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Social Movement Against Corruption

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Biman Bangladesh Airlines: A Diagnostic Study

Executive Summary

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Biman is the national flag carrier, which is fully owned and operated by the Government of Bangladesh. The corporate body of Biman, namely 'Bangladesh Biman Corporation', is doing business as Biman Bangladesh Airlines under the Ministry of Civil Aviation and Tourism. Biman Bangladesh Airlines was formed on 4 January 1972 with 2500 skilled and unskilled manpower without any capital and aircraft. Biman was established as of a corporation on 27 October 1972 with a view to ensuring better operation and development of air transport service.

Over the last decades, Biman faced a number of problems. Information on mismanagement and corruption in the organisation has trickled out in recent years. Such incidents include mismanagement in ticket confirmation and reconfirmation, poor passenger service, corruption in purchasing spare parts, alleged corruption on aircraft lease, lack of planning with regard to scheduling, fleet planning, human resource management and so on.

Recently the present caretaker government took some reform measures. This includes turning Biman into a public limited company with financial autonomy, down-sizing of staff under a voluntary retirement scheme, and restructuring the Board of Directors. While these measures are closely intended to meet the long-felt need of reform of Biman, it is expected that the present study will facilitate a closer look at the key problems and processes that have led to the crippling situation that Biman finds itself.

Transparency International Bangladesh (TIB) conducted this diagnostic study on Biman to explore its current business and operational status, to explore deep into the allegations of corruption and mismanagement, to identify the reasons behind its problems, and to identify the probable remedies of the existing problems.

In conducting the study, information both from primary and secondary sources was used. Apart from key informants, a survey on 402 passengers of Biman was conducted. Secondary sources included relevant laws, books, published and unpublished articles and reports, and website.

History

Biman was established with a slogan "Your Home in the Sky" and it started operations in February 1972. After successfully completing a few domestic flights, on 10 February 1972, this aircraft crashed while on a test-flight. Soon after, one Boeing 707 and two Fokker F27 friendship aircrafts were included in the fleet, allowing Biman to begin international flights.

Until 1981, Biman's fleet comprised of 6 Boeing aircrafts, two F-28, six F-27 and three DC-10s. Meanwhile, all the Boeing 707 were gradually phased out, while the fourth DC 10-30 aircraft was added to Biman's fleet in January 1989. To modernize Biman's domestic operations, two ATP aircrafts were added in 1990. The latest procurements of the carrier include two Boeing 737 that the airliner received in January 2003, followed by two F-28 procured in May 2004.



Biman provides different types of services such as passenger service, cargo service, mail service, catering, and training for the Biman staff. Biman has two categories of passenger services, provided through the domestic and international flights that it operates. Biman offers 16 domestic and 102 international flights. Biman currently operates through 7 local and 26 world-wide branch offices. Biman earns about 80% of its revenue from passenger service, about 11% from cargo service and the rest 9% of its revenue from other sources. Among the total share of revenue earned from passengers, 91% is earned from international routes and 4.5% each from regional and domestic routes respectively. However, it is observed that the passenger share of Biman was 50% during 1995-1996. Since then it gradually declined to less than 43% in 2003-2004.

Administrative Structure

The airline is 100% owned by the Bangladesh government. Bangladesh Biman Corporation is a commercial venture of the Ministry of Civil Aviation. The chief of this government-owned organization is by designation the Minister of the Aviation Ministry. This corporation is operated through a Board of Directors. Usually, this Board of Directors is headed by a Chairman who is supposed to be accountable to a higher authority.

According to the company's organogram, the Managing Director (MD) is the Chief Executive Officer (CEO) of Biman. There are eight divisions in Biman – administration, finance, flight operations, store and purchase, customer service, engineering, planning, and special project – each headed by an appointed Director of its own. Biman's management and most of the financial matters fall under the responsibility of this eight-member Executive Board.

National and Global Network of Biman

Biman has 202 approved local travel agents - 140 in Dhaka, 32 in Chittagong and 30 in Sylhet. Biman also has 120 travel agents in nine foreign stations - Thailand, UK and Ireland, USA, Singapore, Nepal, Germany, Japan/Korea, Canada, and France. Besides, Biman has 19 General Sales Agents (GSA) all over the world.

Diagnosis of Biman's Problems

Administrative Limitations

Biman's Dilemma: Biman is obliged, by legislation, to prioritise national interest over commercial ones, and not to be a purely commercial airliner. The government is exercising the power as given by the ordinance in its activities. In this context, the government is utilising Biman to render services for the nation, e.g. operating government VVIP flights, relief flights and hajj flight, and carrying perishable items at cheaper rates. In practice, the government is, on the one hand, receiving these services from Biman, but, on the other, creating an environment which dictates that Biman should run itself on its own finances by making profits. While it is passing through the most difficult period in terms of a financial crunch in its history of 35 years, to judge Biman's performance on profitability alone, without giving any consideration to the wider service it has rendered for the national interest and at the behest of its owner, would not only be biased and partial, but also a great travesty of justice. Due to this dilemma Biman cannot operate itself distinctively either as commercial organization or as service organisation.

Lack of Authority and Accountability of the Executive Body: The Board is not accountable to a higher authority because the Minister of Aviation, who is the designated chief of the organisation is the Chairman of the Board himself. Therefore, the Board is neither directly accountable to any other body, nor is it under obligation to report to any other authority for its activities and



performance. This existing hierarchy creates problem in delegating the duties for the Managing Director, CEO of Biman.

Lack of Aviation Experts in the Authoritative bodies: It is noteworthy that there is no aviation expert in the Board who can guide Biman to operate in an efficient and effective manner in its technical as well as commercial aspects. Biman has never seen a professional as its CEO.

Political Influence: As a consequence of being a state-owned corporation, Biman has suffered from being politicised in many aspects. It has been politicised in the following manners.

- Operating domestic flights with wide bodied aircraft
- Continuing flights in loss-making routes
- Political Intervention in Recruitment and Promotions
- Decision-making under political influence

Corruption

Corruption in different sectors of Biman is another significant barrier that is making it difficult for the organisation to break away from loss making ways. Incidents of corruption are evident in purchase and leasing of aircraft, store and purchase of spare parts, in the tender process and in ticketing and reconfirmation.

Corruption in Purchase and Lease of Aircrafts: Corruption and irregularities in leasing process of Biman leads excess payment of US\$ 45 million (estimated) in last five years. The following anomalies have been identified:

- Decisions arbitrarily taken by the Chairman
- Technical personnel not involved in the tender preparing process
- Due to lack of skill and expertise technical and legal sides not ensured
- Lack of planning
- Lack of scope of the board members and CEO to get involved in the leasing and purchase process

Corruption in repair and maintenance: Corruption in repair and maintenance of aircrafts leads to huge loss of Biman every year, e.g. in last four years, the cost of repair and maintenance went up more than double from Tk 214.525 crore to Tk 489.08 crore even though the numbers of aircraft has fallen from 17 to 13, and total flight hour decreased by 25%.

Over the last 10-12 years, the repair orders mostly were given to 1 or 2 agencies which provide evidence of nepotism and significant political influences in the processes. Findings also reveals that, if the cost of component repair is to the tune of Tk 90 crore per year, then, out of this amount, around Tk 50 crore is wasted by corruption.

In addition following irregularities found research team during study period in store and purchase:

- Most of the agents take certification giving bribe to CAAB
- Agents use fake name and address
- No engineer in store and purchase to receive spare parts ensuring quality
- Store has never been scrutinized/adjusted since its inception
- ICAO certification are not checked during tender process
- Unnecessary spare parts are purchased which will never be used

Corruption in relating to outstations of Biman: Every on-line station has employees posted from many sections like sales, finance, operations, traffic and field service. However, bulk of the services can be outsourced. In addition following irregularities revealed during study period:



- Posting on outstation made on political consideration
- Allegation of misappropriation of money by country managers
- Never investigated any irregularities of out station
- Over staffing in out stations
- Large set up of outstation –which is not cost effective
- Office station exist even the route is closed

Corruption in tender process: Irregularities in tender process of Biman include lack of transparency in tender process, political influence to bag illogical and unauthorised commissions, tainting of selection process in every sort of tender by political influences. These are well-known in such extent that no reputed airline manufacturer wants to get involved with these tender processes.

Corruption in buying tickets and reconfirmation: One third of the passengers (37.6%) who reconfirmed/purchased tickets from Biman sales centers reported about encountering problems. Major problems faced during reconfirmation and purchase are wasting time (59.4%), take extra money for reconfirming/ticketing (21%), creating artificial ticket crisis (15.1%). In addition, some travel agents are illegally favored, the Travel agents' purchased amount of money is not deposited to Biman and submission of everyday statement and money deposit on weekly basis is not maintained by the travel agents properly.

Institutional Capacity: Problem of Human Resource

Biman's Man-Equipment Ratio (MER) at present is 1:367, while the international acceptable standard ratio is 1:200. Compared to other airlines, the number of Biman staff is fairly high but their remuneration is fairly low.

Biman does not recruit any staff directly (i.e. from external qualified candidates) in officer level. Maximum of them are promoted from lower positions. As a result, the scope of getting quality staff for Biman becomes lower. Hence in all directorates external efficient candidates are deprived, no competitive environment among the staff prevails, the existing staff remains reluctant as they feel that they will be promoted somehow. The promotions that occur are mostly executed through political lobby, which also deter internal competitions. Moreover, it has been alleged that Biman does not want to equip their staff with modern technologies, thus making their productivity even lower.

Lack of Planning

Biman is an organisation with no vision and mission. Every professional airline has a master plan for at least plan for five years but Biman does not have any plan at all. There are significant gaps in planning in the following arena.

- Corporate vision and strategy
- Improvement of procedures
- Employee productivity
- Improved information technology
- Image of the airline
- Revenue enhancement
- Increase market share and improve yield
- Product improvement driven by total customer satisfaction
- Expense reduction
- Increase in-house capability in maintenance and engineering
- Phased fleet renewal

As a consequence, the corporation is lacking in proper implementation and monitoring of planned and routine activities for its existence and improvement.



Biman does not follow the strategic route planning for its existing routes and for opening new routes. In the past, Biman opened many domestic and international routes without doing any cost-benefit analysis, which is unbelievable especially in a business sector that faces fierce and often cut-throat competition. Sometimes routes were operated on political intentions knowing that it is quite non-viable.

Poor Financial Situation

Biman incurred losses of Tk 249.51 crore and Tk 836.25 crore in the fiscal years 2004-05 and 2005-06 respectively. Biman is lacking its capital base and eventually also does not get sufficient finance from the Government to fill the deficit.

Being an airline with a very narrow capital base, Biman was forced to borrow externally. These borrowings resulted in payment of huge amount of interest every year, draining a substantial portion of its income. Biman incurred losses from its inception to till to date about Tk 1,900 crore and its debt burden is over Tk 2,100 crore, payable to different organisations and now become unable for debt servicing and it cannot manage its spending without help from the government.

Flight Schedule Delay

According to the survey results, about 75% of the respondents had experienced flight delay during their last travel by Biman. This gives an indication of the large amount of funds that have to be spent by the airliner on a regular basis to compensate waiting passengers. Moreover, such schedule disruption creates negative impact on Biman's commercial viability and the members of the traveling public tend to choose other airlines.

Operating Flights with Old Aircrafts

Old aircrafts cause higher maintenance and operation costs, create scope of corruption, incident and accident, and impose higher insurance premium rate. It is very difficult to run an airline with old aircrafts. The operating cost of DC-10 is, according to an estimate, US\$ 1000 more per block hour than the new generation aircraft. It is calculated that if the new generation aircrafts are utilised 10 hours each per day, each aircraft will save US\$ 3,00,00 per month. Thus four new generation aircrafts will save Biman US\$ 1.2 million per month with regard to operation cost only. In addition, new aircraft and higher capacity are expected to generate higher revenue as well as much better schedule regularity.

Various Kinds of Aircrafts leading to Higher Operating Cost

Such a small fleet with only 13 aircrafts, Biman is comprised of three types of aircrafts manufactured by three different companies. To maintain this fleet, Biman needs to employ different categories of pilots, engineers and use various kinds of spare parts. This leads Biman into incurring higher operating cost.

Poor Quality of Customer Service

After assessing the service level of Biman in terms of the satisfaction of the passengers, majority of the respondents (72%) termed the service quality of Biman as poor. It has been revealed from the survey that about 85% of the respondents were not provided any information about flight delays. Furthermore, 77% of the respondents reported that during the flight delay no one from Biman came and wanted to know, if the passengers were having any problem or not.



About 65% of the respondents termed Biman's in-flight services to be worsening than poor. Pre requisition of quality in-flight services is sufficient number of crew. Our analysis shows that 42% of the surveyed domestic flights moved with under compliment, 87% of the surveyed shuttle flights moved under complement, while 82% of the surveyed international flights moved with under compliment. In terms of routes, the highest portion of passengers who were found to be disinterested to fly with Biman in the future came from the East, Middle East and South East Asia (50%) while the lowest portion (15%) come from Gulf and Middle East. Greater portion of passenger (49 and 39 percent respectively) mentioned schedule problem and mismanagement respectively as reasons for not flying in Biman next. The other significant reported reasons were quality of in-flight service is not good, problem with ticket reconfirmation.

Due to the above-mentioned shortcomings Biman is now in a very bad shape. It has fallen into severe financial crisis. Furthermore, this organisation is also suffering from lack of strategic planning to overcome all other drawbacks.

Recommendations

To help Biman move out from its old-fashioned way of management, to accommodate the future opportunities and to avert the current crisis and threats, it is extremely essential for Biman to undertake the following steps set forth as recommendations.

Policy Level

1. Biman should have a vision and mission statement.
2. The dilemmas in the governance system of Biman need to be settled down through bringing in necessary changes in the Ordinance.
3. To ensure accountability, the Board of Directors needs to be reformed. The Minister for Civil Aviation should not be the Chairman of the Board of Directors. The responsibilities of the members of the Board should be specified.
4. Experts on commercial airline and aviation industry must be included as members in the Board of Directors.
5. Biman should abide by the current business methodologies as used in world-class airlines to make it successful and profitable.
6. The Annual Report should be made public. This report must include financial statements.
7. Biman should not be exploited in the name of national interest. It should not operate unprofitable flights.
8. Biman's existing procurement rules should be appropriately amended so that Biman can take its own business decisions.
9. Biman should operate by Biman people without any interference from the Ministry.

Operational Level

Administrative

1. Consultants should be hired with regard to finance and store and purchase.

Planning

1. Biman should make a phased fleet renewal plan.
2. Biman should develop and adopt a coping strategy addressing the market need. Leasing will reduce immediate capital requirements and will allow Biman to have flexibility in capacity which means that the airlines can scale-up or scale-down available seat capacity according to the market trend.



3. Biman should consider closing down the loss-making routes and divert the flights entirely to the profit-making ones.
4. Biman must discontinue operation of short sector flights by wide-bodied aircrafts.
5. Biman must operate with similar types of aircraft to reduce operating cost.

Human Resources

1. Biman should recruit staff with required qualification directly at officer level.
2. Analyzing current staff size and performing cost effective analysis, Biman should cut down its staff.
3. Recruitment, transfer, and promotion on political consideration must be stopped.

Corruption

1. Biman needs to purchase new generation aircraft to save operation cost significantly.
2. Leasing and purchase process of aircraft should be made transparent.
3. During procurement of spare parts, technical experts must be included in the process.
4. Punitive actions against corrupt staff of the in and out station of Biman must be taken.

Modernisation of Biman

1. Modern cost effective inventory control system should be introduced.
2. Biman needs to keep its website continuously updated so that the clients can get the latest and complete information from the website.
3. Biman must go all out to introduce e-ticketing, e-reservation, and e-procurement of spare parts.

Flight Schedule Delay

1. Delay analysis should be undertaken as a routine process and necessary steps should be taken to maintain the schedule in a tolerable delay range.

In-Flight Services

1. In-flight service must be improved. Steps may be undertaken to ensure full complement of cabin crew, professionalism among the cabin crew, and provision of proper flight crew training to ensure that quality service can be rendered by the cabin crew at all times.