

Leading by example



What are the primary concerns and challenges facing CEOs of small to medium sized airports? Terri Morrissey and Dr Richard Plenty investigate.

When we last looked at airport leadership we focused on the CEOs of some of the world's biggest airports and found that they considered the need to develop a strategic vision, align people behind their vision and deliver results as key to their success.

We also learnt that among the challenges they face is the need to balance the long and the short-term in an ever changing economic environment; address cost issues in a sustainable manner; keep a wide array of stakeholders – that include the airlines, passengers and the wider community – on board; and the ability to attract, develop and retain talent in their organisations.

The conclusion we drew was that being the CEO of a major airport or group of airports was much like being in charge of any other business. Leadership needed to be recognised as a key to the organisation's success – both internally, in terms of the development of the culture, strategic vision and performance of the people and externally, in terms of stakeholder management, business development and building alliances and networks.

And when we presented our findings at a number of airport conferences it became apparent that some gateways were still being run primarily as operational entities, rather than as businesses in their own right.

The best in class, however, understood the need for a strategic and business focus, requiring leadership competencies such as strategic thinking, leading others, building networks and alliances, as well as technical and managerial skills.

But what about the challenges facing the CEOs of small to medium size airports? Do they face the same issues and concerns as the big boys?

To answer this question we talked to a number of leaders from small to medium sized airports across Europe. We also canvassed the views of

a number of industry experts and respected senior managers on today's challenges and what the future holds for the industry.

They included Roko Tolic, Dubrovnik Airport; Pat Keohane, Cork Airport; Martin Moroney, Shannon Airport; Olle Sundin, Goteburg Larvetter Airport; Thomas Langeland, Kristiansand Airport; Alessio Grazietti, Cagliari Airport; Filip Soete, Nice Cote D'Azur Airport; and John Doran, Belfast International Airport.

The group

Perhaps the first thing that needs to be recognised is the fact that small and medium sized airports (SMAs) are not an homogenous group, as they vary in size, have different ownership models (some state, some private and independent, others part of a larger group) and operate from destinations of inherently different levels of attractiveness.

Nevertheless, drawing on our experience of working with smaller airports and on a series of conversations with airport CEOs in Europe in early 2010, we have been able to identify some of the key generic challenges facing leaders in most SMAs.

Striking a balance between commerciality and regional development

The vast majority of SMAs are located a significant distance away from the centre/capital of the country and, indeed, from main cities and major airports.

Many exist primarily because of their contribution to the regional economy rather than being commercially viable in their own right. Most are just too small to be economically successful.

Small airports also face an increasingly regulated operating environment and declining passenger numbers due to today's tough economic climate, but despite these realities most CEOs are still expected to find a way of profitably running their airports.

Not surprisingly, this can be very difficult to achieve and, in the absence of stimulation or subsidy, they have to juggle many conflicting demands just to remain in operation. For most, investment opportunities are limited.

We are trying to figure out how we can be both a viable business and serve a regional development mandate

Airports in more remote locations provide a social service by linking communities together and to main cities. These by their nature will have small numbers and will not have the scope to expand. The trade off here is clearly social need versus commercial viability.

In a number of other cases, smaller airports are not viable in their own right and rely on being a member of a group of airports in order to stay afloat. How long this can continue is a moot point. If passenger numbers continue to drop below the threshold for profitability, these airports may have to face up to the dilemma of resolving their commercial and regional development mandate.

From a strictly commercial perspective, as with any small and medium enterprise, unviable companies ultimately have to be closed down. Will governments allow this to happen with the political fall-out that will ensue and the possible economic consequences for the regions concerned?

Not that the picture is all negative. The exceptions to this pattern are found in SMAs with attractive destinations (Cagliari, Nice and Dubrovnik, for instance) where there is a considerable opportunity for growth.

There are also small downtown airports (Belfast City and London City, for example) where the regional mandate is not so strong and where a commercial approach has proven to be not just possible but successful.

However, will the commercial mandate win out in the end and force a rationalisation of SMAs in the longer-term?

Dealing with fixed costs and competition

SMAs invariably face higher costs per passenger than larger gateways as any airport operation needs to maintain a certain level of coverage to function within regulatory and safety parameters.

Security still has to be carried out, as does policing and fire service; safety cannot be compromised; and ground handling operations are essential. Once passenger numbers fall below around 1m ppa, the costs per passenger increase very rapidly, making it very hard for the airport to function without support.

Some airports retain only core activities and outsource everything else, while others employ staff directly. In considering the organisation and cost of their services, there is sometimes a trade off that has to be made in customer service. For example, airports may have to compromise on numbers of security staff, lengthening queuing times and ultimately lowering customer satisfaction levels.

We found that there is still scope for reducing costs in many SMAs, however, but there is also a limit beyond which it does become difficult to cut further.

If you are too small it is not good; if you are a reasonable size you should do reasonably well; if you have real scale it is possible to make a lot of money

Some airport groups already leverage the capabilities of their associated airports to carry out some operations, including administration or shared services, thereby removing the need to employ these services directly. A move towards a more functionally oriented organisation has also created economies of scale in some other airports by reducing staffing levels and removing duplication in central services such as finance and human resources.

Competition seems to be more of a concern with SMAs than larger airports. Internal regional competition is an important consideration for many as it directly affects an airport's ability to attract traffic and thus reduce its costs per passenger.

Sometimes there are too many regional airports in a limited geographical space, a factor which can be exploited by aggressive low-cost airlines. Competition from larger airports within the country can also lead to a reduction in flight frequency as airlines move to the most commercially viable options.

A number of airports mentioned competition from rail and road as alternative modes of transport. This, coupled with environmental concerns of flying, could lead to a further reduction in passenger numbers over the coming years in some SMAs.

Clearly our biggest challenge is passenger numbers

Building alliances to increase traffic and passenger numbers

All of the SMA CEOs we spoke to were pre-occupied with the challenge of retaining and growing passenger numbers and/or freight traffic as a way of both increasing revenue and reducing unit costs.

Some are finding it more difficult than others. For those airports located in tourist destinations, the challenge is to build the attractiveness of the destination, to extend the tourist season, to develop more innovative products and services and to grow non-aeronautical revenues.

This requires airport leaders and personnel to be more marketing focused. They need skills in negotiating and forging alliances with airlines and tourist organisations.

It may not be straightforward, but at least the overall strategy is generally clear.

It is harder for those organisations which do not have these immediate touristic possibilities to increase traffic. In these cases innovative thinking is required.

We need to work with tourism organisations and airlines to develop the offering and to extend the season

Could freight traffic be increased as has happened recently at Lintz (Blue Danube) Airport? Could the airport be attractive as a regional hub as has proved the case at Göteborg City Airport? Will the opening of US Customs pre-clearance facility at Ireland's Shannon Airport – the initiative was recently extended to passengers on corporate jets – make it more attractive as a gateway to the US?

Whatever the situation, it is the building of alliances and partnerships with external organisations and the outward focus which is the key to increasing traffic and passenger numbers.

Maintaining motivation is a challenge

Developing generalist, flexible, professional people managers

SMA's do not generally have the money to hire in expensive new recruits, so in most cases they are very much focused on developing their existing workforce and promoting from within.

There is a need for more 'flexible generalists', more multi-skilling and developing middle management and other supervisory grades to think like managers (doing what is best for the company rather than 'protecting' their friends). In addition, a top priority is the development of an innovative, entrepreneurial mindset with people who have grown up with the company but who will need to change to meet current demands.

All this has to be done in an environment where there is probably limited scope for progression and where managing motivation and morale can be a challenge. It is, nonetheless, a major challenge that needs to be addressed if SMA's are to compete for passengers and

The core of it is people management, as your people are the only way to get things done

transform themselves into more business focused organisations.

The key issue here is to convince staff that these changes are necessary when they may be 'stuck in their ways' and resistant to outsiders and new ideas. Finding the resources to invest in developing people is a necessary pre-requisite.

A number of airports are looking to ACI and the AMPAP programmes; some are using their in-house HR resource, others are availing of larger

'group sponsored' programmes. There is currently limited use of external suppliers due to financial constraints.

Without doubt, building capability and capacity internally with key staff will be vital for survival.

Stand in the future and manage the present

The challenge of business development

The key finding from our discussions is that the development of new business opportunities and ideas is essential to the growth of SMA's.

It is also clear that most CEOs believe that there is a limit to what cost cutting exercises can deliver.

What is required then, is the ability to think innovatively, to look for ways to grow non-aeronautical revenues and to develop a more entrepreneurial mindset. Skills in business development, marketing and commercial development will be required more and more for sustained growth.

The key is to have a customer orientation

Conclusion

Leadership skills are just as important in small airports as larger ones. Indeed, the competencies developed for leaders in large airports such as the ability to think strategically; build networks and alliances; lead others; communicate effectively; manage and prioritise work; develop a high performance ethos; and lead by personal example are just as important to leaders of medium and small size airports as they are to the general manager of Hartsfield-Jackson Atlanta International Airport.

In fact, leadership skills are an essential requirement to effectively run a smaller operation, although the ambitions and goals are likely to be very different to those of their counterparts at much bigger airports.

In terms of small to medium size airports, the efforts of airport CEOs should very much be concentrated on:

- Keeping costs to a minimum
- Getting the most out of the existing workforce
- Finding ways of increasing passenger numbers
- Being more innovative in services and products
- Taking a generalist, flexible approach
- Developing the skills required to grow and develop business opportunities

The challenge for the sector as a whole is how to help grow and develop these skills so that SMA's can make the contribution they need to make to the global economy. Some rationalisation of the sector may be necessary but the development of leadership skills should be an equally important consideration. AWI

About the authors

Terri Morrissey and Richard Plenty are directors of 'This Is', a Dublin-based organisation and leadership development consultancy. They can be contacted at Terri@thisis.eu or Richard@thisis.eu For further information visit www.thisis.eu