

Panel Discussion 3: Labor/Management Relations— Helping or Hindering Recovery?

Seth Rosen

Director of Representation, Air Line Pilots Association (ALPA)

Airline Industry Prior to 9/11

- Airlines were facing significant economic losses prior to 9/11
 - Steepest period of revenue decline ever
 - Significant decrease in business traffic
 - Increased unit costs
- Economy was not rebounding as analysts expected and stocks downgrades were mounting
- Airlines announced plans for slowing capacity growth in response to the industry environment
- Earnings forecasts already were revised downward to \$2.5 billion for 2001

Airline Labor Relations Issues prior to 9/11

- Positive results in negotiations throughout industry in latest round
- Relatively few open contracts at major carriers
- PEBs were a major problem
- Board Member opening at NMB
- Controversial baseball arbitration process to amend the RLA introduced in the Senate

ALPA Response To The Tragic Events of 9/11

- September 17 – ALPA established a Security Task Force and Collective Bargaining Task Force
- Support for Airline Transportation Safety and Stabilization Act
- Task Force formed 4 carrier groupings with weekly conference calls
- Monitored status of negotiations at all U.S. and Canadian carriers
- Facilitated an information exchange among negotiating committees
- Ensured negotiating committees access to necessary ALPA resources
- Developed templates to guide bargaining
- Implemented ALPA's three step approach to crisis bargaining
 - Analysis, Direction and Negotiations

What has happened in Labor Relations?

- Crisis resulted in cooperation and constructive engagement to solve immediate problems
- More sharing of confidential data
- Immediate changes to contracts providing for scheduling and bidding relief in September and October
- Negotiations to address CRAF and MAC flying issues
- Many variations in negotiations to alleviate or mitigate furloughs exacerbated by grounding of aircraft types
- Furloughs raised a number of legal issues
- Most Section 6 negotiations and mediation slowed down or delayed (e.g., AWA, NWA, CAL, CALEX, MSA)
- The UAL PEB process unfolded

What's Next?

- Airline industry to lose at least \$7 billion in 2002, recover in 2003
- Airline traffic expected to slowly recover in late 2002 or early 2003
- Security issues to continue to be the priority
- Financial restructuring underway
 - Management writing off as much as possible in 2001
 - Long-term decision to downsize 15%-20% combined with accelerated fleet rationalization plan at all levels of industry
 - Management adopting an ultra conservative approach to last for some time
 - Cash preservation
 - Slow growth plans
 - Cost containment

Will History Repeat Itself?

- 1980's PATCO and the Recession
- 1990's Eastern, the Gulf War and Recession
- Major capacity reduction both times
- Long-term economic recovery periods followed
- 1980's consolidation resulted in 15 bankruptcies, many strikes and mergers
- 1990's consolidation resulted in many bankruptcies no mergers and fragmentation
- Difficult rounds of negotiations
- Will consolidation occur again?

Conclusion

- Uncertainty prevails—still too many unknowns
- Security and financial issues will dominate the industry in 2002
- The same major governmental issues remain a plus a new one—the role of the Airline Loan Stabilization Board
- Negotiations will depend on individual circumstances and will continue to vary based on different corporate cultures and financial needs
- Cargo and regional carriers will be largely unaffected
- Some carriers will seek relief from labor
- Labor relations generally more helpful than hindrance to recovery
- Need to study and improve collective bargaining model consensually

Mike Campbell

Senior VP – Human Resources & Labor Relations, Continental Airlines

- No airline can be successful without good labor relations
- There is an economic benefit with employee satisfaction
- Good labor relations is linked to the company's culture
- If there isn't dignity and respect in the employee-management relationship there will be problems at negotiation time
- There has to be a good line of communication between the management and the employees

We, at Continental put in place the Go Forward plan. The "Working Together" component of the plan focuses on issues that are important to our employees.

The amendable dates of contracts with three unions were about to take place after 9/11 and were successfully negotiated or rescheduled. Today all agreements are in place. Prior to the amendable date we had an aggressive plan that included sharing of data and information. We had facilitators/mediators in place long before they were "needed." We believe there is always the need for aggressive preparation long before time for negotiations starts.

We had a flight attendant agreement completed and we achieved consensus by successfully rescheduling our amendable dates for other contracts later this year.

We have initiated a process of sharing periodic information with ALPA and other unions that includes scheduling information and financial data.

We face difficult times, but we are confident that we will be successful. Employees had been with us during bad times and several times in the past had a "near death" experience. We have been able to come out of 2 bankruptcies and a near-bankruptcy experience in recent years. We successfully changed a culture that had management against labor, one employee group against another employee group. We have come a long way to overcome those troubled times, and I believe we will be able to pull out of this crisis "working together."

Beth Almeida

Research Economist, International Association of Machinists (IAM)

Revenue, operations, and security challenges are all important, but labor relations is key to recovery. At the same time financial issues continue to be equally important.

Many issues risen after 9/11 will be adversarial. Many opinions and prescriptions have been or are being delivered during this time of crisis. For example, there is increasing interest in the idea of tying top management compensation to performance.

We believe that being informed is very important factor in the labor relations process. Our members are well informed and were well informed prior to 9/11.

Many view some measures taken after 9/11 as opportunistic. This has created a feel of skepticism among many workers. The management of some airlines intended to use *force majeure* clauses to take advantage of the situation. Many carriers used the opportunity to step out of their contractual obligations. The application of this concept varied from carrier to carrier. I have to acknowledge Continental for always being ready to work things out with its workforce. Continental has always negotiated in a timely manner and been consistent (the same attitude before and after 9/11). Others did not react in the same manner. We believe that the reactions to the crisis simply mirrored existing conditions prior to 9/11. The perception of opportunism will remain, and as a result many workers know that they cannot expect support during hard times. Employers that demonstrated their willingness to work things out during hard times will be rewarded by a loyal workforce willing to find solutions to their common problems.

Another issue of concern is unilateral actions, which is seen as negative. It is always advisable to keep the lines of communication open.

The focus today is to find ways for improving the business environment, the labor sector interest in particular is:

- Security (e.g., NWA working on improving processes to deal with passenger rage)
- Improvement in work practices

The situation of labor relations in the industry is not uniform and there is a broad range of issues outstanding. For instance, there are still many people in the industry working without contracts. On the other hand, employees in some companies have gained ownership of their companies, and, in some cases, they have board representation.

We believe that it is time that financial markets look at good labor relations as an asset for the airline, rather than focusing on the negatives.

Tom Kochan

MIT Sloan School of Management

Labor & Employees Relations: Help or Hindrance to Recovery?

Lessons from Research

- Three requirements for high customer satisfaction, productivity and profitability:
- Positive workplace and culture & relationships
 - Effective union-management relationships
 - Timely negotiations (Completed in same economic environment covered)
 - Low reliance on mediation, Public Review Boards, strikes
 - Shared governance arrangements combined with sustained efforts to improve workplace culture and labor relations
- **Key Issue: Deal with these together—focus on their interrelationships**

The Situation: Pre-Post 9/11

- Prior to 9/11
 - Overall deteriorating relationships and performance
 - Wide variations across firms
 - Little cross-firm learning
- Post 9/11: Same pattern across companies
- Industry recovery requires improvements in all companies
- Net: result: The airline industry has some of the worst and best employee relations in America
- Can industry-wide learning, improvement process be constructed?

Some Issues Worth Addressing

- Strategies for reducing negotiations length
 - Company and union early opening protocols
 - National Mediation Board policies/practices
- Addressing breakdowns in pattern bargaining
- Resolving disputes over scopes clauses
- Negotiating crew/pay issues for new airplanes
- Learning from experiences--what's worked and what hasn't in the past and across companies?

What, if any role should our MIT project play?