

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

### 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.

Key words: General aviation, Australia, COVID-19, decision making, mental health

### 1. Introduction

On 25 January 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 papers 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 exacerbated by a lack of understanding of the key decision-making drivers of the actors within the sector (Kevits & 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 utilisation 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 conversational interviews with no predetermined 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 CAR30 or Part 145 maintenance approvals, Part 141 or 142 training approvals and charter or low capacity RPT 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, Olekalns & Travaglione, 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, Ashkanasy & Ahlstrom, 2013).

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 potential for industrial disruption due to global health crises. Operators expressed uncertainty about the nature of stand down provisions in minimum wages and 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 available federal support like JobKeeper<sup>1</sup> 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 to 30 days terms for parts consumers. The interviewees admitted that this was largely driven by self-preservation rather than on the basis of creditworthiness and historical character or capacity of the debtor principals. The rushed changes in decision making 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 consumption 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 investment 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 (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 (particularly flight training and MRO operations) was in evidence, mirroring international trends (Jacobs & 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

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<sup>11</sup> The JobKeeper scheme is a temporary government subsidy for businesses significantly affected by COVID-19.

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, suggesting a global phenomenon of retraction (Johnson, 2020). In Australia, our interview reveals that one key simulator centre lost 90% of its income stream 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 support it. Eighty percent of business owners consulted during the survey 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 procedures (Bendak & 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 (Berg, 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 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 covenanted 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 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 licenced 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.

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