

# The Coming Crisis in Airline Labor Relations & How to Avoid It

Presentation to IAB

November 6, 2008

Thomas Kochan, Jody Hoffer Gittel,  
Andrew von Nordenflycht,  
Robert McKersie, Greg Bamber

# Overview

- Summary of: *Up in the Air*
- The crisis and opportunity in the US
- Delta-Northwest Merger as an example
- Question: Who will lead the change effort?

# ***Up in the Air: How Airlines Can Improve Performance by Engaging their Employees***

**Greg Bamber**, Monash University, Melbourne, Australia

**Jody Hoffer Gittel**, Brandeis University, Boston

**Thomas Kochan**, Sloan School of Management, MIT, Boston

**Andrew von Nordenflycht**, Simon Fraser Univ., Vancouver

"And you thought the passengers were mad. Airline employees are fed up, too-with pay cuts, increased workloads and management's miserly ways, which leave workers to explain to often-enraged passengers why flying has become such a miserable experience." *New York Times*, December 22, 2007.

# Research questions

- Broadly, does low-fare competition necessitate
  - negative profit,
  - low-quality jobs,
  - and poor service quality?
- Can we build a *sustainable* industry that :
  - is less volatile?
  - better balances the interests of investors, employees, customers, and the society it serves?

# The Research

- International team of researchers, funded in part by
  - MIT / Sloan Foundation Global Airline Industry Project
  - Labor & Employment Relations Association: Airline Industry Council
  - Federal Mediation & Conciliation Service
  - Australian Research Council
  - Social Science and Humanities Research Council of Canada
- **Methods:** Case studies and quantitative analyses of airlines around the world

# Analytic Framework

- Competitive Position
  - Legacy vs. New Entrant
- Employment Relations Strategy
  - Control vs. Commitment
  - Avoid, Accommodate or Partner with Unions

# Legacy vs. New Entrant

- *Legacies* :founded prior to deregulation
  - developed hubs to serve small markets more efficiently and to defend their turf
  - tend to have older employees and older aircraft
- *New entrants*: founded after deregulation (or just before)
  - rely less on hubs and serving small markets
  - tend to have younger employees and younger aircraft
- Both sectors increasingly compete on costs

# Employee Strategies: Control vs. commitment

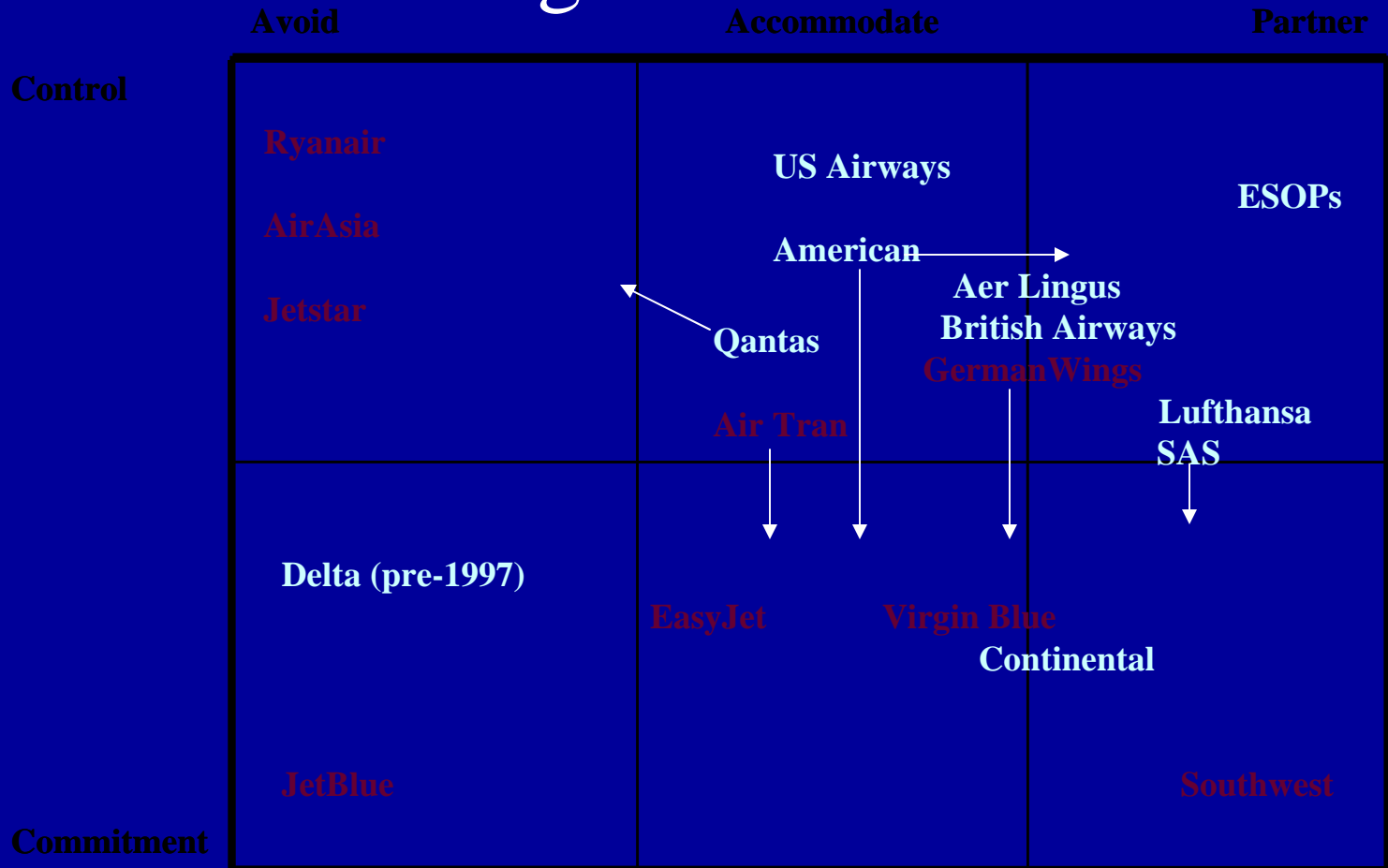
- *Control:*
  - Management specifies what needs to be done and how to do it
- *Commitment:*
  - Employees engaged to *understand the interests* of the organization and its customers
  - Given discretion to solve problems
  - Builds positive workplace culture
  - Encourages coordination across work groups



## Avoid, accommodate or partner with unions

- *Avoid*: actively discourage employees from unionizing
- *Accommodate*: deal with unions by negotiating with them as required, maintaining an arms length relationship
- *Partner*: engage unions in joint efforts to improve operations/performance, share information, consult; seek mutual gains solutions

# Employment relations strategies: No single model!



# Key Conclusions

- All firms seeking to compete on low costs
- Labor cost gaps narrowed but not total costs
- Labor cost reductions of post 2000 era:
  - Necessary but not sufficient for recovery
  - Has produced extremely low morale, pent up demands for equity of sacrifice and recovery of wage concessions
- Successful, sustained performance improvements require improved employee and labor-management relations
  - Commitment, positive workplace culture, coordination
  - Labor peace—in organizing and in negotiations
  - Engagement of unions: Shared vision and support for firm and industry wide strategies

# The Future for the US Industry: 3 Potential Scenarios

1. Status quo: Headed toward a “Perfect Storm”
  - Multiple contracts in major firms due 2009-10
  - Pent up workforce pressures will explode
  - Economy and transportation system in crisis
2. Firm by firm/union by union transformation
  - Possible, difficult, mixed results in the past
3. New government policy as a catalyst for transforming airline labor relations as part of response to current economic crisis?

# Potential Scenario 3: Elements of a Recovery Compact?

- Joint efforts to engage workforce, build positive culture, achieve coordination across work groups
- Company-wide negotiations and compensation strategies
  - Gradual recovery of wages tied to cost of living
  - Expanded pay-performance linkages
  - Equity in wage growth; including management/executive compensation
  - Long term agreements: predictable wages; labor peace
- Transparency, information sharing, consultation

# Prediction: Delta-Northwest Merger will fail if status quo dominates

- Conflicting organizational cultures
- Protracted conflicts over union representation
- Predictable outcomes:
  - High potential for strikes
  - Repeat of adversarial relations
  - Low productivity, service quality, profits (losses)
- Recommendation:

***Don't approve final merger unless labor/employee issues are addressed as part of the business plan—this is the first airline labor relations challenge (opportunity) of the new Administration***

# Three Final Questions

- Is it time for labor and management leaders to reengage?
- Are you prepared to lead this effort?
- Should the government lead the effort?