Management Employment-Relations Strategies: Perspectives from Studies of European (and American) Airlines

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Abstract

We discuss deregulation (liberalisation) and some of the international institutions that influence the management of people in airlines. As a point of departure, we summarise contrasting models from successful 'new entrant' airlines: Ryanair

and Southwest. We consider examples of various categories of airlines in different 'ideal types' of institutional context: liberal-market economies and coordinated-market economies. These are two varieties of advanced capitalism. The former include the United States, Britain, Ireland (and Australia). The latter include the Germanic and Scandinavian countries. We classify airlines according to which strategies dominate their efforts at cost reduction. Alongside these differences in strategies, we analyse differences in two aspects of employment-relations strategies. First, employers can focus on *controlling* employee behaviour or seeking their *commitment* to the goals of the airline. Second, employers can seek to *avoid, accommodate* or *partner* with unions. We show that, in terms of employment relations, the variety of capitalism context helps to influence employers' strategies, but airlines (and other enterprises) still have some scope for exercising strategic choice, in spite of their institutional and regulatory context.

Keywords: airlines, commitment, control, management strategies, partner, unions, varieties of capitalism

Introduction

In recent years there have been profound changes in the operating environment and management practices of airlines. We distinguish between, first, long-established 'legacy airlines**'** (e.g. American Airlines, British Airways and Lufthansa) which were founded in a regulated environment. Second, most of the

'new entrants' to the industry (e.g. Southwest, easyJet and Ryanair) were designed to compete in a less regulated environment.

This article considers to what extent have airline managers and union leaders tried different approaches to competitive and employment-relations strategies? We also ask to what extent do institutional frameworks in different countries influence how airlines compete, interact with their employees and serve their customers? To try to answer these questions, we will consider selected examples, mainly from Europe.[1]

This is a very cyclical industry. Profits made by airlines in the boom periods have often been wiped out by their losses in recessionary periods. The lack of long-term economic viability of many legacy airlines was disguised by a high degree of protection, state ownership and public subsidies. This article focuses on the employment-relations strategies that are unfolding in selected European countries as airlines increasingly compete on costs. The analysis facilitates understanding of similar developments in other industries, as well as airlines in other countries, including Australia.

Methods

We review the findings from studies of airlines in: Britain, Ireland, Germany, Scandinavia and the USA. These studies were generally based on reviews of documents and the literature as well as interviews with a range of managers, union officials and other observers of the industry in these countries. We analyse the competitive strategies and the employment-relations strategies that airlines

have adopted in response to economic pressures, and discuss some of the outcomes for employees and other stakeholders. In particular, we try to understand the lessons offered by airlines whose managers, unions, and employees have pursued and achieved more constructive relationships that reduce volatility, allow for more harmonious adaptation to changed conditions, and/or achieve low costs by providing good jobs which engage their workers. Before that we mention the regulatory context and the 'varieties of capitalism' literature.

Towards Deregulation

Under the umbrella of the International Civil Aviation Organisation (ICAO), each country has had its own form of regulatory arrangements for airlines. Towards the end of the 20th century, following the US example, the European Union (EU)[2] promoted deregulation, gradually taking over this regulatory role from its member states. Before deregulation, the legacies enjoyed monopolies on many domestic routes. On many international routes, there was typically a duopoly of two legacy national flag-airlines - one based in the home country of each airport, reflecting the numerous bilateral trade agreements that existed between pairs of countries.

The international and national regulatory agencies shape the context for the parties' strategic choices about competitive and employment-relations strategies. These regulatory agencies, however, are not generally involved in directly regulating employment relations. Most occupational groups in most major airlines are unionised and employment relations are regulated by collective

bargaining and/or works councils. But in some cases, where there are no unions, employment relations are determined by managerial prerogative or even by governments, where airline staff are, in effect, government employees.

European initiatives towards deregulation were prompted by the earlier US example of deregulation in the 1970s and the consequent renegotiation of international bilateral agreements between the US and some European countries. The process was much more gradual than in the US, however, since the EU is a federation of member states, with their own governments, regulatory preferences and stakeholder interests. The EU began to relax airline regulations in the mid-1980s. This process has continued since then (Morrell 1998). Let us consider a few examples of airlines in two classic varieties of advanced capitalism.

Contrasting Categories of Airline Strategy

[Insert Figure 1 and 2 about here]

Two of the largest and most successful new entrants have adopted contrasting management styles. Southwest Airlines, the oldest in the new entrant

category, for example, was founded in 1971 in the USA. Southwest chose employment-relations strategies based on employee commitment and union partnership.[3] In 2004 Southwest became the largest airline serving the domestic US and has been continually profitable each year apart from its first year, an unusual feat in the post-deregulation US airline industry. Southwest is the longest surviving new entrant and a model that many other firms say they are emulating as they try to enter the airline industry. Southwest aims to implement high productivity, as well as to pay people well, practice a commitment approach to employees and to partner with their unions.

Ryanair was founded 1985 in Ireland. It also aims to achieve high productivity, but its employment-relations strategy is to focus on low costs via wage minimisation, command and control of employees, and union avoidance. We will return to Ryanair later.

One strategy for airlines is to focus on achieving low labour costs by paying relatively low wages, keeping staffing to a minimum and avoiding unionisation or limiting union influence amongst employees. Another strategy is to focus on achieving low total costs by increasing employee and aircraft productivity as well as the productivity of other operations, for example, by speeding up turnaround time of aircraft at the gate. New-entrant Ryanair aims to adopt both of these strategies, while Southwest has adopted the latter strategy, but has not focussed on paying relatively low wages, keeping staffing to a minimum, avoiding unionisation or limiting union influence amongst employees. These two airlines are the two most influential role models for other new entrants.

Figure 1 is a matrix that we use in the following discussion to classify legacy and new entrant airlines according to which strategies dominate their efforts at cost reduction. Alongside these differences in competitive strategies, we analyse differences in two aspects of employment-relations strategies. In their relationship with employees, some employers (including many airlines) tend to adopt a command-and-control approach to employees. Other employers (including a few airlines) try to induce employees' commitment to the goals of the enterprise, for example, by adopting more of a partnership approach. In terms of their strategy towards unions, airlines can seek to avoid, accommodate or partner with them. We use the term 'accommodation' to mean that the employer negotiates with unions, while the term 'partner' means that the employer does not only negotiate with unions, but implements further formal or informal mechanisms to foster the involvement of employees' interests in decision making. Both dimensions of employment-relations strategy are depicted in Figure 2.

Varieties of European Capitalism

Hall and Soskice (2001) have identified two broad categories of political economy. The 'varieties of capitalism' literature distinguishes between two ideal types of: institutional context liberal-market economies and coordinated-market economies. The US is a classic liberal-market economy. Although since it joined the EU, Ireland has begun in some ways to diverge from this ideal type, Britain

(and Australia) tend to fit the liberal-market economy ideal type. These economies can also be characterised as ones where most firms are inclined to implement employee-relations and cost-competitiveness strategies that tend to focus more on wage minimisation, rather than on enhancing productivity.

In contrast with these liberal-market economies, the Germanic and Scandinavian countries, for example, have coordinated-market economies. Coordinated-market economies are characterised by interlocking systems of employment relations, training, and education that work together to regulate compensation and employment conditions. Coordinated-market economies encourage firms to partner with unions in strategic cooperation and to minimise some of the practices associated with liberal-market economies, such as lay-offs and undercutting levels of pay and other benefits (Barry & Nienhueser forthcoming).

Amable's (2003) proposes five models of political economy: a market-based, a social-democratic, a continental European model, a Mediterranean one, and an Asian model (e.g. Japan and Korea). This is a more sophisticated typology of varieties of capitalism, which is a valuable contribution for comparative analysis. However, we have space in this article to include examples only from a few market-based liberal-market economies and continental-European or social-democratic-style coordinated-market economies.[4]

Liberal-Market Economies: Great Britain and Ireland

After the US lead, the British government was the next to deregulate this industry.[5] Hence, apart from the Americans, entrepreneurs in Britain (and Ireland) launched new-entrant airlines before those in other countries.[6]

Great Britain

Britain long had adversarial traditions of employment relations.[7] Nevertheless, especially following the advent of the post-1997 Labour government, there have been initiatives there to develop various partnership-style arrangements between employers, employees, and unions. However, there are at least three obstacles to the establishment of partnership agreements: resistance to the concept; low trust between the parties; and confusion about what partnership is. One influential definition suggests that a genuine partnership ought to feature

- Joint commitment to the success of the enterprise
- Efforts to build trust
- An attempt to address the issue of employment security in exchange for flexibility
- Provision of quality training programmes
- Information sharing and joint problem-solving with managers and employees together, whether in formal consultation or not.[8]

British Airways (BA) is Britain's oldest airline. In 1919, its forerunner company launched the world's first daily international scheduled air service (between London and Paris). Subsequently, several UK airlines merged to form the original

BA, which was privately owned. In 1939, the UK government 'nationalised' BA. In 1974 the government formed a new BA by merging its long-haul airline with its shorter-haul British European Airways. To be ready to be privatized in 1987 by the Thatcher government, BA had to become profitable by the mid-1980s. It sought profitability partly by cutting labour costs, by making many people redundant.[9] BA has continued to be profitable in most years, though not following the 9/11 crisis in 2001, nor following the post-2007 global financial crisis.

For years BA's advertising campaigns portrayed it as 'the world's favourite airline.' Also BA's rhetoric has long included campaigns to foster employee commitment and engagement saying that 'people are our most important asset.'[10] Nevertheless, BA periodically launches campaigns to cut labour costs. These campaigns tend contradict each other. For instance, while BA was advertising its excellent customer service, its attempt to restructure allowances and pay scales for flight attendants prompted a strike in the summer of 1997. BA adopted a tough stance, threatening to sack strikers and to sue them for breach of contract. BA's stance was counterproductive, however. It appeared to be bullying, and turned moderate staff opinion against BA.

> Although only 300 cabin crew joined the three-day strike in July, more than 2,000 went on sick leave which resulted in longer-term disruptions …. The cost of the strike was estimated at $245 million. The effects on staff morale, service and company reputation (further damaged by the simultaneous introduction of a new baggage-handling system which led to record levels of lost baggage) could not be quantified.[11]

BA has had many other examples of adversarial employment-relations and industrial disruption. In the 2001-06 period, BA shed eighteen thousand jobs. Subsequently BA announced, 'We will continue to introduce new work practices and efficiencies, which will allow us to run the business with fewer people'. BA warned staff to brace themselves for more job losses as it strives to cut costs further.[12]

BA has followed a paradoxical course between, on the one hand, being willing to endure strikes and implementing cost cutting, and, on the other, trying to foster partnership and employee engagement strategies. When it was privatized in 1987, BA retained its existing collective bargaining arrangements with most categories of its workforce as well as mechanisms for consulting with unions. Following a dispute in 1996, BA has had a formal partnership agreement with the pilots union, the British Airline Pilots Association. However, the union says that BA generally does not honour the spirit of partnership. Moreover, only 54 per cent of BA pilots had a favourable view of such a partnership approach. Pilots in other British airlines tended to have a much more positive view of partnership in their airline, even though all but one of those other airlines did not have a formal partnership with the pilots union![13]

In 2005 BA launched another initiative, the Industrial Relations Change Programme, 'to reduce communication barriers and improve understanding.'[14] In 2005 more than 1,800 managers and 220 union representatives attended workshops. In 2006 BA stated that 'our people want fulfilling and secure jobs, a

good working environment, fair reward and personal development. We want them to come to work, do the job well and be flexible.' Nevertheless, it is very difficult to maintain and develop a genuine sense of partnership in a context in which there is a continuing emphasis on cutting jobs and benefits.

Since BA became a privatized company, in many ways it has been a success story in a highly volatile industry.[15] Nonetheless, as the BBC observed in 2007, 'The relations between management and employees seem to have been ossified: . . . there appears to be considerable mistrust of management among employees.'[16] Or as another commentator put it, 'staff morale has remained stranded on the runway.'[17] Although BA uses the rhetoric of partnership with unions, with employee commitment and engagement, in reality it accommodates rather than partners with unions. Further, it does not seem to be achieving a consistently high degree of employee commitment; rather it seems to practice more of a control approach.

Before deregulation, BA had dominated UK domestic and international scheduled aviation from the United Kingdom. Sometimes others challenged BA's dominance of scheduled services, but in a regulated market the new entrants struggled to survive. Either they collapsed or BA bought them.

After deregulation, in 1995 a flamboyant Greek entrepreneur, Stelios Haji-Ioannou, launched a new entrant airline in Britain: easyJet. By contrast with the full-service airline, BA, easyJet is a low-cost 'no-frills' airline and focuses only on short or medium-haul routes in Europe. Sir Stelios (as he became later) launched a series of publicity stunts, such as convincing a UK television network to launch

a reality show, Airline, that featured easyJet, and wearing a comical orange jumpsuit while handing out free easyJet tickets on the inaugural flight of BA's low-cost subsidiary, Go! (easyJet later took over Go!).

EasyJet was founded on the principle of maximizing aircraft utilization. Although easyJet is based in Britain, it has also developed hubs in other parts of Europe. By 2007, easyJet claimed to be operating more flights per day than any other European airline. It was still planning to grow by 15 per cent a year for the next few years. It has generally been profitable, but for the six months ended March 31 2008 it made a net loss $85.4 million, owing largely to higher fuel costs and integration costs after it acquired GB Airways.[18]

In its early years, easyJet's employment-relations strategy was in the control category, along with union-avoidance. One comparative study found that in 2002 easyJet's pilots had a lower level of job satisfaction and a higher level of turnover than those in five other British airlines.[19] However, by 2007 easyJet had adopted more of a commitment approach, along with a union accommodation strategy. EasyJet's director of people explained:

> We had a belief that in a service industry the people factor can make a difference but we needed to test that in an airline environment. At Southwest we saw that it was possible to run a profitable low-cost airline and still have a strong people culture.[20]

Despite being a low-cost airline, by 2008 the pilots union perceived that easyJet's behaviour was closer to a partnership approach than that of BA.

EasyJet, then, had moved away from the 'avoid' category of union-management relations.

Ireland

Ireland's national flag airline Aer Lingus was founded in 1936.[21] Servicing long- and short-haul routes, legacy airline Aer Lingus flies to UK and continental European airports, as well as to the United States and the Middle East.

At Aer Lingus, more than 90 per cent of the workers are unionized. In the 1970s and 1980s there were strikes in response to Aer Lingus's cost-cutting and productivity initiatives. Aer Lingus also initiated pay freezes, redundancies and reorganizations. Against the background of national attempts to introduce and maintain social partnership (between companies and unions) in Ireland, however, 'union bashing' was not really a viable option for the nationally-owned airline. Aer Lingus also introduced employee profit sharing and stock ownership. This was a pragmatic trade-off by the airline in response to union pressures. In each instance of change, Aer Lingus had to deal with the unions, but the extent to which they made concessions was a function of the relative power situation. Before the partial privatization of Aer Lingus in 2006, the unions were in a relatively strong position; subsequently their position was weaker. In early 2007, Aer Lingus tried to introduce change unilaterally. This was criticized by the Irish Labour Court. Like BA, Aer Lingus fits in the 'accommodate' category of union-management relations.

In 1985 Ireland and Britain began to liberalize their bilateral airline regulations. In the same year, Tony Ryan co founded Ryanair to compete with Aer Lingus. New entrant Ryanair was based in Dublin and its first international routes were to Britain:

> Ryanair recognized it was going up against a formidable opponent. . . . Aer Lingus aircraft were all painted a patriotic green and bore the names of Irish saints. It [had] … an impressive safety record, and Irish people generally believed that they owned part of it.[22]

After a few setbacks for the struggling Ryanair, Michael O'Leary took over its leadership in 1993. He transformed it into a fast-growing and highly profitable low-cost airline. Ryanair's success was against the background of changes in government competition policy and a governmental directive to Aer Lingus to give up its landing slots at one of London's secondary airports (Stansted). Also, Ryanair was not simply taking passengers from Aer Lingus. Its low fares helped it to grow new business from segments of the market that would not have previously used air travel..

Nonetheless, with increased competition, chiefly from Ryanair, as well as the impact of 9/11 and other issues, Aer Lingus found it increasingly difficult to operate as a legacy airline, so in 2002 it reinvented itself as a low-cost airline.

Ryanair's employment-relations strategy is to focus on low costs via wage minimization, and employee control. Although Ryanair has denied accusations that it is anti-union, 'this claim does not hold up in the face of extensive evidence of union suppression.' [23] According to an International Transport Workers'

Federation (ITF) survey, Ryanair is one of only a few airlines in Europe that does not recognize a union for collective bargaining. It aggressively avoids unions via suppression. This has induced the ITF to launch a web-based campaign (Ryan-be-Fair) attempting to mobilize Ryanair workers across Europe to organize. According to the ITF:

> Discontent is never far from the surface at Ryanair, where workers feel mistrusted, marginalised and mistreated. Once again Michael O'Leary's bombast and bullying has brought it bubbling to the surface, and he is going to have to either accept the consequences or learn to behave like any other normal, civilised, twenty-first century employer.[24]

Nevertheless, despite taking a tough stance toward its customers as well as its staff, Ryanair, along with easyJet, has become one of the new-entrant airlines leading the growth of the European market for cheap, no-frills flights.[25] Like the flamboyant Knighted airline entrepreneurs Richard Branson and Stelios in Britain, O'Leary has cultivated an image as a kind of popular folk hero. He promotes his new entrant airline as offering low fares to challenge the high fares of an old legacy monopolist.

Coordinated-Market Economies: Germany and Scandinavia

By contrast with their approaches when they were state-owned enterprises in regulated markets, the legacy airlines discussed above (BA and Aer Lingus) have been adopting increasingly tough management tactics in relation to their employees and unions. They continue to accommodate unions, but have not

really partnered with them (though both airlines have occasionally used the rhetoric of partnership). To what extent do coordinated-market economies provide a different context for competition in the airline industry? Let us consider Germany and Scandinavia.

Germany

Although the forerunner to Lufthansa was born in 1926, the current Lufthansa was reborn in 1955. The German Federal Republic, the State of North Rhine-Westphalia, and the national public-sector railway each held major stakes in Lufthansa. The reborn Lufthansa also had private shareholders. Since 1966, Lufthansa's shares have been traded on stock exchanges. Lufthansa has involved its employees in profit sharing and has given them the opportunity to choose between cash and preference shares since 1970. When Lufthansa was fully privatized in 1997, employees received an allocation of its shares.

Lufthansa is a legacy airline which long dominated German aviation. Lufthansa has usually made a profit. Even in 2001, the year of the 9/11 crisis, when many airlines lost money, Lufthansa earned a small profit. Lufthansa has developed into a mega-aviation group with nearly ninety-five thousand employees.[26]

Collective bargaining on wages and working conditions between unions and large employers is widespread in Germany.[27] Lufthansa's managers are further constrained by a form of social partnership: codetermination. Large German firms are obliged to treat unions as partners. Lufthansa and other major

companies based in the coordinated-market economy of Germany have a two-tier board. The supervisory (upper-level) board appoints, supervises, and advises the executive board. The executive board is responsible for the implementation of corporate strategies and managing the company. The two boards collaborate.[28] The supervisory board has twenty voting members. The ten shareholder representatives are elected by the annual general meeting, the ten employee representatives are elected by Lufthansa employees. Multiple stakeholders (employees, executives, other shareholders), then, are embedded in the company's structure. This strongly influences Lufthansa's approach to deregulation and the growth of competition from new entrants. By contrast with BA, when Lufthansa has outsourced functions, they have remained under the same collective bargaining umbrella. This is true even in major functions like maintenance and cargo.

Because of the formal role that labour plays in corporate governance, in contrast to most airlines in liberal-market economies, Lufthansa does not have as wide range of options for adjusting employment conditions and employment-relations strategies in the face of market changes. Lufthansa has tried to reduce labour costs, but it has done so in consultation and agreement with the unions, who have negotiated job protection agreements. Thus, unlike BA and the US legacies, Lufthansa did not (and probably could not) impose layoffs on its workforce as an early response to changes experienced in its markets. Instead, managers had to share information on market developments and consult with

labour representatives about potential strategic responses and the full range of employment-relations issues.

This institutional requirement has fostered a continuing labour-management partnership at Lufthansa. The company's partnership approach facilitated its success in restructuring to become profitable again after its losses and cash-flow problems in the early 1990s' recession. Union and works council involvement in Lufthansa's restructuring ensured that there was no major deterioration in working conditions, nor were there mass redundancies.

To what extent does this different context induce different strategies and behaviour from German-based airlines compared with those based in liberal-market economies? Drawing on their study of three national airlines, Peter Turnbull and his colleagues argue that in the context of their relatively open markets, the British and Irish legacies have been 'permitted, if not compelled, to pursue short-term, cost-minimizing strategies inimical to their labour-management partnerships.'[29] By contrast, Lufthansa developed a competitive strategy consistent with and complementary to its partnership approach to employment relations, including greater integration rather than outsourcing. Instead of simply cutting labour costs at its mainline airline, Lufthansa launched its own low-cost subsidiary Germanwings in an attempt to respond to the challenge of increasing new-entrant competition. Toward the end of the twentieth century, several other new-entrant airlines were launched in Germany in anticipation of deregulation there. After 9/11, most of the US legacy airlines immediately announced redundancies, typically of about 20 per cent of their total

workforce. Although Lufthansa also suffered a significant loss of revenue following 9/11, it did not implement any redundancies. Rather, managers and unions agreed on other, socially more responsible measures, such as long-term unpaid leave and part-time working.[30]

Scandinavia (Denmark, Norway and Sweden) [31]

Civil aviation in Scandinavia began to grow in the 1920s. Emerging from World War II with scarce resources, the major private airlines, industrialists, and the governments of the three countries decided to develop a tri-national enterprise: Scandinavian Airline System (SAS). SAS remained half owned by the three governments, but a holding company owned the three founding airlines; its shares were listed on the three national stock exchanges.

Employment relations in Scandinavia are based on a tripartite model, between the labour-market parties. The state encourages moderation by unions, which helps to ensure that industries are profitable and that they provide good jobs. The model is built on a welfare state funded by tax. There are relatively high total labour costs. This induces businesses to improve productivity, to develop innovative products and to focus on premium consumer markets. An important aspect is the representation of workers' interests on companies' boards. This gives employees a voice in their company. [32]

Although SAS has adopted a general Scandinavian model for employment relations, it has had to cope with the additional complication of dealing with the three national peculiarities. Complications include: pay differentials across

national borders; concerns about the fairness of the distribution of jobs and resources between the countries; and managers who do not understand the inter-Scandinavian nuances in labour relations.

Before deregulation, when SAS was a monopoly in some markets, its employees enjoyed terms and conditions that were better than those which applied more generally. As Scandinavia deregulated aviation in the mid-1990s, SAS's lack of international competitiveness became more apparent. The Scandinavian employment-relations model fosters relatively cooperative relations between the parties. Nevertheless, it was more costly for SAS than the models used by most other airlines. This reflected the tendency for SAS employees to get the best of the benefits from each of the three countries.

This tendency became a serious problem for SAS, as competition increased. New-entrant airlines were attracted to Scandinavia because of the relative affluence of the population, frequency of air travel, and the high fares charged by SAS. For a few years before 9/11, SAS's costs increased, but its underlying uncompetitive cost-structure was disguised by its growth during the economic boom of the late 1990s.

The competitive threats became more obvious following the 9/11 crisis. Subsequently, the decline in profitability of SAS and its dysfunctional structure became more evident. Expansion as a panacea was replaced by drives to reach agreements to reduce costs with all of its unions. SAS executives saw these agreements as essential, since they feared that SAS was heading for bankruptcy unless it took drastic action. SAS argued that it had too many pilots and flight

attendants, that their productivity was too low, and that their total labour costs were too high. Consequently, SAS stopped recruitment and resorted to redundancies, which affected all categories of staff.

The parties at SAS agreed to halt growth in salaries, change working conditions, and reduce the workforce, via agreements to promote part-time work and leave of absence. The parties also agreed to cut pay by up to 6 per cent to be more compatible with pay at competitors. Moreover, there were 10 per cent cuts in senior executives' salaries.

The parties at SAS agreed on immediate cost reductions. It was a difficult process. Nevertheless, most of the negotiations were conducted in a spirit of collaboration, were not publicised, and did not affect customers through industrial disputes. By 2004, the parties had met their targets by a process of mutual-gains negotiations. There was a short industrial dispute in 2006 at SAS, but the parties soon settled it with a compromise contract.

SAS also confronted its organizational complexity. Its managers and unions realized that they had to develop a new approach. The approach had two aspects: decentralizing SAS, and initiating a process for renegotiating labour contracts more quickly than hitherto.

Management advisers strongly advocated radically reducing employment in the original legacy airline, SAS, while simultaneously growing the new-entrant airlines that it had acquired. Despite such advice, SAS chose to give unions a chance to work with the managers to help improve SAS, in line with the cooperative tripartite Scandinavian norms. Unlike several airlines in the USA,

SAS did not make any major unilateral cuts in its pension plans. In short, SAS's strategy included cost reduction, the avoidance of nonessential costs and increasing productivity. But these were achieved by cooperation. By 2007, the Scandinavian aviation industry was reaping the gains from having restructured and reduced costs, also helped by a favourable business climate. Nonetheless, there were still further structural challenges that had not yet been confronted, so SAS initiated another cost-reduction program. This was part of a more fundamental 'cultural turnaround'. By 2008 SAS had achieved multiyear agreements with all of its unions, which included new Principles for Cooperation.

The main stakeholders in Scandinavia generally see their employment-relations model as effective, durable, and flexible; this was the case even during the turmoil following 9/11. This perception is shared by most managers and unions at SAS. Further, there is usually more of a partnership with unions in Scandinavian countries when they have Social Democratic governments. Governments formed by right-wing parties tend to be less supportive of such partnerships, as in Sweden after the change of government in 2006. This illustrates that governments do make a difference.

Conclusions

This article offers a point of departure and an analytical framework, which should be relevant to those conducting research or making policy about airlines or other industries and practices for managing people.

In the post-World War II period, most of the main legacy airlines in countries other than the USA were at least partly owned by governments, were highly regulated and were seen as providing a form of *public* transport service. However, since the 1980s, many of these airlines have been privatised and their markets have been at least partly de-regulated. Against this background, such legacies have been increasingly concerned with maximising shareholder value in the short term and consequently have become tougher employers, with a tendency for cost competitiveness strategies to focus to a greater extent on reducing employees' economic rewards or other benefits. One paradox is that, simultaneously, the rhetoric from several of them has tended to emphasise the importance of improving customer service and fostering employee engagement. In view of these contradictory tendencies, such airlines were not gaining from the potential advantages of developing partnerships with their workforce and their unions. As one experienced UK airline captain put it:

> Why don't more airlines learn from Southwest? If other airlines were to follow Southwest's example, really trying to engage their staff and partnering with their unions, they could provide a better service to their passengers and be more profitable. (Interview February 16, 2008)

In terms of people-management practices, while some other new-entrant airlines have followed Ryanair's example, by adopting 'low-road' employment-relations strategies, others have chosen 'high-road' employment-relations strategies, for example, Southwest and, more recently, easyJet.

Such new-entrant airlines starting up in 'greenfield-type' situations have greater scope to determine their employment-relations strategies in spite of the institutional context. By contrast, established legacy airlines have less scope, irrespective of the context, for they generally have entrenched traditions. Each of the legacy airlines discussed here have been trying to restructure. One main difference is in the way in which it has been implemented. The coordinated-market economies of Germany and Scandinavia have an institutional framework which encourages a partnership with their employees and unions to a greater extent than in such liberal-market economies as Britain or the USA.

Ryanair has chosen an aggressive union avoidance strategy. This is despite Ireland, at a national level, having begun to foster notions of social partnership to a greater extent than Britain. At least after 1997, easyJet adopted much more of a partnership approach. This was partly induced by a change in the institutional context in Britain, after it elected a new Labour government. However, in spite of its liberal-market-economy context, Southwest has long maintained a form of partnership approach. This reminds us that airlines (and other enterprises) still have scope for exercising strategic choice, in spite of the institutional context.

Experience in Britain (BA), Ireland (Aer Lingus) and in the USA (the behaviour of most of the legacy carriers) suggests that legacy airlines are less inclined to adopt partnership strategies in liberal-market economy settings and those that do try them (e.g. BA and Aer Lingus), have more difficulty sustaining them in those contexts. By contrast, legacy airlines in coordinated-market

economies of Europe are less likely to adopt union avoidance strategies, and if they do, they are less likely to be sustained.

Consistent with a coordinated-market economy context, SAS and Lufthansa usually implemented cuts in labour costs more gradually than those in a liberal-market context. The obligation of managers at Lufthansa and SAS to consult with their employees fosters a focus on longer-term restructuring options. In terms of the cost-competitiveness strategy of these legacy airlines, the so-called 'rigidities' of the German and Scandinavian labour markets encourage managers to choose productivity-enhancing strategies. In such coordinated-market economies, the managers have to partner with their employees and their unions. This encourages them to *negotiate* more in responding to market changes, which contrasts with the tendency of most airlines in the USA and other liberal-market economies of trying unilaterally to *impose* short-term cuts to labour costs, as one of their first responses to market downturns.

In sum, when comparing strategic responses of such firms, the variety-of-capitalism framework does have explanatory power, but it does not provide a complete explanation. Policy makers still have some scope for making strategic choices, albeit within the constraints of their institutional, social and political context . Their scope for choice is further constrained when economic circumstances get more difficult, for example, as in 2008, when there was a spike in fuel costs and then a global crisis in the banking and financial sector.

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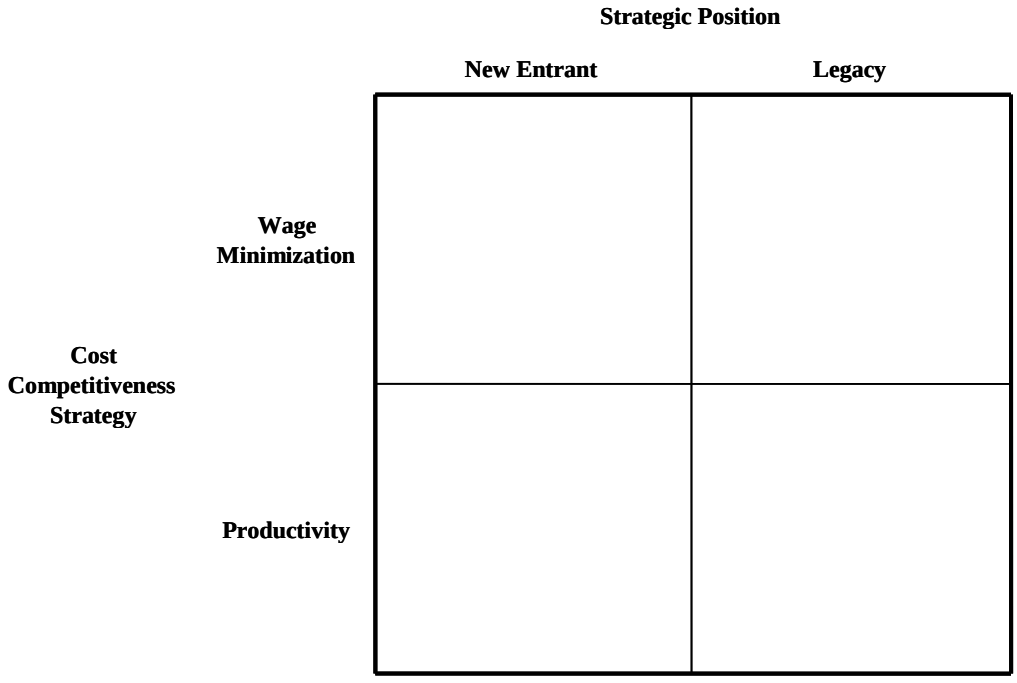
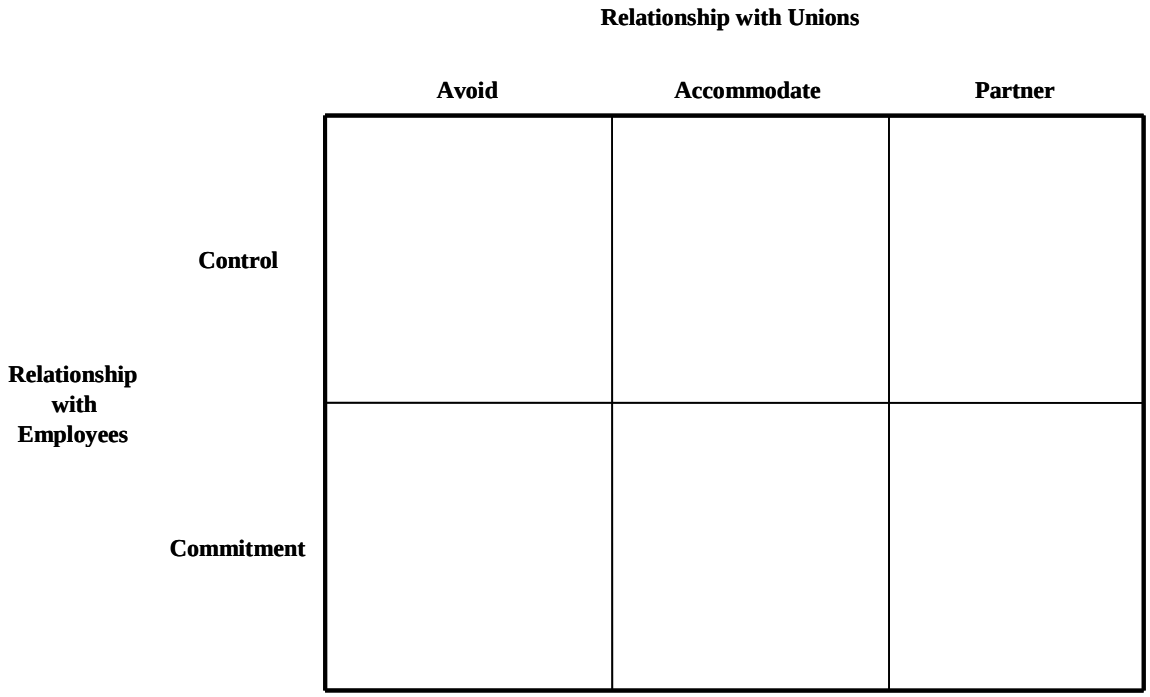
Figure 1. Competitive strategies



Source: Bamber G, Gittell Hoffer J, Kochan TA, von Nordenflycht A (2009). *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees*. Ithaca, NY: Cornell University Press.

Figure 2. Employment -relations strategies



Source: Walton RE, Cutcher-Gershenfeld J, and McKersie RB (1994). *Strategic Negotiations* Boston: Harvard Business School Press.

Notes

[1] The authors have just published a book which elaborates the arguments and research in this article: G. Bamber, J. Hoffer Gittell, T. Kochan & A. von Nordenflycht (2009). *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees*. Ithaca, New York: Cornell University Press.

[2] In the interests of simplicity, we use the term European Union (EU). Before the 1990s, predecessors to the EU were known under various other names, including the European Economic Community (EEC). On the history, policies and structure of the EU, see 'The EU at a glance'. Downloaded at http://europa.eu/abc/history/index_en.htm, June 20, 2007.

[3] For more on Southwest, see Gittell (2003).

[4] For more on the varieties of capitalism notions, see Hancké et al. (2007).

[5] For a British perspective on liberalization and airline competition, see Civil Aviation Authority, *Liberalisation and Competition*, www.caa.co.uk/default.aspx?catid=589&pagetype=90&pageid=2388.

[6] Ireland was not to the fore in moves to deregulation in the early 1980s. It did however start to liberalise its bilateral agreement with the UK between 1985-1988. The UK was the main mover to this end.

[7] On the British context, see Marchington et al. (2004).

[8] Involvement & Participation Association (2008).

[9] On the airline companies that preceded BA, see *British Airways Fact Book 2006*, http://media.corporate-ir.net/media_files/irol/69/69499/bafactbook/Fact_Book_2006.pdf. Also see Lansbury (1978).

[10] BA's Chief Executive Officer, Colin Marshal, *Financial Times*, May 28, 1984, cited in Colling (1995).

[11] Arrowsmith (2000).

[12] Clark (2006).

[13] Harvey (2007).

[14] British Airways (2006).

[15] Buyck (2005).

[16] Peston (2007).

[17] Pitcher (2007).Also on British Airways see Grugulis and Wilkinson (2002); Blyton and Turnbull (2004).

[18] Buyck (2008).

[19] Harvey (2007).

[20] The quote is from Mike Campbell, easyJet's director of people. This section also draws on Syedain (2007).

[21] This section draws on various sources, including advice from Joe Wallace, media reports and corporate web sites e.g. Aer Lingus (2006); Wallace et al (2007); Oxenbridge et al. (forthcoming).

[22] Creaton (2004: 24).

[23] O'Sullivan & Gunnigle, (2009).

[24] International Transport Workers' Federation (2007).

[25] Centre for Asia Pacific Aviation (2007).

[26] Lufthansa (2007).

[27] This section draws on Barry & Nienhueser (forthcoming).

[28] On the German context, see Keller (2004).

[29] Turnbull et al. (2004).

[30] Harvey, Turnbull (2002); Hätty, Hollmeier (2003).

[31] This section draws on discussions with former SAS staff and advisors.

[32] On the Swedish context, see Hammarstrom et al. (2004).