

PRIVATIZATION IMPACT & SOCIAL DISCLOSURE: THE CASE OF SYDNEY AIRPORT

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Abstract

Privatization literature and theories sympathetic to neo-liberalism suggest that privatization leads to greater efficiency in the production of public sector goods and services. Airports have also been privatized largely because of their commercial rather than public value orientation. Because of the complex nature of their operations, airports are accountable to a range of stakeholders. This article provides insight to how airport privatization has not only led to a change of the airport business in general but how its disclosure of corporate and social activity has changed over time. Utilizing Ullmann's (1985) framework of corporate social reporting, pre and post privatization reports of Sydney Airport have been analyzed. Results of the analysis reemphasize an existing "myth" that privatization has resulted in improved company performance, efficiency of operations and social disclosure. Furthermore, the quality and volume of the financial reports have increased with time, consistent with the argument that privatized companies are in the process of continuous learning whilst adapting to the "private sector" and the need to keep markets, analysts and credit raters informed. This study is part of a larger study assessing the impact of privatization on airports in Australia.

Introduction

It has been argued that governments have little incentive to concentrate on efficiently running state-owned utilities such as airports in an era of increased competition (Daniel 1986; Abelson 1987; Bos 1991; Vickers and Yarrow 1995; Boycko *et al.* 1996; Funnell 2001). Traditionally, airports have been seen as publicly owned utilities, operated and subsidized by the government with the primary objective of facilitating the movement of passengers to serve the public good, rather than to engage in profitable, customer orientated commercial activities (Doganis 1992; Humphreys and Francis 2002; Graham 2003). Airports in Australia were and are still viewed as major tourism and trading gateways to large economic regions and with a constant need for capital investment to meet growing domestic and international demand.

Australia was the third country in the world to privatize its airports (Knibb 1999). The first phase of airport privatization in Australia in 1996 included the sale of Melbourne, Perth and Brisbane airports and was triggered by the country's growing potential as a tourist destination as well as pressure from global liberalization reforms on the aviation industry (Ashford *et al.* 1997; Knibb 1999; Graham 2003).

The direct consequence of these privatizations in 1996 and of Sydney in 2002, as reported to external stakeholders, was a boost in revenues, increased share prices as well as commercial expansion of non-aeronautical activities. Few observers believed that airports could be privatized

and even fewer predicted the success of privatization. Before privatization accountability was the prime concern. Additional doubts related to airport security, overall airport economic efficiency where government had no control over the assets and whether private operators would minimize the investment in infrastructure and services. Yet, today, somewhat in contrast, airports are perceived as attractive and lucrative investment opportunities offering high returns with moderate risk (Schneiderbauer and Feldman 1998; Ferguson 2005; Myer 2005).

Airport Privatization

The global air transport industry has undergone major changes since the embrace of privatization reforms all over the world. Leading airports such as Frankfurt, Schiphol, Manchester and Copenhagen, as well as merged airport operator groups, have realized the potential of the airport business in both the domestic and global markets. Entrants into the airports business were financial consortia and they have become key players in financing, developing and operating airports. The new commercial-orientated approach to airports has attracted more traffic movements, increased congestion and pollution, encouraged public transport and expanded the business environment surrounding airport sites (Aviation-Strategy 1999; Humphreys 1999; Enright and Ng 2001; Graham 2003). Governments have kept control of noise and pollution as well as airport charges (price regulation). Airports have become subject to regulatory provisions and social responsibilities such as pollution management and environmental reporting.

Privatization enabled companies to focus on profitability and to report their success

stories to major stakeholders involved. Prior research and theories suggest that privatization can lead to greater efficiency in the production of public sector goods and services (Emmons 2000; Parker 2003).

Controversy does suggest, however, that private managers may not act in the best interests of stakeholders; privatization will and can only be effective when managers have incentives to act in the public interest. De Neufville (1999) argues that it is debatable whether all activities, especially those that are central to a community's welfare and open to monopolistic exploitation of the public, such as airports, can and should be privatized. As there is a strong public interest in airport operation i.e. size and level of service, prices for the service, accessibility to these services; full and unfettered airport privatization, it is argued, will fail the public interest test. It is claimed however that as government remains a major stakeholder, through regulation, it will regulate airports and hold them accountable to the public. The question arises as to whether privatized companies have become more accountable following the commercialization of airport operations through increased transparency via their disclosure of social activities.

Ullmann (1985) develops a conceptual framework to explain the relationship between social disclosure and social and economic performance of companies. In essence the framework demonstrates that companies exhibiting strong economic performance increase their level of social reporting. The idea is based on Freeman's (1983) stakeholder approach to strategic management. Deegan (2002), O'Dwyer (2005) and Gray (2002) call for further research in this area of social accounting and its evolution within organizations. Prior

research indicates that corporate social reporting has been favourably embraced by the public, generating a demand for more studies in this area especially those referencing contemporary economic reforms such as the privatization of utility services.

Social Disclosure

Prior research in the field of corporate social reporting lends support to Freeman's (1984) notion that a company is not solely responsible to its shareholders but to all of its stakeholders (Carroll 1979; Balabanis *et al.* 1998; Harrison and Freeman 1999). Roberts (1992) applies Ullmann's (1985) framework to test its ability to explain corporate social responsibility activity, consistent with Freeman (1984).

Research on social disclosure indicates that measures of stakeholder power, strategic posture and economic performance are significantly related to corporate social disclosure (Ullmann 1976; Ullmann 1979; Roberts 1992). Also, evidence indicates that social responsibility transactions are disclosed when organizations' financial statements indicate favourable financial performance (Cochran and Wood 1984; Mills and Gardner 1984). Keim (1978), in line with Belkaoui (1976) and Watts and Zimmerman (1978), argues that social responsibility activities are consistent with corporate wealth maximization motives; and are an applicable fact in privatization studies (Epstein and Freedman 1994).

Other research on the economic consequences of corporate social disclosure emphasizes that companies disclosing social responsibility activities have an impact on the financial market, the economic performance of the companies and

on the public perception of the company (Alexander and Buchholz 1978; Ingram 1978; Spicer 1978; Abbott and Monsen 1979; Anderson and Frankle 1980; Ullmann 1985; Epstein and Freedman 1994; Baird 1996; Balabanis *et al.* 1998).

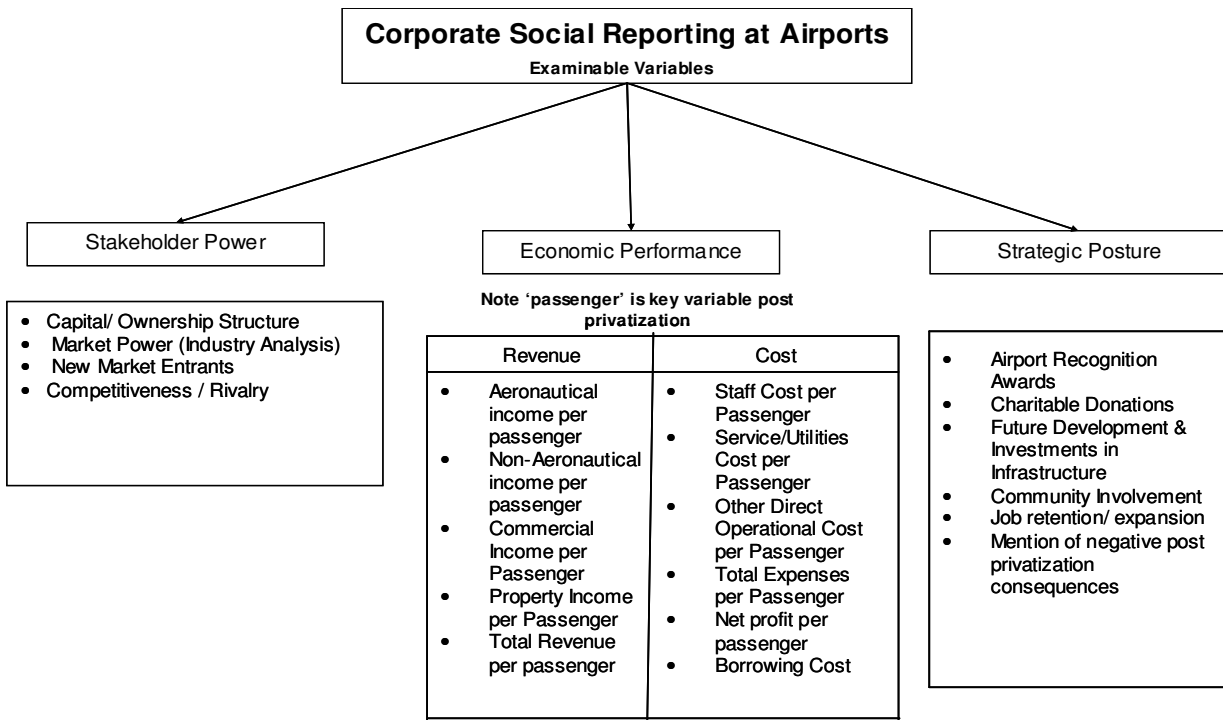
Research Design and Model

For the purpose of this article corporate social responsibility has been defined as policies of action which identify a company as being concerned with socially related issues (Friedman 1962; Ullmann 1985; Cowen *et al.* 1987; Roberts 1992; Moir 2001). Ullmann (1985) provides a three dimensional model that correlates social disclosure and social and economic performance.

The first dimension is stakeholder power, which explains responsiveness of the entity to the intensity of stakeholder demands. The second dimension is active and passive strategic posture. The final dimension of the framework is based on economic performance, as previous research indicates that economic performance (financial data and the entity's financial position in the market) is intertwined with social responsibility and disclosure.

This article examines corporate social disclosure three years before and three years after privatization of Sydney Airport in 2002 (1999- 2005), based on archival content analysis of annual reports. Figure 1 illustrates the modified Ullmann framework applied here to the airport business and indicates the variables that have been examined further below.

Figure 1: Variables relating Corporate Social Reporting by Airport Businesses



Source: Based on Ullmann’s (1985) framework, with variables adapted to the airport industry

Stakeholder Power

Airports can exhibit market power, especially those with large geographic distances between them, such as found in Australia (Forsyth 2001), as there are no close substitutes for services offered. Privatization in the airport industry led to the emergence of new industry players and enabled airport operators to build on this ‘market power’ by raising additional capital, improving efficiency, reducing costs, seeking new revenue streams, engaging in market-orientated investments, becoming accountable to the public and enhancing

competition among airlines (Poole 1994; ACI 2003). Government objectives were to maximize sale proceeds, encourage a transparent process and secure purchasers with the financial capability to fulfil the development and expansion plans that would align airport operations with global competition. In line with the government’s pre privatization objectives, the 2003 annual report of Sydney Airport mentions expansion plans, to bring Sydney Airport into the top ranked airports worldwide (Table 1)

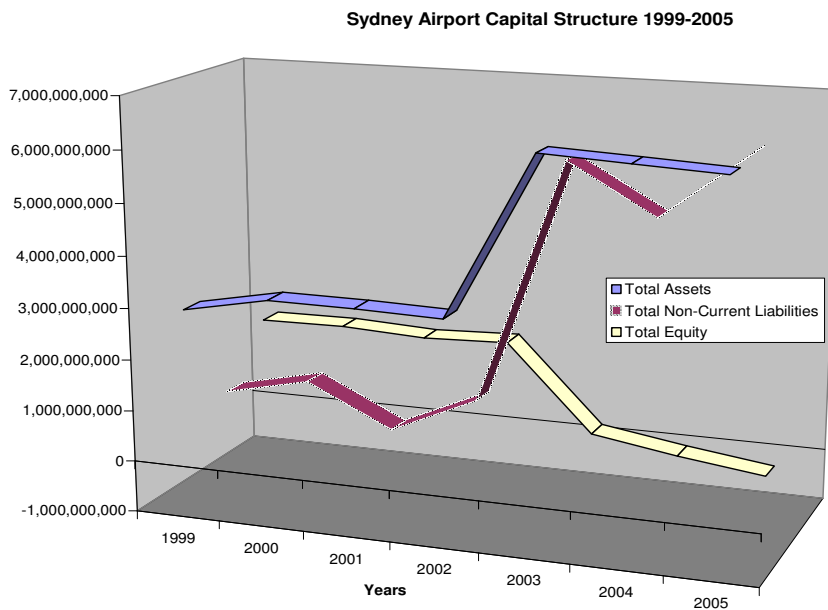
Table 1: Data on Passenger Numbers & Aircraft Movements - Sydney Airport

	1999	2000	2001	2002	2003	2004	2005
Passenger Number	21,876,182	23,257,594	26,436,503	23,863,544	24,183,353	26,426,363	28,288,150
Aircraft Movements	281,301	290,019	317,339	254,729	254,487	270,268	286,484

However, changes in stakeholder involvement have made Sydney Airport's post privatization operations more complex. Equity levels at Sydney airport dropped significantly since privatization because of the repayment of preference shares. In contrast, non current debt and asset levels increased as a consequence of finance requirements for the expansion process and the development of infrastructure investment at the airports (see Figure 2). In terms of

stakeholder power, owners, managers and creditors started to pursue their own philosophies rather than those of government: for example, airport operators started to profit from aeronautical (operational related) as well as non-aeronautical (commercial and property related) revenue; with the non aeronautical revenue stream increasing to 65% of total revenue.

Figure 2: Changes in Capital Structure (\$) at Sydney Airport



Source: Data compiled by author from Sydney Airport annual reports

Strategic Posture

Now that they are no longer solely accountable to government privatized airports in Australia have learnt how to operate independently and how to increase

their presence in the market. The pre and post privatization financial reports investigated emphasize that these 'newly' regulated companies have orientated themselves towards meeting the demands of a wider range of stakeholders, including

consumers, investors, suppliers and regulators. Annual reports have increased in length and detail over the years with a significant portion being dedicated to informing the reader about future development of the airports, community involvement and the company's strategy. The length of corporate social disclosure in pre-privatization Sydney Airport annual reports was in the order of two pages. Today social activity reporting and disclosure has its own chapter, and mentions charitable donations and various other social activities.

Over the years, the section on social obligation and the engagement of the airport in community activities has increased in length, with more headings and graphical illustrations. To a larger extent the section provides a critical analysis of the community goals that have been attained and those not yet achieved. The annual reports produced by the privatized airport operator have increased their volume of disclosure over time, in line with prior research expectations in the area of corporate social reporting. It is noteworthy that since 2002, the annual report of Sydney Airport has contained a section dedicated to the airport's sustainability agenda.

Economic Performance

In line with Ullmann (1985) and other researchers findings, the more profitable the entity the more social disclosures it will make. The results of the longitudinal study on Sydney Airport reveal that post privatization economic performance in terms

of revenue from ordinary activities has increased. The operating expenditures on the other hand slightly increased in 2002 to get the airport 'ready for sale'; however after Sydney Airport was privatized there is a notable decrease in operating expenditures caused by increased efficiency in operations (Figures 3A & 3B). The "passenger" is the most relevant variable for airport performance assessment since non-aeronautical revenue exceeds aeronautical contributions in the growth of the privatized airport operations. Overall, the profitability per passenger has declined because of the steady increase in passenger figures and airplane movements, and the cost of repayment of funds used for the acquisition of the airport. The return on assets however has increased over the years and so has the efficiency of operations. The airport has been in the red three years post privatization because of the additional borrowing costs, despite its remarkable commercial performance and expansion strategies.

Limitations

The focus was solely on Sydney Airport (pre and post privatization). A further field study at all the major airports in Australia would provide clearer insights in support of the changes in social disclosures associated with privatization. The study was limited by the time period post privatization; Sydney Airport was privatized in 2002. The effects of privatization might not be complete in this short-term period. Finally, this study is based on published information and does not have the benefit of access to internal data.

Figure 3A: Pre and Post privatization Analysis of Sydney Airport Revenue Streams from 1999- 2005

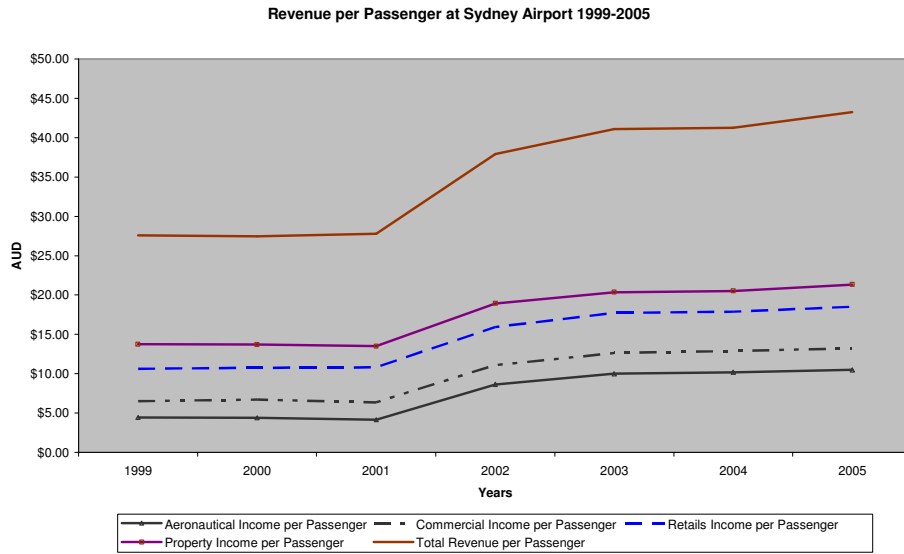
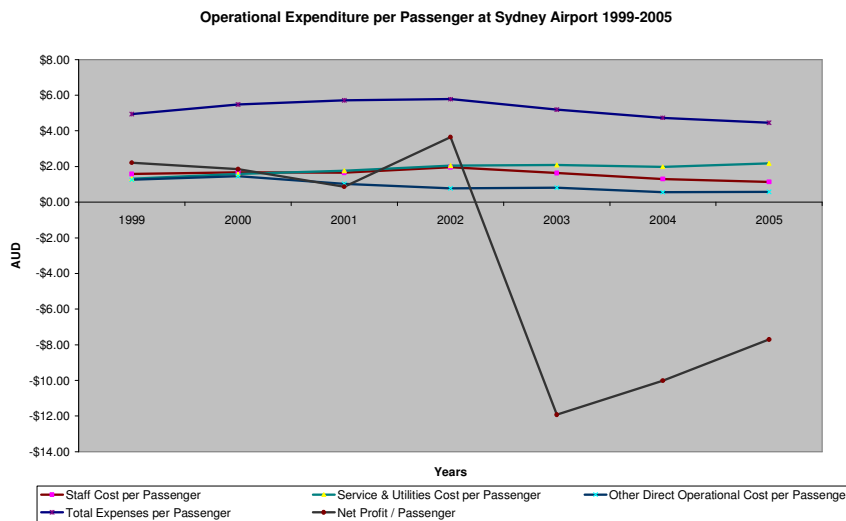


Figure 3B: Pre and Post privatization Analysis of Sydney Airport Operating Expenses from 1999- 2005



Source: Data compiled by author from Sydney Airport annual reports

Conclusion

In line with the privatization literature and the commercial orientation of newly privatized entities, the airport operator at Sydney Airport has reported increased

commercial revenues and efficiency of operations. The privatized airport operator has increased its volume of corporate social reporting steadily along with its increased operating performance. The longitudinal study on Sydney Airport reveals that, post

privatization, increased information about charitable donations, community involvement and the airport's sustainability agenda is provided to the readers of the annual reports. The volume of corporate social disclosure has significantly increased and an entire chapter is dedicated to these issues starting from the 2003 Sydney Airport annual report. Further analysis is required for other Airports in Australia to establish whether similar results are confirmed.

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