Airline industry future "up in the air"

Up in the Air: How airlines can improve performance by engaging their employees. By Greg Bamber, Jody Hoffer Gittell, Thomas A. Kochan, and Andrew von Nordenflycht. Ithaca, NY, Cornell University Press, 2009, 222 pp., $29.95/cloth.

Most of us travel by airline at least occasionally. Even though the vast majority of flights could be considered successful, the number of complaints has risen significantly. The level of frustration has increased to the point that it is the subject of countless jokes from humorists. And whenever there is an accident or terrorist incident, it can scare customers away whether or not the airline is at fault.

The airline industry employs hundreds of thousands of people and is extremely important to this nation and others. Unfortunately, a variety of problems have confronted the industry over the past half century. In addition to customer complaints, these include more intense competition and safety concerns. As a result, profitability has been elusive for most airlines; despite cost-cutting measures and mergers, airlines still seem to go into bankruptcy regularly.

In a word, the airline industry is in trouble.

What can airlines do in this new environment to overcome the obstacles and move toward sustainable profits? That is the subject of *Up in the Air*; to explain how the industry got to this point and what can be done to make it profitable. The central thesis, backed up with strong evidence, is that employee and customer satisfaction can co-exist with increased revenue and profits.

The year 1978 was a significant dividing point in airline history in the United States: the start of deregulation. Prior to 1978 airlines competed on a service basis rather than a cost basis, keeping revenues artificially high and weakening incentives to lower costs. Federal law to that point defined occupational groups for collective bargaining purposes; for the airline industry this meant union agreements with a variety of unions rather than just one. As a result, a strike by one union could easily result in a complete shutdown of the airline, as other unions would honor the striking union's picket lines. Consequently, airlines tended to agree to high wages and generous benefits rather than risk a strike.

Deregulation had an immediate and dramatic effect. Low-cost airlines sprang up all over the country and these new entrants provided lower cost fares than the "legacy" airlines. Better service was no longer enough; legacy airlines had to offer lower prices—if not as low as the discount airlines then at least approaching them. This led to layoffs and tougher bargaining positions for wages and benefits; in some cases, unions had to agree to lower wages in order to keep jobs. The good news for the consumer was substantially lower prices (about half the price per mile than pre-1978), but the bad news was a period of chaos that continues today.

The years following deregulation saw mergers as a strategy to survive. Mergers can help to reduce costs by creating economies of scale but the primary intent of mergers is to reduce competition. When two airlines merge, they combine staffs and consolidate routes. When there are fewer routes, customers have fewer options and prices tend to go up—at least in theory.

The period between 1978 and the present has seen volatility in airlines' earnings. The industry as a whole experienced either modest profits or slight losses, but some airlines did better than others. There was a substantial boom in the mid-1990s followed by an even deeper bust later in the decade and early 2000s, followed by substantial gains from 2003 to 2008. The event that changed everything for the United States—9/11—had an even more profound effect on airlines. The terrorist attacks led to an immediate decline in airline travel, plus new security rules that made flying less convenient. Almost nine years later, there are airlines that have not completely recovered from the shock of 9/11 and others that did not survive the immediate effects.

The authors analyze the events over the turbulent past 40 years and find patterns that are instructive. Different airlines employed different strategies for dealing with the turmoil. One of the major focuses is labor-management relations. For new entrant airlines, the authors categorize two aspects: management's interaction with employees and management's approach to unions. The authors further define two categories of employee interaction: *control* and *commitment* and three categories of union relations: *avoid*, *accommodate*, and *partner*. This analysis leads to a six-cell matrix representing all the possibilities. The authors, using interviews with airline and union representatives as well as other materials, categorize new-entrant airlines into one of the six cells. For example, one airline is considered to have a *commitment* (to employees)-*partner* (with union) approach. At the other extreme, two airlines are considered *control-avoid*. The authors demonstrate that avoiding unions and controlling employees do not necessarily lead to sustainable profits. Conversely, the *commitment-partner* airline has had consistent profitability, higher customer and employee satisfaction, few customer complaints, and has never had a layoff.

Up in the Air uses statistics and anecdotes effectively. There are many tables and charts, but they are simple and usually easy to understand. There are also interviews with leading industry experts and company officials as well as stories of successes and failures. For example, the authors describe how one airline encourages teamwork and some blurring of occupational distinctions among workers to increase productivity.

The authors' coverage of the U.S. Airline industry is quite comprehensive; reporting on airlines outside the United States is less so. Central and Western Europe are covered extensively and Asia to some extent, but there is little or no mention of the rest of the Americas, Eastern Europe, or sub-Saharan Africa.

Up in the Air is an informative, balanced, well-researched, astute, and instructive treatise on the airline industry. The book is quite accessible to readers who are neither economists nor familiar with the industry. The authors' suggestions are meaningful for the airlines and can be applied to other industries as well. I recommend it. □

—Carl Barsky
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