market share and return of investment); they must also keep abreast of the latest developments in areas such as privatisation, marketing, operations, management, planning and development, information technology and environmental issues.

Faced with such realities, the motivation which underpins this study is based on the need to compare and contrast strategic management within a public and a private regional airport. Public and private enterprises are different, and privatising a public airport may not always be the right and only decision to improve efficiency. Nevertheless, every experience offered by a privatised airport is useful to determine the advantages and disadvantages of a proposed privatisation policy and how it should be implemented. Likewise, the experience offered by a public airport in an

increasingly commercialised operating environment may help shed light on the strengths and weaknesses of an alternative policy to that of privatisation.

1.5 RESEARCH METHODOLOGY

The methods utilised in the research reported in this thesis are reported in detail in the appropriate chapters in which they are applied. However, this section presents an outline of the approach to the research as well as the various qualitative research methods that were adopted to achieve the aim and objectives of the research.

1. A comprehensive literature review covering both the theory of and evidence for privatisation and strategic management was undertaken to establish the overall context for the study. This provided the basis for examining the strategy formulation process within airport organisations.
2. From the author's basic knowledge in the field of airport privatisation, an initial survey of 'experts' was undertaken. The primary purpose of this survey was to find out the main factors involved in airport privatisation and to attempt to validate the concepts associated with the subject obtained from the literature review. Panellists were asked to complete a questionnaire with the sole purpose of investigating and evaluating the factors that influence privatisation performance. The outcome of the survey was employed as a basis for inclusion in the strategy formulation framework of airports and to explore the validity of the methodology used.
3. A review of privatisation at airports worldwide was carried out in more detail, taking into account the findings of the panellist survey as a first approach to airport privatisation.
4. The *cultural web model* was selected as an appropriate method to explore the key influences affecting an organisation and its strategic management capability, to be applied in two regional airport case studies – Inverness and East Midlands.
5. A political, economic, social and technological (PEST) analysis was carried out in order to establish the main factors that influence the UK airport environment and consequently the two regional airport case studies.

6. In-depth personal interviews with key airport managers at the two case study airports were undertaken and considered essential since they provide high quality evidential information which fills out the detail of the case studies. Airport statistics, published reports and other literature were used to test the efficacy of the informants' responses and to search for adverse evidence.

1.6 ORGANISATION OF THE THESIS

The thesis is organised in seven substantive chapters and supplemented by four appendices. A summary of the various chapters is provided below.

Chapter 2 presents an outline of the significance of the privatisation issue, its main objectives and reasons for implementation. This is followed by an account of regulation policy, which examines the experience of the regulation of privatised monopolies in the United Kingdom. Financial policy is also included here, as its role within privatisation is considerable and sometimes understated; this discussion covers issues that relate both to a national and worldwide perspective.

Chapter 3 reviews the airport business environment and its main characteristics. Methods of privatisation and patterns of airport ownership are also examined. A summary of airport privatisation in some key selected countries is given as an example of a worldwide view.

Chapter 4 explores the concept of strategic management and other concepts associated with organisational culture. It presents in a systematic way an analytical framework for examining strategic management. In addition, the *cultural web model* is outlined to establish the key issues considered as contributors to the development of strategic management capability.

Chapter 5 analyses the environment in which UK airports have to operate from political, economic, social and technological (PEST) points of view. It also outlines the approach taken to the two case studies of regional airports and the strategies applied for their analysis. The chapter also presents an overview of Inverness and East Midlands Airports as an introduction to the next two chapters.

Chapter 6 presents and examines the Inverness Airport case study, based on information collected from different sources, primarily from the in-depth interviews

with senior managers. Application of the *cultural web model* provides the conceptual tool to obtain a clearer understanding of the underlying assumptions linked to political, symbolic and structural aspects of the airport viewed from an organisational perspective.

Chapter 7 presents and examines the East Midlands Airport case study based on information collected from different sources, primarily from the in-depth interviews with senior managers. As with the Inverness Airport case study, application of the *cultural web model* provides the conceptual tool to understand the organisational functioning.

Chapter 8 provides a comparison of the first and second analysed periods at Inverness Airport, followed by the comparisons of all three periods at East Midlands Airport. It also contrasts the strategic management capacities between both airports by identifying the key similarities and differences.

Chapter 9 presents the findings and conclusions drawn from this research. It also suggests some directions for future research in order to bring about a greater awareness and enhancement of regional airport performance.

Appendices provide additional and supplementary information and data relevant to this research, including the research plan, the key research instruments and infrastructure developments at the two case study airports.

Figure 1.1 presents a schematic diagram for the structure of the thesis.

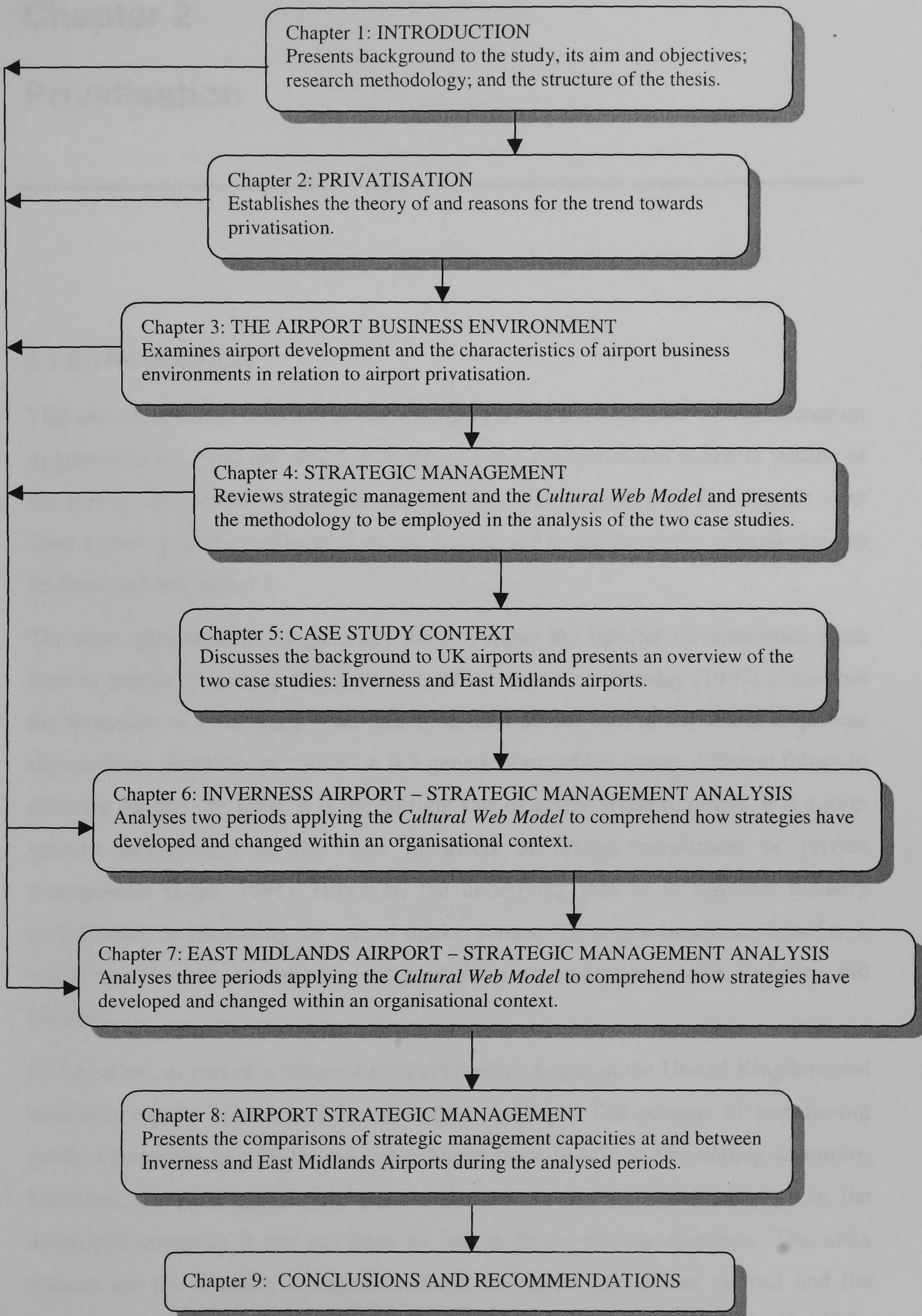


Figure 1.1 Structure of the Thesis

Chapter 2

Privatisation

2.1 INTRODUCTION

This chapter provides a review of the concepts and views associated with privatisation in general terms, with the object of mapping out a consistent and coherent outline of the theory, which will support the next chapter. The objective of this chapter is to form a view of the key influences on the present and future for airport privatisation to be discussed in Chapter 3.

The term ‘privatisation’ is generally used to mean the transfer of enterprises from state to private ownership (Bishop *et al*, 1994). However, Beesley (1997) states that the formation of a company is the sale of at least 50 per cent of the shares to private shareholders. Actually, privatisation is a generic term which means different things to different people – to some, it is the outright sale of assets, while to others, it is a joint venture arrangement or the lease of assets or private investment or private management (Lees, 1997). However, the underlying idea is to improve industry performance by increasing the role of market forces. To secure maximum benefits, a whole set of measures must be designed for each enterprise, sector, industry and country.

Privatisation, as part of a coherent political project, began in the United Kingdom and thereafter rapidly spread to other industrial countries. The process of transferring public enterprises to private ownership began more slowly in developing countries. However, the pace appears to have accelerated in the last decade, though in the developed countries it has not been as fast as in developing countries. The main reasons are the absence of capital markets, the desire not to lose control and the shortage of credit facilities available to the private sector (Gayle and Goodrich, 1990).

On the other hand, in the Eastern European countries, privatisation has been viewed as an integral element in the process of transition from a centrally planned to a market-oriented economy, although the contribution of privatisation to the move towards a market economy has varied (Cook and Colin, 1995).

In general, the definition of a 'good' privatisation scheme strongly depends on a country's specific economic and political conditions; the policy maker's objectives have to be adjusted according to the particular circumstances of each country.

Studies in various countries of the comparative efficiency of public and private enterprises have produced mixed results, but certainly no overwhelming support for the notion that private enterprise is always superior to public enterprise. In monopolistic industries such as gas, water and electricity, there is even some suggestion of lower cost production under *public* ownership. This may result from inefficiencies introduced in private firms where there is a need for continued state regulation of prices or profits (Millward and Parker, 1983, Parker 1989). Bishop and Kay (1989), in a survey of early post-privatisation data for the UK, have suggested that there is no real evidence of major efficiency gains. Nevertheless, privatisation keeps spreading for several reasons to be explained later.

The success of privatisation also requires the understanding of business leaders. It also depends on their willingness to take risks. Privatisation can succeed only when the private and public sectors collaborate in creating a political-economic atmosphere that is conducive to privatisation (Vickers and Yarrow, 1988).

Different profit making motivations have been identified in the privatisation process (Bishop *et al*, 1994). These include, for example:

- A privately owned company will have greater incentive to exploit monopoly power commercially.
- A privatised company will be less willing to provide uneconomic services; the resources so released will be used more productively.
- Eliminating inefficient production and restrictive labour practices means the release of resources.

Thomas (1997) argues that planning in the 'new' environment has become a considerably more difficult task than it was in the previous (more regulated)

environment. In this respect, Stata (1989) wrote, 'New technology for management comes in the form of new knowledge, tools, and methods'. The key is that many managers will be forced to *change the way of doing things* so to better adapt to the new competitive realities.

The privatisation topic touches several issues where the borders are not very clear, so it has been necessary to investigate and encompass it at various levels. It starts with an interaction with the environment (macro-analysis), proceeds through intermediate analysis, and finally gets to the microanalysis.

This Chapter will deal with two main broad areas, which have been identified in privatisation. These policy areas are shown in Figure 2.1.

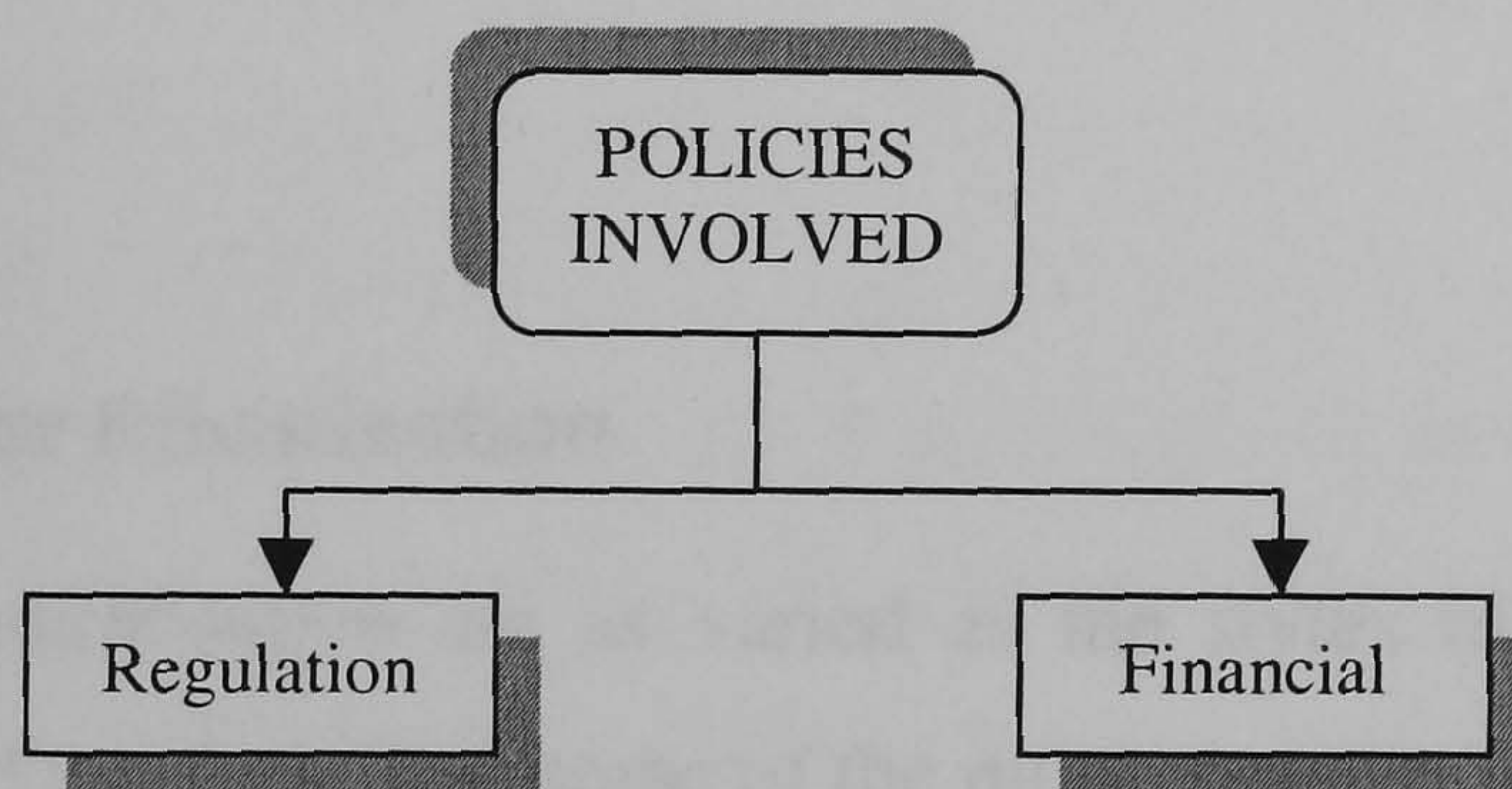


Figure 2.1 Main policy areas involved in privatisation

Firstly, privatisation issues will be introduced, for the reader to become more familiar with the subject. Secondly, regulation and financial aspects will be discussed.

2.2 PRIVATISATION POLICY

2.2.1. Objectives

As noted above, one of the main objectives of privatisation is to improve the efficiency of public sector enterprises. It achieves *productive efficiency* by encouraging firms to minimise costs and *allocative efficiency* by bringing consumers' demands in line with the marginal cost of supply (Bishop *et al*, 1994). If there is competition, then competition will encourage efficiency by allowing consumers to purchase from lower cost suppliers (Beesley, 1997).

Bishop (1994) argues the following consequences if privatisation is introduced. Firstly, if prices and quality are regulated then private-sector monopolies have incentives to minimise costs. Secondly, privatisation permits the introduction of incentives that are unavailable to public-sector enterprises. In particular, managerial and worker incomes can be related to the market value of enterprises in the form of shares and stock options. Thirdly, private-sector enterprises are subject to threats of take-over and bankruptcy. Firms that do not minimise cost risk being subject to hostile take-overs by predators that believe that they can supply services at lower costs. Fourthly, privatisation encourages explicit costing of public services. Subsidies for the provision of specific services, for example, rural bus, telephone, and other utility services, are made transparent. Consideration of where competition can and can not be introduced involves an evaluation of where scale economies create natural monopolies.

2.2.2 Reasons for Privatisation

The reasons for privatisation are as varied as the styles of sale and the countries undertaking them. However, here some of the most common will be mentioned:

1. The first and most obvious reason is to raise cash. In heavily indebted countries, the sales programme has been debt-driven, with the proceeds serving to diminish the burden of debt (Gayle and Goodrich, 1990). In the case of the United Kingdom, the large programme of asset sales is counted as negative public spending, thereby reducing the gap between public revenues and expenditure.
2. Another major motivation has been to raise foreign exchange required for expansion programmes or for debt reductions. For instance, in 1998, Argentina formally announced that a consortium, including the Ogden Corporation, won the bidding to manage 33 of the country's airports for the next 30 years. Argentina has since dominated with four-fifths (2 billion USD) of the airport investment commitment in Latin America (Gisele, 1999).
3. A third reason for selling shares is to raise domestic currency for the expansion of nationalised business that would otherwise not have money available for expansion. For instance, India, Thailand and Korea intend to use the funds either

to pay for new airport development or to finance expansion and to upgrade of existing airports (Harbison, 1998).

4. A fourth reason is the use of the private sector as a source of finance for investment. For instance, in the civil aviation sector the scale of investment required to meet the demand, is so large, that governments are increasingly turning to privatisation (Stephen, 1999).
5. Another argument for privatisation is to curb or control the revenue subsidies and losses being incurred by state-owned enterprises (SOEs) through a variety of methods. Many SOEs have reassessed their economic objectives, and a substantial number have been managed to satisfy the needs of the people for whom they were created (Van de Walle, 1989). The costs of using SOEs have been considerable in a large number of countries (Vernon-Wortzel and Wortzel, 1989). For instance, previously Spain's airports were managed by a bureaucratic organisation within the Spanish civil administration. It operated using government funding for its budgets; now it generates its own income through the management and operation of the airports (Echevarne, 1995). The literature abounds with well-documented stories of inefficiency, losses, and corruption among SOEs across different nations, mainly developing countries (Vernon-Wortzel and Wortzel, 1989; Baer, 1994; Lieberman, 1994; Potts, 1999). In addition to performing quite poorly, some SOEs are evidently now pursuing goals unlike those for which they were created and, by so doing, are not fulfilling their original purposes. The net result is that in some countries, SOEs have become a drain rather than a contributor to their countries' economies (Vernon-Wortzel and Wortzel, 1989). As a result, for some governments the obvious solution seems to be privatisation.
6. Gayle and Goodrich (1990) state that a common reason for privatising is also to spread ownership more widely in a community. However, this reason can be considered weak due to the fact that can not be more widely owned than public. Therefore, their argument that large privatisation in the United Kingdom, France, Jamaica, New Zealand, Singapore, and other countries that have adopted the public offer for sale route have produced significant increases in the number of direct financial shareholders can not be justified only with the 'spread ownership in a community' reason.

7. To improve efficiency by substituting more productive capital for less productive labour (Bishop *et al*, 1994). This is confirmed by a fall in employment in most of the utilities and, in firms like BT where there has been a rapid growth, by a relative reduction in the work-force. The reduction of the amount of gross national product within the public sector and a consequential reduction of the proportion of the labour force in public sector employment (Ashford, 1997). Labour productivity significantly outstrips total-factor productivity-growth, highlighting the success of the control of the trade unions:
8. There are various political reasons related to union activity, working practices and private sector rights to compete (Ashford, 1997). The main part of a union response to privatisation often involves reacting to proposed redundancies and /or changes in working conditions. Where these considerations are paramount, acceptance of some form of private control may be regarded as preferable to outright opposition and serious job losses (Hastings and Levie, 1983).

The nature of privatisation is critically dependent on the nature of the state sector in any given country; the extent and nature of industries vary from country to country.

2.2.3 Benefits and Costs

Beesley (1997) argues that there are benefits for two sets of consumers; actual or potential consumers of the industry; and other consumers, who benefit from savings in resources which may accompany privatisation. Thus, if lower subsidies are paid, other consumers will benefit via lower taxation. Subsidies represent real resources, which could be consumed elsewhere.

On the other hand, Veljanovsky (1989) states that 'the first obvious benefit is that privatisation depoliticises industries and gives them clearly defined goals'. While it is difficult to generalise about state-owned enterprises because of the variety of forms they take – ranging from state departments to profit making trading companies – their major characteristics are bureaucratisation and ill defined, as well as conflicting, objectives. Obviously, governments will retain a role in various aspects of industry, such as competition policy and regulation, but the day-to-day interference and the close association of commercial decisions with politics are removed, in some cases, by full privatisation.

One of the British government's explicit expectations has been that privatised companies will become more efficient and profitable than their nationalised predecessors were. The effect of privatisation on a company's efficiency and profits begins before it involves a re-structure.

In a similar way, advocates of privatisation argue that private ownership restores incentives, which promote productive efficiency, and has a few more advantages besides. The threat of bankruptcy, which may be regarded as the ultimate sanction on inefficiency, is perhaps the most important (Domberger and Piggot, 1994). Private ownership, at least in principle, frees the enterprise from the prospect of political interference in managerial decision-making, and this must count strongly in its favour.

Finally, with private ownership there is a clearly defined objective, namely profitability, and a clearly observable indicator of performance; namely the stock market or share price. This tasks sharply with the often confused multiple objectives of publicly owned enterprise (Anderson and Hill, 1996).

According to Gayle and Goodrich (1990), the above leads to four rules that should be followed if privatisation is to succeed in practice:

- Present the theoretical arguments and empirical evidence that demonstrate the superiority of private supply accompanied by a solid cost-benefit analysis.
- Keep all debates concerning the choice between public and private finance separate from the choice between public and private supply.
- Keep all decisions concerning private versus public supply out of the hands of bureaucrats and private business representatives whose principal income is derived from government.
- Ensure that deregulation accompanies privatisation.

There have been a number of different approaches to privatisation according to specific objectives, goals and so on. However, this research will be mainly focused in the United Kingdom case, which will be mentioned in the next section.

2.2.4 The United Kingdom – Context to Case Studies

In the last 15 years, over 50 billion pounds of UK state assets have been transferred from the public to the private sector (Boussofiane *et al*, 1997). For instance, in 1984, British Telecom was sold off for almost fourteen billion pounds.

The government offloaded 96 per cent of British Gas for about 5 billion pounds in 1986. In 1987, the sale of British Airports Authority raised almost 1.2 billion pounds. British Steel went for 2.4 billion pounds in 1988. The water utilities in England and Wales raised almost 5 billion pounds when floated in 1989 (Comfort, 1999). A key objective has been to raise the efficiency of state industries by exposing them to the rigours of market forces. Research into the actual effects of privatisation, however, has produced mixed results. In some cases productivity growth does not seem to have increased significantly after privatisation. Where there have been noticeable efficiency gains, these have tended to occur mainly in the run-up to privatisation, when the industries were rationalised and prepared for sale suggesting ‘one-off’ efficiency improvements (Bishop and Kay, 1989; Yarrow, 1989; Bishop and Thompson, 1992; Haskell and Szymanski, 1993).

In the UK, privatisation is observed to involve a substantial change in factors affecting managerial and therefore corporate behaviour. It is best to think of the change not in terms of ideal types, but as involving essentially a redrawing of what might be called the ‘social contract’ between the government and the industry involved (Beesley, 1997). In this change, some terms of the contract are dropped, and others are added. In the UK cases, these greatly affect the scope for managerial action. Because the government has to deal with established (nationalised) firms, there normally has to be a negotiation between the government and top management (conducted through the chairman and responsible Minister) which precedes privatisation. Whatever their background or their enthusiasm for privatisation –and this has varied– the chairmen see their task similarly: to get the terms which will secure a trouble-free financial period while necessary internal change is accomplished (Boussofiane *et al*, 1997).

Beesley (1997) also argues that the most important elements expected in a change to privatisation concern (1) a shift into profit-seeking behaviour by the industry’s management and (2) changes in the scope to pursue profit, implied both by an escape

from political objectives and consequences. Increasing profit seeking as an overriding aim will sharply increase the influence of the private market for managerial talent.

As a result of privatising, certain utilities (water, gas, electricity, airports and so on) which are inherently monopolistic the government needs to have some sort of control. This topic will be discussed in the next section.

2.3 REGULATION POLICY

2.3.1 Objectives of Economic Regulation

Monopoly as such, whether private or public, is undesirable. If unconstrained it acts to harm consumers and generate losses to the economy. A monopoly operates to restrict output so as to raise prices in order to maximise profits. Thus while a private monopoly may produce goods and services more cheaply and more profitably than a nationalised industry, it might not produce the quantity of goods and services at a price which maximises the welfare of consumers. Monopoly generates other inefficiencies: potential profits are converted into excessive costs, lack of innovation and poor customer services (Veljanovski, 1989).

As a result of the problems that monopoly can bring, regulators are involved in balancing the interest of consumers' protection and competition enhancement. According to Bradburd (1992), the list of objectives of regulation is more extensive and should include the following:

- Reduction of the extent of allocative inefficiency
- Redistribution of income.
- Encouragement of consumption of the regulated good, and
- Creation of confidence in the stability of the environment in which business activities must take place.

Bradburd (1992) noted that there might be trade offs among these objectives. The main focus, however, has been placed in the reduction of the inefficiency created by the exercise of monopoly power.

How to maximise these goals in a cost-effective way is an important strategic question. The regulator's effective power can be substantially increased by the

existence of written legislation, although the law by itself is rarely a sufficient condition for the effective achievement of regulation goals. In some industries, the legal framework is easily integrated, and it is therefore not too costly to merely utilise the existing enforcement mechanisms, to comply with the actual legislation.

Traditional forms of regulation involved practices in which firms were allowed to obtain a particular rate of return on capital. This required the regulator to have extensive cost information on the regulated firm, which in most cases translated into high administrative costs of regulation (Beesley and Littlechild, 1989). Perhaps the most negative aspect of traditional regulation is given by some distortions created in the firm's behaviour, such as poor incentives for cost efficiency and a tendency for an over expansion of capital expenditures.

2.3.2 Competition Policy

In the majority of the countries the introduction of competition as is feasible may still leave the incumbent with significant monopoly power in some industries (Beesley, 1997). In the majority, the government will no longer have the direct and indirect control associated with nationalisation, but alternative means of influencing or regulating conduct are available (besides the promotion of competition).

One idea is to influence the successor company's prices by limiting the profits earned, expressed as a rate of return on capital. Another possibility is to limit prices directly by means of explicit tariff restrictions.

In this respect, most economists would point out that a private utility ought to be regulated to safeguard consumers from the brutal exercise of market power and to promote economic efficiency (Bös and Harms, 1997). In addition, economists would also stress the fact that the benefits of regulation (net of administrative costs) ought to be compared with the allocative costs of leaving such a private monopoly unregulated (Cowan, 1994).

Nevertheless, it does serve to draw attention to the importance for industrial efficiency of factors such as the degree of competition facing the relevant firms, the interactions between ownership, and government regulatory policies in influencing economic performance.

The question about ‘does ownership matter?’ has been discussed several times without any definitely convincing answer. Yarrow (1989) argues that ‘ownership matters because the transfer of a firm from the public sector to the private sector (or vice versa) will lead to a change in the incentive structures facing its decision makers’. According to this statement, two effects can be distinguished. First, there will be a change in the *objectives* of the ultimate principals of the firm (shareholders in the case of the private enterprise, the voting public in the case of public enterprise). Second, there will be a change in the arrangement for *monitoring* the performance of management. The managers of privately owned firms will be concerned with meeting the requirements of the capital markets and may be faced with threats of take-over and bankruptcy. Whilst public sector managers will concentrate on the satisfaction of ministerial objectives and will not typically be threatened by take-over or bankruptcy.

On the other hand, Vernon-Wortzel and Wortzel (1989) discuss that the determinants of a firm’s success or failure are not who owns it. Rather, the firm’s success or failure is related to the extent, and the direction in which its owners exercise the authority that comes with ownership and the extent that its managers carry out their jobs. Vernon-Wortzel and Wortzel (1989) also stated, ‘enterprise success, regardless of ownership, is a matter of developing a strong, appropriate culture within the firm, of hiring the right managers and seeing that they are appropriate control and motivation mechanisms in place to properly guide their behaviour’.

However, the producing firm and organised consumers compete for influence and government has several tools for conceding benefits: it can control prices, regulate entry, create legal barriers, or even grant direct subsidies to groups. As a consequence, Baer and Birch (1993) argue that Government will, therefore, be sensitive to its constituencies and will provide regulation in the form of favours.

In the UK, the early privatisations were restricted to reasonably competitive industries, so Government correctly did not consider it necessary to establish new regulatory structures for the firms concerned. Developments in regulatory policy were therefore focused upon the remaining nationalised industries. The approach was a more vigorous application of the principles laid down in the 1978 White Paper (Cmnd 7131) on the nationalised industries, based upon the steady tightening of the financial constraints imposed upon the public sector. However, Yarrow (1989) argues that in the utility industries, the analysis indicates that the path to better performance lies in

the simultaneous development of greater competitive pressures and stronger regulatory structures.

2.3.3 Price Control

Rate-of-return regulation was well established in the U.S. The regulated company files a tariff when it wishes to revise its prices. For an agreed test period, the company calculates operating costs, capital employed and cost of capital. The regulator audits these calculations and determines a fair rate of return on capital employed. These data plus assumptions about demand are used to calculate the total revenue requirement. This determines the *level* of the tariff. The *structure* of the tariff has to avoid unfairness and unjust or unreasonable discrimination.

In Britain, when making its plans for privatising British Telecom (BT), the Department of Industry's original intention was to adopt a modified rate-of-return regulation. However, after further discussion and investigation, a control on prices or price-cap was finally adopted and variants of it have been used for the other privatised utilities (Littlechild, 1983).

The key features of this price control are that, for a pre-specified period of four to five years, the company can make any changes it wishes to prices, provided that it complies with the average price of a specified basket of its goods. The service does not increase faster than $RPI - X$, where RPI is the retail price index (i.e. the rate of inflation) and X is a number specified by the government. At the end of the specified period, the level of X is reset by the regulator, and the process is repeated.

2.3.4 Rate of Return versus RPI-X

The pros and cons of rate-of-return regulation versus RPI-X and other schemes have been frequently discussed (e.g. Littlechild 1983, Vickers and Yarrow 1988, Johnson 1989). Briefly, the main arguments are as follows:

- RPI-X is less vulnerable to “cost-plus” inefficiency and over capitalisation.
- RPI-X allows the company greater flexibility to adjust the structure of prices within the basket.

- RPI-X is simpler to operate by the regulator and the company. It is more transparent and better focused on the parameter(s) of greatest concern to consumers.

The level of X must in practice be set, and repeatedly adjusted to secure a reasonable rate of return. If not, allocative inefficiencies will arise (from prices being out of line with costs), and there might be political pressures from company or consumers. If the criteria for revising X are left unclear, this will increase the cost of capital and/or discourage investment (Beesley, 1997). The initial level of X is set by the government at the time of privatisation, *as part of the privatisation process*, whereas X , is reset by the regulator *as part of the continuing regulatory process*.

2.3.5 Relevant Regulatory Issues

A country like the United States has a long history of industry intervention, mainly through traditional forms of regulation of private utilities. Rate-of-return regulation has been the core route followed in the United States, with several variations across industries and jurisdictions. The main regulatory control has been the setting of tariffs intended to allow the utilities to earn a fair rate of return. As Beesley and Littlechild (1989) discuss that, ‘the promotion of competition is not customarily associated with the regulation of utilities in that country’. In this sense, the duty to promote competition cannot be taken in isolation. The United Kingdom regulator’s duty to promote competition reflects in part the fact that it is not possible to move from a nationalised monopoly to a competitive industry in a single step.

In a country, like the United Kingdom, the regulation of newly privatised firms has been different from that of the U.S., with aspects that are parallel to what has been (and will be) implemented in Latin America countries. As Veljanovski (1991) remarked, in the UK, “the new regulation was based on the idea that price control, together with the terms of the license awarded to the privatised firms, will be sufficient to protect consumers and encourage greater competition. This framework was expected to be neat, straightforward and simple. In reality, regulation of the utilities has proved more complex and contentious. The failure to eliminate monopoly has led to tension between the industry chiefs and the regulators”.

On the other hand, it is clear that Governments do care about privatised utilities. They are concerned about their behaviour and conduct, since potential widespread criticism as to how the firms were privatised, and how they are currently run, can always become a political liability. Regulation can, therefore, open some room for discretionary intervention on the part of politicians. The privatised firms know that they will not be immune to politics or administrators. It is probably true that the risks coming from regulation uncertainty were discounted by the buying groups at the time of privatisation. Nonetheless, there is still a real concern about the degree of intended intervention, which crystallised in the issue of determining who runs the industry: managers or regulators.

2.4 FINANCIAL POLICY

Financial issues can be approached in different ways, according to the industry sector concerned, this policy will be focused, right from the beginning, specifically on the air transport industry.

The aviation cycles are nothing more than exaggerated reflections of world economic activity. What distinguishes aviation from other forms of economic endeavour is the extent to which it is cyclical: the magnitude of its volatility and the curiously recurring patterns of its various cycles (Wells, 1998). After losing close to 38 million USD in 1961, the industry climbed steadily upward, reaching a record profit of 427 million USD by 1966. The downslide reached the bottom in 1970, when the industry lost 200 million USD. The climb back up culminated in new record profits of 1.2 billion USD in 1978, which were soon followed by record losses of 916 million USD in 1982. With the exception of 1986, which reflected severe losses by Eastern, Pan American, and TWA, profits rose during the 1980s, reaching yet another all-time high of 1.7 billion USD in 1988. By the mid-1990s, the economy strengthened, the stock market soared, many of the weaker carriers had disappeared, and the industry reported record profits starting in 1995 (ICAO, 1998). Clearly, the airport industry is inherently linked with all these events.

As the airport is the principal gateway to the nation's transportation system, a lack of appropriate facilities can be detrimental to its development and the growth of the

economy in this region. Therefore, the investment to cope with this expansion is fundamental.

The business of finance is involved with the circulation of money. It deals with credit, investments, and other monetary provisions. It is the acquisition and use of money. The (airport) budget is a plan of estimated expenditures during a given period of time, and the proposed method of financing those expenses. For instance, in a publicly owned airport resources are limited, and government agencies compete with each other for limited public funds. In the evolution of budgetary concepts in the United States, there are three basic types, which have resulted (Gessell, 1992).

1. *Line Item Budget.* This form classifies expenditures according to types of purchases; i.e., accounting for each item of supplies, equipment, and personal services. Under this system, estimates for the coming year's budget are based on quantities of supplies used in the preceding year.
2. *Programme Budget.* This one deals in gestalts (or wholes) instead of details. In essence, the programme budget states; what facilities, personnel or equipment are needed, in what location, at what cost, and in what time span.
3. *Performance Budget.* Under this procedure, services are broken down into work loads or units of performance, thus creating units of measurement to be using in calculating the labour and material inputs required to achieve the objectives of a given programme.

In the private sector, the capital budgeting process involves selection of new investment proposals which will best add to the wealth of the firm. The financial operations of a modern company are comparable with those of complex and highly diversified business enterprises. And, although there is not profit taking motive in governmental activities, there are concerns about performance and service levels. Chapter 3 will discuss some funding alternatives focused directly on airports.

2.5 SUMMARY

Beyond efficiency and revenues, privatisation has other potentially significant impacts such as greater investment, reorientation of government spending, political realignment, expansion of capital markets, and increase in foreign investment. The costs of pursuing these various goals as well as the speed of privatisation can usually be estimated in terms of foregone sale proceeds. Measures like restricting foreign investment to maintain national control, providing shares to workers or small investors to generate political support, or selling an infrastructure firm quickly on the condition that the new owners invest heavily, all reduce the sale price. The wide variety of literature on managing and controlling state enterprises often suffers due to a neglect of the conflicting goals ascribed to the managers of these enterprises. Different principal(s) with multiple goals expect their agents to promote industrialisation, transfer technologies, develop poor regions, subsidise consumers, maintain employment, and generate taxes and profits. Effective managers find ways to balance and reconcile such multiple and conflicting objectives. Ironically, effective privatisation depends on the same skills for reconciling and balancing the multiple objectives of privatisation in order to realise its multiple potential benefits.

The next chapter introduces an overview of the airport business environment from different perspectives.

Chapter 3

The Airport Business Environment

3.1 INTRODUCTION

In an accelerated attempt to keep pace with rapidly growing passenger and cargo demand for air transportation, governments the world over are devoting enormous economic resources to building new, or expanding existing, airports. New airport expansion and development on the one hand, is a by-product of the soaring growth in demand for air transportation, and on the other is the desire of communities to inspire economic prosperity. In a growing number of the world's cities, demand exceed capacity; airport congestion creates delay, inefficiency, and increased costs for the consumers (Dempsey, 1999).

As a consequence of the increase in travel, airports need to cope with the demand. In most developing countries' airports are typically being described as “cramped”, “old” and “substandard”; often they are compared to terminals built in other countries 30, even 40 years ago (Kanter, 1998).

Mr. Felipe Frydman, the minister for economics for the Argentine Embassy in Washington, stated: *The increase in traffic has made it necessary to improve the quality of service. The government just does not have the money to make those investments right now. Therefore, we decided to go to the private sector because we believe we can get better service* (Kanter, 1998). Airport privatisation began in the UK with the 1986 Airports Act and the UK privatisation programme has since had an influence on economic policy throughout the world (Bishop *et al*, 1994).

This chapter addresses the most important changes, which have occurred in the airport business environment in the last couple of decades. Policy, economic and social trends will be presented and discussed in some cases. In fact, two main principal motivations for airport development are leading these changes – growing demand

outstripping inadequate capacity, and the desire of governments to build infrastructure to lure additional economic growth.

3.2 AIRPORT DEVELOPMENT

When the Wright brothers succeeded at Kitty Hawk in December 1903, in man's first flight, the place from which they took off could hardly be called an airport. It was, however, ideally suited for the requirements of the Wright Flyer. With the invention of the airplane, it naturally followed that such a machine had to have a place to take off, land, be repaired, and eventually fuelled: an airport.

Construction and maintenance of airports was, in general, considered a local responsibility, in contrast to the development of the airway system, which the federal government regulated from the start (Wells, 1996). Over the years, the industry's operations have become increasingly complex, with each increment of complexity heightening the industry's problems in adapting to change (Wells, 1998). For instance, nowadays Doganis (1992) argues that airports are complex industrial enterprises, that act as a forum in which disparate elements and activities are brought together to facilitate, for both passengers and freight, the interchange between air and surface transport.

“An airport is essentially one or more runways for aircraft together with associated buildings or terminals where passengers or freight transported by the aircraft are processed. Within the overall airport umbrella a wide range of services and facilities are provided which can be divided into three distinct groups: essential operational services, traffic-handling services and commercial activities” (Doganis, 1992).

3.2.1 Growth of Aviation

Prior to World War II, the list of requirements and desires was modest, and services were minimal. The travelling public was a relatively small group, and carriers or operators needed to offer little more than basic, available transportation (Schriever *et al*, 1968). In many ways, the very small size of the air travelling group hid the potential problems that would multiply with increased traffic in later years to plague operations of major airports today. Further, equipment was not complex or

sophisticated, and a tolerant public was not particularly unhappy with services they did not have or know about.

World War II not only transformed the scope of airline operations but also influenced the aviation industry in other ways. First, with respect to airline operations, service was suspended on many international and domestic routes, and a number of airlines, notably Pan American in the U.S. and Imperial Airways in Britain, became virtual extensions of the armed forces (Taneja, 1989). Second, the aeroplane manufacturing industry underwent dramatic structural changes as a result of both opportunities and pressures arising from the tremendous increase in the demand for military-used aeroplanes. Third, the war was responsible for the rapid advancement in aeroplane technology and in the aviation infrastructure.

However, airports found themselves with inadequate facilities to accommodate jets, particularly larger ones. The length of runways, the width of taxiways, and the capacity of fuel storage systems were insufficient to meet the requirements of many jet operations in both commercial and military service. As a result, the need to modernise airports and airways systems occurred. In addition, as the earlier jets were very noisy, people living near airports complained. Moreover, a number of foreign airlines, heavily subsidised by their governments, posed a significant competitive threat to other airlines. However, this intense competition ultimately led to improvements in the service offered to the public (Taneja, 1989). The most radical technological breakthrough was the introduction of the jet engine. Airport development also kept pace with the new demands of the war and advancing aircraft technology. The changes, which occurred after the war, can be summarised as follows:

- larger, longer-range, and faster commercial aeroplanes;
- the expansion of existing airlines; and
- the large-scale development of airports.

Airports were expanded and built on a larger-scale worldwide. Taneja (1989) argues that unfortunately, the development of the aviation infrastructure did not keep pace with the development of the airplane. However, some were enhanced, modernised and more elaborated terminals were developed.

The growth and changes experienced in the air transport industry following the move to deregulation of air services once again overburdened the infrastructure, leading to airport congestion and delays. It is worth noting that, although at a slow pace, the airport industry has been transformed from being a branch of government into an oriented enterprise and one of the main reasons has been the need for financial support to expand and improve their facilities (Doganis, 1992).

Within the overall airport structure a range of services are available. Table 3.1 shows some functions of a typical airport's operation.

Table 3. 1 Typical Airport Functions

Basic Functions
1. Air passenger service
2. Air passenger ground movement
3. Auxiliary passenger service
4. Air cargo processing and handling
5. Airport operations
6. Aircraft servicing
7. Air carrier operations
8. General aviation
9. Retail

Source: Compiled by author.

At many airports, aircraft companies and related industries have relocated on adjoining properties in order to benefit from the services available from the airport operations. All the services combine to make the major airport a considerably complex industrial community with a large number of permanent employees. Nevertheless, at this stage it is important to clarify that airport income is generated from two types both aeronautical and traffic-related activities on the one hand and from non-aeronautical or commercial sources on the other. Therefore, total revenues of an airport are frequently divided into two principal categories. Table 3.2 classifies the two types of revenue sources.

Table 3. 2 Categorisation of Airport Revenues Sources

Aeronautical or Traffic Revenues	Non-aeronautical or Commercial Revenues
Landing fees	Rents or lease income (from airlines and other tenants)
Aircraft parking and towing	Recharges to tenants (i.e. water, cleaning, electricity, etc.)
Airport air traffic control charges	Concession income (i.e. duty free, banks, car parks, hotels, etc.)
Passenger charges	
Freight charges	
Apron services	

Source: Doganis (1992).

It can be seen from Table 3.2 that the revenue composition of individual airports may differ substantially from one to another, as a result of the various factors affecting either their aeronautical or non-aeronautical revenue-generating potential.

3.2.2 The Airlines’ Deregulation and its Affects on Airports

The deregulation of airlines was the first sign of a change in the air transport system’s development. In 1977 and 1978, U.S. Congress promulgated legislation deregulating the air cargo and air passenger industries, respectively. By lowering prices, passenger demand (which is inherently elastic) was stimulated, thereby filling seats which otherwise would have flown empty. This was followed, in 1980, by regulatory reform legislation for the rail and motor carrier industries (Wells, 1999).

Since 1997, the appearance of low cost and no-frills airline have pushed the main carries to having a more flexible airfare ticket policy. Since 1993, a dozen new airlines such as Ryanair, Debonair, EasyJet, Air One, Virgin Express to name a few have started up, but they mainly operate in niche markets and at secondary airports (e.g. Stansted, Luton, Bologna, and Nice). The reason is due to a shortage of slots at main airports, and the pressure put on Government by the main European carries. However, as happened in the U.S., the European market is mainly dominated by five airlines (BA, KLM, LH, AF and SAS). These carries have acquired half or more of the inter-domestic and European routes. Air traffic has shown considerable growth since the early 1980’s, and mergers of airline companies have increased to allow them to survive this transformation of the industry. Over time, it may be expected that airports will be run less and less as municipal departments of local authorities, and run increasingly as franchises to commercial companies operating under policies set by

local political structures. This evolution could, through economies of scale, create substantial efficiencies and improvements in service.

3.2.3 Characteristics of Airports

This section discusses the characteristics of airports, five features are salient as described below.

1. *Growth in aviation passengers and cargo.* Long-term, over good and bad years in this period, passenger traffic has increased by an average of about 7 per cent a year. This means that the amount of air travel has been doubling every ten years or so. For instance, the number of passengers carried worldwide has increased as Table 3.3 shows.

Table 3.3 World Scheduled Passenger Traffic Forecast for 2000 - 2010

Region	ACTUAL			FORECAST					
	1989 billions	1999 billions	Average annual growth (%)	2000 billions	Growth (%)	2002 billions	Growth (%)	2010 billions	Average annual growth (%)
Africa	38.1	55.7	3.9	65.1	5.5	72.8	5.7	104.8	5.5
Asia/Pacific	309.2	622.7	7.3	712.1	7.0	819.8	7.2	1,279.0	7.0
Europe	508.2	692.6	3.1	793.5	6.8	884.0	5.4	1,308.3	6.0
Middle East	45.6	78.4	5.6	83.1	5.0	90.8	4.6	125.7	4.8
North America	725.8	1042.3	3.7	1159.0	4.9	1254.8	4.0	1,716.6	4.6
Latin America / Caribbean	78.7	136.0	5.6	143.6	5.0	162.2	6.6	246.5	6.5
World	1589.5	2627.7	4.4	2956.4	5.9	3284.4	5.3	4,780.9	5.7

Source: ICAO, 1999.

2. *Aviation companies are becoming global enterprises.* Airlines have traditionally had specific national ties limited by regulations although they provided international services. American Airlines, British Airways, and Air France for example were each clearly based in their home countries and presented their nationalities proudly. Now however, airlines are developing international characteristics and submerging their nationalities (de Neufville, 2000). For instance, Northwest and KLM work together to present a single image, so that the

U.S. customer can feel comfortable with an American style of service, while the Dutch customer can similarly expected a familiar treatment.

Some airports are starting to lose their local character and becoming international. For instance, BAA operates a management contract in Indianapolis Airport and National Express Group operates management at Stewart Airport in New York.

3. *Airport capacity increases.* Major new airports and runways have been constructed and this will continue to happen in order to cope with the demand. Additionally, a number of existing facilities that were previously under utilised have grown considerably as airline routes have expanded. Table 3.4 illustrates some of the airports that are having or will have considerable modifications in order to accomodate the forecast increase in demand in the short future. Major hubs have become significant destinations in the metropolitan regions they serve.

Table 3.4 Worldwide Major Airport Development and Expansion Projects

Nation	Airport	Development	Cost (million USD)
China	Kunming International	Expansion	120
	Shanghai Pudong Int'l.	New airport (1999)	1,600
	Zhuuui	New airport	1,000
India	Bombay	New airport	n.a.
	New Delhi	Expansion	n.a.
Japan	Aichi (Chubu Int'l.)	New airport	7,000
	Kitakyushu	New airport (2005)	n.a.
	Tokyo (Narita)	Redevelopment	1,500
Taiwan	Chaing Kai-Shek Int'l.	Development	800
Thailand	Don Muang (Bangkok)	Expansion	478
Bahrain	Bahrain	Expansion	100
Israel	Ben Gurion Int'l.	New terminal	850
Lebanon	Beirut International	Reconstruction	490
Australia	Brisbane International	Expansion	179
	Sydney Kingsford Smith	Runway, renovation	494
New Zealand	Auckland	Terminal expansion	103
	Wellington	New terminal	53
Austria	Vienna	Terminal expansion	900
Germany	Frankfurt	New terminal, cargo centre	2200
	Berlin/Branderburg Int'l.	New airport	4600
Italy	Fiumicino (Rome)	Terminal and runway expansion	4500

Netherlands	Schiphol (Amsterdam)	Expansion	4100
United Kingdom	Heathrow (London)	New terminal	2540
	Manchester	Runway	n.a.
Canada	Dorval (Montreal)	Expansion	236
	Lester Pearson (Toronto)	New terminal	2000
Costa Rica	Santamaria Int'l.	Expansion	105
Mexico	Mexico City Int'l.	New airport	1000
	Monterrey International	Expansion	25
United States	Chicago O'Hare	Runway extension	2274
	Dallas/Forth Worth Int'l.	New runways, extensions and terminal improvement	496
	Denver International	New airport opened in 1995; sixth runway	5375
	Indianapolis	New runway	115
	New York Kennedy	Redevelopment	4300
Argentina		ATC modernisation	185
		Airport system restructuring	680
South Africa	Johannesburg	Transit system	60

Source: Dempsey, 1999.

4. *Environmental issues.* The noise has been counterbalanced by the introduction of quieter aircraft. However, as constraints affect individual airports, airlines will make strategic decisions to place new traffic at airports with available capacity or fewer constraints. Within metropolitan areas, airlines will favour uncongested airports (Glaister, 1998). Most significantly, the Dutch airline KLM reacted to environmental pressures in the Netherlands by initiating a merger with Alitalia and planning to establish an alternative hub in Milan, Italy.
5. *Development of multiple competing airports.* Compared to 50 years ago, today airports compete with each other for the same traffic, this is an entirely novel phenomenon. Airports try to attract airlines to bring passengers, and to attract passengers to help attract airlines. The airlines meanwhile are looking for their best deals, and routinely play off airports against each other (de Neufville, 1995). Moreover, while some airports have engaged in marketing activities for years, most are only just beginning to discover the benefits of a proper marketing programme aimed at airlines (Whitaker, 1995). Often airports are spurred on by new commercial pressures either because they are now privately owned, or because they are being run as commercial entities despite remaining under local government control (de Neufville, 2000).

As a consequence, governments are paying increasing attention to improve their airports in several aspects. The cost of borrowing is heavily influenced by airport cost efficiency and process reliability. The conventional approach to viewing airport systems is functional; this approach ignores the demand side and the idea of customer orientation of new business management. The perspective of ‘airports as a business’ and the introduction of new management tools have been based upon firms having a need to develop competitive strategies (Gillen, 1997). Table 3.5 illustrates some of the differences one might find between a ‘public utility’ type of airport and one that subscribed to modern business concepts. By formulating strategies, organisations ensure to match its activities to the environment in which operates. Additionally, airlines are demanding a greater efficiency as their environment grows more competitive and as passengers and shippers who have an expanding set of choices demand higher quality processes at the airport¹.

Table 3.5 Old versus New Views of the Airport Business.

Characteristic	Public Utility	Modern Airport
Ownership/Management	State owned, state managed.	State, Local Airport Authorities or private owned, private management.
Traffic	Focus on OD, regional focus, majority revenue from airside.	Transfer passenger, long-haul transfer in particular.
Organisation	Functional.	Business units.
Strategy	In-house, formulate.	Formulate, buy, commercialisation.

Source: Adapted from Gillen (1997).

Furthermore, within the climate of regulatory and structural reform airports have found themselves to be subject to:

Commercialisation of both landside and airside activities. Much commercialisation has been introduced to improve the levels of service offered to airport users by the introduction of competition and broadening the range of services offered.

¹ Passengers are not a homogenous group. Therefore, airports are a mix of complex functions, which must be presented to the traveller as a very simple product or a set of products.

Corporatisation to permit private sector investment and partnerships. Traditional government departments are frequently constrained in the types of financial and business arrangements that can be entered into with private industry. Public enterprises can be incorporated in a manner that loosens the rules of public/private co-operation and partnership.

Privatisation of formerly governmental operations with the sale of all or part of the assets on a freehold or leasehold basis. Where commercialisation or corporatisation fail to supply an adequate framework for achieving the degree of business orientation desired for airports, governments have usually elected to privatise the facilities for a variety of stated reasons, which will be explained in the next section.

3.3 FUNDING ALTERNATIVES

As mentioned in chapter 2, financial issues can be approached in different ways, and like any business enterprise, airports from time to time require investment. Governments are increasingly recognising that most airport groups and the largest individual airports are mature businesses that can stand on their own. In fact, as early as 1978, the UK Labour government in their paper on airport policy stated that there could be no general justification for subsidising airports and air services (Doganis, 1992). The main goals aimed at by government in letting airports 'go free' are:

- to allow airports access to private sector borrowing facilities in order to raise capital necessary for funding expansion requirements;
- to ensure that airports are run in an economic and efficient manner; and
- to cater for the needs and requirements of airport users and the community and ensure that airport operations are undertaken in the most secure manner.

Forecasting projections for the demand for air travel is essential in ascertaining what the future funding requirements are. It should be possible, after an analysis of what business the airport is part, to decide on the areas that the owners want to participate, and bearing this in mind it is then possible to determine the infrastructure needs and the funding requirements of the airport.

There are various options open to an airport company with regard to financing their future development (Doganis, 1992 and Ashford, 1997).

1. Financing through the public sector.
2. Financing through the private sector (Private Finance Initiative - PFI).
3. Disposing of enough shares to be outside the scope of government interference, and hence access finance otherwise not available i.e. Privatisation.

The second option includes several options involve bringing in the private sector to varying degrees.

3.3.1 Remaining in the Public Sector

Firstly, there are government funds available in the form of supplementary credit approvals (SCA). These are authorisations issued by the government, to borrow a certain amount of money from the capital markets. The total value of the authorisations is unknown, and an application is required for a set amount. The total value available is reducing each year, when the government tries to force privatisation, so there is then only a small amount available. The value of a SCA is unlikely to be enough to finance a large infrastructure project, but could be used in conjunction with other forms of public sector finance.

Secondly, funds are available through grants from the European Investment Bank (EIB). The policy of the EIB when it was set up under the Treaty of Rome in 1958 was: *...to provide long term finance for capital investment and to promote EU economic policies.*

The EIB has already part funded airport projects throughout Europe including Birmingham, Heathrow, Gatwick, Stansted and Glasgow. The grants are awarded to a region, which has submitted an application for investment in development projects in its region. The EIB states which projects it wants to benefit and then the regional office decides how to spend the money. The major criterion that the EIB use to decide where the grants are assigned is job creation. A project will only receive funding if it is of value to the region because it is creating jobs. However, the amount of money obtained through this source is unlikely to be enough to finance a complete development project.

The third option is to use internally generated funds, i.e. cash flow. Cash flow is derived from two principle sources: Aeronautical charges and commercial charges

from concessions. Most airports are not large enough to develop sufficient funds to finance a large-scale project, but the larger of the regional airports such as Birmingham and Manchester are able to finance general improvements and upkeep of the airport through internal funds.

3.3.2 Employing the Private Sector

The private finance initiative (PFI) intention is to bring the private sector into the provision of services and infrastructure which, formerly have always been regarded as primarily 'public'. The aim of the PFI is to increase the flow of capital projects against a background of restraint on public expenditure. It is aimed at harnessing private sector management skills and at transfer of risk away from the public sector, onto the private sector. PFI can take different forms, some of them will be discussed as follows:

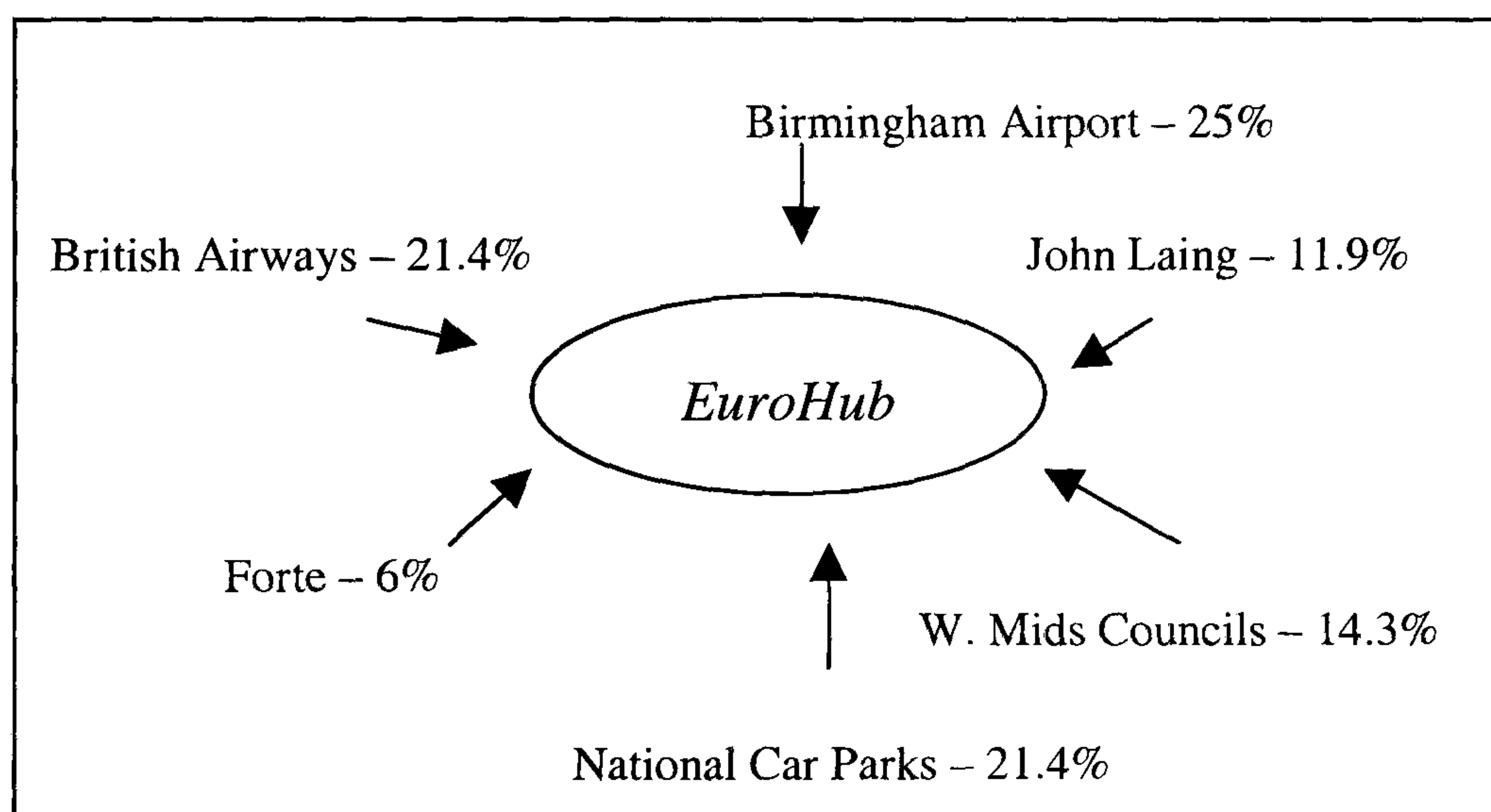
Management Contracts are contracting out of the operational side of an airport, or a facility to the private sector. Whether this method will generate enough funds is difficult to predict. The facility will, under the management contract, bring in revenue in the form of fees paid by the operator, and the costs to the Airport Company as a whole, will be reduced (Ashford, 1997). This method, if carried out correctly, may improve the cash flow position of the Airport Company, but will not provide enough money to finance a large-scale development project. There will be certain issues that need to be addressed, such as controls over standards of safety, and the setting of operational targets.

The *Build-Operate-Transfer* (BOT) option requires from the private sector to build and subsequently operates the facility for a designed period of time at the end of which operation and ownership reverts to the airport. The Greek government opted to have their new Athens Airport constructed and operated through a 30 year BOT contract. A new much needed terminal for the Ataturk International Airport outside Istanbul has been also financed by a BOT contract.

A joint venture development allows airport's growth potential for a relatively small cost to the airport itself. This method is ideal for the creation of a new terminal. The private partners provide the capital and the expertise in designing, constructing and operating the new facility, in return for a share in the joint venture development. It is

important that the public sector shareholding is in the minority, and that no one private sector partner is dominant. It is also important that the partners add value to the venture, not just money. If there are too many partners and the venture become unwieldy. The advantage to the airport is that they have created growth potential at a relatively small cost to themselves.

The best example of this sort of development is the EuroHub at Birmingham Airport. Birmingham Airport found themselves in 1989 in need of a new terminal to meet the forecast demand. The borrowing restrictions meant that the Airport Company could not raise the finance necessary for such a development, so they had to utilise the private sector in another way. This resulted in the private sector owning 61 per cent of the venture, with the four partners having had current or recent business contracts with the airport. The involvement of British Airways was important because they provided the only necessary security to shareholders. The airline guaranteed the flow of revenue once the terminal was opened, see figure 3.1.



Source: Birmingham Airport

Figure 3.1 A Joint Venture's Financing Alternative

Another option would be a *Long-term lease* of land or other assets to an investor who would be able to build and operate a new terminal or other facility on that land. The ownership of the new terminal would revert back to the Airport Company at a predetermined date. A lease involving the disposal of assets and more likely, valuable land is more restrictive than a Joint Venture operation, because the Airport Company has less control over the facility. The length of contract necessary may be unattractive

to private investors, but this form of investment has been used on other government owned properties.

The *Sale of Assets* or *Businesses* is basically privatisation, and it is possible only if the management decide that there are non-core assets that can sell and they wish to be sold. It is unlikely that there will be sufficient assets to raise the capital, if a large-scale development programme is required. There is the need to guarantee the standard of safety and service of the asset sold. The sale of land may not be in the best interest of the company, because it may be needed for future expansion. This is a one off means of raising a large amount of capital, and is not suitable if cash is needed periodically, over a number of years.

Privatisation is the final option to bring in private capital, and the most extreme. It is the ultimate step in freeing the airport from local authority control, and the restrictions placed on the Airport Company by the government. Once in the private sector there are myriads of financial opportunities available, and what follows is an explanation of various types.

3.3.3 Private Sector Finance

Because of the diverse nature of the airport industry, and the variety of business incorporated in the airport complex, it is important to paint a simpler picture of airports.

An issue of debt will approach investors' service to conduct an analysis of a particular airport in order to assess the risk of issuing debt to them. Comparing airports to other companies gives investors a clearer picture of its risk as an investment, and its ability to repay its debt. Ratings are expressed as an alphanumeric code – the most secure investment is AAA, with ratings of BAA and above classed as safe investments. Investing in an airport with a lower grade is not considered bad, with investment returns generally higher, but the risk is greater. The above ratings refer to Moody's Investors Services ratings only, with other companies, such as Standard and Poor's having different ratings and codes.

The most common form of rating large amounts of capital for infrastructure developments is through *syndicate financing* i.e. borrowing money from a group of lending institutions. From the inception of the project, secure financing is confirmed

and a contract is drawn up with the terms and conditions regarding interest payments. The project managers rigidly adhere to the contract. The project is protected from market fluctuations by the lending institutions. Creating the correct contract is time consuming, and because of the various conditions and limits, it is very restrictive.

A second alternative is to use a suitable loan and this can be done by raising capital on an open market. A request for tenders is either directed at specific institutions, or is aimed at a broader field. Any interested parties will offer terms through which a loan can be granted. The Airport Company can then select a suitable offer. A major disadvantage of this is the danger that institutions may see the investment as too risky and so the airport may end up with few or even no willing investors. This form of financing is only really available to airports with good credit ratings.

The use of the capital markets through instruments such as bonds and securities is possible, and this enables the borrower to set up a more flexible financial framework. Derivative dealing can be used in conjunction with other lending, to hedge the interest or currency exposure, but it is complex and requires tight control to guard against the risk of large losses. Securities or bonds vary between the type of interest and the manner of payment for the bond, and carry a varying degree of risk to the investor. They are issued to institutions or the public, and can be issued to finance new projects. Securities carry a high risk and so may be unsuitable for large-scale airport projects, but their careful use can be advantageous.

The BAA is probably a good example of how a private airport company raises finance to cover short term cash flow problems, and long term construction projects. They have three main funding alternatives, which depend on the requirements:

1. The BAA has issued, for the short-term borrowing, Sterling and U.S. commercial paper – a corporate IOU with a fixed maturity of more than one week and less than one year. This is for use when expenditure exceeds income.
2. For medium-term funding of major property assets and real estate trading projects, it has a 275 million pounds syndicated loan. It also has a deal of five individual but identical loans with five banks having seven-year maturity periods.
3. For long-term financing, it borrows from the European Investment Bank. It also has agreed a fifteen-year facility with the export-import Bank of Japan for the

Heathrow Express project. It has also issued 250 million pounds in 25 years Sterling Eurobonds.

Munich Airport is a good example of how private sector funding can be used to raise finance for a new facility, in this case a new airport. The airport is an example of the length of time it takes from project inception to completion. Final construction of the airport began in 1985 after the initial site had been selected in 1969. A combination of political and financial problems delayed the start of construction. The airport cost 6 billion USD, of which infrastructure construction accounted for 1.8 billion USD, the remaining 4.2 billion USD went on planning and land acquisition. The total cost and the source of the finance are as follows:

- 570 million USD through equity capital – i.e. ordinary and preference shares
- 1.78 billion USD through loans pro-rata to holdings
- 1.2 billion USD from cash flow
- 210 million USD in real estate gains from the old part
- 1.1 billion USD in capital market loans
- 1.5 billion USD in leasing

Of the total cost of the airport development 2 billion USD was internally generated through equity capital, cash flow and land revenues.

3.4 PRIVATISATION IN THE AIRPORT INDUSTRY

In many nations private companies perform essential airport services, including private airlines, caterers, concessionaires, and contractors. For example, less than 3 per cent of the people who work at the three major airports operated by the Port Authority of New York and New Jersey (i.e., Kennedy, La Guardia, and Newark) are public sector employees (US GAO 1996). Most of the world's airports are owned and operated by their national governments. For instance, in the United States, airports are owned and operated by municipal, local, or state governments or regional airport authorities (Dempsey, 1999).

World wide, this is changing even though airports are still generally directly dependent for capital financing on central government in the form of grants and loans or from loans that are subject to the approval and control of the treasury of the central

government. If governments continue maintaining a monopoly on airport ownership, they face the prospect of huge public-sector borrowing (Ashford and Moore, 1999). A number of countries therefore moved rapidly in the late 1980s towards a radical change in the structure of airport ownership and in the form of capital financing used for developing the airport system.

The pressure to move airports out of the public sector is widespread throughout the world. The concept that major airports are revenue generators and, as such, can be moved out of the public sector, permitting them access to the commercial financial markets and subjecting management to commercial discipline, has strong political attraction. Given that financing methods tend to follow current preference, or "fashion", the move toward privatisation can be expected to continue at least in the next twenty years, and the international financial markets will become even more important in the development of airport financing (Ashford and Moore, 1999).

Table 3.6 lists some of the major nations, which have in recent years moved toward further privatisation, from selling minority shares in individual airports, to inviting private investors to build runways or terminals, to selling major airports outright (U.S. General Accounting Office, 1996). Obviously, the list is by no means exhausted and the form of privatisation will depend on each individual case. The threats and opportunities have a wide variety according to the circumstances in every country and every single airport.

Table 3.6 Countries Involved in Airport Privatisation

Algeria	Colombia	Hong Kong	Mexico	Singapore
Argentina	Costa Rica	Hungary	Myanmar	Slovakia
Australia	Denmark	India	Netherlands	South Africa
Bahamas	Dominican Rep	Indonesia	New Zealand	Spain
Bahrain	Ecuador	Italy	Pakistan	Sweden
Bolivia	Egypt	Jakarta	Panama	Thailand
Brazil	El Salvador	Jamaica	Peru	Trinidad & Tobago
Cambodia	France	Japan	Philippines	United Kingdom
Cameroon	Germany	Macao	Poland	United States
Canada	Ghana	Malaysia	Portugal	Uruguay
Chile	Greece	Madagascar	Qatar	Venezuela
China	Guinea	Mauritius	Russia	Vietnam

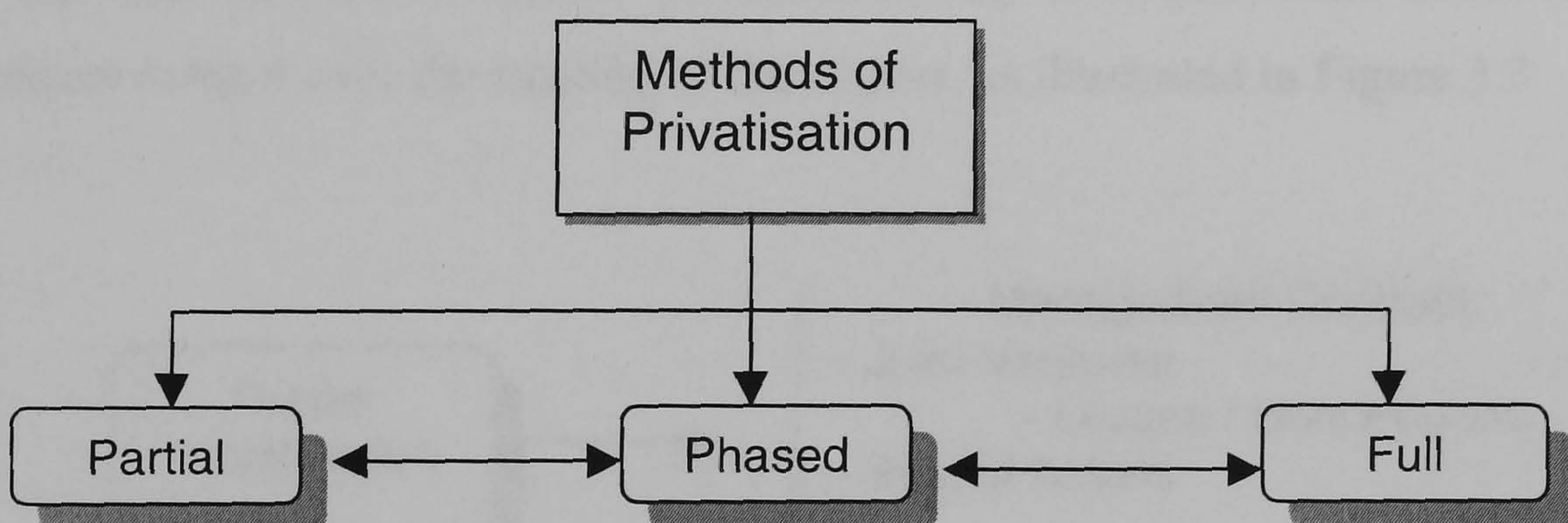
Source: Compiled by author

3.5 METHODS OF PRIVATISATION

There are a number of ways of introducing private sector involvement in the operation and development of airports. However, Colella (1998) argues that the form of privatisation will depend on a number of factors including:

- Political and policy stance on privatisation
- Economic efficiency of existing airport operation
- Scope for service improvements
- Need for sales proceeds to the government
- Requirement for major investment at airport

Depending on these factors the type of privatisation implemented will vary. As mentioned in chapter 2, privatisation generally means the transfer of enterprises from State to private ownership. However, to make this term clearer to understand for the airport industry, it will be divided in three categories, Partial, Phased and Full Privatisation, as illustrated in Figure 3.2.



Source: Compiled by author

Figure 3.2 Methods of Privatisation

- Partial privatisation is where the government retains some ownership of the airport and still has a major influence on the running of the airport (Ashford and Moore, 1999).
- Phased privatisation is when a percentage of the airport is sold to a private investor or investors with the aim of selling further stakes in the airport to the private sector. In this case, full privatisation is usually the final aim, and so in the

following explanations the methods or phased privatisation are taken to be identical to the methods of full privatisation (Ashford and Moore, 1999).

- With full privatisation the whole of the airport is sold as one. This does not wholly remove some form of government control and regulation. The government sees airports as monopolies and therefore wants to avoid giving the opportunity of customer exploitation to a private company. They may also want to safeguard against the airport being sold off or closed in the future for a totally different development or use (Parker, 1997). This was the case when the UK government privatised BAA. The government retained a “golden share” in order to veto any hostile take-overs and monopoly creating mergers. In the UK, fully privatised airports are still regulated by the Civil Aviation Authority (CAA) in terms of safety charges and transparent accounting.

3.5.1 Methods of Partial Privatisation

There are four methods of partial privatisation, all of which retain some form of government control over the running of the airport, as illustrated in Figure 3.3

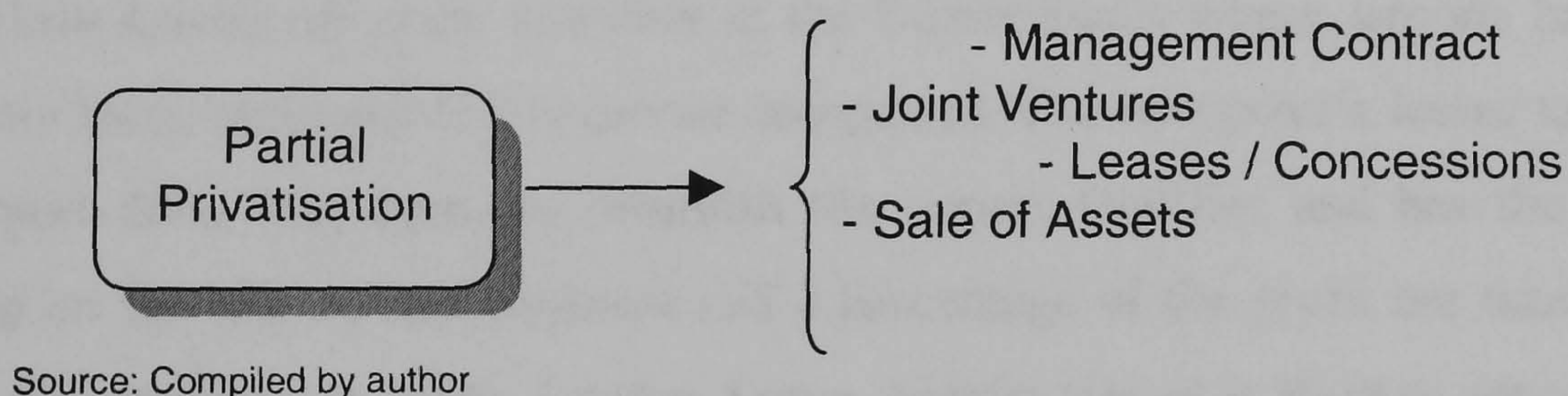


Figure 3.3 Methods of Partial Privatisation

3.5.1.1 Management Contracts

Management Contracts are where the operational side of an airport, or of a particular facility, such as a terminal, is contracted out to a private company. The assets are retained in local authority ownership. This concept in the past was widely used in the United States but is now being implemented worldwide. For instance, BAA has a 10-year management contract for the Indianapolis Airport, and the retail concessioning

contract for Pittsburgh Airport, obtained in 1995 and 1992, respectively. In 1999, BAA won a 15-year contract to manage retailing at Newark as well as a management and retailing contract for Mauritius Airport (Wilkins, 1999).

3.5.1.2 Joint Venture

Joint Ventures is a concept where a joint company is formed between the public sector airport owners and the private sector. These private partners provide the capital and aid the design and construction of a facility on the airport site. The private companies will generally have an interest in the facility and will aid its operation. One case in the UK of this is Inverness Airport where the company IATL was created, that is a consortium with two members, with financial purposes to construct the new terminal building and consequently, IATL will manage and operate it for the next 25 years. Another example is the EuroHub Terminal at Birmingham Airport, as mentioned in section 3.3.2, where a joint company was established with partners, who currently have business contracts with the airport.

3.5.1.3 Long Term Leases

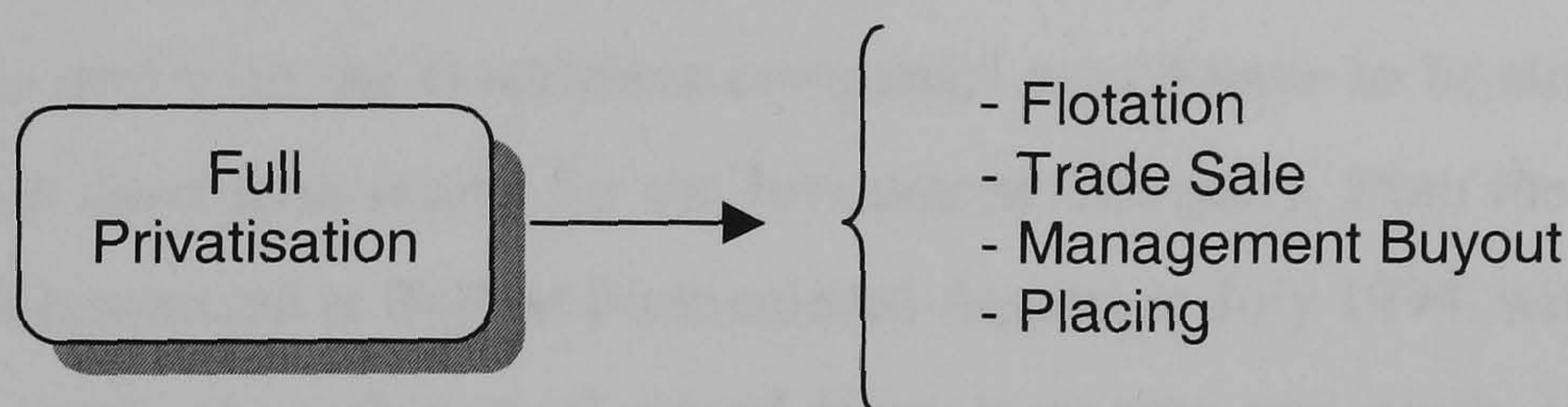
Long Term Leases are quite common in the United States where airports have been leased by local municipalities to private companies. The new private lessee takes over the airport debt, may agree to refurbish the airport facilities and has the right to develop on the site. A rent payment and a percentage of the profit are taken by the lessor. For instance, in 1999, London Luton Airport signed a 30-year concession to ensure the continuing demand for air travel would be met. Councillor Roy Davis, Leader of Luton Borough Council, welcomed the agreement as an “innovative solution” to finance the airport development (AI, 1999). Another more likely alternative in the UK, is the leasing of land to a financial institution or private company, who would finance, through private funds and government grants, the construction of a new facility, with ownership reverting back to the Airport Company at a pre-determined date. One form of this type of lease is the Build Own Operate Transfer (BOOT) contract.

3.5.1.4 Sale of Assets

Sale of Assets or businesses to private buyers. The Airport Company can identify non-core business it may wish to sell off. This provides finance for the local authority and for the Airport Company, which can be used for expansion plans. The assets sold could be land, office space or business seen as non-core, such as security, catering or handling, with the airport buying these services in the competitive market. The particular service sold will depend on the views of the management.

3.5.2. Methods of Full Privatisation

There are four possible methods of full privatisation. As mentioned earlier full privatisation is when the whole airport is sold as one, and with the government retaining some form of right to veto undesirable events, but having no control over the running of the airport (Domberger and Piggott, 1994). Figure 3.4 shows the methods of full privatisation.



Source: Compiled by author

Figure 3.4 Methods of Full Privatisation

3.5.2.1 Flotation

In the case of *Flotation*, the airport is sold through an underwritten share issue at a fixed price. Trading commences after the sale, with shares being bought and sold freely on the stock exchange. The Airport Company is removed from the public sector and is obliged to conform to all regulations imposed on a private company. The company is also freed from the financial constraints imposed when in the public sector. A flotation may be phased as at Vienna Airport or full as the BAA.

3.5.2.2 Trade Sale

A *trade sale* is the offer for sale of the Airport Company to the private sector. Tenders are accepted to find a single buyer. Negotiations are conducted with the buyer, and if the private company is suitable then the sale will be completed. So far all the regional airports in the UK, which have been privatised, have done so using this method.

3.5.2.3 Management Buyout

A *Management buyout (MBO)* or *Management and Employee buyout (MEBO)* is the sale of a stake in the Airport Company to its managers. An MBO will usually occur as a result of a trade sale. Both MBOs and MEBOs offer the potential for a more efficient and profitable organisation, because of the attractions of large rewards to the owners if they improve their personal performance (Wright *et al*, 1994). The management and employees realise their productivity has an effect on their investment and may respond accordingly. There is the argument that airports, because of the requirement for large investment for long-term profitability, are not attractive to investment companies who seek short-term returns from their investment. The financial deal with the investment companies would have to be structured in order to provide a short-term return for the Investment Company, from the airport cash flow. A MEBO occurred at Belfast International Airport in July 1994, with the airport being bought partly through capital raised from managers and partly through investment from a bank and venture capital company (BIA, 1999).

3.5.2.4 Placing

Finally, *Placing* is not complicated, by the vendor's banking advisors, of the available shares in the Airport Company, with a small select number of institutions, which are usually local to the region.

3.6 PATTERNS OF AIRPORT OWNERSHIP

In order to be able to analyse some case studies, firstly it is necessary to look at the basic concepts involved. This section describes the different forms of airport ownership and then shows the various types of privatisation and the different methods of privatising airports. As mentioned in Chapter 2, privatisation means the transfer of

enterprises from State to private ownership. However, when mixed ownership be considered then the concept applied will be the transfer of the State of at least fifty per cent of the shares to private shareholders. This concept will be considered within the section; for private ownership will be assumed to be the transfer of hundred per cent of the assets to private investors. The airport ownership options are shown in Figure 3.5.



Source: Compiled by author

Figure 3.5 Airport Ownership Options

3.6.1 Public Ownership

The majority of airports throughout the world are owned by their respective governments, either centrally or locally. Central government control of an airport is most likely to be carried out through a government department, either Transport, Civil Aviation or in some cases Ministry of Defence. Another method of government control is through local government in which case control of airports will be through one or more regional or municipal councils or authorities. Within these authorities there will be a department responsible for the running of the airport, with all of the functions of the airport, such as personnel, legal and financial departments, carried out by the local authority. The General Manager of the Airport itself is in effect an Operations Controller (Doganis, 1992).

An alternative method of government control is the setting up of an autonomous airport authority. The authority is meant to improve the operation, efficiency and management of the airport by freeing it from close government control, but the authority is ultimately responsible to the government. The government will only

interfere with strategic policies of the airport. The authority may be responsible for more than one airport, in this case the airport authority may often be corporatised.

3.6.2 Mixed Ownership

There are airports which have joint and private ownership, either the owning authority is jointly owned, or the airport is owned by two or more companies, one of which is publicly owned. In Europe a few of the major airports are partly owned by private companies, these include Vienna and Copenhagen. The control structure allows these airports to be managed as if they were fully privatised (ACI Europe, 1995).

A form of mixed ownership, which was exclusive to the United States, where the majority of airports are owned by local authorities or municipalities, is becoming more widespread. This is the managing and ownership of the terminals at certain airports, by the private sector, most often an airline or airlines, for example United Airlines at Chicago and American Airlines at Atlanta. In the UK a new EuroHub terminal at Birmingham Airport was built by a company with six major partners, one of which is the joint local district councils that owned the airport.

3.6.3 Private Ownership

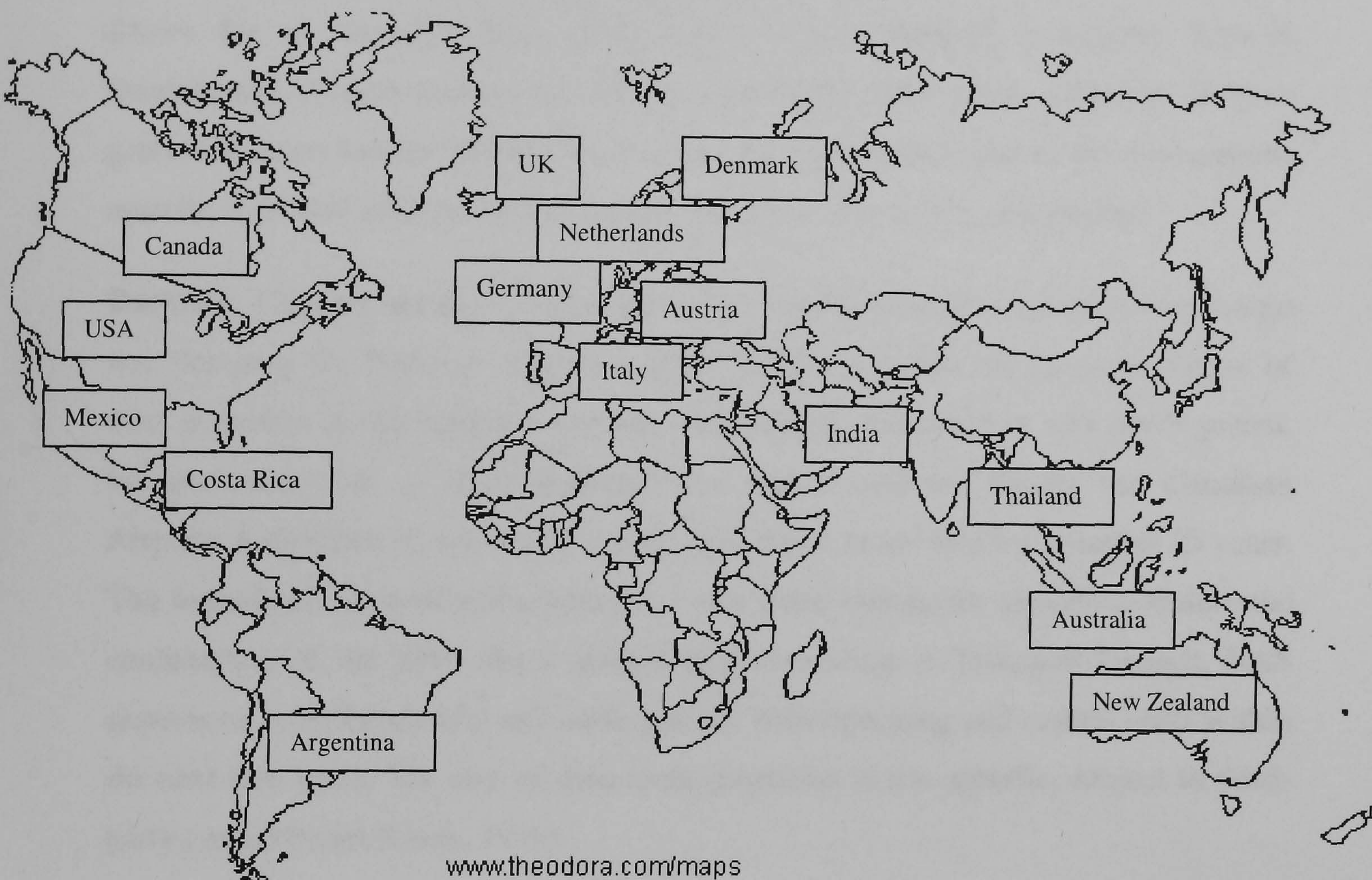
Until a few years ago privately owned airports have been restricted to smaller general aviation airfields. However, nowadays in the UK private ownership is common; Belfast City Airport and London City are airports which have always been in private hands, whereby others such as East Midlands, Bournemouth, and Cardiff airports have been privatised a few years ago from local authority ownership.

3.7 AIRPORT PRIVATISATION WORLDWIDE

The information disclosed in this section is considered to be relevant since the aim of this section is to present how privatisation has developed worldwide as a process over the last few years. However, the data was collected at the beginning of this research (1998), and needs to be updated.

The scope of the business of different airports varies widely. This not only has an implication for the composition of a bidding consortium, but also provides the

opportunity for them to redefine the scope of the business following acquisition. Figure 3.6 shows some countries that have gone through this procedure and that will be discussed in this section.



Source: Compiled by author

Figure 3.6 Worldwide Airport Privatisation

3.7.1 NORTH AMERICA

The United States: The greatest difference between the U.S. and the international markets of developing countries is that private entities can bring access to capital markets that otherwise could not be tapped by the government for reinvestment in airport infrastructure. Given the fact that U.S. airports are government owned, U.S. federal tax legislation grants favourable treatment to bonds issued to finance airport-improvement programs (Ashford, 1999). Airports must strive to satisfy all the economic objectives of a continuing enterprise, but they must do so in an environment

that tends to preclude much of the flexibility that would be available for a private business. Thus, with no real capital need there, and the U.S. airport owner's bond status bringing in the private investment, there is no need to privatise (Holly, 1998).

Nevertheless, in September 1996, the U.S. President signed into law a bill allowing private operators to own and manage the country's airports (Colella, 1997). The law allows for a voluntary pilot programme, which currently comprises Stewart International Airport (owned by EMA), Newbergh, New York, and San Diego's general aviation airport, Brown Field. Under the programme, one of the five airports must be a general aviation facility and no more than one may be a large hub.

Canada: The core network of 26 airports that handle the bulk of travellers and cargo was designed the National Airport System (NAS) to reflect the essential nature of their operation to the nation's economy. Operation, management and development, but not ownership, of these facilities was turned over the locally run Canadian Airports Authorities (CAA) under a sixty-year lease, renewable for a further 20 years. The federal government will continue to own these twenty-six airports to ensure the continuation of the NAS. As a general rule, according to Transport Canada, NAS airports must be financially self-sufficient for both operating and capital costs within the next five years. The size of their lease payments is site-specific, subject to third-party consultations (Cook, 1996).

3.7.2 Latin America

Latin America has annual growth rates of seven per cent in both passenger and cargo traffic (ACI, 1998a), which combined with an investment backlog, are driving the sector's expansion. Traditionally, air transport sector related activities have been owned, managed, and operated by the state through various managerial models – central governments, public institutions or corporatised public entities. But, by the end of 1995, seventy-five per cent of the airlines were mixed or private owned (Juan, 1996); a similar trend is beginning to be seen in airport infrastructure.

Mexico: In the last decade, significant changes have occurred in the Mexican Aviation Industry. In 1991, airline deregulation took place and new airlines companies were formed. This prompted civil and airport regulation to be reviewed and updated; as a consequence, the National Development Plan for 1995-2000 was

developed and establishes among its objectives economic growth, which requires adequate, modern and efficient infrastructure, in particular, airport infrastructure. The aim is to implement a process involving the creation of four regional airport groups and the participation of private investment via long-term lease. Concessions will be granted to manage and operate airports for up to 50 years and it may be extended for up to an additional 50 years (DGAC, 1998).

Argentina: In February 1998, Argentina formally announced that a consortium, including the Ogden Corporation, had won the bidding to manage 33 of the country's airports for the next 30 years. The group bid 171.1 million USD in annual royalties, four times higher than the minimum set by the government, and pledged to spend more than 2 billion USD on improvements to the airports over the concession's duration (Kanter, 1998). The existing airport, Ezeiza, would be converted into an air cargo terminal (AII, 1998). There are still many ideas floating around, but it is clear that there is a need for a great deal of investment.

Costa Rica: Costa Rica's move to privatise has also attracted significant attention. In April 1998, the government of the island nation announced it was accepting requests for proposals for the management, operation and expansion of the Juan Santamaría International Airport in its capital city, San Jose. The estimated investment required for the twenty-year contract is 180 million USD (Kanter, 1998).

3.7.3 ASIA

Despite a plunge in the Asian financial markets and currency valuation in 1997, much of the world's new airport infrastructure investment will probably be in Asia over the next few decades (Dempsey, 1999). Asia has half the world's population, an underdeveloped air transport system, and, throughout much of the last two decades, some of the most stunning economic growth rates.

India: Since independence in 1947, management development and governing structure of airports in India have undergone continuous changes (Das, 1999). The government plans are to restructure the Airports Authority of India (AAI) which operates the 120 existing airports in the country. Top level sources in the civil aviation ministry said that the legal and financial consultants who will advise the AAI on the corporatisation of five airports, those at Delhi, Mumbai, Calcutta, Chennai and

Bangalore, will also make recommendations on the AAI's management structure, economics and operations (Kalra, 1999).

Thailand: Thailand is privatising several of its regional airports with a different approach to privatisation. The Department of Aviation (DOA) will spend over thirty three million pounds on developing new airports and improving existing ones prior to a privatisation plan (Travel-Asia, 1999). DOA's new airports, to be completed within this year, include those in Krabi, Petchaboon and Nakorn Sri Thammarat.

3.7.4 OCEANIA

Australia: Australia's main airports were, until 1996, operated by the Federal Airports Corporation (FAC). It was the third country in the world, after the UK and South Africa, to privatise its airports. It was the first to dispose of airports individually. Fifty-year leases, with a forty nine-year renewal option, for three of Australia's busiest airports sold for more than the government expected to get for all the FAC airports when it announced the scheme in 1994. The selected bidders, who took over the airports July 1997, are consortia formed for the purpose and all include major international airport operators and Australian financial firms (Knibb, 1999).

Auckland: Auckland International Airport Ltd (AIAL) is the first airport operating company outside Europe to be listed on a stock exchange. The six European companies already listed are British Airports Authority plc, TBI Airport Holdings Ltd, National Express Group plc, Vienna Airport plc, Copenhagen Airports Ltd and Aeroporti di Roma. Eighty per cent of shares are held in New Zealand ownership, the largest organisation is New Zealand Central Securities Depository Limited (NZCSD). Sixty per cent of the shares sold by the Crown were held within New Zealand and of these forty two per cent sold to New Zealand residents (Harbison, 1998). The majority of shareholders in the company have small parcels of shares.

3.7.5 EUROPE

Since 1994, the European industry profitability has continued to increase. The output in terms of passengers and passenger-kilometres and airport's number of passengers has increased, the number of domestic and cross-border routes operated has expanded by more than eleven per cent in five years (AEA, 1998; IATA, 1997/98; Europe,

1998). Obviously all these changes have affected European airports. To stay competitive in the global network European airports have had to develop innovative strategies.

Austria: Vienna International Airport - When Vienna International Airport (VIE) began looking at ways of updating its existing master plan in 1990, it was faced with a major problem. To meet the expected demand, VIE planned to expand the airport's terminal capacity; this encouraged the airport management to look into the alternatives for private sector involvement. A share flotation encompassing twenty-seven per cent of the airport stock was finalised for June 1992 (ACI, 1995).

Denmark: Copenhagen Airport - In April 1994, Copenhagen Airport became only the third Airport Company in the world to be listed on a stock exchange when twenty-five per cent of the equity was floated. The offer was over-subscribed with eighty per cent of the shares sold going to foreign investors (ACI, 1995). Privatisation would give the airport its own commercially focused management responsible for its own business and financial decisions. Furthermore, by assessing new ways of looking at the business and giving new management objectives it has been possible to increase productivity (the number of passengers per employee) from approximately 9,000 to 12,000 in four years.

Germany: Berlin's Airports - In October 1997, the shareholders of Berlin Brandenburg Flughafen (BBF), the holding company that owns Berlin's three airports approved the plans to privatise the company and privately finance a long-stalled project to build a new international airport (Taverna, 1997a). The project intended to meet future traffic growth requirements--and in particular the huge influx of federal employees that will accompany the transfer of the capital from Bonn to Berlin is billed as the largest airport privatisation effort in continental Europe.

Düsseldorf Airport - Düsseldorf handled 15.8 million passengers in 1998. It is Germany's third busiest airport, just behind Frankfurt and Munich, and the 14th largest in Europe (ACI, 1998a). In 1997, a fifty per cent stake in Germany's Düsseldorf Airport was put out for tender and eight bids were received. The other fifty per cent stake is retained by the city of Düsseldorf (Taverna, 1997b). The plan

includes the addition of a fourth terminal and connecting buildings. A new people mover to connect the airport to subway and train lines was approved in April 1997.

Italy: Naples Capodichino Airport - In August 1997, seventy per cent of Naples' Capodichino airport was bought by British Airports Authority. BAA forecasts that the number of people passing through its new Naples airport will rise from 3 million now to 8 million in 2015, in which case a huge investment will be needed in hotels, roads, transport and the rest of the money will cater for the tourists (AFD, 1999).

Rome Fiumicino Airport - On July 1997, a new national air terminal was completed at Fiumicino Airport; and in 1999 a new major air terminal was completed (Dempsey, 1999). Moreover, in 1998 the airport handled more than 25 million passengers (ACI, 1998a). The level of interest in buying into AdR has led to speculation that the government is reassessing the money it will be able to raise for its 54.2 per cent holding. Increasing the value of Fiumicino airport remains the government's main objective. It was mentioned that the nationality of the potential buyers does not represent an obstacle, or create a preference for the sale.

The Netherlands: Schiphol Airport - Amsterdam's Schiphol Airport, incorporated in 1957, is also on the list of future sales. But the airport is undergoing expansion. The Dutch government holds 76 per cent of the airport's shares, with the City of Amsterdam having 22 per cent and Rotterdam 2 per cent. The airport's president argues that the government does not demand a great financial return, and this has helped in the running of the airport (Clinch, 1998). Moreover, Schiphol pays no corporate tax, and its dividend has remained unchanged for six years, even though operating profit trebled and net profit doubled (Pilling, 1993).

The United Kingdom: The British Airports Authority (BAA) was privatised in July 1987 and is the largest airport manager operating seven airports in England and Scotland. In addition to the London airports of Heathrow, Gatwick and Stansted, BAA owns airports at Glasgow, Edinburgh, Aberdeen and Southampton².

The UK airports are an excellent example of a complex market structure. Although there are forty-five airports in the UK handling passengers and/or cargo and levying airport charges, the market is highly regionalised (CRI, 1999). In particular, BAA's

² BAA acquired Southampton airport in 1990.

London airports have almost a localised monopoly in the economically important south-east of England with only limited competition from Luton and smaller airports such as London City and Southend³.

Most airlines and passengers, and especially those from the lucrative business market, prefer to use Heathrow, which has 35.4 per cent of UK air passenger traffic (CAA, 2000) as shown in Table 3.7. This Table also illustrates that five of BAA's airports are in the ten top UK airports and account for 66.6 per cent of UK air passenger traffic, slightly less than back in 1995.

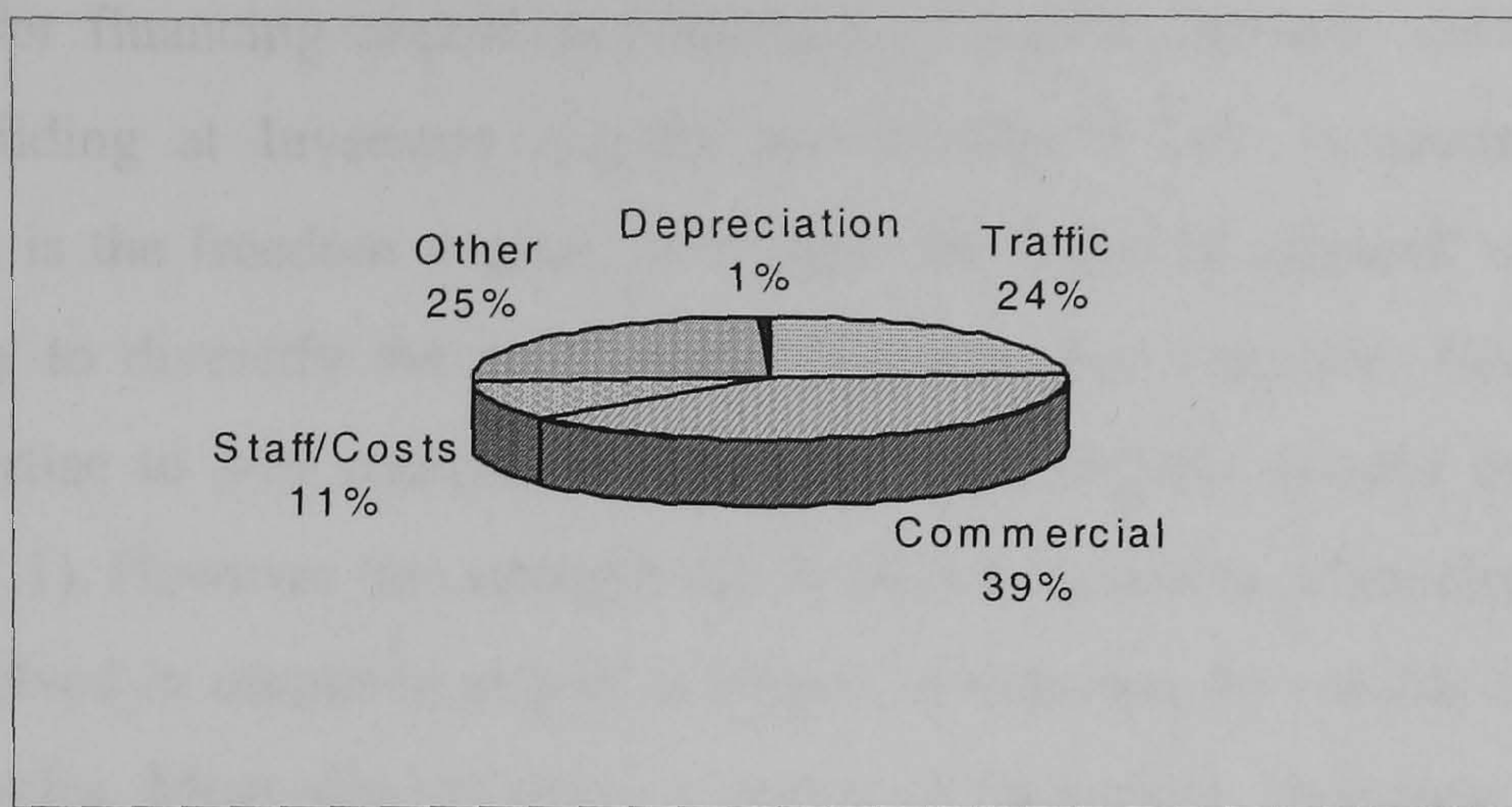
Table 3.7 Size of 10 top UK Airports 2000 Comparison with 1995.

AIRPORT	2000 – Terminal Passenger (000)	% Passenger at all UK airports	1995 – Terminal Passenger (000)	% Passenger at all UK airports
HEATHROW	64279	35.4	54132	41.8
GATWICK	31949	17.7	22383	17.3
MANCHESTER	18352	10.2	14553	11.2
STANSTED	11860	6.6	3890	3
BIRMINGHAM	7493	4.2	5193	4
GLASGOW	6924	3.8	5423	4.2
LUTON	6170	3.4	1810	1.4
EDINBURGH	5498	3.1	3275	2.5
NEWCASTLE	3147	1.7	2486	1.9
BELFAST INTL	3128	1.7	2347	1.8

Source: CAA UK Airports – 2000.

At privatisation all of BAA's issued share capital was sold by the government except for a retained special ('golden') preference share which still exists. The state corporation was privatised without restructuring on the grounds that a unified company would have the financial resources to fund future investment needs. The main impact of privatisation was not, therefore, in the product market but in the capital market (Parker, 1997). BAA became subject to pressure from commercial investors, and, in particular, was no longer completely sheltered from the threat of take over by another company which identified possible efficiency gains.

³ BAA's London airports do face competition for international traffic from continental hubs notably Frankfurt, Schiphol and Paris.



Source: CRI Airport Statistics 1997/98.

Figure 3.7 BAA's Operating Income 1997/98

The introduction of a capital market constraint on managerial behaviour should lead to higher productive efficiency. Figure 3.7 shows that the operating income from commercial revenues is significant. In 1997/98 the total operating profit for BAA was eighteen per cent slightly more than £470 million.

The main reason that some UK airports have become fully privatised such as East Midlands, Cardiff and Bournemouth has been to raise money to expand and to accommodate the forecast growth in traffic (Humphreys, 1999). Moreover, privatised airports have diversified their business. An increased emphasis has been placed on marketing and the importance of retail opportunities. For instance East Midlands has begun to sell its management expertise to other airports around the world, it is also pursuing opportunities in South and Central America (Rowe, 1997).

The UK example provides an indication of the alternative consequences of airport privatisation as it has been recognised as active commercial business that is ready and prepared to invest abroad.

3.8 AIRPORT PRIVATISATION – STRENGTHS AND WEAKNESSES

Airport privatisation generates benefits but it also involves some risks, some of them will be discussed in this section and others as the research evolves. As mentioned in the previous section, one of the benefits for privatising airports is the easier access to investment funds. In the UK, the Private Finance Initiative option is a recent

innovation for financing airport development of public airports, such as the new terminal building at Inverness Airport (see section 5.4.2). A second benefit of privatisation is the freedom it gives to expand the scope of airports' activities; and consequently to diversify the core airport business. For example, BAA used their airport expertise to win contracts to manage other airports around the world (see section 3.5.1.1). However this strength can be also a weakness when airport operators become involved in unrelated airport activities, which may be volatile and subject to economic cycles. Most airports enjoy a degree of monopoly, therefore, governments are cautioned to maintain a certain power to prevent abuse of dominant positions (see section 5.2.1). For instance, private airports might reduce space for airport operations in order to maximise commercial activities. Chesterton (1994) notes that Britain's 15 largest airports had a total of 248 speciality shops occupying a total of 323,792 square feet of retail floor space. This is expected to increase to over 600,000 square feet by the year 2002. Private airports might also agree monopolistic arrangements with particular suppliers of services, who can extract monopoly profits from airport users (Doganis, 1992). In the UK, airport companies are required to produce a very detailed annual account report including revenues and expenditure and those must be transparent. Airport charges are also regulated by the CAA with average increases being a little below the rate of inflation (see section 5.2.1).

Another strength is that private airports are freed from political and bureaucratic constraints, which may accelerate the pace of decision making for airport operations and development and allow them to be more flexible in their forward planning. This view is based partly on the management belief that privately owned utilities are likely to be run more efficiently than those which are publicly owned. However, Airport Companies may become more secretive after privatisation because of concerns that any information which enters the public domain may have a negative impact for example on share value and market position (Doganis, 1992).

3.9 GLOBAL AIRPORT OPERATORS

The practice of airports taking a financial or other interest in airports in other countries and regions is consistent with the view that ACI's membership has a great deal of expertise and knowledge to share. Believers in free and fair competition are

unlikely to be surprised at the idea of airport operators successfully exporting their management philosophies to counterparts in their own or other regions. Because airports are so carefully regulated by national authorities, there is little danger of any conflict with law governing international or national competition.

Some airports have developed a comparative advantage in certain operational areas. For example, BAA is highly respected for its management of concessions and retail outlets and was chosen to manage this aspect of Pittsburgh airport, as well as the operation of the entire terminal at Indianapolis. Amsterdam Airport Schiphol, known to many as a model of logistic simplicity for transfer traffic, has a major role in the design and management of the new international arrivals building at New York's Kennedy Airport. Similarly, Aer Rianta has exported its duty free expertise to Moscow and to the Gulf. Frankfurt Airport, which pioneered a baggage system, has installed the system in many airports worldwide.

Table 3.8 illustrates the increasing globalisation of airport management, with numerous examples of airport operators, often through a consulting subsidiary, venturing far afield to play a role in managing--or in some cases--owning other airports.

Table 3.8 Main Airport Operators - 1998

Company	Activities
BAA International (wholly owned by BAA plc)	<p>Owns and operates 7 UK airports</p> <p>Owns 25% stake in APAC, company which runs Melbourne and Launcenton airports in Australia.</p> <p>70% stakeholder in GESAC, Naples, Italy Airport Company</p> <p>Manages Indianapolis, Indiana USA airport system under 10-year contract</p> <p>Manages Harrisburg and Capital City Pennsylvania, USA under 10- year contract</p> <p>Manages concessions at Pittsburgh and Newark terminals A and B under 15-year contract.</p>
Airport Group International Inc.	<p>Manages 21 airports including the Trillium USA Terminal at Pearson International, Toronto, Haikou-Meilan International in China, the international terminal at Atlanta Hartsfield, Perth, Australia (where AGI has a 16% equity stake) and Darwin, Alice Springs, Tennant Creek Australia (where AGI has a 49% equity stake in all three).</p>

ADP Management, France (owned 54% by Aeroports de Paris, 34% by transroute with 4 shareholders holding remaining 12%)	ADP owns and operates 14 airports in the Paris region. ADP Management has 35% stake in Aeroports de Cameroun which manages 7 airports, 34% stake in Madagascar, which manages 12 airports. Operates Phnom Penh Airport, Cambodia as 60% partner Partner in SOGEAC which operates Conakry, Guinea airport
Amsterdam Airport Schiphol	Owns and manages Amsterdam, Lelystad and Rotterdam airports in the Netherlands Acquired 51% stake in Eindhoven, Netherlands Airport Through Schiphol International division, is partner in management companies of Brisbane Airport, Australia (15% equity stake) and Cartagena, Colombia Holds management contract with Angkasa Pura II, Indonesia (9 airports) and Banjul International, The Gambia. Through Schiphol USA manager of future International Air Terminal at Kennedy Airport, New York, with partners LCOR, Inc. and Lehman Brothers.
SEA - Milan Airports	Owns and operates the two Milan airports Operates Bergamo Airport (49.9% share) Acquired 33 airports in Argentina as member of consortium Holds 12.5% stake in Rimini Airport
YVR Airport Services Ltd. (owned by Vancouver International Airport Authority)	Owns and operates Vancouver International Airport Operates Cranbrook, BC, Fort St. John, BC, Hamilton, Ontario, Grand Prairie, Alberta, Kamloops, BC, and Moncton, New Brunswick airports all in Canada. With consortium, won 15-year concession on Santiago, Chile passenger terminal Operates Bermuda International Airport
ADM Capital Inc. (owned by Aeroports de Montreal)	In consortium overseeing financing, construction and operation of new terminal at Budapest Airport Owns the concession for Vatry cargo airport in France as member of consortium
TBI Airport Holdings Ltd.	Owns and operates Cardiff and Belfast airports in UK. Owns Central Florida Terminals, the owner and operator of Orlando Sanford International Airport. Acquired 90% of Skavsta Airport, Sweden
National Express Group, Plc	Owns and operates East Midlands and Bournemouth airports, UK. Provided management services to Subic Bay, Phillipines Airport on short term contract
Aer Rianta, Ireland	Owns and operates three Irish airports Holds 40% stake in Birmingham, UK and 40% stake in the joint venture with Hochtief to own and manage Dusseldorf

	Airport Manages duty free concessions in Warsaw, Bahrain and several Russian and Chinese airports
Frankfurt Airport-FAG Air-Consult, Germany	Holds 64.9% stake in Hahn, Germany cargo airport Holds 51% stake in Saarbrücken, Germany airport Provides management assistance at Sharjah, UAE airport Advisor to Athens International Airport and at new Athens Spata Airport under construction Has ground-handling contracts at 6 Spanish airports
Hochtief Airport GmbH	Owns 36% of operator of new Athens Spata Airport Owns 50% of Düsseldorf Airport in partnership with Aer Rianta
Ogden Aviation, USA	Partner in the 'Argentina Airports 2000' consortium that purchased 33 Argentine airports Managing partner and 29% shareholder in ground-handling joint venture at Macau International Airport, China BOT partner in the consortium building the new runway at Bogotá, Colombia Operates cargo terminals at Amsterdam, Barcelona, Madrid and Prague. Manages fuel facilities in Panama and Puerto Rico

Source: *Momberger Airport Information*, 21 July 1998

This table includes most of the largest international players in airport management and ownership. There are many other companies operating on a smaller scale. Moreover, many of the companies listed above are said to be interested in a number of other international airport projects.

3.10 SUMMARY

Airports are losing their local character and becoming international with the development of global “airport chains” similar to “hotel chains”, and it seems that the next step is global airport partnerships. International companies are increasingly taking over the operations of portions of these properties, and delivering their own brand of services.

In particular, it is essential that whatever airport ownership structure is adopted, whether it is private, public or a combination of both, it must enhance the safety,

efficiency and security of airport operations. It must also ensure access to adequate capital investment to finance the growth of aviation.

In a wide range of situations, firms with private sector ownership have been considered to perform more efficiently than those which are state owned. The argument for efficiency gains has been simply that privately owned airports are subject to the discipline of market forces and must earn profits to survive, but state owned airports can be subsidised and supported in a number of ways by government (Humphreys, 1999). In general, there has been no consistent evidence of performance improvement following privatisation. For example, although BAA's shareholders have benefited from buoyant earnings and dividends per share, the increased profit margin has been simply the continuation of a trend that began well before the ownership change (Parker, 1997). However, one of the main differences is that privatised airports have greater and more rapid access to cash; moreover, privatising airports' infrastructure is seen as an attractive way of financing much needed capacity increases that the public sector can often not afford. Private management input introduces a greater business orientation approach leading to a rise in commercial earnings as one of the prime sources of airports income. As a consequence, several governments find this option of privatised management and operation a suitable alternative for transforming their airports into financially self-sufficient, profit-making businesses. However, this does not mean that government owned airports are necessarily inefficient or can not be run according to business principles, such as the different ways which have recently emerged for running airports: commercialised, corporatised and franchised. In short, it seems that both state owned and privatised airports benefit from good business decisions, just as they suffer from the adoption of an illogical or short-sighted approach.

The key issue is that airports are starting to be run as business enterprises. Consequently, the majority of the governments of the countries discussed in this chapter are privatising operations, management and development but not ownership of their airports, in order that airport development can be continued and the challenge of the demands placed on their airports can be met. Nevertheless, it is evident that privatised airports still have to be regulated by national and regional authorities.

However, there are also formidable administrative obstacles a privatisation programme must overcome, such as finding willing and capable buyers, and

developing mechanisms for valuation and transfer of ownership. Certainly, developed countries face different issues from those faced by developing countries.

The information presented in section 3.7 discusses the main international airports, with little emphasis being given to regional airports. To date, little research has been undertaken which specifically focuses on regional airports – a point discussed in, for example, Humphreys (1994, 1998 and 1999), Griffiths (1994) as well as Morrell (1990 and 1997) and Graham (1996). Nowadays, regional airports should be trying to establish the most appropriate organisational structures to meet the challenges of the market. Therefore, this research concentrates on regional airports and provides information specifically related to two UK regional airports – Inverness and East Midlands – and their strategic management capacity which has been affected by international and national factors within the air transport sector.

The next chapter, Chapter 4, deals with the concept of strategic management as well as the research process to be followed in analysing the two regional airport case studies, which will be presented later in Chapters 6 and 7.

Chapter 4

Strategic Management

4.1 INTRODUCTION

Strategic management in airports is still developing and a comparatively recent concern. Therefore, it is useful at this stage of the thesis to outline the meaning of and limits of the subject. This chapter provides a review of the key concepts and views associated with strategic management, with the object of mapping out a consistent and coherent outline of the theory which will support the methodology employed in the analysis of the two airport case studies to be presented in later chapters.

The objective of this chapter is therefore to form a view of the key influences on the present and future well being of the airport as an organisation, using an established research method called the *cultural web model*. The outcome of such an analysis is relevant to strategic management because it is concerned with the assumptions and beliefs shared by the members of an organisation. It also helps to identify the values and environmental forces during the period under analysis. Moreover, the *cultural web model* seeks to provide a deeper understanding of the significance of organisational culture.

4.2 OVERVIEW OF STRATEGIC MANAGEMENT CONCEPTS

Strategic management, also often described as ‘policy’ or simply ‘strategy’, deals with the future direction of an organisation, incorporating those issues which are of primary concern to senior management. All organisations are seen to be in competition (for input resources, clients or for offering better service, etc.) and have to make correct choices if they are to endure. Strategic management can be considered as ‘the artful blending of the analysis and learning used by managers to create value

from the skills and resources which they control to ensure this survival' (Guile and Quinn, 1988).

According to Johnson and Scholes (1997) strategy is 'the direction and *scope* of an organisation over the *long-term* which achieves an *advantage* for the organisation through its configuration of *resources* within a changing *environment*, to meet the needs of *markets* and to fulfil *stakeholder* expectations'.

A consequence of these characteristics of strategic decisions is that they are likely to be *complex in nature*. Strategic decisions can involve a *high degree of uncertainty*; they may involve taking decisions on views of the future, which it is impossible for managers to be sure about. Strategic decisions are also likely to demand an *integrated* approach to managing an organisation. Managers have to cross both functional and operational boundaries to deal with strategic problems and come to agreements with other managers, who might have different interests and perhaps different priorities. Strategic decisions may also involve *major changes* in the way an organisation functions. The constraining impact of, for example, a conservative corporate culture could spell doom for an organisation, just as a political, economic, social or technological alteration could provide a road to survival. A new senior manager with a new vision can stimulate a change in basic patterns of an organisation's behaviour, and the justification for this new behavioural pattern. It can also be the modification of the environment around an organisation which will alter its approach in the future (Thompson *et al*, 1995). Therefore, it is a truism to suggest that an organisation needs to adapt to new circumstances, to cope with new challenges, whose norms and beliefs correspond to those advocated by a new vision.

4.3 STRATEGIC MANAGEMENT

It is hard to imagine a business conversation today that does not include the word *strategy*. Strategy, as noted earlier, is about positioning an organisation for *sustainable competitive advantage*. It involves making *choices* relative to the sectors in which to participate, what products and services to offer, and how to allocate corporate resources to achieve such a sustainable advantage. Kluyver (2000) argues that 'its primary goal is to *create value for shareholders* by providing *customer value*'. The concept has been described as the process by which managers determine

the long-term direction and performance of an organisation, by effecting a carefully formulated, properly implemented, and continuous evaluation of an organisation's strategy (Rue and Holland, 1989). Fellows (1989) explained the concept as the management function that initiates, activates and operates the process involved in business strategy; thus providing a dynamic element for planning the future of an organisation. These views are generally shared by several other authors on the subject including Ansoff (1969), Porter (1985), Mintzberg (1989), Quinn (1989) and Glaister (1991). There is a common agreement on the futuristic nature of strategic management as a comparative activity. Equally, the different authors concur on the appropriate level at which strategic activity takes place within an organisation.

Some organisations present discernible patterns of strategic development. Organisations may go through long periods when strategies develop incrementally; that is, decisions are built one upon another, so that past decisions mould future strategy. Johnson (1992) argues that such incremental development in organisations is consciously and logically managed as a means of coping with the complexity and uncertainty of strategy development. Managers are aware that it is not possible to 'know' about all the influences that could conceivably affect the future of their organisation. They are also aware that the organisation is a political entity in which trade-offs between the interests of different groups are inevitable: it is therefore not possible to arrive at an optimal goal or an optimal strategy. The notion of strategy is thus to do with the long-term direction of the organisation and not just its response to current difficulties.

As noted in Chapter 1, the central aim of this study is to understand and investigate the changes in strategic management at two regional airports – Inverness and East Midlands – and their ability to adapt to major changes in their operating environment. This motivation stems from the fact that managing strategic change has received increasing interest within management research. A number of studies focusing on the dynamics of strategy making have been carried out to improve understanding of this phenomenon. However, in most cases strategic change is described as a rather uniform and homogeneous process, either evolutionary or revolutionary, proactive or reactive, rational or political (Lindell *et al* 1998). Such a view does not fully capture the complexity and dialectics of the process. Instead, strategic change should be understood as a combination of different types of processes shaped by the interplay

between external forces and internal cognitive, cultural and political processes (Hellgren *et al*, 1993; Melin and Hellgren, 1994). This view is based on the assumption of a socially constructed reality in which strategic thinking and acting are created through the interaction between different actors taking part in the process. This includes not only the objective decisions of managers using information derived from their competitive environment; but also embraces the subjective learning and political dimensions that operate both in and outside the organisation. These features can best be understood by examining an outline of the proposed analytical framework for the qualitative research on which this study is based.

Like all analytical frameworks, the distinction between process and change is a necessary simplification in order to clarify some of the apparent paradoxes and alternative assumptions made by theorists in the area of strategic change. The process of strategic change often begins from the understanding an organisation develops of its environment. This literature shows that it is not enough for organisations to regard judgements of their external competitive world as only a technical procedure. On the contrary, the requirement is for organisations, for example, to become ‘open learning systems’.

Johnson and Scholes (1997) have identified seven sets of characteristics ‘usually associated with the concepts of strategy, strategic decisions and strategic management’. They

- concern the whole scope of an organisation’s activities;
- match an organisation’s activities to its business environment;
- match an organisation’s activities to its resource capabilities;
- involve major resource implications for the organisation;
- reflect the values and expectations of those in power within and around the organisation;
- affect the long term direction of an organisation; and
- affect operational decision making capability.

There is nothing to stop these characteristics being applied to an airport if an airport is viewed as an organisation. As a result, such an analysis should help to understand how airport strategic management operates.

4.3.1 Strategic Management in Different Contexts

To a greater or lesser extent, all the aspects considered in the previous section are relevant for most organisations. However, it is likely that different aspects will be more important in some contexts, and some organisations, than in others. It would be wrong to assume that all aspects of strategic management are equally important in all circumstances; nevertheless, the concepts of strategy and strategic management are just as important in the public sector as in the private sector (Johnson and Scholes, 1997). This section reviews some of the ways in which aspects differ in different contexts.

4.3.1.1 Strategy in the Public Sector

The difference between the public and the private sector is associated with the nature of ownership and control. In the public sector, decisions are determined more by political than market conditions. These sorts of organisation face difficulties from a strategic point of view because, for example, they may not be allowed to specialise, and may not be able to generate surpluses from their services to invest in development. This can lead to a mediocrity of service where strategic decisions mainly take the form of striving for more and more efficiency so as to retain or improve services on limited budgets.

Domberger and Piggott (1994) argue that there are three main reasons why we might expect that public-sector management will not behave in a way which is consistent with cost minimisation:

1. There is the absence of a clear-cut profit objective, which is the overriding goal of private enterprise.
2. Public enterprises are often assigned a number of objectives amongst which cost minimisation typically has low priority.
3. The incentives confronting public-sector management are not compatible with the pursuit of efficiency in service since typically neither their earnings nor tenure are directly related to any measure of performance such as profitability.

However, where a public enterprise operates in a highly protected or regulated environment, deregulation or liberalisation of the market may generate a substantial improvement in public-sector performance, without ownership transfer.

4.3.1.2 Strategy in the Private Sector

As previously discussed in Chapter 2, the number of organisations that were once within the public sector and which have been privatised is increasing. As a result, these organisations are becoming more sharply focused on markets. Johnson and Scholes (1997) state that ‘managers in such organisations find themselves more explicitly having to face an understanding of the dynamics of competition and the formulation of a clearer competitive strategy’.

One element of efficiency in the private sector is the rapid adjustment of capital-labour ratios to changes in relative price factors (Domberger and Piggott, 1994). As we have seen, advocates of privatisation argue that private ownership:

1. Restores incentives.
2. Promotes productive efficiency.
3. Frees the enterprise from the prospect of political interference in managerial decision-making.

Therefore, all these arguments must strongly count in its favour. Moreover, Domberger and Piggott (1994) also argue that with private ownership:

1. There is a clearly defined objective, namely profitability, and
2. There is a clearly observable indicator of performance, namely the stock-market or share price.

This contrasts sharply with the highly politicised, often confused and vague multiple objectives of publicly owned enterprise.

4.4 STRATEGIC ANALYSIS

Strategic analysis is concerned with appreciating the key factors influencing the present and future well-being of an organisation and involves understanding:

- the strategic position of the organisation;
- the changes and context of the environment and their impact on the organisation;
- and

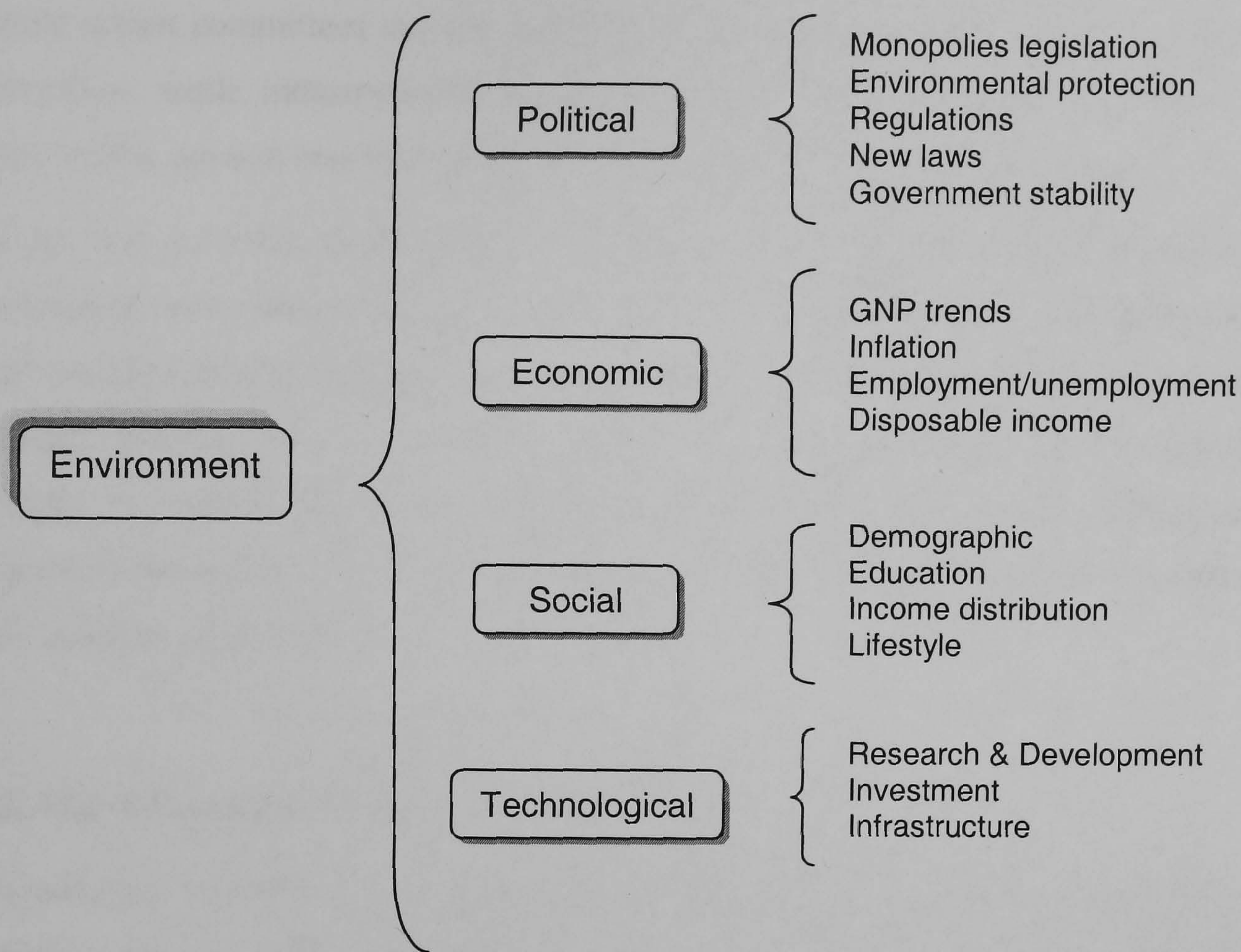
- the nature and roles of interest groups (managers, shareholders, labour, financial institutions) and their aspirations.

Rue and Holland (1989) argue that ‘the most promising path for an organisation to follow in pursuit of its objectives depends on its internal capability and on a complex series of interactions and relationships with forces external to the organisation’. These external forces, conditions, situations, events, and relationships over which the organisation has little control are referred to collectively as the organisation’s *environment*. Environmental analysis is a critical component of strategic management because it produces much of the information, which is required to assess the outlook for the future.

According to Johnson and Scholes (1997) in trying to understand the environment, managers face difficult problems. This issue encapsulates three subjects:

1. Different influences: All conceivable environmental influences may be possible, but considering them all may not be helpful because no overall picture emerges of really important influences on the organisation.
2. Uncertainty: Changes are unpredictable, managers typically claim that the pace of technological change and speed of global communications mean more and faster change now than ever before.
3. Complexity: One of the tasks of the strategic managers is to find ways in which they and their colleagues can break out of the oversimplification or bias in the understanding of their environment, while still achieving a useful and usable level of understanding.

As a starting point, it is useful to consider what environmental influences have been particularly important in the past, and the extent to which there are changes occurring which may make any of these more or less significant in the future. Every organisation is subject to general trends; these trends have political, economic, social and/or technological aspects. In terms of strategic analysis, this is sometimes referred to as a PEST analysis, which is illustrated in Figure 4.1.



Source: Adapted from Johnson and Scholes, 1997.

Figure 4.1 A PEST Analysis of Environmental Influences

4.4.1 The Political Sector

The political sector of the environment presents actual and potential constraints on the way an organisation operates. These can take the form of (1) laws, which require or prohibit certain actions, (2) regulations, which interpret and detail these laws, and/or (3) avenues for reporting relationships and overseeing functions. The difference between local, national and international sub-sectors of the political environment are often noticeable. For example, political instability in some countries or regions makes the very form of government subject to revolutionary change or draconian restrictions. In addition to the basic system of government and the laws related to the system which it promulgates, the political environment might include such issues as monitoring government policy toward income tax, relative influence of unions, and policies concerning utilisation of natural resources.

Rue and Holland (1989) argue that ‘the political environment is probably most subject to influence exerted by organisations or groups of organisations with common goals’. Political action committees are one method used for political influence by a single organisation, while industry-lobbying groups represent combinations of interested parties. Public opinion may be used to influence the political environment as well.

This can vary according to circumstances. For instance, in the UK’ eighteen years of Conservative governments between 1979 and 1997 have resulted in the return to private ownership of nearly all transport services and a substantial proportion of transport infrastructure. In the private sector the transport industries are subject increased to market disciplines within a framework of government regulation designed to attempt to ensure fair competition as well as high standards of public safety (Glaister, *et al* 1998).

4.4.2 The Economic Sector

Transportation is basic to the economy of any country or region. Government regulation of economies around the world has recently changed, radically transforming the economic roles of government and business, as well as relations between them (Wells, 1996). The study of transport is also now a recognised branch of economics (Bamford, 1998).

Moreover, Bamford (1998) argues that ‘the fluctuations of local, national, and world economies are related in many ways, although it is still important to make separate assessments based on organisational scope’. Thus, local conditions can moderate or deepen the effects of national economic trends.

To assess the local situation, an organisation might seek information concerning, for example, the economic base and future of the region and the effects of this on wage rates, disposable income, unemployment, and the transportation and commercial base. At the national level, trends in growth, income levels, inflation, and taxation are only a few of the indicators of the ability of the economy to produce and consume goods and services.

4.4.3 The Social Sector

The behaviour patterns of individuals and groups reflect their attitudes, beliefs and values. The social environment includes the attitudes and values of society as well as the behaviour which is motivated by those values. A community attitude toward travelling, the composition of families and households, and the preference, for example, for summer holidays over ski holidays are all manifestations of the social environment. The impact of the social sector is felt in changing needs, tastes, and preferences of consumers. For instance, in relation to employees, there are changing expectations of society about how the employing organisation should fulfil its citizenship role. The attitudes of employees and, consequently, the relationship of employees to the firm are also changing. The willingness to put forth an all-out effort to earn more seems to be less evident than it was in the past, as employees opt for more leisure and depend less on work to meet their needs for self-esteem (Whitaker, 1978).

It seems that an increasing number of people are able to travel and enjoy travelling. The inherent nature of the individual psyche includes curiosity and a desire to see and understand other places and other cultures, and air transport makes it possible for people to satisfy such desires. In many parts of the world, as a generalisation, affluence is growing, enabling more and more people to travel more widely around the world. The general propensity to travel is increasing and the capability to travel in economic terms is becoming even more widely available (Shearman, 1992).

4.4.4 The Technological Sector

Argenti (1980) has stated that 'technological trends include not only the glamorous invention that revolutionises our lives, but also the gradual painstaking improvements in methods, in materials, in design, in application, in diffusion into new industries and in efficiency'.

The effects of technological changes are felt in all the following ways:

- *New products or services*: Certainly, the development of aviation technology has resulted in a much more economical fleet, and high-payload aircraft are now common. Thus, people who were not previously attracted to air travel are suddenly finding new potentials opened to them.

- *Changes in complementary services:* The newly developed and re-structured airports offer a wide variety of facilities and services to attract more users and customers.

All organisations feel the effect of “progress”, but the marked shifts in technology, which in the past have rendered whole sectors of the economy almost obsolete are now rare. Rue and Holland (1989) state that ‘foreseeing technological change is probably not as critical a skill for the strategist as choosing the proper time frame for reacting to and determining the implications of change’.

The analysis of these four factors should therefore be directed at an awareness of the uniqueness, dynamism, and interaction which characterises organisation-environment relationships.

4.5 CULTURAL WEB MODEL

If organisation-environment relationships are an important aspect of strategic analysis, then trying to understand the culture of an organisation is equally important, but it is also by no means straightforward (Johnson, 1987). If managerial processes, which give rise to the development of strategy, are examined and understood in environmental, cultural, political and cognitive terms, then it becomes clear that the strategic complexity managers face cannot readily be analysed objectively and continually within the managerial task. Johnson (1992) argues that managers have a set of beliefs and assumptions, which are specific and relevant to the organisation in which they work and which are learned over time. Whilst individual managers may hold quite varying sets of beliefs about many different aspects of that organisational world, there is likely to exist, at some level, a core set of beliefs and assumptions commonly shared by managers in the same organisation.

The strategies that managers advocate and those that emerge through the social and political aspects within an organisation’s culture are influenced by different issues. These different aspects of organisational culture comprise what Johnson and Scholes (1997) refer to as the *cultural web*. They argue that it is important to stress that all organisations must develop a degree of coherence in their culture for them to be able to function effectively and survive.

According to Johnson and Scholes (1997), the *cultural web* includes the following elements:

1. The *stories* told by members of the organisation – to each other, to outsiders, to new recruits and so on – embed the present in its organisational history and also flag up important events and personalities.
2. The *rituals and routines* of organisational life are the special events through which the organisation emphasises important issues and shapes the way members behave towards each other – and reinforces ‘the way we do things around here’.
3. The *control systems* which emphasise what is important to measure and monitor in the organisation, and to focus attention and activity upon.
4. *Organisational structure* is likely to reflect internal power structures and, again, delineate important relationships and emphasise what is important in the organisation.
5. *Power structures* are also likely to be associated with the key constructs of what is referred to as the ‘organisational paradigm’. The paradigm is conceived of in some respects, as the ‘formula for success’ for the organisation, which is taken for granted and likely to have developed over years.
6. *Symbols*, such as logos, offices and titles, or the type of language and terminology commonly used, become a short-hand representation of the nature of the organisation.

However, these elements, which consist of a combination of environmental forces and organisational capabilities, do not in themselves create organisational strategy. People create strategy, and one mechanism by which this occurs at the cognitive, cultural level is through the creation of what has been called the *organisational paradigm* (Johnson and Scholes, 1997).

This paradigm represents a distillation of the key attitudes of an organisation. It both summarises and reflects organisational capability and strategic organisation as well as an organisation’s internal strengths and weaknesses. As noted above, it is in many respects an organisation’s ‘formula for success’.

Figure 4.2 is a representation of this conceptual model.

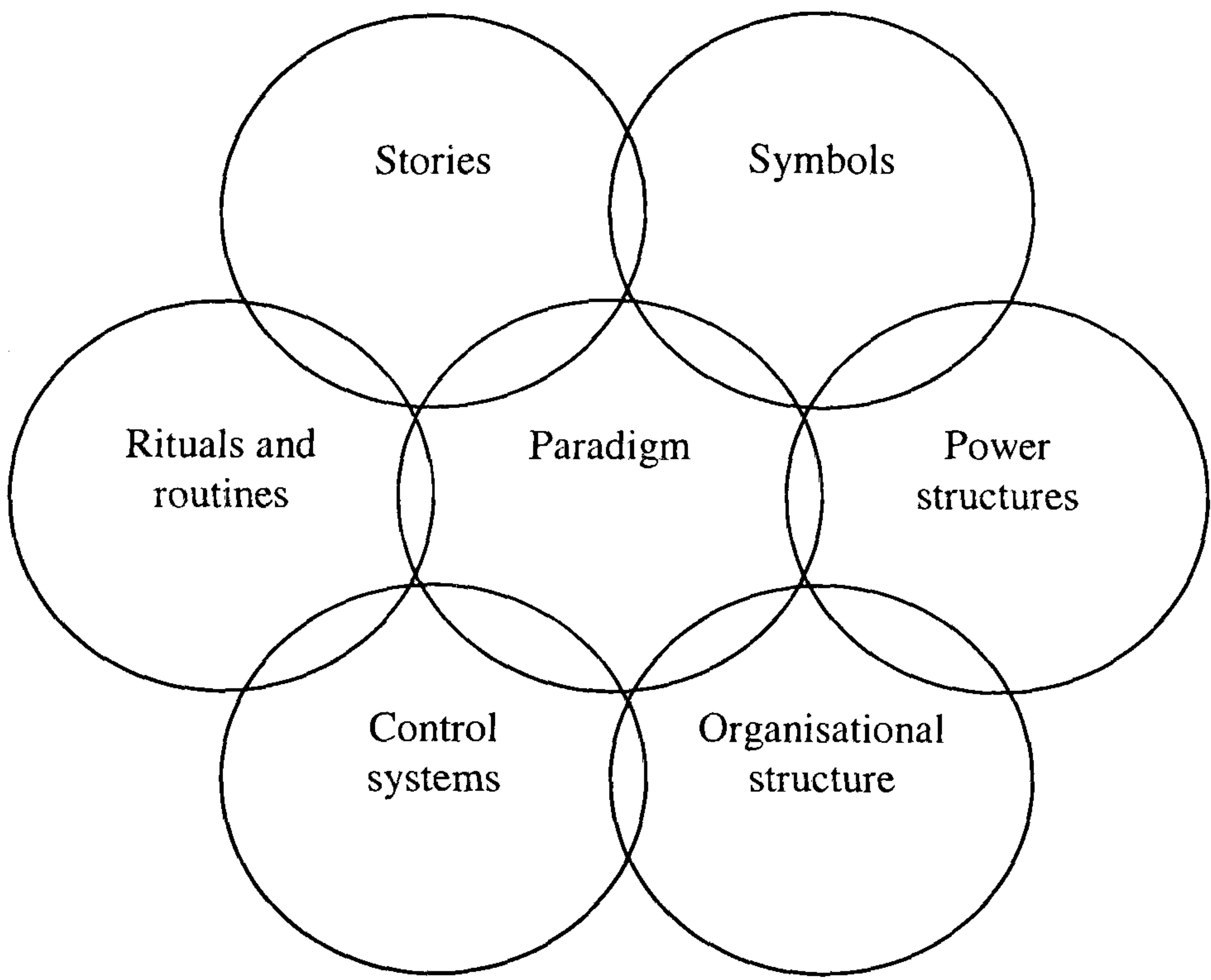


Figure 4.2 Cultural Web Model

The *cultural web model* is, then, a potentially useful and powerful conceptual tool for understanding the underlying assumptions linked to environmental, political, symbolic and structural aspects of an organisation. Taken together, these different conditions should provide a better understanding of the beliefs and attitudes within any organisation – including airports. It is worth mentioning that this model has been applied widely in different case study settings, including transport services (Costello and Gillingwater, 2000), but not to the author’s knowledge to airports as organisations.

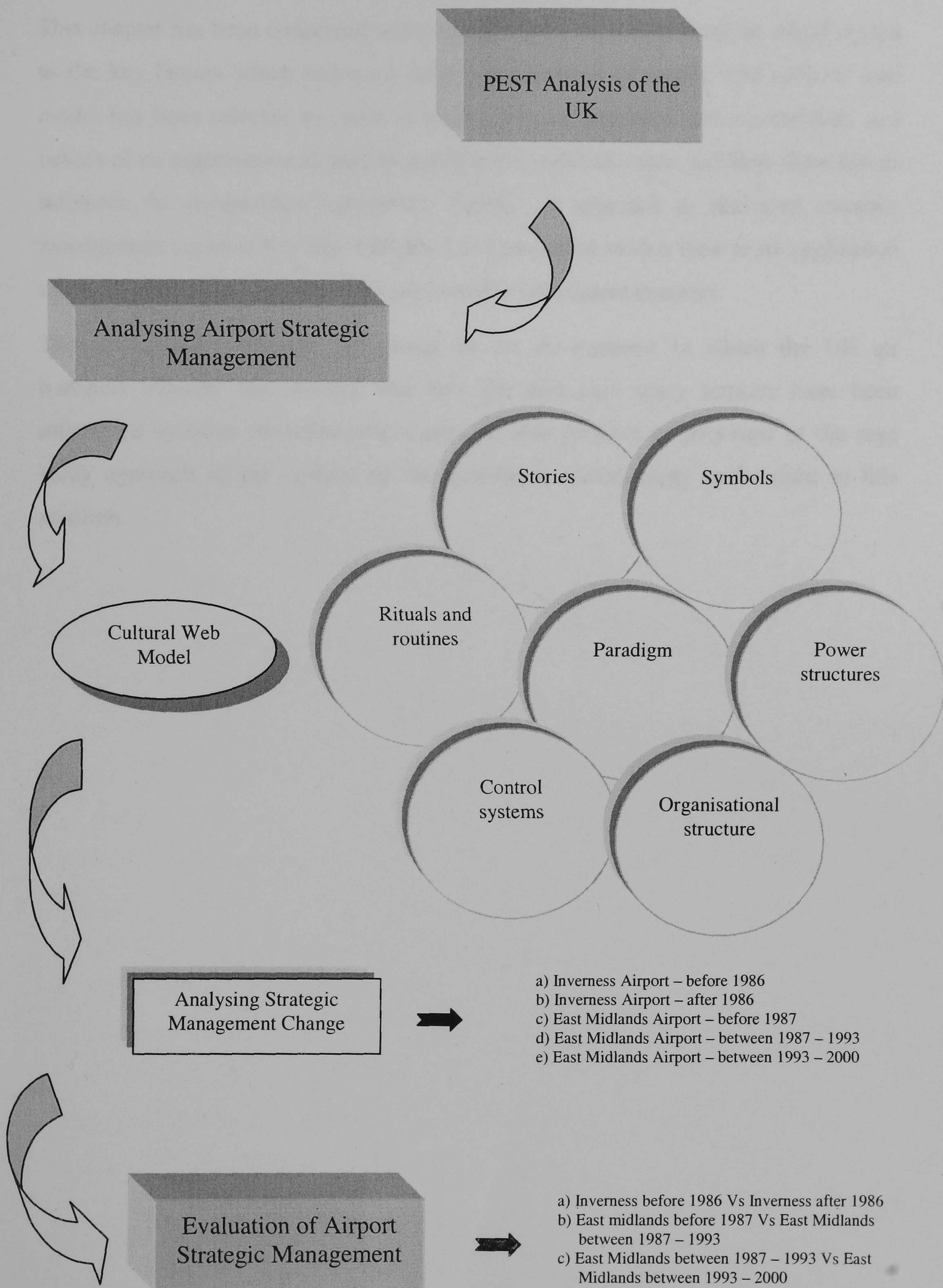
4.6 ANALYSING STRATEGIC MANAGEMENT

It is one thing to discuss the attitudes of strategic analysis in the abstract and quite another to undertake an analysis of strategic management itself. This section is concerned with establishing the research process for analysing the strategic management capacity of the two case study regional airports, to be presented and discussed in detail in later chapters – Chapters 6 and 7. It offers a systematic way to analyse strategic management within these airports in order to achieve a greater

understanding of the changes which have occurred. The analytical process includes the following four steps:

1. An analysis of environmental influences (PEST) is carried out for the UK to allow a better understanding of the general operating environment which has influenced the two case study airports in the period under study.
2. Airport strategic management is then analysed in terms of the *cultural web model*, to permit a better understanding as to whether the internal control systems, organisational structures, power structures and so on have *fitted* the environment in which the airports have been operating.
3. In order to analyse airport strategic management in general and, more significantly, how that strategic management has changed, in the two case study airports time periods are then analysed for Inverness and East Midlands, respectively. For Inverness, two time periods are analysed – ‘before 1986’ and ‘after 1986’; for East Midlands, three time periods are analysed – ‘before 1987’, ‘between 1987 and 1993’ and between 1993 and 2000’.
4. The final step then is to evaluate the management strategies for each airport in each time period; a comparison of the periods analysed for Inverness and East Midlands, respectively, is then presented and discussed.

This analytical process is illustrated in Figure 4.3



Source: Compiled by author

Figure 4.3 - Analysing Airport Strategic Management

4.7 SUMMARY

This chapter has been concerned with understanding what organisations might regard as the key factors which influence their organisational strategies. The *cultural web model* has been selected in order to analyse the environment, the assumptions and beliefs of an organisation as well as political and cultural issues, and how these forces influence the organisation's purposes. Finally, an approach to analysing strategic management capacity has been identified and presented, with a view to its application to the two case study airports to be presented in subsequent chapters.

The next chapter, Chapter 5, focuses on the environment in which the UK air transport industry has evolved and how the two case study airports have been influenced by these environmental factors. It also presents an overview of the case study approach in the context of the qualitative methodology to be used in this research.

Chapter 5

Case Study Context

5.1 INTRODUCTION

This chapter provides an overview of the UK operating environment to set the context for a strategic analysis of two case study airports – Inverness and East Midlands –. The analysis starts with an appreciation of where these two airports are located, the changes which have been taking place, and how they have affected the airports and their activities. The aim of this chapter is to form a view of the key influences on the present and future of these airports, and what opportunities are provided by the changing environment.

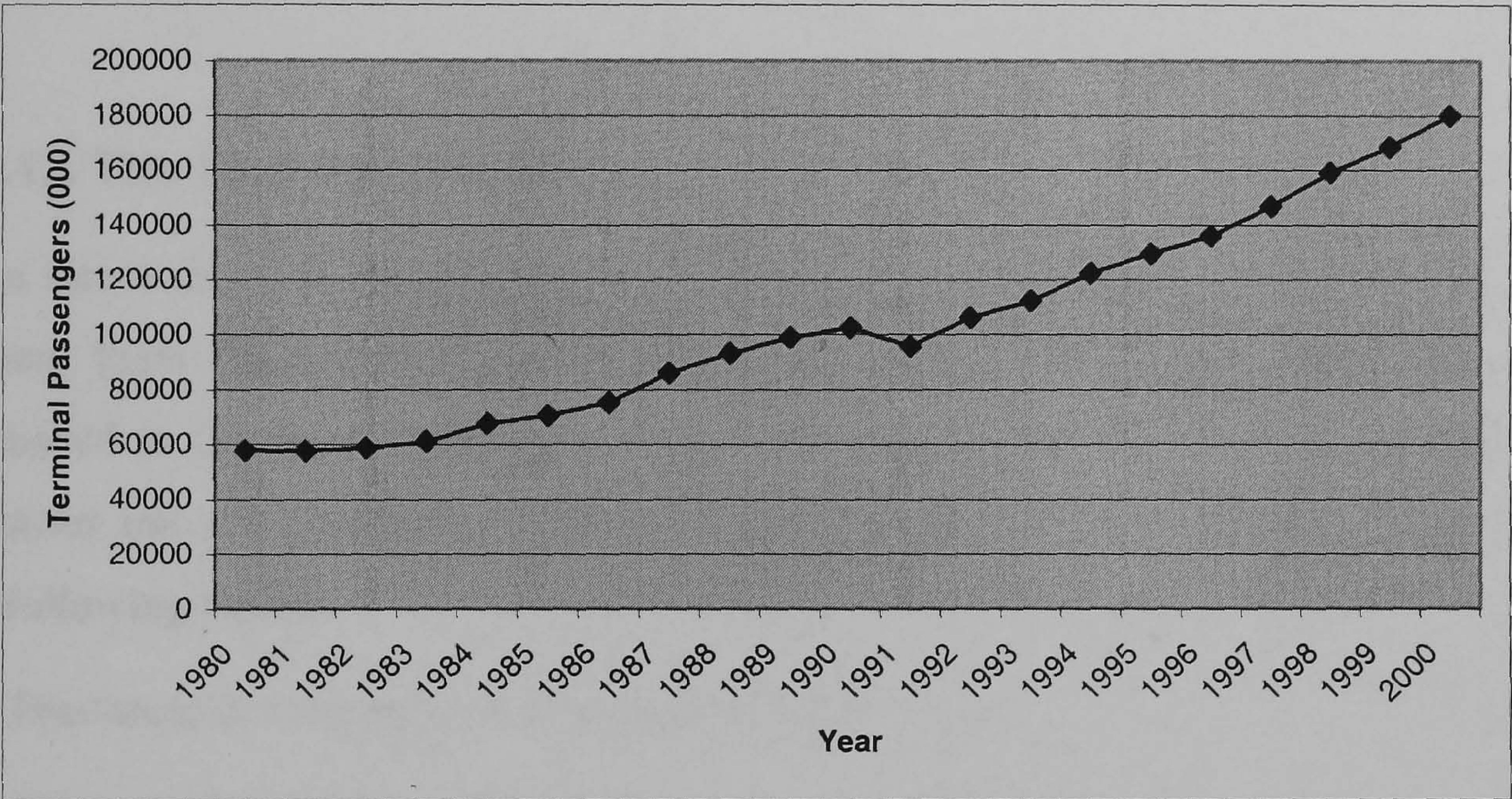
This chapter is divided into three sections. The first section presents an analysis of the UK airport industry, beginning with a description of the industry and its existing structure. To achieve this a PEST analysis is used where the four aspects – political, economic, social and technological – are discussed as a whole for the UK, as these conditions are similar for the two airports. The second section addresses the approach taken to the two case studies, where the strategies for selecting and collecting the data for both airports are discussed and explained. The final section discusses the development of the two airports where issues associated with the previous analysis are also discussed. The purpose of this analysis is to form a view of the external influences and the constraints as well as the opportunities affecting each case.

5.2 THE UNITED KINGDOM ENVIRONMENT

The world's first international scheduled commercial air service left London for Paris on 25 August 1919. Since that day, the development of British civil air transport has been regulated by a succession of government and independent bodies. On 1 April

1972, the Civil Aviation Authority was established to assume full responsibilities for aviation, which are the economic and safety regulation of British civil aviation and its operations. On civil aviation matters, generally the CAA acts as the Government's expert adviser. The CAA philosophy, which has been accepted by all political parties, is that the cost of providing essential services to civil aviation should be paid for by the users and not by the taxpayers, the majority of whom do not use air transport.

The UK has an extensive number of airports serving all the main population centres. These airports have undergone continual development to cope with the substantial growth of demand for UK air travel from less than 58 million terminal passengers per annum in 1980, to 180 million in 2000 (CAA, 2001), (see Figure 5.1).



Source: UK Airports, CAA (2000)

Figure 5. 1 Terminal Passenger Numbers at UK Airports

5.2.1 The Political Sector

In the UK, powers vested in ministers by legislation are invariably attributed to 'The Secretary of State'. He or she carries the primary responsibility for proposing and implementing transport policy, whether it is carried out directly by the department or by a public body sponsored by the department or by local government. The Secretary of State (acting as appropriate through transport ministers and civil servants) takes the lead on transport issues of concern to the United Kingdom as a whole, such as the impact of transport on the environment, and promoting transport safety (Glaister *et al*, 1998).

Prior to the election of a Conservative government in 1979, there was very little, in the way of policy, differences between the two main political parties in their attitudes to transport. Successive Conservative and Labour administrations had promoted a national transport policy that had sought to obtain 'co-ordination through competition'; that is, through promoting competition, with the private and public sectors competing in certain transport markets (Bamford, 1998).

Nonetheless, eighteen years of Conservative governments between 1979 and 1997 resulted in the return to private ownership of nearly all transport services and a substantial proportion of the transport infrastructure (Graham and Guyer, 2000). The most significant change in the pattern of airport ownership was instigated by the 1986 Airports Act.

5.2.1.1 The 1986 Airports Act

As a direct result of the White Paper on UK Airport Policy published in 1985, the present legal framework was outlined in the 1986 Airports Act. The paper was published to explain the response of the Government to matters arising from Public Inquiries into the expansion of Stansted and Heathrow Airports. This Act dealt with the following topics:

1. The future development of the London airport system;
2. The role of the regional airports and policies to help their development;
3. The environmental issues associated with airport development;
4. The privatisation of the British Airports Authority;
5. The reconstruction of all the major airports as airport companies, to improve financial discipline and facilitate the introduction of private capital;
6. The regulation of airports and rules for the distribution of traffic between them; and
7. Proposals for legislation to implement these changes.

New forms of regulation emerged with the idea of recreating a competitive environment through considerations of pricing and cost efficiency; notable among

these was the so-called ‘incentive regulation’. Incentive regulation is based on the idea that the regulator can provide increasing incentives for the monopolist to minimise the cost of production and to price goods or services efficiently.

5.2.1.2 The UK Airport Ownership Issues

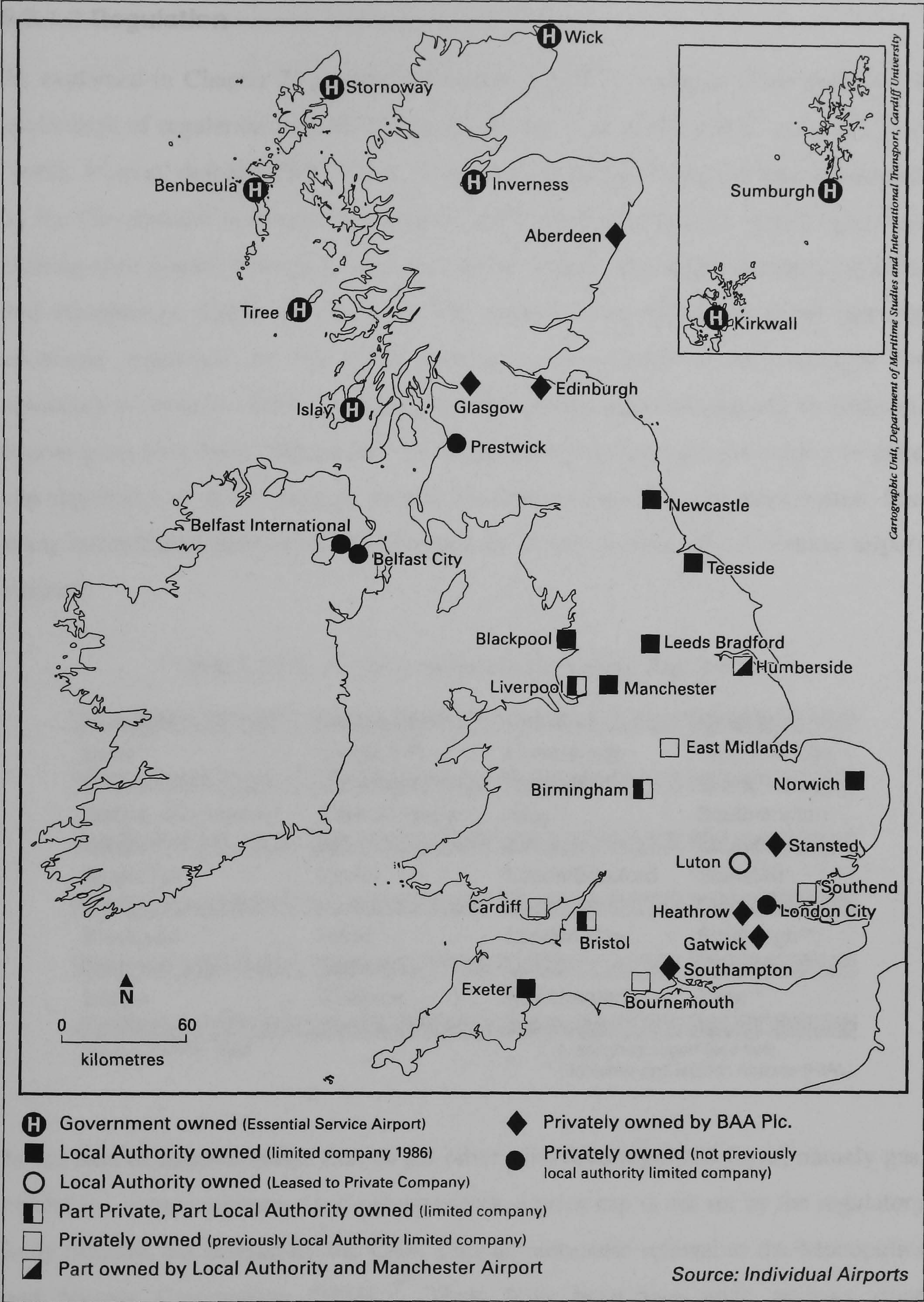
Part I of the Act transferred the British Airports Authority into a limited company – BAA Plc. In the summer of 1987, the shares in BAA Plc were floated on the London Stock Exchange. As mentioned in Chapter 3, the Government retained one “golden share” in order to be able to veto undesirable events, (for example, a take-over for asset stripping or a buyout by an airline or airlines creating monopoly conflicts), and imposed a limitation on foreign holdings of 15 per cent (Call, 1999).

Part II of the Act required local authorities owning airports with a turnover greater than £1 million in two of the three preceding financial years to form an airport company with the shares held initially by the local authority owners. The local authorities were empowered to sell their shares if they so wished, but they could not be forced to dispose of them by the government.

A major change to the local authority owned airports was in their accounting methods. The local authorities did not pay taxes, and in addition, the form of accounting meant that the airport did not allow for depreciation of its assets and did not conform to recognised commercial accounting practices. The newly formed Airport Companies were to be run at “arms length” from their owners and had to operate as a commercial undertaking, therefore they had to conform to standard accounting procedures. The services that had been provided by the local authorities, such as personnel, finance and planning, were brought into the Airport Joint Committee which now had non-executive Board members, with new Executive Directors appointed to the Board.

By the year 1999, three categories of ownership prevailed among the commercialised airports of the UK (as shown in Figure 5.2):

1. Fully owned by a private company.
2. Commercialised limited company with the share part owned by the local authority and part owned by a private company.
3. Commercialised limited company with local authority ownership of all the shares.



Source: Humphreys, 1999.

Figure 5.2 Ownership Structure of UK Airports 1999.

5.2.1.3 Regulation

As explained in Chapter 2, governments need to seek to understand the appropriate application of regulation in order to protect the interests of the public – the so-called ‘public interest’ defence (Self, 1993). Economic regulation of airports was introduced by the Government to protect the interest of the airport users from airport operators abusing their spatial monopoly and to promote airport economic efficiency (Francis and Humphreys, 2001). In 1999, 44 UK airports were subject to some form of economic regulation by the CAA relating to permission to levy charges for aeronautical services. Table 5.1 provides a list of the regulated airports. In addition, four airports have been ‘designated’ by the Secretary of State and are subject to price cap regulation of their charges, namely Heathrow, Gatwick, and Manchester¹ (the main international gateways) and Stansted (a player in BAA plc’s London airport system).

Table 5.1 UK Airports subject to Economic Regulation

Aberdeen	Campbeltown	Heathrow*	Norwich
Barra**	Cardiff Int’l	Humberside	Plymouth City
Belfast City	Coventry	Inverness**	Prestwick
Belfast International	East Midlands	Islay**	Southampton
Benbecula**	Edinburgh	Kirkwall	Southend
Biggin Hill	Exeter	Leeds/Bradford	Stansted*
Birmingham Int’l	Fairoaks	Liverpool	Stornoway**
Blackpool	Filton	London City	Sumburgh**
Bournemouth	Gatwick*	Luton	Teesside
Bristol	Glasgow	Manchester*	Tiree**
Cambridge	Gloucestershire	Newcastle	Wick**

Source: CIPFA, 2000.

* A designed airport (see text).
 ** Highlands and Islands Airports (HIAL).

In the case of airports unlike that of the other privatised regulated firms, namely gas, electricity, water companies and rail operators, a price cap is not set by the regulatory body directly, but instead by the CAA after an automatic referral to the Monopolies and Merger Commission (MMC)². There have been two price reviews since

¹ Manchester airport is owned by ten Manchester local authorities with Manchester City Council having a majority shareholding of 55 per cent.
² The Office of Fair Trading also has a role in economic regulation of the airports under general competition law (the Fair Trading Act 1976 and the Competition Act 1980). The then Department of Transport recommended that the CAA should assume the role of primary industry regulator thereby bringing airport regulation into line with the practice in other regulated industries, with the Monopolies and Merger Commission (MMC) providing an appeal mechanism.

privatisation was introduced, both involving the MMC, in 1991 and 1996. However, in July 2000 the CAA began the third quinquennial review and plans to refer the designated airports to the new found Competition Commission in December 2001 in order to set new conditions relating to airport charges for the five years from April 2003 (CAA, 2000). Once set the regulation cannot be altered by the CAA or operator until the next quinquennial review, except by agreement (Parker, 1997).

Following its statutory review of BAA activities for the next five year period from April 1992 the permitted increase in airport charges should be changed from the existing formula of the retail price index (RPI) minus 1 per cent to the stricter RPI minus 4 per cent (MMC, 1996). But the Civil Aviation Authority, the ultimate regulator of the BAA's aeronautical charges, proposed that charges should be held down to an annual increase of 8 per cent less than the retail price index (i.e. RPI – 8 per cent). The CAA believed that even with the minus 8 per cent price constraint on the BAA's London airports could still produce a 7 per cent return on investment (Parker, 1997). The BAA Plc's immediate reaction at the time was that this dramatic limitation on its pricing freedom would force it to review its plans to build a fifth terminal at Heathrow as well as other projects including the Heathrow rail link. The CAA's final decision in November 1991 on the pricing formula for airport charges at Heathrow, Gatwick and Stansted for the five years from April 1992 was as follows:

Table 5.2 Caps applied to Heathrow, Stansted and Gatwick

1 st and 2 nd years	April 1992 – March 1994	RPI – 8%
3 rd year	April 1994 – March 1995	RPI – 4%
4 th and 5 th years	April 1995 – March 1997	RPI – 1%

Source: Parker, 1997.

For April 1997 – March 2002, the CAA accepted the MMC's recommendation of RPI + 1 per cent for Stansted and RPI - 3 per cent for Heathrow and Gatwick. The CAA stated that under the formula price rises at Heathrow should be at least one percentage point above those at Gatwick because the bulk of future new investment would be at Heathrow. Manchester was referred a year later, in December 1996, and a price cap was set for the five years from April 1998 to 31 March 2003.

However, following a decision by the CAA in May 1999 to extend the current price caps at the BAA London airports into a sixth year (the maximum extension the Airports Act allows) the price caps at Heathrow, Gatwick, Stansted and Manchester will each expire on 31 March 2003. The CAA will therefore be reviewing the BAA London airports and Manchester in parallel. Conducting the BAA and Manchester reviews at the same time may help achieve a consistency of regulatory approach and will also allow common issues to be addressed jointly. New price caps will be set for each of the four airports for the five years from 1 April 2003 to 31 March 2008.

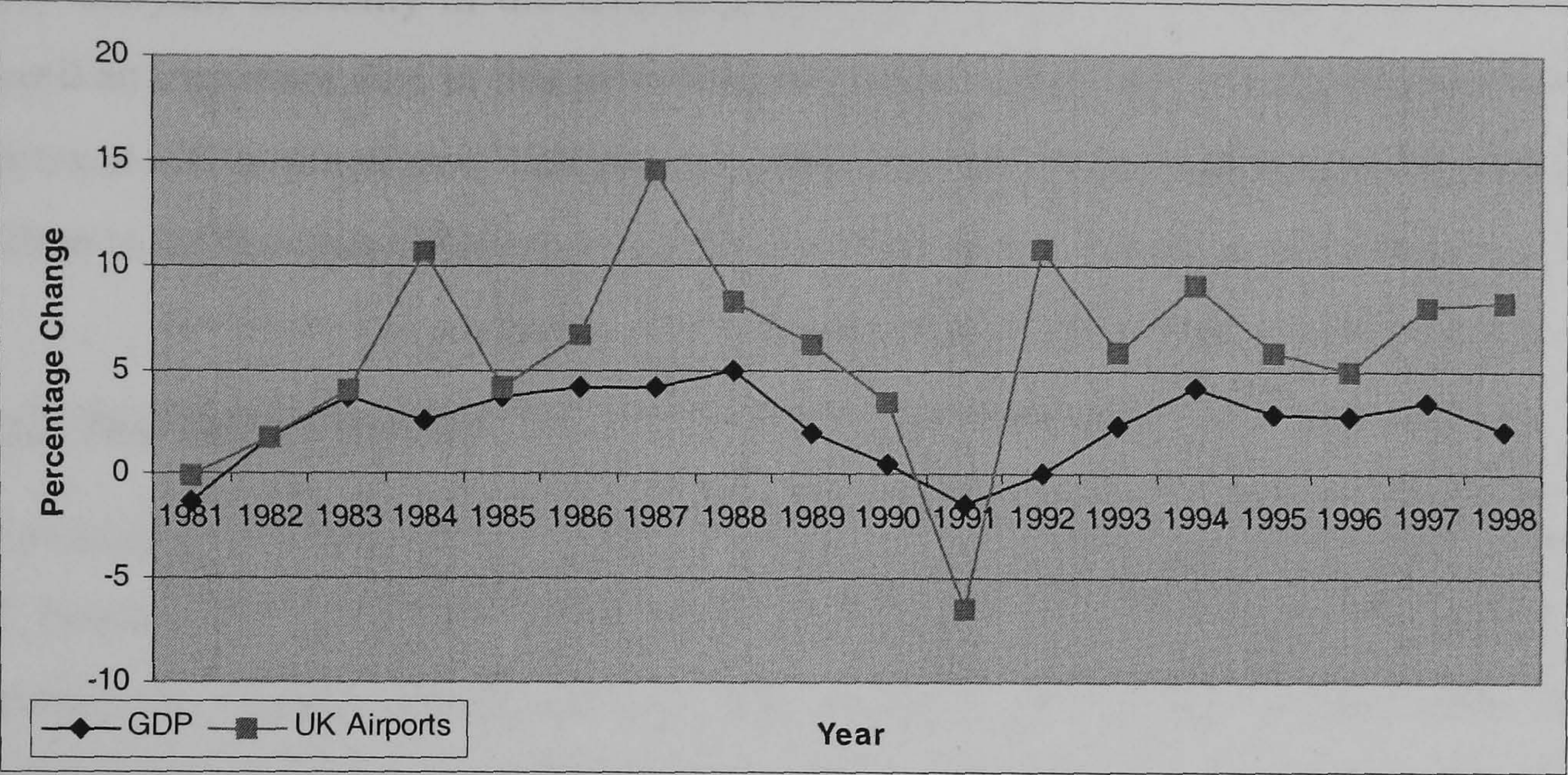
However, the 1986 Airports Act also gave airport management the power to take their own decisions as well as powers set airport charges and staff conditions of service, including wages and salaries. Prior to this Act, the elected local authority councillors took all the management decisions, and charges were set centrally by the Joint Airports Charges Committee with staff conditions of service being determined by the National Council for Airports (Lovett, 1996).

5.2.2 The Economic Sector

In order to understand the changes in economic conditions, to which the aviation industry is subjected, the general economic environment of the UK needs to be considered, as this is inextricably tied to activities related to the airport sector.

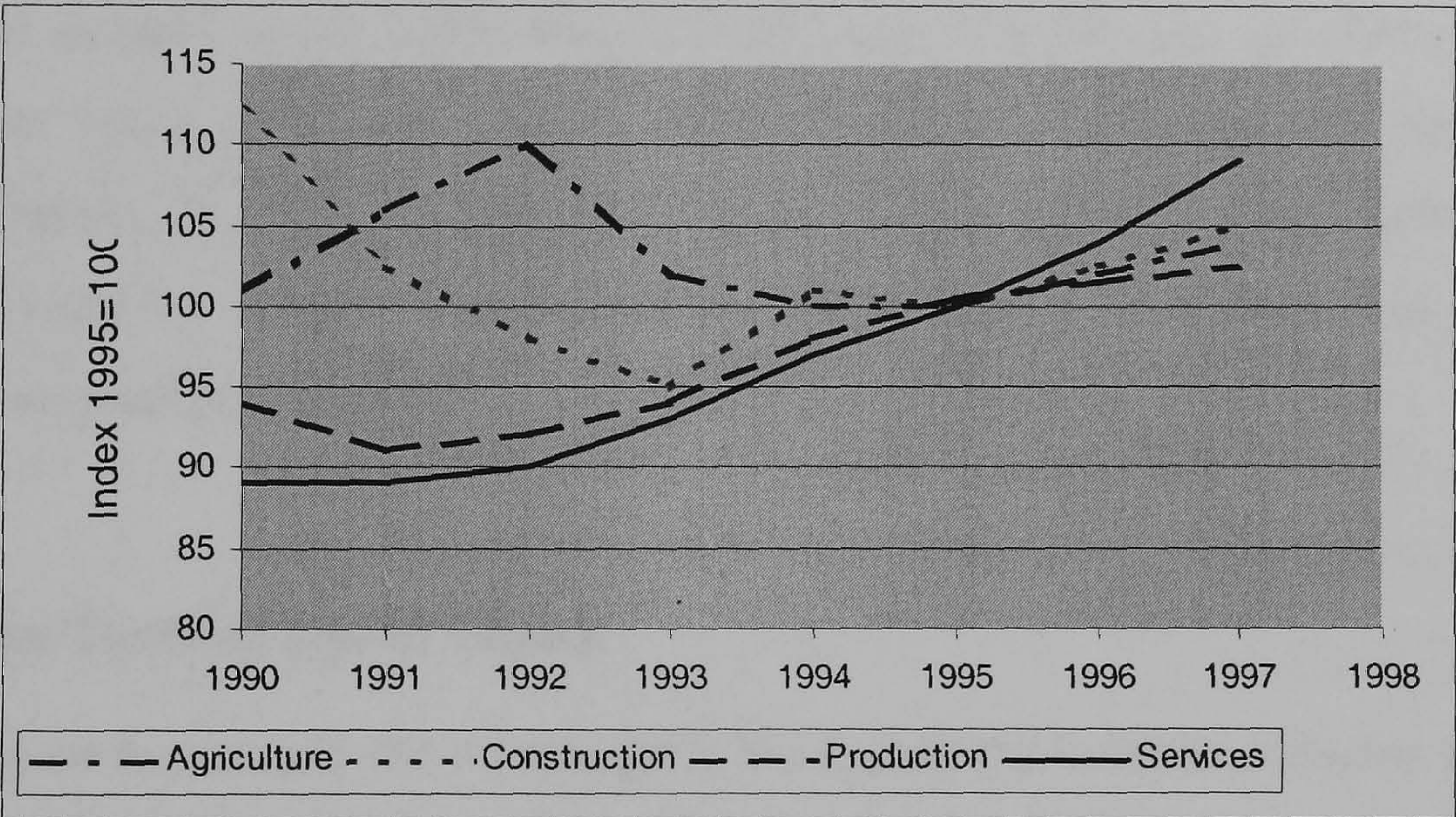
Bamford (1998) argues that the percentage of household expenditure spent on transport and travel increases as real household disposable income increases. There is a high, positive income elasticity of demand, so sales expand when incomes increase. Figure 5.3 shows the constant GDP market prices for the period of 1981 to 1998, which has risen by an average of 2.4 per cent a year; it also illustrates the annual percentage change of terminal passengers through the UK airports. It can be seen that the peaks and troughs relationship between these two factors is positively correlated.

The 1980s witnessed a dramatic increase in the importance of the service sector to the UK economy, both in international and national trade. The UK government took a pivotal role in steering this shift in the economy in the 1980's, and which has therefore led to a greater reliance on the service industries to sustain the momentum of the economy (Glaister, 1998).



Source: Office for National Statistics, 1999 and UK Airport statistics, CAA, 2000.

Figure 5.3 Annual changes in GDP and terminal passengers at UK airports



Source: Office for National Statistics, 1999.

Figure 5.4 Gross Value Added³ at Basic Prices by Industry

Over the period from 1990 to 1998 the average annual increase in the output of the production sector was 1.0 per cent, whereas that for the service sector was 2.7 per cent (Figure 5.4). According to Flemming (1988), the growth in the service industries can also be attributed for as a direct response to rising standards of living. As a result of a

³ Gross Value Added (GVA) The value generated by any unit engaged in production, and the contributions of individual sectors or industries to gross domestic product. It is measured at basic prices, excluding taxes less subsidies on products.

fairly buoyant economy in the UK, leisure activities such as travelling by air have played an important role in this growth in air traffic; for example, terminal passenger figures at UK airports grew 124 per cent, from 75 million per annum in 1986 to 180 million in 2000 (CAA, 2001).

5.2.3 The Social Sector

Household disposable income⁴ per head, adjusted for inflation, almost doubled in the UK between 1971 and 1998 (ONS, 2000). Hence, the higher the disposable personal income, the greater likelihood that UK residents will enjoy higher levels of consumption and with it increased consumer spending on air travel. For instance, according to the Social Trends Statistics (2000), the proportion of British adults taking at least one holiday a year of four nights or more has fluctuated around 60 per cent for the last 25 years. The proportion of adults taking two or more holidays a year increased steadily up to 1995 when 27 per cent of adults did so. Since then, the proportion has levelled out, and in 1998, 25 per cent of adults had two or more holiday breaks. In 1998, 56 million holidays of four nights or more were taken by British residents, 36 per cent more than 1971. Clearly, this trend has helped to increase air transport demand.

5.2.4 The Technological Sector

The increase in demand for air transport has forced the aviation industry to develop and introduce a new generation of aircraft. Regardless of the nature of the airport, the provision of technically sophisticated and expensive equipment such as navigation aids needs to be incorporated to cope with demand (Schriever and Seifter, 1995). In addition, forecasts have been made about the technologies that will be used in future (such as Super Sonic Aircraft, New Large Aircraft, Super Jumbos, etc.), and the infrastructure needed to support them. The capacity of an airport is constrained by the weakest link in the chain: 1) airway capacity, 2) runway capacity, 3) apron capacity, 4) terminal capacity, and 5) surface access capacity (Trautmann, 1993). Therefore, if airports wish to accommodate traffic growth, which need to be planned to meet

⁴ The household disposable income is the amount of money people have available to spend from their earnings after deductions.

capacity requirements with infrastructure growth. Airport planning will have to be flexible, recognising that the evolution in demand and technology will demand changes in the airport's design. For example, the second runway at Manchester, the proposed 5th terminal at Heathrow, the runway extension at East Midlands, the construction of a freight village at Newcastle – all these developments show that airports must evolve as demand and technology evolves.

Each of the factors identified in this section demonstrate the significance of external influences on an organisational ability to survive and prosper in what is an increasingly turbulent and uncertain operating environment. They also exemplify the factors which impinge on airports and their strategic management capacities.

5.3 AN APPROACH TO THE CASE STUDIES

The two case studies of airports which feature in this research – Inverness and East Midlands – are both inextricably bound up in managing the external influences and changes noted in the previous section. The research question here is how best can these influences be identified and understood in the strategic management capacities of these two regional airports? For this, it is necessary to devise an appropriate research design.

Research design can be defined as a plan that guides the investigator in the process of collecting, analysing, and interpreting observations. It is a *logical model* that allows the researcher to draw inferences concerning relations among the variables under investigation. Nachmias (1992) argues that the research design also defines the domain of generalisability, that is, whether the interpretations obtained can be generalised to a different situation. Furthermore, as Bryman (1989) states, a case study can be used to ‘... provide an understanding of areas of organisational functioning that are not well documented or can be employed... to achieve insights into a previously uncharted area’. To this extent, the decision to undertake research into two cases can be said to reflect the exploratory nature of this research.

The essence of case study research, according to Yin (1994), is thus that it aims to *illuminate a set of decisions* and not to represent a sample for *statistical generalisation*. He suggests that instead, an analyst should try to generalise findings to

the theory. This case study approach has been orientated on the basis of an interpretative analysis of strategic change with reference to a background of theoretical knowledge.

In short, the case study option was selected for analysing the strategic management of airports as a research strategy due to its ability to rely on multiple sources of evidence and as it is an all-encompassing method with the logic of design incorporating specific approaches to data collection and to data analysis.

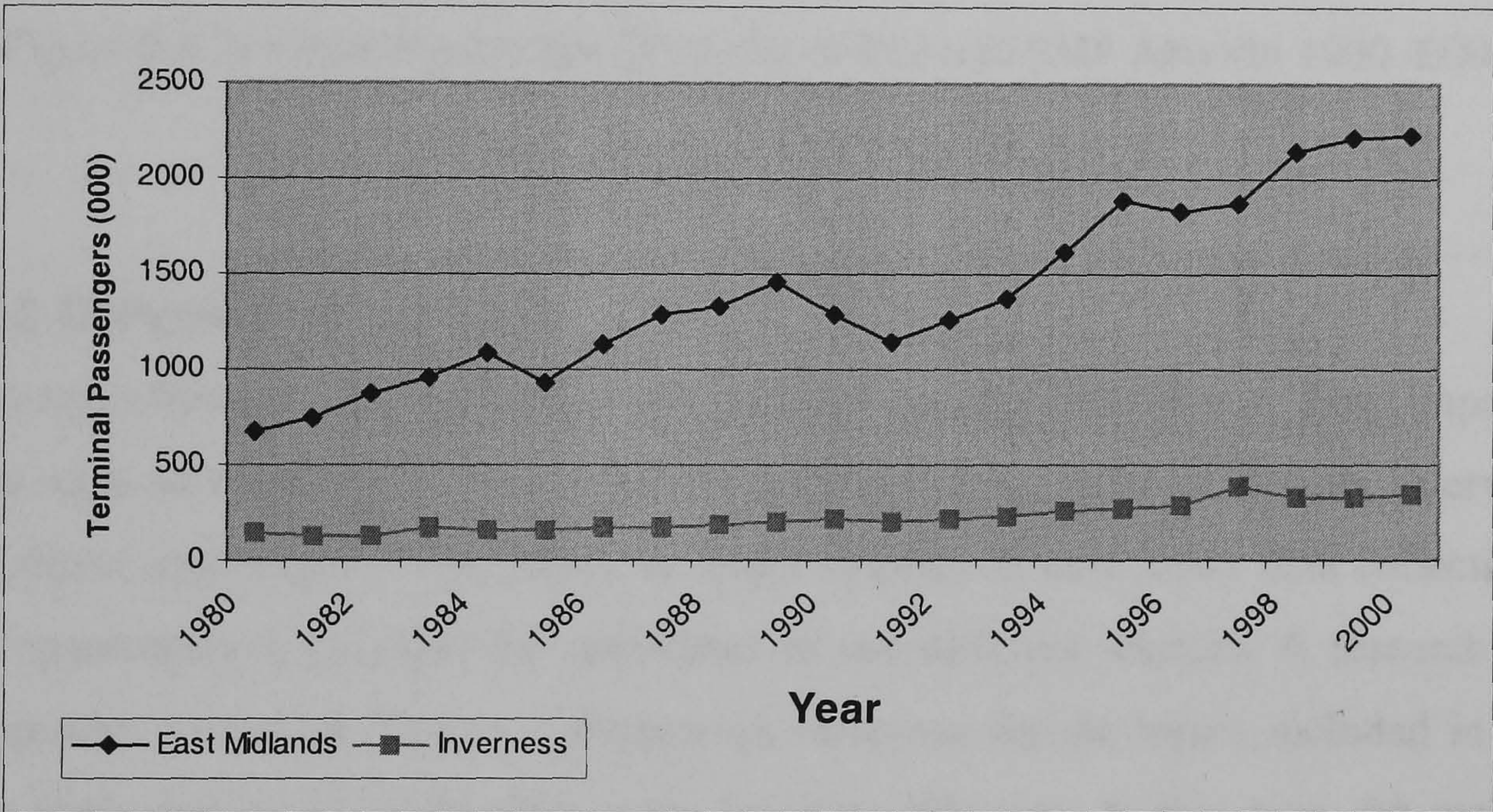
5.3.1 Selection of the Airports

In order to examine the strategic management implications in a public and a privately owned airport, two case studies of airports were selected from those in the UK. The two cases chosen for this research were selected because they fulfilled a number of essential research pre-requisites. First, East Midlands Airport (EMA) was, in 1993, the first regional airport to be fully privatised – it has therefore experienced three different forms of ownership: public, commercialised and private. This means it is possible to investigate how these changes have affected its strategic management capacity over the years. It also enables a degree of comparison that very few airports can offer; moreover, as EMA was the first regional airport to be privatised, it provides the longest running example of the strategic management issues and implications of airport privatisation.

An airport can use past behaviour to set standards, with improvements in performance over time. This is significant to management as it will show trends over the years and will give indications as to what direction the airport is heading. However, the inherent weakness of this approach is that one airport is considered in isolation; all the measurements are related entirely to its own sphere of operation. The comparisons will not highlight areas of performance which are substandard compared to the industry as a whole and will give no indication as to what levels of performance are actually achievable. To overcome this problem, it is crucial to make inter-airport comparisons as well.

Therefore, in choosing the second airport special attention was given to selecting it in order to be able to gain cross-information and achieve a time series analysis between

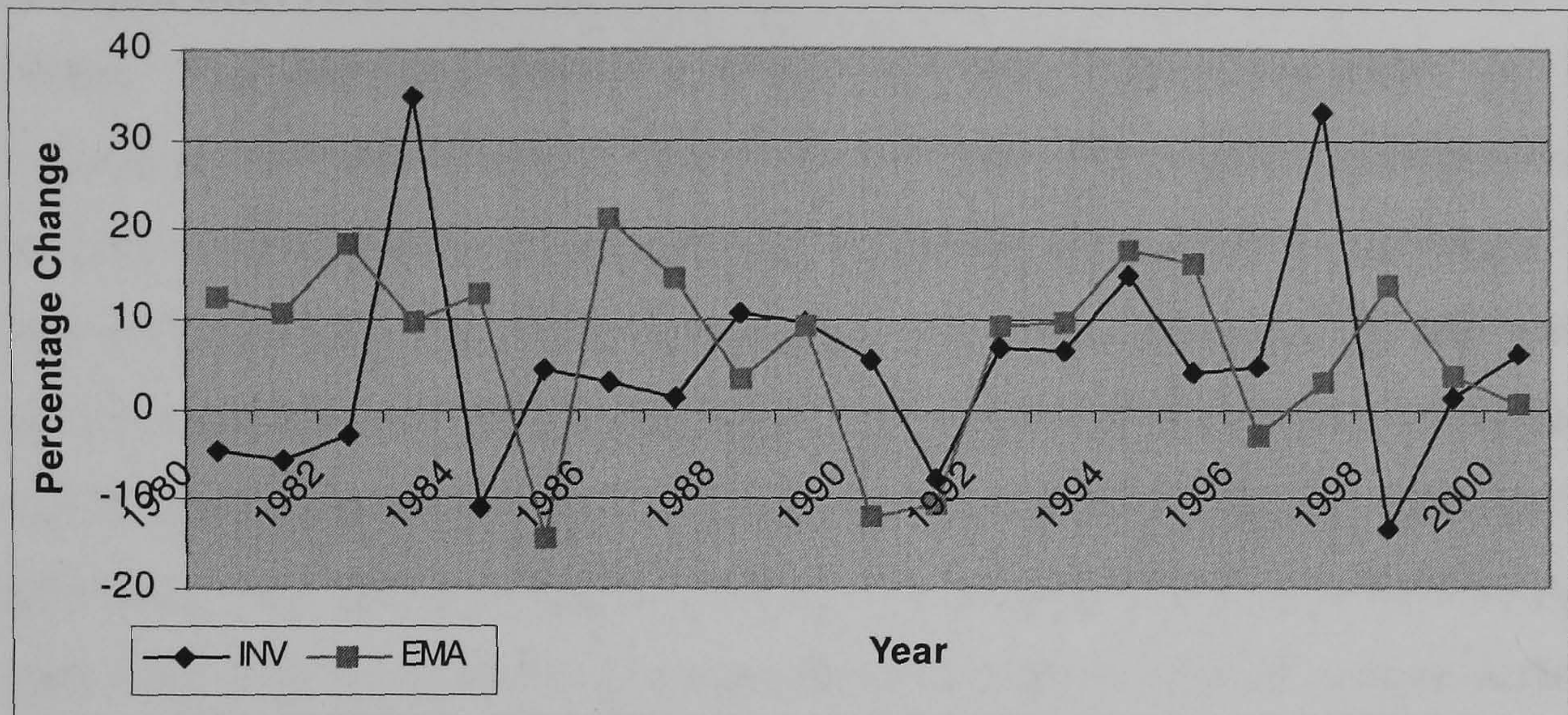
two airports with quite similar characteristics. Inverness Airport (INV) was chosen because it is the biggest public sector airport in terms of passenger numbers in the UK and which has not yet been fully commercialised. In addition, Inverness Airport provides the best available comparison with East Midlands since it was managed and operated through a company directly controlled by the Scottish Office of the UK government. Both airports, East Midlands and Inverness, provide a different approach to strategic management; therefore, the aim is to compare their strategic management capacities within the two contrasting forms of ownership. Figure 5.5 illustrates a comparison of the terminal passenger numbers for both airports.



Source: UK Airports - CAA 2001.

Figure 5.5 Terminal Passengers at INV and EMA Airports 1980 -2000.

Inter-airport comparisons tend to be difficult to calculate and interpret because of comparability problems – for example, passenger traffic at EMA is 85% international and mainly within Europe while at INV 95% is domestic. However, these two airports in a certain way show a similar performance such as the percentage change in their terminal passenger numbers, shown in Figure 5.6.



Source: UK Airports - CAA 2001.

Figure 5.6 Terminal Passenger Changes at INV and EMA Airports 1980 -2000.

5.3.2 Collection of the Data

Data collection for case studies can rely on many sources of evidence. Four important ones were accomplished in this research: documentation, archival records, interviews and direct observation (Yin, 1994). A major strength of case study data collection is the opportunity it provides the researcher to use different sources. A research plan (Appendix 1) was devised as a framework reference for the topics included in each case study and exhibits the main areas for data collection. In this case, the methods used for data collection comprised of:

1. **Documentation.** This was an important source, considering a variety of documents such as written reports of events, master plans, progress reports, annual reports, formal studies, newspapers and other articles appearing in the mass media. In fact, documents were carefully used and were not accepted as literal recordings of events that had taken place. Here the most important use of documents was to corroborate and augment evidence from other sources.
2. **Archival records.** This information can produce both quantitative and qualitative information (Yin, 1994). In this case, the review of service records per airport, organisational charts, and company records were analysed.

3. **In-depth interviews.** This represented a major source of information for the case studies. The interviews were in-depth and *open-ended in nature*, as key respondents were asked to focus their thoughts relating to strategic management in the context of different ownership issues depending on their own experience. The interview schedule is included in Appendix 2. In some situations, the aim was to ask the respondent to give his/her own insights into certain airport management events and such propositions were used as the basis for further inquiry. The interviews were held in a space of twenty-four months (from April 1999 to April 2001) and were all recorded and transcribed in order to provide a more accurate record of the information supplied. It is worth mentioning that a key focus of this method was directed at interviewing the two most senior airport managers as it was considered that they had direct responsibility for the activities undertaken within their airports. In addition, other key staff were identified and interviewed depending on their skills and roles; for example, those at EMA have experienced conditions under public, commercialised and private ownership forms. Table 5.3 lists the key respondents who were interviewed, together with their positions and reasons for interviewing them. These were regarded as reliable people who could provide the information about strategic management at the level required for carrying out this research. Although it is clear that the interviewer needs to be cautious about becoming overly dependent on a few key informants (Yin, 1994), it is a well established and reasonable way of eliciting information when these data are compared with other sources of empirical data so as to establish the veracity of informants. As Yin (1994) and others note, it is important when undertaking such qualitative research to search for contrary evidence as carefully as possible.

The change of airport ownership at EMA brought about many modifications in various management areas. Therefore, the number and quality of interviews needed with EMA staff was considered to be larger in order to achieve the level of information required to develop the analysis.

Table 5.3 Interviews Accomplished

Name	Position	Reasons to interview
George Stevenson	Head of Operations HIAL	<ul style="list-style-type: none">- Is renowned for having extensive knowledge of the airport organisation and management strategies.- is in charge of HIAL operations, which is currently head of.- Has twenty years working experience at the CAA.
James Walton	Airport Manager Inverness Airport	<ul style="list-style-type: none">- In 1992 became airport manager, with direct control over the majority of the activities and operations undertaken at Inverness.- Has fifteen years working knowledge at CAA.- Joined management services at HIAL before being promoted.
Terry Lovett	Ex-Managing Director at EMA Now, Consultant	<ul style="list-style-type: none">- Has the experience of having worked under public, commercialised and private ownership at EMA from 1986 to 1997.- As the Managing Director of EMA had direct control over the majority of the activities and operations undertaken.- Has thirty-five years of experience in airport management.
Wendy Bridge	Division Research Manager – EMA	<ul style="list-style-type: none">- Currently involved in long-term planning development.- Has over 13 years working experience at EMA, in several positions under all three ownership forms, including marketing research and quality control.
Bill Blanchard	Cargo & Development Manager – EMA	<ul style="list-style-type: none">- Is currently in charge of airport development in terms of master planning and planning new facilities in addition to managing planning development within the cargo department.- Has twenty years working experience for EMA in several positions under all three ownership forms.

Source: Compiled by author

The questionnaire applied (illustrated in Appendix 2) was essentially the same for both airports and was considered to be a particularly important research instrument. The first part was designed primarily as a guide for gathering general attitudes towards the respondents' own experiences. It was anticipated that this would encourage them to present their own views throughout the course of the interviews and to substantiate these particular views held in relation to the topics covered. At Inverness Airport the second section of the schedule was answered by the Airport Manager; at EMA it was answered by the Division Research Manager, who was chosen as she had worked in different key management areas at the airport under all three different ownerships. The Cargo & Development Manager was also chosen to interview to refine the data for the analysis; his experience of working at EMA when it was a public, local authority and now privately owned

company was considered an important factor. The interviews were all of different duration – the longest ones were about two hours. The sequence of the interviews was consistent with the needs presented in this research in order to provide a framework for studying the business environment constraints around privatisation.

4. **Direct Observation.** By making field visits to the case study ‘sites’, the researcher had the opportunity for making direct observations. Assuming that the phenomena of interest have not been purely historical, current behaviour and environmental conditions of relevance were observed. There was the opportunity to visit and walk around terminal buildings, offices, work-spaces, facilities, space for concessionaires, etc. This gave a clearer idea of the airport atmosphere; similarly, observing the location and furnishing of the airport manager’s offices yielded some anecdotal evidence regarding the status of the person within the airport. Observations thus served as yet another – if tangential – source of evidence in this analysis.

Finally, it should be pointed out that all the interviews were transcribed by the researcher – an exercise that was to play an increasingly important role during the analytical stage of this project. It contributed to a prompter identification and a clearer understanding of the relevance of implications of the data collected (especially in the comparisons between theory and empirical evidence).

The questions in the first part of the interview schedule were arranged in a way that reflects the logical sequence of steps in which the research data was to be collected. The introduction was with the purpose of knowing more about the respondent’s background and point of view on main issues which have occurred in the airport industry over the last fifteen years. The next section (general overview) considered the business environment dimension by addressing the political, organisational and management changes which had occurred at the airport. From an organisation standpoint, these factors can function both as constraints and as sources of opportunities. The second group of questions aimed at identifying the airport’s strategic objectives and how these have changed over the years. The third set of questions considered the economic issues and advantages or disadvantages of its actual ownership. The fourth and last section (conclusions) gave an opportunity to the

respondent to put across any additional comments to highlight particularly significant factors.

In summary, the main aim of the data collection techniques used in this case study approach was to generate facts as well as attitudes, in a systematic way, which could then be translated into a framework suitable for subsequent judgement and analysis. However, it should be remembered that such an approach does have a number of well-established drawbacks which any qualitative research project needs to be aware of and recognise (Yin, 1994). The two most frequently cited issues concern:

1. The opportunity for a lack of rigour in conducting a case study – the case study investigator might be unduly uncritical and allow equivocal evidence or biased views to influence the direction of the findings and conclusions; and
2. A case study provides a limited basis for making generalisations. To overcome this constraint, a multi-case study approach is generally recommended, so as to replicate the same phenomenon under at least two different conditions. In this sense, the case study does not represent a ‘sample’ and the investigator’s goal is to expand and generalise theories (in the form of analytic generalisations) and not to enumerate frequencies or significance levels (in the form of statistical generalisations).

The skills for doing good case study research have not yet been adequately defined, and as a result, the popular view is that most people feel that they can prepare a case study and nearly all of us believe we can understand one (Yin, 1994).

5.3.3 Strategies for Analysing Case Study Evidence

According to Yin (1994), ‘the analysis of case study evidence is one of the least developed and most difficult aspects of doing case studies’. It certainly depends on the investigator’s own style of rigorous thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations. From the ensuing analysis it is apparent that the outcome of organisational strategy and change is predominantly determined by the interplay of three major forces: people, resources and the environment.

This research, as noted in section 1.3 of Chapter 1, is concerned with changes in the strategic management of airports and there are two main issues to be analysed. Firstly, the airport industry has been the subject of a major change in its business environment – in the UK, the most significant change in the pattern of airport ownership was instigated by the 1986 Airports Act. Secondly, strategic change is a concept that is universally associated with change in the environment, and as Caplow (1983) states ‘even the most passive organisation is compelled to modify itself from time to time in response to irresistible changes in the environment’.

The findings of this case study approach to our two airports will be analysed and interpreted as follows:

1. *Developing a case description.* This analytic strategy is considered valuable to present a descriptive time-series framework for each airport as an introduction and context, which will lead the reader towards following a closer analysis later.
2. *Putting information in chronological order:* This strategy identified and selected three different time periods for analysing East Midlands Airport: before 1987, between 1987 and 1993 and between 1993 and 2000. This chronology is seen to reflect the different ownership contexts that existed at EMA in these periods. Before 1987 the airport was in public ownership; between 1987 and 1993 the airport was still publicly owned but commercialised. As a consequence of the 1986 Airports Act, EMA was transformed into a financially self-sufficient, profit-making business that could no longer be run as a municipal facility maintained by subsidies from its local government owners. Lastly, the period between 1993 and 2000 was chosen to give a more current picture with EMA having been privatised for 7 years. On the other hand, despite the fact that Inverness Airport remains in public ownership, it has also changed through the years. For INV, two different time periods have been selected: before 1986 and between 1986 and 2000. Before 1986, INV was managed and operated by the Highlands and Islands Airport Group (HIAG) under CAA control. In 1986 Highlands and Islands Airports Limited (HIAL) was formed as a private limited company responsible for the management and operation of eight airports, one of which was Inverness (later Barra and Campbeltown airports were incorporated).

3. *Examining the cross-sectional information:* This aspect of the analysis is especially useful because the researcher is able to contrast information gleaned from one airport to another. It is a crucial test of the robustness of a case study approach.

The next and final section of this chapter outlines the nature and development of the two case study airports, beginning with Inverness and ending with East Midlands.

5.4 INVERNESS

The Scottish Highlands and Islands is a large area, representing 13 per cent of the land of the British Isles. Much of the area consists of islands, which are particularly remote from the rest of Great Britain. For example, Edinburgh to Inverness is 162 miles and Inverness to London is 554 miles. By way of comparison, London to Brussels is 211 miles and London to Milan is 584 miles.

Regarded as “the capital of the Highlands”, Inverness is said to be one of the fastest growing towns in Scotland. It is the economic engine of the area, being the administrative and transport centre for a Highland population of 208,000. Almost a third of Highland residents live in and around Inverness and it has a population density of 8 people per square kilometre (ONS, 1997). Inverness County's primary employers are in the fishing and tourism industries.

5.4.1 Inverness Airport Development

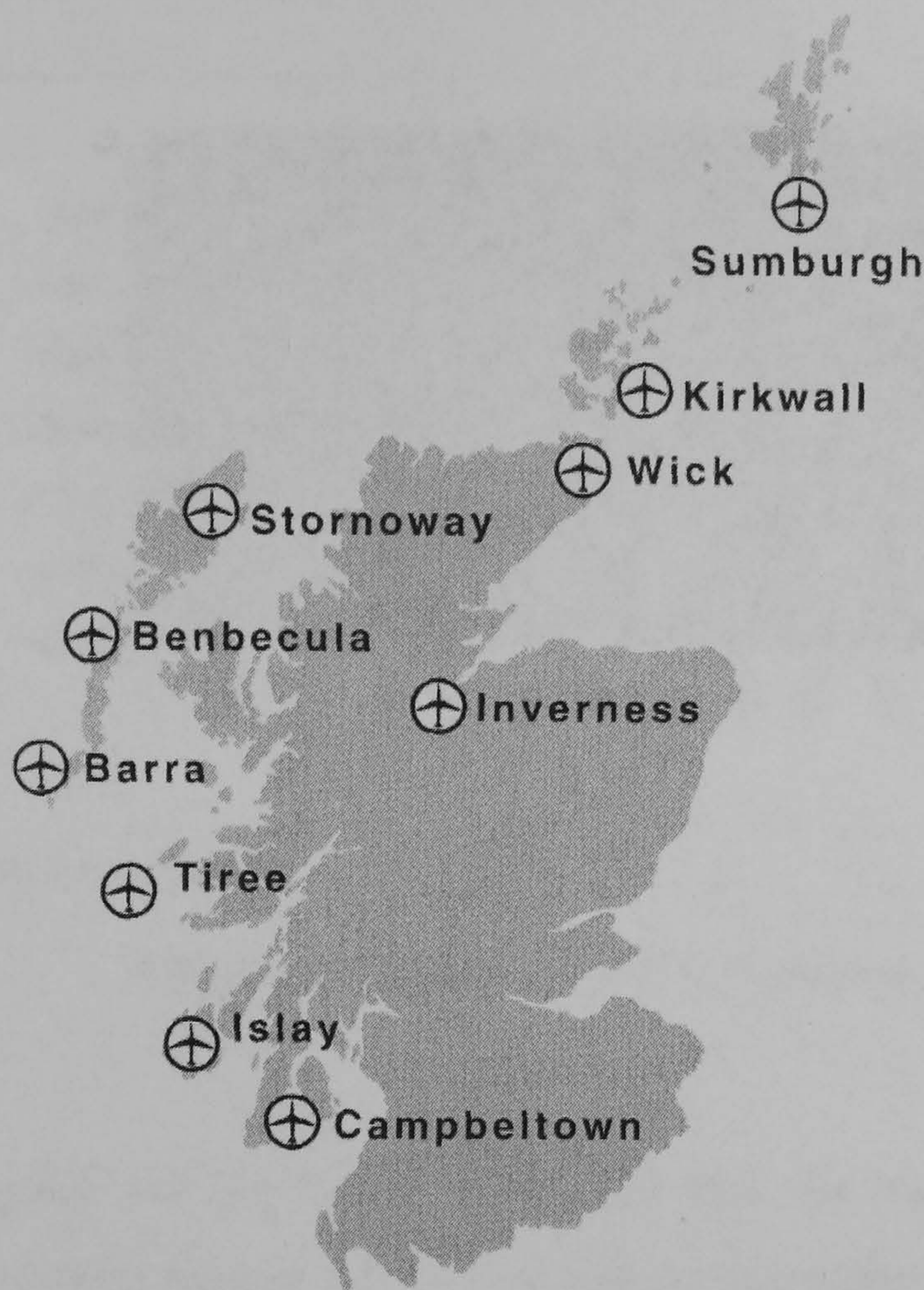
Scheduled services were first operated within Scotland in 1933 when Scottish Air Ferris and Highland Airways inaugurated services from Glasgow to Campbeltown and Islay and from Inverness to Kirkwall, respectively.

In June 1959 the Scottish Transport Council and The Advisory Panel on the Highlands and Islands were invited by the Minister of Transport and Civil Aviation and the Secretary of the State for Scotland to undertake a study of the existing transport services in the Highlands and Islands. The enquiry concluded that duplication of non-remunerative services was rare, that there seemed to be a distinctive role severally for rail, road, sea and air services and moreover many of these services would require financial assistance (HC/339 1960).

The White Paper on Civil Aviation Policy (1969) indicated that the management and operation of the Highlands and Islands aerodromes depended to a substantial degree on services provided by personnel of the National Air Traffic Control Service and on the Civil Aviation Office for Scotland. As both of these organisations were to be transferred to the Civil Aviation Authority, it was expedient also to transfer the ownership and management of these aerodromes. This was accepted by Parliament, but agreed through the Civil Aviation Policy Guidance White Paper (1972) that the future arrangements should be studied further. As a result, Inverness Airport became one of the airports managed and operated by the CAA – Highlands and Islands Airport Group (HIAG).

As a direct result of re-organisation and under the Companies Act 1985, a company called Highlands and Islands Airports Limited (HIAL) was formed as a wholly owned subsidiary of the Civil Aviation Authority in 1986. The airports, including Inverness, were transferred to HIAL on April 1986 at book value financed by a loan from the CAA secured by a flotation charge. As a result of this transfer, legislation required the company to obtain a license for public use for each airport.

The Government had recognised for many years that air services were important for social and economic purposes. Moreover, scheduled air services in the Scottish Highlands and Islands were and still are in general unprofitable. To a large extent they are cross-subsidised, and Inverness Airport is the only one in the group that could possibly stand by itself. The ten airports that integrated to form the Highlands and Islands Airports Limited company are shown in Figure 5.7.

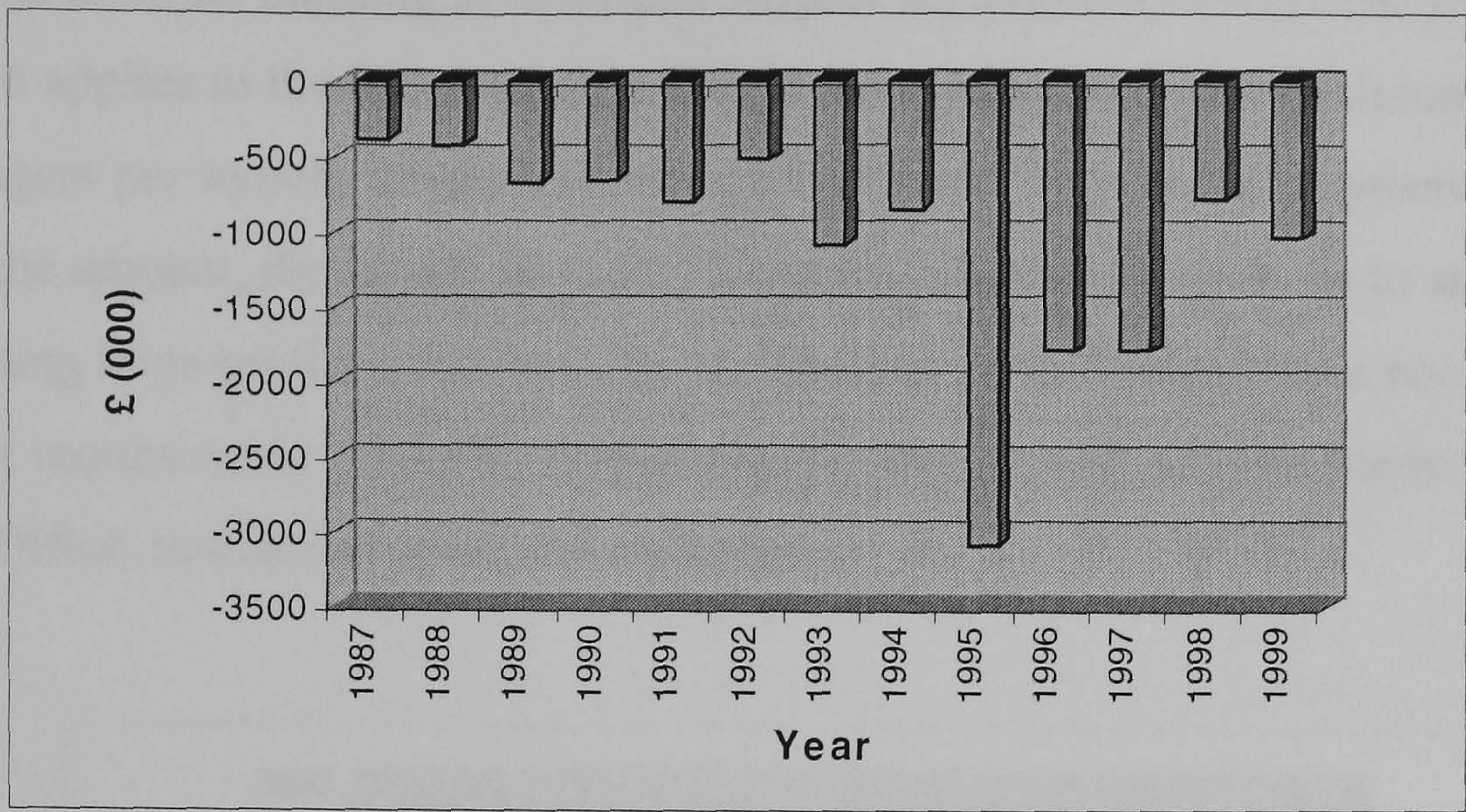


Source: HIAL, 1999

Figure 5.7 Highlands and Islands Airports

5.4.2 Financial Position

Until 31 March 1995, HIAL was a wholly owned subsidiary of the CAA, a body governed by the Civil Aviation Act 1982. On 1 April 1995 ownership of the company passed to the Secretary of State for Scotland. As a result of the change in ownership of the company, in the 1995-1996 Annual Report it was stated that government funding with the company's expenditure was 're-aligned more accurately' and this is why the result could be easily 'misinterpreted'. In 1995, the total funding of £7.8 million was split, as disclosed in the profit and loss account, between revenue grant and capital grant to fund capital assets. Previously, all funding was given as a revenue grant. In addition, in the same year, operating costs dramatically increased, the company argued that they were the consequence of the high level of maintenance in that year. Figure 5.8 shows the losses incurred from 1987 to 1999 for Inverness Airport, where it is noticeable that 1995 was the largest loss.



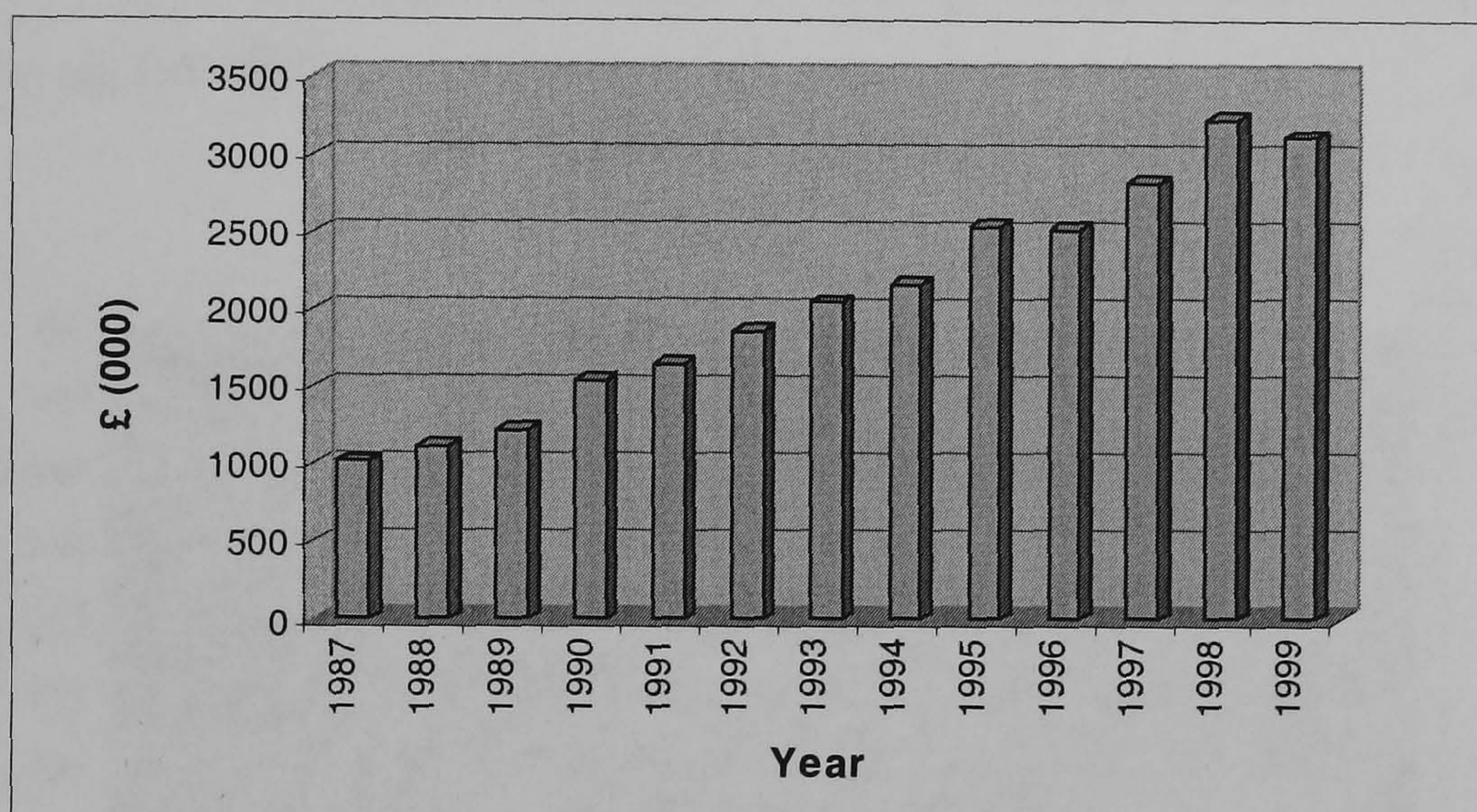
Source: HIAL Annual Reports

Figure 5.8 Operating Results (Losses)

Another reason given for the loss in 1995 was that the government funding was slightly down by £200 thousand, which reversed the increases of previous years. This reduction was in spite of a further rise in regulatory costs and the start-up costs associated with the management of the tenth airport acquired in 1994; also some one-off costs which arose during the transfer of ownership from the CAA. A fact is that the losses were 260 per cent higher than the previous year. As a consequence, in 1996, HIAL was more aware of expenditure, for example staff costs were 20 per cent lower due to early retirements and the termination of some posts, and there was 135 per cent less money for repairs and maintenance activities at the Airport than the previous year.

In the last ten years, about £15 million have been invested in the airport (see Appendix 3). This includes the new terminal building, that cost £9 million in 1999. As the company was not able to provide such a large amount of money, it was funded by the Private Finance Initiative (PFI). A company called Inverness Air Terminal Limited (IATL) was created, as a consortium with two members – Lloyds Bank is one and a Facilities Management Company (Noble & Co) is the other. HIAL did not put any capital into the project but instead the Airport Manager stated that they got some capital from the European Union Development Fund. The agreement is that IATL will maintain, manage and own the terminal building for twenty-five years.

IATL will receive from HIAL an income proportional to the number of passengers that use the terminal building at Inverness Airport for the next twenty-five years. This agreement applies to the following: the airport has a minimum and maximum amount of passengers per month; within this amount IATL will receive full payment; once it exceeds the amount, the airport pays IATL a percentage of the costs as to stop IATL from making large profits from the Airport. However, if the Airport does not fulfil the minimum requirements (quantity of passengers) then it will receive funds from the Scottish Office, in order to cover these payments.



Source: HIAL Annual Reports

Figure 5.9 Operating Results

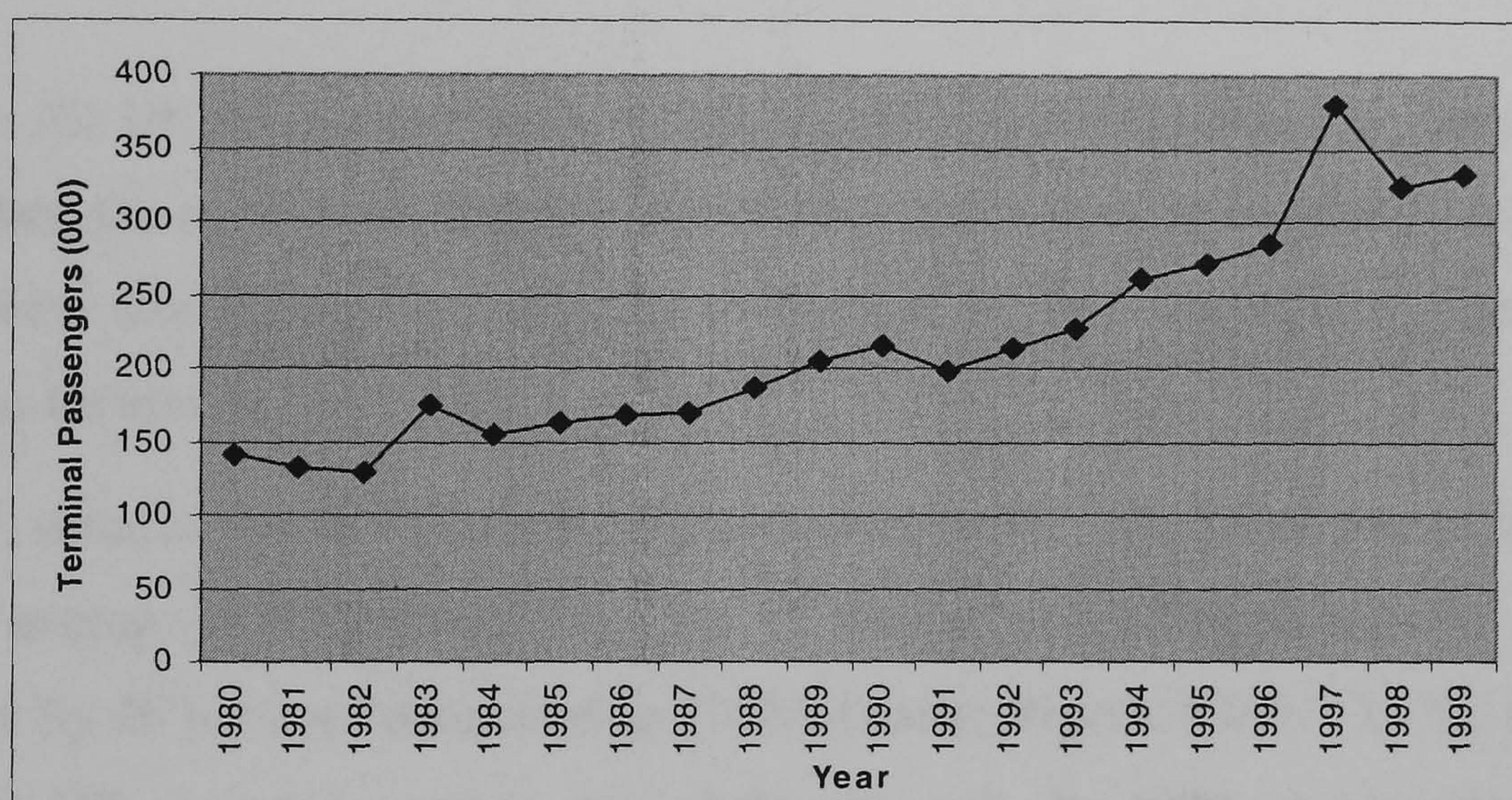
It is worth noting that despite the operating results, shown in Figure 5.8, Inverness Airport's operating results have increased every year (see Figure 5.9). The Airport's main source of income is from airport charges, an average of 65 per cent (Annual Reports). For example, in 1998 aircraft movements (fixed wing) rose by 19 per cent (Annual Report, 1998) due to the introduction of more services, such as charter flights.

However, charges at Inverness Airport are said to be the highest in Scotland and twice that in rural parts of Europe (The Scotsman, 2000). For instance, the cost of landing a commercial aircraft, such as a Boeing 737, is 38 per cent more than at Edinburgh, 35 per cent more than at Glasgow, 24 per cent more than at Prestwick and 22 per cent more than at Aberdeen. When this statement was mentioned to the Airport Manager, he just added 'This is a problem. It comes from the Head Office'. Although landing fees are not especially significant in the overall cost of air carriers, if they can obtain a

better deal, for example, at Aberdeen Airport, it may be understandably their preference to fly from there instead of Inverness. Thus, this could to a certain degree be a problem and airlines might be put off from operating out of the Highland capital.

5.4.3 Trends in Terminal Passengers and Air Services

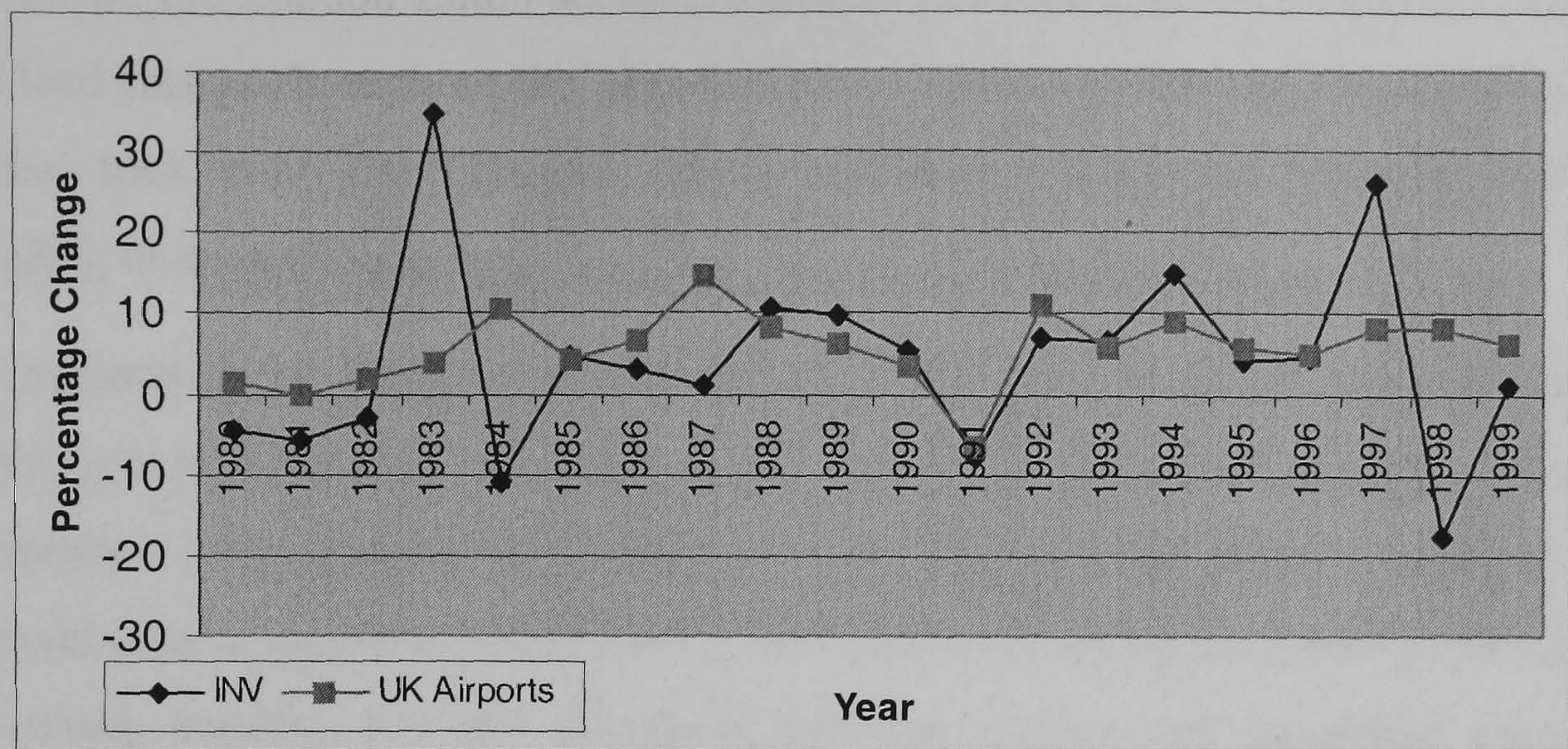
Any assessment of airport performance must consider the trends in air travel demand in the form of passenger throughput. Figure 5.10 shows terminal passenger numbers from 1980 to 1999. A twenty year span of statistics from the CAA reports were chosen because these were readily available to show the difference in numbers since HIAL was formed in 1987.



Source: CAA Reports

Figure 5.10 Inverness Airport Terminal Passenger Figures 1980 -1999.

As can be seen, terminal passenger numbers have been steadily growing. There are some points worth mentioning. In 1995, when HIAL was transferred to the Scottish Office, growth was 17 per cent compared to the previous year, whereas the UK airport's average was eight per cent the same year. Figure 5.11 shows the percentage of change for INV and UK airports.



Source: HIAL Reports

Figure 5.11 Inverness and UK Airports Percentage Change on Terminal Passengers.

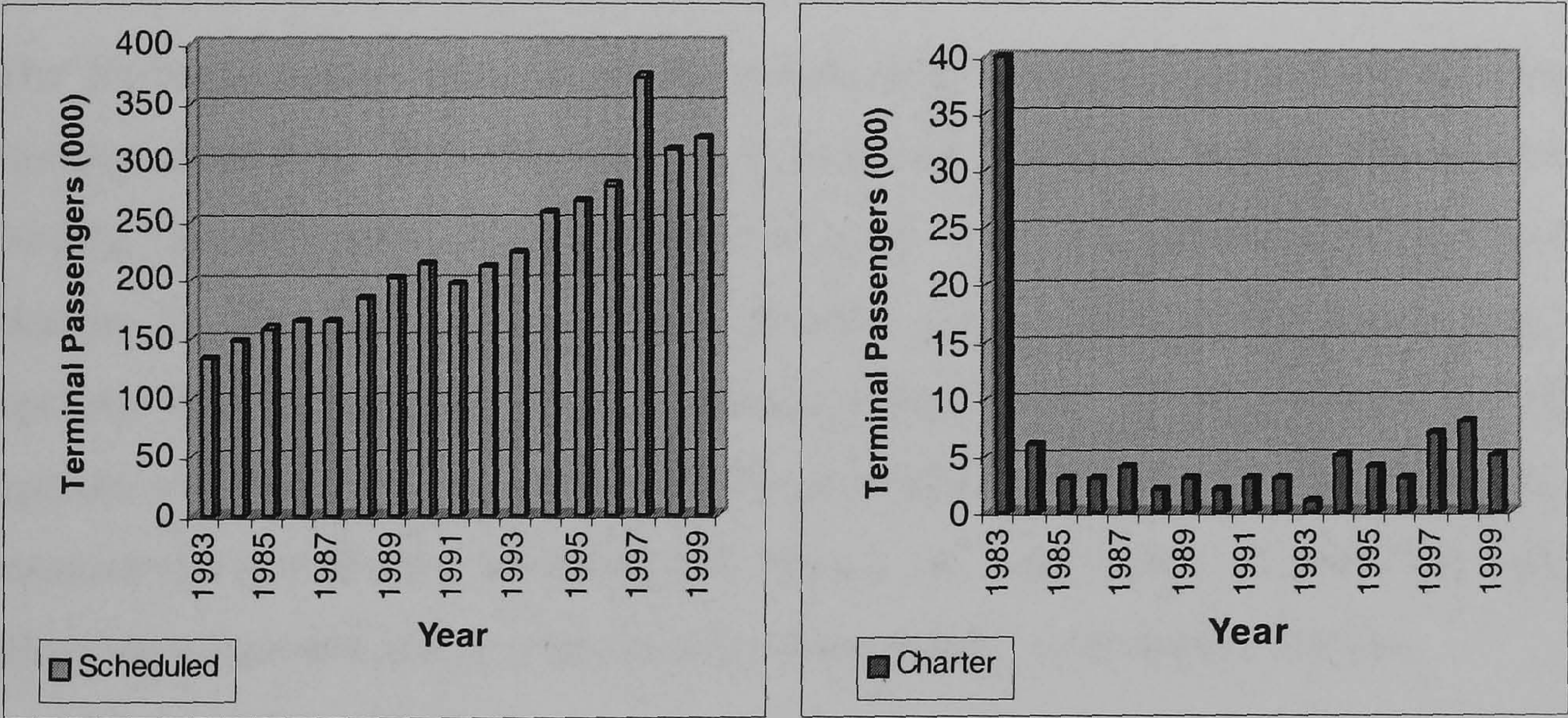
In 1997, Air UK introduced the first international scheduled service to Amsterdam. In November, the same year, EasyJet offered low cost flights to London Luton Airport. There were five daily return services to London as BA continued to operate three flights to Heathrow.

In 1997, summer charter flights from Switzerland were introduced, whose load factor was an average of 90 per cent over the 15 weeks, which helped to raise passenger numbers by 26 per cent compared to 1996 (Annual Report, 97/98). In the same year the total UK airports' average was eight per cent. In 1999, the number of total passengers dropped from 403,818 to 337,072 – nearly 20 per cent. Some of the factors for this include:

- In 1998, British Airways announced the withdrawal of its Heathrow service, which was replaced by a British Regional Airlines franchise operation to London Gatwick. The Airport Manager stated *“this change of routes from Inverness to Gatwick instead of Heathrow was quite significant in passenger numbers since people think the gateway to London is just by Heathrow Airport”*.
- Reducing seating capacity resulting from the substitution of 141-seat Boeing 737 by 95-seat 146s undoubtedly had an impact on growth.
- A further blow was KLM UK's decision at the end of that year to withdraw its services to London Stansted and Amsterdam.

In contrast, the London Luton service operated by EasyJet remained busy, achieving high load factors throughout the year of 1999. Loganair, a British Airways franchise partner, took over the Glasgow routes operated by British Regional Airlines, providing increased frequency.

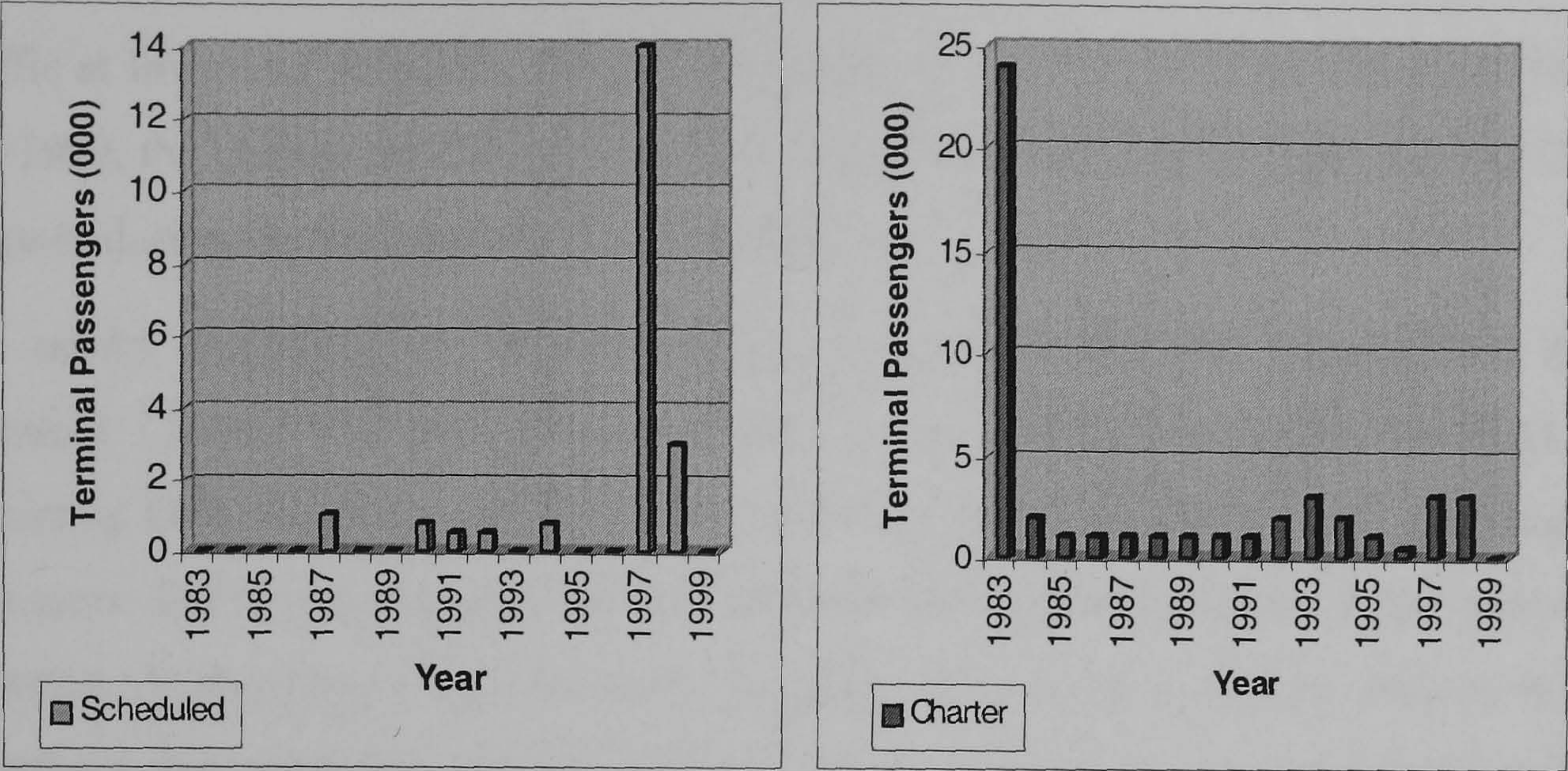
An examination of the growth and nature of air services is an essential part of analysing airport performance, since specific service characteristics help to determine the numbers of passengers attracted to a service. In turn, this affects the demand for air travel from a particular airport and so influences the extent of airport performance. It is worth noticing that the difference between charter and scheduled passenger figures has been outstanding. Figures 5.12 and 5.13 show the difference between charter and scheduled domestic and international passenger figures, respectively.



Source: CAA Statistics.

Figure 5.12 Scheduled and Charter Domestic Passenger Figures.

The Airport Manager affirmed that a plan to attract operators was put in place in 1994. The talks to encourage four European operators to come to Scotland, and more specifically Inverness, were held over a period of two years. They have recently brought over some charter services mainly from Switzerland, as mentioned earlier.



Source: CAA Statistics.

Figure 5.13 Scheduled and Charter International Passenger Figures

The Manager argues that one of the recent major changes was the arrival EasyJet, starting services in 1996. The strategy to persuade it to come was to offer substantial landing fees discounts. Such discounts were 75, 50 and 25 per cent off aeronautical charges for the first, second and third year respectively. In the fourth year, the operator had to pay full charges. However, these sort of ‘programmes’ to attract operators to increase passenger numbers are neither carried out on a regular basis nor monitored in order to ‘measure’ the impact of their results. Tables 5.4 and 5.5 illustrate scheduled and charter services, respectively, at Inverness Airport.

Table 5.4 Scheduled Services at Inverness Airport – Winter Timetable 1999.

Destination	Frequency per wk	Operator
Edinburgh	11	British Airways (BA)
Glasgow	13	BA
London Gatwick	19	BA
London Luton	7	Easy Jet (EZ)
Kirkwall	14	BA
Stornoway	12	BA
Sumburgh (via KOI)	6	BA

Source: Inverness Airport.

By the summer of 1999, the only international charter service at Inverness Airport was to Switzerland.

5.4.4 Future Developments

Traffic at Inverness Airport is forecast to continue to rise in the future. Between 1992 and 1999, the change was 58 per cent, which has been the same change over all UK Airports during the same period (CAA, 1999).

The recent agreement for the next twenty-five years with the International Air Terminal Limited Co. has been of benefit to the Airport according to HIAL's Managing Director, due to the fact that it will lead to the development of a strategic plan since IATL will manage the new terminal building and introduce commercial activities. At the time of the interviews, however, there were no data or plans of how operations and passenger numbers will be increased. However, it is intended that the strategic plan will be mainly focused on the development of the airport in terms of its growth potential as a business, strategies for attracting air traffic, more operators and consequently more passengers, and marketing.

The Head of Operations of HIAL identified the following four key elements as being needed in the short-term future:

- Navigation aids.
- Organisational changes.
- Agreements with the Scottish Highlands and Islands Tourist Board.
- Development of a strategic plan.

5.4.4 Summary

Although Inverness Airport was not directly affected by the provisions of the 1986 Airports Act, modifications have clearly been necessary for the re-organisation of the company itself. First, in 1986 when HIAL was created and then in 1995 when it was transferred to the Scottish Office, these changes and external circumstances have caused it to alter course. As an operation Inverness Airport can be easily affected by, for example, the introduction or withdrawal of a single route; with the introduction of the Inverness – Amsterdam via London route in 1997, the rise in terminal passengers was quite significant; thus, in 1998, the withdrawal of this route had a dramatic effect

on terminal passenger throughput. Although, the airport has capacity to cope with 700 thousand passengers per year, it had achieved less than half of that in 1999.

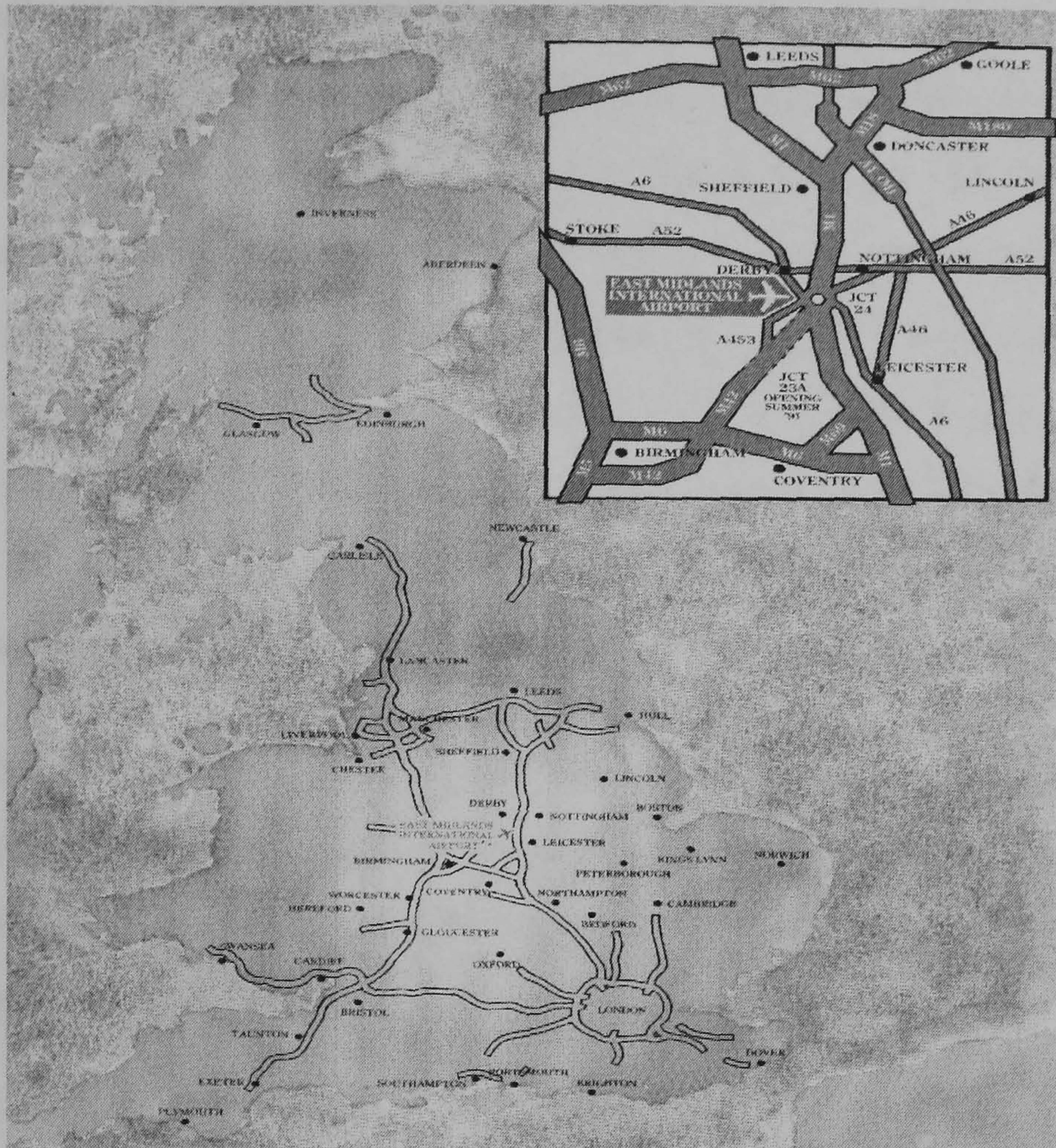
Such turbulence and spare capacity has been identified as both a weakness and strength by both HIAL and the Airport. On the one hand it has recognised the need to devise strategies for attracting and keeping more international traffic and operations, and on the other of upgrading its ATC facilities. These appear to be its principal strategic objectives.

5.5 EAST MIDLANDS

The East Midlands is a large area, representing twelve per cent of England's land area covering 15,627 km² and has a population of 4,102 million whose density is 260 people per km² (ONS, 1997). This region includes the following counties: Derbyshire, Leicestershire, Lincolnshire, Nottinghamshire and Northamptonshire. The East Midlands is one of the faster growing regions with population growth of seven per cent between 1981 and 1995, compared with four per cent in the United Kingdom as a whole. The service sector is becoming more prominent in the region, accounting for 58 per cent of its GDP, although it still remains below the UK average of 66 per cent.

5.5.1 East Midlands Airport Development

The growth and progress of East Midlands Airport since its opening in 1965 has been smooth for both the previous and present owners. In its beginning nearly, 2,000 jobs were provided locally, where none existed before, and in terms of job creation the existence of EMA has clearly been an important incentive to new industries, contemplating a move into the region (EMA Annual Report 1978/79). Figure 5.14 shows the airport location.



Source: EMA Information Map

Figure 5.14 East Midlands Airport Location.

Before 1987, it was owned and operated by four Local Authorities. There were three County Councils, Derbyshire, Nottinghamshire and Leicestershire and one City Council, Nottingham City. They had combined together to build an airport for the East Midlands region and they ran it through a joint committee of 18 councillors, representing each of the authorities (Lovett, 1998).

After the 1986 Airports Act, a scheme was prepared to transfer the assets of the airport from Local Authority ownership into ownership by the new Airport Company.

In 1987 East Midlands Airport was incorporated as a company under the Airports Act, but it was still in the public sector and the Local Authorities who had run it before still owned 100 per cent of the shares. The major effect was that the Government would no longer provide funds for investment, and as a commercial company it became subject to the discipline of the market.

As a public sector company, East Midlands Airport became independent. It was restructured and virtually all the services, which had been provided for the airport by the Local Authorities, were brought into the new Company. Finance and Accounts were brought in from Nottinghamshire County Council under the new accounting procedures, and advantage was taken of the transfer to company status to review the whole management structure of the company (Lovett, 1997). However, the strategic decisions were still being made by politicians. The Government's offer of a one year period in which income from the sale of the airport shares could be used as the Local Authority saw fit, rather than fifty per cent having to be used to pay off pre-existing debt, came as a considerable incentive to sell.

The shareholding authorities initiated a bidding process for 100 per cent of the shares through a trade sale. Twenty-eight companies sent in expressions of interest, four were short-listed and National Express Group (NEG), who offered a considerably higher price than the other companies, was the eventual winner.

5.5.2 Financial Position

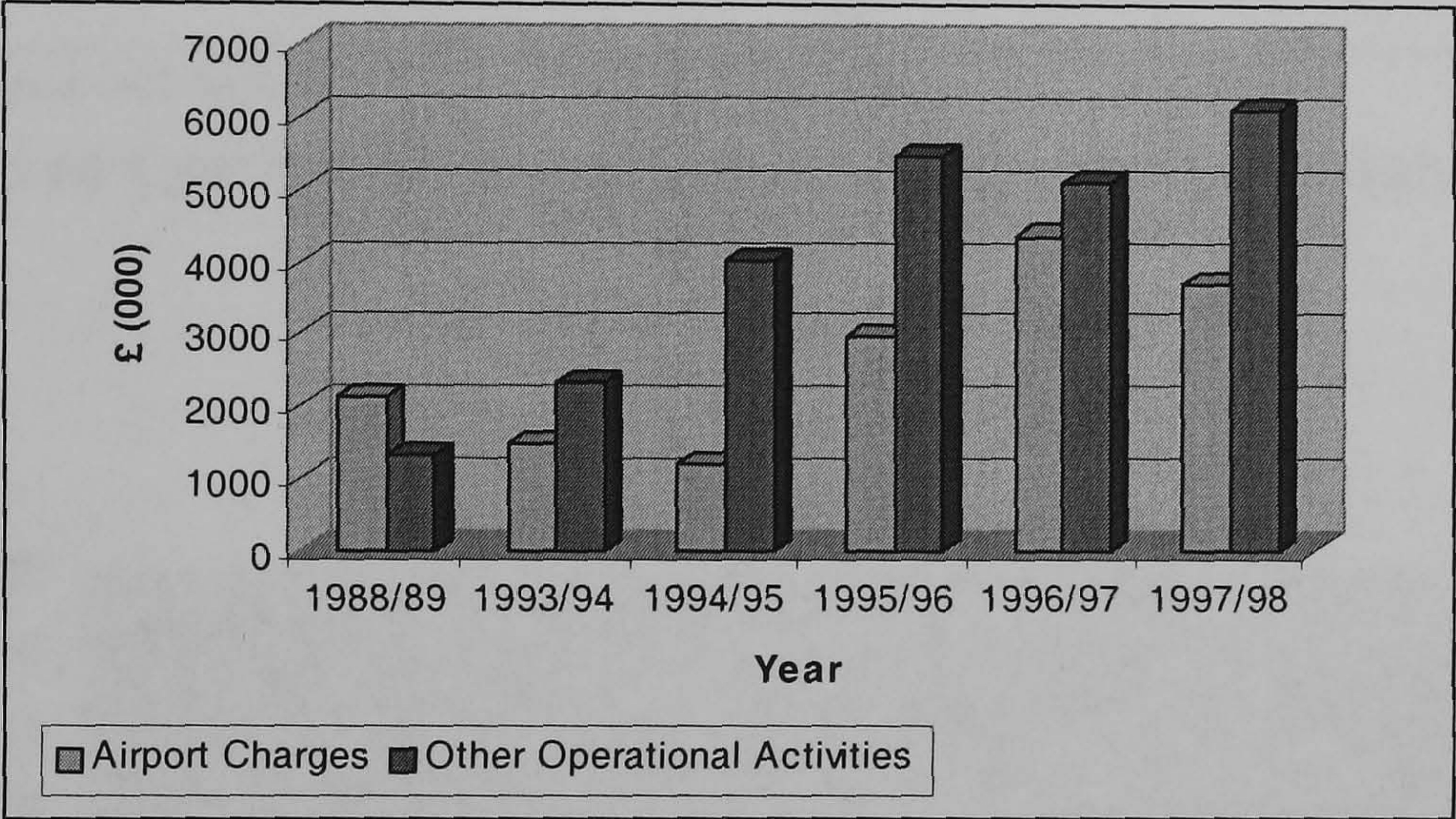
In terms of investment, prior to the Airports Act and the privatisation of the airport, it was a political decision whether the local authorities wanted to extend the terminal or invest the money in social infrastructure. EMA would prepare annual budgets and investment forecasts. However, the Managing Director at the time (Mr. T. Lovett) stated that these budgets and investment forecasts were meaningless because the capital budget was decided by the local authorities. It was based purely on where they wanted to put their money and the airport came a long way down the list of social priorities when compared to, for example, education, housing, etc. However, once the airport was privatised investment was given a high priority since NEG philosophy focused on commitment to growth, to invest and consequently to generate profits. Table 5.5 shows the capital expenditure from 1965 to 1999.

Table 5.5 East Midlands Airport Capital Expenditure

1965 – 1987	£1.8 m
1987 - 1993	£ 9.8 m
1993 - 1999	£ 77 m

Source: EMA Airport, 2000.

After privatisation, huge investments went into the airport to enhance facilities. According to the Cargo & Development Manager, one of the most important developments has been the £75 million joint venture with DHL, of which £35 million came from DHL, to build a cargo centre. During the last few years, the airport has clearly focused more on commercial activities with significant profits coming from non operational activities, as Figure 5.15 shows.

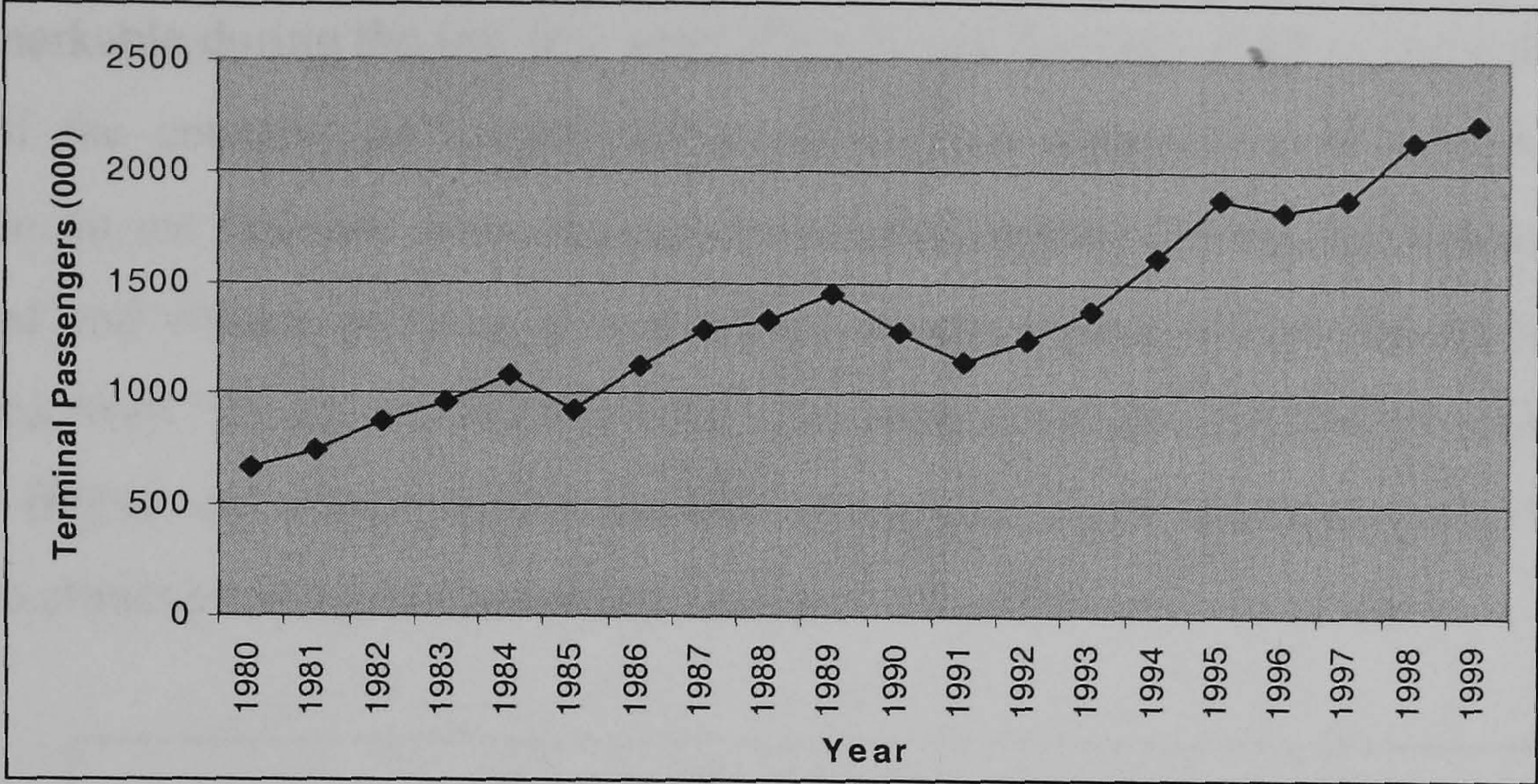


Source: CRI Statistics.

Figure 5.15 Profits Generated by East Midlands Airport

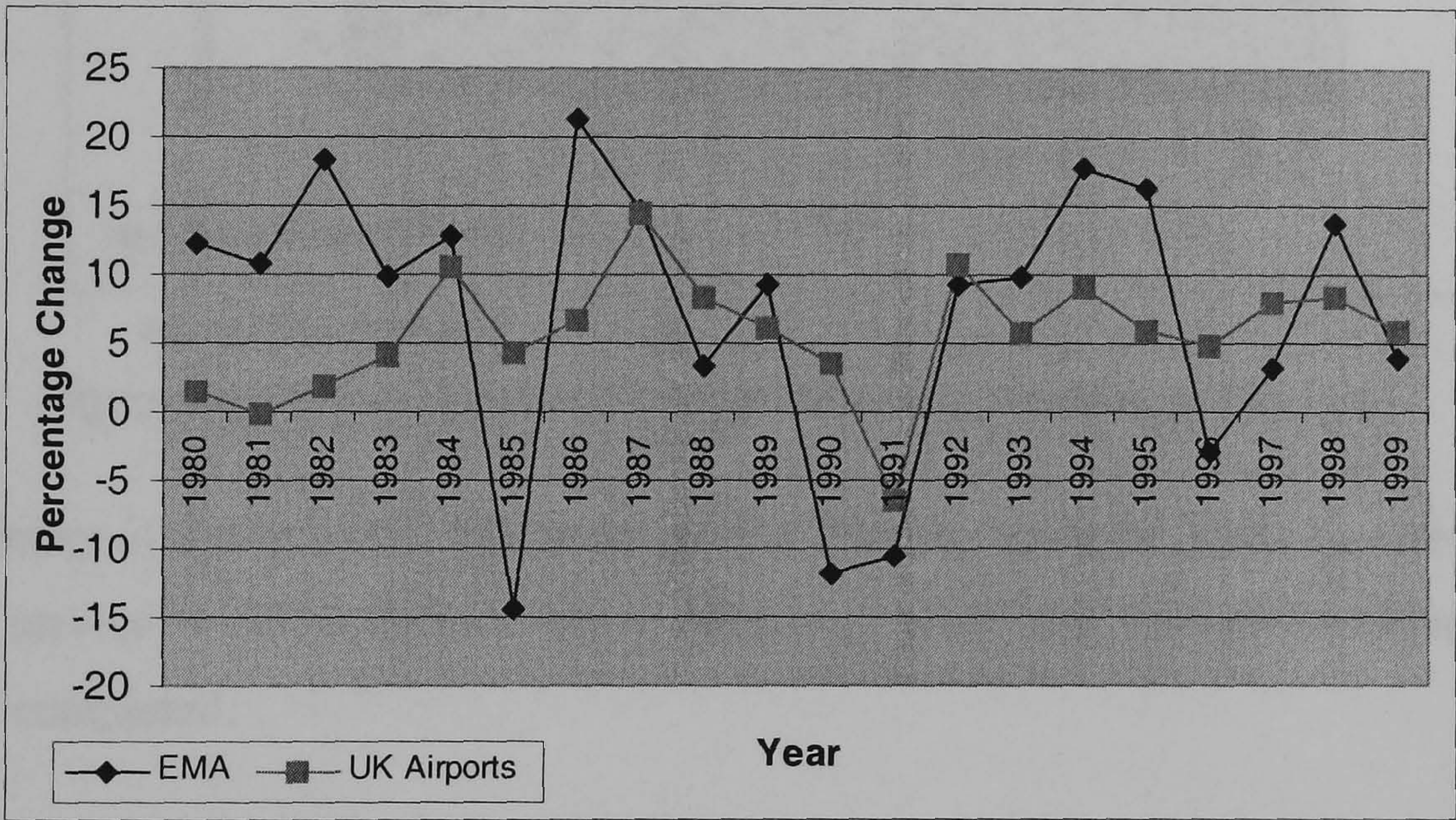
5.5.3 Trends in Terminal Passenger and Air Services

A twenty year span of statistics from the CAA reports were chosen because these were readily available to show the difference in numbers since 1980. Figure 5.16 illustrates passenger growth, which has been steady except in 1991 and 1996. Other UK airports also went down in those years – GDP fell during the same period (see Figure 5.3). Between 1989 and 1999 passenger numbers grew from 1.5 to 2.2 million – 53 per cent, whereas the UK airports’ percentage was 70 per cent.



Source: CAA Reports

Figure 5.16 East Midlands Airport Terminal Passenger Figures 1980-1999.

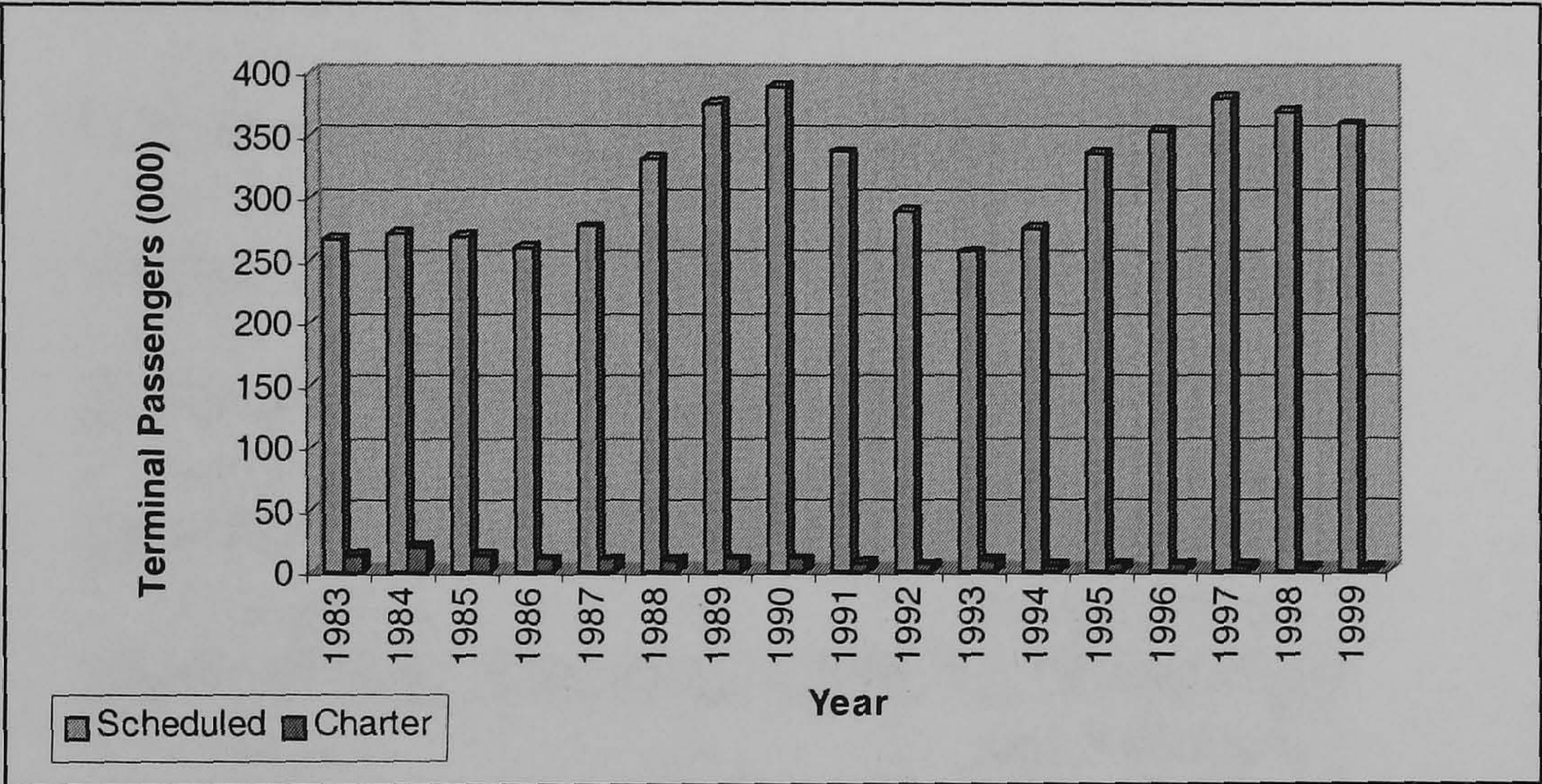


Source: CAA Reports

Figure 5.17 East Midlands and UK Airport Terminal Passengers percentage change.

Figure 5.17 shows that 1985 was a very bad year in terminal passenger terms for EMA, the decline being attributable to the facts that the UK had two good preceding summer seasons which attracted many holiday-makers. In addition, the results of a deteriorating industrial situation, including prolonged strike action, contributed to a near seventeen per cent decline in passenger throughput (EMA Annual Report & Accounts 1985/86).

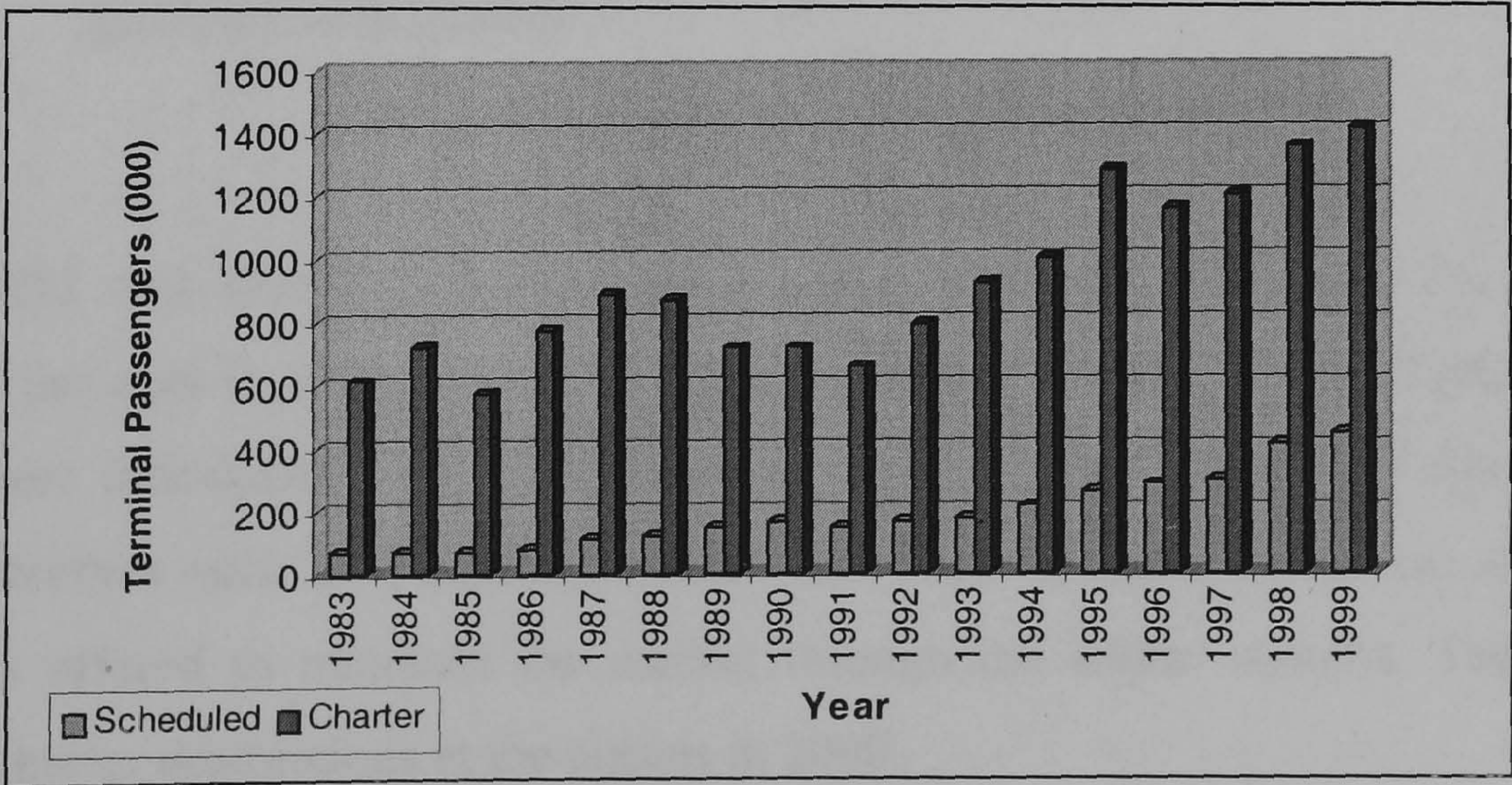
Figures 5.18 and 5.19 illustrate the growth of international charter services, which has been remarkable during the last few years. Due to the fact that EMA is located in the centre of the country, its opportunity to develop a domestic market is limited. Therefore, in the last few years the airport has focused on developing international scheduled and charter services. For instance, charter services from East Midlands have risen from 727,301 in 1989 to 1,412 million in 1999, nearly 100 per cent. The summer flights and winter flights options to travellers give the opportunity to the airport to attract passengers throughout the year.



Source: CAA Statistics.

Figure 5.18 Scheduled and Charter Domestic Passenger Figures.

The majority of international flights are within Europe; however, plans to extend this sort of service worldwide have been discussed since the runway extension has recently completed.



Source: CAA Statistics.

Figure 5.19 Scheduled and Charter International Passenger Figures.

Scheduled services from East Midlands serve a range of short haul European destinations. The scheduled operations from East Midlands Airport in 2000 included fourteen international destinations and three domestic services. Table 5.6 shows the destinations, of which the newest service was to Aberdeen which was introduced in May 2000.

Table 5.6 Scheduled Destinations at East Midlands Airport in 2000

Destination	Frequency per wk	Airline
Aberdeen	20	Eastern Airways
Amsterdam	20	British Midlands
Belfast Intl.	18	British Midlands
Brussels	9	British Midlands
Corfu	7	Britannia
Dublin	16	British Midlands
Edinburgh	14	British Midlands
Faro	7	Airtours
Frankfurt	12	British Midlands
Fuerteaventura	2	Airtours
Guernsey	11	British Midlands
Glasgow	21	British Midlands
Ibiza	7	Airtours
Jersey	12	British Midlands
Larnaca	4	Airtours
Malaga	5	Britannia
Nice	2	British Midlands
Palma	17	Airtours
Paris	17	British Midlands
Tenerife	9	Britannia

Source: East Midlands Airport

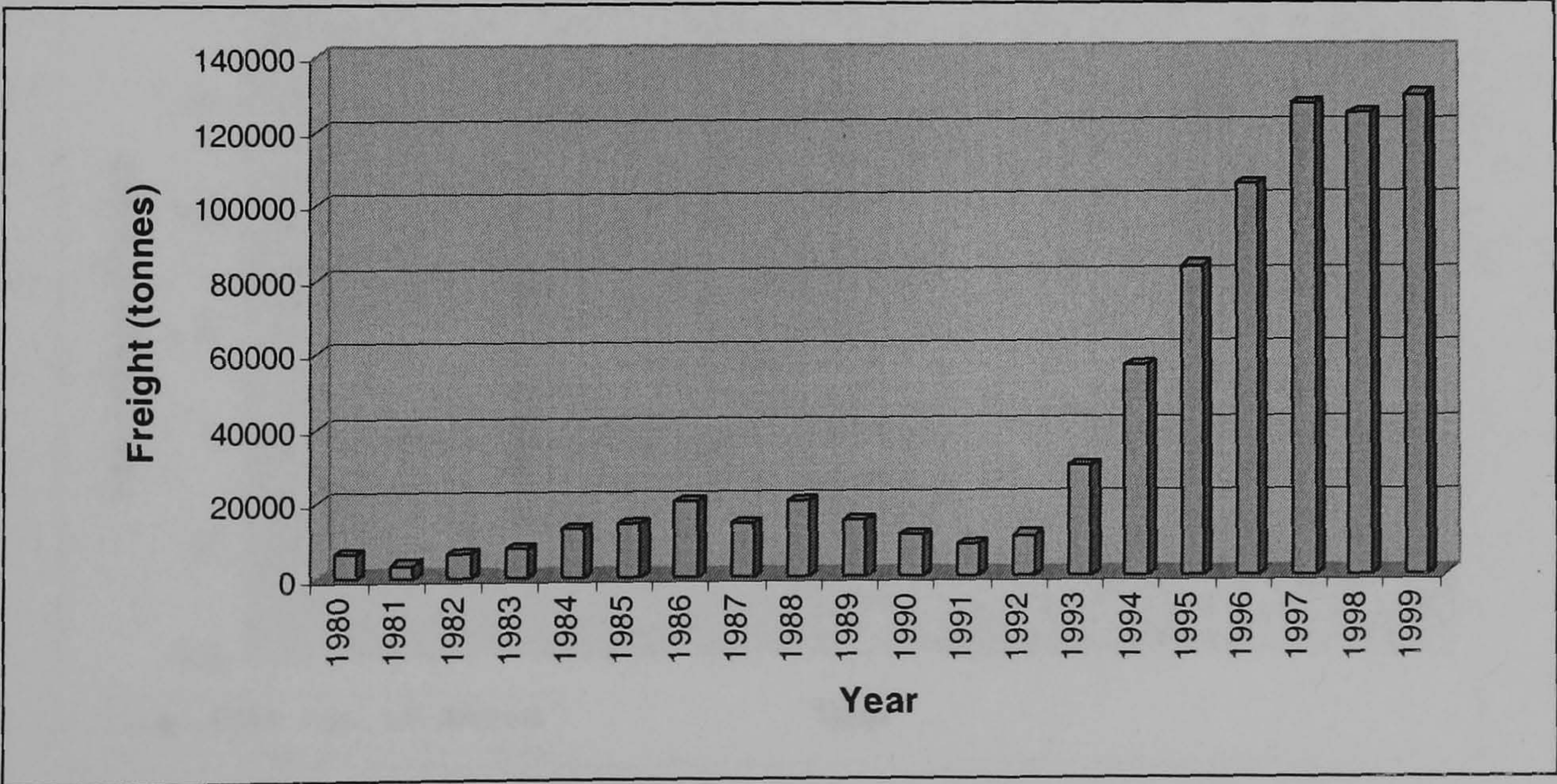
Between 1991 and 1992 the charter market grew by 17 per cent, and although it dropped 10 per cent in 1996, it went up again by 18 per cent in 1999. In 2000, some tour operators introduced new destinations to offer a wider variety of options to summer travellers such as Florida, Rhodes, Crete and Larnaca. There are also ski destinations offered to maintain the market through the winter months. Table 5.7 shows the charter destinations at the airport in 2000.

Table 5.7 Charter Destinations at East Midlands Airport in 2000.

Summer Destinations		Ski Destinations	
Country	Number of Destinations	Country	Number of Destinations
Austria	1	Austria	1
Bulgaria	1	France	2
Cyprus	2	Italy	1
Czech Rep.	1	Switzerland	1
Greece	6		
Italy	2		
Malta	1		
Portugal	1		
Spain	11		
Tunisia	1		
Turkey	2		
U.S.A.	1		

Source: East Midlands Airport

At East Midlands Airport, air cargo has grown significantly in the last few years (see figure 5.20). One of the reasons for this growth is the recent attention from the airport’s owners to developing this sort of market and the financial deals offered to carriers to encourage them move into the airport as their main point of distribution. It also represents the significance of DHL’s presence, following the airport’s selection as a major cargo hub. (This subject will be discussed later in Chapter 7).

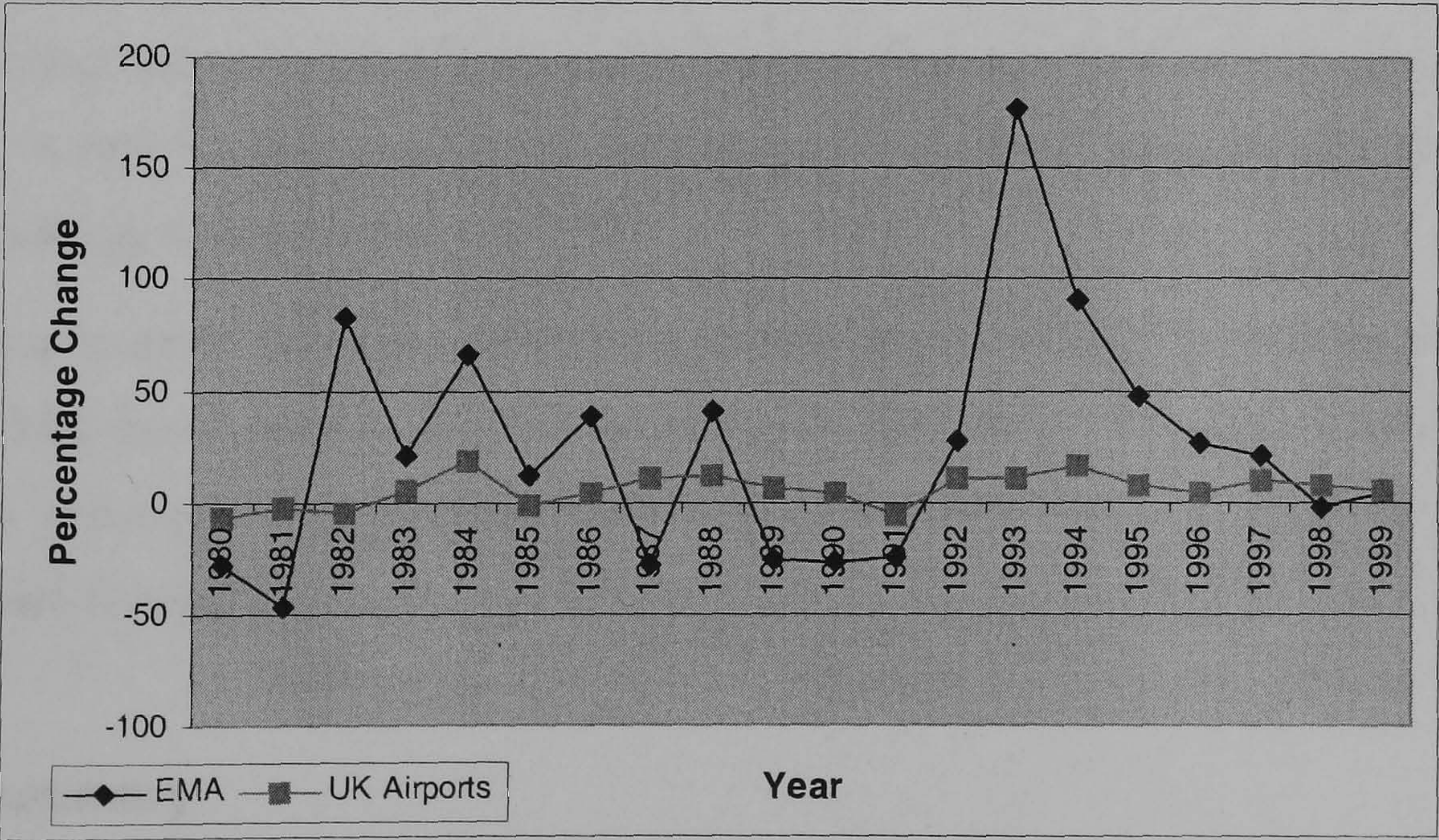


Source: CAA Statistics.

Figure 5.20 Freight Figures.

In 1982 approximately 31 per cent of freighter borne UK air cargo passed through regional airports (CRI, 1995). This market share climbed to 50 per cent by 1994 due to the arrival of the air express industry, with integrators such as DHL, FEDEX and UPS. EMA measures its performance against other UK airports in terms of ‘pure cargo’ – cargo carried on dedicated freighter aircraft.

Figure 5.21 illustrates from 1980 to 1999 the percentage change for EMA freight and other UK Airports. In 1985, EMA ranked fifth in the UK freight service. In 1988 EMA had 40 per cent of growth whilst the UK had only 11 per cent. However, over the next three years, from 1989 to 1991, EMA performance was very poor with an average of 25 per cent decrease each year, whereas the UK decrease was 6 per cent in 1991. In fact, in 1990 EMA dropped to the 12th position nationally. EMA started to recover in 1992 with an increase of 27 per cent, reaching the highest growth in 1993 with 177 per cent whereas the UK had just 11 per cent. Thus, in 1994, ACI statistics named EMA as the second fastest growing cargo airport in the world, after Rio de Janeiro. Since then, it has kept up the pace, with a smaller annual percentage change but climbing up until 1998, when it fell 3 per cent whilst the UK increased 7 per cent. In 1999, EMA was in fourth place nationally and ranked the first regional airport. From 1985 to 1999 the national figures have increased by 259 per cent whilst EMA figures have increased by 883 per cent during the same period.



Source: CAA Statistics.

Figure 5.21 EMA and UK Airports Percentage Change on Freight.

Nowadays, the airport's primary cargo marketing aim is to attract new scheduled and ad hoc all-cargo services and expand the range of passenger services to provide new destinations in terms of belly-hold freight capacity.

5.5.4 Future Developments

One of the most significant developments in 2000 was the completion of the project to extend the runway. As part of a £20 million scheme, both the western and eastern ends of the runway have been extended from 2283m (7490ft) to 2893m (9490 ft), giving the airport the sixth longest runway in the UK. This new runway extension will allow them to attract new long-haul services and the Company is keen to start providing services to Hong Kong, Singapore and Thailand. A further proposal for an extra 190 metres has recently been submitted for planning approval.

Moreover, it will be able to accommodate ad-hoc all-cargo services such as long endurance cargo carriers being able to fly a non-stop service to, for example, Los Angeles and the Pacific Rim. The global integrator DHL has recently taken occupation of a new "state of the art" cargo hub facility with an associated 18 stand aircraft apron. The new facility can process up to 45,000 parcels per hour. UPS has also invested over £1 million in its fully mechanised on-site sorting facility.

The Airport's Pegasus Business Park is a 45-acre site, which is being developed by Wilson Bowden Properties. The park is expected to create three thousand jobs over an 8 year period and will provide a showcase for East Midlands businesses along the M1 corridor. A new 90-bedroom Express Holiday Inn hotel, owned and operated by BDL Hotels, was opened late in the year 2000.

The airport's stated principal objective is growth, both internally generating growth (like making sure it attracts more passengers each year, more cargo, and more airline services) and externally generated growth as a company (such as attracting more airlines and services).

5.5.5 Summary

East Midlands Airport has grown in terminal passengers above the UK airports' average since 1980 to 1999. Since privatisation in 1993, its investment in airport

infrastructure has been steady and constant. EMA has developed a reputation as a good accessible location in terms of air cargo service. The road access is suitable for serving the needs of the Midlands and Northern regions of the UK. Its uncongested airspace, available runway and apron capacity makes it an alternative to airports in the South East. On the other hand, its location makes it weak for developing domestic services. Its principal strategic objective appears to be to expand international traffic, primarily through the development of new long-haul services.

5.6 SUMMARY

This chapter has presented an analysis of the air transport sector in the UK and the main factors which affect the airport industry. It has also mapped out the approach to be taken to the two case study airports. In addition, it has established the general operations environment of both airports: Inverness and East Midlands. As a summary, these can now be compared – as Table 5.8 shows.

Table 5.8 Inverness and East Midlands Summaries

	INVERNESS	EAST MIDLANDS
Airport Development	Slow and driven by social and economic purposes. Previously operated by the CAA.	Smooth and constant when owned by local authorities, with creation of jobs being the dominant objective. After privatisation EMA became more dynamic and business orientated
Financial Position	Investment has been higher than turnover. The government can no longer afford huge investments thus the agreement with IATL emerged.	After privatisation, high investments in cargo centre, terminal building and runway extension. Also other facilities not directly related to operational activities.
Trends in Terminal Passengers and Air Services	95% domestic traffic. Plans to grow international passenger share.	85% international traffic within Europe. Rapid growth in cargo. Plans to introduce long-haul services.
Future developments	Introduce commercial activities and develop strategies for attracting more traffic and operators. Introduce technology that is more sophisticated for ATC.	Diversification as a business organisation. Develop long-haul services and grow as a company.

This summary analysis can only provide an overview of the two case study airports; it is limited both in scope and content. In order to understand the strategic management capacity of both airports more profoundly it is necessary to analyse each case in considerably more detail.

The next two chapters will present an analysis of the information gathered in the in-depth interviews for, respectively, Inverness and East Midlands airports. The *cultural web model* outlined in Chapter 4 will then be applied to each airport in turn.

Chapter 6

Inverness Airport - Strategic Management Analysis

6.1 INTRODUCTION

This chapter discusses the management and operational strategy pursued by Inverness Airport during two periods: before 1986 and after 1986. The evidence will be presented and discussed, and the *cultural web model* will then be applied.

6.2 INVERNESS AIRPORT – BEFORE 1986

During this period, scheduled air services in the Scottish Highlands and Islands were, in general, considered to be unprofitable. To a large extent, they were cross-subsidised by the operators and indirectly subsidised through the provision of aerodrome and navigation services, well below cost. Before 1986, the Civil Aviation Authority (CAA), which was in charge of the Highlands and Islands' air transport system, stated in their 1982 report that *the existing air transport system as a whole in the Highlands and Islands seems unlikely ever to become commercially profitable*.

Until 1986, CAA owned the Highlands and Islands' airports, with an office in Edinburgh. This office was basically the Headquarters in Scotland, divided into sections. One section was responsible for dealing with the management of the airports. All the professional and technical advice came from the CAA as a corporate body, including an Operation Department, a Traffic Department, and an Accounting Department; and it was the CAA's employees who provided the core services. However, it was only one of these units, with just five employees, which worked for the Highlands and Islands Airport Group (HIAG) and at the airport there were 45 people.

These airports were managed by a public organisation, created by and responsible to government; hence, the goals were set by politicians. These goals tended to be complex, vaguely defined and often conflicting. Flynn (1992) argues that it is a characteristic of governments to pursue multiple goals, which are continuously disputed as sectional interests challenge them. As the Inverness Airport Manager stated:

The CAA's main purpose on its existence was to manage, control and regulate the operation of aviation but not to run airports. The HIAG was really bolted on to the CAA and which they really did not want but they just rested comfortably as far as the government was concerned because the Department of Transport was concentrating on other main issues such as the rail network, etc. etc.

CAA was thus working towards their goals to control and regulate the operations of those airports under their responsibility. As a regulatory body, the Authority's functions, goals and objectives were clearly laid down with regard to the regulatory airworthiness and operational safety of British airports. It was not their objective to try to reduce subsidies to airports, which incurred high costs in order to provide air transport services.

In order to understand how such goals and representatives were translated into strategic management practices at Inverness Airport, the *cultural web model* will be deployed. As discussed in Chapter 4, this involves identifying six core elements: stories, rituals and routines, control systems, organisational structure, power structures and symbols. These when taken together, constitute what Johnson and Scholes (1997) call the *organisational paradigm*. The intention of this next section is to identify these elements and tease out from them the organisational paradigm for Inverness Airport in this pre-1986 period.

6.2.1 STORIES

Stories, according to Johnson and Scholes (1997), typically have to do with successes, disasters, heroes, and villains who deviate from the norm; they in effect distil the essence of the organisation's past. Stories also legitimise types of behaviour and are devices for telling others what is important about the organisation. As a consequence,

three main issues – communication, resource constraints and incentives – have been identified and are considered relevant to comprehend this part of the *cultural web model*.

Communication is the process that enables people to co-orient their behaviours. It also empowers people to establish functional interpersonal relationships through ritualised patterns that allow them to work together toward goal attainment (Kreps, 2000). This issue is considered to be important to scrutinise and find out how relationships, among members of the organisation, develop in order to help them accomplish both their goals and organisational changes. The second issue considered is resource constraints, which is concerned with both the identification of financial investment within the organisation and how those resources are deployed to create advantages needed to underpin particular strategies. The third, and last issue, is incentives, which are regarded as an essential part to improve employees' work performance (Thorpe and Homan, 2000). As a consequence, an organisation wishing to improve productivity needs to concentrate on employees' satisfaction and establishing sound and friendly relationships with and between their staff. These three issues will be considered below and discussed in more detail.

6.2.1.1 Communication

In the period prior to 1986, the CAA could not legally delegate functions imposed upon it by statute – a feature which it could be contended, did not make for open communication flows among its personnel. However, either because of this or in spite of it, communication among the CAA's staff was considered to be poor, limited and in one direction, with little feedback. Basically, communication only applied to employees' daily duties. This can be highlighted with the HIAL's Head of Operations statement:

Nowadays, communication is central to the tomorrow's company approach, and communication between people is the core of business activity. Twenty years ago, it was different; we were employed to do our daily duties without expecting suggestions of how to do our tasks or comments afterwards.

Communication within an organisation has always been regarded as an important issue. For instance, French *et al* (1985) describe communications as 'the glue that

holds organisations together', a description frequently applied to organisational culture. People exposed to the same information will tend to develop similar beliefs, attitudes and common understandings. Therefore, communication systems play an important role in forming common beliefs and attitudes.

The CAA was in charge of different tasks with no specific objective to achieve each of them; political decisions were occasionally taken to reduce the Authority's responsibilities. However, it is apparent that this was a characteristic of a government organisation's administration some years before; this situation did not therefore only apply to this organisation, it stretched to many other public organisations.

6.2.1.2 Resource constraints

The CAA stated in its 1982 report that "if the present air transport system in the Highlands and Islands is to remain operational, it can only be on the basis that substantial support continues to be given from public funds". This statement clearly shows that resources were obviously deficient for investing in and considering improvements to the development of its airports. This statement is highlighted further by the following remark made by the Head of Operations in HIAL:

We do not have huge capital to continuously invest in improving the airport's infrastructure because we are funded from the public purse. For example, one organisation like HIAG had major maintenance commitments. So, we need to prioritise because we do not have huge capital or revenue funding available.

Since commercial investment criteria could not be applied – there was no prospect of a return on capital – investment in the air transport system could be decided only by the Government, which also had responsibilities for other forms of transport in the Highlands and Islands region.

Therefore, the CAA agreed that the Secretary of State for Scotland should provide both investment capital and operating subsidies for the Highlands and Islands air transport infrastructure, together with such subsidies as may be needed to be given to the operators of scheduled air services. Although this was not the only possible solution, it took account of the fact that the Scottish Secretary had already substantial responsibilities for other forms of transport in the Highlands and Islands, and was in

the position to assess the needs of this region for air services. However, the financial resources were not large enough to cover the real costs to run the airports in the Highlands and Islands region. Despite the fact that the resources allocated to these airports were limited, the authorities' commitment, whether the CAA or from Scotland, have been supportive.

6.2.1.3 Incentives

In publicly owned and managed airports, as this example shows, the objective is not always to generate revenues; in many cases, the users are forced to co-operate. This means that each type of relationship between the organisation and its users needs to be reflected in the actions of its staff. Each organisation needs to understand its environment, its task, its workforce and its relationships with its users.

Clearly, altering the timing of supply involves giving the workforce some incentives, just as users need incentives to alter the pattern of demand. This is important in all aspects of matching the needs and preferences of users with the predilections of the organisation. Employees, like all individuals, need some acknowledgement of their accomplishments (Appelbaum *et al*, 2000).

The value that organisations place on their staff should not just be a question of remuneration, although that is an important element; other aspects such as being taken seriously, being listened to, and having a degree of autonomy, are important aspects of value. However, one of the chief reasons given by public-sector employees is the fact that working for public organisations is having a *job for life*. This value was reinforced by the Inverness Airport Manager:

This ethos, to work for the government that gives you a job for life unless you do something wrong or you want to leave on your own, gives security for our future...

This belief was widely shared among employees at Inverness Airport and if the values of all employees were also consistent with their actions, then this could be considered an important bonus. Nevertheless, 'value management' is not a substitute for good service design nor for organisations which have clear accountabilities and responsibilities, which support and reinforce appropriate behaviour. Moreover, public

airport employees can enjoy *peace of mind* knowing that their performance does not bear directly on the pressure of the company's financial results.

6.2.2 RITUALS AND ROUTINES

The rituals of organisational life are the particular circumstances through which organisations highlight what is principally important as significant for their activities. One might say the routines deal with the members of the organisation and their behaviour towards each other as well as those outside the organisation. Both rituals and routines reinforce 'the way we do things around here'. In order to understand these two elements in a broader way, three issues – decisions, mindset approach and innovation – have been identified and selected to understand this part of the *cultural web model*.

The way in which decisions are made in an organisation shows how cultural and political processes are developed and refined. Research on how strategic decisions are made suggest that they emerge as the outcome of managerial experience within a social, political and cultural context (Johnson and Scholes, 1997). Therefore, it has been deemed significant in this research to analyse the decision processes in the two airport organisations. In addition, an organisation's members constitute what can be called the organisation's mindset approach, which is linked to the decision strategy process since it influences for individuals and stakeholders through this set of internal attitudes and values. It can be interpreted as the basis on which an organisation generates change and makes modifications to its practices. Although organisational adaptation, change and innovation in organisational life occurs all the time (Kreps, 2000), innovation is a special type of change that is not haphazard. This aspect is considered important in the *cultural web model* because in every organisation there is a recurring need for innovative ideas to adapt the behaviours of organisational members to meet new challenges.

6.2.2.1 Decisions

There was a strong belief among the staff in charge of the Scottish airports that if the Scottish Office was the investor, then it should control or have greater participation in taking key decisions. However, these decisions were still made by the CAA, and

frequently were perceived to be more politically disposed than to meet operational considerations. There was no a clear difference between control and support functions; quite often they were mixed up, a point reinforced by HIAL's Head of Operations:

Decisions were taken by the CAA; we only had to apply them and we quite often noticed that they were not with the intention to develop the airports. For instance, the subsidy was consumed by the whole CAA and very little was really invested.

Flynn (1982) argues that in all environments, whether hostile or friendly, turbulent or stable, complex or simple, managers of service delivery units can only do their jobs if the rules are clear. The CAA had a strong public organisational culture; Airport Managers had little authority and responsibility to administrate – thus decisions were not taken *in-house*. As a consequence, managers did not feel a strong commitment to perform or make any effort in performing their duties further since decisions were not taken by them, only for them.

6.2.2.2 Mindset approach

According to Freathy and O'Connell (1999) publicly owned airports in the UK are generally considered to have sound organisational structures for completing routine work – also for embodying values like fairness and equity on a day-to-day operational basis and for ensuring a standard or uniform level of outputs. Therefore, the managerial function tends to be *bureaucratic* and with a mind set which is *conservative* and *averse to risk taking*. The core characteristics of bureaucratic management are specialisation and hierarchy, impersonality and expertise (Farnham and Horton, 1996), characteristics which have clearly evident in the CAA, as those in managerial positions had clearly defined roles within a specialised and hierarchical division of labour. Their responsibilities were narrowly defined and circumscribed by rules, with limited discretion. The Head of Operations in Inverness added to this by stating:

A few years ago, the mindset was more a civil service with limited authority – running the airport was our only duty. Nowadays, it is

different; for old stagers like me the change in culture has made me brush up on my ideas.

6.2.2.3 Innovation

Inverness Airport has been an attractive place for employees who like structure and an orderly career progression: such employees are adapters rather than innovators. Common *et al* (1993) state that these organisations are not so good at allowing managers and employees the scope for innovation or creativity, for experimentation or for change. Systems are designed to reinforce the work patterns chosen and actions are often predicated on the assumption of a stable or largely unchanging external environment. This view is highlighted by a comment from the Inverness Airport Manager:

Before 1986, Inverness Airport did not have year after year significant changes. But, did we need innovations then? I think we used to satisfy the daily operational requirements and it was enough at that time.

Passenger numbers were increasing slowly every year; the requirements to meet demand were evolving; innovation was almost non-existent.

6.2.3 CONTROL SYSTEMS

The control systems of an organisation emphasise what is important to monitor and to focus the attention and activity of managers upon. For example, publicly owned airports have been strongly concerned with operational services and aeronautical revenues, disregarding commercial services and non-aeronautical revenues; also their procedures have been related more with accounting for spending than with regard for outputs such as customer service. In order to understand these elements as they applied to Inverness Airport, three aspects – operations, volume and financial reports – have been identified and selected for this part of the *cultural web model*.

6.2.3.1 Operations

An organisation with a weakly structured or non-existent planning system is more likely to achieve control through managing day-to-day operations. The CAA staff

departments in Edinburgh engaged in decision making that had major impacts on Inverness Airport; both keys managing and planning decisions were taking 160 miles away from the airport. Administrative staff at the airport intervened only if something went wrong or if pre-defined standards were not met. If there were no problems, everything ran without interference since it has assumed that all was going well. For instance, the Inverness Airport Manager stated:

The team working at Edinburgh provided the managing support for the Highlands and Islands airports. Airport Managers used to contact the main office only when something went wrong.

According to Flynn (1990) this approach to an operations led organisation is commonly found in extended public organisations where politicians and/or civil servants act according to their perceptions of the public-interest and/or self-interest and market mechanisms have no direct influence at all.

6.2.3.2 Volume

Airport operators usually refer to airports in terms of passenger throughputs and freight uplift represented by the annual passenger numbers processed or the annual turnover of air freight tonnes. This is entirely understandable, since annual income is to a large degree determined by these parameters. Therefore, the main numerical data reported year after year were annual passenger numbers, freight throughputs, and annual air transport movements (ATM). The Airport Manager reinforced this view, when he stated that:

Inverness Airport's output was measured in three ways; namely in terms of quantities of aircraft, passengers and freight. These measures have been reliable to capture our outputs.

This structured approach has remained in place over the years and it has been considered good enough to provide the essential information to make decisions at the appropriate time.

6.2.3.3 Financial reporting

Financial information was managed by the CAA. Indeed, data outputs were exclusively controlled and commanded by the CAA. The Airport Manager informed staff at the airport that he had no idea of the operational cost of the airport's activities. Therefore, efforts to try to, for example, reduce costs were basically non-existent. The financial information was administered for the Highlands and Islands airports as a group, hence it was not possible to distinguish accurately particular items for a particular airport. The fact that each Airport Manager could not be provided with financial information regarding the airport under his control clearly makes a significant difference to that manager's ability to manage – which was highlighted by the Inverness Airport's manager, who stated:

Definitively, it is not the same to be aware of the airport's financial numbers; this sort of information makes you conscious in trying to increase an airport's performance. The manager knew the airport needed subsidies but to what extent he was unsure, which makes a significant difference.

Traditionally, financial control has been a matter for the board, which was indisposed to let anyone else know the organisation's income and expenditure. It was generally agreed that administrative tasks could not be effectively achieved at Inverness Airport without the awareness of financial information (Ashford and Moore, 1999).

6.2.4 ORGANISATIONAL STRUCTURE

As noted in section 4.3.1 earlier, organisational structures can reflect internal power structures. They also outline meaningful relationships and emphasise what it is important in the organisation; for example, who is in charge of what and ensuring that the organisation serves its mission in an effective way. It might also clarify the needs of those individuals who control or otherwise have power over the organisation. Moreover, Airport Managers need some clearly defined structural way of determining investment priorities, promoting cost-effective development of air transport and its infrastructure, and establishing standards and roles. In practice this often results in the categorisation of airports by size and function – the criteria used for planning their facilities, operational capability and strategic orientation. On the other hand, publicly

owned airports and their levels of traffic are largely in the hands of route licensing regulators. The airport management function is seen as a demand-responsive provision of service facilities; thus, public airports are mainly focused on operational activities. The following three aspects – hierarchy, planning and airport operations – have been identified and selected to understand this element of the *cultural web model* in a greater detail.

6.2.4.1 Hierarchical

Mintzberg (1979) defines the structure of an organisation as the sum total of the ways in which it divides its labour into distinct tasks and then achieves co-ordination among them; the structural organisation in any organisation is perceived to be relevant to its performance. For instance, in the CAA there was a time when reorganisation was seen as the automatic solution to problems. It was felt that it was sufficient to create new divisions to divide up the amount of work; *direct supervision* was the main mechanism employed, which means one individual takes responsibility for the work of others, issuing instructions to them and monitoring their actions.

During the period leading up to 1986, the traditional CAA organisation was slowly breaking up, splitting up into more and more units; however, each still depended strongly on the main central organisational core. Management by rigid rules meant that specific needs could no longer be met adequately. Although the CAA divided its functions to ‘simplify’ assignments, functions were still highly centralised. Furthermore, the skills required for running decentralised networks are different from those required in bureaucratic hierarchies. The content of managerial jobs for Highlands and Islands airports was usually two-fold: managers would have two or more responsibilities at the same time. For instance, the manager in Inverness had several functions, as he confirmed with the following statement:

In the last fifteen years, it was common that the Manager in Inverness was also the air traffic control officer. He undertook air traffic control duties as well as being the Manager. However, as the airport grew, it changed in Inverness.

Inverness Airport has learned from experience that re-organisation was evidently necessary and greatly beneficial. Traditional, hierarchical bureaucracies were seen to

be only appropriate in a limited set of circumstances and those circumstances were changing.

6.2.4.2 Planning

The CAA carried out a basic planning function based chiefly on passenger number data; however, passenger growth through the Highlands and Islands airports had been quite slow so that planning was not seen as such an essential task. The main planning task was seen to be to satisfy current demands, principally on a day-to-day basis. The CAA stated in their 1980 report: *In our eight Scottish aerodromes, we operate to meet the demands of public policy and North Sea oil. If we were a commercial enterprise, we should be obliged to cut down the level of services or even to withdraw completely.* Therefore, the main concern regarding the Scottish airports was plan on the basis of subsidies to keep airports operational.

Another consequence of the multifunctional nature of public organisations is their complex structures. Central and local governments are characterised by complex systems of interdepartmental committees and multiple consultative and communication channels. On the one hand, planning in this arrangement was not straightforward, a point reinforced by the manager at Inverness Airport:

We had a general plan that covered five years, but it comprised very, very broad targets – thus we could really rely on nothing after one year.

On the other hand, it was also emphasised that operations in the Highlands and Islands region were not especially sophisticated, hence a complex planning arrangement scheme was not deemed.

6.2.4.3 Operations

In the period up to 1986, it is clear that the CAA was concerned with the use of its limited resources. Eventually, the government of the day decided to re-examine both the CAA's goals and its resources, with a view to pursuing reductions. Airport Managers were expected to ensure that operations were running smoothly and within the Authority's requirements; if they met both criteria, they were considered to be competent managers. This can be highlighted by the statement given by the Airport Manager at Inverness:

If we go back to the CAA when it was centralised and had to control the airports very closely, Managers did not have a lot of freedom to act. However, during those days, Managers were exclusively dealing with operations, thus an Airport Manager's job was less complicated then.

In the literature, management style as a whole is often considered to be an important issue in most organisations' cultures. The style adopted by a manager is seen to reflect a combination of their personal values and their beliefs about the organisation and the environment in which it operates. The manager at Inverness Airport tended to believe, in the organisational milieu dominated by the CAA, that autocratic management style behaviour was likely to be effective, but that in any case there was little value given to a particular style since the CAA was so highly formalised.

6.2.5 POWER STRUCTURES

In the *cultural web model*, power structures are connected with the key constructs of any organisational paradigm. This paradigm is considered to represent the *formula for success*, which is taken for granted by the organisation's members, which has probably evolved over the years. The most powerful managerial groupings within an organisation are likely to be closely associated with this set of core assumptions and beliefs. Additionally, Kreps (2000) argues that power is essentially a social construct; it is gained (and lost) through interaction since no one person is naturally endowed with power. Furthermore, individuals are given power by others based on the messages they exchange and the relationships they develop. In the cultural web model, three main features related to power have been identified in the context of this case study. Firstly, the managers, who chiefly control the organisation and who make the core decisions; secondly, the way this power is headed and administered within the organisation; and lastly, the third parties who might also be empowered to influence the organisation's direction.

6.2.5.1 Politicians

The CAA was statutorily entitled to make decisions about the Highlands and Islands airports. The authority had control over information and resources, it also had authority over and within the organisational structure of these airports. In the CAA,

however, power was fragmented between different individuals and groups involved in the decision-making process. In such a multifunctional setting, it is expected that politicians will bring political values to bear the administrative process; for instance, decisions can be influenced by a variety of different policy forces – a point which the Airport Manager commented upon:

The terminal building was erected in 1975 and it was neither built to meet the requirements nor designed; it was built within a budget available at that time. Therefore, we started to think about replacing the terminal building in 1985; however, the administrative process takes a long time, either political issues or shortage budgets.

It seems that this pre-1986 period, there was no reason to hurry in taking decisions; it is also obvious that the politicians knew that Inverness Airport was not exposed to the competitive world of the market. In broad terms, there was not a sufficiently strong reason to operate efficiently and, eventually, the budget available played an important role to making the final verdict. However, Lawton and Rose (1991) argue that public bodies are expected to take the *best* decisions in the intention of society –but they admit that it is difficult to establish what this may mean on a case by case basis.

6.2.5.2 One-direction

In the CAA, power was considered to flow from the top downward. Power was related to the organisational hierarchy and assumed to follow the flow of orders, directives, and control media from higher-level management down to the lowest level. These individuals were controlled and guided by these directives in the execution of their responsibilities and their tasks and in their reports back up the hierarchy to demonstrate that the task was accomplished.

In general, managers were aware that power is a two-way communication, which is essential to the health of any organisation. Most of the routine information processing which is carried on within organisations does move upward in that it finally does come to rest with higher management for the crucial task of decision making.

However, this was not the case with Highlands and Islands airports in the pre-1986 period, where the CAA had in effect total power to take decisions without committing

the staff working at these airports. This was emphasised by the Head of Operations as follows:

Politicians had the overall responsibility for operations in the economy if there was a policy issue to be made, it was created and then segmented to the airports and we had to follow the policies the politicians set.

The managers at each of the Highlands and Islands airports therefore had limited power and limited discretion; staff were not explicitly involved in taking decisions to be implemented.

6.2.5.3 Trade unions

In many organisations trade unions are important third parties and are known for insisting on being included in communication flows (D'Aprix, 1982; Cox, 1995). In the pre-1986 period, management had seen trade unions as important stakeholders and in many cases abdicated some of their authority to such third parties. Thus, in the case of Inverness Airport, trade unions were seen as a group representing employees' legitimate interests, and the Airport Manager stated:

The relationship had been smooth with no significant problems.

Trade unions are renowned for demanding as many rights and benefits as possible from the organisations they work for (Cox, 1995). However, employees at Inverness realised that they had little choice for being far demanding, as Inverness Airport is an organisation that is considered to be relatively small with limited resources. Therefore, there are not many alternatives to demand.

6.2.6 SYMBOLS

Symbols are important representations of the nature and constitution of an organisation. For example, in long-established or conservative organisations, as the majority of public airports are, it is likely that there will be many symbols of, for example, hierarchy reflecting the differences in privileges between levels of management. The way staff perceive the organisation and show care for the environment surrounding it, as well as how staff address each other and behave within the organisation, are important considerations. Although symbols are identified as a

separate element in the *cultural web model*, it should be remembered that many elements of the web are symbolic, in the sense that they convey messages beyond their functional purpose. Routines, control systems and structures are also symbolic in that they signal the type of behaviour valued in an organisation.

With regard to Inverness Airport in the pre-1986 period, three symbols dominated the evidence: far from the world, current role models and reactive behaviour.

6.2.6.1 Far from the World

The environmental conditions in the Highlands and Islands region do not contribute to make easy the growth of passengers at Inverness Airport. For instance, the climate is more severe than elsewhere in the British Isles: high winds, heavy precipitation and sea fogs are important factors. Moreover, the total population in the Highlands and Islands region is well below the average for Scotland with 8 persons per km² in comparison with the average for Scotland as a whole of 66 persons per km².

Furthermore, the shortage of resources played an important role for all these airports, a view reinforced with the statement from the Head of Operation as follows:

The airports, in the Highlands and Islands, have always been regarded as an essential part of the transportation network system in Scotland. Because of the geographic location of these places, I would say practically from the rest of the world, there are no rail links because it is too far from the land main to have bridges and sailing takes several hours, so there is no other way. Another reason for the airports to serve these communities is that a lot of them do not have hospital facilities so apart from the scheduled service these airports also require an ambulance service for emergencies.

As a public airport, one of the main objectives of Inverness is to serve its community, which means specifically that it is an integral part of the network of essential services in the Highlands and Islands region. Staff working at Inverness Airport know that increasing passenger numbers is not an easy task as they realise they are located *far from the rest of the world*. Remoteness was therefore a very powerful symbol.

6.2.6.2 Current role models

In simple terms, current role models refer to a traditional organisation's structure and centralised culture where basically staff's roles are previously determined and carried out with their task as a established procedure. A traditional politic organisational model has dominated the structure of the management system within the CAA. Policy was determined by the policy board, which through the political process was responsible in some way to serving the public interest. The board was directly elected by the Scottish Office, which means that it was a basic political decision. The major airport policy decisions of the board gave overall guidance to the Airport Manager. The Airport Manager therefore had to concentrate on the main responsibility, which was to keep day-to-day operations at the airport within these constraints, and to report back to the policy board only when something went wrong. The Airport Manager stated:

The Airport has run with no problems, we had assigned our duties and carried them out smoothly. There has not been any change no matter what Party was in power.

In this period, it seems that Inverness Airport was operating with few if any problems, since its then current role models were simple, elementary and not especially demanding.

6.2.6.3 Reactive behaviour

With regard to organisational behaviour, an organisation can function under circumstances where exchanging rewards for services rendered from their employees has been the norm. In the period under study here, the relations between the CAA and its employees can be described as follows: the CAA recognised what it wanted from its employees, making sure the performance was warranted; exchanged rewards for efforts. It also demanded from staff the capability to perform as required; clarified employee roles and concentrated senior manager effects on compromise and control. For Inverness Airport and its Airport Manager, implications were stark:

By that time, we did not participate in taking decisions; we were not independent, only a part of the whole CAA organisation. We were told what to do and how to accomplish it. Moreover, we were to a large extent

caught inside the overall cost of operating the CAA; we did not appreciate what was involved in running an airport.

In this context, power over how work was to be accomplished passed from senior CAA managers to its employees, who were pre-selected to undertake it. Thus, formalisation of behaviour led to what has been called vertical specialisation of the task (Mintzberg, 1979). Moreover, the CAA formalised behaviour to reduce its variability and to have easier control over its programmes; standardisation of work content is a very tight co-ordinating mechanism, which has helped the CAA to manage its airports in what it regarded as effectively. The aim was to make sure that employees did their job, and that would be no confusion where roles are responsibilities; everybody knew exactly what had to be done in every event and, consequently, the airport's operational needs would more likely to be fulfilled.

6.2.7 PARADIGM

As explained earlier, the concept of an *organisational paradigm* is a recognition that, at a deeper level, certain basic assumptions and beliefs are shared by the members of an organisation. The strategies that managers advocate and those that emerge through the social and political processes, as previously described, are therefore typically configured within the bounds of this *paradigm*.

By bringing together all the previously outlined characteristics and elements, Inverness Airport followed a strategy and managerial style up to 1986, as structured according to the *cultural web model* presented in Figure 4.1. This illustrates the issues associated with organisational culture, values and environmental forces during this period; it also explains how senior managers had developed a set of core views and presumptions, which are specific and relevant to the organisation, which they worked with and learnt over this period.

For example, the provision of air transport and air navigation services has been basic in the Highlands and Islands region for economic and social reasons as explained earlier. Throughout the years, it had been recognised that air transport was the most suitable mode of transport in this region, due to its natural geographical remoteness and climate conditions. Therefore, it is clear why authorities like the CAA agreed to

provide both investment capital and operating subsidies for the Highlands and Islands air transport infrastructure.

Furthermore, in a representative democracy in the UK, governments have long had the responsibility to provide basic services to society in the so-called 'public interest' (Self, 1993). They create organisations to satisfy society's needs and provide specific services at a particular level. It was assumed that no significant economic advantages would result from transferring these airports in the Highlands and Islands region to a different owner or manager. Yet, it was also believed that alternative choices could involve higher costs.

The division of responsibilities amongst public organisations is frequently a consequence of political considerations rather than rational, economic or organisational principles. For instance, until 1986 Inverness Airport was controlled and managed by the CAA, where their main purpose was to control and regulate airports. The airport's operational needs were taken in to the political sphere which did not always focus on satisfying the demands of the airport's customers. Public officials, unlike private sector managers, are often faced with frequent changes of goals, as either political pressure forces a new negotiated order or changes in political leadership result in new priorities.

In-depth interviews conducted with senior managers who had worked in both Inverness Airport and HIAG revealed that the CAA had been a traditional public sector bureaucratic organisation, which imposed and maintained control over its subsidiary operations. Individual Airport Managers were not given power to control the resources used to carry out their managerial tasks and responsibilities. Managers could not vary the mix of resources and were bound human resources allocations and appropriation budgets, which had been determined centrally by the CAA. Hogwood and Gunn (1984) argue that such a bureaucratic management approach leads to narrow spans of control with decisions taken at a high level in an organisation, leading to centralisation of power. These features result in slow decision-making process and delays in responses, including dealing with the demands of the airport's development. The CAA's bureaucratic structure did not allow direct contact with an individual airport's problems; airports were deemed to operating adequately which was taken to be a sign that the organisation was performing satisfactorily.

It seems clear that the organisational behaviour of Inverness Airport and, in general, the whole CAA were controlled by external environmental forces. Thus, the evidence indicates that outside control tended to concentrate decision-making power at the top of the organisational hierarchy and encourage more than usual reliance on rules and regulations for internal control. Eventually, this was the CAA's main task to regulate and to control airports. External control can also act to bureaucratised organisational structure by imposing on it more sweeping demands than usual for rationalisation. Overall, internal forces were weak with more power concentrated at the centre, tighter personnel procedures, more standardisation of work processes, weak and formal communication, poor planning and virtually non-existent innovation scope, the evidence analysed in this section strongly indicates that the CAA did not have control over its future. It was governed by external political and environmental forces. Management was a process where the belief that events are due to luck, fate, or chance was common, and where to operate in a routine, stable external environment was essential for achieving their fixed objectives. Senior managers related to employees by focusing on mistakes or avoided intervening until something went wrong. Bass (1995) argues that this essentially *passive* and *transactional* style is what he refers to as *management by exception*. The manager waits until the task is completed before determining that a problem exists and then brings the problem to the awareness of employees. The manager only clarifies standards after a mistake has occurred; working within existing procedures is the routine. Employees at Inverness Airport were used to working in a stable environment, where routines were established, and where relationships between colleagues were well defined. All these conditions indicate that the procedure pursued by the CAA in dealing with Inverness Airport followed a *transactional* approach to strategy development and implementation.

Figure 6.1 describes the complete conceptual model for Inverness Airport in the period before 1986, which may be summarised as a *transactional strategy* characterised by the essentially *passive* organisational traits associated with *management by exception*.

In short, environmental forces and the CAA's directional capabilities affected and constrained Inverness Airport's organisational behaviour but did not in themselves create its organisational strategy. People within the airport created its strategy, and

one mechanism by which this occurs at the cognitive, cultural level is what Johnson and Scholes (1997) call the *paradigm*, which describes the beliefs and attitudes within the organisation in question. The strategy followed by managers within Inverness Airport and those that emanated through cultural and political aspects around the CAA were influenced in different ways. These different features of the CAA culture helped form the Inverness Airport paradigm, which made up the *cultural web model* and which in turn has structured the analysis of strategic management in this period.

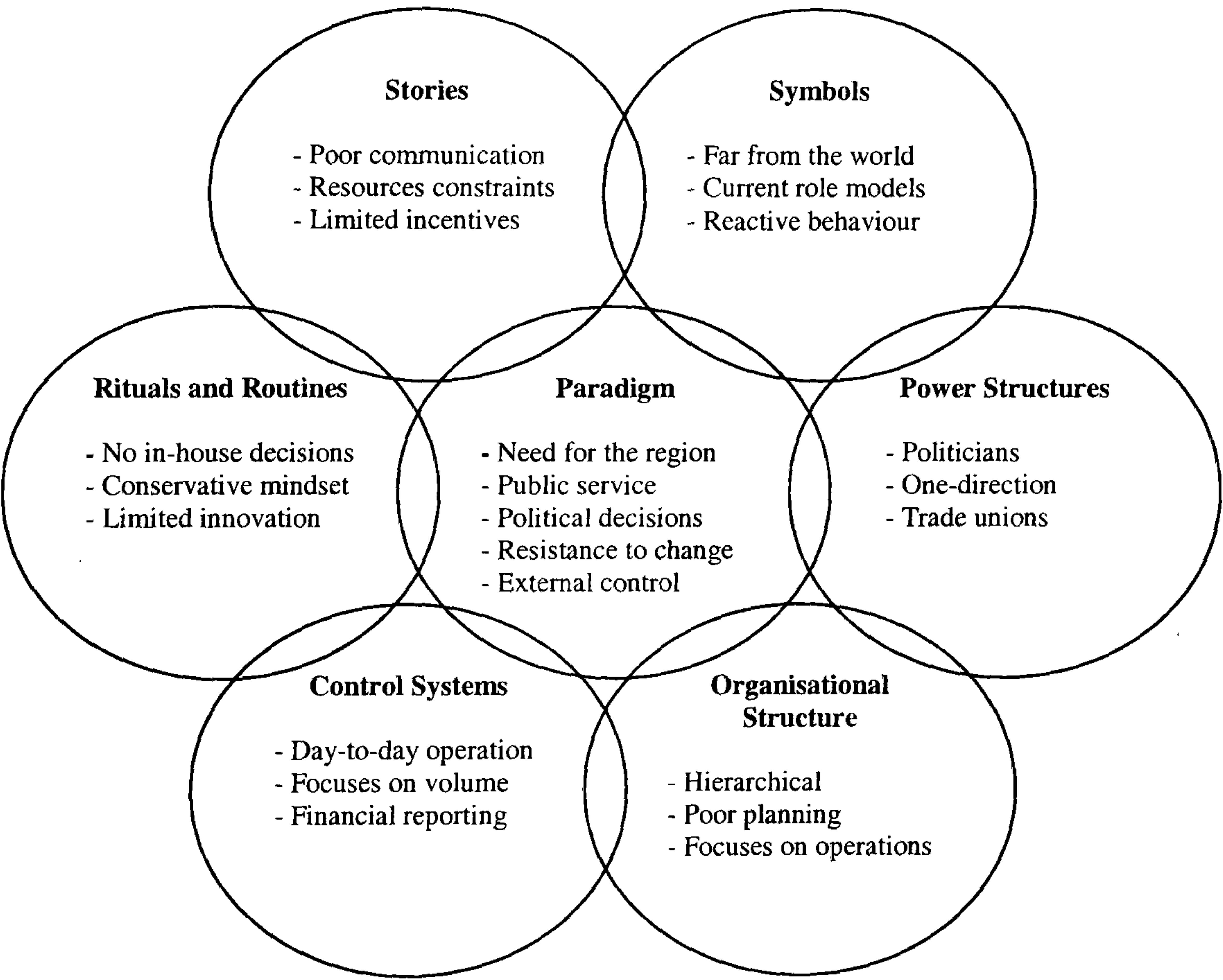


Figure 6.1 Inverness Airport Cultural Web Model – before 1986.
Transactional Strategy – Management by Exception (Passive)

6.3 INVERNESS AIRPORT – AFTER 1986

This section explores the management and operational strategy pursued by Inverness Airport in the period from 1986 to 2000. In 1986, Highlands and Islands Airports Limited (HIAL) was created as a wholly owned subsidiary of the CAA in pursuance of the 1985 Government’s Airports Policy. The Government advised CAA to separate ownership and management of its airports to support their mainstream business and to

operate them as a separate company so that their operation could be as transparent as possible. The Board of Directors is autonomous and directly responsible and accountable to the CAA Board. HIAL was formed and owned by the Scottish Executive; the First Minister of Scotland was the actual shareholder representative of the Company. He delegated to HIAL's Board of Directors powers to manage, control and administrate the now 10 airports in this region. As a consequence, changes have taken place within the organisation of Inverness Airport – in particular becoming an independent business unit of the CAA. The approach to the analysis follows the same format as the preceding section.

6.3.1 STORIES

The corresponding three issues will be considered below for the same reasons – communication, resource constraints and incentives – each is seen to offer significant analytical power in the context of developing the *cultural web model* for the post-1986 period.

6.3.1.1 Communication

Smythe (1996) argues that the predominant style of relationship which exist in an organisation between management and employees is the most tangible experience that employees will have of that organisation's culture and will, in return, shape their own values and beliefs in the organisation.

Communication within the new company, HIAL, was considered an important issue. The Board of Directors emphasised the need to repair employees' faith in what was previously the Highlands and Islands Airports Group (HIAG). D'Aprix (1982) argues that today's managers, who want to manage effectively in contemporary organisations, must consult with their workforce and reinforce the view that they and their work are valuable. In the first annual report in 1987/88 as an independent unit company, the Chairman stated:

In my statement last year, I outlined that one of the main objectives, which I believe has been fulfilled, was the restoration of confidence by the staff in the future and establishment of closer links with the communities and those whom we serve.

During the first year, in the course of quarterly visits, the Chairman of HIAL was accompanied by the Managing Director and the General Manager to a general meeting to discuss with all staff in each unit the goals of the company and to create an understanding and unity of purpose among HIAL's staff.

Right from the beginning, the Board of Directors also wanted to be closer to the Highlands and Islands region, since the CAA's offices were located in Edinburgh. Thus, the expansion of the new administration building built at Inverness was carefully planned to incorporate the Company's Headquarters. Consequently, some new communication practices were established in for Inverness Airport; for instance, the Airport Manager has a direct relationship with HIAL's General Manager and Managing Director to suggest and promote new initiatives and proposals.

6.3.1.2 Resource constraints

Before 1986, little new infrastructure development work was carried out; since HIAL was formed there has been a major programme of building. In order to cope with growth in passenger numbers, it has been necessary to upgrade facilities, equipment and services. In public sector organisations, often one of the most difficult tasks is to acquire resources to invest in infrastructure development, a point reinforced by HIAL's Head of Operations:

Funding is definitely the main problem and because we are a government owned organisation, we are influenced by the politics of a deal.

In the public sector, funds are limited. Capital expenditure is rationed because public expenditure always has limits. This means that not all projects, which produce an excess of benefits over costs, may find funds. Under capital rationing, the choice of project is rarely on grounds of return on investment; political factors and other criteria are brought into view. Assets are valued either according to their impact on the revenues of the "business", or according to their market value. This situation is different in private companies, where frequently profitable projects have a clear priority over social benefits. Therefore, nowadays in many cases if a public organisation needs a large amount of finance for investment, one alternative is to turn to the private sector. For example, in recent years, about £15 million has been invested in Inverness Airport. This includes the new terminal building, whose cost

was £9 million. As the Company was not able to raise such a large amount of finance, it was funded as a Private Finance Initiative (PFI) project. Inverness Air Terminal Limited (IATL) is a consortium formed by two members – Lloyds Bank and Noble & Co – a Facilities Management Company. HIAL did not put any capital into this project, although the Airport Manager stated that they did receive some capital from the European Union Regional Development Fund (ERDF). The agreement is that IATL will own, maintain and manage the terminal building for a period of twenty-five years.

6.3.1.3 Incentives

Nalbantian (1987) states that the social environment of work is without question a major determinant of the effectiveness of remuneration as a motivator of work effort. Furthermore, Thorpe and Homan (2000) argue that remuneration is not the only motivator or the only determinant of labour supply; it is feasible for some organisations to attract, retain and motivate staff with one or more of the following incentives:

- Job security
- Flexible working arrangements
- Benefits such as holidays, pensions, health insurance, car-parking
- A pleasant working environment
- Work which is intrinsically satisfying or meaningful
- Friendly and considerate colleagues.

When the Airport Manager was asked if employees at Inverness Airport were rewarded with these sort of incentives, he answered with a single word:

No.

However, the majority of the incentives mentioned above are very likely to be implemented within many organisations, including Inverness, although for some people incentives are strongly linked with financial matters. The Head of Operations also mentioned that he had satisfaction working for the benefit of the community, which is very likely to be forgotten in the private sector. Definitively, the most important issue is to make employees aware of the sort of incentives available for them and to help them appreciate them. If people for different reasons not can perceive such benefits, then dissatisfaction and negative consequences are very likely to affect employees' performance. Overall, what really matters in identifying

employees' satisfaction, motivation and commitment is not necessarily the number of benefits they are given, but the manner in which people appreciate and value them. In general, the employment relationship is not a zero sum game; by structuring the employment relationship appropriately, both workers and the organisation can benefit (Stiglitz 1988). Such a situation does not appear to have been present at Inverness Airport in this period.

6.3.2 RITUALS AND ROUTINES

The three issues considered below are: decisions, mindset approach and innovation. Each will be discussed in more detail in this section.

6.3.2.1 Decisions

It is through day-to-day relationships, up, down and across an organisation that employees learn which behaviours are rewarded and valued, and which are not. By awarding HIAL the authority for managing, controlling and administering these airports, the Managing Director started to listen more and ask for suggestions and recommendations to take some decisions. However, this is strong evidence to suggest that the previous organisational culture is still there. It has only changed slowly throughout the years, but final decisions are still strongly influenced by elected politicians. This was reinforced with the Manager's statement that:

When HIAL was formed, Managers did not have a lot of freedom to act. All the major decisions were taken in the Head Office. It was not many years ago, maybe five, that it has slightly been changing. There is a minor alteration in culture coming along; the Manager Director is keen to delegate to the actual Airport Manager, a certain degree of financial power, to operate within the allocated budget, and take decisions without consulting the Board.

When HIAL was formed, it was argued that these airports had, at a stroke, acquired freedom to operate regarding their needs and as a result would make the right decisions to improve their services. However, it seems that the freedom for Airport Managers to operate and administrate their airports has not been widely realised, which in a sense is understandable in a public organisation where politicians still

make the ground rules, and help make the decisions to either invest in airports or not. Decisions are made and Airports Managers have to comply with them whether they are considered right or not. The Airport Manager added that:

Politicians, like our Head of Operations, has the overall responsibility for operations, if there is a policy issue he will make that policy and then segment it to the airports and we have to follow the policies he sets.

Obviously, the degree of modifications achieved within the airports strongly depends on the people who are on the Board and who permit management changes or otherwise.

6.3.2 2 Mindset approach

Flynn (1992) argues that in public organisations changes take time; their inherently strong conservative mindset means that many are resistant to change. Moreover, if the need for change is not recognised by the people responsible for controlling the organisation, then their activities and tasks are maintained within their normal course, which is easier than having to implement changes. In many cases, a training or development programmes approach has dominated the unfreezing stage. However, when the Airport Manager was asked about training programmes he replied:

The fire-service has training on a regular basis. Because our level of subsidy has been constrained, the budget has been cut over the year, we are not doing training or development courses.

Williams *et al* (1989) state that training plays an important role, because it is one of the main vehicles through which people learn about the why, what and how of any planned programme change. It is also through training (including opportunities for practice in a supportive environment) that individuals acquire new skills, knowledge and attitudes which will enable them to maintain the level of competence which they had been experiencing to date. However, in public airports, the operation side is likely to be given higher priority than management, which is considered as being unimportant when the limited available budget runs out. The Airport Manager knows that training programmes are significantly meaningful in an organisation's performance but virtually non-exist.

6.3.2.3 Innovation

Innovation implies change, and this is one sense in which the term innovation can be used to describe the process of organisational transformation within companies. Inverness Airport has been increasing its interest in moving from a focus on 'policy' to one of 'strategy' (implying a greater concern with securing action around its espoused policies). However, so far, plans are established with IATL, which will be in charge of the main commercial changes at the airport. Regarding operations, it seems that no significant changes have been put in place for the short-term. This can be emphasised with the statement given by the Airport Manager:

Regarding some changes, I can tell that the new terminal building is owned and operated by the IATL, they have enjoyed the concessionaire income from catering, from car hire, from advertising. The only thing that Inverness Airport has retained is the rent and leasing income from the rest of the terminal at the whole airport. We will continue controlling operations as we have done it.

Despite the fact that Inverness Airport has been changing slowly, it is clear that it will continue modifying, to adapt gradually, to catch up with current demands. If the airport as an organisation does not take control of the main factors that can affect them, then Inverness could keep struggling in the future. The significance of this matter is that a deliberate proposal to introduce major changes within the organisation has been considered and shared with the private sector. Table 6.1 shows some of the ownership risks recently acquired by HIAL with the private sector.

Table 6.1 HIAL Risk Ownership

Risk	Public Sector	Private Sector	Shared
Outline Planning	X		
Detailed Planning		X	
Design		X	
Construction		X	
Commissioning		X	
Operations Core	X		
Technology		X	
Environment		X	
Safety		X	
Regulatory			X
Demand (Traffic/passengers)		X	
Expansion		X	
Financial		X	
Residual Value	X		

Source: Carrick M., 2001.

6.3.3 CONTROL SYSTEMS

These issues considered below are operations, volume and financial reporting.

6.3.3.1 Operations

The number of aircraft operations at Inverness Airport remain quite low; the largest aircraft landing at the airport is a Boeing 737, which belongs to British Regional. In particular, aircraft performance must be matched carefully to the infrastructure in terms of ground manoeuvring of runway length and of the aircraft’s performance ability. All these aspects are considered at Inverness. Furthermore, the Airport Manager argues that the cost of running the airport is quite high; for example, Inverness Airport comprises of an infrastructure with the capacity to handle an aircraft operation every 10 minutes – the number of daily flights is far below that, the follow statement was given by the Airport Manager:

The largest aircraft at the airport dictates the number of firefighters required on duty. In short, forty-two people are necessary to maintain operationally this airport. I need to maintain this staff whether one aircraft lands or one hundred. The costs of running an airport are high. I could have here a 737 airplane every ten minutes. I have the entire

infrastructure, but the number of people is not there to come to Inverness. This is why we are currently losing money. The costs are higher than the income we can generate.

The Airport Manager used as an example that certain number of firefighters is required on duty to maintain the airport functionality, but it is also implied that the need of the air traffic controller, technicians and so on is vital. He also stated that there was a need to update the way in which the airport was run suggesting that it needed to be more pro-active and skilful in distinguishing market opportunities. However, Strand (1999) states that the demand for air transport is driven not only by macro-economic processes such as growth of GDP, or by price, but also by the geographical and locational characteristics of a particular airport hinterland. A set of factors which essentially falls outside the control of airlines and airports to determine some influence in particular ways such as promotion and marketing.

6.3.3.2 Volume

During this period, Inverness Airport did not have problems handling the volume of traffic. In fact, it is far from reaching its maximum capacity, since the new terminal building is designed to hold 700 thousand annual passengers – it had less than half that number in 2000. Nevertheless, it could be argued, that this major development programme to construct the new terminal building has pushed up unit costs, since the immediate traffic growth in the short or medium term, it seems, will continue well behind the present requirements. With Inverness Airport achieving an annual passenger growth of 4.6 percent (CAA-UK Airport statistics), it means that, if this rate is continued, it will be at least 16 years for the terminal to reach its capacity. The Airport Manager commented:

It has been less than one year since the new terminal building was opened, we know that to increase passenger numbers will be one of our main tasks, and we need to be aware of the volume of passengers we get every year. However, now with a joint partnership arrangement, marketing research and programmes have to be laid down.

In the meantime, the terminal building has to be heated, lit, cleaned, maintained and staffed. In order to have a reasonable return on the investment in the short term,

demand needs to be in a position of growing sufficiently quickly to allow the utilisation of the new capacity at a low-cost level of output.

6.3.3.3 Financial reporting

In contrast to the old days, when Inverness Airport was operated by the CAA, airport managers today are more aware of the costs of maintaining an operational airport. The efforts to reduce costs have been in practice for many years, with the strategic objectives to lower them every year and, where they exist, to reduce subsidies. Different approaches and methods have been used on the one hand to minimise expenditure, and on the other to attract operators to increase income. However, several authors (Doganis, 1992; Ashford and Moore, 1999; Wells, 2000) have discussed the significance of keeping landing charges low in order to attract new operators. However, by reducing landing fees there is no guaranteed that this will bring in more operators; it can, however, be an important decision but it does not work the same for every operator. As a general rule, landing charges are a very small part of the operators' expenditures. Therefore, these charges are not considered essential for the moment in deciding which airport will operate. In contrast, for charter flights, which are renown to offer cheaper prices to users, may be significant, specially when these airports are considerably close to each other and the operator must decide where to go. At Inverness Airport, various strategies to reduce costs have been applied but the landing charges have been going up every year. The Airport Manager states that:

We have cut jobs and contracted out. Because the government is anxious to control inflation, we are constrained by how much we put the charges up. We are not allowed to put the charges more than inflation. In 1999, the charges went up by 2%. This means we are continually having pressure to reduce our costs because we do not have the freedom to increase our charges.

In this case, it appears there are some contradictories: on one hand, efforts are made to attract operators and on the other landing fees are increasing, particularly in relation to neighbouring airports. For instance, 'The Scotsman' (2000) reported that Inverness Airport's charges are said to be the highest in Scotland – the cost of landing a commercial aircraft – a Boeing 737 – was calculated to be 38% more than at

Edinburgh, 35% more than at Glasgow, 24% more than at Prestwick and 22% more than at Aberdeen. This information was discussed with the Airport Manager, who replied:

Effectively, this is a problem. However, there is nothing we can do about it. It comes from the Head Office.

Frequently, the lack of well-defined goals and objectives within a multi-organisation makes the efforts of managers appear contradictory and, at worst, potentially worthless. Where there is no clear direction, co-ordination and knowledge of the organisation's purposes, attempts to improve performances at the operational level can even turn out to be self-defeating.

6.3.4 ORGANISATIONAL STRUCTURE

The three aspects, which have been selected and identified to understand this element of the *cultural web model* here, include: hierarchy, planning and marketing.

6.3.4.1 Hierarchical

There is likely to be a close relationship between the structure of an organisation and its prevailing culture (Williams *et al*, 1989). Organisations will probably develop, whether consciously or not, a structure which reveals and reflects its origins; for example, as we have seen, HIAL has developed an organisational structure which reflects its earlier culture: there is a clearly defined hierarchy, with very precise spans of responsibility and control. Individual freedom of action is limited and there are also tight checks on all activities. Inverness Airport still displays an essentially bureaucratic structure that it could be contended, continues to promote reliability and discourages risk-taking. This may continue to work well for most bureaucratic organisations, as long as the overall structure and culture is appropriate to their priorities. Problems arise when the priorities of the organisation change, which seems to have been the case at Inverness Airport over this period of study. Managers have been looking for adaptability and a far more commercial orientation, a point which the Head of Operations made when he stated:

I think Scotland and the Highlands and Islands, with regard to the airports, really have to become proactive if we want to enter the new airport's era.

To change organisations, it is necessary not only to change structure – the move from HIAG to HIAL – but also to change culture, which implies the behaviour, values, attitudes and beliefs of individuals with the organisation. Furthermore, individual employees are likely to have developed personal attitudes about organisational changes – if these individual attitudes are not understood and negative reservations not overcome at an early stage, they may well become aggregated into a more general opposition to change.

6.3.4.2 Planning

Inverness Airport has devised a general plan covering a five years period. However, the Airport Manager stated that this plan was a very broad stage of development and nothing had been redefined in detail. He also mentioned that the fact of having acquired an agreement with IATL seems to have benefited the airport since both parties share the same interest of increasing passenger numbers. The Airport Manager reinforced this statement with the view that:

We should work together obviously to increase the number of passengers because the more passengers go through the building, the more money they get, and obviously the more aircraft that land at the airport the more landing fees we get. So, there is a joint partnership arrangement between the two of us.

Doz *et al* (1987) suggest that, typically, a new planning and control system takes at least three or four years to reach a mature stage. During this relatively slow transformation period, a number of risks exist for the organisation: there will not only be opportunities to develop and exploit but also threats to try to avoid. Inverness Airport had not reached this mature stage by 2000, which suggests that it is an organisation has some way yet to go to develop its own planning system.

6.3.4.3 Marketing concern

Airport income was and still is generated chiefly from aeronautical or traffic-related activities. However, over the last few years some efforts have been carried out to increase non-aeronautical and commercial revenues.

Inverness Airport has carried out market research and analysis, employing external consultants, but it is as yet unclear how the airport intends to make use of this new type of information. Regarding this subject the Airport Manager added:

We do not have marketing research and it is something we are looking at. We have done it; on two occasions, we have employed external consultants to help us and we also took somebody on board. We actually are looking for marketing research and analysis and marketing generally because it is something that we have not really tended to do. We are beginning to change, in order to improve airport's performance; it is something that has been addressed in the company.

The 1986 Airports Act aimed to create a management structure that would exploit revenue opportunities from commercial sources. Although, Inverness Airport is not directly affected by this Act, considerable space has already been allocated for concessionaires in the new terminal building with the purpose of increasing revenues from commercial activities. Today, Inverness Airport together with its new partner IATL are examining ways to carry out marketing research more regularly in the future, with the aim of increasing non-aeronautical revenues.

6.3.5 POWER STRUCTURES

The three aspects, which have been selected and identified to understand this element of the *cultural web model* here, includes: politicians, light empowerment and trade unions.

6.3.5.1 Politicians

In large, bureaucratic and politically sensitive organisations, politicians and managers giving advice cannot rely simply upon sending a memo to ensure change. They need to use other levers. For instance, Common *et al* (1992) argue that the main lever for

change in successive governments' eyes since 1979 has been heavily located in market orientated initiatives. Customer focused services, and how services are delivered are strong factors that influence politicians –both national and local– in their policy thinking and deliberations. The Head of Operations put it thus:

I think that the local authorities and local councils will play a greater part in the operation and the running of the airports over the next ten years. At the present local authorities have an interest in the airports from a general serving the public point of view. I believe over the next ten years the actual local authorities will play an active management part and will be less political in the operations of the airports.

The point of ensuring that services are delivered to meet the needs of their customers, to see the 'end service' of their labour, is intended to inspire and motivate managers and staff alike.

6.3.5.2 Light empowerment

When the Inverness Airport Manager was asked about the most recent important events within the management of the airport, he replied the increase in staff participation in management decisions:

The changing of the Managing Director has been an important event for the organisation. Three years ago he took-over. His view is to give more responsibility ensuring you meet your own budget and I think it works much better. Recently, managers also assumed the responsibility to monitor employees' performance and take corrective action when required.

Williams *et al* (1989) argue that the initiators of change in such circumstances are often individuals who have recently entered the organisation at a top management level. Apart from the power they wield, there are in general three main reasons given to justify their behaviour. First, they are sufficiently free of the organisation's cultural influences to be able to look at it in a novel way. Secondly, their learning experiences in another organisational culture provide them with a familiar and workable model to follow. Thirdly, because of the circumstances of their appointment they are often expected by others in their new organisation to change things in order to improve

performance. As such, they are more than likely to be oriented toward change and to be prepared to initiate change.

6.3.5.3 Trade unions

The employment relationship is formed around the payment of labour and the conditions of employment; payment is often the most conspicuous focus of collective concern among employees (Brown *et al*; 1986). The often shift in power relations since the 1980s has resulted in employers in both the private and public sectors being accorded greater scope and a more pro-active role in structuring and restructuring employment relations. The atmosphere among unionised employees at Inverness is quiet and without significant conflicts. There had been little change in their structures in order to adapt to their new circumstances. When the Airport Manager was asked about the new Company's relationship with the trade unions, he replied:

The company is fairly well unionised. All the negotiations, as regards to pay conditions and such like, are achieved with the trade union.

The implications for trade unions are that 'more than at any time this century their role depends upon the use that employers choose to make of them in the management of labour' (Brown, 1986). The effectiveness of the union's strategies has been influenced by the impact of the change of government in 1997. The collective bargaining environment under Labour is generally regarded as a friendlier one. However, it is expected that another change will occur when the new company IATL starts to negotiate the new working terms for the near future.

6.3.6 SYMBOLS

Although, symbols are shown separately in the *cultural web model*, three aspects have been selected and identified to understand this element – far from the world, current role models and reactive behaviour.

6.3.6.1 Far from the world

Undoubtedly, the idea that the Highlands and Islands region is remote and located far from the rest of the world remained a very strong symbol in the post-1986 period. For

example, several attempts have been made to attract more operators to Inverness Airport and one of the main reasons given to explain why they were not interested was the 'isolation' of this region. Financial reasons were also mentioned. The Airport Manager's views was:

A few years ago, we did a tour around Europe talking with tour operators for two years to encourage operators to come to Scotland, in fact Inverness. The majority wanted to go to Edinburgh since it was regarded as more 'renowned'. In addition, one of the things we found out is that over the last few years, the message that we got back was that the strength of the pound is so well known that people from the continent of Europe find it is much cheaper to go somewhere else. They say it is expensive to come to Scotland to stay here and travel, and this is one of the major things. Attracting charters to the area is very, very difficult.

6.3.6.2 Current role models

HIAL has been referred to as a bureaucratic organisation, whose rules, structures and processes are routinised. The hierarchy of formal authority and the legitimisation of the power of the roles of their members is based on the office held and the expertise of individual officeholders. The employment of qualified personnel is based only on their technical competence and ability to perform the job to which they are assigned. Detailed job descriptions are provided for all employees at the airport to outline their formal duties and job responsibilities. When the Airport Manager was asked about his main functions, he replied:

Co-ordinate many activities, to make sure all the requirements are made, in order to achieve the safety of the organisation. To manage all the staff by monitoring employees' achievement to avoid faults or misunderstandings because I find it easier to deal with these issues before they become a problem.

Employees have a clear understanding of management's expectations of their job performance. The Manager intervenes only when something goes wrong. As long as employees are meeting performance standards, additional instructions and tasks are not provided or given.

Kreps (1990) has argued that the bureaucratic model has received a bad public image in recent years because of the extreme formality and inflexibility of such bureaucratised organisations. This inflexibility has been in evidence at Inverness Airport, reflected in the fact that it has been slow to react to the external environment. However, bureaucratisation has offered advantages as well; this sort of structure may add predictability to organisational behaviour by prescribing specific rules, guidelines, and procedures for dealing with set tasks. It could be contended that this has been a lack of innovation and introduction of new ideas at Inverness Airport because management has been operating under defined rules and demand has been predictable.

6.3.6.3 Reactive behaviour

Reactive organisations by definition wait to react to environmental influences. Managers in public organisations who are appointed follow established rules and procedures on the basis of technical expertise are not necessarily the right people to manage proactively. The lack of an effective proactively managed organisation is clearly one of HIAL's main problems, which is consequently reflected in several areas within the company. For example, when the Head of Operations was asked about the meetings with HIAL's Airport Managers, he replied:

These meetings are held normally every six to eight weeks. We try to get them on a monthly basis but months tend to be very difficult because you not can catch up with it when another meeting calls, so in real terms, it is every six or eight weeks.

The process of developing co-ordinated activities is important because it helps to establish a sense of order and direction in an organisation. If this is not achieved successfully then difficulties may arise, which can reinforce a reactive approach to management.

It is clearly very important for the Airport Manager to be aware of what is going on in the airport industry's environment to help plan for future demands. Being aware of the kinds of environmental constraints that are likely to impinge on the functioning of Inverness Airport should at the very least help the organisation to gather appropriate resources and to be ready to deal with potential problems and issues before they are

likely to arise. For instance, when the Airport Manager was asked about the major changes in the airport industry in the last fifteen years, he replied:

Just the growth of it.

As the environment changes, managers need to be aware of these changes and consequently adapt their strategies, operations and resources to develop opportunities and meet new constraints. In the airport industry, where environmental change has been occurring rapidly and many constraints face the airport, managers have to be more proactive, to gather information from the organisation's environment about imminent problems (positive as well as negative) and to plan organisational strategies for meeting them. The agreement between Inverness Airport and IATL – previously discussed in sections 5.4.4 and 6.3.1.2 – indicatives of the potential available for the airport's management.

6.3.7 PARADIGM

Having identified and explored the major elements of the *cultural web model*, this last section develops the *organisational paradigm* for the post-1986 period. This *paradigm* is essentially to do with identifying the organisational culture of Inverness Airport in so far as it clarifies the deeper level of basic assumptions and beliefs that are shared by its members.

As in the pre-1986 period, Inverness Airport is still renowned as the 'gateway for the Highlands and Islands'. It continues to play an important role and is the biggest asset in HIAL. In its Annual Report 1997-1998, Mr. G. Sword, Managing Director of Morton Hotels, stated that '*Inverness Airport has a crucial influence on our business. Without it, we could not hope to win the product launches, conferences, holiday visitors and American golfers that are the key to the success of our three Highland hotels*'. By having air access to the main nation's airports, Inverness Airport is seen to bring the benefits and values of air transportation to the communities within this region.

As a public service, the airports' priorities remain focused on social benefits and the contribution of the economy in this region. However, as environments have become more uncertain and dynamic, there has been a recognition of a greater need for operating flexibility, for closer interaction and communication among managers, for

reliance upon expertise-based rather than position-based power, and for greater variation in the goals and orientation of various departments. Since HIAL was formed, politicians have shared, to a certain extent, their willingness to engage in more participation with Airport Managers in taking decisions. This change has contributed positively to the Airport Manager's performance since he considers he has a bigger responsibility, which he has to fulfil.

When HIAL was formed, the need for subsidies for the continued existence of this deficit-funded organisation was clearly recognised. By becoming an 'independent company' and publishing its Annual Reports, the need to try to minimise the level of subsidises was emphasised, and strong efforts and frequent attempts have been made to keep them low. Furthermore, the introduction of private capital has been seen to have had a radical effect on the airports and Inverness Airport's future; opportunities to increase revenues from commercial sources has been recognised – the agreement with IATL to begin a programme to develop marketing activities is a clear example.

The Airport Manager has begun to monitor employees' performance to anticipate mistakes before they become a problem and to take immediate corrective action when required. Bass (1995) argues that this essentially *active* and *transactional* approach to organisational strategy is what he refers to as *management by exception*. Here managers actively search for problems or any deviations from what is expected, and clarify the standards at the outset that are being used to monitor any deviations from expected performance.

On balance, these factors mean that in the post-1986 period, significant alterations have been taking place at Inverness Airport. Figure 6.2 illustrates the complete *cultural web model*, identifying managerial style, organisational values and beliefs at Inverness Airport during the period from 1986 to 2000.

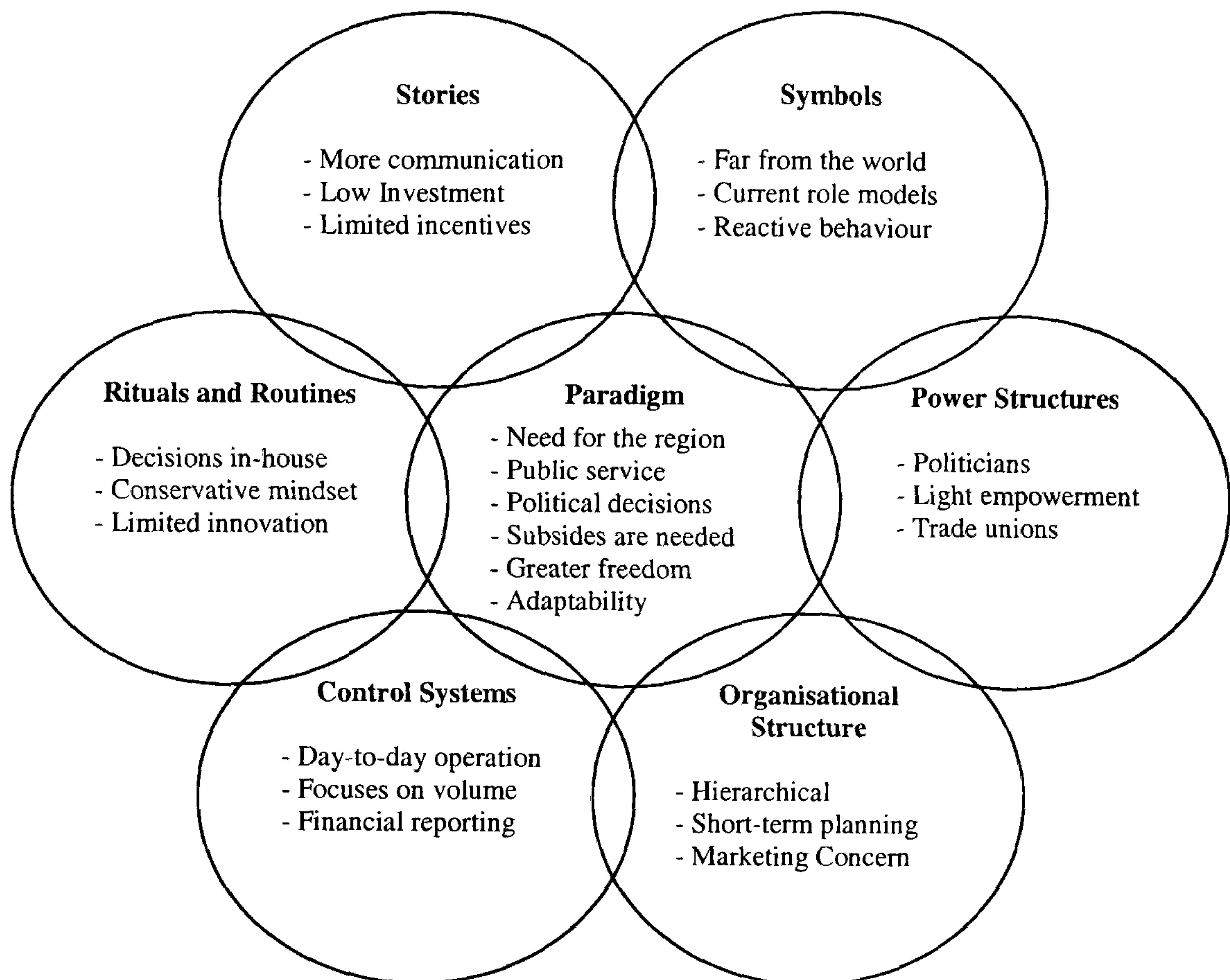


Figure 6.2 Inverness Airport Cultural Web Model – after 1986
Transactional Strategy – Management by Exception (Active)

6.4 SUMMARY

This chapter has presented qualitative evidence for the strategic management of Inverness Airport over two time periods: pre-1986 and post-1986. The analysis of this evidence strongly indicates that changes have taken place. The creation of HIAL has modified the way Inverness Airport functions as an organisation. Previously controlled by the CAA – and still heavily influenced by external political and environmental forces – its management is acknowledging (albeit slowly) that events have occurred mainly as a result of luck, fate, or chance to operate in a routine way and not because they have been planned. Reflecting and indeed anticipating changes in the external environment is beginning to be considered by management as essential for modifying their former established and routinised objectives.

Additionally, the airport's 'old' (pre-1986) strong internalised culture seems to be losing strength, partly due to the airport's changing operating environment. However,

there is much evidence to suggest that this 'old' culture has not been able to adapt easily to such rapidly changing conditions, particularly those associated with increasing commercialisation. In this context, senior managers need not only to define new proactive strategies and values for the airport's organisation, but also to find ways to ensure that they are embraced by the wider workforce. More importantly, they need to find ways of breaking into the 'old' self-perpetuating public service culture to fashion a 'new' more customer orientated service culture. They need to recognise the potential offered by the new environmental forces and to craft a strategy to manage them to produce benefits for the airport.

The agreement with the IATL company has played and is playing a very important catalytic role in the change of strategies that Inverness Airport is currently pursuing. This has clear, additional potential to refocus the airport further as a business orientated organisation, since it was the trigger that brought about changes in management and which arguably forced the shift from a *passive* to a more *active* strategic orientation.

This completes the analysis and presentation of the *cultural web model* as applied to Inverness Airport. The next chapter presents the *cultural web model* as applied to East Midlands Airport; the same approach and structure will be deployed.

Chapter 7

East Midlands Airport - Strategic Management Analysis

7.1 INTRODUCTION

This chapter discusses the management and operational strategy pursued by East Midlands Airport during three periods: before 1987, between 1987 and 1993, and lastly between 1993 and 2000. The evidence given will be presented and discussed and the *cultural web model* will be then applied. The approach of the analysis for East Midlands Airport will be identical to the approach adopted for Inverness in the previous chapter. However, in order to keep this case study independent from the previous case study, a justification of every element discussed in the *cultural web model* will be explained only for the analysis of the first period with the analysis of the second and third periods referring to the first period.

7.2 EAST MIDLANDS AIRPORT – BEFORE 1987

The growth and progress of East Midlands Airport since its opening in 1965 up to 1987 did not show significance operational and management changes. In its beginning, nearly 2,000 jobs were provided locally, where none existed before. The EMA Annual Report 1978/79 states that in terms of job creation, the existence of EMA has clearly been an important incentive to new industries, contemplating a move into the region. However, there is little evidence of economic importance of small airports (Mills, 1996; Doganis, 1992).

As noted earlier in section 5.5.1, before 1987 EMA was owned and operated by four Local Authorities – the County Councils of Derbyshire, Nottinghamshire and Leicestershire and one City Council, Nottingham City – a joint committee of 18

councillors, representing each of the authorities, who had the responsibility to operate the airport. At this time, the airport had 465 staff.

7.2.1 STORIES

As outlined in Chapter 4 and the previous chapter, stories, according to Johnson and Scholes (1997), typically have to do with successes, disasters, heroes, and villains who deviate from the norm; they in effect distil the essence of the organisation's past. Stories also legitimise types of behaviour and are devices for telling others what is important in the organisation. As a consequence, three main issues – communication, resource constraints and incentives – have been identified and are considered relevant to comprehend this part of the *cultural web model*.

Communication is the process that enables people to co-orient their behaviours. It also empowers people to establish functional interpersonal relationships through ritualised patterns that allow them to work together toward goal attainment (Kreps, 2000). This issue is considered to be important to scrutinise and find out how relationships, among members of an organisation, develop in order to help them accomplish both their goals and organisational changes. The second issue considered is resource constraints, which is concerned with both the identification of financial investment within the organisation and how those resources are deployed to create advantages needed to underpin particular strategies. The third, and last issue, is incentives, which are regarded as an essential part to improve employees' work performance (Thorpe and Homan, 2000). As a consequence, an organisation wishing to improve productivity needs to concentrate on employees' satisfaction and establishing sound and friendly relationships with and between their staff. These three issues will be considered below and discussed in more detail.

7.2.1.1 Communication

Organisational structure directs the development of formal organisational communication channels (Kreps, 1990). The planned structure of an organisation dictates the formal channels of communication that are to be used by designating which organisation members are to communicate with whom and what they are to communicate about. In the period prior to 1987, when EMA was run by the four

Local Authorities and each of them supported different localities, the responsibility to manage and control their commitments to the airport was divided between them. However, there were poor formal mechanisms for co-ordinating the activities among the eighteen councillors and no clear strategy for them to follow. This point was reinforced by the Cargo Development Manager:

The lack of formal communication amongst the joint committee members and between them and the staff was quite obvious. We, as employees, did not know what the airport's strategy was and all discussion between the various authorities was confidential. We did not feel able to talk openly or to share problems and ideas. There was a real fear of retribution from the elected members if we spoke out of turn.

Hampden-Turner (1990) argues that culture is based on communication and learning. The strategic leader's vision for the organisation must be communicated and understood; events and changes affecting the organisation also need to be communicated widely. This has clearly lacking at East Midlands Airport during this time.

7.2.1.2 Resource constraints

Public sector investment decisions are often difficult to make for two reasons. First, not all revenues are directly derived from customers or are a direct result of services delivered. So, it is difficult to estimate the future stream of benefits from a decision. The second reason is that public sector resources are likely to be narrow and, in general, insufficient. Investments are limited because public spending always has boundaries. Consequently, not every programme, which might generate a good service or even profits over costs, can find funds. Projects and planning were achieved at EMA but eventually decisions were taken by politicians, who had to balance social benefits against capital expenditure. This point was reinforced with by the Airport Manager:

In terms of investment, it was a political decision as to whether the local authorities wanted to extend the airport's terminal or invest the money in social infrastructure. EMA used to do budgets and investment forecasts, but they were meaningless because the capital budget was determined

within the local authorities, and even the councillors on our Joint Committee had little influence over the decision. It was based purely on where they wanted to put their money and the airport came a long way down the list of social priorities, such as education, housing and so on.

7.2.1.3 Incentives

Not all public sector employees are motivated primarily by material rewards. Very often, they wish to do as good a job as possible within the available resources. In some cases, they may wish for a 'quiet life'. Others may have entered public services for security, in exchange for lower earnings that they might receive elsewhere (indeed not every employee or company is wholly motivated by material rewards). This fact was important for the Cargo and Development Manager, who has been working for EMA for the last 18 years:

Working in the public sector gives you the confidence that you have a secure job, which will guarantee a constant income, unless of course you decide to quit, or you do something extremely incorrect. This helps to reduce the stress of the job.

This 'security' that the public sector provides is classified as a positive incentive for some employees, which can be appreciated more, in some cases, than material rewards.

Nevertheless, for service delivery to succeed in this operating context, management strategies must be congruent with the motivations of the key managers in the organisation. The problem for EMA was that the key managers were quite far from the airport site – both physically and administratively. It often seemed that their point of view was different from what the Airport Manager wanted:

The local authorities did not make efforts to improve the airport's performance; despite the fact that they were the shareholders, if we made a loss, we made a loss, there were no incentives at all.

The Airport Manager's point of view was that during this period was pointless to try to perform better since the shareholders (the Local Authorities) did not regard it as making an important political contribution. As long as the airport was 'operational', it was sufficient to fulfil their requirements; they did not see the airport as a business.

7.2.2 RITUALS AND ROUTINES

The rituals of organisational life are the particular circumstances through which organisations highlight what is principally important as significant for their activities. One might say the routines deal with the members of the organisation and their behaviour towards each other as well as those outside the organisation. Both rituals and routines reinforce ‘the way we do things around here’. In order to understand these two elements in a broader way, three issues – decisions, mindset approach and innovation – have been identified and selected to understand this part of the *cultural web model*.

The way in which decisions are made in an organisation shows how cultural and political processes are developed and refined. Research on how strategic decisions are made suggest that they emerge as the outcome of managerial experience within a social, political and cultural context (Johnson and Scholes, 1997). Therefore, it has been deemed significant in this research to analyse the decision processes in East Midlands Airport during this period. In addition, an organisation’s members constitute what can be called the organisation’s mindset approach, which is linked to the decision strategy process since it influences individuals and stakeholders through this set of internal attitudes and values. It can be interpreted as the basis on which an organisation generates change and makes modifications to its practices – or not, as the case may be. Although organisational adaptation, change and innovation in organisational life occurs all the time (Kreps, 2000), innovation is a special type of change that is not haphazard. This aspect is considered important in the *cultural web model* because in every organisation there is a recurring need for innovative ideas to adapt the behaviours of organisational members to meet new challenges.

7.2.2.1 Decisions

With East Midlands Airport during this period, strategic decisions were not easy to take since the organisation was effectively divided between four key shareholders. The Treasurer of Nottinghamshire County Council, for example, was “Treasurer to the Airport Joint Committee”. He had his own headed notepaper and attended Joint Committee meetings, taking full responsibility for the airport’s finances. If it seems surprising that the airport’s finances should be dealt with 15 miles away in the offices

of Nottinghamshire County Council, this was compounded by the fact that Personnel Management, Legal services, the Secretariat and Civil Engineering functions were provided by Derbyshire County Council in Matlock, 20 miles away. Commercial and Property Management was provided by Leicestershire County Council in Leicester, 15 miles away and Planning was carried out by Nottingham City Council, who, incidentally, was not the Airport's Planning Authority. The implications for the Airport Manager were profoundly worrying:

Although I was meant to be running the airport, I actually had no control over many of its important functions. All the airport's finances were run by the Treasurer of Nottinghamshire County Council, so if I saw a problem that needed attention, I was meant to go to the Treasurer and ask for the money to cure the problem. Unfortunately, the Treasurer was also a local authority officer, so he had no power to authorise the money. He had to go to the Chairman of the Finance Committee. Unfortunately again, the Chairman of the Finance Committee had no authority of his own and had to get the support of a majority of councillors. This would then be referred to the Joint Committee. As I was only an "advisor", many Joint Committee Members took delight in rejecting my advice, so they were as likely to refuse my request as they were to grant it. Getting the right decision was a complete lottery.

7.2.2.2 Mindset approach

The politicians' sense of caution and risk-averting behaviour can be identified with a conservative mindset and their pursuit of their own interests might lead to allocative inefficiency, that is the production of a non-optimum set of outputs (Walsh, 1995). This traditional establishment mentality can affect organisational structures in the sense that may not be dynamically efficient in developing improved services and work methods, and therefore improving productivity. Politicians may not be keen to develop new strategies or methods to implement in those organisations led by them, a point confirmed by the Airport Manager:

Certainly, the main objective before 1987 was that the airport should not annoy too many people. The councillors did not want the airport to

handle the sort of levels of traffic that would create a lot of noise and upset their constituents. They wanted a few charter flights to Spain to serve local holidaymakers and a few scheduled services from British Midland.

As a consequence of this conservative outlook and unwillingness to exploit change, which was meant to avoid possible additional problems locally, the airport offered a level of service below that which it was capable of delivering. After all, EMA was seen as part of public infrastructure, provided by local government. Politically, the airport's aim was to provide air transport services to the community; so long as it was seen to be delivery these services, its political objective was fulfilled.

7.2.2.3 Innovation

It can be argued that public service organisations are likely to be less technically efficient because their aims are not focused to improve the services provided. The lack of managers with initiative and incentives to organise people and material resources to produce superior outputs plays an important role in pursuing innovation within organisations. These managers must discover valuable outputs, bring together the necessary factors of production, and develop and enforce appropriate contracts. However, in public organisations politicians are, in general, too focused on their particular political interests to focus on the organisational needs of, say, a regional airport (Walsh, 1995). Moreover, the power is concentrated in top management and, as a consequence, the Airport General Manager was unable to take decisions to improve the airport's service:

If anybody looks at the history of EMA from when it opened in 1965 up to the Airports Act in 1986, nothing had changed at all. For instance, we could not invest a single penny without the agreement of four councils, most of whose members had nothing to do with the airport at all.

7.2.3 CONTROL SYSTEMS

The control systems of an organisation emphasise what is important to monitor and to focus the attention and activity of managers upon. For example, publicly owned airports have been strongly concerned with delivery operational services and

collecting aeronautical revenues, disregarding the potential offered by commercial services and non-aeronautical revenues; also their procedures have been related more with accounting for spending than with regard for outputs such as customer service (Beesley, 1997). In order to understand these elements as they applied to East Midlands Airport in this period, three aspects – operations, volume and financial reports – have been identified and selected for this part of the *cultural web model*.

7.2.3.1 Operations

Many airports assess their strategic performance by using criteria based solely on measures such as profit or traffic growth. EMA did not have the aim to produce profits, consequently its performance was assessed on the basis of mainly traffic growth. Its operations were relatively simple and routinised since EMA was effectively running on a day-to-day basis. As the Airport Manager put it:

I really only ran the day-to-day operations of the airport, because most of the other functions were provided to the airport by the local authorities. The Treasurer of Nottinghamshire County Council ran the finances, Derbyshire County Council provided our civil engineering, secretariat and personnel services, Leicestershire County Council ran all our property and commercial services and Nottingham City were responsible for airport planning. The Chief Architect of Nottinghamshire County Council was in charge of all developments at the airport – not that there were very many of them.

During this period, the most important strategic function of the airport was considered to be operations; consequently, the airport's performance was assessed on its basis of operations.

7.2.3.2 Volume

Airports that have not incorporated specific, tangible, multi-attribute performance measures are likely to be focused on annual passenger numbers to achieve a sense of strategic control. This view was confirmed by the Division Research Manager, who stated:

EMA used to control its performance by using criteria based on traffic growth. The Airport General Manager neither had financial information nor any other criteria about how the airport was performing, only the knowledge of the basic data such as passenger numbers and freight figures year on year.

Those managers who had more information about the airport's strategic performance did not have direct contact with the operations at the airport and, as a consequence, those with the responsibility for these strategic concerns did not have sufficient knowledge about the airport's performance. Growth and continuing improvement requires both strategic understanding of the main activities undertaken within an organisation and a strategic commitment to make them better. Therefore, a wider knowledge of what was going on within the organisation was required. This did not seem to be the case of EMA during this period. This was clear evidence of a gap between those responsible for managing the strategic direction of the airport and those responsible for its operations.

7.2.3.3 Financial reporting

Financial and strategic planning are necessary to provide appropriate results in an organisation (Thompson, 1990). Value is added by balancing and co-ordinating strategic and financial controls. Problems can arise when these functions are not co-ordinated, as the Airport Manager noted:

Whilst the airport did its own capital and revenue budgets, these had to be submitted to the Treasurer at Nottinghamshire County Council, who was responsible for all the airport's finances. He reported to the Chairman of Finance at Nottinghamshire and neither of them was particularly close to what was going on at the airport. The budgets were therefore made to fit in with what was convenient politically for Nottinghamshire County Council.

Burack (1995) suggests that established organisation cultures are not easily modified because their very reason for existence often rests on preserving stable relationships and behaviour patterns. At EMA, the Joint Committee provided a well-insulated

defence against any proposed modifications to their established duties and responsibilities.

7.2.4 ORGANISATIONAL STRUCTURE

Organisational structures often reflect internal power structures. They also outline meaningful relationships and emphasise what is important in the organisation; for example, who is in charge of what and ensuring that the organisation serves its mission in an effective way. It might also clarify the needs of those individuals who control or otherwise have power over the organisation. Managers need some clearly defined structures for determining investment priorities, promoting cost-effective proposals and establishing standards and roles. In practice, in the airport context, this often results in the categorisation of airports by size and function – the criteria used for planning their facilities, operational capability and strategic orientation. On the other hand, publicly owned airports and their levels of traffic are largely in the hands of regulators. The airport management function is often seen as a demand-responsive provision of service facilities; thus, public airports mainly focus on operational activities. The following three aspects – hierarchy, planning and airport operations – have been identified and selected to understand this element of the *cultural web model* in a greater detail.

7.2.4.1 Hierarchical

Prior to 1987, the organisation structure at East Midlands Airport was basically a pyramid-like hierarchy. At the top was the political authority and at the bottom were the Airport's operational routines. These two levels were mediated by a Joint Committee. It was thus organised through four Local Authorities, who created a Joint Committee with representation from each, making a total of 18 councillors. Eight councillors represented Derbyshire, two for Leicestershire, six for Nottinghamshire and two for Nottingham City. The Committee defined their work according to the functions of local authority service departments. Robey *et al* (1994) state that few levels of management intervene between top management (in this case the councillors) and the operations managers at the lowest level. Top management is thus able to exercise hands-on control of the organisation. In this case, the Airport

Manager specialised in the co-ordination, monitoring and control of the lower levels is the hierarchy supervising day-to-day operations:

When I joined EMA as General Manager, I was the Local Authority Chief Officer in charge of running the airport. My main tasks were to monitor employees' performance, and to anticipate mistakes by controlling and running the airport on a day-to-day basis.

During this period, EMA's organisational life had relatively few levels of management which intervened between top management and the employees at the lowest operational level. Therefore, with few levels in a hierarchy the degree of differentiation in the organisation was basic and minimal.

7.2.4.2 Planning

Airport planning is essentially a formalised process that combines forecasting with engineering and economics. Because it was performed largely by one Local Authority it was, to a large extent, a political process; value judgements and institutional as well as inter-authority relationships played as much a part as the technical expertise provided by personnel at EMA. It was basically a process of short-term planning for political reasons, as the Airport Manager stated:

Forward planning was always done at the airport, but it became much more important and much more structured and organised after the company was formed in 1987 and even more so after privatisation in 1993. Before I came to the airport in 1986, my predecessor, Eric Dyer, was well known for his marketing abilities and marketing plans, but very little money was put into marketing because the councils simply didn't want the airport to grow. In addition, all our planning had to be short term, because the next election could (and usually did) mean a whole new lot of councillors on the Joint Committee, with a whole lot of new ideas.

Mintzberg (1979) states that long planning periods loosen the connection between the here-and-now and the future: the further back the day of judgement, the less the manager is inclined to think about the consequences of actions. In public organisations, such actions quite frequently cannot be realised for reasons beyond the manager's control. At EMA, the Airport Manager did not have sufficient control over

these sort of activities to follow them through. As a result, airport plans were often too rigid that was inappropriate in the light of changing conditions or a narrowness of focus that did not make best use of available resources.

7.2.4.3 Operations

In the UK, many regional airports at one time used to share the same belief that operations was their chief duty and as a result they were 100 per cent focused on this activity as their main responsibility. This point was reinforced by the Airport Manager:

The most important thing at the airport at that time was the operational side. Engineering and operations were really the most important areas. When I went into BAA in 1967, for example, the Director of Operations was ex-RAF, and it was all military attitudes, with no account being taken of passenger preferences or commercial activities.

Operations in this context included all the activities taking place on the airside and landside at an airport, including security and fire and rescue operations. Before the 1986 Airports Act, regional airports had a strong belief that the airport's main function was *only* as one part of the public transportation network (Graham and Guyer, 2000).

7.2.5 POWER STRUCTURES

In the *cultural web model*, power structures are connected with the key constructs of an organisational paradigm. This paradigm is considered to represent the *formula for success*, which is taken for granted by the organisation's members, which has probably evolved over the years. The most powerful managerial groupings within an organisation are likely to be closely associated with this set of core assumptions and beliefs. Additionally, Kreps (2000) argues that power is essentially a social construct; it is gained (and lost) through interaction since no one person is naturally endowed with power. Furthermore, individuals are given power by others based on the messages they exchange and the relationships they develop. In the *cultural web model*, three main features related to power have been identified in the context of this case study. Firstly, the managers, who chiefly control the organisation and who make

the core decisions; secondly, the way this power is headed and administered within the organisation; and lastly, the third parties who might also be empowered to influence the organisation's direction.

7.2.5.1 Politicians

In general, in a public organisation, all members of the top management typically seek power, if not to control others then at least to control decisions that affect their own work (Mintzberg, 1979). As a result, politicians often promote administrative centralisation and do not easily give away power for either making decisions or managing without being consulted. During this period, EMA was ran under this 'principle', according to the Airport Manager:

We did not have power; for example, we could not make decisions. In fact, most local authorities still cannot because under the Local Government Act chief officers are not allowed to make them. Elected members have the power to make the decisions and officers can only advise.

Political activity and the use of power and influence inside the organisation therefore affect the outcomes of decision processes. The way EMA managers reacted to a particular opportunity or threat strongly depended upon the decisions taken by its stakeholders (politicians).

7.2.5.2 One-direction

At EMA, decision making power was concentrated in the hands of a small number of politicians; the Airport Manager could only give advice through the Joint Committee, which the majority of the time was not considered in making final decisions. Politicians retained both formal and informal power, making all the important decisions and then passing them to the airport staff for implementation. Basically, power was downward and only in one direction. This view was reinforced by the Airport Manager thus:

Local authorities are used to making decisions on political grounds, often, although not always, ignoring advice from the airport's staff.

Sometimes we would simply be informed of the next action to be implemented.

Downward communication is an extremely important management tool for directing the performance of workers in accomplishing their organisational tasks (Kreps, 1990). One of the main concerns at EMA in this period was that power was emanating from only one direction – from the top. Barlett and Ghoshal (1994) state that the proper provision of feedback and confidence can encourage employees' participation and involvement to share with their superiors current organisational issues and problems and information about day-to-day operations.

7.2.5.3 Trade unions

Since its inception, a main function of trade unionism has been the establishment of the 'common rule'. The defining principles underlying the 'common rule' were laid out as follows: *Instead of the employer making a series of separate contracts with isolated individuals, he meets with a collective will, and settles, in a single agreement, the principles upon which, for the time being, all workmen of a particular group, or class, or grade, will be engaged* (Webb et al 1913). However, it is important to note that in pursuing the objective of the 'common rule', different organised groups of employees tend to utilise different beliefs and norms, or *doctrines* as the Webbs termed them, to guide their methods. These employee organisations or trade unions were increasing their power in nearly all organisations in this period, looking after their member's interests. In EMA's case, the Airport Manager stated:

The trade unions were quite strong at the airport, because they knew that the councils, who were mainly Labour-controlled, were on their side. If we refused them something, they would go straight to the councillors to see if they could get them to tell us to give them what they wanted. It didn't always work, but on some very important strategic issues, even after company formation in 1987, the councillors and the unions came to their own agreements. Things improved over time, but in the early days, industrial relation issues were often handled directly by the elected members.

Employees' discontent with remuneration and related union demands can be linked to several factors. Employees had the option to become a member of the EMA's trade union; therefore it was not selected by categories. However, what is important to emphasise here is the relative powerlessness of the Airport Manager to deal with the authority to 'negotiate' with the recognised trade unions.

7.2.6 SYMBOLS

Symbols are important representations of the nature and constitution of an organisation. For example, in long-established or conservative organisations, as the majority of public airports have been, it is likely that there will be many symbols of, for example, hierarchy reflecting the differences in privileges between levels of management. The way staff perceive the organisation and show care for the environment surrounding it, as well as how staff address each other and behave within the organisation, are important considerations. Although symbols are identified as a separate element in the *cultural web model*, it should be remembered that many elements of the web are symbolic, in the sense that they convey messages beyond their functional purpose. Routines, control systems and structures are also symbolic in that they signal the type of behaviour valued in an organisation.

With regard to East Midlands Airport in the pre-1987 period, three symbols dominated the evidence: environment concern, current role models and reactive behaviour.

7.2.6.1 Environment concern

In almost every single EMA Annual Report during this period it was stated that the development of East Midlands Airport has been vital to the economic well-being of the region as a whole. Before 1987, what was increasingly important for the controlling Local Authorities was not only to maintain the airport's growth but also to control it in order to minimise the impact of its operations on its immediate neighbours. Given the nature of its operations, the airport presented a number of challenges, principally the control of aircraft noise and traffic congestion, together with their contribution towards air quality. In fact there is evidence that Local Authorities were probably more concerned about the impact of the airport on the

environment locally than with developing its growth potential. As the Airport Manager put it:

Very often the decisions taken by the Joint Committee were based on what they deemed to be the right political decision rather than the right business decision, so if they wanted to limit our growth in order to stop the noise, aircraft noise, that is what they did.

7.2.6.2 Current role models

For many organisations and their strategic management capacities, comparison with what are regarded as ‘current best practice’ organisations is often an important way in which they judge their organisational performance. These current role models exert a powerful influence, serving to reinforce and shape organisation’s customs and practices. For regional airports in this period, the strategic management process was seen as unambiguous and certain; strategy was based on the belief that policy was clear – regional airports existed simply to provide services (McKevitt, 1992). The Cargo Development Manager put it thus:

It was nice to work in EMA before 1987, because we were a small airport, a small regional airport, serving only the local area. It was different. For instance, our duties were much simpler and without a strong emphasis on growing or capturing more operators, routes or passengers. The Airport General Manager supervised the personnel to try to prevent problems before they arose and make sure that operations ran smoothly and were safe.

7.2.6.3 Reactive behaviour

Graham and Guyer (2000) argue that before the 1986 Airports Act, virtually all regional airports in the UK responded to the conditions they faced. As a consequence, regional airports were not particularly dynamic; to develop and implement innovative strategies were neither common activities nor did strategic planning have a high priority in their activities. As a result, airport managers reacted to external environmental forces (Humphreys, 1999). At EMA, it was the Joint Committee which made the strategic decisions regarding the airport. Many of these decisions were in

turn based on nationally determined decisions, a point reinforced with the Airport Manager:

Local Authority airports at the time all tended to work together through a number of organisations. Airport charges were set centrally by a Joint Airport Charges Committee and wages and salaries were negotiated nationally through the National Council for Airports. Political issues were discussed by councillors at an organisation called JACOLA, the Joint Airports Committee of Local Authorities. This meant that the major elements of income and expenditure were actually set outside the governing bodies of the individual airports in a sort of "one size fits all" agreement. The airport management at each member airport could only react to what they were presented with as a fait accompli.

7.2.7 PARADIGM

In this section, the organisational *paradigm* for EMA in this period will be presented and discussed. This paradigm is essentially cultural in nature in so far as it reflects the deeper level of basic assumptions and beliefs that are shared by members of an organisation. The managerial style, the nature of its leaders and the operational routines, are seen as important to ensure the well being of the organisation. The likelihood of the paradigm dominating the development of strategy and causing resistance to significant change becomes clearer when the wider cultural context in which it is embedded is considered. As discussed earlier and illustrated in Figure 4.1, the paradigm lies at the very centre of the *cultural web model*. In the period before 1987, East Midlands Airport as an organisation followed a strategy and managerial style where the East Midlands region played an important role in determining its activities. The belief was that EMA would be vital to the economic well-being of the region as a whole. However, over the years it also became increasingly important that the airport's growth was constrained balancing its growth with the impact of its activity on its neighbours.

During this period, EMA's performance was seen to be fulfilling the requirements of its *raison d'être*, which were the provision of air transport to the region within a

public service atmosphere. The airport was operating within a strong traditional and establishment based political mentality, which limited its growth.

It is clear that the Airport Manager did not have power to make strategic decisions regarding the airport's management and operations. He was as he put it, 'the Local Authority Chief Officer in charge of running the airport'. His principal role was to monitor employees' performance and to anticipate mistakes before they become a problem. A key task was the taking of corrective action as and when required. Bass (1995) refers to this as a *transactional* approach to strategic management, what he refers to as *management by exception* but *active*, where the manager actively clarifies the standards required for the performance of the organisation.

Figure 7.1 describes the complete *cultural web model*, which in turn has structured the analysis of strategic management in the period before 1987. It identifies the managerial style, values and beliefs at East Midlands Airport and which summarises the features discussed in this section.

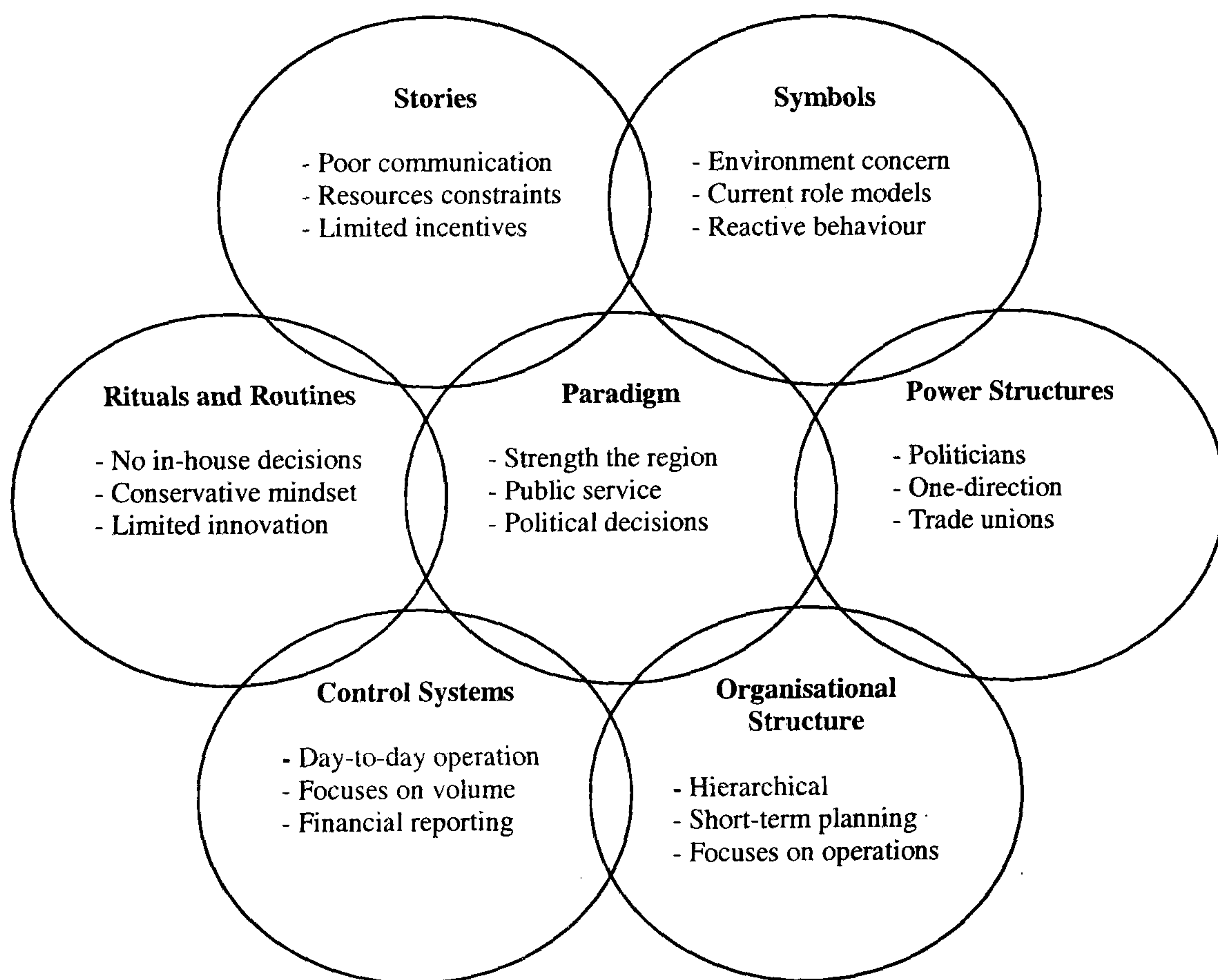


Figure 7.1 East Midlands Airport Cultural Web Model – before 1987.
Transactional Strategy – Management by exception (active)

7.3 EAST MIDLANDS AIRPORT – BETWEEN 1987 - 1993

This section explores the management and operational strategy pursued by East Midlands Airport in the period between 1987 and 1993. As explained in section 5.2.1.2, in this period East Midlands Airport became a company limited by shares under the Companies Act. The aim of the Act was to encourage the investment of private capital on regional airports and the newly constituted Airport Companies themselves had the right to sell all or part of their shares.

In general, the Airport Companies were formed with 100 per cent of the shares being retained by the Local Authorities, thus remaining in the public sector. This was the situation at East Midlands.

A Scheme of Transfer was prepared to shift the assets of the airport from local authority ownership into ownership by the new Airport Company. The Scheme of Transfer was approved by the Secretary of State and East Midlands International Airport Limited commenced trading on 1 April 1987, with nearly 500 staff. This transaction was carried in the face of intense opposition from the Airport Joint Committee, which was totally opposed to the provisions of the Airports Act and had set up an “Anti-Privatisation Working Group”, to which the new Company was required to report (Lovett, 1996).

7.3.1 STORIES

Three issues will be considered below – communication, resource constraints and incentives – since each is seen to offer significant analytical power in the context of developing the *cultural web model* for the period between 1987 – 1993.

7.3.1.1 Communication

The organisation, which constituted East Midlands Airport in this period, was clearly not the same organisation as in the previous period. The organisation had changed, but the majority of staff remained the same.

Organic structures are designed to give subordinates the information needed to make good decisions (Robey and Sales, 1994). However, in order to make such decisions, communication is needed to contemplate all points of view and to combine them with

technical and management knowledge. Mullins (1999) states that the norm of reciprocity suggests that interpersonal relationships develop incrementally over time; thus, employees cannot be expected to adopt new values or behaviour if they do not know what these are. Nevertheless, Williams, *et al* (1989) argue that communication is often undervalued; the more people demonstrate their willingness to fulfil certain expectations of other people, the more likely people are to fulfil those expectations.

How had communication changed as a result of the change in the nature of EMA as organisation? According to the then Managing Director:

Communication did not significantly improve. I had to attend the Joint Committee meetings but my participation was almost non-existent. However, at least I knew what the plans were and at the airport, staff started to feel able to talk openly and share problems and ideas.

At EMA, the lack of effective mechanisms to communicate had not shown any significant changes from the previous period analysed.

7.3.1.2 Resource constraints

The traffic through East Midlands Airport during this period was growing rapidly, with record profits and increased passenger throughput. Therefore, in order to maintain this growth, investments had to be allocated to the airport. For instance, EMA capital expenditure between 1965 and 1986 was £1.8 million, while between 1987 and 1993 it was £9.8 million.

Although the new Airport Company was formed in April 1987, it was still under the control of the Local Authorities and investment was still tight, but as they were now shareholders, they were more aware of the need to invest in airport development infrastructure to meet demand. This view is highlighted by the Managing Director:

After 1987, the airport was still under local authority control, the local authorities were restricted in the money they could borrow and the money they could invest in the airport. However, the business was trying to be profitable, in order to fund its expansion, while the politicians were burdening it with extra costs. Even so, the councillors on the airport's board were very supportive and they wanted the airport to expand and

grow. Eventually, more investment was allocated for airport infrastructure development than ever before.

Despite the fact that the Local Authorities were keen to invest in EMA, it was still part of the public sector and so capital funds were still limited.

7.3.1.3 Incentives

The need for change was self-evident to those working at EMA. The Managing Director informed the Local Authorities of different ways to improve services at the airport in different areas. However, the Local Authorities were not convinced at all with this idea of change and they wanted to continue running the airport without modifications. According to the Managing Director:

Local authorities did not like the change, EMA was owned by four Labour controlled councils that were very anti-privatisation; in fact, they had set up an anti-privatisation working group. Everything we did had to be reported to this anti-privatisation working group.

It is clear that the Managing Director was limited in his efforts to bring about necessary changes since he did not only have lack of support at Board level but was discouraged from trying new methods.

7.3.2 RITUALS AND ROUTINES

The rituals and routines element deals with the same three issues previously considered – decisions, mindset approach and innovation – since each is seen to offer significant analytical power in the context of developing the *cultural web model* for the period between 1987 – 1993.

7.3.2.1 Decisions

When East Midlands Airport became a new company, there were considerable political differences between members of the Board of Directors. Therefore, disagreements arose among the shareholders, a point commented upon by the Managing Director:

The largest shareholder was Derbyshire County Council with 44 per cent of the shares, but they had an uneasy relationship with the other three shareholding authorities, who consistently combined to out-vote them.

This situation further complicated the course of making decisions.

Mintzberg (1983) suggests that if the environment is very complex, it is more effective to have a decentralised organisation in order to make sense of the complexity. At EMA, the Council's leaders became aware that it would not be easy to work as a team while the four Local Authorities did not agree on how to manage EMA. Furthermore, new members joined the Board of Directors with the right to take part in making decisions, which complicated the situation somewhat according to the Managing Director:

After the 1986 Airports Act was published, three members of the airport's management or a quarter of the Board, whichever was smaller, had to be on that Board as the decision making Directors. So, I became Managing Director instead of being General Manager. This was a huge change, although the council did not really like it because we were elevated to the strategic decision making for the airport and this made a huge difference.

This situation clearly marked an important change in strategic management capability within the Airport, it enabled staff from EMA to be part of the Board of Directors. Despite the fact that the Managing Director was still very limited in his freedom to make strategic decisions, by this time he was a member of the Board. However, there were still problems to co-ordinate and make decisions among the shareholders and eventually the leader of Derbyshire County Council became convinced that he should dispose of his authority's shares in the airport.

7.3.2 2 Mindset approach

The extent and nature of change in the management of public services depends on the existing institutional framework and the structure of the political and administrative system. In EMA's case it was not easy to bring about change since the organisational structure made it difficult to create a coalition for change, and because the shareholders could not agree on making decisions. The dominant political interests as

the Board determined that nothing would change at the airport. The Managing Director stated:

Local Authorities were determined that even after the Act nothing would change. At midnight, we were going to become a company and we had a meeting the day before and they said, from midnight tonight nothing will change.

In general, the politicians as the Board did not purpose let alone implement new management methods or techniques, and were unenthusiastic to develop or improve services; as long as the basic level of service was provided, in their view the strategic aim was fulfilled. Change means work and effort to carry on with new objectives and this, frequently, implies *extra* work, which is not always rewarded.

7.3.2.3 Innovation

The Airports Act modified different issues within airports (see section 5.2.1.1); therefore, new ways of working allowed for innovation and as a consequence, some structural aspects of the airport's organisation needed to be modified. According to the Managing Director:

Additionally, on becoming a member of the Board of Directors, the Airports Act also obligated us to change and modify our approach of working. For instance, one of the main changes was the accounting system; this made the airport to look more like a business company. As a consequence, we started to focus more on the quality of services provided.

Changes were occurring at a slow pace but were necessary to adapt to the new situation. The Local Authorities were not too keen to accelerate these necessary modifications since they were not enthusiastic, in the first place, to modify anything at all. Moreover, the Joint Committee's Chairman stated in the Annual Report 1985/86 that *the Airport Committee has consistently opposed government proposals for transforming EMA into a Public Airport Company seeing no reason for the changes except political dogma.*

7.3.3 CONTROL SYSTEMS

The three aspects, which have been selected and identified to understand this element of the *cultural web model* here, include – operations, volume and financial reports.

7.3.3.1 Operations

Despite the fact that EMA was transformed into a new company with the aim to be financially self-sufficient, it was still strongly focused on operations, which were still seen as the chief functions at the airport. The Division Research Manager put it thus:

After 1987, EMA's aim still concentrated and orientated mainly on operations, we were having changes and modifications within the company but it was not considered as a business yet.

The airport was still being run on a day-to-day operational basis; the need for development plans to be prepared and implemented were detected and analysed but organisational alterations were changing at a very slow rate.

7.3.3.2 Volume

Undoubtedly, during this period EMA was growing in both passenger numbers and freight. New airlines and freight operators were flying to EMA, providing significant changes on scheduled and charter international services. According to the Division Research Manager:

At this time, EMA was still strongly focused on traffic growth; however, plans were being considered for providing a better service, and performance indicators were also recognised as an important tool. The Airport Manager and, in general, all staff had more information on the airport's financial results.

Changes were taking place at EMA; nevertheless, it was recognised that transitions would take time and could be seen as providing an opportunity for the development of new strategies.

7.3.3.3 Financial reporting

When the 1986 Airports Act came into force, all airports had to publish their accounts in a standard form with more transparency at yearly intervals. These accounts should indicate on a yearly basis the size of annual turnover, the sources of income (aeronautical and non-aeronautical revenues) and expenditure, the nature and size of profit and loss, and the sources and status of capital. EMA was transformed into a financially self-sufficient company and could no longer be run as municipal facilities maintained by subsidies from local government. As a result, EMA had to modify administrative procedures to keep a track of its income and expenditure in order not to run into a deficit situation. The Managing Director noted that:

Another benefit from the Airports Act was the business change in the accounting system. We had to allow for depreciation, and to start paying company tax. As a result, we had completely to change the way our accounting system worked. This was very good for us because it made us look at the company in a commercial manner.

On the other hand, the continuing strong opposition of the Joint Committee to all these changes was declared in the Annual Report 1985/86. The Chairman stated *I find it disgraceful that the local government, after years of bearing the financial risk of the airport, should now have the benefits of their enterprise reduced by central government, which has borne no risk in the past and will not in the future. The legislation is only a means to allow the Treasury to dip their fingers into the local government till.* Certainly, the shareholders were disappointed with these changes, which they could not see at the time as beneficial.

7.3.4 ORGANISATIONAL STRUCTURE

The three aspects which have been selected and identified to understand this element of the *cultural web model* here include: hierarchy, planning and marketing.

7.3.4.1 Hierarchical

In the structure of an organisation, the basic element is the role and the pattern of the relationships among roles that makes an organisation system, rather than a random

collection of roles (Robey and Sales, 1994). An organisation's structure defines the expectations for each role and the connections between roles. After the Airports Act, EMA became a Public Airport Company and structural changes took place; nonetheless, the organisation structure was basically the same model, a hierarchical pyramid. The airport was still owned by the same four Local Authorities stakeholders, and the main strategic were still effectively taken by politicians at the Board. The Managing Director stated:

Virtually all the services, which had been provided for the airport by the Local Authorities, were brought into the new company. Finance and Accounts, of course, were brought in from Nottinghamshire County Council under the new Finance Director along with the new accounting procedures, and advantage was taken of the transfer to company status to review the whole management structure of the company, although the same hierarchical model remained in place.

There were several organisational structural changes; for example, all the councillors who had been members of the Joint Committee became Non-Executive Directors on the Board of the new company.

7.3.4.2 Planning

Considering the high cost and long lead time for improving airports, a significant capital programme was planned for the next few years. Major terminal developments were programmed and all staff started to contribute to and work towards collaboration. The Cargo Development Manager explained:

In 1990, we started to work more like a team and look towards extending the runway to exploit the Airport's potential as the prime long-haul airport in the Midlands. EMA engaged independent advisors to work on a Strategic Development Plan for the airport and work on a new Terminal Development Study. The plan was the single most detailed and far-reaching study which had ever been carried out in the airport's history. The plan examined in detail how passenger facilities could be expanded to their maximum capacity.

The Strategic Development Plan provided guidelines for future development that were considered to satisfy EMA's demands and, at the same time were compatible with the environment and community development. It could be said that despite the fact that planning has always been carried out at EMA, after 1987 it became a more considerable issue. Unfortunately, as the airport was becoming more efficient, it definitively needed more developments such as expansion of the passenger terminal, new cargo terminal and expansion of the aprons. This meant no capital borrowing at all unless the Local Authorities themselves were prepared to provide it, and they had no such resources for this development. On the other hand, the company could not borrow money without affecting their Local Authorities other borrowing requirements.

7.3.4.3 Marketing concern

The 1986 Airports Act aimed to create a management structure that would exploit revenues from commercial sources. At this time, EMA started to take marketing research seriously and began to engage in promotional campaigns to potential airport users and operators. According to the Division Research Manager:

An increase in marketing activity was funded with the objective of increasing the Airport's market share. EMA also undertook market research on scheduled route opportunities. This project was undertaken jointly with one airline and coupled with professional people in this area. Investment in customer care training for a wide range of staff was also undertaken during the year to maintain the airport's high quality service.

However, as with any change, it was not that easy to try to modify the public airport services into a commercial airport model, since the dominant politicians were still indisposed to this new idea. The Managing Director's statement highlights this issue:

While EMA was in the demi-monde between the public and private sectors, the business was trying to be profitable to fund its expansion. Councillors on the airport's Board were still very supportive and they wanted the airport to expand and grow. Unfortunately, just like local government the world over, they did not have enough money. Therefore, to increase commercial revenue became an important issue.

Clearly, the airport's operations and management were slowly transforming from being politically orientated and dominated to a more commercial management orientation.

7.3.5 POWER STRUCTURES

Power structures are connected with the key constructs of any organisational paradigm. The three aspects which have been selected and identified to understand this element of the *cultural web model* here include: politicians, one-direction and trade unions.

7.3.5.1 Politicians

Despite the fact that the Airports Act's aim was to create an ownership structure that could facilitate the introduction of private capital and private ownership, local authority share owners now had the right to sell all or part of their shares to the private sector. Hardly surprising, many politicians were extremely disappointed with this idea. The Chairman of the Joint Committee in the Annual Report 1985/86 stated: *By next year, we will be forced to become a Public Airport Company. A consequence will be pressure, because of financial constraints to sell shares to private investors to make profits that should justly go to the people of the East Midlands.* After EMA became a Public Airport Company, the politicians' adverse power was fairly strong to manage the airport as a business company and increase commercial revenues. The Managing Director stated:

At the beginning, there was no incentive to make profits, or to run a good service. The airport was strictly seen as a public sector. In fact the local authorities, namely the owners, were quite embarrassed to think that it was a business although it was not seen as an enterprise at all, just a simple service provided by the government.

Undoubtedly, EMA was changing but the political influences on making key strategic decisions and making the new company a business was still strong against running the airport more effectively from a commercial point of view.

7.3.5.2 One-direction

The Act required that the Airport Company should be run at “arms length” from its local government shareholders. It also required, for the first time, that three Executive Directors, who were full-time employees of EMA, should be appointed to the Board. This decision helped in several ways to modify some decision making structures within EMA in order to implement and enhance services. However, final decisions were still made for them by the shareholders. The Managing Director stated:

During this period, the airport Officers had advised the Joint Committee, but it was the Councillors who took all decisions regarding the management of the airport. For the first time, much to the Councillors' displeasure, Officers were elevated to join the policy-making and strategic decision making forum at regional airports. However, if we, the three Executive Directors, wanted to run the business in a certain way, Councils would still have the majority of the Board; thus, if they do not want to make a decision, then this would happen.

The Executive Directors participated in meetings and were included in strategic decision making, but it was not enough to achieve considerable changes in the organisation.

7.3.5.3 Trade unions

In this period, the economic, political and legal context within which trade unions operated had been significantly revised (Thorpe *et al* 2000). One of the principal changes had been the sharp growth in unemployment, the restructuring of the economy with a redistribution of employment towards private-sector services and a sharpening of competition. At EMA, the trade union before and after 1986 did not experience considerable changes since the union still negotiated their conditions of service with the same shareholders. According to the Managing Director:

The trade union power was still strong. Basically, if the trade unions did not obtain what they wanted from the company then would deal or negotiate with the council. The Managing Director did not have the power to manage these sorts of issues.

7.3.6 SYMBOLS

Symbols are representations of the nature and constitution of the organisation. In terms of the *cultural web model*, three aspects have been selected and identified to understand this element – environment concern, current role models and reactive behaviour.

7.3.6.1 Environment concern

As in the previous period, EMA has always been strongly concerned about environmental issues every time a proposal for expansion or modification is planned. For instance, the Strategic Development Plan examined how facilities for passengers, freight and aircraft maintenance could be expanded in such a way as to maximise the level of service to EMA's customers, whilst making certain that any environmental impact on EMA's neighbours was kept to a minimum. The Division Research Manager emphasised that:

EMA has safeguarded region's economic and environmental needs. A key issue for people living in and around the airport is the control of aircraft noise. The need to minimise traffic congestion is also widely acknowledged. In addition, airport emissions are also subject to stringent regulatory control, and continued compliance with legislation is a key component of the Airport's environmental activity. Before implementing any environmental programme, the airport embarks on a wide-ranging consultation programme to monitor feedback and take on board the views of the local residents.

For EMA, it was seen as increasingly important that the airport balanced its growth by minimising the impact of its activity on its neighbours.

7.3.6.2 Current role models

Thompson (1995) suggests that, ideally, the link between role models and the strategies being pursued should complement each other, and, again ideally, the organisation will be flexible and adaptable to change when it is appropriate. However, EMA's case was different. The 1986 Airports Act triggered several modifications and

gave airport management the power to begin to make strategic decisions. As the Managing Director put it:

The 1986 Airports Act told the mindless local government people you can not just run it like a local government department; you have to run it as a business – but of course, they were not good at it. They did not like the change, EMA was owned by four labour controlled councils; they were very anti-privatisation – in fact they had set up an anti-privatisation working group because they were determined that even after the Act nothing would change.

After 1986, regional airports were seen differently around Britain. Airports had a very different image; in general, they were considered not to be competitive, operating as quasi-monopolies (Bishop and Kay, 1989b). The idea of viewing regional airports as potential businesses was not easy to adopt and resistance from local authorities was high as was discussed in section 7.3.5.

7.3.6.3 Reactive behaviour

A reactive form of behaviour is common among public organisations when faced with pressures for structural change (Flynn, 1992). The senior managers in these organisations, that in many cases are politicians, make the strategic decisions and the middle managers and the rest of the staff in the organisation have to achieve them. On April 1987, the Airport Manager became Managing Director and a member of the Board of Directors with participation in decision-making. As a consequence, he modified some areas but the airport was essentially running very similar to the way it was before the Airports Act. This was confirmed by the Division Research Manager:

The Local Authority knows the local people and they thought they knew what these people wanted, thus they came to the airport to demand particular facilities. They thought they were experts at running airports, putting forward ideas that were sometimes ridiculous, but because they felt it was the right thing to do.

At EMA, the stakeholders felt strongly the need to run the airport according to their own judgements and beliefs, giving instructions on how and what to do. While critical aspects of the culture should remain secure and generate strategic consistency, this

must not mean an organisation becomes resistant to proactive behaviour. Improvements require organisations to be vigilant, aware and constantly change-orientated.

7.3.7 PARADIGM

After distinguishing and examining the elements of the *cultural web model*, this last section, discusses the organisational *paradigm* for East Midlands Airport for the period between 1987 and 1993. This *paradigm* is essentially cultural in nature in so far as it is based on the deeper level of basic assumptions and beliefs.

During this period, East Midlands Airport kept following mainly to its previous organisational strategy and managerial style with the East Midlands region continuing to play an important role in determining the scope of its activities. The stakeholders maintained the belief that EMA had been operating as a public service within the founts of a publicly owned organisation. This has an attempt to continue behaving in the strong cultural ethos of EMA being a public service (Self, 1993). As Peters and Waterman (1982) and others have shown, organisations can run into a difficulty precisely because of their strong cultures which have not been able to adapt easily to a rapidly changing environment. It was evident at this point that the need for culture change was pushing EMA to modify its previous strategy. Senior managers need not only define new strategic values, but also find ways of communicating these to the workforce; in contrast, the shareholding authorities were having problems in the ability to co-ordinate and run the airport because of the emergence of political differences within the *new* organisational context. The need to find ways of breaking into the self-perpetuating cultural cycle was clearly evident, and EMA was gradually re-establishing contact with its external environment. In short, the local authorities had the responsibility to provide a practical impetus to modify both the activities and values of EMA as an organisation; however, this was an uneasy task, since they were not convinced that changes were required.

Nevertheless, the pressure to perform better and to become financially self-sufficient forced the shareholding authorities to start some modifications; these moderate changes were mainly due to political reasons. As a result, EMA was slow to react to this new *environment*, established by the Airports Act, but politicians were eventually

transcending their self-interest for the benefit of the airport. Bass (1985) argues that this essentially conservative management style makes leaders mainly concentrate on structural modifications, which might lead to a more transformational style of leadership if changes are to continue in the short-term future. Bass also argues that this sort of change, due chiefly to *political reasons* and transactions, is what he refers to as a *transformational strategy* where the modifications will lead the organisation to establish a different approach. These changes might motivate managers to do more than the organisation originally expected them to do.

Figure 7.2 describes the complete *cultural web model*. It identifies the managerial style, values and beliefs at East Midlands Airport between, 1987 and 1993, which summarises the features discussed in this section.

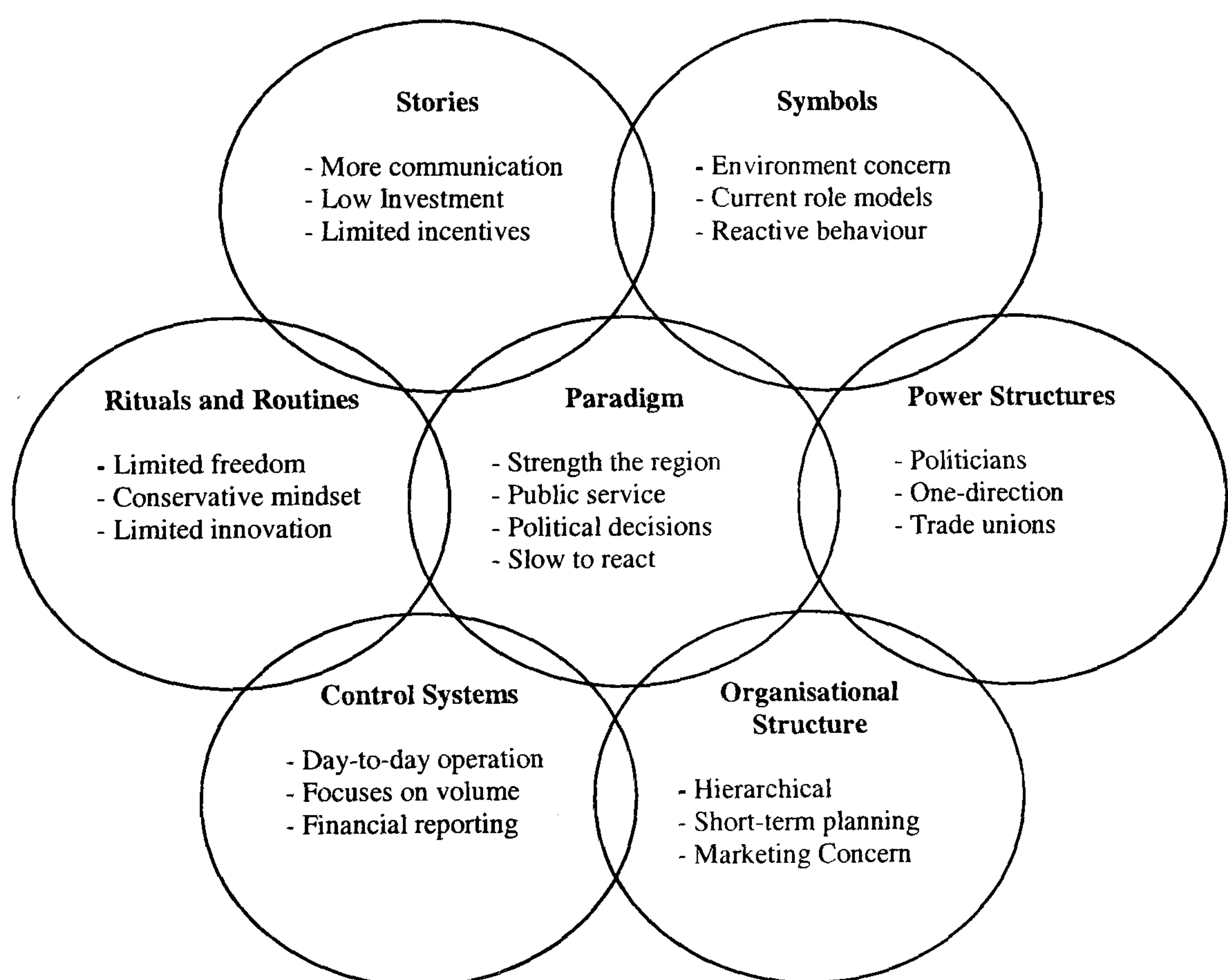


Figure 7.2 East Midlands Airport Cultural Web Model – between 1987 -1993
Transformational Strategy – Political Change

7.4 EAST MIDLANDS AIRPORT – BETWEEN 1993 - 2000

This section explores the management and operational strategy pursued by East Midlands Airport in the period from 1993 to 2000. The political differences between the shareholding Local Authorities, which had been apparent under local government control, became even more evident in the new company format. Derbyshire County Council, which was the largest shareholder, and in particular the Leader of that Council, became convinced that the authority should dispose of its shares in the airport. This was all happening at the time when central government was putting enormous pressure on local authorities to reduce public spending. An investigation began into what sort of price they might obtain for their shareholding in the airport. The government's offer of a one year period in which income from the sale of the airport shares could all be used as the Local Authority saw fit, rather than having to use 50 per cent of it to pay off pre-existing debt, came as an enormous incentive to sell. Local Authorities like Derbyshire could also see that considerable political capital could be made from the spending power of the sale proceeds.

At one time, Derbyshire decided not to sell their shares because it was clearly that nobody wanted a minority shareholding in an airport still dominated by local government shareholders. The councillors on the Board gradually became more supportive and would have liked the airport to expand. They could not afford to develop the airport and in fact needed to take money from it to help pay for public services which were being squeezed by the controls on public spending. As a consequence, the Managing Director suggested to the councillors a mutually satisfactory compromise.

The agreement was reached that the local authorities would be kept involved in the development of the airport and would maintain a strategic overview of its long-term future. On the other hand, EMA's management, led by the Managing Director, would undertake an Employee Buy-out of the Airport Company, which would place it in the private sector. The Local Authorities would obtain their money, the airport would be given commercial freedom and the company would be released from the constraints of the Public Sector Borrowing Requirement (PSBR).

However, the agreement with the local authorities progressed further before the District Auditor stopped it. There was no way of knowing whether the Employee

Buyout team was paying the right amount for the airport, as no local government airport had ever been sold before. The District Auditor said that if the local authorities were going to sell, they must put the airport out to tender. As a result, twenty-eight companies bid for the airport in the first round of bidding. This was reduced to a shortlist of four: the Employee Buy-out team, National Express Group, Regional Airports Ltd, and Lockheed Air Terminals.

Eventually, the Employee Buy-out team was outbid by the National Express Group (NEG), which offered a considerably higher price (Lovett, 1997). The new Airport Company started operating with 482 staff and by the year 2000 the staff was under 250.

7.4.1 STORIES

In terms of applying this element of the *cultural web model* the same three issues will be considered below for the same reasons –communication, resource constraints and incentives – since each is seen to offer significant analytical power in the context of developing the *cultural web model* for the period from 1993 – 2000.

7.4.1.1 Communication

Thompson (1995), Robey and Sales (1994), and Hampden-Turner (1990) argue that communication is an essential aspect of organisational culture. Ideally, employees from different parts of the business, and at different levels in the organisation, must feel willing and able to talk openly with each other, sharing problems, ideas and learning as a result. It is helpful, for example, if employees know how well competitors are performing, in what areas they are particularly strong, so they can commit themselves to higher levels of achievement in order to out-perform their rivals. Williams *et al* (1989) argue that the use of training in various forms by organisations is a primary tool to improve communication and it is also used as an elementary tool for organisational culture change. The value of training programmes to improve employees' communication skills has taken on a more entrepreneurial or innovative approach. As a consequence, employees are expected to develop a more proactive approach to communicate effectively with their colleagues. The development of new attitudes or values linked to changes in work performance and

behaviour was also considered as an advantage for training staff. With regard to EMA, the Managing Director stated:

After 1993, it was important that we raised our quality of customer service. We therefore instituted a training programme which every member of staff (including myself) had to attend. Training improves staff performance, which is good for the staff themselves, but it also maximises their contribution to the business. You train your staff because it is good for them but you also train them because it is necessary to adapt them to operate in the new environment. Training and development programmes raise an awareness of unfamiliar issues or approaches, and are part of the process of changing the culture of the organisation.

Obviously, skilfulness in communication provides a greater competence in handling problems. The Managing Director was in a position to gain a wider perception of how his role fitted into the organisation as a whole. Training programmes and better channels of communication provided a mechanism by which staff could share ideas, perceptions and problems, with the aim of improving performance. The strategic aim was to produce changes in attitude and approaches to foster a sense of unity and common commitment to the new organisational culture. However, NEG' approach was to train the staff at EMA and let them to operate the airport by themselves. This style is not considered to be the best approach; however, it worked because the management team took control of the business.

7.4.1.2 Resource constraints

Ashford and Moore (1999) state that the primary objective of the airport financing process is to provide sufficient funds to satisfy the requirements of the capital improvement programme without borrowing in excess of the amount required. When EMA was privatised, the funds came from National Express Group (NEG), which invested huge amounts of money in the airport's development infrastructure. For example, in 1996 the highest amount of capital expenditure was invested since the airport opened; a total of £20 million. In short, between 1993 and 1999 a total of £77 million was invested in EMA. The Managing Director's statement regarding this issue was:

Huge investment went into the airport after privatisation.

One of the main reasons for privatising EMA was the ability to make use of private finance to reduce current and future public indebtedness. Furthermore, it was also the availability of investment for improving airport infrastructure to cope with future demands, which could not be possible without private sector participation. In this sense, what had previously been a period of resource constraint for EMA because a period of resourcing opportunities.

7.4.1.3 Incentives

Anthony (1994) states that openness, empowerment, and responsibility can all work as incentives for employees to perform better and to achieve objectives. They are more likely to be suppressed by subordination to cultural individuality than the bureaucracies that are to be supplanted. Empowerment means freeing employees from instructions and controls and allowing them to feel more productive (Thompson, 1995). Responsibility is linked to a constant improvement of strategies and processes as a whole, which add values to customers. By involving managers at an early stage in the development of systems and policies, it is seen to encourage a greater sense of commitment. The Division Research Manager stated:

One motivation approach that NEG applied to staff was empowering us. They are very hands-off on a day-to-day basis. They kept the same managers; in fact, the majority of us were here before privatisation. NEG allow us to run the airport in the way we have always run it, giving us more freedom. Being given the responsibility makes us try harder to perform better in order to fulfil the owner's confidence.

Thorpe and Homan (2000) state that the great majority of managers believe that there is one very good way to motivate staff to work well, whether through financial reward, job design, conducive working environments, good human relations, enriched jobs, participation, becoming shareholders, or any of several other factors. The human relations management movement believes that conflict in the work place can be the cause of poor work performance. As a consequence, a manager wishing to improve productivity should concentrate on creating a more comfortable atmosphere, and

establishing sound friendly relationships with and between their staff. To reinforce this statement the Managing Director added:

At EMA, we encouraged employees and changed their attitudes towards privatisation by making them take a pride in making a profit. This was achieved in several ways; for example, through incentive schemes, bonus schemes and most importantly, the share option schemes, which enable employees to become shareholders. The value of the shares depends, of course, on the profitability of the company, so they have an incentive to make the company profitable. However, some people were not interested in this and did not want to change, and eventually these people left over the past seven years since privatisation.

It is clear that many of the beliefs that influence behaviour directly are gained from the work environment (Williams *et al*, 1992). On the other hand, if attitudes, values and behaviour are in harmony, a strong and effective organisational culture is likely to result, where staff are committed to the goals and methods of the organisation. At EMA, the creation of a more friendly atmosphere has been a significant issue for improving staff's performance and morale, and makes them feel more comfortable at their work.

7.4.2 RITUALS AND ROUTINES

The rituals and routines element deals with the same three issues previously considered for the same reasons – decisions, mindset approach and innovation.

7.4.2.1 Decisions

The strategic management literature has tended to see the principal problems of strategic change as being the internal constraints on change arising from organisational, cultural and political factors (Grant, 1987). The capacity of organisations to successfully establish competitiveness against trends depends crucially upon the resources that companies have at their disposal and the decisions taken to make use of them. The private sector offers greater financial support, allowing major reforms in market structure, and the facilitation of competition

(Roger, 1999). EMA changed its strategic approach and decisions started to be taken more from a business angle. The Division Research Manager stated:

When EMA became a private company, NEG considered the management team who ran the airport to be experts in airport management. We started to have much more flexibility in making decisions. Financial responsibility contributed to having more freedom to plan and develop the airport's infrastructure. Nowadays, all our decisions are focused on the airport as a business and our current strategies are mainly marketing focused to develop growth at the airport.

In general, staff at EMA felt greater support and trust from the new shareholders since they were left with the responsibility to manage the company and make the *right* decisions to run the airport under a much more commercial approach. NEG mainly intervened only in financial matters.

7.4.2.2 Mindset approach

Stacey (2000) argues that a dynamic mindset is necessary to cope with the range of activities an organisation undertakes, the broad markets it serves and how its resource base and competence change. A competitive environment is dynamic and uncertain. Changes made by any single competitor at any time have an impact upon rival organisations that may be forced to react. Their reactions introduce further changes to the dynamic environment; organisations must create a process of continual transformation; this requires a significant change in many managerial mindsets (Nixon *et al*, 1998). When EMA transferred to the private sector, competition issues from neighbouring airports were strongly considered in order to promote new strategies, a point reinforced by the Managing Director:

We were aware that Birmingham was developing rapidly as a business hub for British Airways. We decided not to meet the competition head on and to develop EMA as the best charter and cargo airport. So, we started to develop cargo business. In 1993 when NEG took over, EMA was handling 20 000 tonnes of cargo. In 1999, it handled over 128 000 tonnes. Once we entered the private sector, we were no longer using "public money" and we could actually start to look at sensible

commercial deals with cargo operators. We went to DHL and UPS, for example, and said that if they moved to EMA and signed a long-term agreement with us, they would not have to pay any landing or rental charges for two years.

An emphasis on organisational restructuring/refocusing has also occasioned an increase in the importance of identifying and exploiting different resources. The new ownership added to a dynamic and competitive environment which made EMA develop new managerial mindsets and structures necessary to compete and survive in the environment of business organisations. It did this by changing managerial structures and becoming more flexible and responsive to changing environmental conditions.

7.4.2.3 Innovation

Thompson (1995) suggests that strategically successful organisations will accept the challenge and seek to be environmentally vigilant, innovative and flexible despite the difficulties involved. Organisations which are less aware and relatively inflexible with no innovation capacity at all, will find they are reacting to situations they do not fully understand. Moreover, innovation is a special type of change that is designed to improve organisations and organisational life (Kreps, 1990). However, to be able to implement innovation, on top of the ability to direct and manage these changes, financial performance may be as much a result of the organisation's innovation and market position as of managerial effectiveness. The private sector is more likely to provide financial support for infrastructure development, market research and, in general, to maintain a good service. The Cargo Development Manager stated:

Since NEG took EMA over, we have had substantial modifications within the organisation and in physical development. For example, there is considerably more money available, so there has been huge investment. Furthermore, one of the biggest benefits at EMA is that the profits generated are put back into the airport, so the airport is continually developing, which allows us to continuously forge ahead.

Nowadays, EMA has to face competition; therefore, it has become dynamically more active in developing improved technology and work methods, and consequently

improving productivity. Innovation is an important issue with which to confront rivals, since offering better services to customers (namely, cargo operators, airlines, passengers, and so on) will make EMA a more profitable airport.

7.4.3 CONTROL SYSTEMS

The control systems of an organisation emphasise what it is important to monitor and to focus the attention and activity of managers upon. Airports have been caught up in sweeping changes; either by commercialisation, corporatisation or privatisation. Therefore, competition has become one of the main issues, which has recently been given a greater priority within the airports' strategies. In order to monitor how well the airport is operating, performance indicators have been a useful tool. Additionally, these airports worldwide, whose shares are quoted on the stock exchange, are under pressure to improve their performance, which is another way to control airports' productivity. Therefore, these main aspects – competition, performance indicators and stock market – of control systems and measurements have been identified and are analysed in more detail as follows.

7.4.3.1 Competition

Deregulation has made the airline business much more competitive. Since airlines already have a presence on major trunk routes, operators are constantly looking for opportunities to expand their networks profitably by finding new spokes for their hubs. Nowadays, in Great Britain, virtually all airports are in competition with one another and EMA has been involved in this and is trying to take advantage of its characteristics to attract more carriers. The Managing Director stated:

EMA is a regional airport located in the centre of England. It gets tremendous competition from Birmingham, Manchester, Liverpool and Leeds/ Bradford. Our geographical location means that it is very difficult to develop domestic traffic and we are therefore about 85% international.

Thompson (1995) indicates that the thinking starts with an assessment of the current position of the organisation, its skills and resources, and an evaluation of the objectives and directions for the future. EMA has, as like any other organisation, advantages and disadvantages to enhance its strategic position. However, it is

important that they are clearly specified in order to identify and select the new markets that can be accessible to improve EMA's competitive position. For example, the Managing Director explained some of these advantages and disadvantages which were considered when selecting their strategies:

EMA has about 85 per cent of international traffic and nearly all of this is within the European Union. On the other hand, EMA's location is in the middle of England and eliminates the opportunity to increase domestic traffic. The other side is that it is wholly private, which has helped us to improve on several issues.

Adaptive and incremental change is particularly important for managing competition and functional strategies effectively. Awareness of the organisation's opportunities and threats is important for achieving goals. Organisations like EMA need to look for opportunities and new markets since, for example, European flights do not help to increase commercial revenues due to the abolition of duty-free sales by the European Union (EU).

7.4.3.2 Performance indicators

It could be said that the core reason for measuring an airport's performance is simply an effect of the growing movement towards privatisation. This means that operators need to know how airports compare against examples of best practice, and investors need yardsticks with which to value an airport which may or will be coming onto the market (Mackenzie-Williams, 1998). In short, performance indicators seek to find the relationships between selected inputs and outputs. At EMA, these measurements were reinforced and taken more seriously after privatisation, as the Managing Director noted:

We used to measure several services, which are similar in many airports, such as the number of flights leaving on time. However, recently we have introduced other indicators to see how we are doing against the competition. We measure the time of first and last bags on to the reclaim units, time spent in check-in and security and even such things as the speed with which faults are repaired on things like lifts, weight-scales and baggage belts.

These indicators have been mainly used for two reasons; one is to monitor the airport's performance over time and compare its actual to planned performance. The second reason is to indicate to the shareholders and management how EMA is performing in relation to other similar airports and rivals.

7.4.3.3 Stock market

The fact that National Express Group's shares are effectively available on the stock market means that employees are totally aware that their performance is directly related to the success of the airport. Despite the fact that EMA accounts form only a small part of NEG's turnover – around 4 per cent. Being a division of a main company whose shares are on the stock market provides a constant pressure to achieve the goals; however, employees could be rewarded and participate in with a share incentive scheme. The Managing Director reported as follows:

Stock market shares play an important role since if the decisions of investment and the way the organisation has to grow the business are not right, it is reflected in the share price. If the shareholders do not think you are right they start selling your shares and the value of the company comes down. If National Express Group's share price goes down it has less money to use for development and all sorts of other things. Therefore, a private company's discipline is much greater when shares are traded on the stock exchange.

The Managing Director also pointed out that the main difference between an airport company, which local authorities are still the owners of, and an airport company, whose shares are listed in the stock market, makes a substantial difference to its performance and improvement as a business orientated company.

7.4.4 ORGANISATIONAL STRUCTURE

Organisational structures can reflect internal power structures. The three aspects, which have been selected and identified to understand this element of the *cultural web model* during this period (1993-2000), include: hierarchical, planning and diversification. The diversification issue has been included because, in general, private finance has enabled airports to develop long-term planning and diversify into

activities, which have a bearing on its core business. When airports are highly focused on commercial and non-aeronautical revenues, one strategic response is to increase income through diversification.

7.4.4.1 Hierarchical

When NEG took the airport over, the Group decided to follow a strategy of developing along the lines of a commercial airport model. On one hand, the first priority was to ensure that it had the right organisational structure to fulfil the requirements. On the other, NEG delegated responsibility to the top management at the airport and provided them with freedom to make decisions to operate the airport. The Division Research Manager stated:

The new organisational structure kept the previous hierarchical model, although some changes were made. Another issue that is worth mentioning is that NEG kept the same managers, the majority of whom were here before privatisation. They allow us to run the airport in the way we always wanted to run it.

Hierarchical structures are one of the simplest forms found in airport organisations. In this case, in order to achieve its strategic aim and objectives, the airport was organised in such a way that commercial activities were given a central importance, since they were expected to generate a higher proportion of the airport's total revenues than had previously been achieved.

7.4.4.2 Planning

Ashford and Moore (1999) argue that when airports have been run by the public sector as part of the local civil service structure, the objectives of the airport are frequently unclear. When NEG took over, the Group set up new aims – one of which was: *to increase market share across all business sectors by working together with its customers to maximise the commercial benefits to them of operating from EMA in comparison to other airports* (EMA Business Aims and Objectives, 1994). Therefore, transforming the airport into a profitable company by increasing commercialisation and focusing more on marketing research was the chief strategic objective to start

planning in the short and long term. This was reinforced by the Cargo Development Manager:

NEG looked at the airport long-term, put huge amounts of money in, and did not expect to get profits quickly (maybe 10 or 20 years). This is the way to look at airports as a long-term investment. If the runway is extended, shareholders do not expect to make a profit on the runway extension in two years time. Therefore, we had to start planning seriously, taking advantage of our opportunities in order to overcome competition. For instance, the new extension of the runway will make the airport very attractive to long-haul traffic. It will be much longer than the runways at Birmingham, Luton or Leeds/Bradford and they do not have the opportunity to extend theirs, so EMA will be considerably more competitive.

Plans have been continuously developing at EMA in order to capture more operators and develop new markets, as highlighted by the Division Research Manager:

EMA's plans are to start services to places such as Hong Kong, Singapore and Thailand. People who travel a long distance for their holidays are prepared to travel further in this country to get their flight. Airports in the South East of England cannot develop significantly without major disruption and certainly not in the short-term. The leisure passenger market is growing and they are willing to travel further if they can get better prices. EMA is taking advantage of this situation to grow its business.

EMA's principle business objective is to develop a profitable, large volume passenger and air cargo airport, which is both safe and sensitive to its effects on the environment. In order to achieve its strategic aim, planning in the short and long-term plays an important role.

7.4.4.3 Diversification

Colin (1995) states that in order to survive or succeed in the face of multiple challenges and opportunities, organisations are having to: (i) differentiate themselves from competitors; and (ii) become more flexible, responsive and adaptable. On the

other hand, Thompson (1995) argues that the highest risk alternative is diversification because it involves developing both new services and new markets simultaneously. When considering this high-risk option, EMA followed what is referred to as concentric diversification, where new purchases were related to existing ones. As the airport was growing, new acquisitions were made, such as the purchase of Bournemouth Airport, and the management contract to operate Subic Bay International Airport in the Philippines. The Division Research Manager stated;

Definitely, EMA is growing, the airport is increasing the number of passengers and cargo each year. However, it is not only internal growth, EMA is also externally growing. National Express has bought the airport in New York State, we are also running Subic Bay International in Philippines, and Bournemouth Airport is part of the group as well.

EMA's main strategic aims are focused on being a profitable company, thus diversification has partly contributed to fulfilling its expectations. However, it is worth noting here that one of the risks of airport privatisation is when airport operators become involved in unrelated airport activities by investing airport revenues which could hinder the airport's development.

7.4.5 POWER STRUCTURES

After EMA became a private company, changes were occurring quickly and consequently power structures were also modified. Three issues – self-management, feedback and customer control – have been selected and identified to understand the modifications and the new approach taken by EMA in this period of the case study.

7.4.5.1 Self-management

Hertzberg (1966) points out that staff are motivated to work in co-operation with others by both extrinsic factors such as monetary rewards and intrinsic motivators such as recognition for achievement, achievement itself, responsibility, growth and advancement. Intrinsic motivation is the more powerful of the motivations and is increased when jobs are enriched, and are brought up to the skill levels of those performing them. Furthermore, Peters and Waterman (1982) particularly emphasise the emotional content of motivation. They described successful organisations as ones

in which people are driven by a sense of excitement and where they have strong feelings of belonging to the organisation. When EMA became a private company, the owners gave the management team the power to manage the airport as they had the experience to do it. This attitude worked itself out as a strong motivation for the staff; as the Division Research Manager stated:

We have much more freedom in the way we manage the airport. The owners trust us and we know that we will have to justify any investments. NEG leave us to manage on a day to day basis, but get fully involved when investment decisions need to be made. As long as we can produce a justifiable case for investment, NEG are happy to put the money in.

Part of EMA's positive development in this period can be attributed to staff since, as individuals, they are emotionally engaged in some way due to their belief in what EMA is doing. The contribution they make to the airport brings satisfaction and this means something more than simple basic rewards.

7.4.5.2 Feedback

Organisation members need feedback about organisational activities to be successful (Nadler, 1977; Rowe and Boise, 1973). Internal feedback enables organisation leaders to see the internal state of the organisation more clearly, promoting the organisation's ability to see itself. Nadler (1977) states that market and public opinion research are designed to gain feedback and gather key information from the relevant environment; such feedback is used to assess the adequacy of organising activities and direct the course for organisational innovation. The Division Research Manager stated that the company sought feedback from its customers in order to improve facilities and services; therefore, one of the methods often carried out is the use of surveys.

EMA carries out continuous customer surveys. Approximately every two or three months we interview about 800 passengers. We actually employ students on an annual basis from various Midland Universities. Their responsibility is to do the groundwork on surveys and research. They are not the only surveys we do, but the regular passenger surveys are our main function. This is one of the ways the company tries to improve its services.

7.4.5.3 Customer control

Thompson (1995) recognises four essential principles for effective customer care:

1. Recognising the importance of the customer to the long-term health of the organisation;
2. Involving all employees in meeting customer requirements;
3. Seeing every activity as part of a process designed to satisfy customers; and
4. Seeking continuous improvement.

Quite simply, total quality management is often known for trying to satisfy customers and out-perform competitors. After privatisation, EMA started to focus on its customers and their requirements, which is emphasised by the Cargo Development Manager:

Improving customer service requires the members of an organisation to operate as an integrated team. Nowadays, our customers can take advantage of the benefits provided by a wide range of services offered at the airport. The last six years have proved beyond doubt that our new owners, the National Express Group, are committed to develop the airport by involving all employees in pursuing constant progress.

7.4.6 SYMBOLS

After EMA became a private company in this period, changes promptly appeared. As a consequence, symbols were shaped to fit the new company's approach. Three issues have been identified and considered important to highlight this element of the *cultural web model* here, and include: business driver, dynamic models and proactive behaviour.

7.4.6.1 Business driver

In 1999, the National Express Group served more than 900 million passengers a year worldwide on its bus, train, tram, express coach and airport operations. NEG stated that they manage each of their businesses for growth – by investing in all aspects of their services, by working in partnership with their customers and by integrating their services with the public transport network (NEG, Annual Report, 1999).

Undoubtedly, NEG is an organisation driven by businesses, where profits are the ultimate goal. At EMA, besides increasing their operations in cargo and passengers, maximising commercial opportunities has also become an important issue, and in order to achieve it several projects have been carried out. The Cargo Development Manager described some of the projects at EMA:

One of the most significant developments for 2000 was the completion of the project to extend the runway. As part of a £20 million scheme, both the western and eastern ends of the runway have been extended, giving the Airport the 6th longest runway in the UK. The additional 610 metres has opened up a whole new range of opportunities and the Airport is now increasing its efforts to respond to customer demand and provide long-haul flights from EMA.

The Airport's Pegasus Business Park is a 45 acre site, which is being developed by Wilson Bowden Properties. The Park is expected to create 3,000 jobs over the next 8 years and will provide a showcase for East Midlands businesses along the M1 corridor.

A new 90-bedroomed Express by Holiday Inn hotel, owned and operated by BDL Hotels, also opened on Pegasus Park last August. Work is also progressing well on a new development for Regus. The Company provides 'instant' office accommodation to businesses wanting to reduce the start-up costs. The idea behind the company is that renting office space should be as simple as renting a car or a hotel room.

The latest company to take space on the site is the Radisson SAS hotel chain. Work is expected to start in the New Year on the 219-bedroom hotel, which will also feature a business centre, leisure facilities, restaurant, coffee shop and bar.

EMA is clearly aware of the importance of improving airport business with non-aeronautical revenues by taking advantage of the availability of land to develop these major projects. On the other hand, having a higher income from non-aeronautical activities makes it easier to keep landing charges as low as possible and consequently attract more operators.

7.4.6.2 Dynamic models

In the 1990's, the movement to "Dynamic Models" is a prime example of a pro-active organisation design. Dynamic organisations describe efforts to re-examine the way operations are performed and to redesign them and make them more efficient (Robey and Sales, 1994). A dynamic approach to organisational design involves looking at an organisation as a system through which work flows. The following statement was given by the Division and Research Manager:

We have an executive team, we meet on a weekly basis, which pulls together the General Managers from all the sections, engineering, marketing, operations, commercial, and so on. There is information circulating all the time. For specific projects we set up task teams and pull experts from all levels and departments for improvements.

At EMA, strategic management is encouraged by simple fluid structures with high levels of autonomy and commitment. This has been achieved by empowering people and letting them make their own decisions.

7.4.5.3 Proactive behaviour

Most organisations make changes in reaction to changes in competition or other aspects of the environment (Rajagopalan and Spreitzer, 1997). While this may be necessary, the most effective changes are proactive in nature, in anticipation of changes in the environment. In this way, firms may help to shape their future environment (Nixon *et al*, 1998). In this period, EMA plans for the future on a long-term basis in order to anticipate demands and to look for new business markets, a point reinforced by the Division Research Manager:

With the runway extension, our opportunities to grow have increased. At the moment, we are looking at the possibility for developing a long-haul market with flights to the Far East. This new market could also help to increase our commercial revenues because the duty-free shop has been badly affected since our main international service is inside Europe. I could say that we are constantly looking at continuous approaches to grow and develop as a company.

In the last few years, EMA has been involved in an environmental change in which changes and several constraints have frequently occurred. The company has been learning to be more proactive, to gather information and to plan new strategies to deal with these changes and constraints. This need to act proactively and to innovative is important in all organisations.

7.4.7 PARADIGM

As explained earlier, the concept of an *organisational paradigm* is the recognition that, at a deeper level, certain basic assumptions and beliefs are shared by the members of an organisation. The strategies that managers advocate and those that emerge through the social and political processes, as previously described, are therefore typically configured within the boundaries of this *paradigm*.

By bringing together all the previous outlined characteristics, East Midlands Airport followed a strategy and managerial style from 1993 to 2000 as laid down in the *cultural web* conceptual model. Figure 4.1 has illustrated this approach and highlights the issues associated with organisational culture, values and environmental forces.

In the last few years, regional airports have become more commercially orientated, managers have tried to generate an increasing share of revenues and profits from commercial and non-aeronautical activities. EMA has not been the exception in taking this approach; when the airport went into private ownership, several structural changes were introduced.

The new airport owners, NEG, and the Managing Director realised that EMA was a major commercial enterprise, and that it could no longer be treated as a local government department. The new strategy developed those areas where profits could increase and airport business could increase.

Clearly, an airport has limited influence over the volume and character of the passengers for whom it provides a destination or departure point. However, successful airports have demonstrated that they can influence passengers' choice of routes and carriers through the facilities they offer, scheduling, destinations, access to the airport, and other customer services (Feldman, 1996). Over the long-term, EMA has identified the capacity to develop facilities both on site and in the surrounding area that will make it attractive to the local residential and business community, but also as a venue

for international and other business events. Such developments have required significant commitments to investment in infrastructure, but they also help to ensure the airport's long-term viability by making EMA more competitive, by attracting further private capital investment, and by increasing profitability.

EMA has already begun to see the potential for expanding globally as a way to earn profitable growth for their shareholders, finance further capital investments, and build a stronger organisation. EMA has already expanded through acquisitions and management contracts, increasing the size and scope of its activities, creating partnerships, and marketing its managerial expertise.

EMA is growing fast to serve a constantly expanding number of passengers and cargo. But growth comes at great financial cost; to sustain itself, EMA has been forced to develop a proactive strategy and it has also learnt to react quickly to environmental forces. Bass (1985) argues that this management style concentrates on compromise, intrigue and control because managers focus on the process, not the substance of issues. Bass also states that these sort of managers are more likely to be proactive than reactive in their thinking; more creative, novel, and innovative in their ideas; and less inhibited in their ideational search for solutions. The sum total of these sort of transactions is referred to as a *transformational* strategic orientation which is but *proactive*, where managers' focus is on how to keep the system running for which they are responsible. Managers also react quickly to problems looking to modify conditions as needed and remaining ever mindful of organisational constraints.

Figure 7.3 describes the complete *cultural web model* for this period; it also shows the new core set of views and presumptions, which were specific and relevant to the organisation and contributed to changing the strategic management approach at East Midlands Airport between 1993 and 2000.

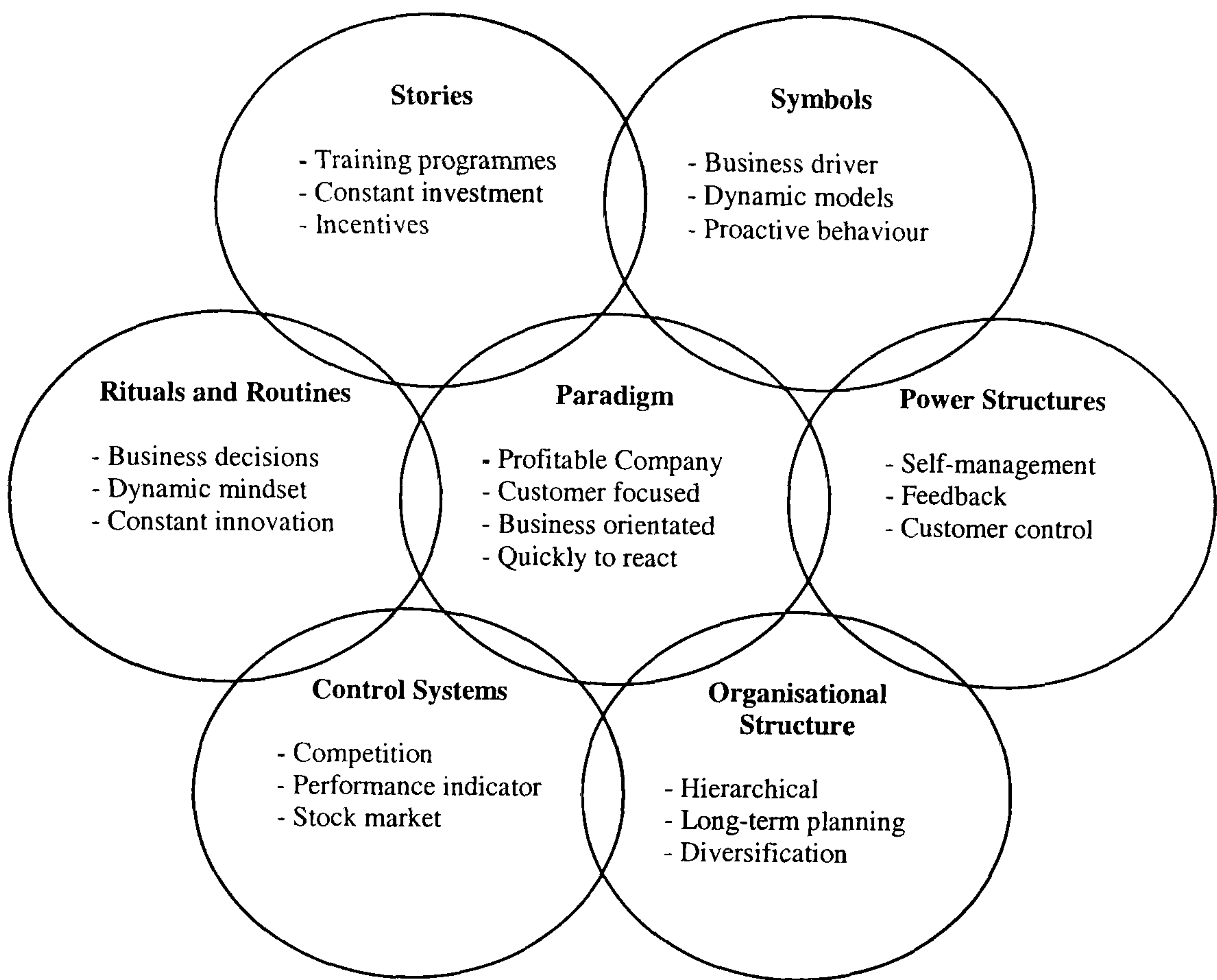


Figure 7.3 East Midlands Airport Cultural Web Model – between 1993 – 2000
Transformational Strategy – Proactive (planned)

7.5 SUMMARY

This chapter has presented and analysed mostly qualitative evidence for the strategic management capacity at East Midlands Airport over three time periods: pre-1987, from 1987 to 1993 and lastly, from 1993 to 2000. The examination of this evidence strongly indicates that EMA has radically modified its bureaucratised way of running the airport to a more dynamic entrepreneurial approach. So far, EMA has made the transition from a public to a private ownership airport with a favourable business orientation; nowadays, strategic management is more proactive and plays an important role for the organisation. A clear strategic aim and set of objectives has helped to improve strategies and provide a goal to achieve among all staff.

The application of the *cultural web model* has clearly shown the changes in strategic management during the three different ownerships at EMA. The airport’s ‘old’ (pre-1987) strong internalised culture was taken as granted for running the airport during

this period. However, changes arose with the 1986 Airports Act and the need to adapt the airport to the new conditions was imperative; the transition from an 'old' to a 'new' organisational culture during the period 1987-1993 brought about new alternatives and opportunities. The need to identify and apply a new strategy was clearly evident; however, the shareholding local authorities' beliefs and attitude to run the airport as it was before the Act was delaying essential modifications to be carried out at EMA. The lack of co-ordination among the shareholding local authorities, which had been evident under local government control, became even more obvious in the new company. This situation was causing problems and political differences between the Board members and these disagreements were gradually emphasising and affecting the airport's operations, for example, making it slow to react to changes in its operating environment.

These political differences were occurring at the time when central government was imposing greater pressure on local authorities to reduce public spending. The idea to sell the airport and to obtain a substantial capital sum from the sale to assist paying for other public services became convincing and easier to sort out divisions among the Local Authorities. Eventually, in less than one year the sale was completed and EMA was taken over by the National Express Group (NEG).

The modification in ethos and organisational culture has played an essential part within the airport's structure – the 'new' culture has strengthened new commitments, in order to operate and manage the airport with a much more proactive behaviour. However, one of the main changes has been the financial availability for airport developments, which was a crucial issue at the time the airport was privatised. The clear objectives set for the new company were well-defined and more comprehensible for all staff, which made a considerable difference to carrying out their activities at the airport. Having given to the senior managers the 'power' to run the airport, the new stakeholder made them more committed and put more effort to perform better within a *transformational* strategic orientation and a much more *proactive* stance within the new privatised company.

This completes the analysis and presentation of the *cultural web model* as applied to East Midlands Airport.

The next chapter, Chapter 8, discusses the comparison of the first and second analysed periods at Inverness Airport (reviewed in Chapter 6). It also discusses the comparison of the three periods discussed in this chapter, and lastly it contrasts the strategic management capacities between both airports by identifying the key similarities and differences.

Chapter 8

Airport Strategic Management

8.1 INTRODUCTION

The main aim of this chapter is to identify the key similarities and differences between the case studies of the two regional airports' strategic management capacities during the analysed periods. It is also to discuss whether, and how, the findings in both case studies agree with the literature review and the theory examined in chapters 2, 3 and 4; considering regional airports in different stages of commercialisation and privatisation.

The chapter is divided into four sections. In the first section a comparison of the organisational strategies for Inverness Airport before 1986 and after 1986 is presented and discussed. The second section presents and discusses two separate comparisons of the organisational strategies pursued by East Midlands Airport (a) before 1987 and 1987 to 1993, and then (b) between 1987 to 1993 and 1993 to 2000. The third section presents a comparison of the organisational strategies of Inverness and East Midlands Airports and is divided in three sub-sections as follows:

- (a) before 1986 and before 1987, respectively;
- (b) after 1986 and between 1987 to 1993, respectively and;
- (c) East Midlands Airport between 1993 and 2000 is compared against the privatisation and strategic management theory.

The fourth section discusses the findings of both case studies; these are compared with the literature review and the theory previously discussed.

8.2 STRATEGIC MANAGEMENT AT INVERNESS AIRPORT

The aim of this section is to investigate and understand the key elements involved in charting changes in the strategic management at Inverness Airport during the two analysed periods in Chapter 6.

8.2.1 INVERNESS BEFORE 1986 Vs INVERNESS AFTER 1986

The detailed case study evidence for Inverness Airport was presented in Chapter 6 and analysed by applying the *cultural web model*. A summary of the key similarities and differences before and after 1986 are listed in Table 8.1 (a), extracted from a comparison of the *cultural web models*.

- The first column, I, shows that the post-1986 organisational culture was essentially the same as the ‘old’, pre-1986 organisational culture. The elements of the two *cultural web models* show a remarkable congruence. However, if there is an indication of a change in this column, then it concerns the ‘mindset approach’. Even though the post-1986 way of thinking is still conservative, senior managers are clearly aware of the need to change the strong ‘old’ organisational culture, which has made management slow to react. Although the airport has moved forward in its approach to strategic management, the airport is still organised around the concept of *management by exception* – even though management has moved from an essentially *passive* to a more *active* orientation (Bass, 1985). However, it seems that further changes in the style of strategic management need to be adopted in order to cope with the airport’s continuing changing environment. Persisting with the essentially ‘old’ approach to strategy of slow evolution shown during the two periods of study might not be effective in the future.
- The second column, II, illustrates the fact that there were few differences between the strategic orientation which characterised the two periods of study, emphasising again the strong continuity with the previous, earlier period. However, it could be contended that these differences were not planned as a strategic response by the airport’s management since they were essentially a consequence of the Government’s 1985 White Paper on Airports Policy. The then Government asked the CAA to separate ownership and management of its airports from its mainstream business and to operate them as separate companies. As a result of

this external pressure, the hierarchical organisation and planning issues internal to the organisation had to be modified; decisions had to be made with the view to fulfil the needs of the airport. Moreover, 'resource constraints' have played a major role at Inverness Airport because the private sector, through IATL and the PFI, has been allowed to participate for the first time in a public airport. Therefore, it can be concluded that these alterations and changes were not planned from within or strategically pursued by the airport's management, emphasising once again that the organisation's basic strategic orientation remained organised around the concept of *management by exception*.

Table 8.1 (b) provides a more detail picture of the elements of the *cultural web model*, classified in the order in which they were analysed. As this shows, the control systems, power structures and symbols basically remained the same without significant changes. If there was evidence of change, it was in the element 'rituals and routines', reflecting the evidence that modifications in the way strategic decisions are managed are in process and management attitudes are changing. For example, the Airport Manager has been given more freedom to take decisions without consulting the Board. There was also evidence of change in the element 'organisational structure', for example, in the evidence of a more business orientated approach to management of the airport together with plans to developing the airport in the short-term future.

However, there is still strong evidence at Inverness Airport to suggest that *continuity* is the basis of its actual essentially *transactional* strategic orientation.

Inverness before 1986 Vs Inverness after 1986

Table 8.1 (a)

Table 8.1 (b)

I	II
SIMILIARITIES	DIFFERENCES
Communication Incentives Mindset approach Innovation Day-to-day operations Focus on volume Financial reporting Focused on operations Politicians One-direction Trade unions Far from the world Current role models Reactive behaviour	Resource Constraints Decisions Hierarchical Planning

	Similarities	Differences
Stories	Communication Incentives	Resource constraints
Rituals and routines	Mindset approach Innovation	Decisions
Control systems	Day-to-day operations Focus on volume Financial reporting	
Organisational structure	Focus on operations	Hierarchical Planning
Power structures	Politicians One-direction Trade unions	
Symbols	Far from the world Current role models Reactive behaviour	

8.3 STRATEGIC MANAGEMENT AT EAST MIDLANDS AIRPORT

The aim of this section is to investigate and understand the key elements involved in charting changes in the strategic management at East midlands Airport during the three analysed periods in Chapter 7.

8.3.1 EAST MIDLANDS BEFORE 1987 Vs EAST MIDLANDS BETWEEN 1987 – 1993

In this section, the results of the first two EMA case study analyses are reviewed by comparing the outcomes of the *cultural web model* and drawing conclusions from these two periods, before 1987 and between 1987 and 1993. In addition, the changes that have occurred within the organisation are also discussed. A summary of the key similarities and differences is illustrated in Table 8.2 (a).

- The first column, I, shows that the overwhelming majority of the elements analysed in the two case studies have basically remained the same over the two periods. The post-1987 organisational culture was essentially the same as the ‘old’, pre-1987 organisational culture. The elements of the *cultural web model* show a remarkable congruence. Thus, it can be assumed that the continuity of the ‘old’ organisational culture remained essentially the same both when the airport

was wholly publicly owned and when it became an Airport Company. The managers interviewed at EMA emphasised that the airport was running basically in the same way after the 1986 Airports Act was passed as before. There was little tangible evidence of a transformation from the ‘old’ to a ‘new’ more dynamic organisational culture along the lines hinted at in government policy of the time. Although, as the case study evidence demonstrates, for political reasons the airport did move forward over these time periods, changing its essentially *transactional* strategic orientation from *management by exception*, albeit *active*, to a more transformational strategic orientation, it seems that the organisation’s reaction was fairly slow.

- The second column, II, illustrates the fact that there were few differences between both strategies with evidence for strong continuity from the previous period. It could be said that what differences there were here mainly a consequence of externally imposed change – the 1986 Airports Act. Despite the fact that there were not enough resources to invest at the airport; in 6 years £9.8 million were invested; which by then it was fairly significant. ‘Marketing concern’ was slowly changing at the airport; despite the fact that the majority of the councillors on the Board were opposed to implementing changes in the company as they argued that they were not necessary. However, on the other hand, the pressure to become a financially self-sufficient company was gradually modifying the mindset towards a more business-orientated approach. Additionally, as a result of the creation of the new company, strategic decisions were being made with a view to increasing airport revenues. However, allocating investment remained very difficult, as public sector budgets were not sufficient to cope with the development demands of the airport’s infrastructure.

Table 8.2 (b) shows a more detailed picture of the elements of the *cultural web model* classified in the order in which they were analysed. As this shows, the control systems basically remained the same without any significant changes during the two periods. The elements which experienced greater modifications were ‘rituals and routines’. As noted earlier, the fact that the Airport Manager became Managing Director and had a seat on the Board of Directors, where strategic decisions were taken, made a small but significant difference at EMA. Changes in organisational structure (which reflected changes in power structures and relationships) showed that the process of transition

from the ‘old’ to a ‘new’ organisational culture was in motion. However, it could be argued that the majority of the modifications were caused by external pressures, in particular the need to improve services and overcome financial difficulties. Moreover, over these periods EMA started to become more aware of competition from, for example, neighbouring airports and took steps to define its market. Whipp and Pettigrew (1993) argue that strategic change and competition are a joint and inseparable process, which move an organisation forward. This evidence suggests that over these periods, EMA’s strategic orientation, reflected in its approach to strategic management, was shifting in line with this process.

Despite the fact that East Midlands Airport still exhibited evidence of resistance to change and maintained continuity in its strategic orientation, external pressures made it modify its strategic management capacity. The *transformational* approach, in which managers try to change the organisational culture and rules of an organisation, was gradually being introduced into the organisation and could be said to have been born in these periods of change.

East Midlands before 1987 Vs East Midlands between 1987 – 1993

Table 8.2 (a)

Table 8.2 (b)

I	II
SIMILIARITIES	DIFFERENCES
Communication Incentives Mindset approach Innovation Day-to-day operations Focus on volume Financial reporting Planning Politicians One-direction Trade unions Environment concern Current role models Reactive behaviour	Resource Constraints Decisions Hierarchical Marketing concern

	Similarities	Differences
Stories	Communication Incentives	Resource constraints
Rituals and routines	Mindset approach Innovation	Decisions
Control systems	Day-to-day operations Focus on volume Financial reporting	
Organisational structure	Planning	Hierarchical Marketing concern
Power structures	Politicians One-direction Trade unions	
Symbols	Environment concern Current role models Reactive behaviour	

**8.3.2 EAST MIDLANDS BETWEEN 1987 – 1993 Vs EAST MIDLANDS
BETWEEN 1993 – 2000**

In this section, the results of the third and last case study of EMA are reviewed in the light of the findings of the second case study. The outcomes of the *cultural web model* for 1987-1993 and 1993-2000 allow us to draw conclusions from these two time periods. In addition, the changes that have occurred within the organisation are also discussed. A summary of the key similarities and differences are illustrated in Table 8.3 (a).

- The first column, I, presents the similarities between the two strategic orientations identified in these two periods of study. In fact, there were just two – the process of communication and the hierarchical organisational structure had remained essentially the same. As a consequence of the privatisation of the airport, it has been shown that EMA experienced major changes after moving from public to private ownership. It can be said that these two issues from the similarities column changed during the period 1993 to 2000 but not significantly from those that characterised the previous strategic orientation between 1987-1993. The hierarchical organisational model was still present but much simpler once private ownership had been established; however, it retained the same principles.
- The second column, II, illustrates the fact that there were a huge number of differences between the two strategic orientations, with little evidence for continuity with the previous period. Emphasis on working as a team and making employees feel proud to work at the airport was an element of the change of ethos which occurred as a part of the effort to inculcate a ‘new’ organisational culture. Strategic decisions were clearly made with a strong business approach to increase commercial revenues and attract more operators. Innovation was possible due to financial support from the private sector and the new opportunity to start developing the airport infrastructure was eagerly taken up; planning for long-term goals was also now possible and a strong feature of a ‘new’ strategic managerial capability. All these changes had an important and fundamental role in the new airport strategic orientation. As can be seen in Table 8.3b, nearly all the elements in the *cultural web model* had completely changed.

Table 8.3 (b) provides a more detailed picture of the elements of the *cultural web model* classified in the order in which they were analysed. The elements which experienced significant modifications – control systems, power structures and symbols – show that there was clear evidence for a transformation process at work which affected all areas of organisational culture. Two elements, control systems and power structures, revealed that the organisation had begun to take an entirely different approach, to its strategic management. As a consequence, innovative actions were made possible by a structural change in organisational capability rather than by relying on new services, resources or market position (Doz and Thanheiser, 1993). Therefore, over these periods EMA had to overcome the self-generated bureaucratic sluggishness of the ‘old’ and transition strategic orientations, with managers needing to change fundamentally their mindset approach and engage in a process of organisational transformation. The tangible evidence in support of this approach is what Bass (1985) refers to as evidence for a *transformational* strategic orientation which by definition was *proactive*.

East Midlands between 1987 – 1993 Vs East Midlands between 1993 – 2000

Table 8.3 (a)

Table 8.3 (b)

I	II
SIMILIARITIES	DIFFERENCES
Communication Hierarchical	Resource Constraints Incentives Decisions Mindset approach Innovation Competition Performance indicators Stock market Planning Self-management Feedback Customer control Business driver Dynamic models Proactive behaviour

	Similarities	Differences
Stories	Communication	Resource constraints Incentives
Rituals and routines		Decisions Mindset approach Innovation
Control systems		Competition Performance indicators Stock market
Organisational structure	Hierarchical	Planning Diversification
Power structures		Self- management Feedback Customer control
Symbols		Business driver Dynamic models Proactive behaviour

8.4 STRATEGIC MANAGEMENT AT INVERNESS AND EAST MIDLANDS AIRPORTS

The aim of this section is to contrast the strategic management capacities of both airports by identifying the key similarities, differences and reasons for these distinctions. This analysis comprises three periods; (a) before 1986 and before 1987; (b) after 1986 and between 1987 and 1993. These two periods are for Inverness and East Midlands respectively. For the third period 1993 – 2000, EMA’s strategy will be compared against the privatisation theory and the experience of the airports discussed in chapters 2 and 3.

8.4.1 INVERNESS BEFORE 1986 Vs EAST MIDLANDS BEFORE 1987

In this section, the results of the first period of both case studies are reviewed by comparing the outcomes of the *cultural web model* and drawing conclusions from these two periods, before 1986 for Inverness and before 1987 for East Midlands. In addition, the changes that have occurred within the organisation are also discussed. A summary of the key similarities and differences is illustrated in Table 8.4 (a)

- The first column, I, shows that the vast majority of the elements analysed in the first period of the two case studies have basically the same approach. However, this is not a surprise; as, at this time, most public airports were treated as another service to be provided by governments. As a consequence, the basic assumptions and beliefs built up over the years and that were shared by the staff at both airports were essentially fairly similar. This ‘taken-for-grantedness’ was likely to be handed down over the time within both airports. The managerial function was purely operational making sure that services at the airport ran smoothly; managers used to report either when something went wrong or when the involved authorities required. Resources were limited, as in the majority of public utilities, and decisions were taken by politicians. However, it is worth mentioning that, despite the fact that both organisations shared fundamentally the same assumptions and beliefs as a consequence of being public owned companies, within these similarities, listed in column I, circumstances were also unlike. For instance, at EMA the environment was slightly different, as the interest of the politicians were closer to the interests of the airport as they were the stakeholders

and at the same time they came from the four local authorities representing the region where the airport is located. As a result of that, some issues were handled with a dissimilar approach from that seen at INV; for example, the authorities at EMA were more concerned about limiting the growth of the airport either because of the investment required or the environmental issues involved.

- The second column, II, shows that despite the fact that both airports shared a wide range of attitudes and beliefs during this time, there were also some important differences. For instance, Inverness Airport was managed by the CAA, an organisation created to control and regulate UK airports, whose staff, located in Edinburgh, were responsible for ‘managing’ Inverness Airport. The fact of being 162 miles away from the airport contributed to poor communication between the CAA and Inverness which was deficient, vague, and without sufficient feedback to let the staff at the airport know how well or badly the airport was performing. On the other hand, East Midlands was managed by four local authorities, which split up the administration tasks to manage the airport. Despite the fact that these stakeholders also lacked, as did the CAA, appropriate knowledge in management they were closer to the airport’s matters in terms of interest and physical location. EMA was treated as a local department; and the Airport Joint Committee used to have meetings to co-ordinate the airport operations. The airport manager could speak directly to a representative of the Airport Joint Committee to bring up particular subjects concerning the airport, although it was not guaranteed that some action would occur as a result of his recommendations. Another important difference between these airports is the deeply entrenched symbol that Inverness Airport is a remote area, which makes it difficult to attract operators and people.

Table 8.4 (b) provides a more detail picture of the elements of the *cultural web model*, classified in the order in which they were analysed. As can be seen, the control systems, organisational structure and power structures are basically the same for both airports, with similar approaches but within different environments. Where there is more evidence of dissimilarities is in the stories, rituals and routines and symbols elements; all these issues have a much deeper relation with the organisational paradigm. For example, the mindset approach for both airports was to complete routine work; at Inverness running the airport on a day-to-day operational basis was taken for granted. In the meantime, at East Midlands the mentality was that the airport

should not annoy the people in the surrounding areas, the few charters and scheduled services were enough to satisfy the airport’s objective.

During this period, at both airports bureaucracy was founded on a formal, clearly defined and hierarchical structure. However, with rapid changes in airport’s external environment, there was an increasing need to organise for flexibility. Peters and Waterman (1982) found that excellent organisations perform better when their organisations are fluid, and have intensive networks of informal and open communications.

It can be argued that despite the fact that the majority of the elements of the *cultural web model* are similar between both airports, their organisational paradigm was significantly different. However, whatever attitudes and beliefs are adopted by an organisation there will always be a number of strengths and weaknesses depending on the context of the individual environment and patterns of management, as it has been previously explained.

Inverness before 1986 Vs East Midlands before 1987

Table 8.4 (a)

I	II
SIMILIARITIES	DIFFERENCES
Resource Constraints	Communication
Incentives	Mindset approach
Decisions	Far from the world
Innovation	
Day-to-day operations	
Focus on volume	
Financial reporting	
Planning	
Hierarchical	
Operations	
Politicians	
One-direction	
Trade unions	
Environment concern	
Current role models	
Reactive behaviour	

Table 8.4 (b)

	Similarities	Differences
Stories	Resource constraints Incentives	Communication
Rituals and routines	Decisions Innovation	Mindset approach
Control systems	Day-to-day operations Focus on volume Financial reporting	
Organisational structure	Planning Hierarchical Operations	
Power structures	Politicians One-direction Trade unions	
Symbols	Environment concern Current role models Reactive behaviour	Far from the world

8.4.2 INVERNESS AFTER 1986 Vs EAST MIDLANDS BETWEEN 1987 – 1993

In this section, the results of the second analysis of the case studies for both airports are reviewed by comparing the outcomes of the *cultural web model* and drawing conclusions from these two periods, after 1986 for Inverness and between 1987 and 1993 for East Midlands. In addition, the changes that occurred at this time within the organisations are also discussed. A summary of the key similarities and differences is given in Table 8.5 (a).

- The first column, I, presents the similarities between the two strategic management capacities distinguished in these two periods of study at the organisations. Between 1986 and 1987 the two airports experienced a crucial transformation in their organisations and as a consequence, they were involved in a significant change for their strategic management from the previous period. Although, they were still owned by the public sector, their main organisational principles remained strong but to a different degree. Both airports improved many issues from the previous analysed period but despite the enhancement in some areas many gaps still needed to be filled. For instance, the mindset approach of the organisations had to be altered to take into account the awareness that they had to start to “stand alone” because Inverness became ‘independent’ from the CAA and EMA had to be financially self-sufficient. Management concern increased and so decisions needed to be made more accurate, the responsibility to operate both airports was placed more directly with the airport’s staff. However, since both organisations had a particular previous strategy, both tended to develop from and within that strategy, rather than fundamentally changing direction.
- The second column, II, illustrates the differences between the airports. These differences are mainly a consequence of the 1986 Airports Act; EMA had to operate as a commercial undertaking. The new company started to invest more in the airport infrastructure development, decisions started to be taken more with a business approach to begin improving profit. This situation helped to awake a marketing concern and consequently to enlighten some other areas such as planning with a more accurate approach for the short-term future. Whereas in Inverness, the pressure to minimise costs and generate profits, has to date been basically non-existent. Moreover, the strong thought that Inverness is physically

remote from the rest of the world is still there. At the time when interviewing senior managers at Inverness, it was explained that despite the airport's remoteness the need to make the organisation proactive is increasing and they are working to establish some guidelines for the short-term future.

Table 8.5 (b) presents a picture of the elements of the *cultural web model* classified in the order in which they were analysed. As can be seen, the control systems and power structures are very alike in both organisations, this shows clear evidence of the strong public sector mentality restricting the control and power in public organisations. However, the modification in issues such as decisions, planning and marketing concern reveal that a commercialised organisation needs to make strategic changes to survive in the increasingly commercialised new environment. EMA, if it wanted to succeed in its new approach, had to overcome the "old" strategy and to start transforming its bureaucratic and political atmosphere to become much more active in making the right decisions to increase the airport's performance. Muller (1999) states that management is essentially an integrated activity which permeates every facet of the operations of the organisation, then it is becoming increasingly important for managers to understand the culture and organisational behaviour. The local authorities at EMA started to recognise the importance of the informal organisation, which would always be evident within the present structure. This informal organisation would influence the motivation of employees who would view the airport through the values and attitudes of their colleagues instead of defined structures. Johnson and Scholes (1997) discuss the staff's view of the organisation determines their approach to work and the extent to their motivation to work well or otherwise.

On the other hand, Inverness is already aware of this "new" environment and is preparing to start tackling it, in spite of its remoteness. The increasing scale of airport privatisation and the blurring of commercial interest have led to modify Inverness' mindset approach. Nowadays, at Inverness Airport there is awareness to increasing pressure to ensure cost-effectiveness, investment by private sector involvement, and efficiency and economy in their short-term future.

Inverness after 1986 Vs East Midlands between 1987 – 1993

Table 8.5 (a)

Table 8.5 (b)

I	II		
SIMILIARITIES	DIFFERENCES		
Communication	Resource Constraints	Stories	Communication
Mindset approach	Decision	Rituals and routines	Incentives
Hierarchical	Planning		Innovation
Incentives	Marketing concern	Control systems	Mindset approach
Innovation	Far from the world		Day-to-day operations
Day-to-day operations			Focus on volume
Focus on volume		Organisational structure	Financial reporting
Financial reporting			Hierarchical
Politicians		Power structures	Planning
One-direction			Marketing concern
Trade unions			
Environment concern			
Current role models		Symbols	Environment concern
Reactive behaviour			Current role models
			Reactive behaviour

8.4.3 EAST MIDLANDS AIRPORT BETWEEN 1993 AND 2000 VS PRIVATISATION AND STRATEGIC MANAGEMENT THEORY

In this section, the results of the third period of the EMA case study analysis is reviewed by comparing the outcomes of the *cultural web model* against the privatisation and strategic management theory, discussed in chapters 2 and 4, and drawing conclusions from these analyses. In addition, the changes that have occurred within the organisation during this period are also discussed.

Virtually every single element examined in the *cultural web model* changed from the previously analysed period. The first difference mentioned by the airport manager was “huge investment went into the airport after privatisation”. When East Midlands was taken over by the National Express Group developments went ahead in the airport’s infrastructure. This had been virtually impossible in the public sector, and a wealth of opportunities opened up when the highest amount of capital expenditure was committed since the airport opened. The privatisation at EMA removed the financial burden on the local authorities of funding the airport development and promoted a commercial focus on the business.

As a result of freeing EMA from political interference in managerial decision-making, many positive impacts were experienced such as quicker decision making that was appropriate for the benefit of the company itself.

Additionally, having shares in the stock market means there is a constant pressure for employees to perform better, or 'there is the risk of losing their job' as the Cargo Development Manager mentioned. However, at EMA in order to motivate staff, and as a part of the benefits from the company, there is the reward of participating in with a share incentive scheme and the organisation will very likely be recompensed from the effort of its staff. Bassett (1994) discusses that by restructuring the nature of work itself, and providing job enrichment by motivating staff and making it more interesting and challenging, increase job satisfaction.

Anderson and Hill (1996) state that privatisation restores incentives, but some changes need to be made. At EMA the management team made a significant effort to change the ethos and 'mentality' among staff and shifted the airport into profit-seeking behaviour. The airport manager mentioned that all these changes would have been difficult to achieve under the public ownership control. The transition to a transformational strategy – proactive – triggered the wish to improve productivity by creating a job restructuring to motivate staff to work well for the benefit of the airport. Muller (1999) argues that the job enrichment attempts to enrich the job by incorporating motivation or growth factors such as increased responsibility and involvement, opportunities for advancement and the sense of achievement. This strategy was established by the National Express Group when they gave the overall responsibility to EMA's managers to operate the airport, as they were the 'experts' doing so. He also states that the situations that people find most satisfying and rewarding are invariably those which provide authority and responsibility.

The union's job is not only to improve the terms and conditions of workers in real terms, but also to enhance the quality of working life in every aspect. Bishop *et al* (1984) state that trade union's power is weakened in private organisations. At EMA, the airport manager was never given the power or responsibility to deal with the trade union, the representatives had to deal directly with the local authorities. However, as mentioned, when EMA became a company, trade unions were gradually losing power and eventually the staff at the airport were reduced from nearly 500 in 1987 to less than 250 in 1997. Some staff were disappointed regarding the modifications that the

company was carrying out and others simply did not like the changes that were taking place; therefore, the company also offered opportunities to leave.

8.5 CASE STUDIES VS THEORY

This section presents the findings of both case studies; these are compared with the literature review and the theory discussed in chapters 2 and 3. It is divided into three main sub-sections: a) financial, b) regulation and c) privatisation.

8.5.1 Financial

As discussed in chapters 2 and 3, and after having examined and analysed the EMA case study, one of the main reasons for privatising the airport was to raise finance. This reason has been discussed by several researchers such as Cook and Colin (1995), Gayle and Goodrich (1990), Bishop and Kay (1989), Vickers and Yarrow (1988), Millward and Parker (1983). At EMA, after the significant investment placed by the new owners (NEG), substantial modifications within the organisation and in physical development were carried out to cope with future demands, which would not have been possible without the private sector participation. However, some researchers (Bishop *et al*, 1984; Cowan, 1994) have pointed out that one of the risks of privatisation is that the new stakeholders might not re-invest the revenues generated by the organisation to maintain the continuous development of the organisation. This theory can not be confirmed since in EMA's case, NEG's philosophy was to re-invest profits so the airport could ceaselessly develop to allow the organisation to continuously forge ahead.

On the other hand, as discussed in Chapter 3, the private finance initiative (PFI) has brought about a significant change for airports which are publicly owned. At Inverness Airport, the PFI has had a great impact; the agreement is that landside and airside functions will be split; thus the new company – IATL – will maintain, manage and own the terminal building for the next 25 years whereas HIAL will manage the airport operations. IATL took the risk of building the new terminal building and will be responsible for finding the best strategies to increase passenger numbers at the airport. It seems that the new management will take a business approach to increase commercial revenues; this means that the transfer of risk has moved into the private

sector and away from the public sector, which is one of the benefits associated with the use of private finance.

As can be seen, public airports have found a great opportunity to finance their infrastructure avoiding the proceeding of borrowing from the public purse. This can be a perfect example of a public airport becoming commercialised without being privatised.

From a financial point of view, the characteristics of INV and EMA as public airports – before 1986 and 1987, respectively – and EMA as public airport but commercialised – from 1987 to 1993 – have been analysed. The benefit of the Private Finance Initiative (PFI) in Inverness with IATL as public airport and, lastly EMA as private airport – from 1993 to 2000 – have also been discussed. The findings indicate that the alternatives are plentiful but strictly depend on airport's goals and what future plans have been laid down for the organisation. What can be said is that to a large extend, a public airport commercially orientated is also transformed in a similar direction without the time and financial resources required to privatise an airport.

8.5.2 Regulation

Privately owned airports, as they are considered monopolies, require regulation to ensure that their market power is not deployed to the disadvantage of consumers (Francis and Humphreys, (2001). In the UK, airports are subject to some form of economic regulation by the CAA relating to permission to levy charges for aeronautical services and it has been useful in keeping some sort of control over the benefit to airport's users.

As discussed in Chapter 3, the majority of governments in different countries have decided to privatise part of their air transport system by transferring their airports' management, operation and development – but not ownership – to the private sector. The main reason for these governments for maintaining ownership, as was discussed in Chapter 3, is that they can retain control of their air transport network and ensure the continuation of their air transport industry without financial risks. Therefore, it can be said that the majority of governments worldwide are commercialising their airports, taking advantages of the private sector without jeopardising control or losing direction of their airports.

On the other hand, if governments prefer to go further and privatise their airports then by regulating them, assessing new ways of looking at them and giving new management objectives it is possible to success and transforming a “government service” into a profitable organisation (Freathy and O’Connell, 1999).

The case studies presented and discussed in Chapter 3 show different reasons for the transfer of responsibility. However, it has been argued that governments need to pursue the suitable application of regulation in order to shelter the interest of the public (Self, 1993). The advantages, following the 1986 Airports Act, have benefited the airport industry since airport management was given the power to take their own decisions as well as powers to set airport charges. The benefits have been well used by EMA offering discounts in landing fees in order to attract more operators, despite the fact that landing fees are very likely to be a small part of operators’ overall, expenses, nevertheless it has worked out in some cases. Mintzberg *et al* (1998) argue that the nature of managerial work is to adapt the organisation in a controlled way to changes in its environment, and if competition is present then managers have to look for new ways to attract customers.

8.5.3 Privatisation

Generally, the fact of transferring assets from state to private ownership is inherent to some others purposes such as freeing public sector organisations from the constraints of public sector external borrowing limits. While previously public airports funded their limited investments from government borrowing, private airports now fund investment from charges levied on customers and largely from their own profits.

It has been noted that ownership transfer need not, of itself generate any gains. If privatisation comes without changes in management, then working practices are unaffected and this means that the transfer has not generated any incentives to greater beneficial modifications to the organisation. Yarrow (1989) argues that “ownership matters because the transfer of a firm from the public sector to the private sector will lead to change in the incentive structures facing its decision makers”. However, this can be done without transferring ownership as happened at Inverness Airport in 1986 and 1995, when new members were appointed to the Board. As could be seen, in both case studies when strategic decisions are taken by elected members, they are not

necessarily the most efficient for improving an organisation's performance. At EMA, the airport manager mentioned the fact that the airport becoming a company in 1987 was definitely a considerable change but this change had no comparison with becoming a private company. One of the main reasons is that local authorities will not take the best strategic decisions for the benefit of the airport because of the many political interests involved in the process. This can be reinforced with Veljanovsky's (1989) statement 'the first obvious benefit is that privatisation depoliticises organisations'.

The case study of EMA has confirmed that privatisation contributed to the rebalancing of control between trade unions and management as Vickers and Yarrow (1988) stated it. The weakening of trade union power has allowed management to achieve remarkable reductions in employment without provoking disruptive disputes.

Beesley (1997) argues that being in a competitive environment will encourage efficiency in the organisation; however, this increase in efficiency has not yet been proven (Park, 1997). The employment of large numbers in airport security and the capital intensive nature of the airport business have led to claims that the scope for efficiency gains are less within the control of airport management than in many other industries (MMC, 1991).

Since privatisation, East Midlands has improved its services; however, Vernon-Wortzel and Wortzel (1989) suggest that 'the determinants of a firm's success or failure are not who owns it' the organisation's success or failure regardless of ownership, is a matter of exercising an appropriate strategic management. One clear example of this is the fact that when EMA was privatised virtually the same staff remained since the owners (NEG) regarded them as 'experts'. This issue triggered significant changes at the airport which were basically due to the freedom given to the staff to run the airport and rely on their capacity.

In general, private companies are also subject to the need for clearer performance indicators, in particular the stock market or share price requires the monitoring of management performance (Yarrow, 1989). EMA's discipline is much greater since its shares are traded on the stock exchange and if the decisions of investment and the way the organisation has to increase the business are not right, it is reflected in the share price. However, despite the fact that EMA is only a small part of NEG (less than

5%), the difference was greatly perceived in the organisation as all the staff interviewed emphasised it.

In short, it can be highlighted that despite the fact that Inverness is a public airport and East Midlands is private, several constraints have been found to be similar. One of the main reasons is the awareness of both airports of the new increasingly commercialised environment of the airport industry.

Nowadays, it is relatively easy to find information regarding public and private airports; however, it is important to emphasise the difference between a public airport, public but commercialised airport and a private airport. The theory refers to public and private airports without mentioning commercialised public airports within these categories. These differences between a private airport and a commercialised airport are narrowing significantly. The crucial difference is that private organisations are subject to a more demanding discipline as a consequence of the fact that its shares are traded on the stock exchange. Besides this reason – that is a considerable distinction – aims and objectives are becoming shared such as the pursuit of profits and growth of the organisation.

8.6 SUMMARY

At this point in the research, it can be summarised that the strategic management capacities at Inverness and East Midlands changed during the periods analysed, but in different ways and to different degrees.

It is worth mentioning that in the Inverness case study two big changes in its strategic management occurred. Firstly, in 1986 when it became independent from the CAA and secondly, in 1995, when it was transferred to the Scottish Office. All the time, the airport has been under public ownership, and despite this its objectives, incentives, structure and, to a certain degree, its management behaviour have changed. These changes show that to alter the performance of an organisation it is not necessary to transfer the organisation from public to private ownership; what is important, as Vernon-Wortzel and Wortzel (1989) state, is ‘hiring the right managers and let them carry out their jobs’. The changes at INV have been mainly due to the changes in senior managers, alterations in its approach to management and setting up ‘new’ objectives. Of course, it is not this straightforward but changes in an organisation do

not depend exclusively on their ownership (Potts, 1999). There are many more issues to analyse and take advantages from, as have been discussed, than just the transfer of ownership of airports.

As mentioned previously, East Midlands started to react after becoming a company in 1987, initially reaction was slow either because of stakeholder resistance to concede control or their lack of experience in confronting a new environment; however, the progress to act as an independent company was in motion.

After EMA's privatisation, the main changed was the financial investment, which triggered modifications in different areas; planning, a new mindset approach, a deeper marketing concern, a more focused business approach, increasing feedback from customers, etc. When a significant amount of investment is placed in an organisation, managers have to develop their skill for making the right choices of what services to offer and how to allocate corporate resources to achieve a sustainable advantage.

For instance, the introduction of the Private Finance Investment (PFI) at Inverness Airport has triggered many managerial issues; which must be dealt within the near future. The new company IATL has placed a considerable amount of investment at the airport and now, together with Inverness Airport, they are working to set up new objectives and to increase commercial activities pursuing a similar path to a private airport: a shift into profit-seeking behaviour.

During the transitions analysed in both airports – Inverness and East Midlands – staff were motivated to work in co-operation with others by both extrinsic factors, such as monetary rewards, and intrinsic motivators, such as recognition for achievement, responsibility, growth and advancement. Peter and Waterman (1982) particularly emphasise that intrinsic motivation is the most powerful of the motivations and is increased when jobs are enriched, and are brought up to the skill levels of those performing them. However, this is not directly related to privatising or transferring the ownership in an organisation, but bringing about a significant change within the organisation, such as new objectives and working practices.

The next chapter will present the findings and conclusions drawn from this research; it will also suggest some directions for future research.

Conclusions and Recommendations

The chapter is divided into four sections. The first section provides a recapitulation of the research, giving an overview of the investigation including a brief discussion of the previous chapters. The second section addresses the main findings and this is where the most important evidence of the research is summarised. The third section presents the contribution of the research. The final section critically reflects on the research undertaken and discusses the strengths and weaknesses of the approach; it also suggests future research themes.

The overall aim of this research has been to investigate and understand the key elements involved in charting changes in the strategic management of regional airports. Using a case study approach, two regional airports were selected for investigation: Inverness and East Midlands.

The significance of privatisation, regulation and financial issues have been examined and their importance for the airport industry discussed. The airport business environment worldwide was also reviewed and the main events that are currently happening worldwide have been outlined. An analysis of the environment in which UK airports operate – from political, economic, social and technological (PEST) points of view – was also carried out. Within this context, key concepts associated with strategic management were presented and discussed. The *cultural web model*

was identified as having the potential to explore the links between strategic management, organisational behaviour and the external operating environment of the two case study airports.

With the application of the *cultural web model*, it was possible to outline and establish the key elements considered as contributors to organisational culture and the development of strategic capability in the two regional airports. A case study approach was then applied to examine the strategic management and operational strategy pursued by Inverness Airport during two periods – before 1986 and after 1986 – and East Midlands Airport during three periods – before 1987, from 1987 to 1993, and from 1993 to 2000. Followed by a comparison of both airports, this analyses comprises two periods a) before 1986 and before 1987, b) after 1986 and between 1987 and 1993; both periods are for Inverness and East Midlands respectively. Then, the third period analysed for East Midlands (1993-2000) was compared against the privatisation and strategic management theory. The final section discussed whether, and how, the findings agree with the literature review and the theory discussed in chapter 2 and 3; considering different stages of commercialisation and privatisation.

These two cases have been analysed with a view to providing a comparison of the management strategies both within and between Inverness and East Midlands airports over time. The *cultural web model* was applied to evaluate both airports, and provides the basis for the comparative analysis here.

In order to achieve this, the similarities and differences between the strategies adopted in the periods specified in both airports have been investigated. An attempt has been made to identify elements within the strategies pursued which showed a high level of similarity and those where differences were apparent.

9.3 MAIN FINDINGS

The analysis of the evidence on which these case studies' comparisons have been based has followed the principles of the *cultural web model*, devised by Johnson and Scholes (1997). The approach has been applied for the first time in the airport industry in order to compare the strategic management capacity of two regional airports. It has proved to be a very useful analytical tool. From the analysis using the

cultural web model, many conclusions have already been drawn here and in previous chapters. However, the main findings of the research are summarised below under the headings of ‘financial constraints and opportunities’ and ‘strategic management’.

9.3.1 Financial Constraints and Opportunities

An important factor underpinning this research has been the recognition of the importance of capital investment in airports, whether publicly or privately owned. As noted in Chapter 2, one of the main arguments for privatising airports has been to open up new financial opportunities for such investments. However, as a consequence of the recent opportunity for public airports to obtain funds for capital investment through the PFI, and now the PPP, it seems that the gap between public and private regional airports may be narrowing. The current trend at Inverness is to rely more on commercial activities to contribute an increasing share of airport revenues, resulting in less dependence on revenues from airside charges and subsidies. This may be achieved and exploited further as a consequence of the agreement with IATL through the introduction of the PFI. Public airports which have or are to become commercialised trigger several issues of strategic significance, such as them becoming less willing to provide uneconomic services and to be aware of the importance of trying to reduce costs and to depend less on public finance. In many cases, this has led to the contracting out of services at both public and private airports. However, a privately owned regional airport like EMA appears to be willing to take more risks and to see themselves operating with a persuasive business approach while public airports like Inverness still have a firm conviction about the need to serve their community. It has also been found that shareholders appear to be willing to re-invest airport generated profits into further airport development projects. On the other hand, regulation is still considered a very important issue for controlling mainly private airports, but setting airport charges purely on the basis of average costs might conflict with incentives to seek to increased terminal or runway capacity to meet demand. If trade-offs are involved, the guiding principle of maximising the total value to society appears relevant (Self, 1993).

9.3.2 Strategic Management

Today it appears that differences between regional airports in public and private ownership may be reducing, mainly because of the introduction of a more commercialised approach in public airports. It is important to highlight the fact that publicly owned regional airports may now be classified into two main types: those that are commercialised and those that are non-commercialised.

This option has made public airports more aware of the need to be more proactive in the incorporation of commercial opportunities into their management strategies. The transfer of Inverness Airport from the CAA's HIAG to a new publicly owned company, HIAL, triggered the change in their strategic management in moving from an essentially passive approach to management to one which was more active. This led them to recognise the need to become even more dynamic if they wanted to reduce reliance on subsidies and move to become a profitable organisation. These changes seem to have accelerated in more recent years following the agreement with the IATL Company. At the time the interviews took place, it was stated that IATL would be introducing a range of commercial activities and would be responsible for the terminal building operations, events that would be achieved without the privatising of Inverness Airport. These options and examples offer to public airports a new scope for improving efficiency and to depend less on public finance to develop airport infrastructure to meet future demands.

This research has also shown that strategic management capability plays an important role in the running of an airport, but that trying to understand the culture of an organisation like a regional airport is not easy or straightforward. Attitudes and beliefs shared by managers' affect the performance of an organisation. Thus, it can be said that the restoration of incentives is not exclusively a characteristic of an organisation that becomes private, it is more about managers' skilful running of that organisation. At EMA, the Airport Manager was the same person during three different forms of ownership and, as has been shown, the airport's strategic orientation was very different as the conditions, incentives and aims of the airport were changing. For example, the change in strategic management based on political interference to one based on the introduction of a business approach to running the airport was tangible evidence of the ability to engineer a transformation in internal organisational culture. Although a clear aim of the 1986 Airports Act was to give power to managers, at

EMA the newly titled Managing Director was still struggling to be heard at Board meetings. However, for EMA, there can be little doubt that the real change in organisational culture came when the airport was privatised. One of the chief reasons for this transformation was the freedom given to managers to run the airport as they were seen as airport experts. A further reason was that privatisation presented managers with an opportunity to set clear and defined objectives for the airport, since public airports – as has been shown – often do not have well defined objectives.

However, there are some important comments to make in this respect. Although, Inverness Airport moved from a *passive* to a more *active* approach in the post-1986 period, EMA had already followed the active approach and was moving towards a *transformational* orientation. This means that Inverness Airport's current strategic orientation was in use at EMA at least ten years previously. On the other hand, the introduction of private capital through IATL and the PFI is bringing about major changes at the airport, and with it changes in the airport; approach to strategic management. The fact that a public airport like Inverness has recently gained access to sources of private capital and is also implementing a more commercial approach may reduce the gap between public and private airport ownership further.

It has also been confirmed what Whitaker (1978) stated that the trend of people's willingness to put forth an all-out effort to earn more seems to be less evident than it was in the past. By giving responsibility to staff, employees are more committed to do a better job without expecting remuneration (Thompson, 1995; Muller, 1999). Both statements were put forward by the Division Research Manager when she was asked about incentives; she replied that the responsibility given by NEG to the manager team made them try harder to perform better in order to fulfil the owner's confidence (see section 7.4.1.3).

However, the change in organisational culture, of ethos and values, is not necessarily achieved only in private companies, since at Inverness a considerable change was achieved in 1995 when new members of the Board were introduced and brought new ideas regarding the operation of HIAL. It is undeniable that the external environment creates continual pressures for organisational transformation and this requires modifications and adaptability within any organisation. As a consequence, strategic management orientations need to be under constant review and exhibit the capacity for change. Therefore, in order to survive in a dynamic environment like aviation, an

emphasis on continuous organisational restructuring/refocusing is vital – even for regional airports like Inverness and East Midlands.

9.4 CONTRIBUTION OF THE RESEARCH

This section discusses the benefits and contributions of the findings that have been drawn from this research for researchers, airport managers and airport owners. It also explains the importance of the achievements and how they should be applied.

9.4.1 Relevant for Researchers

As mentioned previously, the *cultural web model* was applied to evaluate both airports, and this has been tested and perceived to be a very useful tool for achieving a comparison of the strategic management capacities of airports.

Researchers within several fields may benefit from the model as it provides advantages such as the influence of managerial experience within a political and cultural context. A clear understanding of how such influences come about and their impact is important. The key issues for developing strategies in complex changing environments, and the possibility of identifying traditional mechanistic ways of inadequate procedures; i. e., being very sensitive to signals from the wider culture of the organisation in question are also important.

The *cultural web model* can also be applied when studying either different organisations or the same organisation over prolonged periods. Its flexibility in its possible use by several participants – researchers, managers, shareholders, owners and so on – who are concerned with understanding the environment and strategic position of the organisation makes it a potentially powerful tool for further research. Therefore, it makes a vital contribution to the achieving of a deeper analysis of the key influences of the past, present and future, in order to evaluate the well-being of an organisation, and assess the opportunities which can be afforded by the environment, and the competence of the organisation.

9.4.2 Relevant for Airport Managers

The findings also revealed critical data concerning Airport Managers. Notably, managers need to be aware of their strategic management skills, since operational airport knowledge is no longer sufficient for running an airport in a new found commercial environment.

The changes identified in both airports before 1987 mainly occurred as a result of external pressures and political factors, and they were not brought about as a result of strategic planning. Therefore, managers ought to set strategic objectives to be pursued and advise their staff to take a more dynamic approach. Additionally, the management team should provide clear evidence of the ability to move towards a transformational proactive strategic management capacity, where managers focus not only on operational tasks but also on strategic processes. Senior managers need to place a greater emphasis on the financial and managerial side of airport development. They also need to incorporate the economic and developmental benefits into their managerial team through adequate and relevant training. Nowadays, Airport Managers have a greater responsibility and power to run airports and should be aware of all the changes implied by this.

9.4.3 Relevant for Airport Owners

Airport owners – governments, local authorities, private companies, and so on – are aware that the air traffic industry is growing. Therefore, in order to cope with this phenomenon, airport infrastructure needs to be developed. As explained earlier, there are different approaches, which airports are taking, the most common approach is that airports are seen as businesses in many countries. Also, regional airports are given greater freedom to operate commercially in order to produce profits or at least to reduce their deficits. Both case studies are useful examples for airport owners, whatever their form of ownership they should be able to define exactly the airport's aim and objectives and make them clear to their staff. The findings in this research have shown that the close ties between airports and their owners have been progressively loosened with beneficial consequences. By investing in training programmes, airport owners can change their approach to the management of their airports, which is essentially an investment in the company itself.

In the case of public airport ownership, it is beyond doubt that – even allowing for evidence of convergence between publicly and privately owned regional airports as a consequence of increasing commercialisation of the former – there are significant differences between their strategic management capacities and those of privately owned airports. If airport owners are keen to enhance their operations by offering better facilities or services, the management team needs to focus on strategic objectives as well as tactical processes and results.

In short, if public airport owners want their airports to become ‘independent’ of their limited resources available, the PFI is one advantageous option. Governments can still have the control and take away the risk of investment from the public sector by commercialising public airports; thus, to a large extent obtaining the benefit of developing their airport system without making large investments.

9.5 CRITICAL REFLECTIONS and FUTURE RESEARCH NEEDS

Overall, it can be concluded that the strategic management capacities at Inverness and East Midlands changed during the periods analysed, but in different ways and in different degrees. It can also be said that the relationships between the strategies pursued by these airports and their ownership were strongly linked.

In arriving at these conclusions, this research applied a number of different theories and concepts – privatisation, the *cultural web model*, and transactional and transformational strategic management orientations – to essentially qualitative evidence and data. These theories and concepts have strengths and weaknesses. For example, privatisation theory has been applied to several sectors and it is relatively easy to find information about these experiences. However, when it is applied to the airport sector, and regional airports in particular, the lack of experience in this area makes it difficult to reach hard and fast conclusions.

The *cultural web model*’s strengths are to be easy, assessable, and relatively straightforward to understand and utilise. It has been perceived to be a very beneficial tool, which can be applied in various research fields. The experience of using it throughout this research, emphasise the advice to apply the model in further research. It is also suitable for making comparisons between different organisations in different periods since it encompasses such a large scope of qualitative information. This

strength is also however its weakness, since the lack of concrete guidelines to help the researcher to group factors into elements has to be based on the personal experience and knowledge of the researcher. Lastly, the theory to do with transactional and transformational orientations to strategic management include concepts which are fairly easy to group since they offer a broad representation of management behaviour in pretty much any organisation under analysis. However, there is still some debate between organisation researchers about whether transactional or transformational strategies are really at the opposite ends of a continuum or whether they reflect differences in tendency only.

The strengths and weaknesses of the theories, which have been applied in this research, are summarised in Table 9.1 (a).

Table 9.1 (a) Strengths and Weaknesses of the Theory

THEORY		STRENGTHS	WEAKNESESS
	Privatisation	<ul style="list-style-type: none">- Applies to a variety of sectors.- Current.- Growing trend.	<ul style="list-style-type: none">- Lack of experience to draw general conclusions for airports.- Limited information about airport privatisation.
	<i>Cultural web model</i>	<ul style="list-style-type: none">- Understandable.- Structure consistency.- Suitable for making comparisons- Encompasses a large scope of information.	<ul style="list-style-type: none">- Researcher selects the factors to be analysed.- Unclear as to which factors should be placed in the elements.- Leans towards self-appraisal.
	Transactional & Transformational Theory	<ul style="list-style-type: none">- Simple to comprehend.- Adaptable to a variety of organisational contexts.	<ul style="list-style-type: none">- No clear agreement to consider transactional and transformational strategies to be opposite ends of a continuum.

Through the conduct of the analysis, some strengths and weaknesses were found in both sets of case studies. The main strength was having the opportunity to conduct in-depth interviews with senior and experienced managers. For example, Inverness Airport’s manager, who has been in the airport sector for 25 years, having started working for the Highlands and Islands airports when they were managed and operated by the CAA. This was very helpful as it made it possible to obtain information over the whole period of the case study. His approach to the rest of the staff was simple

and friendly, which created an atmosphere at the airport where titles and positions were not of primary importance (Flynn, 1990). At EMA the ex-Managing Director was interviewed several times, while he was still working for the airport and when he became a freelance consultant. His attitude was constructive and critical and he was willing to share his experience of 33 years in the airport industry and discuss how the airport had changed with both transfers of ownership. Such people from senior management have first hand information and a broad knowledge of the management and main activities undertaken within their airports, so to have had the opportunity to discuss with them strategic management issues at their airports was a great advantage for this research. However, to a certain degree, the limited number of interviews and interviewees can be considered, as a weakness of this research. The main reasons for this are as follows: Firstly, it can be considered that interviewing more employees would have increased the different points of view of the organisation. Secondly, in both case studies the interviews were limited to employees who have worked at these airports during the analysed periods. Thirdly, it should not be forgotten that the capacity of strategic management was more often that not in the hands of just a few key individuals.

It is also worth mentioning that one of the weaknesses of carrying out interviews is that the informant may be bias and reveal in favour or against a constraint that could well be more personal than a fact. As a result of this, the researcher has to be aware of certain obstacles in the process of collecting, analysing and interpreting the information required.

Lastly, the researcher has to be aware of the risk associated with asking interviewees to look back on past events. When organisations have changed over the years, people can easily misjudge the requirements needed in the past and consider the previous period with present demands. The risk of post-event rationalisation has to bear in mind all the time by the researcher in order to achieve an objective and impartial analysis. The strengths and weaknesses of the case studies analysis are summarised in Table 9.1 (b).

Table 9.1 (b) Strengths and Weaknesses of the Analysis

		STRENGTHS	WEAKNESESS
ANALYSIS	Inverness	<ul style="list-style-type: none">- Information from the Airport Manager.- Cross-sectional information.- Basic airport operations.- Domberg and Piggot's theory was confirmed: public airports have absence of clear objectives, cost minimisation has not priority and incentives are not compatible with the pursuit of efficiency.	<ul style="list-style-type: none">- Limited number of interviews- Bias in evidence leans towards the interviewee.- Post-event rationalisation.
	East Midlands	<ul style="list-style-type: none">- Information from the Managing Director at the time of both ownership changes.- Cross-sectional information.- Airport 100 per cent privatised.- Some privatisation theories were confirmed: privatisation restores incentives, promotes efficiency and frees the organisation from political interference in decision-making.	<ul style="list-style-type: none">- Limited number of interviews- Bias in evidence leans towards the interviewee.- Post-event rationalisation.

In terms of this examination of the strategic management of regional airports, it is clear that a case study based comparison of a public and a private airport raises several issues that can be investigated further. This type of qualitative research has proved to be an important means of identifying patterns of response and theoretical linkages that have valuable implications for future areas of research. In this context, this research has established a framework for the study of other cases aimed at understanding the crucial significance of strategic management within regional airports and the little information available about it.

From a strategic management and financial point of view, the Private Finance Initiative / Public Private Partnership has been a key factor for the public airport examined, and it could suggest a model to be followed by other public airports if development of infrastructure or other major capital investments are required.

The application of the *cultural web model* has proved to be a very useful method to investigate and examine the organisational context in both case studies. The

comparison and analyses carried out have revealed high quality and valuable information on these organisations, which could be useful for further research in the strategic management area. The flexibility of the *cultural web model* to make inter-airport comparisons has proven to be a very practical way of contrasting and highlighting areas to which regional airports may need to pay more attention. This is of great importance to strategic management as it shows trends over the years and gives indications as to the direction in which an airport is heading. The opportunity presents itself to undertake further case study based analysis in order to build up a bigger and more comprehensive picture of changing strategic orientations in regional airports, and whether there might be a discernible pattern or development trajectory which is dependent on the ability to engineer structural change in airport organisational structures.

It would also be interesting to apply the *cultural web model* at EMA in the near future due to the fact that it was sold by NEG to Manchester Airport plc, a publicly owned company, in early 2001. The application of this model could yield further insights and bring about valuable information where East Midlands Airport will be heading under its new ownership.

The privatisation theory refers exclusively to public and private organisations, and one of the conclusions drawn from this research is the important to distinguish the main issues to be considered in the study of airport management capacities. Firstly, that public airports need to be differentiated from commercialised public airports and that airport under public ownership but that have been commercialised enjoy from many advantages similar to those of private airports.

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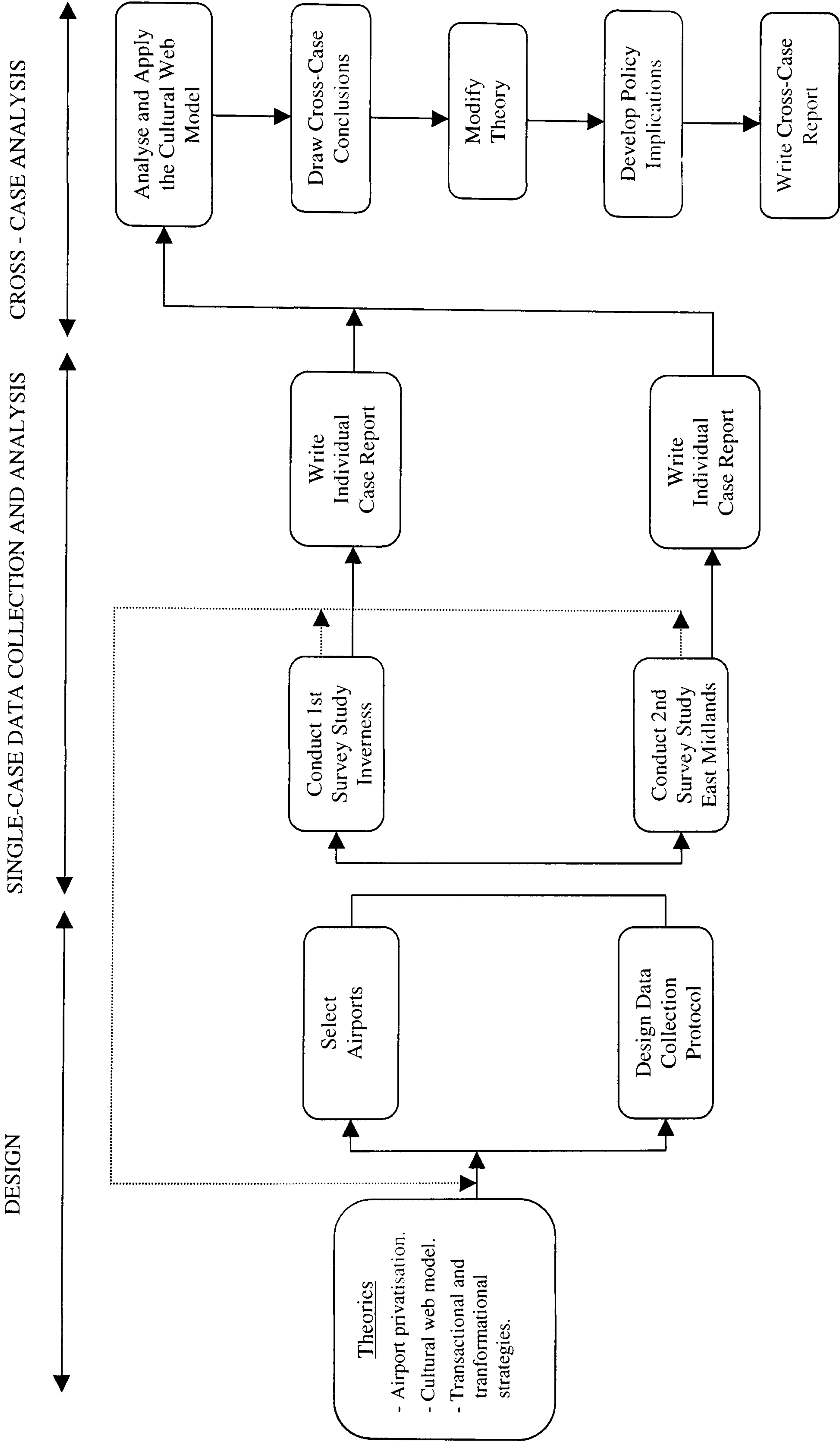
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APPENDICES

Appendix 1 – Research Plan

Appendix 2 – Schedule

Appendix 3 – Airport Infrastructure Development



Source: Adapted from Yin R. K. 1994.

Research Plan

Schedule

Introduction

1. Would you mind telling me about your background in the airport industry?
 - Previous positions before joining the airport
 - Experience
 - Time in the airport, positions, etc.
2. What events do you think have been interesting in the airport industry in the last 15 years?

General Overview

1. What interesting events have happened at the airport since the 1986 Airports Act?
2. What was the relationship between the airport and the Local Authority prior to the 1986 Airports Act?
 - Organisational
 - Management
 - Investment
3. What is the current relationship between the airport and the previous owner (Local Authority)?
4. What changes have occurred at the airport in the last 15 years?
 - Political
 - Organisational
 - Investment
 - Facilities (infrastructure)
 - Management
 - Service
5. Why were these changes made?

Socio-Cultural (Organisation)

1. What are the main objectives of the airport?
2. What were the objectives::
 - before 1986 (1987)?
 - after 1986 (1987)?
 - after 1993 (privatisation)?

3. How has the management of staff changed prior to the 1986 Airports Act and after?
4. How has the organisation changed (before 1986 (1987), after 1986 (1987), 1990 and 2000)?
5. When did the airport start doing market research and analysis?
 - How has this evolved since 1986?
 - The number of staff in the marketing department in 1985, 1990 and 2000.
 - How are the surveys monitored?
6. What methods does the airport use for advertising and promotion?
7. Who makes the main decisions for:
 - Investing
 - Expanding facilities/services
 - Improving services
 - Other

Quality Issues

8. When did the airport start programmes on “Quality of service / management”?
9. What indicators do you use to measure quality/efficiency?
10. How often do staff attend training and development courses?
11. Do employees get incentives from the company?
12. How do you cope with peak hours/days/seasons?
13. How does EMA manage customer/neighbour complaints?

Future Economic Plans:

14. What are the airport’s main sources of funds?

Own revenues	
Commercial loans	
European Union	

Operational Activities

15. What major projects were set up to improve airport performance after changing ownership / being privatised?

- 16. What are the main services offered by the airport?
- 17. What factors have influenced the growth levels in freight operations?

General Information:

- 18. What are the differences between this airport and other airports?
- 19. What are the benefits of being a public/local authority/private owned airport?
- 20. What are the disadvantages of being a public/local authority/private owned airport?
- 21. What do you think about privatisation as an option for airports?
- 22. How do you see management evolving?
- 23. What is the main difference between working for a public/local authority owned airport and a private airport?
- 24. What do you think is the next step for the airport (future developments)?
- 25. Where do you see the airport in 10 years time?

Conclusions

- 26. What do you think the airport should change/improve (i.e. service, facilities, staff, reduce costs, increase commercial activities, etc.)
- 27. Would you like to make any additional comments?

Airport Infrastructure Development

Table 1. Infrastructure Developments at Inverness Airport

Year	Activities
1987/1988	<ul style="list-style-type: none">• New purpose-built fire station• Relocation of the airport’s administration offices
1988/1989	<ul style="list-style-type: none">• Relocation of domestic and international arrivals• Upgrading of baggage handling facilities
1990/1991	<ul style="list-style-type: none">• Renovation of the north apron• Aircraft parking areas were expanded• Main apron floodlighting was improved
1992/1993	<ul style="list-style-type: none">• The terminal building was re-decorated• A more sophisticated baggage X-ray was ordered
1994/1995	<ul style="list-style-type: none">• The south apron was doubled to 20,000 square meters• Resurface the main and second runway• Upgraded all the lighting system on the runway
1995/1996	<ul style="list-style-type: none">• Replace the electrical cabling• New control tower building• New approach lighting
1998/1999	<ul style="list-style-type: none">• New terminal building

Source: Inverness Airport - Annual Reports

Table 2. Infrastructure Developments at East Midlands Airport

Year	Activities
1993 – 1996	<ul style="list-style-type: none">• New check in hall and baggage system• New retail concourse• New branded catering & retail operations• Car park shuttle system• Family areas• Short cut routes• New cargo aprons• New cargo terminals
1997 – 1999	<ul style="list-style-type: none">• Runway extension• New control building• Freight cargo terminal• Extension terminal building

Source: East Midlands - Annual Reports