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

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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

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"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?