

Going Beyond Labor Cost Reductions

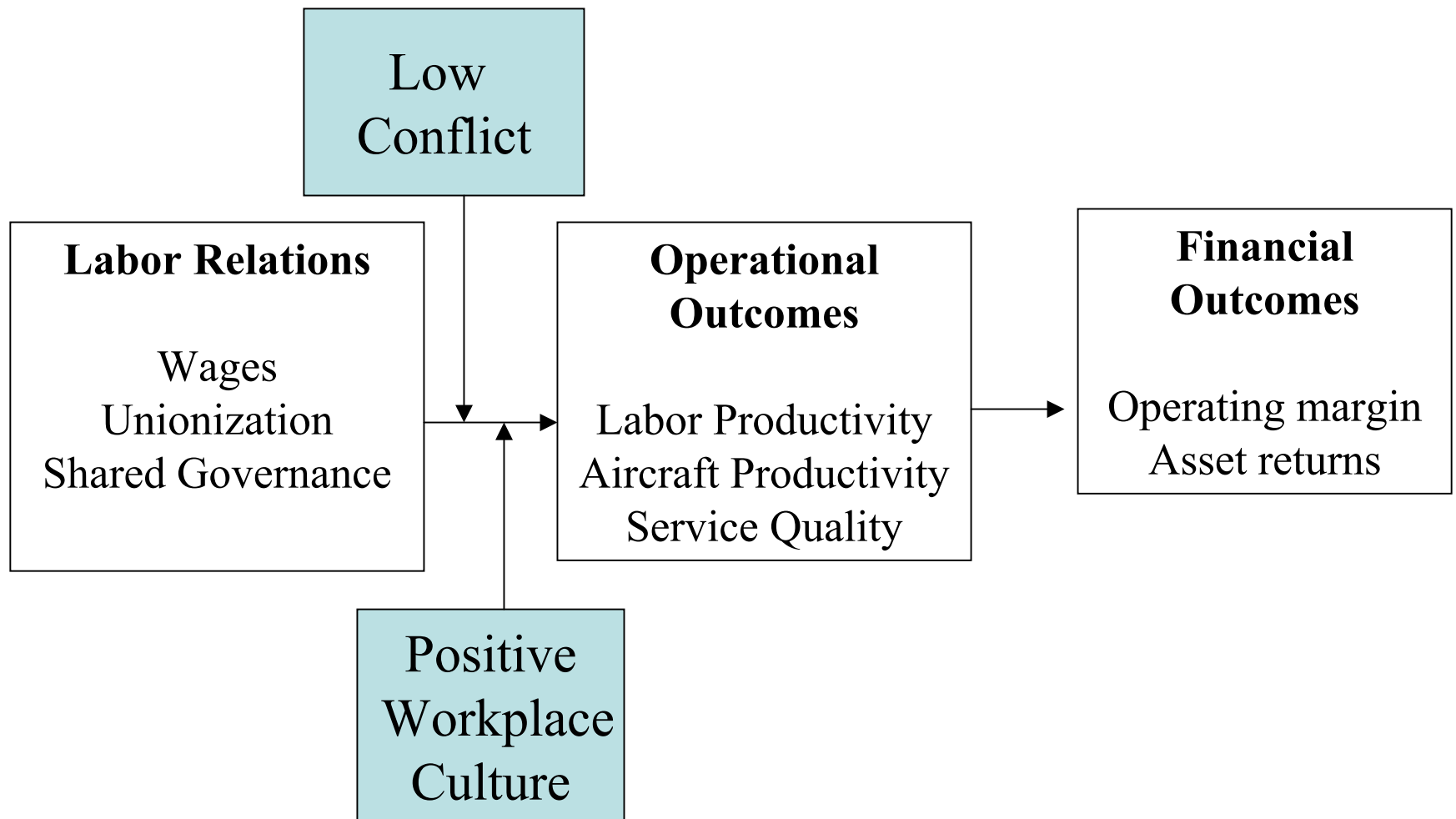
Labor Relations and Human Resource
Research Update

IAB Meeting
November 4, 2004

Update on Activities

- Review Basic Findings
- Industry, Labor, Government Working Group Process and Report
- Airline Industry Council Formed
- Two Dissertations:
 - Andrew vonNordenflycht: Case Studies of Continental and American
 - Alex Lee: Applying Portfolio Theory to Labor Contract Valuation
- Low Cost Airline Study
- The Big Open Question: How to transform the industries' employment relations system?

Labor Relations & Firm Performance



Labor Relations Quality Matters!

- Positive workplace relations linked to shorter contract negotiations and less labor conflict
- Lower labor conflict & positive culture linked to higher service quality, productivity, and margins

Two Key Implications

- Wage/labor cost reductions bring short term cost relief but not long term performance improvements
- Recovery strategies need to focus on improving quality of workplace culture and relations and labor-management relations

Application of Portfolio Theory to Labor Contract Valuation –Alex Lee

- Higher labor pay does not always lead to higher value for the labor contract
 - As pay increases, the profitability of the company decreases unless offset by productivity increases
 - As the profitability of a company declines, the probability of the company going bankrupt / liquidating increases. Therefore, the probability that labor will receive the full contractual pay decreases
 - Develop a model that captures this phenomenon
 - Results show most airline contracts went beyond the peak value in recent years resulting in lower expected value as risk of bankruptcy increases

Case Studies of Efforts to Transform Labor Relations –Andrew vonNordenflycht

- What LR/HR practices distinguish incumbent airlines with superior employee relations?
- What are the barriers to and facilitators of transformation from poor to good employee relations?
- Semi-structured interviews with managers, employees, union representatives at Continental and American
 - also other industry participants and secondary sources
 - additional incumbent airlines in progress

Continental's post 1994 Employment Relationship

- “Involvement-based”, rather than “Command-based” System
 - Different exercise of authority
 - More Communication to and from Employees
 - More Employee Discretion
 - Managerial commitment to treating each employee as valuable team member
 - Much more than just performance-based bonuses
- Transformation from poor to good employee relations facilitated by breakdown of old employment system under Lorenzo
 - but not sufficient condition: also needed positive actions

Involvement-based vs. Command-based System

	New CO “Involvement-based” Consultative	Old CO “Command-based” Unilateral
Communication	Explain: “Here’s why...” Listen: employee “voice”	Command: “Do this...” Little voice outside formal union channels
Decision-making	Employee discretion Benefit of the doubt	Rule-bound Micro-management Reprimands
Status Distinctions	Broad supervisor/employee interactions	Labor vs. Management
Ethos re: Employees	Valued team members	Costs to be minimized

American: Steps Towards Transformation?

- Airline and union leaders describe very different, positive relationship since '03 Restructuring agreements
- Rests on “involvement-based” principles similar to Continental’s
 - Frequent, extensive information-sharing and consultation with unions
 - Cards reminding managers to “Involve before Deciding; Discuss before Implementing; Share before Announcing”
- Change facilitated by credible bankruptcy threat
 - simple complacency prevented earlier efforts
- But jury still out: mostly at leadership level, not yet frontline managers or union rank & file
 - More “labor-management partnership” than “high commitment system”

Working Group Report

- Questions:
 - What can the parties do to improve the negotiations process and time required to reach agreements?
 - What can the National Mediation Board do to improve negotiations and dispute resolution processes?
 - How can more and better education and training be provided to those who participate in negotiations?
- Focus on changes possible within the Railway Labor Act
- Consensus report reached after six months of discussion and multiple drafts
- Next question: How can we now follow up to get the recommendations implemented?

Airline Industry Council

- New Initiative of the Labor and Employment Relations Association
- First Meeting in January 2004
- Forum for Continuing the Dialogue

Key Question

How can more fundamental, sustainable reforms of employment relations be achieved in the airline industry?