

Role of HRD in Sustaining Airlines Business in India : A Study on Air India

The airlines industry in its broadest form is a complex amalgam of transport related sector. Transport is the most crucial element that has promoted the growth of domestic and international tourism as well as economic development of a country. Sometimes it may be an attraction in its own rights. India is one of the fastest growing aviation markets in the world. With the liberalization of the Indian aviation sector, the industry had witnessed a transformation with the entry of the privately owned full service airlines and low cost carriers. The airline industry is truly a global business, and the effects of 11 September 2001 and the ensuing financial problems experienced by many airlines including Air India. It is clear is that the pace of change in the aviation sector is rapid, and understanding the nature of underlying and current trends is important from a tourism management perspective so that managers and industry can understand how to respond to such issues.

Keywords: Contemporary Issues Tourism, code share, bail-out package, chief operating officer, PLI, TAAI, AAI.

Introduction

The airlines industry in its broadest form is a complex amalgam of transport related sector. Transport is the most crucial element that has promoted the growth of domestic and international tourism as well as economic development of a country. Sometimes it may be an attraction in its own rights. India is one of the fastest growing aviation markets in the world. With the liberalization of the Indian aviation sector, the industry had witnessed a transformation with the entry of the privately owned full service airlines and low cost carriers.

Civil Aviation can be called as the youngest of all forms of transport. Before the out break of the World War-1, it was regarded as an infant industry: though it has made strides since then. Today it is one of the well developed industries in most of the countries of the modern world including India. Civil Aviation in India began symbolically with a 10 kilometer air mail operation from Allahabad to Naini on February 18, 1911. The Civil Aviation department was created in 1927 and beginning was made in building aerodrome and opening fling clubs. On the October 15, 1932 the Puss moth piloted by J.R.D. Tata flew from Karachi to Bombay.

The airline industry is truly a global business, and the effects of 11 September 2001 and the ensuing financial problems experienced by many airlines only led to a slight drop in international tourist arrivals to 689 million in 2001, from 697 million in 2000. It is clear is that the pace of change in the aviation sector is rapid, and understanding the nature of underlying and current trends is important from a tourism management perspective so that managers and industry can understand how to respond to such issues.

2. Objectives of the study:

The major objective of this paper is to study various key HR issues involved the current financial crises faced by Air India and provides some measures to over come this financial crisis which has spelt a disaster on the growth prospect of Air India which is our pride of our country. The present paper is an attempt to provide some holistic measures to overcome this financial crisis. This paper lays emphasis on the role of Ministry of Civil Aviation, Air India Management as well as role of other industries for the survival of national pride in terms of Airlines operation in India.

3. Air India: Birth, Growth and Development

Air India Limited is the national flag carrier airline of India, flying a worldwide network of passenger and cargo services. Air India is state-owned, and administered as part of the National Aviation Company of India Limited - which was created in 2007 to facilitate Air India's merger with Indian Airlines. Air India is the 16th largest airline in Asia, serving 25

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destinations worldwide, and, with its affiliated carriers, serves over 100 cities. Air India has code share agreements with twelve other international airlines. In 2010, Air India is expected to join Star Alliance, the world's largest airline alliance.

Air India was founded by J. R. D. Tata in 1932 as Tata Airlines, a division of Tata Sons Ltd. On 15 October 1932, J. R. D. Tata flew a single-engined De Havilland Puss Moth carrying air mail (postal mail of Imperial Airways) from Karachi's Drigh Road Aerodrome to Bombay's Juhu Airstrip via Ahmedabad. Following the end of World War II, regular commercial service was restored in India and Tata Airlines became a public limited company on 29 July 1946 under the name Air India. In 1948, after the Independence of India, 49% of the airline was acquired by the Government of India, with an option to purchase an additional 2%. In return, the airline was granted status to operate international services from India as the designated flag carrier under the name *Air India*.

Air India International entered the jet age in 1960. On 8 June 1962, the airline's name was officially truncated to Air India. On 11 June 1962, Air India became the world's first all-jet airline. In 1994 the airline was registered as Air India Ltd. On May 2004, Air India launched a wholly-owned low cost airline called Air India Express. Air India Express is now connecting cities in India with the Middle East, Southeast Asia and the Subcontinent. On 8 March 2004, International Women's Day, the airline operated an "All Women Flight" from Mumbai to Singapore.

With Headquarter is in Mumbai, Air India will be India's largest airline after the merger, with 100 aircraft, along with 59 orders and 89 destinations (including 50 domestic destinations and 39 international routes) excluding its and Indian Airlines' subsidiaries. India has the world's fastest growing airline industry. However, increasing fuel prices resulted in a 4% decline in air traffic in June 2008. Increasing competition of other major Indian carriers like Jet Airways and Kingfisher Airlines has pushed Air India to third place in India in terms of market share. In July 2008, it was reported that Air India was seeking US\$534 million in aid from the Indian government to cover its losses. In the wake of rising fuel prices, the airline decided to hike its air fare in June 2008. AI Maharaja was promoted as a symbol of luxury and service. Bobby Kooka's inspires and hilarious but pointed advertising and book lets for passengers enrich the image.

4. Passenger operations

The airline carried 4.44 million passengers during 2005-2006 and achieved a load factor of 66.2 per cent lower than the 69.8 per cent load factor recorded in the preceding year. Air India offers three classes of service – First Class, Executive Class and Economy Class. Flat bed seats are offered for First and Executive Class passengers. Air India's frequent flyer programme is called *Flying Returns* and is shared with Indian Airlines and other subsidiaries. Aside from flight mileage, members receive seat discounts, class upgrades, free hotel stays and other benefits. The airline also offers luxury lounges in its

ground terminals for its First and Executive class travelers in select destinations within India. Air India has duty free sales on board its flights, named "Sky Bazaar". Currently the airline is having more than 20 percent of market share.

5. Major HR Issues involve in current financial crisis:

Although there are several issues involved in the current financial crisis by Air India but some major Hr issues involved in this regards are lack of professional management, no accountability of the airlines staffs as well as management, lack of service provides by the airlines during operation etc. how ever some other major issues includes high fuel price, fewer Passenger operation and global financial melt down.

For last few years Air India has paid some employees wages to which they are never entitled. The wages were in form of incentive scheme and were often several times the basic salary. They were paid without Government clearance and contributed to worsening the financial conditions. The PLI scheme of AI has not been approved by either by its board or by the Govt.

Air India accounts for 2% of world's air traffic. Air India wants to increase its air traffic capacity by 5% by ordering Boing and Airbus including Dreamliners. Committing a highest ratio of seats going empty at 4 in every 10.

Employee to air craft ratio by Air India is 210 per Air craft which is quiet high in comparison to international Standard. The global standard is 150-160 per air craft which causes in over staff by the Airlines.

Currently Airlines having more than 32,000 employees backed by strong unions causing major financial burden to the airlines. Presently per annum wage bill is more than 31,000 crore.

Though the members of the board were common both for Air India and Indian airlines when merger took place in 2007 in form of NAICL but the management of the two airlines adopted a very different strategy. AI reduced the staff and stationed on its network and close down offices, Indian Airlines retained its work force, increase emolument, commenced new routes and moved into profit in few years. As a result of which there is a lack complete co ordination between the two airlines causing huge loss to both in the coming years.

6. Role of Air India Management to overcome this Financial Crisis

It was in the year 2006-07 , first the matter was in public with a news that Air India economic condition is not good and for which its need the support badly. In the later years, the problem was more aggravated and now the condition of our national carrier is in a precarious stage. The Air India management has very much pragmatic in its approach to overcome this financial crisis. The then chairman cum Managing Director was of the opinion that neither a bailout nor a waiver is required to overcome this crisis. According to him, it is a fight for survival; he also mentioned that the current financial crunch being faced by Air India in

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the global context as the aviation Industry worldwide has been passing through turbulent times". He stressed that like in the United States, financial help from the govt. comes with condition attached, similarly AI expects the govt. to impose cost cutting measures and ask it to delay the purchase of fleet in return for a bail out package. He was of the opinion that just a 36 month turns around plan that will take Air India from survival to loss reduction and then to profitable growth. The three Year plan Includes neither a bailout nor a waiver, just a 36 month turns around plan that will take Air India from survival to loss reduction and then to profitable growth:

The management has taken the following steps in overcoming this crisis which includes the following:

1. The management has started its low cost air lines operation in the name of Air India Express which has already started its operation from September 2009 on 27 routes out of 100 existing route.
2. Planning to reschedule the air craft deliveries which it had ordered earlier.
3. Cutting down of loss making routes.
4. Rationalizing manpower and incentives.
5. A proposal has been made to introduce IPO in 2012 to raise fresh capital which has already implemented.
6. Opening up of a separate company for maintenance, repair and over haul service not only to own but also to provide service to other Airlines.
7. Air India has decided to revise its much criticized productivity linked incentive scheme. An internal airline circular said" as regards the PLI norms for the company will be reviewed and parameters will be revised.
8. AI also plans to start 54 flights a day as low-cost services under the brand name Air India Express, an international no-frills arm. The airline currently operates about 300 flights a day. The target is to shift 150 flights a day, or about half of AI's domestic flights, in the near future to the low-cost arm.

According to Air India the main cause of this financial crisis is due to high fuel price, fewer passengers and global financial melt down. AI requires Rs. 2750 crore in soft loans or grant and the rest as an equity contribution from the govt. to recapitalize the Airlines. The soft loan are being sought to offset the cost of merging the larger Indian Airlines with Air India.

7. Role of Ministry of Civil Aviation to over come this financial Crisis

The civil Aviation Ministry is playing a crucial role for reviving this airline. The minister is in favour of purchasing new fleet even in the economic slow down as about half of the fleet is above 15 years old. The Ministry viewed that the current financial crises of this national flag carrier is due to surge oil prices, high fixed costs, high expenditure on Insurance, interest on working capital, air craft loans, plane lease payments

The civil Aviation Ministry is in favour of setting up of a four member committee which will be looking at wage agreements including flying allowance and productivity linked incentives between the airlines management and various unions and associations. Besides reducing its wage costs, AI is looking at improving productivity of employees, eliminating restrictive work practices and reducing wasteful expenditure

According to Civil Aviation Minister, the board will contribute an international advisory body consisting eminent people as is the general practice by the different airlines across the world. The names in the board includes: Sam Pitroda – Chairman of Knowledge commission, N.R Narayan Murthy- Infosys chief mentor, S. Ramadorai- M.D TCS and an independent directors will be of international repute. It will advise for a chief operating officer. The COO will report to chairman on a day to day basis. The Govt. will not interfere in the Air India's problems beyond a point. The management has to address the issue. The Govt. has appointed the SBI capital to draw out a growth plan for the carrier.

The Govt. will help AI by pumping in more equity and arranging for soft loans, but it wants the airlines to come up with a financial and organizational restructuring plan that will keep afloat. The conditions include

- Setting up of a committee of secretaries, this will be headed by the cabinet secretary. The air line management will present its financial and organizational restructuring plan before this panel within a month.
- AI has sought an equity infusion of about rs.1250 crore and soft loan about Rs 3000 crore. In this connection 800 crore has already been sanctioned by the Ministry.
- Prime Minister has told that it is our national carrier and which is our pride but there is a condition that the Air India must put its best foot forward. The employee must be realizing that there is a problem and it is a cumulative one.
- Beside the cabinet secretary there will be have the finance secretary, the prime ministers principal secretary and the Civil Aviation secretary as members. It will meet every month to review the process of the Air lines.
- The committee will also be insisting on restructuring of board and manpower rationalization through A VRS programme could also be among measures the airline would have to accept to get the bail out from the govt.

The Ministry is of the opinion that, the Govt. will support AI but there won't be an open ended Cheque book. The AI management will be given sometime to prepare a restructure plan- including a re look of operation , finance and a possible top management shake out- even as the minister handed out a stern " perform or perish" message to the airlines 32,000 employees. The ministry is also in favour of cutting down the wage bill up to 15% which will be of 500 crore out of total wage bill of Rs. 3000 crore to shape up the airline.

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8. Role of Other Ministries and Industry to curb the Financial Crises

Being our national flag carrier of our country, in this time of great difficulty, industry as well as different ministries has voluntarily come forward to help this cash crunch air lines. In this regard, the finance ministry has instructed that all air travel on official account both domestic and international must be done through national carrier only. For travels to stations not connected by AI, officials have been asked to travel by the govt. owned air carrier to the point closest to the destinations, beyond which they may utilize the service of another airlines preferably an alliance partner of AI. Those orders will also apply to the officials in autonomous bodies funded by the Govt. of India. The ministry said that any deviation from these orders because of operational and other reasons or on account of non availability, individual cases may be referred to the Civil Aviation Ministry for relaxation.

Travel Agency Association of India (TAAI) has also assured that its 2400 active members are ready to waive commission charged on Air India tickets booked by agents if the loss-making airline asks for this. The move could save AI about Rs 300 crore annually. In this regard TAAI president Rajji Rai told "If Air India asks us to charge zero commission on tickets issued by us, we could do that to support the airline, provided he will get a nod from his board," On every Air India ticket booked by agents, the airline pays 3 per cent of the ticket cost as commission. The airlines earns around Rs 10,000 crore (Rs 100 billion) a year from ticket bookings.

9. Major Suggestions and Recommendations:

- a. To overcome from this financial crisis a total financial overhaul of the Airlines will include rescheduling Air craft deliveries, cutting loss making routes, rationalising manpower and incentives.
- b. Besides reducing its wage costs, AI should look at improving productivity of employee, eliminating restrictive work practices and reducing wasteful expenditure.
- c. Air India must decide to revise its much criticized productivity linked incentive scheme. An internal airline circular said "as regards the PLI norms for the company will be reviewed and parameters will be revised to cut down the PLI scheme for reducing the financial burden. Govt. All the employees except the pilot and cabin crew are entitled to payments under the scheme, but Air craft Maintenance Engineers and service engineers have been the main beneficiaries of this largely
- d. Both the staffs of Air India and Indian Airlines staffs includes pilots, crew members and ground staffs should provided with training and development programme to improve fellow feeling and loyalty to the Airlines at the time of crises.
- e. AI is making an additional payment of Rs. 9000 per month to a maintenance engineer as qualification fee for approving the Air worthiness of a particular type of air craft. Most maintenance engineers in Air India is paid Rs. 54,000 per month. For approving 6 types of Air craft. But actually AI is operates only 4 types of Air craft. So effort should be made to look into this matter and take appropriate action against those who are mis utilizing these scheme.
- f. There should be Uniform tax rate to control the fuel price charged by different states differently.
- g. Measures to increase morale included very frequent interactions of management with employees all over the country. The top management should flew in economy class not to save money but to interact with the cabin crew and pay major attention to the minor details of service.
- h. All major decisions were taken only after consultations with the functional heads of all departments and regional heads and regional heads. Morale and self esteem were boosted by reminding employees that they serve the Indian Airlines.
- i. Together with the induction of consultants and experts – and exercise of downsizing- some attention need to be devoted to those who are expected to deliver better product, with the recognition that people are the important part of the solution and are not the problem. . Pc Sen.: Former Chairman, MD Indian Airlines, and Chairman Air India
- j. The failed marriage with Indian Air lines also need to be looked at, both from the conceptual and implementation dimension. Introduction of strategic partner cannot be put off immediately if it has to survive in a cut throat market.
- k. Cash trap Air India must leverage its property and real estate in India and abroad to enhance revenue and infuse cash. One director of Air India will be responsible for leveraging properties and real estate for enhancing revenue and cash infusion. In this regard AI should vacate some of its office and staffs from those offices and are relocated to other short staffed stations.
- l. The air line should reduce its employee per air craft ratio. The global ratio is 150 to 160 per air craft where as in case of Air India it is 210 per aircraft which is in any case more than the global standard
- m. A proposal has been made to introduce IPO in 2012 to raise fresh capital.
- n. Introduction of low cost domestic sector to be started in sept 09 on 27 route out of existing 100 routes AI operates in the name of Air India Express
- o. Opening up of a separate company for maintenance, repair and overhaul service not only to own but also to provide service to other Airlines.
- p. Although the Airlines is now currently well equipped with Dream liner in its wings of

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operation but still it faces some genuine problems with the air crafts.

- a. Ageing stewards and hostesses with little training in customer services
- b. Lack of On time performance and Poor Baggage handling services
- c. Disable passengers asking for wheel chairs do not have the message sent to onward airports
- d. Employees of the over staffed airlines do not care if the passengers like the airline or return to fly on it. Their jobs are secure and from them, the customer does not count and there is no desire to offer a friendly image of the Airline.
- e. Priority levels serve no purpose

So efforts should be made to overcome these problems for the betterment of the airlines for future operations.

10. Conclusion:

No airlines can afford to fly without knowing where it is headed. The cash crunch Air India is facing a good enough opportunity to put together a team that can take the airlines out of tailspin. The future of global aviation industry is likely to contain a limited number of global mega carriers, with smaller air lines integrated into their operations by strategic alliances and other devices. The future of civil Aviation in India will go to scale a great height in near future as civil aviation is still in infancy stage. In this regard Air India will definitely be emerged as a front runner in the growth chart of Airlines industry in India. India's economy and passenger traffic had to keep growing annually by 9% and 20% respectively. At times expansion looks assured in the aviation sector, it calls for some hard thinking.

- ❖ Has Air India realized its optimum potential in the civil Aviation sector?
- ❖ Has the Government done enough to save the national flag carrier to overcome this financial crisis?
- ❖ Do the air India management ready to take up the future challenges positively to get rid of this crisis.
- ❖ What should be our moral obligation to save the pride of our national career as a citizen of India?

Apart from these, Air India should seek a balance of its route structure, its equipments, its air craft scheduling and its pricing. Air India also must be concerned with the price differential at which travelers will prefer one mode of travel to another, as well as its airplanes comfort, scheduling, convenience, air terminal waiting for connective flights. Indian Aviation industry is growing because of its strong Indian socio economic policy and liberalized Government initiatives. In this context the Airport Infrastructure needs to improve significantly to meet the current and future demand of the Indian Aviation Sector. Initiatives have been taken to implement modernization, reconstruction and development of airport infrastructure to implement infrastructure development plan provides a huge opportunity for private players operating in Aerospace and allied industries: Despite a growing market, airlines in India are fighting for survival in a highly competitive environment. To tide over the current situation control costs, improve

quality of service, trained a large pool of skilled / technical manpower, attract more professionals to manage the aviation industry, develop infrastructure to match growth plans are some of the major initiatives which should be undertaken on a war footing basis to overcome this financial crisis.

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