Corporate Collapse and IT Governance within the Australian Airlines Industry

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EXECUTIVE SUMMARY

In September 2001, Australia's second largest airline, Ansett Airlines, went into voluntary administration. Besides the holding company, Ansett also had a number of subsidiaries operating in the regional (non-capital city) areas. Despite its small size, Kendell Airlines, a subsidiary of Ansett, had been a strong competitor to the nation's largest airline, Qantas, in the regional markets. Even when the Ansett group was grounded, Kendell was still able to resume operating in a reduced capacity due to its self-reliance in many parts of its operation, including its information systems (IS) and the way it deployed information technology (IT).

The purpose of this case study is to highlight IS/IT governance arrangements in multi-layered organizations for the purpose of advancing knowledge about the effectiveness of such arrangements when, as in this case, the holding company collapses. The Kendell case is an example of a smaller entity with its own IS/IT governance embedded in a larger holding company with separate governance practices. Such arrangements raise questions relating to issues such as what most appropriate style and form of governance is required, whether benefits may be derived from multi-tiered governance

systems for corporate groups, and if synergies can be created. The insistence of the Kendell IT manager and management team on autonomy in Kendell's IS/IT governance proved to be an integral element in its corporate resilience during the collapse of the holding company.

ORGANISATION BACKGROUND

Company Background

Kendell Airlines was established as Premiar Aviation in 1967 by Don and Eilish Kendell. In 1971 they took over the Wagga Wagga[1] to Melbourne route from Ansett Australia and changed the name to Kendell Airlines. Over the next 20 years, Don and Eilish Kendell built their airline into Australia's largest and most successful regional airline, recognised internationally as a leader in its field, being named Regional Airline of the Year in 1991 by the U.S. aviation magazine, *Air Transport World.* It was the first airline in Australia to win such a prestigious award. In 1990 Ansett Airlines extended its existing close relationship with Kendell by purchasing 100% of the airline. Although now owned by Ansett, Don Kendell remained as Chief Executive Office (CEO) and Chairman of the Board, meaning that the day-to-day management independence of Kendell remained. In July 1998 Don Kendell retired as CEO, but remained as non-executive Chairman of the Board. While Kendell's financial performance had been strong for the previous eight years, this contrasted with Ansett's weaker financial performance during this period.

The period between 1996-2001 was a turbulent one for aviation in Australia and particularly for the Ansett group. In 1996 TNT sold its 50% stake in Ansett to Air New Zealand, with News Limited as the other 50% owner. In January 1997 News Limited appointed Rod Eddington as CEO of Ansett to improve its financial performance. Eddington, who is now CEO of British Airways, had a brief chance to increase the value of Ansett Holdings so News Limited could get a reasonable return for the planned sale of its 50% stake. How this short-term financial goal affected the overall strategic planning process is beyond the scope of this case study, but there is little doubt that the drastic changes and downsizing required in Ansett to improve its financial position had a less than positive impact on the relationship between Ansett Airlines and Kendell Airlines' management.

After a protracted period of negotiations between News Limited and Singapore Airlines during 1999-2000, Singapore Airlines made an offer to purchase News Limited's 50% holding of Ansett. Air New Zealand exercised its option of first-right-of-refusal on the sale and in 2000 purchased News Limited's 50% stake, giving them 100% ownership of Ansett.

At a more micro level, there were three crucial factors that were influential in the relationship between Ansett and Kendell management between 1996-2001:
1.   the South-Eastern Regional Strategy (SERS);
2.   the cultural differences between Ansett and Kendell; and
3.   the retirement of Don Kendell in 1998 as CEO of Kendell.

Each of these areas are addressed separately in the following sections.

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