AIRWAYS CORPORATION OF NEW ZEALAND LIMITED: NAVIGATING AIRCRAFT, INTERNATIONAL AIRSPACE AND ENTREPRENEURIAL SUCCESS

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INTRODUCTION

Airways International General Manager Bruce Heesterman looked at the State Owned Enterprise's (SOE's) strategic plan, which had been submitted to the New Zealand Government for approval in 2007. The SOE's signal of decreasing profits and dividends in the coming years was something management had considered carefully. There were still opportunities for further profit in the air navigation services industry. But it was unclear how far Airways could go in expanding its business of air navigation services and still maintain government and wider public support.

Given Airways' SOE status and the nature of its operations, the political stakes were high and there was noticeably less tolerance for failure. Ensuring a safe, efficient air navigation service for airlines travelling in and across New Zealand was something on which the SOE prided itself. Airways' management had transformed the SOE from a government department into a commercial success with a promising future. In the short term, Airways' management needed to convince the government that a reduced dividend was acceptable. In the longer term, the challenge was to evaluate how far the company should go in expanding the scope of its business operations to secure a successful commercial future. Certainly, the company had come a long way. Key questions to be considered by Heesterman and the management team were how much further Airways could go; how much latitude it really had, and what guiding principles should underpin its plans for future growth.

COMPANY OVERVIEW

Airways was incorporated as a SOE in 1987 as part of the initial public sector reforms in New Zealand. The company's main business activity was the provision of air navigation services within New Zealand airspace, involving air traffic control services (the separation of in-flight aircraft) and air traffic management services (maximising access to efficient and airline customer-preferred flight paths). Airways also engaged in a number of related activities such as consulting, training and publishing within the aviation industry. These services were provided to both public sector and private sector organisations.

Airways' scope of business and reputation was somewhat inconsistent with its size and that of New Zealand. New Zealand was the 75th largest country in the world, comprising 268 680 square kilometres (slightly larger in size than the United Kingdom, and slightly smaller than Italy). Yet the airspace managed by Airways was considerably larger (34 million square kilometres, more than 126 times larger). Exhibit 1 shows a map of New Zealand and surrounding areas.

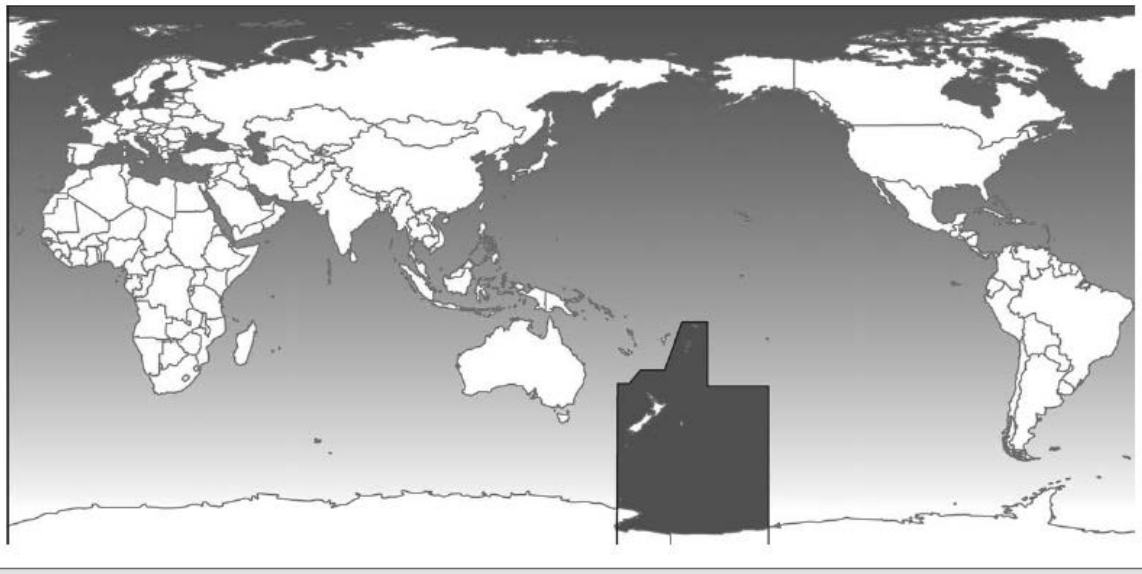
Airways was the world's first commercial air navigation service, and had twice been awarded the best air navigation services provider in the world award by the International Aviation Transport Association, based on customer satisfaction, cost efficiency and continuous improvement. Airways' management was also recognised internationally, with Chief Executive Ashley Smout appointed as Chairman of the international agency Civil Air Navigation Services Organisation (CANSO) for four

consecutive years. And the company had been visited regularly by overseas government officials wanting to understand how Airways was run as a commercial organisation. 'We punch above our weight', Airways International General Manager Heesterman noted.

BACKGROUND TO NEW ZEALAND'S PUBLIC SECTOR REFORMS

Prior to becoming a SOE, Airways operated as a government department with a budget of allocated government funds. The government collected revenue via a fuel tax on airlines, and each year Airways re-evaluated its required budgetary allocation. 'It was very much a civil service' Heesterman recalled. As part of the New Zealand Government's public sector reforms in the mid 1980s, government departments with a strong trading function were corporatised as SOEs and expected to operate as commercial, independent and profitable organisations in deregulated markets. However, monopolistic positions were sometimes difficult to avoid due to the nature of some SOEs' businesses and the relatively small scale of New Zealand-focused operations.

EXHIBIT 1 SCALE OF NEW ZEALAND AND AIRSPACE MANAGED BY AIRWAYS



Source: Airways New Zealand Limited, Welcome to Airways, 2008, http://www.airways.co.nz.

Under the reforms, shares in SOEs were held by the government and SOEs were required to submit annual Statements of Corporate Intent, outlining their operational plans, and the associated financial implications. Further, there was an expectation that SOEs would be in a position to pay regular dividends to the government.

Because we're commercialised, we don't have this perceived drain on Government funds.'

The success of the SOE reforms—and indeed some SOEs' individual successes—led to changing government views. While SOE policy initially encouraged SOEs to focus on core markets, in 2006 New Zealand's Labour-led Government formally announced a policy change encouraging SOEs to expand the scope of their business into related areas, with expectations of increased profits and dividends.

AIRWAYS' EARLY YEARS AS A SOE

New Zealand's early start on the liberalisation process was viewed as giving Airways an advantage in the air navigation services industry. Airways had set a world standard in efficiency benefits and continued to be seen as ahead of its time.

> It is generally recognised as the most customer-focused, most commercial in its approach; [New Zealand is] proof that a small nation can be leading in its thinking. *(CANSO Secretary-General Alexander ter Kuile in R Van den Bergh)*

Yet the situation for Airways had not always been so positive. In its early years as a SOE, Airways struggled to gain the confidence and support of its government shareholders and the general public as stakeholders. Issues such as legal disputes with customers, labour strikes and challenging economic conditions had previously put Airways on the political and public radar. These issues, together with unwelcome price increases for airlines—a captive market given Airway's monopolistic position—caused Airways to review its operations and consider alternative arrangements and revenue streams.

In 2000 the company entered into a partnership arrangement with Lockheed Martin, one of the largest suppliers of air navigation equipment in the world. The arrangement involved Lockheed upgrading Airways' radar system, and a joint bid by Airways and Lockheed for a $60 million contract with the United States Federal Aviation Administration (FAA) for the provision of updated technology and expertise. While Airways was publicly criticised for entering into the contract with Lockheed for the upgrade of its radar system without making the contract available for tender, the arrangement proceeded as intended and became a turning point for the SOE.

As Airways pursued international relations and opportunities, stakeholders in New Zealand questioned the SOE's plans for growth. Adam Nicholson commented: 'There's a view that running an efficient air traffic control service in New Zealand is a secondary consideration for those running the business.' Espiner raised similar concerns: 'One of Airways' main strategic goals is to become involved in the ownership or management of an air navigation service organisation outside New Zealand. But is global expansion the role of a taxpayer-owned company whose most basic duty is, bluntly, to ensure aircraft flying around and near New Zealand don't hit each other?

THE BEGINNINGS OF SUCCESS

From an internal management perspective, Airways' partnership with Lockheed was considered a crucial factor in the company's development.

> There were things changing around us—the customers and the way they operate, the technology, the likelihood of deregulation and competition. So we said let's look at what customers expect from us and how we should deliver that so we can give them the level of service they want at a price that represents good value.

Changes that followed included the adoption of technology which allowed Airways to operate all domestic operations from one Location, the introduction of a profit-sharing agreement with airlines, and the successful bid, together with Lockheed, for the FAA contract in the United States.

> Chief Executive Craig Sinclair drove Airways' overseas expansion and its leap into the highest levels of technology despite the doubts of many as the relatively small company first bid for the UK's national air traffic system, then the huge US Federal Aviation Administration's oceanic airspace together with Lockheed Martin.

Sinclair considered it was crucial to be part of an air traffic management alliance. So Airways Looked at what it could offer, forging a partnership with Lockheed—'a company with enough critical mass to be noticed globally and the strength to be recognised at the top' of the industry.17 The alliance was subsequently referred to as a marriage of American technological grunt and Kiwi ingenuity, with Lockheed identifying similar value in the partnership.

> With Airways' track record of commercial excellence, safety of flight, and vision, it became obvious that a union of Lockheed and Airways would put us in a position to address the needs of the market.

Increasingly, Airways gained recognition from competitors and peers in the public and private sector, as well as stakeholders in New Zealand. 'Airways has built a solid international reputation which has seen it become involved in hi-tech projects around the world.'

AIRWAYS' PROGRESSION TO A GLOBAL LEADER: EXPANDING THE SCOPE OF BUSINESS

Heesterrnan reflected on the importance of the FAA contract as a foundation for Airways' international growth.

> Outside the core air navigation business, [management] had thought about dabbling in consulting… the big breakthrough came when Airways installed some technology to monitor planes across mainly the Pacific. We were, by coincidence, the first to adopt this new technology so in Auckland, we run what we call 'Oceanic'. We installed the software, developed the expertise around air traffic control using the software, and the vendor, Lockheed, sold the software to the US. As part of the contract, we got this contract to sell training services.

Exhibit 2 presents an overview of the Oceanic system in practice.

The contract provided Airways with a significant revenue stream, exposure to international markets, and an understanding of its own capabilities. As Heesterman explained: 'That particular project it made some money, it made us a reputation, and gave us some confidence to compete on the international stage'.

Further, the success of the project started to change the way Airways executives thought about doing business.

> I think what that did, with the quantum of that contract, was galvanise the intention to say, 'actually, there's some money to be made here'. It's more than just playing around the edges; a hobby type thing. We actually formalised the business to do that. So that was the lightning rod, or the catalyst to say 'ok, let's get a bit more serious about it'. And so they did.

The project was viewed as innovative in a number of ways—making the technology work, managing the process and generating a profit.

EXHIBIT 2 THE RACE FOR PROGRESS

In the early 1990s Australia, New Zealand and the United States focused on introducing technology which would allow aircraft flying over big stretches of ocean, beyond the reach of radar, to stay in constant contact with ground control staff. Australia used technology from French-based manufacturer Thompson-CSF. Airways contracted Canadian company CAE Inc., and the FAA in the United States contracted Hughes Aircraft Co. for $140 million to build a state-of-the-art satellite navigation system.

New Zealand's Oceanic system went live in early 2000 (albeit with a small glitch whereby it crashed for several hours soon afterwards) at a cost of approximately $10 million. Australia's $225 million system was also commissioned successfully around the same time. However, the FAA 'pulled the plug' after a series of cost overruns and technical problems costing almost $60 million. Crowded skies, delays and a series of near-misses forced the FAA to look elsewhere for a replacement. Australia and New Zealand were soon the hot favourites.

In the United States and much of the world, aircraft flying over oceans mostly use fixed tracks, or skyways, which they follow, reporting in at pre-assigned points using radio markers floating in the sea. Each movement is plotted by a controller using a slide rule and a sheet of perspex. Vital details about the aircraft and its flight plan are kept on paper strips that sit next to the workstation. Controllers keep a mental picture of the aircraft in their patch of sky. They do not usually talk to the pilots directly, but give instructions via a radio room that could be sited hundreds of kilometres away.

The new satellite systems do away with most of this. Controllers are in touch with pilots via email. Pilots can often choose their own routes, taking advantage of the shortest or smoothest path. Because controllers know exactly where the plane is at each step of the flight, separation rules (currently 100 nautical miles between aircraft) can be relaxed, reducing delays.

The system would not impress a video game enthusiast, much less the average passenger. On the surface it is little more than a series of lines and dots on a computer screen. A small green square on a controller's computer turns orange and begins to flash. It is one of 20 similar squares on his terminal, each with a threadlike tail attached, representing the flight path of a passenger jet. The Oceanic control system has detected that in just over an hour's time, two aircraft flying over the same sector of the Pacific Ocean will arrive at roughly the same place at roughly the same time. A Hawaiian Airlines Boeing 747 on its way from Honolulu to Anchorage and a North West DC10 out of Detroit bound for Japan have an unscheduled rendezvous at 12.34 pm.

Chances are they would miss each other, but air traffic controllers are not the sort to take chances. Reaching for his mouse, the controller draws the potential conflict on his screen. With a couple of clicks, he suggests a change in altitude of 3000 feet for the North West aircraft over the next hour. The request is emailed to the aircraft, cruising at 33000 feet, and the pilot emails back in the affirmative. The orange square goes back to green.

The incident is a simulation in a Lockheed laboratory, testing Airways' state-of-the-art satellite-based air traffic system that is not only safer, but can save precious time off lengthy flights, and save fuel.

Source: C Espiner, 'Airways: masters of the sky', *The Press*, 17 February 2001.

Airways subsequently took over management of air navigation services in Tonga, Samoa and Nuie, and began making its mark internationally. Success continued with contracts in Asia (China, the Philippines), the Pacific (Fiji, Papua New Guinea), the Middle East (Iran, Oman, Kuwait), and Africa (Kenya, Tanzania, Uganda). Recognition followed with international industry 'awards from the International Aviation Transport Association (which represented approximately 280 of the world's airlines), and national awards for a number of innovative and entrepreneurial projects. Exhibit 3 provides an overview of Airways accomplishments and achievements.

But while the FAA contract helped Airways to access an international market, it was not the only change which had prepared the company for commercial success.

AIRWAYS' OPERATING AND FINANCING CHANGES: FROM EVA ZERO TO ENTREPRENEURIAL SUCCESS

Unlike other SOEs, Airways' performance was initially targeted as economic value added [EVA] zero. While some outside the company viewed this arrangement as a good thing, the limitations of the arrangement were noted:

> It effectively had a zero-profit target. And the problem with that is that it acts as a discentive to any entrepreneurial activity because effectively your prices go down.25 So some time in the mid -nineties the legislation changed to allow an EVA And the airlines said, 'Well, hang on, it's all coming from us'. So the deal that was struck is that over a certain level of profitability, we share the profits with the airlines.

EXHIBIT 3 A PROMISING FUTURE

2000	Airways introduced a profit sharing arrangement with airlines, moving from a cost plus basis to a profit share agreement (Airways, 2007). The new arrangement resulted in several million dollars being returned to airlines each year (Van den Bergh, 2002; Airways, 2004; Airways, 2006).
2001	Airways and Lockheed Martin were successful in their bid for a $220 million contract with the United States Federal Aviation Administration (FAA) (Kennedy, 2002).
2002	'In a year that claimed several key players in the global aviation scene, Airways retained a solid foothold thanks to an innovative partnership with key airline customers' (Van den Bergh, 2002).
2002	Airways took over management of air navigation services in Tonga, with Samoa and Nuie later following.
	Airways undertook the development of seven air traffic control centres in China, one in the Philippines, and began selling its expertise across Asia, the Pacific and the Middle East.
2002	Airways referred to as an example of the way air traffic control providers should be structured by Civil Air Navigation Services Organisation (CANSO) Secretary-General, head of the industry's global umbrella organisation (Van den Bergh, 2002).
	According to CANSO's Secretary-General, the New Zealand model continued to be the envy of the industry for both its corporate structure and its relationship with airlines (Van den Bergh, 2002).
2003	Airways won a major consulting contract in Iran, involving 18 months of project management and consulting in relation to the expansion of an existing airport (Airways, 2003).
2003	Airways awarded best air navigation services provider in the world award, based on customer satisfaction, cost efficiency and continuous improvement.
2006	Airways introduced the reduced 30/30 nautical mile horizon separation standard (the previous standard required 100 nautical mile separation between aircraft), allowing improved access to flight routes and flight levels, while maintaining its safety record.
2006	User Preferred Routing and Dynamic Airborne Rerouting were introduced, allowing pilots to alter routes in-flight based on prevailing weather conditions, to achieve better in-flight efficiency.
2006	Airways awarded three high profile awards including Overall Excellence in IT from ComputerWorld Magazine for its air traffic control simulator, Total Control.
2008	Agreement made with the United States Federal Aviation Administration and Airservices Australia to accelerate the development of air traffic control procedures which will reduce aviation's environmental footprint worldwide (Airways, 2008). The aviation sector represented 3 per cent of global greenhouse gas emissions.
2007	Online Collaborative Arrivals Manager introduced, allowing real-time information to be shared between airlines, airport companies and Airways New Zealand, for agreed flight scheduling during disruptive weather conditions, such that priority flights for each airline are managed. Fuel economies and reductions in greenhouse gas emissions achieved, through reduced holding patterns for in-flight and grounded (engine idling) aircraft (Airways, 2008).
2007	Airways again awarded Overall Excellence in the use of IT from *ComputerWorld* magazine for its automated flight billing system, Flight-Yield (Airways, 2007).
2008	Optimised Arrival Trial introduced, allowing landing aircraft to follow continuous descent approach procedures, with engines set at idle, resulting in fuel economies and reductions in greenhouse gas emissions.
2008	Airways again awarded best air navigation services provider in the world, based on customer satisfaction, cost efficiency and continuous improvement.

> It's a group of airlines under an organisation called BARNZ [Board of Airline Representatives in New Zealand. It's a profit-sharing agreement; in essence it's a pro-rata of their contributions. And in effect it's like another dividend paid to the airlines, and it's measurable; so it's a measurable bit of money for them to get back. I think it's quite a model.

Under this model, an industry regulator was not necessary to oversee what was, in effect, a monopoly service provider, because management adopted practices that ensured there was no abuse of the SOE's position. As Airways' Chief Executive Ashley Smout explained: 'We tell [the airlines] everything.' Airways was open with airlines in terms of investment intentions and capital expenditure plans, thereby enhancing transparency and building trust. As a result, the company was forced to look further afield for profit opportunities.

> Obviously, in the Statement of Corporate Intent we paint a picture of where we see ourselves going. The statement that we're publishing literally today, has finished with us paying a lower dividend in the future because we see revenue getting relatively flat but with

> our cost structure, obviously there's inflationary pressure on everybody's costs. So we see the profit squeezing down, and we have signalled to Government that dividends are dropping; not disappearing but dropping.

Both those inside and outside the organisation had long seen Airways as a well-run company with minimal scope for cost-cutting. 'I think the reality is, costs are pretty tight here. The systems and processes and the core business are very, very well-run. Yes, its picking around the edges; you're talking quarters of a per cent and it really is tight'.

In response, Airways' management began pursuing revenue opportunities. Airways gradually increased its latitude and longitude co-ordinates, acquiring contracts to manage airspace for surrounding countries, and providing consultancy services in more than 60 countries.

> We run the airspace for [a number of countries in the Pacific including] the Cook Islands. As airlines fly over they pay for the number of kilometres times whatever the rate is times the tonnage of that aircraft. There's quite a lot of traffic and [countries in the Pacific] don't have the technology. In 2002 under changes in international law, this airspace became available to New Zealand or to be used by us. So we're managing the upper airspace for them.

What we're trying to do is get more airspace because we quite like the idea of that And we are looking at growing that influence through a variety of ways—through carrying the same model again in another area but also buying hardware and leasing it back to them, even outsourcing some of their lower airspace contracts. So we're tiptoeing down that path.

Other innovations and projects continued to support Airways plans for expansions. Yet growth was carefully managed. Software that was developed in-house for the company's own use was subsequently identified as a product that might have worthwhile market potential. Initially developed and used by Airways for its own operations, Flight-Yield software Linked into the radar to take track and other information to calculate and generate invoices for airlines.

> We basically have about 100 per cent accuracy. We did a study for Fiji, and they lose between two per cent and three per cent of their revenue through planes not being invoiced for flying in that airspace; so it's quite a bit of money at stake.

The software not only assisted in addressing lost revenue, but also helped to get the payment made more expeditiously though its systematic approach. Airways management then made a deliberate decision to develop Flight Yield for the international market trying to 'anticipate pretty much every charging regime that we could think of.

Other initiatives developed by Airways included Total Control, an air traffic control tower simulator designed to address the ongoing training needs of Airways' staff. Innovative features of the software such as photo realistic graphics and real-time simulation of air traffic in 11 airports throughout the country meant training was conducted in a Tully featured realistic environment. While the program was initially designed to meet Airways' own training needs, it subsequently attracted significant overseas attention, and was used as a training facility by a number of overseas organisations.

Further innovations included a 30/30 nautical mile horizontal separation standard introduced in 2006, described as a 'world first. Changing from the former standard of 100 nautical miles effectively increased airspace capacity and improved efficiency for aircraft by reducing the required distance between them, while preserving safety standards. User Preferred Routing and Dynamic Airborne Rerouting were then introduced, allowing pilots to alter routes in-flight based on prevailing weather conditions, and achieve better in-flight efficiency. Further, a joint venture with a United States company for English language aviation training, was also identified as a growth market by Airways, and viewed as a promising opportunity by Heesterman:

> There's a new rule that says, by 2 March 2008, all pilots and air traffic controllers have got to speak English. And you might think that would have been useful before then, but apparently that's not the case. In fact, in [some Asian airline companies] for example, 75% of the pilots there can't speak English to the right standard. There's a rating system.

Thus, Airways entered into a joint venture with a United States company to develop a product—a mixture of computer and classroom training—to serve this niche.

In 2007, Airways introduced Online Arrivals Collaborative Manager, which allowed real-time information to be shared between airlines, airport companies and itself, for agreed flight scheduling during disruptive weather conditions. In 2008, Airways was trialling Optimised Arrival, which allowed flexibility for Landing aircraft in terms of fuel and environmental efficiencies.

More than 80 new ideas, concepts and suggestions for both large and small innovations had been put forward by staff. Airways attributed its success to organisational learning and a culture increasingly focused on innovation. Referring to another potential investment, Heesterman noted:

> Because you're out there, you get these [opportunities]. And I don't think it's just luck, but it's not [always] something we sat down and thought of six months ago. It reflects that being out there does have some value.

NAVIGATING GROWTH AND CONTINUED SUCCESS
STRATEGY, COMPETITION, CONSTRAINTS AND CHALLENGES

Despite Airways growth and success, Heesterman was conscious of both constraints and challenges going forward. Limited opportunities for growth in the core business, a likely upsurge in competition, preserving a premium safety record, and managing resource limitations, were all issues of importance.

Airways management realised that the core business presented few opportunities for growth. With a vision to be a key player globally, Airways faced the challenge of maintaining its strong reputation in its core business, and ensuring new projects were appropriately aligned with its core business. Airways was also conscious of a changing industry environment in terms of a history of cooperation and a future of increasing competition.

> It's quite a co-operative industry. If people rock on up, we'll give them information .. that's just the brotherhood of ANS [Air Navigation Services]. If they wanted to come back and write a business plan, well, we might charge. But it's emerging, of course, that we're

> competing [internationally] as well, and so I think there's an interesting dynamic going forward into the future.

Airways' status as the world's first commercial air navigation service provider and its continued success, resulted in both recognition and competition within the industry. Approximately 20 per cent of Airways revenue came from non-air navigation services domestic business, a figure referred to by Heesterman as 'really high. I think it's the highest in the world. But others are aspiring to do that as well'.

Further, Airways' resource limitations, particularly with respect to staffing, were also a key challenge for the organisation internally.

> There's a tension between a well-planned, well-oiled, resource managed business and a competitive business. We have seven by 24 rostering, so we can't just take people and say, 'Linda, good news, you're going to Anchorage on Tuesday', [because] there's no one there to fill her place.'

The structure of recent projects, however, had helped Airways manage such constraints white continuing to expand. In particular, value from systems such as Flight-Yield and Total Control involved 'selling the IP [intellectual property] that's inside the system, rather than bodies. And I think that's a significant milestone for Airways'. This additional flexibility provided options for both Airways and its staff, allowing more cost-effective services, but also allowing staff to work on overseas projects without having to Leave New Zealand. 'People who are personally unavailable to travel can still be involved.'

Plans for the future involved managing constraints and resources. Heesterrnan noted opportunities for growth existed, but often had to be considered from different perspectives to make them viable. The aviation English training model, for example, involved franchising. Airways planned to take the material and train others, then sell the licences to an in-country service provider, who would provide the trainers and classrooms. 'I quite Like that model. Whether we can do that for air traffic control training, which is quite highly regulated, I'm still exploring. But I think that's where we want to go.'" Targeting new projects with only Limited staff meant thinking Laterally. 'It doesn't stop me hankering to get that work, but it does make you Look at different ways of doing it.'

And despite the company's freedom to operate commercially, Airways maintained a strong awareness of its public and political profile.

> We understand that we've got the mandate to go and do these things [new ventures], but it's an easy target for the Opposition [Party] to say this organisation is wasting taxpayers money' [if a project's not successful].

While the SOE framework provided commercial freedom for SOEs and formal lines of accountability, in practice accountability extended beyond those lines to various stakeholders, often with conflicting interests.

> In a normal commercial organisation, you take qualified risk and you understand the pain/gain equation, and you get over it. And SOEs, in theory, can do that. But it all depends on what the appetite [for risk] is.

Despite the rhetoric, I think any government is probably fairly risk-averse, which is probably appropriate I suppose, but we'll see. Part of my mandate is to look at investment opportunities. I'm not going to be planning any failures, but that is ultimately, I guess, the test of it.

REPUTATION, RISK AND RETURN

Since 2001, Airways' financial performance and reputation had held the company in good esteem. In 2005, New Zealand's Crown Company Monitoring Advisory Unit referred to Airways' performance as 'consistently excellent' since the late 1990s, with strong revenue growth and an efficient capital structure delivering strong returns on equity." Exhibit 4 summarises Airways' financial performance and returns to government from 2004 to 2008.

EXHIBIT 4 AIRWAYS' FINANCIAL PERFORMANCE AND RETURNS TO GOVERNMENT

		2004	2005	2006	2007	2008	Average
1	Operating revenue	124.7	128.3	130.0	131.19	139.3	130.84
2	NPAT	9.2	8.2	7.6	6.9	10.6	8.48
3	Total assets	119.0	121.5	125.1	149.3	133.4	129.68
4	Contributed capital	41.1	41.1	41.1	41.1	41.1	41.10
5	Equity	41.2	39.4	39.0	48.9	53.6	44.40
6	Dividends %	131%	121%	106%	87%	57%	100%
7	Dividends paid	12.0	10.0	8.0	6.0	6.0	8.40
8	Tax paid	6.8	1.4	4.3	4.3	4.2	4.20
9	Total payments	18.8	11.4	12.3	10.3	10.2	12.60
10	ROE	22%	21%	19%	14%	20%	19%
11	ROCI	22%	20%	18%	17%	26%	21%
12	ROI	46%	28%	30%	25%	25%	31%

Key

1. Revenue—totalr evenuef ort heye ar
2. Netpr ofit after tax for the year
3. Total assets—based on year end values
4. Contributed capital—total contributed capital based on year end values (representing the amount of capital contributed by the New Zealand Government)
5. Equity—total owners' equity based on year end values
6. Dividends %—dividends paid compared to net profit after tax for the year
7. Dividends paid for the year
8. Tax paid for the year
9. Total payments = dividend paid + tax paid, being the two main forms of cash returns to government from SOEs
10. ROE: Return on Equity = Net profit after tax ÷ Equity
11. ROCI: Return on capital invested = Net profit after tax ÷ Contributed capital
12. ROI: Return on investment = Total payments ÷ Contributed capital

- ***Note: Some formulae may be different from the lecture notes.***

Overseas, Airways was establishing a reputation for its ability to 'get on with things'. 'I think in everything we do, we're very practical people… there's not too much tension; people just do the job. So we get really good rave reviews'.

While Airways' management was not too concerned about the government's reaction to decreasing dividends, Heesterman was acutely aware of how fragile the company's reputation was, and the need for Airways to show it was operating commercially.

> To be honest because the Minister [for SOEs] probably sees us as a piece of core infrastructure, I suspect if we went to him and said, 'Minister, we can't promise any profit and that's five or six million dollars a year [in dividends] that he's doing without he probably isn't going to lose any sleep. The quantum is relatively small. He would be more worried if we had an air accident And if it was around saying, no dividends for the next three or four years but we can guarantee there's no air accidents'; I don't think there'd be a debate

The perception of Airways in the broader political and public arena, however, presented other risks. These included business failure, or the potential for such failure. The risk of failure will always sort of be with us, and it can change pretty quickly. That's just part of being a SOE:"

Heesterman was also aware the company's monopoly status could potentially raise questions about Airways' commercial focus.

> I think if we swoop down to the zero dividend level, then that might precipitate somebody asking are they a [commercial] company at all, or are they really just there to provide a core infrastructure?' or something like that. So that's a risk.

Yet, the payment of dividends was seen as a way of reinforcing the company's commercial nature.

> In the scale of things, we pay $5 or $6 million dividends; well, that doesn't actually go a long way in terms of Government spending. It's not like New Zealand Post, which is sort of paying $100 million; $6 million is not earth shattering in terms of the Government coffers. They're not after us in terms of what money we're putting back in. They're using a dividend as a measure of whether we are operating commercially, and so far we are.

NAVIGATING THE FUTURE

Heesterman looked at the options and draft proposals before him. Options to buy shareholdings in airports, own runways and control towers, and more than 80 suggestions by staff for innovative projects and ideas—opportunities for success, profit and expansion, but also potential risks of failure and financial loss if the right choices were not made. As Heesterman reflected on Airways' past, and considered its future, his thoughts turned to other SOEs whose international investments, although profitable, had come with the high cost of very public criticism. Heesterman's gaze returned to the proposals on his desk, as he contemplated which projects would be viable for Airways commercially, politically and publicly. He needed to look at all the options, but perhaps look at them from different perspectives. What guiding principles would underpin Airways' future success?

One way to get some idea of how the company has responded to the future is to check what has happened using the website: http://www.airways.co.nz/