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Preparing for ‘COVID-27’: Lessons in management focus – An Australian general aviation perspective

Lucas Tisdall *, Yahua Zhang

School of Commerce, University of Southern Queensland, West St, Toowoomba, QLD 4350, Australia

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ABSTRACT

This paper considers the observed impacts of COVID-19 on the behaviour of a cross-section of the general aviation (GA) community in Australia. It specifically observes the nature of management decision making observed in the sector, and the financial impacts of such choices. This paper highlights a lack of financial acumen in the Australian GA community which is likely to inhibit resilience in the sector and limit its ability to learn from the economic shock COVID-19 represents. Finally, the paper proposes several initiatives to improve the quality of management decision making in the sector’s leadership, with a view to improving its financial outlook and visibility to policy makers.

1. Introduction

On January 25, 2020, the first case of what is now termed COVID-19 was reported in Australia (Hunt, 2020). The rapid escalation of the COVID-19 response levels by government agencies across the country was aimed at reducing the spread of an aggressive virus in the majority of the population. To achieve this, a primary target of containment was the free movement of people by means of air transport. On 10 March, Qantas announced capacity cuts on international transport of 23 percent before it then rose to 90 percent and flowed over to domestic travel (Druce, 2020). Extensive media reporting highlighted as early as 18 March that an AUD$715m airline rescue package was to be launched (Karp, 2020), followed some 10 days later by an AUD$300m fund for regional aviation operators (Sullivan, 2020). Such support was unheralded and welcomed by many airline players despite lobbying positions adopted in support of individual corporate agendas.

By contrast, the general aviation (GA) sector was not the beneficiary of specific discussion or fiscal resolve of the same calibre. The federal regulator encouraged aviation operators to reach out to them on 17 March to discuss what regulatory support they might need (CASA, 2020a). On March 24, a series of exemptions were put in place to deal with the practicalities of pilot currency, medical certification, and organisational registration (CASA, 2020b). While these measures have been accepted by industry, the communication of broader management support and strategic direction has been noticeably muted when compared to similar agencies such as the European Union Aviation Safety Agency that has adopted a role of stewardship for their respective constituencies (EASA, 2020a).

This paper aims to document the impact of COVID-19 on Australia’s GA sector with a focus on the issues affecting the formulation of government policies, business decisions, and mental health. The next section will give the background of Australia’s GA industry, followed by the research methods used for this study. Section 4 presents the problems that need improving and solving. Recommendations are provided in the last section.

2. Background

The Australian general aviation sector and its aligned on-demand charter services have long been acknowledged as a disparate subset of the civil aviation industry (BTCE, 1996). The responsible federal department itself states that “there are currently no robust economic datasets compiled for the GA sector, restricting analysis of the impact of the various cost pressures facing GA or the contribution GA makes to the economy (BITRE, 2017).” The issue is acerbated by a lack of understanding of the key decision-making drivers of the actors within the sector (Kivits and Charles, 2015).

The commercial element of the general aviation community has been grappling with structural limitations for many years (Mills, 1989; Laird, 2001). Among their shared concerns have been the capacity to raise capital, access finance, adapt to rapid regulatory change and contain costs in training and operations (AOPA, 2011). The sector, including
approximately 840 authorisation holders, has been heavily populated by
privately held, thinly capitalised operators who depend on asset util-
isation rates to keep ahead of their costs curves with varied degrees of
success. Representation of the sector has been fragmented, with a heavy
policy emphasis on the airline community tending to take away the
bandwidth of the smaller players in the aviation industry.

The impact of COVID-19 has rapidly exposed the fragility of the GA
sector, and the relative immaturity of the business continuity plans
nominally held by operators. It has also highlighted the lack of insight
that federal policy makers have into the constituency, and the challenge
of communicating to operators with varying degrees of commercial
acumen across flight training, recreational hire, and on-demand charter
alongside maintenance organisations and other supporting businesses.

3. Research methods

This paper considers the Australian experience observed across a
range of GA operators in the flight training, maintenance, repair, and
operations (MRO) and associated on-demand charter spaces in the early
months of the COVID-19 pandemic. Information gathering for this study
involves a review of existing literature produced by academic journals,
government organisations, magazines, websites of GA firms, consulting
firms and industry bodies. Informal interviews with no predetermined
question set were carried out with the management of GA operators to
understand their concerns, and operational and financial decisions amid
the pandemic crisis as well as their future plans. The operators hold
either Civil Aviation Safety Authority (CASA) CAR 30 or Part 145
maintenance regulation approvals, Part 141 or 142 training approvals or
charter/low capacity RPT operator certificates. The ten businesses
observed were located in Cairns, Archerfield, Bankstown and Adelaide
and are typical in size and scope to the general constituency resident at
many GA airports across Australia (DITRD&C, 2020).

4. Observations

4.1. Changes in decision making paradigms

The rational choice paradigm of decision making suggests that
managers will make a choice of alternatives that carries the highest
subjective expected value to them, based on logic and data (McShane
et al., 2013). However, the rapid onset of COVID-19 and the endless
news cycle introduced a level of tension and negative sentiment into the
community that excited emotional responses. Both information overload
and emotion compromise rationality (Li et al., 2014).

Numerous operators defaulted to a form of bounded rationality
(Simon, 1990), practicing satisficing rather than maximising potential
outcomes and future-proofing their businesses. Our interviews reveal
that in the early weeks of the pandemic, very few businesses had
engaged in scenario planning for exogenous business interruption,
despite having had ample examples in SARS and MERS about the po-
tential for industrial disruption due to global health crises. Operators
expressed uncertainty about the nature of stand down provisions in
minimum wages and national Award conditions given that many had
never had to consider them. Furthermore, the operator principals
engaged with were concerned with the capacity of their balance sheets
to sustain mass drawings on accrued leave balances while others found a
general lack of financial management data to support claims on avail-
able federal support like JobKeeper1 and the various State low-interest
term loan schemes, or had difficulty interpreting the qualifying
criteria for such assistance.

A kind of fight or flight response became amplified across several
metropolitan airports. Our interviews suggest that key suppliers in the
MRO space pre-empted business failure by their debtor base and moved
to a cash on delivery terms base, withdrawing traditional 7–30 days
terms for parts consumers. The interviewees admitted that this was
largely driven by self-preservation rather than on the basis of credit-
worthiness and historical character or capacity of the debtor principals.
The rushed changes in decision marking principles including the
constriction of credit terms by such businesses are likely to result in a
shift of clients to those who kept their doors open and who were willing
to be pragmatic based on a more in-depth knowledge of end-user con-
sumption rates and ongoing viability.

Interestingly, it is not all bad news. Movement data suggest that
flight training organisations took advantage of the exemption of social
distancing rules in school classrooms and Australia’s accommodating
autumnal weather conditions to press on with their flying activities
(Airservices Australia, 2020). Perhaps because of the relatively low
levels of initial COVID-19 infection in Australia, managers were biased
by a representativeness heuristic that compromised the level of invest-
ment in virus suppression in favour of throughput. This is also due to a
lack of direction from the responsible department of the regulator about
what flight activity might continue, which is in contrast to EASA who
had banned most aspects of visual flight rules (VFR) flight in Europe at a
very early stage in the pandemic (EASA, 2020b).

4.2. Deferred investments

Prior to COVID-19, there has been a noticeable uplift in sentiment
among the GA fraternity. The US dollar value was starting to appear
manageable, and indication of some consolidation in industry (par-
cularly flight training and MRO operations) was in evidence, mirroring
international trends (Jacobs and Goebel, 2019). The aircraft broker
market had completed higher than expected closures of GA aircraft in
the final calendar of calendar 2019, with particular demand in the
tourism sector. Social capital appeared with industry participants
forming networks to try and counter the influence of RPT players
coming into the training and charter space, and therefore stymying
downstream supply and support players in the GA sector.

However, such confidence rapidly evaporated, with various industry
participants withdrawing non-binding offers, cancelling aircraft orders
and deferring capital projects like hangar expansions and line training
for staff (Wilson, 2020). US manufacturer of advanced private aircraft,
Cirrus Aircraft, laid off 85 staff in just one week in March, for a total of
550 inside one trading year; an example of a global phenomenon of
retraction (Johnson, 2020). In Australia, our interviews reveals that one
key simulator centre lost 90% of its income stream almost overnight,
with operators taking advantage of relaxations or deferring training for
aircraft that will now not arrive on-line in the foreseeable future. Given
the private nature of many GA entrepreneurs, the true quantum of
foregone investment may never be known.

4.3. Mental health and potential safety cost

During the first six weeks of COVID-19s presence in Australia, ten
specific businesses representative of typical airport tenancy mixes were
surveyed by the authors to determine the impact of the pandemic on
staff wellbeing. Research suggests that people have better psychological
wellbeing if they have multiple selves; social, professional, personal, and
so forth, building to a self-concept that acts as a buffer against any one
deleterious impact on one`s sense of wellbeing (Lester, 2012). Arguably,
the novel coronavirus rapidly stripped people of personal interactions,
threatened their professional security and pushed people into isolation
without necessarily having the support networks in place to effectively
manage it. Eighty percent of business owners consulted during the sur-
vay process conceded that they had not yet considered this element of
their business continuity plan.

Aviation relies on mentally alert, well-adjusted and fatigue-managed
personnel conducting their duties within prescribed standard operating

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1 The JobKeeper scheme is a temporary Australian government subsidy for businesses significantly affected by COVID-19.
procedures (Bendak and Rashid, 2020). A failure to recognize the mental health impacts on performance of sudden discontinuity may prove costly to capital, compliance, and reputation where no organisation defence is erected to limit human factor or liveware failures in an aviation activity. Recognition of the need for authentic leadership and emotional intelligence during periods of organisational stress coupled with their often well-honed cognitive and practical intelligence would enhance the managers ability to role model sound problems solving and provide a frame of reference that can be endorsed by workers who have been suddenly forced outside of their normal operating paradigm. Rather than just reflecting Fiedleresque contingency theory (Fiedler, 1978), genuine engagement with the team in a crisis can enhance employee longevity, reduce stress, and promote a sense of unity and purpose that bears long term fiscal benefits.

5. Recommendations and conclusion

The difficulty in crafting public policy or financial support instruments is clear where the architects have a limited knowledge of the target audience (Jerg, 2015). Yet, there are already mechanisms in place that, if reshaped and connected, could do much to alleviate the financial myopia of the general aviation sector evidenced in the preceding observations.

To obtain an operator’s certificate, the Australian federal regulator requires the production of a financial viability statement. Once produced and nominally accepted after scant analysis, these rosy projections are unlikely to be revisited as the primary charter of the regulator is deemed to be safety, not fiscal management. The attainment of minimum benchmark ratios and liquidity measures aimed at promoting solvency, depth of balance sheet and sustainable trading terms are often conditioned by financiers and may prove to be of value in maintaining operator focus on key commercial drivers if they were incorporated into the auditable renewal terms of operating approvals. This would conceivably promote sustainable pricing, capacity to reinvest in safety, staff, and equipment, and remove the marginal operators from the marketplace in favour of those more capable of withstanding economic discontinuity.

The aforementioned BITRE (2017) report highlighted the dearth of performance data to inform public policy. Again, the deidentified Australian and New Zealand Standard Industrial Classification (ANZSIC) and business activity data held by the ATO, in conjunction with some elements of self-reporting as part of the annual general aviation activity survey gathered by BITRE should be aggregated to present a macro data set that can be enhanced by an understanding of movement and occupancy data from public and private airports and the risk underwriting information drawn together by insurers every year. This metadata should be sufficient to generate a fuller understanding of a sector that employs more than 11,000 people (ABS, 2017) and has (AUD) millions invested in plant, equipment, and approvals.

Further to the ongoing viability of enterprises, enhanced scrutiny should be employed when evaluating those deemed to be “fit and proper” accountable and responsible managers. Currently, the validation of such officeholders is based largely on criminal history checks and subjective assessment of familiarity with operating regulations. There is no requirement to demonstrate financial acumen, nor hold any formal or industry recognized business qualification. Perhaps by linking the requirement for demonstrating fiscal competency requirements under the Australian Qualifications Framework (promoted in both the Vocational Education and Training (VET) and Higher Education sectors) to the scope of necessary skills, the calibre of financial management decision makers might be made more robust.

Extending access to financial literacy programs for licensed personnel as part of their preparation for entering the industry would also do much to the ability for employees to contribute to the financial welfare of the business, and perhaps their own fiscal outcomes. This enhanced source of decision knowledge is likely to improve decision commitment and reduce the risk of conflict in times of external shock. Mandating credible financial literacy tuition into existing structures like work health and safety and non-technical skills training would be a small impost but assist all levels of industry to understand their fiscal resilience strategy options and their power to contribute to the bottom line of the businesses they work in. Furthermore, such team members are likely to feel empowered about making decisions in difficult circumstances, thereby reducing mental anguish and associated health stressors.

Finally, in considering targeted financial support for the sector, attention should be given to mechanisms that sure-up the long-term viability of participants. At this stage, the bailout packages available to the airline operators have not been extended to the commercial GA operators (apart from some activity fee waivers or refunds) (Nadge, 2020). Relaxation of pilot currency requirements is a short-term relief, but it must ultimately be redressed in the interests of safety and therefore it is only a deferred cost. Generic federal and state loans are to support payroll and cashflow, but not for capital expenditure or acquisition. Rather than loan bailouts into already thinly capitalised balance sheets, perhaps the provision of trading line guarantees or rental bonds based on similar low cost terms to encourage the continuance of credit terms and de-risking of tenancies would encourage industry participants to be more supportive of each other during periods of extended duress. Likewise, tailored industry finance packages aimed at coupling equipment profiles, attractive depreciation rates and historically low interest rates could be underpinned by government for qualifying candidates to galvanise bank engagement with the sector.

Numerous options exist to improve the potential for the general aviation sector to meet the challenges that will be presented by ‘COVID-27’. As the example of Canada, the US and other international jurisdictions bears out, what is required is the unified presentation of will by the local sector, and an understanding by policy makers of the value and contribution of a resilient and performing GA community in the broader economy.

Declaration of competing interest

I draw the Editor’s attention to the fact that the Corresponding Author is also the Managing Director of a commercial trading group at Brisbane’s Archerfield Airport. I do not believe that this reflects a conflict of interest in the formulation of this submission, and there are no financial implications or considerations for this work that could have influenced its outcome.

I confirm that I have given due consideration to the protection of intellectual property associated with this work and that there are no impediments to publication, including the timing of publication, with respect to intellectual property. In so doing I confirm that I have followed the regulations of my institution concerning intellectual property. I understand that the Corresponding Author is the sole contact for the Editorial process (including Editorial Manager and direct communications with the office). We confirm that we have provided a current, correct email address (as noted below) which is accessible by the Corresponding Author and which has been configured to accept email from the publishers.

Lucas Tisdall: lucas.tisdall@usq.edu.au.
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