

# PAKISTAN AIR LINES (PIA) – A CASE STUDY

Syed Asghar and Dr. Hasan Mohsin\*

## Abstract

Pakistan International Airlines (PIA), established in 1955, after witnessing the days of glory has declined to the highest loss-making enterprise in Pakistan. Its global footprint and reputation are at a loss with every passing day. PIA faces challenges not only on international fronts but also with local airlines on various routes to the Middle East. The current state of affairs cannot be attributed to one factor but rather a multitude of factors primarily from operational mismanagement and lack of accountability to the adverse impact of policies. This paper highlights the commercial aviation environment and trends, factors of success to present times of downfall, emphasizing the contributing factors. This paper also focuses on strategies and efforts that can be made to ensure the resolution of present PIA issues and reconstruct the breakages that made the successful airline go to the verge of doom. The qualitative paper in nature is primarily based on unstructured interviews of different management tiers of PIA, Pakistan Civil Aviation Authority (PCAA), Aviation Division, professionals from the aviation industry and union representatives.

**Keywords:** Airline, Aviation, State Enterprises, Pakistan Civil Aviation Authority (PCAA), Pakistan International Airlines (PIA)

## Introduction

Pakistan International Airlines (PIA) formally came into being as state-owned national flag carrier of Pakistan in 1955 under the vision of Quaid-e-Azam Muhammad Ali Jinnah. Despite wars and domestic economic turbulence, the carrier survived to grow and prosper with its aircrafts taking off or landing every six minutes on its worldwide network. With dynamic leadership and correct decision making, it remained a profit making entity for Government of Pakistan. PIA was soon to be known as airline of class which the USA First lady Jacqueline Kennedy endorsed the slogan of PIA “Great people to fly with”.

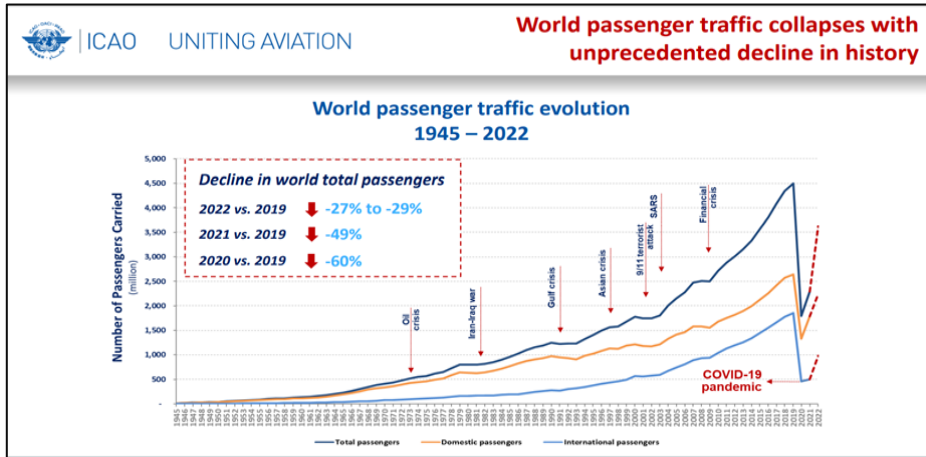
Notwithstanding, the days of glory passed a short life and PIA which was touching its pinnacle of success in 1970s started to decline in 1990s and today reached to a cumulative loss of over Rs.600 Billion with a reduction in global footprints and reputational loss. PIA face challenges not only on international fronts but also with local airlines on various routes to Middle East. The current state of affair cannot be attributed to one factor rather multitude of factors primarily from operational mismanagement and lack of accountability to adverse impact of policies. In this backdrop, this paper evaluates the performance of PIA with focus on initial glory and contributory factors for its later decline, so as to recommend suitable way forward. The paper is based upon interviews of different management tiers of PIA, Pakistan Civil Aviation Authority (PCAA), Aviation Division, professionals from aviation industry and unions representatives.

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\* Syed Asghar and Dr. Hasan Mohsin are independent researchers based in Islamabad.

## Commercial Airline Environment

Globally the demand for air transport has increased over the years; ballpark 5% since 1980. Presently, it is slightly above two billion passengers, corresponding to 53.8% of 2019 volume<sup>1</sup> (4.5 billion in 2019).<sup>2</sup> Air Cargo transported over \$6 Trillion worth of goods accounting for approx. 35% of world trade by value. In year 2022, compared to 2019 levels, -27% to -29% of passenger seats were reduced. More importantly, USD 172 to 181 billion was gross passenger operating revenue loss.<sup>3</sup> Figure 1 shows the world passenger traffic from 1945 to 2022.



**Figure 1: World Passenger Traffic (1945 to 2022)**

Airline marketing departments are using platforms such as Facebook and Twitter while targeting their marketing efforts to meet the specific needs of their customers.<sup>4</sup> KLM's 'Meet & Seat' service to select seats alongside fellow passengers is based on mutual interests in their social media profiles. Many airports have revolutionized the check-in process to minimize human-to-human interaction. Automated kiosks have taken the place of traditional check-in desks. AI is collecting and crunching data about customers. Airlines understand passengers' tastes and behaviour to offer them the transportation options they prefer.<sup>5</sup>

In pre-COVID-19 environment, South Asia was leading the way with 35% world traffic. However, the region of Asia was hit hard with passenger drop to 30% of South Asia, 26.3% Europe, North America 22.4% and 15% of Middle East.<sup>6</sup> Hub is a central airport from where flights are routed, and the spoke is destination. 'Hub and spoke' main purpose is to give passengers improved destinations and routes moreover, to save Airline's cash. Dubai, Doha, and Istanbul are renowned hubs in the region.

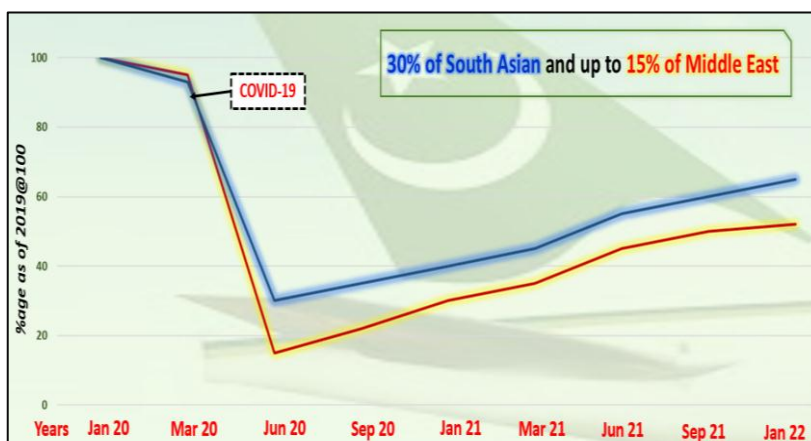


Figure 2: Passenger Availability – Region Wise

In South Asia, realization of restructuring or privatization is visible. Sri Lankan Airline was privatized to cater for huge losses and became profitable. Indian civil aviation sector has grown to become the 3<sup>rd</sup> largest in the world but their National flag carrier Air India has been reporting consistent losses. And the sale of Air India to a private buyer has been in the offing for a long time. Air India was started by the Tata Group in 1932, but in 1947, the government bought 49% of its stake. In 1953, the government bought the remaining stake, and Air India was nationalized. As of August 2021, Air India debt was (\$8.21 billion)<sup>7</sup> and has been in loss for over a decade. In response to government offering for sale of Air India, with its bid of (\$2.4 billion), Talace Ltd, a subsidiary of Tata Sons Pvt Ltd won the sale of Air India. Remaining amount of debt (\$ 5.8) was transferred to Government of India. Of the bid amount (\$2.04 billion), or 85 per cent, will go towards servicing Air India's accumulated debt. The government will receive the remaining (\$360 million) in cash for its equity stake. Air India's non-core assets such as parcels of prime land, buildings, a famed collection of more than 40,000 pieces of art and collectibles, and other holdings are not part of the deal. The assets, which are valued at (\$1.96 billion), will initially be transferred to a government-owned SPV called Air India Assets Holding Ltd (AIAHL) and privatized later to make up for negative equity with Government.

Pakistan has five operational airlines as CAA's 'certified operators' namely: PIA, Airblue, Air Sial, Serene Air and Fly Jinnah. However, PIA and Airblue operate commercial flights on both domestic and international routes. In the market share, PIA is leading with 48% market share. While Air Blue has a market share of 35% and Air Sial and Serene air has 17% market share. The new low-cost carrier is Fly Jinnah is offering very competitive rates which is likely to take share from other airlines. In Pakistan as per IATA, recovery to pre-COVID-19 levels is expected by 2022.

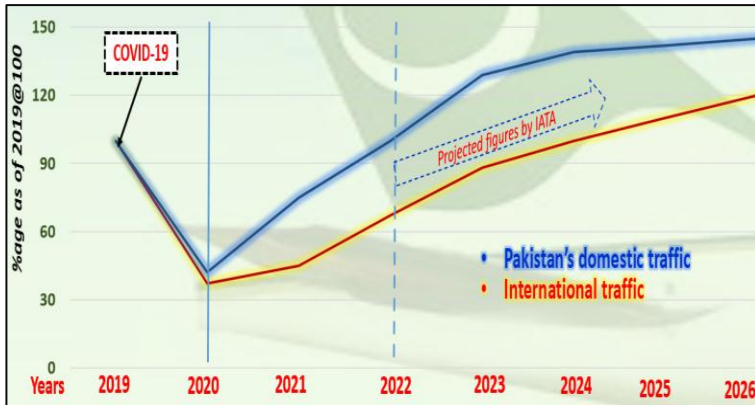


Figure 3: Passenger traffic Forecast of Pakistan

### PIA: Historical Evolution

The year was 1944 and independence was in sight. Quaid-e-Azam tasked leading Muslim businessmen like MA Ispahani and Adamjee Daud to launch an airline. Resultantly, Orient Airways was launched on 23<sup>rd</sup> of October 1946 against a share capital of Rs.10 million with its base in Calcutta and started operating to Rangoon in mid-1947.<sup>8</sup> On declaration of independence in August, the headquarters were moved to Karachi without a single day's break in flight operation.

Orient Airways was a private owned company with limited capital and resources. Hence, in 1951, Government of Pakistan formed a state-owned airline.<sup>9</sup> On October 1953, Pakistan International Airlines Corporation (PIAC) was established through the merger of Orient Airways with Pakistan International Airlines by an interim joint operating agreement.<sup>10</sup> In early 1954, PIAC was placed under Ministry of Defence and started its first service in June 1954 on the route linking Karachi and Dakha and in February 1955, first international service, between Karachi and London via Cairo. On 11 March 1955, Orient Airways and Pakistan International Airlines were formally merged as part of the Pakistan International Airlines Corporation Ordinance, 1955.

The initial management under Mr. Zafarul Ahsan (1955–1959) worked relentlessly to train pilots, cabin crew and engine mechanics.<sup>11</sup> PIA head office at Karachi was the brainchild of Mr Zafar ul Hassan owing to economic importance of Karachi. It was a massive undertaking with establishing the connection between two wings, flights to Gilgit, engine test bed along with radio and airframe workshops in 1956 and best aircrafts as hallmark of excellence.<sup>12</sup> Government despite difficult financial conditions gave full patronage to the national flag carrier. Focus in initial years was purely national rather than commercial. The main purpose of airline was east west connectivity besides national services like lifting of 3,000 passengers during floods in Punjab and extracting Muslims during the Bengal riots.<sup>13</sup>

This marked the entry of Air Commodore Malik Nur Khan joining PIA in 1959, and proved to be for PIA what Juan Trippe had been for the Pan American Airways' global domination.<sup>14</sup> During this golden era of PIA; development, expansion, and growth were keywords that the new management was committed to. Few glimpses of this era include baggage handling with sophisticated airport technology including automation and computerization, induction of new aircrafts like Boeing707 and Airbus300, evaluation and assessment of economic viability of all routes leading to abandoning uneconomic routes and initiating new transatlantic routes. PIA was the first airline to fly to People's Republic of China and to operate a service between Asia and Europe via Moscow. Every comment of passenger was returned to Nur Khan, who would read and reply to each one of them with his signature. PIA owned and managed a chain of hotels in Pakistan. Nur Khan won the hearts of employee unions by getting the firebrand leader freed from jail. Training of employees abroad and employment of foreigners were done from to teach etiquettes to airhostesses and stewards. During this period, full government support, no regional competitors, unions under control of PIA management and air passenger growth abetted PIA achieve this feat.

After Air Marshal Nur Khan, Air Marshal Asghar Khan continued the pursuit of excellence through technology and quality control. Air Marshal Nur Khan again took over as Chairman in 1973 and continued till 1978 before shifting to PIA investment limited<sup>15</sup>. Some of the important actions include latest technologies by installing Pakistan's first computer, an IBM1401 in 1967; Jet Hangar for Boeings with supporting airframe overhaul shop in 1968; and the Ground Training School (GTS) was conceived and developed. In 1970, PIA set up its own Flight Kitchen in Karachi to ensure the high standards of inflight meals. It became first airline to show in-flight movies on international routes. Routes from Dhaka to Karachi and Lahore made much of the PIA operations profit and accounted for 25% of the total passengers. Dhaka airport was the busiest with 140 take-offs and landings in a day.

In this thriving environment, fall of Dhaka cut PIA by half. Overnight its operations were reduced to half and majority of traffic vanished<sup>16</sup>. The resilient PIA took remarkable steps for re-emergence which include five Boeing707 jets were leased out, additional charter flights for Hajj were operated from other countries, PIA started lifting 7000 tons of cargo from Algeria to Marseilles and excess pilots and cabin crews were sent to other emerging airlines making layoffs as opportunity against all odds. Therefore, passenger traffic increased to over 200% in this era and revenues surged nine times. At this time labour market in the gulf opened which was exploited by PIA with government patronage for increase in its business. PIA created a subsidiary under the name of PIA investment limited in 1978 under which it built intercontinental hotels i.e., Roosevelt Hotel at New York, Scribe Hotel at Paris in collaboration with Pan America, Centre Hotel in Abu Dhabi, and Minhal in Riyadh. Giving manpower and aircrafts to help Air Malta and Emirates Airlines to establish themselves. Keeping up with contemporaries in outlook by hiring world class dress designers like, Feroze Cowasji, Pierre Cardin and Sir Hardy Amies.<sup>17</sup>

No one can say for sure when deregulation actually started. But almost all analysts trace its origins to the 1978 deregulation of the aviation industry in the US. Until 1980s the airlines around the world operated under the regulatory regime which protected them from competition on international routes. Jurisdiction over the number of passengers, how far they travel, kind of aircrafts to be employed, seat capacity and number of flights to be operated and fares to be charged were clearly defined to the outside airlines. Despite the fact that the 1980s were financially magnificent in the tunes of average Rs.10 billion yearly with a fleet of average forty aircrafts, the heat from gulf carriers to acquire passengers from Pakistani markets have started to impinge upon PIA which ended up as 'Open skies policy'.

### Decline of PIA - Contributing Factors

The days of glory of PIA passed a short life, with its revenue depleting and services diminishing thus leading to present day situation of reduced global footprints and reputational loss. This dismal state of affair of PIA is not because of one day or one factor, rather multitude of factors worked in a chain to make this operation worthy airline fall prey to a huge loss. The declining trajectory traversed mainly two periods: first from 1990-2005 and second from 2006-2022.

Decline of PIA started in the 90s after the announcement of the 'open skies policy' and start of political interferences. Despite some respite during the years 2002-2005, when PIA recovered and made an investment of approximately USD 1.4 Billion in renewing the aging fleet. The period starting from 2006 saw an unprecedented loss attributed to multiple reasons which continues unabated till date. The period is mainly marred by political interference and the overall mismanagement in networking which further accelerated the decline. PIA annual financial status<sup>18</sup> (Figure 4) displaying year on year losses till Jun 2022.



Figure 4: PIA Annual Financial Status; 2001 – Jun 2022

The factors of decline are grouped under three main domains i.e., government, regulator (Pakistan Civil Aviation Authority) and organization (PIA). Within government, the stakeholders include the Pakistan Aviation Division and the political government in power.

The government formulated National Aviation Policy to develop aviation sector at par with best international aviation practices in 2019. However, PIA and other local aviation companies were not consulted during formulation of the policy. It also lacked the measures to promote tourism through the relaxation of visa regime, benefits for business travellers and measures to facilitate incoming passengers. PIA was converted from a statutory corporation to a private limited company via PIAC (conversion) Act 2016 thereby restricting the options for privatisation as not more than 49% shares of the company can be privatized and company management to remain invariably with the government. Moreover, political, and bureaucratic interferences by successive regimes coupled with unions influence have resulted in politicization. The board members and CEO are invariably nominated by the government in power, which are mostly political choices rather than merited appointments thus compromising the authority.

PCAA acts as aviation regulator on behalf of Government of Pakistan; however, it lacks proactive role as regulator of local aviation industry and interface with international regulators and agencies. PIA financial crisis commenced with the advent of ‘Open Sky Policy’ and subsequent grant of liberal right to Gulf airlines under the International Civil Aviation Organization (ICAO) 3<sup>rd</sup> and 4<sup>th</sup> freedom in 1990. The objectives of open skies should be based on reciprocity and point to point (P2P) transmission of passenger, however, in case of Pakistan, open skies agreements with cities like Dubai, Abu Dhabi,

Doha and Istanbul caused considerable damage.<sup>19</sup> Under these agreements, extensive rights to foreign airline resulted in 555 x slots allocated to foreign carries against 239 x slots<sup>20</sup> (Figure 5) which ought to have been allowed as per benchmarks of commercial reciprocity and market growth.



Figure 5. Slots - ME Airlines versus PIA

The fake pilot license case resulted enclosure of flight and gave loss of Rs. 7.9 billion in six months due to cancellation of flights to Europe and the UK, and the expected opening of the US market. On the other hand, airport infrastructure in general and

technical ground equipment in particular are not according to the international aviation standards, e.g., Cat III landing equipment deficiency at Lahore airport severely disturbed the flight schedule especially during winters. Most airports except Islamabad International Airport also require major revamp and renovations. PIA has to compete with private sector airlines however, it is governed by public sector rules like Public Procurement Regulatory Authority (PPRA) rules, financial regulation and audits by government departments.<sup>21</sup> This inherited bureaucratic process inhibits efficient working of any airline.

PIA faces a critical problem of mismanagement, either its operations, human resource management or handling of baggage, only one facet is dominating and that is clear negligence and malpractices. PIA presently has a total of thirty-two planes, out of which average 22 aircraft are airworthy at one time due to aged fleet and maintenance issues resulting in insufficient flight operations. PIA has been operating on loss making routes due to inconsistent commercial approach, government pressures and lack of accountability. Of late, new management has done route rationalization by ceasing some loss-making routes (e.g., Islamabad-Tokyo-Beijing-Islamabad which was causing almost the loss of Rs. 300 million every month as PIA was only picking up 80 passengers from Tokyo on a 350 seats B777 aircraft) but still much needs to be done. PIA is currently focused on facilitating P2P traffic instead of hub and spoke structure, thus failing to capture connecting traffic and resulting in low seat occupancy factor up to 60-65% on many routes. Non-availability of suitable aircraft further compounds the problem. Declining trend from 2008 onwards reached to a level that in year 2014, PIA was declared as the worst-performing airline in the world owing to overall on-time performance as low as 32.4% with 11% cancellation of scheduled flights.<sup>22</sup> Air Help, one of the Performances measuring company also ranked PIA as 3<sup>rd</sup> worst airline in the world in year 2018 mainly on factors of customer complaints and flight delays compensations.<sup>23</sup>

According to PIA Financial Report,<sup>24</sup> and the interview with PIA personal, its cargo is currently enjoying only a 5% share of total revenue with attendant issues. Cargo services which are believed to have great potential but only 36% of cargo space on the domestic network is utilized at present.<sup>25</sup> Inconsistent flying programs and change of type of aircraft have severely restricted the ability to sell cargo space. PIA overall cargo factor presently stands at just 55% which is extremely low as compared to industry standings. Massive corruption by the PIA Cargo department in the last five years, primarily through under-invoicing<sup>26</sup>.

PIA engineering checks timelines in comparison to the industry average<sup>27</sup> are depicted in Table 1. These delays especially 'Check A' inspections which are quite frequent, do have a negative impact on optimized use of the existing fleet. PIA recruits lack skills and engineering efficiency in addition to lack of upgraded equipment resulting in less on-station maintenance. Technical Ground Stations (TGS) provides ground handling services to PIA at domestic airports in Pakistan. For this purpose, PIA has a staff of over six hundred personals and over two hundred vehicles putting extra burden on PIA exchequer. As per global practice, TGS is managed by specialized private companies instead airlines themselves. Base Maintenance facility & Engineering Department being

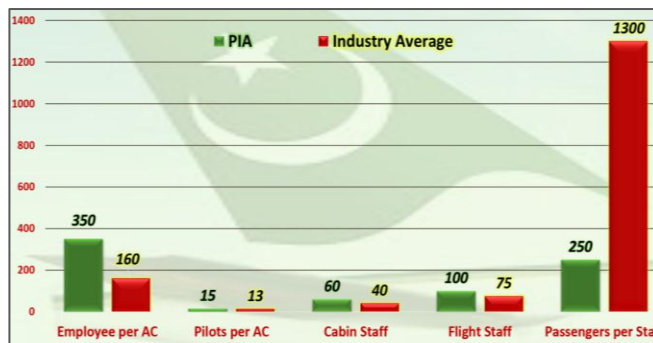


utilized is outdated and requires heavy investment. Supply chain and spares forecasting is the weakest area as the spares are arranged at eleventh hour to keep the fleet in air thus cost double or triple the original price.

Check 'A' and Turnaround Average Time (Consumed)		
Aircraft Type	PIA	Industry Average
• Boeing 777	24 Hrs	12 Hrs
• Airbus 310/320	24 Hrs	18/10 Hrs
• ATR 42/72	24 Hrs	12 Hrs
Check 'C' Turnaround Time (Consumed)		
• Boeing 777	18 Days	15 Days
• Airbus 310/320	20 Days	15/10 Days
• ATR 42/72	15 Days	12 Days

**Table 1:** Average Inspection Times

Human Resource (HR) management is one of the key contributors affecting the overall low performance of PIA. The PIA Unions/ Associations, although now ineffective, have strong influence and the backing of the government in power; thus restrict the improvement efforts. Lack of Merit and Nepotism has remained the hallmark of PIA for more than two decades.<sup>28</sup> For instance, a controversial PIA pilot found guilty of irregularities in recruitment by an investigation conducted by ACM Mushaf Ali Mir (Shaheed) on the orders of the Defence Ministry ended up being appointed as MD in 2008. Employees caught red-handed in smuggling or shoplifting at Dubai duty-free shops in year 2019 were not only reinstated but given backdated seniority.<sup>29</sup> PIA has over 11,220 staff to run airline operation with some 32 x aircrafts. Based on total fleet size, PIA has 350 staff per aircraft against the industry average<sup>30</sup> of 150 to 160 staff per aircraft. Additionally, the number of passengers per staff is 250 at PIA compared to an average of 1,359 which obviously is a mark difference. This results in over burdening defy any business rationale.



**Figure 6:** Overstaffing comparison

The principle of ‘right person for the right job’ is not the overriding criteria for senior management positions. A pilot can be placed in HR department, a marketing man in services department and vice versa. The average age in PIA is more than 46 years with

almost one-third of its employees due for retirement by 2025. When a new management has been placed to improve the system, there working space was shrunk by all e.g., in 2015, Government according to PIAC Act 2016, endeavoured to introduce few reforms. However, PIA employees made a Joint Action Committee and went to strike resulting in withdrawal of reforms in 2016. This further decreases the accountability culture in the organization. After 90s, PIA marketing and advertisement has been negligible. Many sportsmen and celebrities being paid heavily by PIA have never spoken a word on TV/ social media, claiming and spreading its positivity. A large no of non-core businesses hires around 3500 persons which are an additional load on PIA. Most of these services are unable to meet their own running expenditure and take a major chunk out of operational revenue. It includes kitchen/ catering services, hotels and hospitality services, and ground maintenance and handling.

Since year 1962, the airline had posted profits for 33 years out of 60 years. The 60s and 70s were marked by high double-digit growth in the number of passengers and most of PIA's revenue came from international passenger traffic. By the early 1990s, 70% of its revenue was coming from flights to foreign destinations. Thereafter, the decline started attributable to many factors resulting in cumulative loss of Rs.604 billion as of today. Few factors that contribute to and are reflective of this financial decline include effects of global fuel prices, depleting foreign exchange reserves, excessive expenditures, and liabilities versus assets.

The fallout of the first oil shock is apparent in the financial statements of PIA. The fuel bill, which was stable, started to climb from 1974 when it increased to Rs.188 million from Rs.89 million.<sup>31</sup> The following year, it was Rs.354 million followed by Rs.450 million. By 1980, PIA was paying Rs.1.8 billion to fuel suppliers. Another reason appears to be mismatch between time of recording revenue and payment of costs. For instance, PIA starts booking for a flight around 11 x months in advance, but the cost of fuel is recorded when the flight actually takes off and if there has been any surge in the fuel price then the flight is bound to operate at a loss.

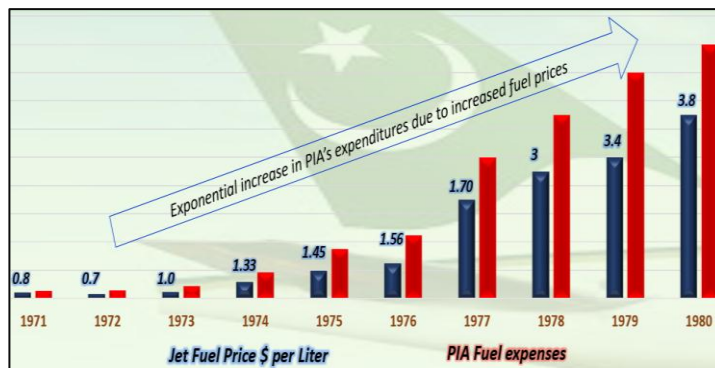


Figure 7: Financial statements: 1970 – 1980

Once the first hefty loss of Rs.4.4 billion in 2005 had burned into its cash reserve, PIA was stuck in a quagmire. After that each year, successive managements borrowed

money from banks to settle expenses and pay liabilities. With already thin margins being squeezed by competitors, PIA expenditure further increased. The expenses incurred on salaries / benefits, rentals, crew layovers and other administrative expenditures are excessively high. This state with decline in revenue has made PIA to reach a negative equity of Rs.604 billion as of June 2022. The last six years data shows that the operational expenses stood always higher than revenues. Despite positive measures by management, current liabilities continued to increase. Out of this, Rs180-220 billion approximately is overseas properties of PIA and rest are other tangible and intangible assets. This brings out a harsh reality that current assets values are too low to finance overall liabilities further compounding the revenue-expenditure deficit.

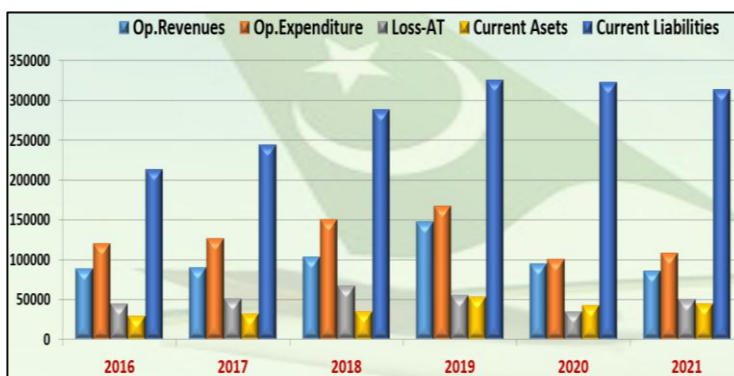


Figure 8: Comparison of Revenues versus Losses

## Lessons from Contemporary Airlines

Sri Lankan Airline is a flag carrier formerly known as Air Lanka which was founded on 10th December 1979 following the closure of Air Ceylon; established in 1947 as state-owned flag carrier. In year 1998, it was partially privatized to Emirates airline. Thereafter, Emirates refurbished the airline's image, upgraded its aircraft and the airline gradually increased its number of destinations from 25 to around 80. Development programs were instituted to upgrade employees' skills with improved pay structure.

In 2008, Emirates ended its affiliations due to political interferences so the airlines making profit of Rs.4.4 billion in 2008, turned into loss of Rs.107 Billion rupees by 2018. Sri Lankan flights to often carry 50 % more crew than they need due to collective bargaining deals with unions. Sri Lankan Airlines lost about \$123 million in the 2020-2021 fiscal year thus the aggregate losses exceeded \$1.2 Billion as of August 2022. The lesson includes Hub and Spoke system, ancillary services, better management, and root rationalisation. Sri Lankan Airline took the decision to promote Colombo as a hub for flights to Asia. Sri Lankan airline made a special focus on in-flight entertainment and ancillary services. Government inherited a profitable business with the same staff, systems, and infrastructure; the principal difference was in the management. Subsequently, airline suffered from gross mismanagement. The airline terminated three European routes which curtailed the losses.

Turkish Airline was founded in 1933, as State Airlines Administration. In 1955, adopted the name of Turkish Airlines with started its overseas operations in 1947. Present day, Turkish Airline flies to most countries in the world – 120 countries from Istanbul Airport. In 2006, its legal status changed from a state enterprise to a private entity with more than 50% share for public offering.

Istanbul was declared as hub of operation for Turkish Airline with routes going to Asia and Europe. It built a new, state-of-the-art technical centre at Istanbul which increased its capitalization significantly. Terminals were built and operated under Build-Operate-Transfer (BOT) model. This model has provided employment to 8,500 and approximately generated 1.2 billion USD of investment in the Turkish economy. Istanbul Airport launches flights to a total of 146 destinations at various continents. It is a transfer hub not only for passenger transportation but also for air cargo transportation between continents. Deregulation increased air traffic to 53% by 2005. Intensified quality of service and cultivated competition resulted in low fares. Turkish Airlines has elaborated sponsorships and advertisements program. They sponsored Warner Bros' Batman vs Superman movie and had Hollywood actor Ben Affleck star in its commercials<sup>32</sup>. Today, it has an average fleet age of just 7.1 years as compared to European airlines, such as British Airways at around 12.8 years or Air France at 14.7 years.

## Way Forward

Global best practices suggest that while national flag carrier is necessary for any country; it should not be state owned. So there are four options in the hand; closing down, privatisation, joint venture, and restructuring of PIA. Closing down of airline would create a large negative equity for the company and government. The Company possesses some attractive legacy slots which, in case of closing down, would be lost and regaining them would be extremely difficult. Additionally, over 1220 people will lose their job causing unemployment. Privatization of PIA is the desirable option however, unworkable at present state given the general state of the aviation industry. It is difficult for any private sector entity to own an airline with such heavy baggage. Amendment in PIA act is required through 2/3rd majority of parliament. Joint venture with conglomerate can be exercised, and various companies along with some Gulf States like Qatar has been approached for joint venture option. However, they refrained from option of JV due to reasons like bearing the share of huge negative equity of Rs 600 billion, not getting the management to run the company, risk of lack of policy continuation by successive governments and flawed model of privatization of earlier government owned entities like K-electric.

Restructuring of PIA is the only workable option i.e. restructuring of the entity after clearly estimating its issues and addressing them. However the process has to be graduated where emergent requirement is to stall the further loss and subsequent privatization after reaching a breakeven point. The option of restructuring despite being workable has certain constraints that hinder a successful transformation of PIA. The requirements for a successful implementation of this plan include irreversible government

decision, financial restructuring, political will, Aviation Policy and amendment in PIAC Act 2016.

The government has to decide with all political forces to adopt option of restructuring and ensure continuation of that policy. Financial restructuring is the cornerstone for the survival of PIA. Even if the operation is improved, the heavy legacy burden reflected in high debt levels and low capitalization must be immediately addressed. Political will and government support are key element for public sector airlines. All three stakeholders namely Aviation Division, PCAA and PIA itself must work in unison to achieve its objectives. The government should place industry competent people in PIA without any political influence. Pakistan's National Aviation Policy based on "Open Sky Policy" being detrimental to own interests should be revised based on reciprocity and same level of access and link with tourism and business policy of the country. While the restructuring is being done, it is imperative that the PIAC Act 2016 may be amended through act of parliament to include privatization clause along with management.

Restructuring Plan of PIA. In order to recover, PIA needs to undergo extensive organizational restructuring as well as a one-time restructuring of balance sheet. The proposed organizational restructuring plan includes operational, financial, technical, human resource, and marketing restructuring. Getting rid of some of its non-core activities will improve the organizational efficiency by reducing HR count and resultant salary savings. Other than Karachi and Islamabad, food services are already outsourced at other domestic stations. Therefore, it maybe outsourced to third party in totality. Upgrading the vehicles and equipment again requires massive investments. As per prevalent global practice, it is managed by specialized companies. Therefore, PIA may plan to look for third party solutions. Base Maintenance of Engineering Department may be outsourced to an independent entity. In addition to above, Precision Engineering Complex is planned to be carved out to Ministry of Defence. This operational restructuring will take approx. 3500 employees off the payroll of PIA. After the completion of operational restructuring, the restructured PIA will comprise of 7,500 employees only which will optimize the Staff-to-Aircraft Ratio to 250 as against the existing value of 350.<sup>33</sup>

For human resource restructuring, Voluntary Separation Scheme (VSS) scheme on the lines of ones recently availed by 1800 employees may be introduced with better financial emoluments to layoff additional manpower. Quality of human resource can be improved through detailed training programme and merit base promotions. Additionally, any fresh induction should be through national testing service and interviews by PIA board. Pays and emoluments of PIA employees including air and ground crew be revised keeping in view the revenues and profits generated.

Following measures of the plan are aimed at enhancing customers' satisfaction adding to the brand image thus increasing the profits. Upgradation of aircraft fleet and revamping of existing fleet is necessary for improving product quality and to bring about savings in fuel costs. Accordingly, going forward, PIA to gradually replace the old fleet

with relatively newer fuel-efficient aircrafts. PIA to aggressively pursue its network optimization and expansion initiatives through code sharing arrangements with Turkish Airlines, Thai Airways, Etihad and Emirates airlines. Through these initiatives, the seat factor is expected to gradually increase to around 80-85%. PIA to conduct analysis of profitable routes and a comprehensive route rationalization exercise for each sector through Route Diagnostic Labs. PIA to focus on enhancing business collaboration with corporate houses especially on domestic network. This will not only add premium to the brand image of PIA but will also contribute in enhancing revenues through resource sharing and bring value addition for customers. Keeping north south connectivity, Islamabad may be established as a HUB with traffic from Russia, Central Asian Republics, China and Azerbaijan may be connected to South Asia and Middle East. Additionally PIA Headquarter may be shifted completely to Islamabad. Along with re-structuring, PIA can be rebranded from its old phrase of “great people to fly with” to “Connecting Communities Home and Abroad”. This people centric approach can deliver better service and earn more revenues.

PIA should focus on multiple GDS (Global Distribution System) strategy for larger outreach for selling its services. And develop portals on social media networks in line with global trends. The consensus view of the panel is that without financial restructuring, operational efficiency and organizational restructuring would not achieve any tangible results. Thus, financial restructuring is conditional to improve operational efficiency and implement organizational restructuring. Government of Pakistan may assume financial liabilities off the PIA’s balance sheet. This would enable PIA to mobilize long and short-term capital from financial market. In order to protect the interest of the Government under the circumstances, it is recommended to put in place some safeguards and conditions under which the GoP would assume these liabilities and enable PIA to clean up its balance sheet. The PIACL would transfer the ownership of properties belonging to PIA and PIACL to the Government of Pakistan without any encumbrances. The Board of PIA would authorize an agreement to be signed between PIA and the Government of Pakistan laying down the specific milestones and timelines to be achieved by the company.

## **Conclusion**

PIA being the national flag carrier is the identity and national pride of Pakistan. However, its present state is distraught, and future is uncertain. Political interferences by successive governments coupled with poor policy decisions, unions influence and lack of interest and authority by the management have resulted in numerous problems inflicting significant damage to the national flag carrier. The global airline industry is on a slow recovery trajectory with IATA forecasting a rise in profits and at the same time economic indicators are showing positive trends with reduced influence by the unions and government. The PIA can be restructured to break even or generate profits and then can be considered for privatization to accrue maximum benefits.

## Endnotes

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<sup>6</sup> Katharina Buchholz, "New Woes for Airlines as Covid Recovery Nears Completion", available online at <https://www.statista.com/chart/27128/planned-air-passenger-seat-capacity-by-region> accessed on 01 Nov 2022.

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<sup>11</sup> Saad Hasan, PIA's Seventy Year Long Descent".

<sup>12</sup> PIA History.

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<sup>14</sup> PIA History.

<sup>15</sup> Saad Hasan.

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<sup>20</sup> "PIA Annual Report 2021" and "IATA Special Audit Report 2015" accessed on 23 October 2022.

<sup>21</sup> Public Procurement Regulatory Authority, available online at [ppra.org.pk](http://ppra.org.pk) accessed on 14 September 2022.

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<sup>24</sup> PIA Financial Report 2021.

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<sup>28</sup> Abid Hussain, "Herald Exclusive: Plane truths – How costly is it to keep PIA flying?", *The Dawn*, 26 March 2014.

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<sup>31</sup> Saad Hasan.

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