HIDDEN RISKS IN AVIATION PART 1: FINANCIAL RISKS

Jeff Agur | October 2019

Your flight department manages and mitigates risk every day. The focus is most commonly where they are trained: operational risks. Yet there are other risks that also demand attention. Financial risks can be extremely impactful; the possibilities span a broad spectrum from poor stewardship to criminal intent. Without the proper oversight to mitigate these risks, the consequences could cost your company thousands to millions of dollars.

How does this happen? Aviation is not likely core to your business. Your focus is elsewhere. Some of the more common things we hear when financial integrity is compromised include:

- “We don’t understand aviation.”
- “We didn’t know what questions to ask.”
- “Well, isn’t everything in aviation expensive?”
- “We were told it was for ‘safety.’ We don’t want to cut corners in safety.”

Playing the “safety card” is a trump card. No one is willing to challenge safety, especially those who don’t interact daily in the world of aviation. We suggest you reframe the conversation to “risk management.” Ask the questions, “How does an investment in this part of aviation help us better manage risk?” The answer should give you a much better gauge of the need.

Ethics & Integrity

“Integrity is doing the right thing, even when no one is watching.” – C.S. Lewis

You cannot rely solely on the character of your team members to make judgement calls. Be sure to define the ethical boundaries which are consistent with the culture of your organization. This commonly comes in the form of policy.

- Conflicts of Interest – Acknowledge when conflicts occur and how judgement can be clouded. Putting it on the table is the first step. Sometimes perception is reality. Was that maintenance facility chosen because they were the best value/capability? Or was it because they were near the beach or a family member?
- Gifting Policy – Gifts can range from benign to extravagant; especially when the decision making can be in the millions of dollars. Your organization’s tolerance for gifting could be anything; a free lunch, free trips, even six-figure referral fees.
- Confidentiality & Social Media – What your team says publicly or on social media platforms can have an adverse financial impact on your organization. Comments about fleet transition strategies can lose negotiating leverage to the tune of hundreds of thousands of dollars. Posting the location of your corporate travel adventures also gives insights into your executives’ locations, which they may not want public for specific reasons.
- Travel Expense Policy – Hotels, per diems, loyalty points, upgrades, and more. All have room for interpretation if not clearly defined.

HIDDEN RISKS IN AVIATION PART 1: FINANCIAL RISKS (CONTINUED)

Set Your Team Up for Success

There are also several things you can do beyond policies to help mitigate financial risk to your organization:

- Establish a mature procurement process. This is especially true for large purchases. Create a cross-functional team with complimentary perspectives and thoroughly evaluate the options.
- Develop practices for exceptions when a procurement process is not available. If an aircraft experiences a mechanical failure (AOG), what purchasing authorization can someone procure a replacement part? $10,000? $100,000? How about a back-up charter for an emergency trip?
- Many of the year's financial expectations are established with a budget. It should be a regular practice to develop a detailed budget to project expenses. As exceptions or deviations are experienced, a conversation should occur.
- Inspect what you expect. Don't be shy about conducting a financial audit of your flight operation. This practice is no different than what you do in other parts of your company.

Join us next time as we highlight some of the specific financial risks that exist with vendors as well as during aircraft transactions!

To learn more, contact VanAllen today.