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SATA: Saving an Airline Company from Bankruptcy in Plain COVID-19 Pandemic

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Abstract

In January 2020, the coronavirus COVID-19 spread from China to twenty other countries, and this outbreak was declared a Public Health Emergency of International Concern. Since then, COVID-19 has turned the world upside down, with more than 7 million deaths reported, causing a harsh economic disturbance, disrupting travel and trade, closing businesses, and forcing millions into poverty.

Being aviation the most affected industry, SATA, a small airline company from the Azores Archipelago in a critical financial situation, has a new Board of Directors led by the economist Luís Rodrigues to define a new strategy and save it from bankruptcy.

Keywords

SATA, Azores, Airline, Survival, Transformation, Strategy, Bankruptcy, COVID-19, Pandemic, Luís, Rodrigues, Crisis, Management

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At the beginning of 2020, a new coronavirus – a type of virus that "is spread through droplets and virus particles released into the air when an infected person breathes, talks, laughs, sings, coughs or sneezes" (Johns Hopkins Medicine 2022) – known as COVID-19 spread from China to twenty other countries, being this outbreak declared as a Public Health Emergency of International Concern (PHEIC) on January 30th (World Health Organization 2020).

Since that day, and for more than three years, until May 5th, 2023, when the Public Health Emergency of International Concern ended, COVID-19 has turned the world upside down, with more than 7 million deaths reported (although the estimation is at least 20 million), besides causing a harsh economic disorder, disrupting travel and trade, closing businesses, and forcing millions into poverty (World Health Organization 2023).

The aviation industry was the most affected by COVID-19. According to the McKinsey & Company and International Air Transport Association article "Understanding the pandemic's impact on the aviation value chain", "amid lockdowns and travel restrictions, all sectors making up the aviation value chain suffered significant losses in 2020 and 2021 – except for air cargo carriers and freight forwarders who experienced yield increases given undersupply and sustained demand. With economic losses of USD 175 billion in 2020 and USD 104 billion in 2021, airlines showed the largest economic losses during the pandemic" (McKinsey & Company, International Air Transport Association 2022).

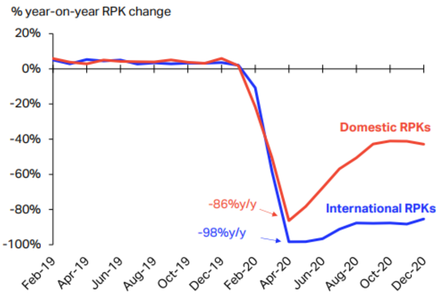

Figure 1 - Year-on-year change in domestic and international RPKs, global level

As shared by the International Air Transport Association in its Air Passenger Market Analysis Report from December 2020 (International Air Transport Association 2020), the international and domestic aviation shutdown due to this COVID-19 health crisis has led to a Revenue Passenger Kilometres (RPK) fall by more than 94% year-on-year in April – a rate never seen.

SATA, a small airline company from the Azores archipelago, Portugal, was no exception. On March 19th, 2020, the Regional Government of the Azores ordered the suspension of all SATA's air connections, not only between all its islands but also to and from outside the archipelago (as these flights are the only aerial connection the Azores islands have, exceptional cargo and emergency flights continued to be operated, though) (RTP Madeira 2020) – which has become a major problem, as SATA was already in a critical financial situation: it had closed the year 2019 with an EBITDA of -23,7 million Euros, a net result of -53,4 million Euros, and a net debt of 249,4 million Euros (Grupo SATA n.d. b).

SATA – The Azores Airline Company

The "Sociedade Açoreana de Estudos Aéreos, Lda." was founded in Ponta Delgada, Azores, on August 21st, 1941, during World War II, with the mission to serve the people of the Azores, reducing their isolation and shortening the distance between the Azores' islands and the rest of the world (SATA Azores Airlines n.d. a).

In 1947, after the end of World War II and the infrastructure located in Santa Maria been transferred to the Portuguese Government for civil use, the "Sociedade Açoreana de Estudos Aéreos, Lda." accomplished its studies and changed its name to "Sociedade Açoreana de Transportes Aéreos, Lda.", SATA, receiving, although provisionally, by the Portuguese Government, the concession of the air connections between the islands of São Miguel, Terceira, and Santa Maria (SATA Azores Airlines n.d. a).

SATA had its first commercial flight on June 15th, 1947, between São Miguel and Santa Maria islands, in a Beechcraft UC-45B Expeditor aeroplane (CS-TAA), baptised "Açor", piloted by Captain Marciano Bonucci Veiga, SATA's

Figure 2 - SATA's First Flight on June 15th, 1947 (SATA Azores Airlines n.d. b)

Aviator-Captain, First Pilot and Technical Director (SATA Azores Airlines 2023).

As of 2020, after almost 80 years of history and several restructurings, the SATA Group is 100% held by the Regional Government of the Azores and has three companies: the aerodrome management company “SATA Gestão de Aeródromos”, and the airline companies “SATA Air Açores” and “SATA Internacional Azores Airlines”, operating in a vast network of national and international connections, playing a fundamental role in the economic and social development of the Autonomous Region of the Azores (SATA Azores Airlines n.d. b).

SATA’s Transformation & Survival – The Project

In December 2019, before the COVID-19 pandemic, the Regional Government of the Azores invited the Portuguese economist and manager Luís Rodrigues to be the next Chairman of the Board of Directors of SATA Group, with the challenging mission of saving it from bankruptcy. Luís Rodrigues accepted the invitation with one condition: choosing the members of the Board of Directors, besides letting the local Government know that, given SATA’s financial situation, the recovery transformation process would be painful – which was accepted and acknowledged (Rodrigues 2023).

This was not the first time Luís Rodrigues worked in the aviation industry, as, from 2009 to 2015, Luís Rodrigues worked in the Portuguese flag airline group TAP Air Portugal (TAP) as Executive Director, President of the Board of Directors of the Brazilian maintenance subsidiary “TAP Manutenção & Engenharia Brasil”, and Executive Director of the handling company “Serviços Portugueses de Handling” (SIC Notícias 2023).

Keeping the previous Board’s structure, which had three Directors, Luís Rodrigues invited his former colleague from TAP, Mário Chaves, who has a strong background in Operations, and, by recommendation of someone of his trust, Teresa Gonçalves, who has a strong background in Finance (Rodrigues 2023; Açoriano Oriental 2020b).

Recalling that period, Luís Rodrigues acknowledges that the context was challenging because of SATA's negative financial situation, and the Group did not have a well-defined strategy until then. Although SATA was operating, with many problems at all levels, the fact is that it was only possible because the regulator went through a difficult period as well in the recent past. If that was not the case and it had operated as a typical regulator, SATA probably would have stopped long ago (Rodrigues 2023).

Another interesting aspect is that SATA's new Board of Directors was the first one whose members were not from the Azores (Lisbon, in this case), which could have been part of the problem, as the Azores is a very small community and these people might have been somehow influenced by the local government, which has a tremendous authority there, due to the characteristics of the region (Rodrigues 2023). An audit carried out by the Court of Auditors on the SATA Group in 2023, regarding the period between 2013 and 2019, identifies SATA Internacional Azores Airlines company as responsible for around 90% of the losses accumulated between 2013 and 2019, amounting to 260 million Euros; during this period, liabilities rose from 199 to 465 million Euros and equity reached a negative value of 230 million Euros at the end of 2019 (Tribunal de Contas 2023). According to the audit report, amongst other aspects, the high degree of informality that has characterised the functioning of the corporate bodies of SATA Group companies constitutes non-compliance with legal and statutory provisions and is not admissible in the context of public money management. Additionally, management decisions related to the process of renewing the long-haul fleet and its subsequent reversal – a situation that had become famous for an A330 aeroplane baptised "Cachalote" that had only flown for three years because its maintenance costs were very high (TSF 2021) –, and the operation of routes subject to public service obligations without corresponding financial compensation had contributed to this economic situation (Tribunal de Contas 2023), which led the Parliament of the Azores to unanimously approve, in 2023, a commission of inquiry to investigate SATA's management between 2013 and 2019 and evaluate the exercise of political supervision and the performance of corporate bodies during the current legislature (Assembleia Legislativa da Região Autónoma dos Açores n.d.; País ao Minuto 2023).

Given the whole context, the defined strategy for SATA Group for 2020 and the following years consisted of a transformation process with six major deliveries/milestones: closing the Las Palmas route, promoting Internal Meetings, creating an Integrated Operations Control Centre, a new partners approach, enhancing and promoting SATA's Social Responsibility, and creating cross-company Shared Services.

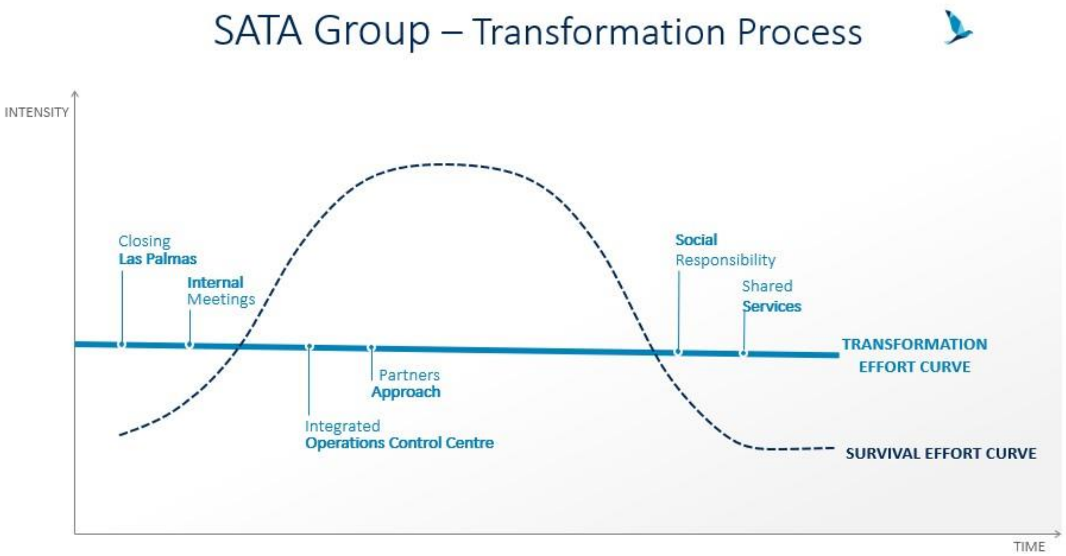

Figure 3 - SATA's Transformation Process (Rodrigues 2020)

The estimated required effort for delivering this transformation process in an everyday context would be represented with the blue line, with some minor expected peaks. Unfortunately, right after the SATA's new journey began, around two months later, in March 2020, the global COVID-19 pandemic put the Company's survival was at stake. Thus, several short-term priorities and urgencies had to be promptly and adequately addressed without compromising the long-term and strategic objectives: a very challenging and judicious work that demanded an additional effort from all employees – the dark intermittent curve.

Closing Las Palmas Route

Closing the Las Palmas route was SATA's new Leadership's first decision, even before the COVID-19 pandemic, in January 2020, taking place on March 29th, 2020. The Group's transformation process included a complete analysis of all operation and routes, and Las Palmas was a route that had lost money systematically, besides the fact that these flights were operated by a Bombardier Q400 aeroplane, the same used in flights between the Azores islands – which had had a very high usage demand and low availability.

When questioned why this route was not closed sooner, given its known problems, Luís Rodrigues explained that the previous administrations, somehow, might have assumed that could have occurred some informal agreement with the Government of the Canary Islands in the past and were afraid that if the route was cancelled, then Binter Canarias, the flag carrier of the Spanish autonomous community of the Canary Islands, could launch new routes to and from the Azores, directly competing with SATA. "I honestly believe that Binter had much more important things to be concerned about than our route being cancelled, and we just could not keep losing money and using these aeroplanes just for a few people from the Azores spending their vacations in Canarias once in a while. In terms of P&L[1], this cut was not significant. However, it was the first visible measure in line with the mentioned painful process.", Luís Rodrigues admitted (Rodrigues 2023).

Promoting Internal Meetings

A transformation project as ambitious and vital as SATA's would not be achievable without total alignment, dedication, perseverance, and trust from all employees, without exceptions. To this end, the new Board of Directors started promoting a set of internal sessions with all

[1] Profit & Loss

employees, in person, face to face, to share the defined strategy, the state of its progress, and the challenges that have arisen.

Although SATA's approximately 1400 employees are spread across the nine islands of the Azores, more than 50% are based on the island of São Miguel, so it is not difficult to bring them together and have some proximity. As shared by Luís Rodrigues, "Interestingly, to our great astonishment, there was no memory of sessions like this ever taking place. The fact that we exposed ourselves to a room full of hundreds of people, explaining our plan, what we knew at each moment, and listening to the concerns of all the employees was a tremendous moment in which someone said, 'We came here with our heads down, and we are leaving with our heads held high!'" (Rodrigues 2023).

Creating an Integrated Operations Control Centre

Until 2019, both SATA Air Açores, which operates the internal flights between the Azores' islands, and SATA Internacional Azores Airlines, which flies to and from outside the archipelago, had their own Operations Control Centre and did not communicate with each other. This reality not only led to the potential loss of several synergies, such as knowledge sharing and group integration but also has caused operational problems and service disruption, as the flights between the two companies must be perfectly synchronised for the operation to be effective and efficient: the Azores Airlines flights had to arrive immediately before the departure of Air Açores regional flights to the other islands so the arriving passengers could reach their final destinations. If the Azores Airlines flights were delayed for any reason, the other company would not know, and its planes would take off empty because the passengers had not arrived yet, creating chaos (Rodrigues 2023).

In 2021, each Operations Control Centre left its office and came together in a new one, in the headquarters, promoting the communication between the two teams, which came to know and understand each other’s problems and also being permanently accessible to the Management, to help developing know-how and to provide all necessary support. This reorganisation enhanced the Group's efficiency, cutting unnecessary costs (Rodrigues 2023).

New Partners Approach

Given SATA’s delicate financial situation by the end of 2019 (net debt of 249,4 million Euros) (Grupo SATA n.d. b), Luís Rodrigues’ team knew it would only be possible to solve it by working directly and closely with all their partners.

“A company that finds itself in the financial situation that SATA was in, unable to pay the bills to its suppliers and partners, usually tends to hide and avoid contact, not be exposed. We did precisely the opposite: we picked up the phone and called everybody, sharing the problem we had at hand (which was known) and that we were in a new phase of resolution, showing our face and asking for their support to work together, to find the solutions to overcome the current situation, which is a problem for all. Our partners understood it and responded positively.”, Luís Rodrigues recalls (Rodrigues 2023).

The defined approach consisted of creating bills payment plans over time with many partners, some of which did not even have, at the time, visibility of when this could happen – or if it would happen at all. The debts were negotiated, and the partners applied a discount in exchange for SATA's commitment to pay the agreed tranches on a specific day of each month. This allowed these companies to resume their billing and recover their stability, preventing many from going bankrupt, besides improving their relationship and being crucial for SATA’s financial recovery (Rodrigues 2023).

Enhancing and Promoting SATA's Social Responsibility

With SATA's mission to bring together and serve the small population of the Azores, which, in 2020, was around 242,500 inhabitants, spread across the nine islands of the archipelago (Serviço de Estatísticas Regional dos Açores n.d.), its social responsibility is relatively high, something reinforced by the fact that SATA is the only aviation company ensuring the connections between the islands. Additionally, employing around 1400 people (which exceeds 0.5% of the entire population of the Azores), SATA is also a large local employer, directly influencing the Azores' community.

Comparing SATA to the other Portuguese flag aviation company, TAP, the relevance of SATA to the Azores region is much greater than TAP's for the country, in the sense that if it stopped flying between the islands, these people would be completely isolated, as there is no other company operating that could replace SATA in the very short term. More than playing this fundamental role, "SATA must be an example in everything, acknowledging people's difficulties and getting involved in social support projects. Being the Azores such a small community, the impact of these initiatives is substantial and very positive." (Rodrigues 2023).

As an example, in 2022, the Cluster GRACE Açores was created, aiming to enhance joint work in the development of Social Responsibility and Sustainability projects, being SATA Group one of its ten founding entities and also one of the three coordinators. One of these projects is GRACE Families, in which companies identify, in partnership with social institutions, families in need to be able to help them, not only with material goods but especially with training, in an attempt to prevent events that encourage social exclusion, such as school dropout, or the lack of employment for people with disabilities, who often cannot find work without conscious and responsible support from companies (Açoriano Oriental 2022b).

Creating Cross-company Shared Services

Since the beginning, the three SATA Group companies have operated independently, having different teams for the same functions, such as Human Resources, Payroll Processing, or Logistics. To improve the efficiency of the group's work processes, these teams were integrated and consolidated into new cross-company ones, which started working serving the whole group. This allowed the creation of synergies that reduced unnecessary costs with people who could carry out other activities of greater need and value besides the share of know-how between employees that naturally started to take place (Rodrigues 2023).

The Unexpected Situation – Global COVID-19 Pandemic

To minimise the impact of COVID-19, namely, the suspension of regular air activity from March 2020 onward – which amounted to 215 million Euros in revenue loss (Expresso 2022a), the SATA Group immediately initiated a series of activities, of which the following stand out: renegotiation of contracts and payment terms, suspension and postponement of non-critical investments, cutting expenses, suspension of hiring new employees, and implementation of lay-off, pre-retirement and renovation programs anticipated.

According to Luís Rodrigues, of the universe of around 1400 employees, the SATA Group could have had an excess of up to 10%, so the objective was trying to achieve a reduction of about 100 people, using negotiations and terminations by mutual agreement, which happened, as people in the office joined in. Being SATA's circumstances exceptional, as the Azores' nine islands cannot be isolated and air transportation is the only way to ensure these connections, if the reduction of people had gone further, the operation would have been compromised, directly affecting the people of the Azores, as SATA did not have excessive operational staff, such as pilots, cabin crew, or ground handling.

In terms of remuneration cuts, the reductions were not very significant, which allowed, when the demand was resumed, to recover the operation and restore the employers' entire salaries (Rodrigues 2023).

Regarding the relationship with partners, Luís Rodrigues believes they could have been much more demanding with SATA. However, they could not do so, as the pandemic affected all institutions and society, and they had to focus on solving their problems and urgencies. The only exception was SATA facing an insolvency request in court, ironically, from the leasing company Aircraft Engine Lease Finance Limited, linked to the mentioned A330 "Cachalote" case, which was claiming the immediate payment of 14.9 million Euros (Açoriano Oriental 2020a; Rodrigues 2023).

Additionally, in August 2020, the European Commission approved, under the Treaty on the Functioning of the European Union (TFEU) rules on state aid, 133 million Euros in liquidity support for SATA Air Açores so that it could be able to solve urgent liquidity needs until January 2021 and fulfil its public service obligations, providing essential services and ensuring network connectivity in the outermost region of the Azores (Observador 2020). However, upon receiving this request, the European Commission has also opened an investigation to assess the compliance with community standards of three capital increases SATA has received since 2017 from its shareholder, the Regional Government of the Azores, amounting to 128.6 million Euros, as all state aids must be reported, which did not happen (RTP Notícias 2022), having SATA paid back 72 million Euros (Observador 2022b).

In April 2021, the European Community expanded its in-depth investigation to assess whether the latest restructuring support measures favouring SATA complied with European rules on state aid, concluding later, on June 7th, 2022, that "although the Commission considered that the three capital increases constitute incompatible state aid with community rules, the Commission has no reason to demand the recovery of the aid, as Portugal has already recovered it from SATA, including interest" (RTP 2022).

On the same day, the European Commission also announced its approval of a new Portuguese state aid of 453.25 million Euros in loans and state guarantees to support the restructuring of SATA Group until 2028, which includes reorganising SATA Group's corporate structure, with the creation of a holding company that will replace SATA Air Açores in the control of its subsidiary operations, selling at least 51% of the stake in SATA Internacional Azores Airlines, the spin-off of SATA Gestão de Aeródromos, a maximum limit on the fleet until the end of the restructuring plan, the prohibition of acquiring any aeroplanes in the same period, and cost reduction (Expresso 2022b).

These loans were crucial for the survival of the SATA Group, as they allowed it to carry out well-paid loans with state guarantees, used to reduce the pressure from the partners since 2020. SATA tried to make the European Commission aware of the opportunity of having this loan directly from the Portuguese Treasury and Debt Management Agency but was flatly denied, having to finance itself on the market – the European Commission considered this situation a test of survival because if SATA were not able to finance itself on the market, then that would be a sign that it would not be able to survive on its own. "It was a very complicated and difficult process to manage with the banks and the Regional Government, but it ended up being successful; after all, at the end of the day, nobody was interested in SATA to end", Luís Rodrigues confessed (Rodrigues 2023).

At last, one fundamental decision that kept SATA alive with people working was a very high investment in charter flights to destinations not compromised by COVID-19 restrictions, such as Madeira Archipelago, Cape Verde Archipelago, and the Island of Crete. These non-regular flights were an essential complement to SATA's regular activity, considering its activity decreased due to COVID-19 (SATA Azores Airlines n.d. g). As shared by Luís Rodrigues, "For some reason, TAP has not explored this opportunity, and SATA has occupied this space. It was not a time about network strategy; it was a survival crisis, and we desperately needed all the money we could inject into the Company, dealing with the strategy later…” (Rodrigues 2023).

SATA’s Transformation & Survival – Project Results

At the beginning of 2023, after three years leading SATA Group, Luís Rodrigues stepped down as its Chief Executive Officer and Chairman of the Board of Directors to assume these positions in TAP, accomplishing the transformation project he was trusted to deliver and closing this chapter in his journey and SATA’s history (SIC Notícias 2023). Teresa Gonçalves, SATA Group’s Chief Financial Officer and member of the Board of Directors, is appointed CEO by the Regional Government of the Azores, replacing Luís Rodrigues (Governo dos Açores 2023).

The year 2022 was a milestone for both SATA Group’s airline companies, as they have achieved record results in terms of carried passengers and revenue (SATA Azores Airlines n.d. c; SATA Azores Airlines n.d. d):

- SATA Air Açores, operating the interisland flights in the Azores, had carried a total of 837,236 passengers, 32.2% more than in 2021 and 9.2% more than in 2019 (the pre-pandemic year), amounting to 92.2 million Euros in revenue, its best year, with an EBITDA of 7.8 million Euros (a growth of 11.9% compared to 2021 and of 9.3% compared to 2019).
- SATA Internacional Azores Airlines, operating flights to and from outside the Azores, had carried a total of 1,083,215 passengers, 67.1% more than in 2021 and 14.5% more than in 2019, amounting to 211.1 million Euros in revenue, also the best year, reaching its first positive EBITDA in 10 years (growth of 107.5% compared to 2021, already being excluded the support received in 2021 regarding COVID-19, and of 34.2% compared to 2019).

The SATA Group’s financial reports from 2019 to 2022 are presented as Exhibits I to IV.

The charter operation has also increased throughout the years, amounting to 5.8 million Euros in revenue in 2020 (compared to 1.6 million Euros in 2019), 6.6 million Euros in 2021, and more than 11 million Euros in 2022, with commercial profitability having achieved positive profit and surplus margin (Grupo SATA n.d. b; Grupo SATA n.d. c; Grupo SATA n.d. d).

Also in 2022, when the mandate of Luís Rodrigues' team in SATA was coming to an end, a group of employees signed a manifesto, expressing their “unequivocal desire to see the stability, continuity, and future of SATA ensured” through the reappointment of Luís Rodrigues and the remaining members of the Board of Directors. Among other reasons, the mentioned document states that "the dynamics brought to the organisation, whether human, commercial or technical, allowed the Company not only to overcome a pandemic, which had a huge impact on air transport worldwide, but also to prepare SATA to emerge stronger and in a competitive position with other airlines”, highlighting that the Board of Directors posture was “fundamental to the activity recovery” and allowed “to recover a trust that had been lost among passengers, group workers and the people of the Azores” (Açoriano Oriental 2022a).

The outlook for 2023 is also very positive, as SATA Group has closed the first semester with a positive EBITDA of 3.6 million Euros, compared with a negative EBITDA of 10.5 million Euros in the first semester of 2022. Additionally, the consolidated revenue was, in this period, 148 million Euros, 36.5% more than in the first semester of 2022 (108 million Euros). The net profit recorded an improvement of 16 million Euros compared to the same period of 2022.
In terms of carried passengers, SATA Group has transported 1 million passengers in the first half of 2023, corresponding to 267 thousand more passengers (36% increase) when compared to the same period of 2022 and 250 thousand more (33% increase), comparing to 2019 (SATA Azores Airlines n.d. e).

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Teaching Notes

Case Summary

This case is about SATA, the aviation company from the Azores Archipelago, and how it dealt with the COVID-19 pandemic when it was already in a very difficult financial situation.

In January 2020, the coronavirus COVID-19 spread from China to twenty other countries, and this outbreak was declared a Public Health Emergency of International Concern. Since then, COVID-19 has turned the world upside down, with more than 7 million deaths reported, causing a harsh economic disturbance, disrupting travel and trade, closing businesses, and forcing millions into poverty (World Health Organization 2023).

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In December 2019, before the COVID-19 pandemic, the Regional Government of the Azores invited the Portuguese economist and manager Luís Rodrigues to be the next Chairman of the Board of Directors of SATA Group, with the challenging mission of saving it from bankruptcy. Luís Rodrigues accepted the invitation with one condition: choosing the members of the Board of Directors, besides letting the local Government know that, given SATA's financial situation, the recovery transformation process would be painful – which was accepted and acknowledged (Rodrigues 2023).

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The outlook for 2023 is also very positive, as SATA Group has closed the first semester with a positive EBITDA of 3.6 million Euros, compared with a negative EBITDA of 10.5 million Euros in the first semester of 2022. Additionally, the consolidated revenue was, in this period, 148 million Euros, 36.5% more than in the first semester of 2022 (108 million Euros). The net profit recorded an improvement of 16 million Euros compared to the same period of 2022.

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Learning Objectives

The case was created to facilitate an in-class discussion about the impact of transformational leadership in crisis management, using as a basis and reference the Portuguese aviation company from the Azores Archipelago SATA, which immediately after hiring a new Board of Directors to save it from bankruptcy, at the beginning of 2020, saw its reality worsened by the emergence of the COVID-19 pandemic.

The case is suitable for courses related to leadership and management.

Assignment Questions

1. Analysing the new Board of Directors' first decision to close the Las Palmas route, given that it did not significantly impact the P&L, how important was this measure? Why?
2. Transformational leadership theory was developed by Burns (1978) and later enhanced by Bass (1985, 1998) and others (Avolio & Bass 1988; Bass & Avolio 1994; Bennis & Nanus 1985; Tichy & Devanna 1986), being its central premise the leader's ability to motivate the follower to accomplish more than what the follower planned to accomplish (Krishnan 2005).

   Promoting regular internal meetings was another new measure from the new Board of Directors. Given the feedback received from the employees, what are the expected outcomes?
3. Given SATA Group's financial evolution since 2019 (Exhibits I-IV), its results in 2022 and the outlook for 2023, can the strategy defined by Luís Rodrigues' team be considered successful?

Discussion Plan

A 60-minute class may be divided as follows:

1. Introduction and discussion about the COVID-19 pandemic and its impact on the world, society and businesses, namely, in the aviation industry (10 min)
2. Introduction about SATA Group and discussion about the importance of its mission to the Azores Archipelago and its people (5 min)
3. Discussion about the new Board of Directors' decision to close the Las Palmas route and its importance regarding the defined strategy and ongoing transformation process (10 min)
4. Discussion about the new regular internal meetings and their expected outcomes from the employees in terms of commitment and performance (15 min).
5. Discussion about SATA Group's financial evolution since 2019, its results in 2022 and the outlook for 2023 (10 min).
6. Instructor's concluding remarks (10 min)

Proposal of Insights to Inspire the Discussion

1. Analysing the new Board of Directors' first decision to close the Las Palmas route, given that it did not significantly impact the P&L, how important was this measure? Why?

The instructor can remind students how this Board of Directors differs from previous ones, receiving a vote of confidence from SATA's shareholder, the Government of the Azores, especially after Luís Rodrigues mentioned that the transformation process would be painful.

The students can discuss how SATA's stakeholders – from its employees to its clients, the people from the Azores, including the local press – would have interpreted this first visible measure, its weight in terms of the positioning and authority of the new Board of Directors, and how this perception might have influenced their behaviour.

2. Transformational leadership theory was developed by Burns (1978) and later enhanced by Bass (1985, 1998) and others (Avolio & Bass 1988; Bass & Avolio 1994; Bennis & Nanus

1985; Tichy & Devanna 1986), being its central premise the leader's ability to motivate the follower to accomplish more than what the follower planned to accomplish (Krishnan 2005).

Promoting regular internal meetings was another new measure from the new Board of Directors. Given the feedback received from the employees, what are the expected outcomes?

The instructor can ask students about expected performance from employees, who feel empowered and motivated by the new Board of Directors to support the company overcoming the difficult situation it is on.

3. Given SATA Group's financial evolution since 2019 (Exhibits I-IV), its results in 2022 and the outlook for 2023, can the strategy defined by Luís Rodrigues' team be considered successful?

The instructor can ask the students their opinion on SATA's financial evolution since 2019, on SATA Group's results in 2022 and outlook for 2023, in operational (carried passengers) and financial terms, supported by the financial reports presented as Exhibits I-IV.

Regarding the defined transformation process for SATA, the students can recap the defined milestones and discuss together the impact and benefits of each one.

The table below summarises some suggestions that might emerge during this conversation.

Milestone/Measures	Impact/Benefits
Closing the Las Palmas route.	Costs reduction. New Board of Directors acknowledgement and authority reinforcement.

Promoting internal meetings.	Creation and development of a culture of clear communication, trust, commitment, and continuous improvement. Board of Director's acknowledgement strengthened. Employees' performance enhanced.
Creating an Integrated Operations Control Centre.	Operational efficiency's enhancement. Share of know-how. Costs reduction.
A new partners approach.	Debts negotiation, being applied a discount by the partners in exchange for the commitment of payment, which was crucial for SATA's financial recovery. Partners resumed their billing and recovered their stability. Relationship with partners improved.
Enhancing and promoting SATA's social responsibility.	Support the most vulnerable people from the Azores. Improve the positive perception of SATA's value to the Azorean community.
Creating cross-company shared services.	Operational efficiency's enhancement. Share of know-how. Costs reduction.
COVID-19 Measures: Renegotiation of contracts and payment terms, suspension and postponement of non-critical investments, cutting expenses,	Debt reduction. Costs reduction. Efficacy and efficiency were enhanced with the cut of excessive employees. Relationships with employees improved as the new

suspension of hiring new employees, and implementation of lay-off, pre-retirement and renovation programs anticipated.	Board of Directors minimised the cuts that would directly impact them (such as salary reduction).
COVID-19 Measures: Request for state aid.	Solve urgent liquidity needs until January 2021 and fulfil its public service obligations, providing essential services and ensuring network connectivity in the outermost region of the Azores.
COVID-19 Measures: Investment in charter flights.	Company kept alive, with people working. Additional, crucial revenue. Costs reduction (with stopped aeroplanes).

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Exhibit I

SATA Group's Financial Statement 2020 vs. 2019 (Grupo SATA n.d. b):

Demonstração da posição financeira consolidada

	Nota	2020	2019
Ativo			
Não corrente			
Ativos fixos tangíveis	6	139.293.748	96.991.863
Ativos intangíveis	7	30.775	66.292
Investimentos financeiros	8	55.461	55.461
Ativos por impostos diferidos	9	15.892.092	15.947.039
Clientes	11	4.881.970	1.243.833
Outras contas a receber	13	7.425.254	6.708.944
		167.579.300	**121.013.432**
Corrente			
Inventários	10	2.423.082	2.344.526
Clientes	11	11.308.420	7.279.079
Outras contas a receber	13	41.609.220	91.759.710
Imposto sobre o rendimento a receber	12	217.296	221.161
Outros ativos correntes	14	4.625.460	5.126.004
Caixa e equivalentes de caixa	15	38.724.925	6.738.334
		98.908.402	**113.468.814**
Total do Ativo		**266.487.702**	**234.482.246**
Capital Próprio			
Capital social	16	16.809.500	65.390.235
Reservas legais	17	1.495.597	1.396.612
Outras reservas		3.318.091	3.318.091
Reservas de conversão cambial	17	96.695	276.647
Reservas de justo valor		(232)	(232)
Resultados acumulados		(302.995.743)	(247.237.380)
Resultado líquido do exercício		(88.012.112)	(53.431.574)
Total Capital Próprio		**(369.288.204)**	**(230.287.601)**
Passivo			
Não corrente			
Provisões	18	40.950.976	38.153.165
Empréstimos obtidos	19	99.198.126	103.260.491
Passivos com obrigações contratuais	19	103.209.451	71.216.387
Obrigações de benefícios de reforma e outros	20	20.893.376	6.818.180
Passivos por impostos diferidos	9	67.783	120.515
		264.319.713	**219.568.738**
Corrente			
Empréstimos obtidos	19	172.278.015	111.395.743
Passivos com obrigações contratuais	19	23.475.983	28.588.875
Fornecedores	21	47.252.149	47.460.667
Outras contas a pagar	23	96.293.429	24.768.083
Imposto sobre o rendimento a pagar	12	872	145.035
Outros passivos correntes	24	5.326.603	11.013.277
Documentos pendentes de voo	22	26.829.143	21.829.429
		371.456.194	**245.201.109**
Total Passivo		**635.775.907**	**464.769.847**
Total do Capital Próprio e Passivo		**266.487.702**	**234.482.246**

Exhibit II

SATA Group's Results 2020 vs. 2019 (Grupo SATA n.d. b):

Demonstração de resultados consolidados

	Nota	2020	2019
Vendas e serviços prestados	27	72.577.736	189.425.485
Subsídios à exploração	28	45.407.254	42.859.576
Custo das mercadorias vendidas e das matérias consumidas	10	(2.285.493)	(3.096.963)
Fornecimentos e serviços externos	29	(77.583.181)	(147.773.483)
Gastos com o pessoal	30	(65.169.002)	(71.056.740)
Gastos de reestruturação	30	(19.079.697)	-
Gastos/ reversões de depreciação	6 e 7	(23.549.107)	(18.066.345)
Imparidade de ativos depreciáveis	6	(3.241.469)	(12.646.172)
Imparidade de contas a receber (perdas/reversões)	11 e 13	(3.660.292)	(4.094.544)
Provisões (aumentos/reduções)	18	(1.711.951)	(15.033.717)
Outros rendimentos e ganhos	31	485.494	819.796
Outros gastos e perdas	32	(1.807.344)	(3.088.173)
Resultado operacional		**(79.617.051)**	**(41.751.280)**
Gastos financeiros	33	(17.382.055)	(15.933.881)
Rendimentos financeiros	33	1.479.588	4.318.070
Diferenças de câmbio líquidas	33	7.511.296	(581.650)
Resultados antes de impostos		**(88.008.223)**	**(53.948.741)**
Imposto sobre o rendimento do exercício	34	(3.890)	517.167
Resultado líquido do exercício		**(88.012.112)**	**(53.431.574)**

Exhibit III

SATA Group's Financial Statement 2022 vs. 2021 (Grupo SATA n.d. d):

Demonstração da posição financeira consolidada

	Nota	2022	2021
Ativo			
Não corrente			
Ativos fixos tangíveis	6	41.088.577	152.491.035
Ativos intangíveis	7	40.305	36.124
Investimentos financeiros	8	55.014	55.461
Ativos por impostos diferidos	9	6.963.858	982.683
Clientes	11	-	434.287
Outras contas a receber	13	333.074	9.919.754
		48.480.828	163.919.344
Corrente			
Inventários	10	2.792.117	2.306.063
Clientes	11	2.885.921	24.835.748
Outras contas a receber	13	25.592.414	32.240.473
Imposto sobre o rendimento a receber	12	-	51.555
Outros ativos correntes	14	2.166.521	5.422.334
Caixa e equivalentes de caixa	15	91.815.021	29.048.146
		125.251.994	93.904.319
Ativos não correntes detidos para venda	35	192.388.933	-
Total do Ativo		366.121.755	257.823.663
Capital Próprio			
Capital social	16	16.809.500	16.809.500
Reservas legais	17	1.495.597	1.495.597
Outras reservas	17	(1.700.324)	3.318.091
Reservas de conversão cambial	17	216.976	45.882
Reservas de justo valor		(232)	(232)
Resultados acumulados		(459.367.836)	(404.484.000)
Resultado líquido do exercício		(37.551.247)	(57.419.619)
Total Capital Próprio		(480.097.566)	(440.234.781)
Passivo			
Não corrente			
Provisões	18	508.821	22.489.254
Empréstimos obtidos	19	249.327.781	103.550.850
Passivos com obrigações contratuais	19	30.950.177	118.346.460
Obrigações de benefícios de reforma e outros	20	13.828.574	18.355.293
Passivos por impostos diferidos	9	-	119.657
		294.615.353	262.861.514
Corrente			
Empréstimos obtidos	19	9.007.061	221.812.651
Passivos com obrigações contratuais	19	4.324.670	24.645.227
Fornecedores	21	14.815.876	42.470.144
Outras contas a pagar	23	326.228.101	112.778.180
Imposto sobre o rendimento a pagar	12	99.671	65.130
Outros passivos correntes	24	1.384.955	6.283.814
Documentos pendentes de voo	22	719.275	27.141.784
		356.579.609	435.196.930
Passivos não correntes detidos para venda	35	195.024.359	-
Total Passivo		846.219.321	698.058.444
Total do Capital Próprio e Passivo		366.121.755	257.823.663

Exhibit IV

SATA Group's Results 2022 vs. 2021 (Grupo SATA n.d. d):

Demonstração de resultados consolidados

	Nota	2022	2021 Reexpresso
Vendas e serviços prestados	27	40.355.401	26.200.434
Subsídios à exploração	28	41.948.282	48.653.675
Ganhos/perdas imputados de subsidiárias, associadas e empreendimentos conjuntos	37	-	114.551
Custo das mercadorias vendidas e das matérias consumidas	10	(2.385.712)	(1.607.672)
Fornecimentos e serviços externos	29	(36.759.679)	(26.428.667)
Gastos com o pessoal	30	(42.646.429)	(38.580.902)
Provisões (aumentos/reduções)	18	34.435	(179.456)
Outros rendimentos e ganhos	31	372.000	176.187
Outros gastos e perdas	32	(983.062)	(660.456)
Resultado operacional (antes gastos reestruturação, depreciações/amort e imparidades)		**(64.764)**	**7.687.694**
Gastos de reestruturação	30	(5.078.402)	(499.250)
Gastos de depreciação e de amortização	6 e 7	(10.322.797)	(9.661.729)
Imparidade de ativos depreciáveis/ amortizáveis (perdas/reversões)	6	-	1.051.151
Imparidade de contas a receber (perdas/reversões)	11 e 13	(297.807)	(17.878)
Imparidade de inventários (perdas/reversões)	10	(237.703)	(387.739)
Resultado operacional		**(16.001.473)**	**(1.827.750)**
Gastos financeiros	33	(10.757.446)	(20.599.233)
Rendimentos financeiros	33	11.862	223.875
Diferenças de Câmbio Líquidas	33	2.297.414	380.588
Resultados antes de impostos		**(24.449.643)**	**(21.822.521)**
Imposto sobre o rendimento do exercício	34	6.158.273	177.615
Resultado líquido do exercício das atividades em continuação		**(18.291.370)**	**(21.644.907)**
Resultados atribuíveis a unidades operacionais descontinuadas	35	(19.259.877)	(35.774.713)
Resultado líquido do exercício		**(37.551.247)**	**(57.419.619)**