

Expect the unexpected: How airports can learn from this crisis to prepare for the next one

Overwhelmed by the dimensions of this crisis, airports worldwide suffer from the operational and financial impact. Flexibility and immediate adaption to the rapidly changing market environment is now key to success. Comprehensive Enterprise Risk Management (ERM) enables airports to respond faster and more efficiently to any crisis, whenever it may come

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Airports are now facing the full extent of the crisis due to neglected risk management

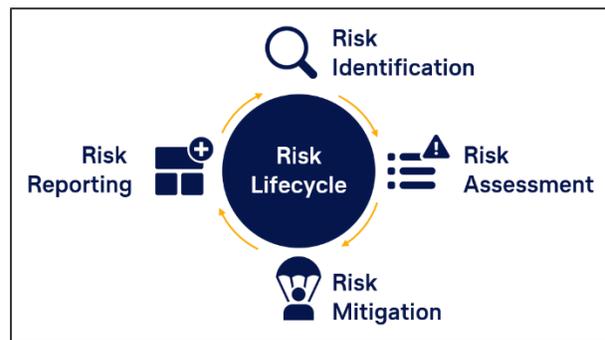
In recent years, the aviation industry has followed only one direction – higher, faster, further. With steadily increasing passenger numbers, airports invested heavily into expansion of infrastructure such as additional terminal facilities or implementation of operational excellence programs which were meant to bring relief to congested airports. Being hit by the immediate effects of COVID-19, airports now face a completely different situation with an unpredictable and volatile market.

Since nobody had foreseen a crisis of this extent, few were prepared to respond to the current developments as structured as infrastructure expansions were already planned. As airports switch to pure firefighting mode, it has become clear that response systems have not kept pace. In the past, airports have been managing infrastructure and customer expectations at its best, but the current crisis proves once again that a proper Risk Management System as well as a sound Business Continuity Management are key factors for sustainable airport business.

Implementing an effective risk management system is key for sustainable growth

In general, a risk management system is a closed cycle of detection, evaluation, mitigation and reporting. The first step is to identify risks which form the foundation for the risk register. Each individual risk is assigned to a category (e.g. “production”) and sub-category (e.g. “maintenance”) to guarantee a consistent structure. The categorization of risks should cover all areas of airport operations. Increasingly reliant on non-aeronautical revenue, commercial and financial risks must be considered by airports as well.

Figure 1: Best practice risk lifecycle

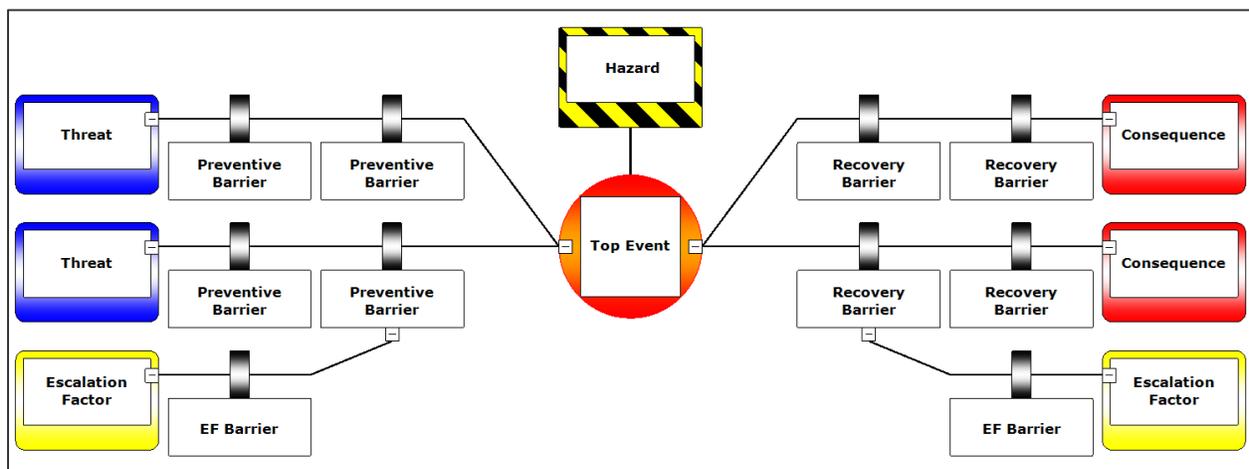


Secondly, the risks are evaluated based on their probability and impact. The specific view of a risk may vary within the different job responsibilities. From a shift manager’s point of view, a temporary outage of the baggage handling system is critical as baggage is delayed and the whole operations will be affected. However, the impact on the balance sheet is only marginal, resulting in very little management attention. Effective risk management requires that all the different views of staff are considered in the overall assessment of risks.

After evaluation, the identified risks with high risk levels require mitigation measures to reduce probability and impact. Mitigation planning should be performed as detailed as possible to get a basis for risk avoidance and business continuity. All measures are then clustered along two dimensions – implementation effort and risk reduction potential – to identify priorities and quick-wins. Implementation should start with quick-wins, accompanied by mid- and long-term actions.

To assess the effectiveness of the defined mitigation actions, a recommended practice is to include alternative risk management approaches such as “Bowtie” which enables visualization of risks. By illustrating the single elements of a risk – threats and escalation factors leading to realization of a risk, consequences and mitigation actions – risk owners can easily assess the effectiveness of the defined mitigations as well as identify possible gaps. Using a traditional risk scorecard, these gaps might have not been unidentified. Moreover, the easy-to-understand logic allows communication and discussion of risks on any level within the organization.

Figure 2: Illustrative bowtie diagram



Finally, to ensure control of the risks and corresponding mitigation actions, a clear commitment of all business departments on a homogenous “Plan-Do-Review” approach is required. An overview on the risks can be embedded in an automatically created risk dashboard for the different internal stakeholders which will result in additional risk awareness within the company. The ultimate goal is to

overcome risk management as a sole governance instrument and to establish a true risk management culture within the company.

Reliable Business Continuity Management is the lifeline for every business

Despite having several levers in place to reduce the probability of risks, not every incident can be prevented from happening and the COVID-19 pandemic is surely one of them. This is where Business Continuity Management (BCM) comes into play, limiting the impact of an event by proactively defining a worst-case action plan.

BCM focusses on maintaining predefined “business-crucial activities” which were identified in the Business Impact Analysis (BIA) beforehand. In addition to key operational processes (e.g. ground and passenger handling), airports must consider commercial activities (non-aeronautical revenue) in the BIA as well, given the different operating modes of airports. Identifying these activities ensures pooling of resources for the most relevant processes. Furthermore, the assessment indicates which processes need to be reestablished first in the recovery phase, based on their importance (operationally and financially).

Having identified relevant processes, management and relevant experts then define emergency and contingency plans. The action plan consists of the initial issue response, measures for long-term situations as well as a plan for resuming halted business activities. Similar to the risk management process, all BCM actions require clear communication, commitment across all relevant departments of the airport and should be embedded in a “Plan-Do-Review” process as well.

Risk management and Business Continuity Management together are a powerful tool

The following fictitious example shall illustrate the complementarity and interrelationship of risk management and Business Continuity Management: The airport’s home carrier temporarily cancels a high number of flight connections to/from the airport due to an economic crisis. In the course of the airport’s risk identification one year ago, the airport had identified its dependency on the home carrier as one of the key commercial risks. As part of the mitigation strategy, the airport intensified its air service development efforts and had been able to attract new airlines, thus reducing the market share of the home carrier from 60 percent to 40 percent and limiting the commercial impact of the flight cancellations for the airport.

However, the airport still suffers from the loss of passengers, resulting in steadily declining aeronautical and non-

aeronautical revenue. As predefined in the BCM emergency processes for “airline issues”, the airport is urged to safeguard liquidity and initiates the closure of a terminal area as well as miscellaneous

Figure 2: Interaction of Risk Management and BCM





staffing measures to reduce costs. After the home carrier resumes flight connections to the airport, the airport management continues regular terminal operations according to the predefined ramp-up plan of the BCM in a structured manner. In this example, risk management and BCM were able to efficiently lower the impact of the flight cancellations. The predefined emergency plans as part of the BCM enabled the airport to adequately respond in due time.

Airports must prepare for ramp-up now and get ready for future challenges

As airports today operate with minimum traffic or are even closed entirely, management should now establish two teams within the organization: the first is tasked with preparing for the ramp-up phase, bearing in mind again operational and economic risks as well as potential draw backs which need to be accounted for. In parallel, the second team initiates a strategic review of recent crisis activities and generates valuable lessons learned, thus enabling the organization to define or adapt their enterprise risk management including BCM for future challenges.

Start to limit your future crisis impact – get ready and prepare now!

*To learn more and discuss how your organization could benefit from Lufthansa Consulting's expertise on Crisis Recovery, please get in touch at APcrisis-solutions@LHConsulting.com. **Together, we can make it through to better days.***

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