Greg J. Bamber reports on people management in the airline industry.

Come fly

This article discusses management of people in airlines. It summarises contrasting management models from successful 'new entrants' to the aviation industry, Southwest Airlines and Ryanair. It considers examples of older 'legacy airlines' and 'new entrants' to the industry. We analyse differences in two aspects of employment relations strategies. First, in their relationship with employees, airlines can focus on *controlling* employee behaviour or seeking their *commitment* to the goals of the airline. Second, in their relationship with unions, airlines can seek to *avoid, accommodate* or *partner* with them. Although these strategies are illustrated in airlines, they also apply to enterprises in other sectors. This article shows that, in terms of employment relations, airlines still have considerable scope for exercising strategic choice.

A soon to be published book, *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees,* by G.J. Bamber, J. Hoffer Gittell, T.A. Kochan, & A. von Nordenflycht, (Cornell University Press, Ithaca, NY, 2009), includes much more data and analysis than this article. A series of related articles will also be published in 2009 in the *International Journal of Human Resource Management.*

In the past, airlines have been highly regulated. Nevertheless, this industry has not always been profitable and many airlines have collapsed.

Before deregulation, on many international routes there was typically a monopoly, or a duopoly of two legacy national flag-airlines – one based in the home country of each airport. The US led moves towards deregulation in the 1970s and the UK followed in the 1980s. Since then Australia and many other countries have deregulated to some extent.

NEW INDUSTRY ENTRANTS

Two of the largest and most successful new entrants to the airline industry have adopted contrasting management styles. Southwest Airlines, the first 'new entrant', was founded in 1971 in the US. Southwest chose employment relations strategies based on fostering employee commitment and union partnership. It is more highly unionised than other American airlines. In 2004 Southwest became the largest airline serving the US and it has been continually profitable each year apart from its first year, an unusual feat in this industry. Southwest is the longest surviving new entrant and a model that many other firms say they are emulating as they try to enter the airline industry.

Ryanair was founded in 1985 in Ireland. It was subsequently transformed into a fast-growing highly profitable low-cost airline. Its employment strategy is to focus on low costs via wage minimisation, union avoidance and employee control, rather than relying on their commitment. According to an International Transport Workers' Federation (ITF) survey, Ryanair is one of only a few airlines in Europe that does not engage in collective bargaining. It aggressively avoids (suppresses) unions. This has induced the ITF to launch a web-based campaign (Ryan-be-Fair) attempting to mobilise Ryanair workers to take action against this airline. Nevertheless, Ryanair has become the new entrant airline leading growth in the European market for cheap, no-frills flights.

One strategy for airlines is to focus on achieving low labour costs by paying the lowest possible wages and benefits, keeping staffing as lean as possible and avoiding unionisation or limiting union influence if or when employees organise. An alternative option is to build employee commitment and a partnership with unions. Ryanair is an example of the former approach and Southwest an example of the latter strategy. These two airlines are the two most influential role models for other new entrants. Both strategies also include achieving low total costs by increasing employee and aircraft productivity as well as the productivity of other costly assets such as airport gates.

In the book, we classify airlines in a range of countries according to which strategies dominate their efforts at cost reduction. Alongside these differences in competitive strategies, we analyse differences in their employment relations strategies.

AIRLINES IN AUSTRALIA

Australia used to have a "two airline" policy which

with me

was, in effect, a duopoly. The domestic mainline routes were shared between Australian Airlines (later merged with Qantas) and Ansett Airlines. Qantas was founded in 1920 and is Australia's dominant airline. Since it was privatised in the 1990s it has generally operated profitably in international and domestic markets. Ansett was mainly a domestic airline. The strategic position of both of these 'legacies' was to offer full service. These airlines had relatively high operating costs and fares.

Following several short-lived attempts since the 1980s to start a third domestic airline, Impulse and Virgin Blue both launched airlines in 2000. Brett Godfrey was the co-founder of Virgin Blue Airlines. His team saw Southwest Airlines as a role model.

"Airline employees are fed up – with pay cuts, increased workloads and management's miserly ways, which leave workers to explain to passengers why flying has become such a miserable experience."

The New York Times, December 22, 2007

The almost simultaneous launch of Virgin Blue and Impulse precipitated a price war in which airlines cut fares. Qantas and Ansett dropped their fares to match the new entrants' start-up deals. As the legacies had higher costs, the fare reductions were a challenge for all of the airlines. During this price war, Qantas took over Impulse which it later re-launched as Jetstar and in 2001, Ansett went bankrupt.

When they began, Australia's new entrant airlines enjoyed a 30 to 40 per cent cost advantage compared with Qantas. Nevertheless, unlike many other airlines Qantas has continued to be profitable. This is not least thanks to its successful re-launch of Impulse as Jetstar, as well as to its strong position in international and corporate markets.

These airlines in Australia have adopted increasingly tough management rhetoric in relation to the unions. Nonetheless, they continue to accommodate unions, but unlike Southwest, neither Qantas/Jetstar nor Virgin Blue are really partnering with unions. As they have faced more competition, airlines have implemented aspects of the approaches pioneered by such role models as Southwest and Ryanair.

One paradox is that, simultaneously, the rhetoric from several airlines has emphasised the importance of fostering employee commitment and customer service, while seeking to reduce employees' economic rewards and/or to retrench them. However, in contrast to Qantas and many other airlines around the world, and despite the rise in fuel costs in 2008 Virgin Blue has aimed to avoid retrenching employees. Its rationale is that it has invested resources in recruiting and training them. But its staffing levels were already much leaner than those of legacy airlines.

In terms of benefits for employees, some airlines have followed Ryanair (for example AirAsia based in Malaysia, but also flying to Australia). AirAsia has rejected a partnership approach and has followed an aggressive union avoidance strategy.

Virgin Blue decided at its inception to accommodate selected unions in relation to all categories of its workforce. Since it also aimed to provide a friendly service, albeit with not all of the full-service 'frills', Virgin Blue also adopted a commitment approach, especially with its staff who interact most with its 'guests'.

This reminds us that airlines (and other enterprises) still have scope for exercising strategic choice with regard to employment relations policies. However, their scope for choice is constrained by national institutions and regulation, and can be further constrained when economic circumstances get more difficult, for example, as in 2008.

Greg J. Bamber is Professor in the Department of Management, Monash University.

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