



# Airport ownership and financial performance: Evidence from Italy



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## ARTICLE INFO

### Article history:

Available online 26 July 2014

### Keywords:

Privatization  
Financial performance  
Italy  
Airports  
Ownership type

## ABSTRACT

In the past few decades many countries have increased the presence of various forms of private sector involvement in airport ownership and management. This paper focuses on the financial performance of Italian airport companies. We present empirical evidence separately for two groups where public or private management majority prevails. The main findings indicate that companies with a private majority outperform the others in terms of financial indicators that are related to operating income.

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## 1. Introduction

Airport companies have been under growing pressure to be more financially self-sufficient and less reliant on government support. Increased airline competition stemming from deregulation and liberalization has placed airport management in a much more competitive environment (Barros and Dieke, 2007). The process of commercialization and privatization has become a major worldwide trend (Forsyth, 2006; Graham, 2003; Humphreys, 1999). This has stimulated the introduction of new and more flexible forms of ownership in order to operate from a business-oriented perspective (Carney and Mew, 2003). Accordingly, many countries have developed various forms of private sector involvement in airport ownership and management (Gillen, 2011).

The goal of providing companies with more flexible management structures has also been pursued in Italian legislation (Fasone and Scuderi, 2012). Despite public stakeholders are still playing a key role in management, various forms of private sector involvement with airline activity has been put into practice. According to the literature, privatisation provides several advantages to companies. Private structures are more flexible and efficient than public ones. However, concerning the specific sector of airports, different questions arise or have not been examined in depth related to the actual financial results of private ownership as compared to the public ownership. This paper aims to compare the financial performance of the two groups of private and public majority Italian airport companies. To this end, we consider key indicators

calculated from financial statements. As for other papers analysing sets of airports at country level, the number is very limited. For this reason, we compare evidence for three consecutive years (i.e., 2009, 2010, 2011), in order to analyse whether such evidence persists.

Only a few papers have attempted to analyse financial performance of airports companies and to relate it to different ownership forms. From a broader point of view, the literature investigating the effects of privatization of firms is very large. Indeed, the goal of pursuing increases in efficiency is the main one for policymakers when deciding to involve private stakeholders in the ownership of firms (Kay and Thompson, 1986). Of course, this is valid also for airports, where this main motivation comes in addition with the possibility of undertaking greater investment (Graham, 2011). Several contributions have stressed the importance of airports privatization for the sake of improving their efficiency – among others, Gillen (2011), Oum et al. (2008), Barros and Sampaio (2004), Martín and Román (2001). Privatization provides benefits also in broader terms related to the improvement of domestic social surplus (Matsumura and Matsushima, 2012), though in Mantin's (2012) view this can happen when airports provide complementary services. Concerning Italian airports, empirical investigations of the most efficient ownership form do not present the same conclusions. Totally privatised airports were found to be more efficient (Barros and Dieke, 2007) as well as those with private majority (Malighetti et al., 2007). However, Curi et al. (2010) report that companies with public majority ownership performed better than private ones, because of the availability of higher amounts of funds by public institutions.

Besides technical performance, also the relationship between ownership forms and financial performance has been debated widely (Fasone and Maggiore, 2012; Fasone et al., 2012; Demsetz and Villalonga, 2001; Boyd, 1986; Demsetz, 1983). The majority of

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contributors have emphasized the absence of systematic relationships. However, only very few papers have investigated this aspect in the airport industry. In general, profitability may not be the first objective of an airport, as [Graham and Dennis \(2007\)](#) argue for a set of medium and small UK airports. Due to the increasing importance of low cost flights even for traditional carriers, some airports may be in search of both lower unit revenues and costs in order to be competitive. However, other papers testify that significant differences in financial performance arise when ownership types are considered. These papers have not come to the same conclusions. Based on a sample of major world airports, [Oum et al. \(2006\)](#) found that privately managed structures had better financial performance. Slightly different results came from a set of European airports in [Vogel \(2005\)](#), where despite the improved efficiency of fully privatized airports, only mixed public-private ownership reported better financial performance. Same conclusions emerged from an extended version of Vogel's study by [Zolotko \(2009\)](#). Better performance of privately owned airports is also the conclusion of [Fasone and Maggiore \(2013\)](#), who analysed a sample of Italian airports.

## 2. Recent evolution of the Italian airport industry

A brief overview of the evolution of the legal environment related to Italian airport management systems is crucial in order to better understand their particular features. Before 1993 publicly owned infrastructures were assigned to private subjects under 'concession agreements'. At that time the law considered four forms of concessions.

- Partial – The airport company was in charge of non-flight airport infrastructures. The company provided services for aircraft, passengers and freight, whereas government was in charge of flight infrastructure.
- "Uncertain" partial – This was related to companies whose agreement procedures were not completed yet. The company received in advance the right to manage parts of the infrastructure under a partial concessionary scheme.
- Total 'by special-law' – The company was in charge of the development of the whole infrastructure. They were able to manage both airside and landside activities.
- Direct – The civil aviation authority (ENAC) ensured direct organizational and maintenance needs of airport assets.

The reform of the airport business can be traced back to the Legislative Law Decree 537/93. This act redefines the basic principles of the involvement of private stakeholders in the airport management systems. It aims to promote the development of infrastructure companies, as well as modernization, according to the new worldwide trends. The economic and legal model for the privatization process provides a sort of standardization of the previous four types of management. It states that a total concession is the form replacing the other ones (i.e. partial or uncertain). A single operator is in charge of the overall management in accordance with predefined rules, which have to be oriented for the sake of increasing flexibility. Under this new environment the concessionaire (i.e., the limited company) plays the role of the investor which has the responsibility for reinforcing entrepreneurial capabilities. In the light of this, the present forms of concession are partial, total 'by special law', total ex D.M. 521/97, direct. It has to be noted that only the "uncertain" management form has been suppressed, whereas another form of total concession has come into existence, that is the one established by the Ministry's Decree 521/97. Concerning the ownership structure, various local authorities have assumed the role of public shareholders in companies – in

particular, regional and provincial authorities, local municipalities and chambers of commerce. In contrast there are a few examples of private sector shareholders, which mainly include banks, insurance companies and investment funds.

The actual application of each concession agreement is strictly connected to how the schedule agreements are negotiated with public authorities. Public authorities fix the same regulations and starting parameters for all companies, in terms of tariffs (e.g., those to airline companies), investments for the company to establish the structure, quality standards and environmental protection. Then each company can negotiate these: for instance, higher fees for airline companies can be allowed, in return for higher investment by the company on the airport infrastructure. Therefore, Italian public authorities fix a common system of rules for all companies, but at the same time try to meet the needs and actual commitments of the management. It may be that there will be different conditions of profitability of airport companies, in the sense that some of them can gain more revenues than others from airline companies. However the latter occurs if the management undertakes other opportune commitments. This relates to the bargaining ability of the management, which has to combine a financial equilibrium and market conditions with public stakeholder objectives. This means that the sources of good financial performance can be different and related to the ability to merge the internal financial equilibrium with external conditions.

## 3. The sample of Italian airports

The data analysis for the airport companies is based on the records of financial statements from 2009 to 2011 from companies' websites. Airport traffic data is taken from [ENAC \(2012, 2011, 2010\)](#). From the overall set of 48 Italian commercial airports we considered only the 25 structures that are managed under 'total concession'. As discussed above, the latter is the most flexible form of structure for airport activities. However due to data availability the final sample was reduced to 19 units. Due to the presence of multi-airport companies, that is of companies managing more than one airport, the final sample is made of 14 units. This problem arises in studies utilizing datasets of financial indicators because consolidated financial statements make no distinction between single structures.

[Table 1](#) shows the sample airports. In the same way as [Curi et al. \(2011\)](#), we have classified each company according to whether ownership is mainly private (PRM) or public (PUM). These two sets are composed of five and nine units, corresponding respectively to six and 13 structures. In general, the selected airports are the ones where the great majority of the whole Italian airline activity is concentrated, with respect to either the set of total concession structures or the broader one of commercial airports.

As to the EU airports classification system ([European Commission, 2005](#)), the sample is made of structures with different size, that is two community airports (LCA), five national airports (NAA) and 12 large and small regional airports (LRA and SRA). Each large community airport (LCA – i.e., Rome Fiumicino and Milan Malpensa) is part of a different set. For this reason, in [Table 1](#) we also computed average values excluding these two big structures but this leads to similar average number results for the two sub-samples. The PRM airports have a slightly higher number of passengers, air transport movements (ATMs) and workload units (WLU) but such difference reduces if we exclude the two LCAs. On the other hand, the PUM airports outperform the PRM ones in terms of cargo volume.

The financial indicators we considered are as follows. Their values for each airport are reported in [Table 2](#).

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