A CASE STUDY RAISING QUESTIONS ON THE SURVIVAL OF AIR INDIA

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ABSTRACT

After economic liberalization there is a fierce competitiveness in Indian market leading to organizations adopting innovation and change. Organizations resort to this initiative as a result of downsizing, economic recession, restructuring, and reengineering. Air India being the third largest airline in India is still facing challenge to sustain in this competitive era. Although Air India has been through various phases of transformation from organizational driven to employee driven including changes in: (i) Strategic intent, competencies, challenges, and learning (ii) environment, technology, and customer behavior, (iii) effect of communication, impact on employee attitude and behavior, role of culture, climate, and structure, and (iv) reasons for the success or failure of change. However, it is still facing challenges to retain its survival. This study reviews literature on Air India and unravel questions on the survival and growth of this Indian airline.

ARTICLE INFO

Article History
Received 20 May 2015
Accepted on 21 June 2015

Keywords:
Organizational Change, Air India, Competitiveness, Sustainability, Survival.

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Air India- A case study of a drowning ship....

Being awarded with several national and international awards from consumer services to corporate social responsibility Air India was considered among the best and prestigious air services. It was once upon a time a first priority of customers and also their status symbol. It also received the Corporate excellence award for its innovation and vision. Having such a major brand image it started raising questions now that how come such a big ship is drowning today? How it is overburdened with the losses and loans? Why it is unable to bring up with any revival strategy? What are the reasons responsible for its failure? To tackle all these issues this case study has been taken up. The study tries to unravel the issues for its future survival.

History of Air India

Air India was founded by J.R.D. Tata in July 1932 as Tata Airlines, a division of Tata sons Ltd. Tata airlines on 29th July 1946 became public limited company under the head of Air India. In 1948 after independence of India, 49% of the airline acquires by Govt. of India, with an option to purchase an additional 2%. In return, the airline was granted status to operate international services from India as designated flag carrier under the name Air India International. In 1960 Air India International entered Jet age. On 8th June 1962, airline's name was officially truncated to Air India and on 11th June it became the world’s first all jet airline. In 1986, with the delivery of Air bus A310-300 airline became the largest operator of this type in passenger service. In
1993 Air India made history by operating the first non-stop flight between New York and Delhi. In 1994 it was registered as Air India Ltd. From 1990 to 2000 Air India started/introduced services to London, Chicago, and Shanghai. On 23rd Feb 2001, Air India was put up for sale by NDA Govt. 3 groups have queued up to buy tickets in the part privatization of Air India including: Tata group with Singapore Airlines, Hinduja Bros. with Lufthansa consulting, and Air France of US. In 2004 May, Air India launched a wholly owned low cost airline called Air India Express and also launched flights to Los Angeles but terminated them soon. On 1st December 2009, Air India introduced services to Washington but they were also terminated soon. Air India received various awards for its diversified customer service and corporate social responsibility.

However, being the holder of Corporate Excellence award, Trusted Brand award, Best Airline award, from few years Air India was facing huge financial crises. During the period of 5 years it had faced a loss of 10 billion rupees and amassed 38 billion rupees in debt. It has also employed 18,000 staff, which at over 700 workers, per plane is more than double the industry standard. The Indian pilots had fears that there will be major job losses when airline is sold. The re-privatization plan collapsed and Singapore airlines decide to pull out of a joint bid with Tata group to take over Air-India. Political opposition to privatization, bureaucracy, and global slowdown, make companies less willing to part with their cash are all thought to have conspired against the privatization process.

This deal was expected to raise $2.5 billion. Earlier Lufthansa, Delta and Air France were its potential buyers. Air India has rights of 90 routes but it can't take advantage of them due to 27 air craft. Although it's an attractive proposition but it carries 6 years of losses and a debt burden of $70 million. It may be due to PM Vajpayee's failure to force the 19-party coalition in power to have conspired against the privatization process.

Merger with Indian Airlines

In 2007 Govt. of India announced the merger of Air India (along with Air India Express) and Indian Airlines (along with alliance air) to form NACIL (National Aviation Company of India Ltd.). Arvind Jadhav was the chairman and managing director of Air India. This move will help the cash strapped national carrier which suffered losses to the tune of 5551 crore (2009-10) and Rs. 7189 crore (2008-09), to reduce its administrative cost arise out of billing, ticketing and other services. Merger was opposed due to different ethos and philosophies.

Financial crises

Around 2006-07 combined losses for Air India and Indian airlines were 7.7 billion which raises to 72 billion after merger by March 2009. There was variety of reasons like rising oil prices, slowing world economy. The difference of Air India from private and state owned is a reason to loss. Its falling demand and the most important reason is man-made.

There is 800% increase in losses in just two years. After the merger aircraft were leased or purchased, capacity was gifted away to foreign airlines under bilateral agreements, ground handling in Bangalore and Hyderabad was surrendered to a proposed joint venture. Flights were withdrawn from profitable routes and pilots weren't sent for proper training.

Actual losses began in 2006 on the decision to lease aircraft to increase market share. There was no proper route, marketing or pricing strategy. Airline took heavy losses till market built-up. In 2006, 4 Boeing 777 leased and delivery of own aircraft from July 2007 onwards. Some of its operations expired due to the expiry of lease.

Air Indian express and India airlines flights competed with each other ever after the merger. At the airports of Bangalore and Hyderabad, Air India has to share its revenue from ground handling with Singapore airport terminal services. The industry average for a first officer to become a commander is 4 years. In air India pilots spend close to 10-11 years to be first officer. Airline's inadequate planning for command training from 2003 onwards meant hiring over 160 expatriate pilots and paying them double the salary paid to Indian counterparts.

Air India cost Rs 390 crore from 2007 to 2009. Air India faces tough competition from foreign airlines due to liberal bilateral agreements. Foreign competitors pound not only in Indian carriers such as Deluor Bombay but also in places like Nagpur, Kochi etc. due
to which Air India's share of the overseas market has been steadily declining.

In July 2009, SBI capital markets ltd. was appointed to prepare a roadmap for recovery. At the launch ceremony of Air Indian aviation 2010, Praful Patel, aviation minister, said that the national carrier could soon get an organizational restructuring plan. Air India would undergo a major transformation of management. It will involve important and eminent people on board of Air India.

Air India has chalked out a turnaround plan aimed at generating Rs 3000 crore through internal accruals over the next six months. It also plans to mobilize additional revenue through cost cutting and saving.

July 29, 2009

Air India sold 4 of its aircraft during the month of March 2009 for $18.57 million including Airbus A300 and one Boeing 747-300. Fleet optimization is the way in which the airline is looking at saving cost. 4 aircrafts were sold on "as is where is" basis. In 2008 Air India sold 13 aircrafts on "sale and lease back" basis. Total 12 aircrafts were sold for $451.88 million. It leased 46 aircrafts including Boeing and Airbus planes costly $18.945 million per month. Air India taking measures to reduce overhead cost includes rationalization of routes, return of leased aircraft, rationalization of manpower costs and reduction of contractual employment, establishment of international board.

August 9, 2011

Air India is short of funds. Moody's investor service Inc. said Air India recovering default is "credit negative" of SBI and PNB. Carrier has been missing salary payments and defaulting on interest payments in the past 3 months. Govt. released 500 crore to ensure interest and salary payments. Air India move to acquire 111 planes on debt which is risky by Comptroller and Auditor General (CAG). They blamed this decision as one of the major causes of debt troubles in Air India. Also the merger of Air India and Indian Airlines is considered as "ill-timed". The merger was covered with total debt with less equity infusion. The CAG report dealt with several aspects of Air India losses like fleet acquisition, merger, huge debt burden, delay in joining global airline, grouping star alliance and its financial and operational performance. Fleet acquisition took "unduly long time".

Revival Strategies for Air India

On 14 July 2010, Air India chief Arvind Jadhav announces their intention to make new terminal 3 for international and domestic operations with plans to start new direct flights to Chicago and Toronto and also taking almost all international long haul flights due to lack of space. This would also provide greater convenience for transit passengers who before had to transfer between the international and domestic terminals which were located on completely different sides of the airport. They will now be able to catch their connecting flights within the same terminal.

Arvind Jadhav wanted to change the order of some 111 planes ordered in 2006 to get a narrow-body aircraft instead of wide-body aircraft.

Factors responsible for the failure of Air India

Air India remained the winner of various rewards and recognized awards including Reader's Digest, Best South Asian Airline, World's First All-Jet Airline, World's Largest Operator of Airbus and many more. However, rising fuel prices were causing a severe decline in air traffic. With the changing government norms, Air India had to compete with International level flights offering better services and cheaper costs including Kingfisher Airlines and Jet Airways. Secondly the merger with Indian Airlines put a scar and a loss of Rs 7200 crores. This merger caused several challenges for survival in front of Air India. Air India took a loan of US $ 534 million from Indian government to fulfill its losses. In July SBI Capital Ltd decided to prepare revival strategy for Air India. Arvind Jadhav also prepared a turnaround plan with the help of Accenture and SBI Capital but it also failed.

Due to the incomplete merger the organization's structure become massive and unwieldy. There were two sets of managers for practically every position and nothing is shared. Its staff strength is roughly three times what an airline of its size should have. It has strongly entrenched unions who oppose tooth and nail any effort to cut costs. It has a terrible reputation for service and an even worse one for on-time arrival and departure.
That is not the worst. Being government-owned, AI has to contend with requests from politicians and bureaucrats - requests that it cannot refuse. More importantly, political considerations play a role greater than economic logic when any strategic decision is taken.

When Jadhav took charge last year, he started off with a fair amount of goodwill. He was seen as a competent, sensible and proactive bureaucrat with "fire in his belly" who would understand the underlying problems of the airline and take the correct steps. Unfortunately, Jadhav managed to alienate practically the entire staff of the organization shortly after taking charge by giving a very candid interview to this magazine ('The Time For Talking Is Over', BW, 17 August 2009). In the interview, Jadhav lashed out at the work culture, at the sloppiness at every level of management, and the general lack of energy and ability among his staff who he felt were too pampered and overpaid. Jadhav also pointed out that he was saddled with 32,000 people when he needed no more than 12,000 or so. There are many in the aviation ministry and outside who think he is not wrong. "Jadhav spoke the truth and it was too harsh for most ears. But if AI is to survive, these things must be said," says one senior AI official, who represents a small group of Jadhav supporters within the airline. The mismatch of chairman's ideas and lack of employee commitment let Airlines to this failure. Survival is still a question in front of the Airlines and it needs a strategic leader under whose guidance this ship can float successfully.