MIT Global Airline Industry Program

- Established in September 1999 with a pilot grant from Alfred P. Sloan Foundation
  - To better understand development, growth and competitive advantage in the airline industry
  - Educate airline industry’s future leaders, and produce authoritative research reports and educational materials
- Sloan Foundation funding ended July 2009
  - Our Program is now self-sustaining, with help of Airline Industry Consortium and other funding sources
Interdisciplinary Faculty Team 2009

Prof. Arnold Barnett
Prof. Cynthia Barnhart
Dr. Peter Belobaba
Prof. R. John Hansman
Prof. Tom Kochan
Prof. Robert McKersie
Prof. Amedeo Odoni
Prof. Nancy Rose
Mr. William Swelbar
Prof. Jody Hoffer Gittell (Brandeis University)
Prof. Amy Cohn (U. of Michigan)
Prof. Joakim Karlsson (Daniel Webster College)
Prof. Andrew von Nordenflycht (Simon Fraser University)

Economics
Sloan School
ICAT
CTL
ORC
Aero/ Astro
CEE
Other Universities
Aviation Research at MIT

- Over 25 graduate student RAs involved
  - As well as approximately 10 faculty researchers

- Integrated research efforts supported by:
  - Pilot funding from Sloan Foundation (through July 09)
  - Sponsored research projects – airlines, airports, manufacturers, IT providers
  - Government grants and research funds
  - PODS Revenue Management Consortium
    (9 airline members)
  - Airline Industry Consortium (11 members)
2009 Consortium Members

- Airports Council International - N.A.
- Air Canada
- Air Transport Association
- Amadeus SA
- American Airlines
- American Express
- Federal Aviation Administration
- Jeppesen/Boeing
- Lufthansa German Airlines
- United Airlines
- SITA
Executive Education Course at MIT

• “The Airline Industry: Focus on Planning and Operations”, June 15-16, 2009
  - 35 representatives of Airline Industry Consortium members
  - Fundamentals of airline planning models and operations, followed by overview of relevant research developments

• Your inputs and feedback needed as we plan for next year’s course in June 2010
  - Overview of fundamentals?
  - More focused coverage?
  - Of what specific topics and issues?
Airline Data Project

- Web site airlinedataproject.mit.edu:
  - Comprehensive compilation of traffic, revenue, operating cost, fleet, productivity and financial data
  - Comparative measures for 15 largest US airlines over the period 1995-2008
  - Data has now been updated through 2008

- Site provides a valuable data resource:
  - Used extensively by MIT students and researchers
  - Also followed by many diverse stakeholders, including media, government agencies, industry analysts, labor groups, and airline planners
The Global Airline Industry
P. Belobaba, A. Odoni, C. Barnhart (Editors)

• Provides a comprehensive introduction to the airline industry as part of the overall air transportation system.

• Includes sections on Air Transportation Economics, Airline Planning and Operations, Industrial Relations and Human Resource Issues, Aviation Safety and Security, Aviation Infrastructure and Environmental Impacts and Airline Marketing and Distribution.

• Features contributions from global leading experts

• Accompanied by a companion website housing databases with regular updates of airline & air transport related statistics and information as well as updates of the book material.
Up In the Air: How Airlines Can Improve Performance by Engaging Their Employees

Authors:
Greg Bamber (Monash University)
Jody Hoffer Gittell (Brandeis University)
Thomas A Kochan (MIT Sloan School)
Andrew von Nordenflycht (Simon Fraser University)

• Provides clear and realistic strategies for achieving a better, more equitable balance among the interests of customers, employees and shareholders

• Uses a mix of quantitative evidence and case studies of airlines in the United States, Asia, Australia, Britain and Europe.
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?**
Current Situation

• Labor negotiations stalled—dragging out at US Airways, AA, UAL, CO

• Delta-Northwest pilot groups merged and agreements resolved; flight attendants & others fighting over representation issues

• No indication of new approach from Obama Administration
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