

FLYING HIGH:

A CASE STUDY OF ETHIOPIAN AIRLINES – A HIGHLY SUCCESSFUL STATE-OWNED ENTERPRISE IN A LOW-INCOME COUNTRY



Ethiopian Airlines continues to defy the sceptics. It demonstrates that a state-owned enterprise (SOE) in a low-income African country can: be sustainably, and sometimes exceptionally, profitable; be professionally run with an independent company culture; build technological and human capabilities in a high-tech sector; sustain corporate partnerships (including with foreign firms) and foster effective transfer of skills and technologies; contribute significantly to economic transformation through foreign exchange earnings, export diversification and the creation of skilled jobs; and survive intense political instability, wars and regime changes.

A POTTED HISTORY

Ethiopian Airlines was founded in December 1945 by the Government of Ethiopia in partnership with the United States' Trans World Airlines (TWA) with five war-surplus C-47 aircraft. It started by developing domestic routes, then quickly added a wide range of regional destinations before launching its first long-haul services to Athens via Cairo in 1958.¹ The company has navigated turbulent economic and political times, including wars and disruptive regime changes. In 1998 it introduced its first transatlantic services and in 2011 joined the international airline network, Star Alliance, cementing its place amongst the top airlines globally.

Commercially the last twenty years have been particularly challenging for the aviation business with increased competition - in particular from Gulf and Middle Eastern airlines heavily backed by oil-rich states - as well as mergers and acquisitions and several high-profile failures, including the demise of Ethiopian Airlines' former mentor, TWA. Ethiopian Airlines has successfully navigated these challenges. It has set out and implemented a series of 'Visions' - strategic plans, each with clear targets. 'Vision 2010', launched in 2005, aimed to grow passenger traffic, revenue and employment. The targets set out in 'Vision 2025' were achieved eight years ahead of schedule. The latest and most ambitious 'Vision 2035' plans to grow the cargo business and position Ethiopian Airlines in the top 20 aviation groups globally.

¹Barlow, A. (2015) "Ethiopian Airlines - how a state-owned enterprise can succeed"
Helen Suzman Foundation

²Getachew, Y.S. and Beamish, P.W. (2014) "Ethiopian Airlines: Bringing Africa Together"
Richard Ivey School of Business Foundation

“ The airline had, for decades, been wholly owned by the Ethiopian government, and its consistent profitability over the years, even under difficult circumstances, challenges the notion that state-owned airlines do not work in the African aviation market.² ”

POLICY QUESTIONS FOR CONSIDERATION

- What would be the national and international political and economic constraints on developing state-owned enterprises in your country?
- How can you think more ambitiously about which sectors your country could develop? Are there areas where you can defy conventional wisdom?
- Are there existing companies or sectors which, with more directed state support, could play a catalytic role in your country's development?



SUCCESS FACTORS

1 THE POLITICS OF BUILDING A SUCCESSFUL SOE

The story of Ethiopian Airlines began with Emperor Haile Selassie's ambition and vision in 1945 when, despite Ethiopia's lack of any technicians or even a runway, he decided that a national airline could help to bring the country together by overcoming the difficult terrain and lack of road and rail infrastructure.⁴ In establishing an airline, Selassie defied conventional wisdom that a capital-intensive business such as an airline would be unsuited to a capital-scarce developing country like Ethiopia.

Building a national champion takes time and it was important that successive governments backed the company and did so in a self-disciplined way. They did this partly because it became a valuable foreign-exchange earner, but also because it was relatively uncomplicated in terms of domestic interest groups – there were no large numbers of farmers or land issues to contend with for example – and because over time, as predicted by Selassie, the company became a source of national pride and cohesion.

OUTSTANDING PERFORMANCE

Ethiopian Airlines:

- Is a major global airline player with a fleet of 140 passenger and 15 cargo planes, making it much bigger than Virgin Airlines and similar in size to Singapore Airlines and Air India.
- Has been consistently profitable for the last twenty years and was one of only 3 airlines globally to have remained profitable through the COVID pandemic
- Announced in 2024 that it would build a new aviation city with a capacity of 100 million passengers per year, comparable to Dubai and Istanbul.³

2 EXCEPTIONAL LEADERSHIP

The company has generally allocated and retained exceptional leadership. Individuals have been chosen for their professional expertise, with many having risen through the ranks. The company's first Ethiopian CEO, Semrat Medhane, was appointed in 1971, after serving five years as deputy CEO. Long-serving CEO from 1991 to 2023 Tewelde Gebremariam is credited with expanding the company to become the largest carrier in Africa. Between 2011 and 2022 he successfully implemented Vision 2025 which led to a four-fold growth in terms of revenues, fleet size, and diversification into an aviation group. He was replaced in 2023 by Mesfin Tasew who joined in 1984 as an Associate Engineer before progressing to managerial positions in maintenance and engineering, Director of Operations and Technical Systems Support and Chief Operating Officer.⁵

There were a couple of relatively short-lived exceptions to this pattern of experience and longevity. In 1974, following the toppling of Haile Selassie, the Derg appointed a Military General as the airline's CEO. But by 1980, under pressure from the company's management, the government replaced him with Captain Mohammed, a CEO with industry expertise, who agreed to the appointment only on the condition that state interference would stop and the company would be run in line with international best practice.⁶ In general, the Ethiopian Airlines Board has also been highly skilled and professional – and has always included government representation to ensure the connection to the country's wider development strategy.

³Source: Ethiopian Airlines corporate website and others

⁴Oqubay, A. and Tesfachew, T. (2019) 'The Journey of Ethiopian Airlines: Technological Learning and Catch-up in Aviation', in Oqubay, A. and Ohno, K. (eds), *How Nations Learn: Technological Learning, Industrial Policy, and Catch-up* (Oxford University Press)

⁵Ethiopian Airlines Corporate website

⁶Oqubay, A. & Tesfachew, T. (2019) 'The Journey of Ethiopian Airlines: Technological Learning and Catch-up in Aviation'

3 OPERATIONAL INDEPENDENCE COUPLED WITH DISCIPLINED STATE SUPPORT

From the early days of partnership with TWA, Ethiopian Airlines created a politically independent corporate culture. While Government ownership has provided the company with stability, the management teams have been allowed to 'get on with the job' and an incentive-driven management style was able to flourish. Coupled with the retention of experienced staff, this has contributed to the efficient running of the business. In contrast, Ghana Airways, which was established in 1958 had 39 CEOs in its 40-year existence, suggesting high levels of government interference.⁷

This operational independence has helped Ethiopian Airlines to respond flexibly and effectively to numerous challenges and crises which might have finished less robust businesses.

- In 1991 as the army of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) approached Addis Ababa, there were concerns that the conflict would disrupt Ethiopian Airline's operations. Management was able to swiftly and unilaterally take the decision to move aircraft and operations to Nairobi.
- During the COVID pandemic when most airlines had to be bailed out by governments, Ethiopian Airlines was able to mobilise the technical and human capability developed systematically over decades to re-fit twenty-five passenger planes as cargo carriers. This enabled the company to support the country's horticulture exporters who were struggling with high freight costs, as well as to deliver millions of covid vaccines across Africa and South America.⁸ Despite the pandemic, Ethiopian Airlines posted profits in 2020, 2021 and 2022 with no job losses or pay cuts.

4 STRATEGIC AND EFFECTIVE COMMERCIAL PARTNERSHIPS

The strategic management of partnerships has been an important factor in Ethiopian Airlines' success. In the early years, in return for a management fee, TWA was responsible for selecting and procuring all aircraft and equipment; it also provided all personnel, largely from the United States, as well as negotiating with suppliers, facilitating credit from US banks and overseeing production to its own high standards. During this period Ethiopian Airlines 'learnt by doing', gradually acquiring the knowledge and skills to take over posts and functions. It was important that TWA understood and was committed to the company's Ethiopianisation agenda (see below), but also to maintaining rigorously high expectations and standards. Through a series of agreements, the terms of the partnership gradually evolved, until the fifth and last agreement signed in 1970 which saw TWA's role shifting from management to an advisory function before the partnership finally came to an end in 1975.

Ethiopian Airlines has also developed a series of strategic partnerships with other African airlines including the acquisition of ASKY airlines in Togo and the purchase of a 49% stake in Malawi Airlines. These enabled Ethiopian to establish its hub approach in southern and West Africa, which has been a critical part of the strategy and has cemented the airline's reach on the continent.⁹ A joint venture with DHL has supported the development of the cargo businesses and most recently a joint venture with Boeing will build a new hangar for aircraft parts manufacture in Addis Ababa.¹⁰

“ During my direct involvement from 1964 to 1975 Ethiopian Airlines gained the confidence to believe that it can compete successfully with the best in the worldwide airline industry ”

Semret Medhane, Ethiopian Airlines' first Ethiopian CEO.¹¹

5 CONTRIBUTION TO CAPABILITY BUILDING AND NATIONAL ECONOMIC TRANSFORMATION

Ethiopian Airlines has made a significant contribution to Ethiopia's economic development, including through direct foreign exchange earnings, acting as an incubator for a host of other industries and through the establishment of a range of training and technical facilities which have equipped generations of Ethiopians with high levels of skills.

Ethiopianisation: the strategic development of national skills

The intention for Ethiopian Airlines to be run and staffed by Ethiopian personnel was clear from the very beginning of the partnership with TWA. The 1953 agreement between Ethiopian Airlines and TWA stated, "The ultimate aim is that Ethiopian Air Lines (EAL) shall eventually be operated by Ethiopian personnel."¹² Making this a reality was challenging for a country with an illiteracy rate of 96%, only two secondary schools and no university. The solution to this problem was the establishment of the Ethiopian Aviation Academy in 1956 and later in 1964 Africa's first Pilot School. These facilities have been sustained, providing high-quality training to people from across the African continent. By the company's 25th anniversary Ethiopian Airlines was managed and operated fully by Ethiopians.

Deliberate development of technological capabilities

When Ethiopian Airlines was first conceived, Ethiopia was a largely subsistence economy with little in the way of industry. The idea of entering a high-technology sector such as the aviation industry may have seemed ill-advised.¹³ However, the deliberate selection of the latest technologies (for example Ethiopian was the first airline in Africa to introduce jet planes) along with the steady development of the skills and capabilities to maintain these technologies, has been an important factor in the airline's success.

⁷Andoh, S.K., Gebremariam, Y., Thorson J & Bodo P, (2019) "Performance of State-Owned Enterprises: A Comparative Analysis of Ethiopian Airlines and Ghana Airways" *American Journal of Management*

⁸Schipani, A. (June 2021) "How Ethiopian Airlines provided a vaccine lifeline" *Financial Times*

⁹Barlow, A. (2015) "Ethiopian Airlines - how a state-owned enterprise can succeed" Helen Suzman Foundation

¹⁰Moore, V. (August 2023) "Ethiopian Presses Ahead With Boeing Parts Manufacturing Plan" *Aviation Week*

¹¹Quoted in Gebrehiwot, M. (April 2016) "The faces of Ethiopian Airlines - Colonel Semret Medhane" *Ethiosports*

¹²Quoted in Oqubay, A. & Tesfachew, T. (2019) 'The Journey of Ethiopian Airlines: Technological Learning and Catch-up in Aviation'

¹³Oqubay, A. & Tesfachew, T. (2019) 'The Journey of Ethiopian Airlines: Technological Learning and Catch-up in Aviation'

Catalysing wider economic transformation

The leveraging of Ethiopian Airlines as a catalyst for a range of service and export-oriented industries has been a deliberate part of the Ethiopian government's industrialisation strategy. The initial expansion of the floriculture sector was facilitated by the existence of an efficient state-owned carrier able to transport highly perishable and time-sensitive products to destination markets. The growing success of the sector in turn prompted the airline to provide and expand cold storage airfreight facilities. After initially leasing ageing cargo jets, the company took the decision to purchase its own fleet of freight jets and develop handling facilities.¹⁴ The group's cargo facility is now the largest in Africa with the capacity to handle one million tonnes of cargo per year and the floriculture industry has become an important foreign exchange earner employing 20,000 people directly and indirectly, as well as helping to catalyse related high-value agricultural exports like herbs.¹⁵ Other services to support the aviation sector have also flourished, including the airline group's catering facility, which can produce 100,000 meals per day, and its Skylight Hotel, which has over 1,000 rooms.

ETHIOPIAN AIRLINES' CONTRIBUTION TO ETHIOPIAN ECONOMIC DEVELOPMENT



In the 2023/2024 fiscal year, its revenue exceeded **US\$7 billion** as the largest foreign exchange earner in Ethiopia.



It employs **19,000 people** across the passenger airline, cargo and catering operations, maintenance, hotel and airport facilities. According to IATA an additional 179,000 indirect jobs are connected to the sector.



The aviation sector contributes an estimated **5.7%** to Ethiopia's GDP.¹⁶

Ethiopian Airlines, in contrast to South African Airways, is not considered an opportunity for patronage, rent seeking and clientelism. Though state-owned, it is, first and foremost, a business. And because it is managed like this, it is able to raise its own debt, finance its own development, expand, grow, and turn a profit – all without recourse to public subsidies. In fact, it currently pays dividends to the government. It is exactly how a state-owned enterprise can, and should, be run.¹⁷

FURTHER READING

Barlow, A. (2015) "**Ethiopian Airlines – how a state-owned enterprise can succeed**" Helen Suzman Foundation

Cramer, C., Di John, J & Sender, J (2022) "**Classification and Roundabout Production in High-value Agriculture: A Fresh Approach to Industrialization**" *Development and Change*

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ABOUT SOAS DEVELOPMENT LEADERSHIP DIALOGUE

Economic and social development requires many actors: however, typically these have operated in separate spheres, not understanding each other well and even seeing each other as adversaries. In a world characterised by profound changes and heightened uncertainties, overcoming this 'silo-ization' and the lack of mutual understanding it leads to is ever more important.

DLD brings people and disciplines together to generate more creative and strategic solutions to difficult development challenges.

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¹⁴Cramer, Di John & Sender (2022) "**Classification and Roundabout Production in High-value Agriculture: A Fresh Approach to Industrialization**" *Development and Change*

¹⁵Oqubay, A. (2015) "**Beyond Bloom and Bust? Development and Challenges in Floriculture**" *Made in Africa: Industrial Policy in Ethiopia* (Oxford University Press)

¹⁶IATA report (2012) "The importance of air transport to Ethiopia"

¹⁷Barlow, A. (2015) "**Ethiopian Airlines – how a state-owned enterprise can succeed**" Helen Suzman Foundation