AIRPORT PRIVATIZATION: A MALAYSIA CASE STUDY

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ABSTRACT

The privatization of the airport can bring along many benefits in raising the airport capacity, improving the operating efficiency, reduce costs, and generate new revenue streams for local, state and international governments. However, it is debatable that whether now is the suitable timing for Malaysia to start the airport privatization or not. Hence, this research will find out the impact of airport privatization by using qualitative paradigm for analyze the impact of airport privatization in Malaysia. Secondary data will be used to this field research.

Keywords

Malaysia Airport, Airport Privatization, Non Privatization Airport, Advantage Airport Privatization, Disadvantage Airport Privatization

1.0 INTRODUCTION

1.1 Research Background

Malaysia had 58 airports which are 36 located on East Malaysia and 22 on Peninsular Malaysia. According to International Civil Aviation Organization (2011), Malaysia has 8 international airports which are Malacca International Airport, Penang International Airport, Langkawi International Airport, Senai International Airport, and Kuala Lumpur International Airport on Peninsular Malaysia; and Kota Kinabalu International Airport, Kuching International Airport, and Tawau International Airport in East Malaysia. Based on Malaysia Airport Holdings Berhad (2012), in November 1992, Malaysia Airports Berhad had duly licensed by the Minister of Transport Malaysia to carry out its function as the airport operator. Department of Civil Aviation remains the regulatory body for the airports and aviation industry in Malaysia whilst the newly created entity, while the Malaysia Airports Berhad is to focus on the operations, management and maintenance of airports (Malaysia Airport Holding Berhad, 2012).

1.2 Problem Statement

The airport infrastructural facility in Malaysia was not up the par. The airports in the country are facing the passenger traffic problem due to the lack of up to date facilities. The further investment failed to make by the federal government to the airport due to fund constraints or wrongly invest in the others area. In 1992, Malaysian Parliament already duly licensed Malaysia Airports Berhad as airport operator which responsibilities in operation, management, and maintenance the most of the airports in Malaysia, except Senai International Airport which managed by Senai Airport Terminal Service Sdn. Bhd. in 2003. Although Malaysia was the first country begin the process of airport privatization among the Asian country but the Malaysia Airports Berhad is statutory body in Malaysia and own by government. The airport control and manage by government may fail to optimize efficiency of the airport and did not fully utilise the airport.

1.3 Objective

1) To identify the different between non-privatize airport and privatize airport.

2) To identify the advantage and disadvantage of non privatization airport and also privatization the airport.

3) To identify whether privatization the airport will optimize the efficiency of airport in Malaysia.
2.0 LITERATURE REVIEW

2.1 Historical of Airport Privatization

The airport privatization trend started in the United Kingdom in 1987 when Great Britain sold seven airports in a public share offering (Bonnefoy, 2007). The government owned British Airport Authority (BAA) was offered to the public for $2.5 billion with operates seven major airports in the UK and has generated profits ever since it was privatized (Vasigh and Haririan, 2003).

Based on Vasigh and Haririan (2003), Malaysia was the first country to begin the process of airport privatization on the Asian continent. They stated that, Malaysian Airports Berhad (MAB) was offered to retail investors emitting 88 million shares at a price of RM 2.5 and the Airport Company operating all of Malaysia 37 airports plans to sell down further shares in the near future.

According to International Civil Aviation Organization (ICAO, 2011), there are 58 airports in Malaysia and among them, 36 airports are located on East Malaysia (island of Borneo), and 22 on Peninsular Malaysia (Malay Peninsula). ICAO also stated that, Malaysia has 8 international airports which are Malacca International Airport, Penang International Airport, Langkawi International Airport, Senai International Airport, and Kuala Lumpur International Airport on Peninsular Malaysia; and Kota Kinabalu International Airport, Kuching International Airport, and Tawau International Airport in East Malaysia. The ICAO also stated that, Kuala Lumpur International Airport has been Malaysia’s main airport and has served as premier hub for Malaysia Airlines, AirAsia, AirAsia X and jet operations of Firefly.

Abu Bakar (2009) stated that, Government Linked Companies (GLC) is legal entities created by the Malaysian Government to undertake commercial or business activities on behalf of the Malaysian Government. Abu Bakar explain that, Khazanah Nasional is the government arm in charge of the transformation initiatives and which is also the main stakeholder of most GLC’s are defines GLC as companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake.

In 2004, the Government of Malaysia transferred its shares in MAHB to Khazanah, a government-owned public limited company which is the investment holding arm of the Government of Malaysia, entrusted to hold and manage the commercial assets of the Government and to undertake strategic investments (ICAO, 2011).

Based on the study of Abu Bakar (2009), Malaysia Airports Holdings Berhad (MAHB) is a privatized entity, manages and operates all the airports in the country, with the exception of the Senai Airport in Johor and the Kerteh Airport in Terengganu. He found that, MAHB was subsequently listed in the Kuala Lumpur Stock Exchange in November 1999 and the major shareholder is Khazanah National Bhd, a government investment holding company (73%), while the foreign share amounted to 2.6 per cent in 2005 (MAHB Annual Report, 2005, as cited in Abu Bakar, 2009).

2.2 Advantage Airport Privatization

Based on the study of Arthur and Sarmiento (2010), proponents cite the following benefits of privatization: increased efficiency, which would lead to reduced operating costs and increased profitability; private sector funding of capital improvements, which would relieve funding pressures on airport operators; cash infusion for local governments through sale or lease arrangements; and enhanced customer service. Bonnefoy (2007) study had found that the privatization could brings the ability to raise investment capital for the development of airport infrastructure, generate new revenue streams for local, state and international governments and bring improvements in operating efficiency.

The Manzoor (2010) also explain that, the important benefit of privatization is improved operating efficiency. He stated that, private managements always think about the maximization of profits and minimization of costs which will help make further investments in the airport such as to attract maximum customers (passengers) to maximize their profits, private operators provide modern facilities in the airport. Manzoor found that the private management is very efficient in reducing and managing the risks and private management can manage all resources well and control the expenses to increase profit.

Airport privatization can help to enhance the customer satisfaction. According to the Arthur et al. (2010), private firms are more responsive to the needs of the airport tenants and users, thereby resulting in enhanced customer satisfaction. Advani (as cited in Arthur et al., 2010) reports that, in a survey of 201 airports in 67 countries and territories, privatized airports are found to have a significantly higher level of passenger-responsiveness than government-owned airports. Manzoor (2010) study also explain that private management can also improve customer service and offer better customer satisfaction than the public sector because they can provide service levels that meet customer expectations.
According to Poole (1994), a major factor in the growing interest in airport privatization is government fiscal stress. Poole explain that, developing countries often lack the resources to develop new airport capacity, so they turn to private capital and expertise to get the job done. Manzoor (2010) found that the privatization also helps to expand the operation of duty free shops and creates more revenue and jobs. Manzoor also found that, privatization brings modern facilities to airports and reduces government burden of spending more funds for airport infrastructure. Based on Manzoor to provide good infrastructure and whole facilities for passengers, funds are not a problem under private management because they can invest the resources effectively for further development in airports.

2.3 Disadvantage Airport Privatization

Airport privatization had some of the disadvantage. Bonnefoy (2007) found that privatization comes with several downsides such as potential conflicting objectives between public good and profit generation, potential corruption, lack of accountability, cuts in essential services, and abuse of situation of natural monopoly.

One of the risks of privatization is loss of public control. According to the Poole (1994), airports are valuable community resources, providing a needed public service and it means that privatization, especially via sale or long-term lease, raises concerns about potential loss of public control. Arthur and Sarmiento (2010) describe that increased airport privatization would result in reduced accountability to the public and could significantly reduce public control over airport facilities, which would not be in the best interests of the public. Gillen and Niemeier (2007) stated that privatization limits the government’s ability to raise more revenue from its airports, since it involves giving up control over their pricing. They explain that, while privatization does not necessarily mean higher airport prices, the co-incidence of the two can lead many to associate privatization with higher prices. Arthur and Sarmiento (2010) study describe that the return on investment sought by private investors would require private sector owners/operators of airports to raise rates and charges assessed to airport tenants and users.

Based on Manzoor (2010), airport employees protest the privatization of Delhi and Mumbai airports because they feel privatization will lead to 40% job loss and increase of unemployment in the country. The Manzoor also stated that the government also confirmed that the privatization and modernization of airports will reduce the employment opportunities and half of the employees will lose their jobs. Poole (1994) mention that, employees traditionally fear the loss of jobs whenever a government function is privatized and they also worry about less-pleasant working conditions or lower levels of benefits.

Besides that, privatization could lead potential corruption. Manzoor (2010) study found that, the government in privatizing the profit making airports like Mumbai and Delhi but the profitable airports are already providing safe infrastructure. Manzoor also found that, some critics believe that the government transferred the major stake of Delhi and Mumbai airports to GMR and other big corporate who have no experience in airport handling and management.

2.4 Advantage Non Privatization Airport

Airport control and manage by government had some advantage. One of the advantage is government can control the price. According to the Gillen and Niemeier (2007), if the airport remains in government ownership, the government can choose to increase charges when and if it so desires. The main benefit is, based on the study conduct by Arthur and Sarmiento (2010) assume that public entities will guard the public interest much more closely than will private companies that are primarily interested in making a financial profit.

De Neufville (1999) found that the centrality of the industry to the public welfare is the other key element in determining the extent that government should exercise some form of control. He explain that, such investments are good value for the community, through that government control industry promotion of jobs or industrial activity, even if these benefits cannot be captured through the operation of the transportation facility itself. De Neufville stated that, private investors would not be motivated to provide as much capacity or services as the region feel it needs.

2.5 Disadvantage Non Privatization Airport

According to the De Neufville (1999), the government control over routine airport operations leads to remarkably little cooperation with the users. He stated that the airports operated by national governments do not consult extensively either with the airlines or the other private companies that use the airport.

Another risk of government own the airport are based on the study conduct by Poole (1994) found that, the public sector is hampered by such constraints as civil service (which makes it difficult to fire incompetent staff or to reward outstanding performance), cumbersome government procurement regulations (which stretch out the time
and increase the cost of purchasing supplies and equipment), and micromanagement from higher levels (either departmental or political). Manzoor (2010) describe that the traditional airport management model is inefficient. He explain that the cost of operation under public management is very high and corruption is the main reason for the increasing cost of operation under public management.

Abu Bakar (2009) study stated that, GLCs inefficiencies are mainly due to ownership effects and partly to lack of competition effects. Besides, supervision by governments tends to be bureaucratic and rigid. He explains that GLCs are more interested in seeing that regulations have been followed rather than that the opportunities have been correctly seized. In other words, unlike the non GLCs which mainly aimed to maximize profit, the objectives of GLCs are more socially and politically inclined. Experience of many countries demonstrates that GLCs are usually less efficient than non GLCs as measured by their economic performance (Issham, et.al, 2008, as cited in Abu Bakar, 2009).

2.6 Theoretical Framework

Borgatti (1999) define that, a theoretical framework is a collection of interrelated concepts, like a theory but not necessarily so well worked-out. He stated that, a theoretical framework guides your research, determining what things you will measure, and what statistical relationships you will look for.

H1: The advantage and disadvantage of airport privatization will optimize efficiency of airport in Malaysia.

H2: The advantage and disadvantage of non privatization airport will optimize efficiency of airport in Malaysia.

3.0 RESEARCH METHODOLOGY

Qualitative research strategic will use to research problem. Therefore, this research will be design to use case study research design. Researcher will focus on several specific and interesting cases that related to airport privatization and non airport privatization. Researcher will observe and analyse the case study and make the conclusion on it. After each case had been treated individually, researcher will cross the case conclusion. The researcher will analyse results for a case study in opinion based. In this research, data will be collected via secondary source. Case study that related about airport privatization in India and airport privatization in United Kingdom has been selected. India is one of the countries in Asia, so the researcher use the case study that happen in India country will be more suitable because geographic coverage, social, politic, airport policy and economic country would be similar in Malaysian. The researcher use case study that happens in United Kingdom is because UK is the first countries fully privatize their airport. Therefore, it is needed to see the result after UK privatize their airport.

4.0 FINDINGS

4.1 Case Study 1 – Airport Privatization in India

Figure 2: Revenue based factors for analysis of airports

Hypotheses were developed based on the theoretical framework.

H1: The advantage and disadvantage of airport privatization will optimize efficiency of airport in Malaysia.
The result was come out after Ohri (n.d.) conduct the research. Figure 2 show the comparison of airports across different revenue based factors and found that Airport Authority of India (AAI) high dependence on aeronautical revenues and low level of development of non aeronautical streams of revenue. Besides that, AAI have very low revenue per employee because AAI being government controlled organization cannot take tough labour related decisions based on economical considerations and cause surplus labour at AAI. The Figure 3 show the comparison of the airports across different profit based factors and found that AAI have low operating profit per passenger because of inefficiencies in the operations. Figure 4 show the comparison of the airports across different input/output based factors and found that AAI has low passengers per employee, low staff cost per employee, and high percentage of staff cost in total cost.

4.2. Case Study 2 – Airport Privatization in United Kingdom

Table 1: Before and after comparison of passengers, aircraft & freight movement.

<table>
<thead>
<tr>
<th></th>
<th>Total Passengers</th>
<th>Total Aircraft Movement</th>
<th>Total Freight Movement</th>
</tr>
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<tbody>
<tr>
<td>Privatization</td>
<td>2000000</td>
<td>4718777</td>
<td>320587000</td>
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<tr>
<td>Airports</td>
<td>before</td>
<td>after</td>
<td>before</td>
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<tr>
<td>AAI</td>
<td>667737</td>
<td>676015</td>
<td>64079</td>
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<tr>
<td>BAA plc</td>
<td>589333</td>
<td>27936217</td>
<td>231746</td>
</tr>
<tr>
<td>Heathrow</td>
<td>520040</td>
<td>37162414</td>
<td>337455</td>
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<tr>
<td>BFI</td>
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Myers (2006) explain that, over the last nearly 20 years, Heathrow has thrived as a privatised airport and currently the busiest in Europe with over 67 million passengers a year. Heathrow seems to be the poster child of privatisation. Myers found that in the first 15 years of privatisation, BAA plc was able to continuously decrease airport charges except when major investment in building Heathrow new Terminal 5, the airport charge had increase. Myers also found that customer satisfaction is still high as the 2005 BAA annual report shows a 3.97/5.00 overall customer satisfaction rating. After Myers conduct the research found that, Heathrow Airport has seen an increase across all areas of air traffic such as there has been a 54% increase in passengers, 34% increase in aircraft movement, and 10% increase in freight business. Based on Table 1, as the increase in passengers has far exceeded the number of aircraft movements, it can say that Heathrow has not only expanded its business, but has become more efficient while doing so.

5.0 DISCUSSION

Case study 1 is discussed about the airport privatization in India. From the case study 1 can found that non-privatize organization which is AAI manages and control the airport will less efficiency. Although privatization the airport have some disadvantage, but based on case study 1 have already explain the way to solve the disadvantage
of airport privatization. Based on case study 2, it shows that airport privatization that done in United Kingdom is very successful. The airport operations are efficiency and make profit after privatization. After compare with benchmark established in the literature review with that two case study which already discuss, Figure 5 are show all the advantage and disadvantage of airport privatization. Besides that, Figure 6 is show all the advantage and disadvantage of non privatization airport.

The airport privatization can be done in many ways. After refers to so many case studies, Researcher found that the best way to privatize Malaysia Airport is by full divestiture. According to Vasigh and Haririan (2003), full divestiture is transferring the ownership of the airport along with management and investment responsibilities. Vasigh and Haririan explain that commonly used means for implementing this option are buyouts, public offering of shares, and flotation of stock via capital markets. They also explain that this approach sanctions the government to generate additional revenues for itself while transferring operational responsibilities to the private sector. However, when sale of ownership will limits future governments’ intervention on it. The best example for this method can found in case study 2 which are airport privatization in United Kingdom. Full divestiture could increase service efficiency due to have competitors. When privatize each of airport to different private corporation will create a competitive environment in the Malaysia airport industries. When different airport in Malaysia compete with each other will increase service efficiency and this will help to enhance customer’s satisfaction. Selling out the airport will also can reduce financial barriers based on capital invest by private investors.

REFERENCE


