Strategic Choice and Employment Relations in Australian Airlines: A case of convergence?

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Abstract:
This paper examines the strategic choices made by Qantas Airways, a full cost legacy airline, and its low cost carrier, Jetstar, regarding employment relations in the context of increasingly competitive market pressures. Initially both airlines pursued divergent business and employment relations strategies. However, as the external environment became more turbulent, their strategies began to converge. Both airlines have adopted elements of 'high' and 'low' approaches to employment relations and have moved towards a hybrid model. While Qantas remains highly unionised, it has sought to bring the wages and conditions of its employees 'back to the market' and has outsourced various functions to reduce costs. Although Jetstar initially made use of individual employment contracts it has recently negotiated collective agreements with one of the pilots unions. Faced with the possibility of a 'perfect storm' in the aviation industry, the new management of the two airlines face strategic decisions whether to maintain their separate identities or continue to plot a course for greater degree of convergence.

Introduction

Choices about employment relations strategies tend to be viewed separately from other strategic considerations of organisations. This paper examines the interaction of employment relations with the business and operational strategies at Qantas Airways, a long-established legacy or full cost carrier, and a more recent airline, Jetstar, which Qantas created as a low cost carrier in 2004. Using the strategic negotiations framework developed by Walton et al. (1994), this study seeks to explain strategies adopted by the two Australian airlines since the creation of Jetstar and how they have changed in the past eight years. This paper builds upon an earlier study examining the connection between labour relations and firm performance in the airline industry by Gittell et al. (2004) and a comparative study of employee relation strategies used by airlines from around the globe recently published by Bamber et al. (2009).

A framework for evaluating employment relations strategies

Strategic Negotiations by Walton et al. (1994) provides a robust theoretical framework that helps to explain how labour relations are formed in the modern day firm. Walton et al. (2004:10) argue that labour relations strategies are the result of a combination of labour-management interactions at the institutional and individual level. The institutional element revolves around the legitimacy that collective bargaining plays in underpinning the social contract or shared understandings that are developed between the parties. Many employers now find themselves in a regulatory environment that equips them with more discretion over how to respond to trade unions. Employers can now choose to avoid, accommodate or cooperate with trade unions in developing their labour relations strategies (Walton et al. 1994:11). Employers who adopt an avoidance strategy are seeking to establish alternative forms of employee representation through the 'unilateral exercise of power by management' and thereby force organisational change. In contrast an accommodation strategy relies on both parties acknowledging the legitimate role that each party plays in formulating substantive contracts or agreements (Walton et al. 1994:10). Finally, a co-operative strategy encourages management and trade unions to develop genuine partnerships thereby extending trade union influence within the organisation while also helping to legitimise employer-driven workplace reform initiatives (Walton et al. 1994:11).

Using this framework, Kochan argues that managers are now faced with the choice of pursuing a 'high' or 'low' road approach to labour relations (Kochan 2006:16). The 'high' road strategy relies on heightened levels of co-operation and commitment existing between employers and workers. By investing in their workforce, organisations are likely to experience increased productivity, the creation of higher quality products and services, increased profits and higher wages (Kochan 2006:16). These 'high' road strategies are the result of 'genuine' partnerships between management and organised labour. These partnerships are likely to be the outcome of parties applying an integrative or 'win-win' approach to bargaining at the institutional level (Milkman 1998). Conversely, a 'low road' labour relations strategy is predicated on minimizing labour costs by creating a workforce that is often low skilled, low paid and less likely to be committed to organisational goals. These types of strategies are the result of management-labour negotiations that simply ensure parties comply with the terms of an agreement, rather than attempt to foster greater collaboration between the parties in order to achieve organisational goals.

Segmenting the market: the relationship between Qantas and Jetstar

Having operated as a Government owned enterprise since 1947, Australia's national carrier, Qantas Airways (Qantas) became a publicly listed company in July 1995 as part of the move to deregulate Australia's airline industry. Qantas positioned itself as an airline that provided a high quality service to its business and leisure passengers. Consequently, Qantas displayed characteristics of a high road employee relations strategy by offering market leading wages and conditions of employment to its workers. Prior to the government pursuing its "open skies" policy, Qantas was one of only two carriers servicing the domestic market. In 2000, Qantas encountered competition on its domestic routes from Virgin Blue, a new carrier that adopted a business model that delivered 30 per cent lower operating and labour costs than that of Qantas. As a result of an aggressive marketing campaign run by Virgin Blue that promised to bring "fairness" back to the skies, Qantas suddenly faced the real threat of losing its dominance in the domestic market which had been cemented by the collapse of Ansett, Australia's second largest airline, in 2001.

In order to respond to this new challenge, Qantas created Jetstar in 2004, a wholly-owned 'low fares' or Low Cost Carrier (LCC) based on a business model similar to that of Virgin Blue. In offering a 'no frills' service, Jetstar displayed traits of a low road employee relations strategy by offering relatively low wages coupled with high levels of managerial control. Although Jetstar was to operate as an independent airline, there was a high degree of co-operation between the management teams at Qantas and Jetstar during the initial start-up phase. This culminated in the formation of the 'Flying Committee' headed by the CEO of Qantas (Geoff Dixon) and Jetstar (Alan Joyce) (Airline Business 2006). This committee developed an aggressive market segmentation strategy or "pincer" movement that would be used to contain the threat that Virgin Blue posed to Qantas.

This segmentation strategy was a success and led to the Qantas group achieving impressive financial results. This two-branded strategy allowed Qantas to generate yields that were 35 per cent higher than Virgin Blue in relation to domestic operations. Under this strategy, company profits more than doubled as well as delivering Qantas a 65 per cent share of the domestic market (Gregg 2007). The outgoing CEO of Qantas, Geoff Dixon also believed that this two-airline strategy had been the "engine" behind the achievement of record company profits (Dixon 2008a). However, Harvey and Turnbull argue that by establishing Low Cost subsidiaries, Full Cost Carriers (FCCs) such as Qantas and British Airways are able to secure higher profits by minimising their labour costs. Invariably this involves the reduction of the role of trade union activity within the subsidiary airline (Harvey and Turnbull 2006: 331). This has occurred at Jetstar where management has used several non-union collective agreements to regulate the wages and working conditions of various occupational groups including maintenance workers, thereby limiting trade union presence and achieving substantial cost savings (Oxenbridge and Lansbury 2006:18-19).

Challenges driving strategic change at Qantas and Jetstar

Fluctuating fuel costs

Airlines have always operated in a turbulent economic environment (see Blyton and Turnbull 1995; Johnson 2002). However, the recent worldwide credit crisis and fluctuating fuel prices has resulted in the collapse of an unprecedented number of airlines, leading airline chiefs such as Richard Branson to believe that the consequences will be "much worse than the aftermath of 9/11" (Branson quoted in Seamark 2008). With fuel accounting for approximately 35-40 per cent of operating costs, many airlines have seen their passenger yield rates eroded away to unsustainable levels (Creedy 2008a). Giovanni Bisignani, President of the International Air Transport Association (IATA) has suggested that fluctuating fuel prices and cautious credit markets is creating the "perfect storm" that will lead to a dramatic change to the global aviation industry (Airline Industry Information 2008). Both FCC and LCC airlines are now under mounting pressure to implement business and labour relation strategies that will help weather this crisis. As CEO of Qantas Geoff Dixon reiterated the sentiments of Mr Bisignani by indicating that the volatility in oil prices had "changed forever" the way Qantas will manage its operations (Easdown 2008a). As a result, Qantas revisited its operational and employment relations strategies in an attempt to identify how to minimise costs while also enhancing productivity.

Increased competition

As well as fluctuating fuel prices and the global financial crisis, Qantas and Jetstar have faced increased competition on domestic routes due to the emergence of a number of new LCC entrants. Tiger Airways (a subsidiary of Singapore Airlines) commenced flying in 2007 to a number of Australian ports including Adelaide, Brisbane and Perth offering lower passenger fares, starting from A$49. Tiger also plans to commence flying from Singapore to Melbourne, which is a high volume and high yield destination for Qantas. Consequently, both Qantas and Jetstar are attempting to develop a strategic response to the challenge that Tiger poses to their market share (Murphy 2008a). Qantas also faces increased international competition from Virgin Blue. Under the brand-name of 'V-Australia', Virgin Blue plans to challenge Qantas's stronghold over the lucrative trans-pacific route by offering daily direct flights from a number of capital cities including Sydney and Brisbane (Carswell 2008). Since 2007, increased competition in the form of new entrants such as Air Asia X has resulted in Qantas "sustaining significant losses" which has placed increased "pressure on the viability" of several Asia routes including Japan (Rochfort 2008). As Japan constitutes Australia's third-biggest market for inbound tourists, Qantas is under increasing pressure to develop business strategies that ensure that this route remains viable (Rochfort 2008).

Changes to workplace laws

The recent changes to labour relations laws in Australia have also acted as an impetus for Qantas and Jetstar to reassess their employment relations strategies. The election of a Federal Labor government in 2007 signalled the demise of the controversial Work Choices legislation that had encouraged the individualisation of working arrangements through the provision of Australian Workplace Agreements (AWAs) as well as the use of non-union collective agreements. These statutory based industrial instruments allowed employers to deal directly with workers, thereby avoiding trade unions in the negotiation process. Although Qantas never pursued AWAs, Jetstar chose a combination of collective, non-union and individual based agreements to regulate its workforce, culminating in the development of an employment relations strategy that represented something of an “Irish Stew”. Alan Joyce, CEO of Jetstar, argued that the ‘mixed’ approach by Jetstar provided the airline with the flexible operating base required to run an LCC (Stevens 2008). The Labour Party has now signalled that it hopes to create a fairer and more equitable workplace system by ensuring the industrial relations “pendulum [swings] back to the dead centre” (Gollan 2008). The federal government hopes to achieve this by requiring parties to collectively bargain in “good faith” which will help to strengthen the institutional role of trade unions.

Catalysts for change to employment relations strategies at Qantas and Jetstar

Business and employee relations strategies are becoming closely interrelated. Qantas has indicated that it intends to combat soaring fuel prices and increased competition by pursuing business strategies that deliver efficiency gains as well as cost savings. Pursuing such strategies will have a direct ramification on the type of employment relations strategies used at Qantas and Jetstar. Qantas has traditionally operated an “end of the line” service due to the geographical isolation of Australia (Qantas Target Statements Report (Annexure A) 2007:5). In order to deliver a high quality and convenient service, Qantas has relied on a traditional ‘hub and spoke’ operational model that aims to maximize passenger enplanements by providing a range of connections to domestic and international destinations, thereby delivering higher passenger yields. Prior to the emerging fuel crisis, this operational model resulted in 41 out of the 42 domestic routes flown by Qantas generating a profit (Dixon 2008a). However, due to larger operational costs (namely fuel and airport fees), over 75 per cent of international routes were unprofitable (Dixon 2008a). With rising fuel costs, the viability of many of these routes has been threatened.

Perhaps one of the most significant operational decisions made by Qantas in response to fluctuating fuels costs and increased competition concerned the deliberate strategy of transferring routes to Jetstar in an attempt to take advantage of its lower cost base. Jetstar displays a number of characteristics synonymous with LCCs. It utilises a point to point operational model which allows quicker turnaround times between flights allowing planes to ‘stay in the sky for longer’. Operating a single aircraft fleet comprising of 24 Airbus A320s, Jetstar has the youngest domestic fleet in Australia while also streamlining maintenance costs. Although LCCs generate lower individual passenger yields than FCC or Legacy airlines, they are still able to generate profits by securing lower operational costs and maintaining a high volume of customers. Geoff Dixon declared that Jetstar’s contribution to the total profit earnings of the Qantas group quadrupled to approximately A$113 million due to a 54 per cent increase in revenue growth as well a 63 per cent growth in capacity (Dixon 2008a). Jetstar management has signalled that it plans to continue to generate these types of results by pursuing a high volume, low cost strategy which relies on “squeezing the same number of people onto fewer planes” (Creedy 2008b). Although this type of strategy may protect revenue, unions representing airport staff argue that these revenue maximizing strategies are likely to even further reduce service standards as well leading to increased incidence of “air rage” (White, L (Secretary ASU), quoted by Creedy 2008b).

In order to capitalise on the success of the LCC model, Jetstar has already acquired over 10 international routes from Qantas covering destinations in Asia as well as the trans-tasman route. Moving into the international market has generated some significant challenges for Jetstar in relation to maintaining the operational and business strategies that delivered success in its domestic operations. At the most fundamental level, Jetstar now maintains a range of aircraft including A320s and A330s which reflects the multiple aircraft operating model often adopted by FCCs who service a range of destinations (Alderighi 2004). Another key factor that has enabled Jetstar to achieve lower operating costs was the strategic decision to fly to peripheral ports in a number of cities that offered lower airport fees. However, with the entry of several new LCC competitors into the market, Qantas management is keen to ensure these new entrants do not pose a threat to their market share of key destinations. Consequently, Jetstar is considering establishing operations in key terminals in major capital cities that have traditionally been serviced by Qantas in order to secure a stronghold over high yielding routes (Murphy 2008). The risk of these operational choices, including investing in new aircraft and securing new ports, is that they may start to impair the effectiveness of the market segmentation strategy used by Qantas and Jetstar to differentiate the products and services offered by each airline.

The convergence of employment relations strategies at Qantas and Jetstar?

Since the establishment of Jetstar by Qantas the two airlines have remained differentiated in the marketplace. However, it has been argued that both airlines are now beginning to use a combination of each other's operational and business strategies in order to survive in a highly turbulent environment. However, both airlines have also experienced elements of convergence in their employment relations strategies. This 'fusing' of operational, business and labour relations strategies has resulted in the establishment of a new hybrid or 'middle' road business model that is likely to dictate the future directions of the Qantas group. Our study found a combination of both convergence and divergence in the transformations that has occurred to employment and business systems used by Qantas and Jetstar. While there has been a *convergence* of business models used by the two airlines, there has been a degree of *divergence* in the type of labour relation strategies used by the two airlines in an attempt to combat global competitive pressures.

Qantas has always positioned itself a premium and world class airline. In order to achieve this operational objective, for many years Qantas provided premium level wages and conditions of employment that would help attract and retain highly skilled and professional staff. Some of these conditions continue to apply today. For example, Qantas domestic cabin crew receive wage rates that are 30-35 per cent higher than those offered by Virgin Blue (Gregg 2007). Long haul pilots and long serving flight attendants have also enjoyed positive working conditions. More generally, Qantas employees can access a range of entitlements contained in company policy manuals that exceed those offered by other airlines or statutory instruments. These entitlements include: generous leave entitlements (including access of up to 12 weeks paid paternity leave); additional superannuation contributions made on behalf of the employer; and access to Company bonus and share schemes.

Applying the Strategic Negotiations framework (Walton et al. 1994) the achievement of better than average wages and working conditions would seem to suggest that Qantas had been able to forge co-operative relations with trade unions. The relatively high level of wages and working conditions provided at Qantas was the result of operating under public service awards which provided generous wage rates and working entitlements. Under these arrangements, trade unions were able to exercise a high level of institutional power at Qantas before becoming privatised in 1994. With the end of the Accord (which was a centralised wages policy used by the government to curb inflation and improve productivity), a more decentralised model of industrial relations was introduced that relied on enterprise based bargaining. This model encouraged parties to adopt the fostering approach to agreement making similar to processes outlined in the Strategic Negotiations framework which relied on both parties developing co-operative attitudes and solutions (Walton et al. 1994:28).

With privatisation and the appointment of new CEO James Strong in 1993, Qantas initiated a comprehensive change program aimed at overcoming the level of 'inertia' that had constrained the development of genuine partnerships that could deliver productivity gains (McDonald and Millett 1997:5). From 1995 to 1999 several joint consultative mechanisms between management and trade unions were established that sought to introduce a new 'customer-oriented' culture to complement the operational and business strategies. As the incoming CEO, Strong argued that the airline had to be 'run as a business and costs [were] critical' and that he hoped trade unions could help develop strategies to improve productivity and reduce costs (McDonald and Millett 1997:4). Several Enterprise Bargaining Agreements (EBAs) during this period made reference to a commitment to fostering partnerships that would deliver gains to both the Company and workers (Qantas EBA III2-3).

However Qantas strategies begun to take advantage of the regulatory changes that occurred during the mid 1990s following the election of a conservative Coalition government. The Workplace Relations Act, introduced in 1996, sought to enhance managerial prerogative at the enterprise level. Qantas made some significant changes to its employment relations strategy which impacted on the type of social contract that existed between management and workers. Rather than seeking to foster change through the development of co-operative relations with unions, management aimed to force through change. This resulted in parties reverting back to a negotiation strategy that saw each party only accommodate or recognize the legitimacy of each other's role. This led to mere compliance and adherence to 'conditions of employment' contained in a collective agreement (Walton, et al 1994:10). The productivity improvements that Strong and his team hoped to achieve were not realised (Bray 1997:62).

The appointment of Geoff Dixon as CEO in 2001 saw a renewed sense of urgency to improve productivity levels as competition from other airlines had continued to grow. In 2003, Qantas initiated the Sustainable Futures program which was aimed at securing cost savings and efficiency gains totalling A$3 billion by 2008. At a press conference in 2008, Dixon acknowledged that this target had been achieved by "streamlining processes, changing productivity and by improving the cost of sale" (Dixon 2008a). Following on from the legacy of the Strong era, management at Qantas utilised an array of employment strategies that sent mixed signals to unions and workers. On the one hand Qantas has introduced a number of HR initiatives that reflect a commitment to investing in its workforce. For example, Qantas has recently established a new A$10 million customer service centre that provided state of the art facilities to train front line staff, cabin crew and airport staff (Dixon 2008a). Yet on the industrial front, Qantas was actively pursuing an accommodation at arms length strategy which reflected a somewhat more pragmatic approach to maintaining the relationship between management and labour (Walton et al. 1994:16). This was due to the failure of previous attempts by Qantas management and trade unions to develop new work practices. Management remained focused on ensuring wages and working conditions were brought "back to market". Management attempted to force through this change by remaining committed to a "non negotiable" offer of a 3 per cent annual wage increase as part of its collective bargaining negotiations. However, Qantas has utilised other initiatives that aim to provide employees with an additional benefit while maintaining the company's wages policy. In particular, a number of recent collective agreements state that Qantas will make an additional 1 per cent superannuation contribution on behalf of their workers.

Qantas management has conceded that it has had to alter its approach to negotiating with trade unions depending on the perceived 'impact' that a union might have on the operations of the business as a whole. For example, in 2008, the engineering union (ALAEA) secured an annual wage increase of approximately 4 per cent as part of a collective bargain deal. This agreement was reached after lengthy bargaining campaign that culminated in 10 weeks of strike action, which caused significant delays and flight cancellations. Due to public pressure and trade union power, Qantas departed from its previously stated wages policy which had formed a cornerstone of the Sustainable Futures Program established in 2003 (Ong 2008). This is similar to outcomes reported by Gittell et al. (2004:176) in the US who reported that high levels of trade union presence was likely to result in higher wage outcomes in the airline industry due to increased institutional power.

Although the most dramatic changes in employment relations strategies appear to have occurred at Qantas, Jetstar has also had to modify its approach to labour relations. In order to prepare for the abolition of individualised Australian Workplace Agreements (AWAs) under a newly elected Labor government, Jetstar negotiated a new collective agreement with the Australian Federation of Air Pilots (AFAP) thereby recognising the legitimate role of trade unions in collective bargaining. The key elements of this agreement include an annual wage increase of at least 3 per cent, the provision of a retention bonus, increased Rostered Days Off (RDOs) and the establishment of a bonus system linked to Key Performance Indicators (KPI) and overall organisational performance (Workplace Express 2008). The formation of these new union collective agreements may also help to overcome the hostility that some workers displayed towards the company, referring to it as “Jetscab” (Murphy 2008b).

Just like Qantas, Jetstar is also undergoing a leadership change. With the appointment of a new CEO at Jetstar, it is yet to be seen whether the airline will return to more traditional forms of unionised collective bargaining or will seek to develop alternative forms of employee representation through the use of non-union collective agreements as permitted under new federal workplace laws (Oderberg 2008).

Conclusions

This paper has adopted the Strategic Negotiations framework of Walton et al. (1994) in order to examine how both Qantas and Jetstar have chosen particular employment relations strategies in order to adapt to emerging competitive pressures. Our research has revealed that Qantas has moved away from strategies that have been characterised as a ‘high road’ employment relations model to one that has elements of both ‘high’ and ‘low’ road approaches. On the one hand, Qantas has adopted human resource practices such as the provision of high levels of employee training and ‘social’ benefits to foster greater commitment to organisational goals. However, on the other hand, Qantas has pursued employment relations strategies that either encourage vigorous bargaining with trade unions at the institutional level or avoid collective agreements with unions by outsourcing certain functions in an attempt to reduce costs. As Qantas management has sought to bring wage rates and conditions “back to market”, a ‘middle road’ or ‘hybrid’ model of employment relations has emerged. Likewise, Jetstar has also begun to display a move away from the ‘low road’ approach to employment relations which tended to exclude trade unions and minimise costs. Perhaps anticipating a new regulatory environment, Jetstar has recently negotiated a collective agreement with the AFAP. It is yet to be seen if this change of policy by Jetstar signals a move away from predominantly individualised employment arrangements towards a more collective approach, thereby demonstrating a new willingness to recognise a more positive role that trade unions might play at the institutional level.

This paper has also examined the connection between employment relations strategies and the broader business and operational decisions within Qantas and Jetstar. It would appear that the convergence in employment relations strategies by Qantas and Jetstar is the result of a similar ‘fusing’ of the business and operational strategies utilised by the two airlines. Due to extraordinary levels of global economic turbulence, increasing competition and fluctuating fuel prices, both Jetstar and Qantas have adopted elements of each other’s business models. This new approach attempts to ensure the market segmentation strategy, that has been successful in the past for both airlines, will continue to deliver a high level of return in the future. By pursuing a cost savings strategy in response to external market pressures, the difference between the strategies adopted by the two airlines have become less distinct and the arguments for maintaining their separate identities may become less compelling in the future. Whether the emergent 'middle road' business and labour relations model will be able to ensure Qantas and Jetstar successfully navigate the "perfect storm" that is brewing in the aviation industry remains to be seen.

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Changing employment relations in airlines: International and comparative perspectives.

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ABSTRACT

We discuss deregulation and some of the key international institutions that influence the management of people in airlines. We summarise contrasting models from successful 'new entrant' airlines: Ryanair and Southwest. We consider examples of 'legacy airlines' and 'new entrants' in contrasting varieties of capitalism. These are classified according to which strategies dominate their efforts at cost reduction. We analyse differences in two aspects of IR strategies. First, airlines can focus on *controlling* employee behaviour or seeking their *commitment* to the goals of the airline. Second, airlines can seek to *avoid, accommodate* or *partner* with unions. We show that, in terms of IR, the variety of capitalism context helps to influence the tendency of employers' strategies, but airlines still have scope for exercising strategic choice, in spite of their institutional and regulatory context.

INTRODUCTION

We distinguish between, first, long-established 'legacy airlines' (e.g. British Airways) which was founded in a regulated environment. Second, most of the 'new entrants' to the industry (e.g. easyJet and Ryanair) were designed to compete in a less regulated environment. This paper 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.

This is a cyclical industry. Profits made by airlines in boom periods have often been wiped out by their losses in recessionary periods. The lack of economic viability of many legacy airlines was disguised by protection, state ownership and public subsidies. This paper 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.

We review the findings from studies of airlines in Britain, Ireland and Scandinavia. These studies were generally based on reviews of literature as well as interviews with managers and union officials. 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. We first mention the regulatory context and the 'varieties of capitalism' literature.

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 provide a context for the parties' strategic choices about competitive and employment-relations strategies. Most occupational groups in most major airlines are unionised and employment relations are regulated by collective bargaining and/or works councils.

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 European Union (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. Let us consider a few examples of airlines in two classic varieties of advanced capitalism.

Two of the largest and most successful new entrants have adopted contrasting management styles. Southwest Airlines, the oldest 'new entrant' was founded in 1971 in the USA. It chose employment relations strategies based on employee commitment and union partnership (Gittell 2003). In 2004 Southwest became the largest airline serving the domestic US. Apart from its first year, it has been continually profitable - an unusual feat in the US airline industry. Southwest is the longest surviving new entrant. It aims to have high productivity, to pay its employees well, to practice a commitment approach to them and to partner with their unions.

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

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. Ryanair aims to adopt both of these strategies, while Southwest has adopted the latter strategy, but not the former. These two airlines are the most influential role models for other new entrants.

We analyse legacy and new entrant airlines according to differences in two aspects of employment relations strategies. In their relationship with employees, some airlines tend to adopt a command-and-control approach to employees. Others 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 formal or informal mechanisms to foster the involvement of employees' interests in decision-making.

Varieties of 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 the classic example of a liberal market economy. Britain and Ireland tend to have more or less similar forms of political economy to the US. These economies can also be characterised as ones where the firms tend to implement employee-relations and cost-competitiveness strategies that tend to focus more on wage minimisation, rather than on enhancing productivity.

In contrast with such liberal market economies, Scandinavian, for example, has a coordinated market economy characterised by interlocking systems of employment relations, training, and education working together to regulate pay 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 retrenchments and undercutting levels of pay and other benefits (Barry & Nienhueser, forthcoming).

Liberal Market Economies: Britain

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

Britain had long had adversarial traditions of employment relations. Nevertheless, especially following the advent of the post-1997 Labour government, there have been initiatives 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.

British Airways (BA) is Britain's largest and oldest airline. Before it could be privatized in 1987, BA had to first become profitable. It sought profitability partly by cutting labour costs, by making many people redundant.

BA's rhetoric has long included campaigns to foster employee commitment and engagement saying that 'people are our most important asset' (Colling 1995). Nevertheless, BA periodically launches campaigns to cut labour costs. These two campaigns tend to contradict each other. For instance, while BA was advertising its excellent customer service, it adopted a tough stance towards its staff, threatening to sack strikers and sue them for breach of contract. BA's stance was counterproductive, however. It appeared to be bullying, which turned moderate staff opinion against it. Such a stance had negative effects on staff morale, service and BA's reputation.

BA has followed a paradoxical course between being willing to endure strikes and implementing cost cutting, and trying to foster partnership and employee engagement strategies. When it was privatized, BA retained its collective bargaining arrangements with most categories of its workforce as well as its 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 this partnership approach (Harvey 2007). 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 volatile industry (Buyck 2005). For years it claimed to be 'the world's favourite airline' but 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' (Preston 2007). As another commentator put it, 'staff morale has remained stranded on the runway' (Pitcher 2007). BA uses the rhetoric of partnership with unions, with employee commitment and engagement but 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 UK. Sometimes others challenged BA's dominance of scheduled services, but in a regulated market the new entrants struggled to survive and either they collapsed or were bought by BA.

After deregulation, in 1995 a colourful 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 that is limited to short or medium-haul routes in Europe.

EasyJet aimed to maximise aircraft utilization. While based in Britain, it 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 of $85.4 million, owing largely to higher fuel costs and integration costs after it acquired GB Airways (Buyck 2008).

In its early years, easyJet's employment-relations strategy was in the control category, along with union-avoidance. One 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 (Harvey 2007). However, by 2007 easyJet had adopted more of a commitment approach, along with a union accommodation strategy. Mike Campbell, 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 (Syedain 2007).

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.

By contrast with when it was a state-owned enterprise in a regulated market, the legacy airline BA has been adopting increasingly tough management tactics in relation to its employees and unions. It continues to accommodate unions, but has not really partnered with them (although both BA and easyJet 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 the example of Scandinavia.

Coordinated Market Economies: Scandinavia

Employment relations in Scandinavia (Denmark, Norway and Sweden) 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.

The major private airlines, industrialists, and the governments of the three countries developed a tri-national enterprise: Scandinavian Airline System (SAS). Although SAS has adopted a general Scandinavian model for employment relations, it has had to cope with the additional complication of dealing with 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 better terms and conditions 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 uncompetitive cost-structure was disguised by its growth during the economic boom of the late 1990s.

Following the 9/11 crisis and the decline in profitability of SAS and its dysfunctional structure, the competitive threats became more obvious. 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, it 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 being offered by their competitors. Moreover, there were 10 per cent cuts in senior executives' salaries.

The SAS parties agreed on immediate cost reductions - a difficult process. However, most of the negotiations, 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 resolved it with a compromise contract.

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

Management advisers strongly advocated radically reducing employment in the original legacy airline, SAS, while simultaneously growing the new-entrant airlines that it had invested in. 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, helped by a favourable business climate. the Scandinavian aviation industry was reaping the advantages from having restructured and reduced costs. 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. Most managers and unions at SAS share this perception. 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.

CONCLUSIONS

This paper 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.

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. Consequently they have become tougher employers, with a tendency for cost competitiveness strategies to focus, to a greater extent, on reducing employees' economic rewards and 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 unions. In terms of employment-relations practices, while some new-entrant airlines have followed Ryanair's example by adopting 'low-road' employment strategies, others such as Southwest and easyJet have chosen 'high-road' employment strategies.

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 has been trying to restructure. One main difference between them is in the way restructuring has been implemented. The coordinated market economy of Scandinavia has an institutional framework which encourages a partnership with its 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 since 1997, easyJet has adopted 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, reminding us that airlines (and other enterprises) still have scope for exercising strategic choice, in spite of the institutional context.

The experience of BA and most of the US legacy carriers suggests that in the context of liberal market economies, legacy airlines are less inclined to adopt partnership strategies with unions, but those that do (e.g. BA), have difficulty in sustaining them. By contrast, legacy airlines in the coordinated market economies of Europe are less likely to adopt union avoidance strategies; if they do, these are less likely to be sustained. For example, the so-called 'rigidities' of the Scandinavian labour market, where managers have to partner with employee unions, encourage productivity-enhancing strategies. The obligation of SAS managers to consult with employees generates options focused on long-term restructuring; and hence cuts in labour costs have been made more gradually by SAS compared to airlines in the liberal-market economies. In the Scandinavian context, managers have developed responses to market changes based on bilateral negotiations, in contrast to most airlines in liberal market economies which have taken unilateral approaches to imposing 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 become more difficult, for example, as in 2008, when there was a spike in fuel costs and a crisis in the banking and financial sector.

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We, the authors of this paper, have just published a book which elaborates the arguments in this paper: G. Bamber, J. Hoffer Gittell, T. Kochan & A. von Nordenflycht (2009). *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees*: www.cornellpress.cornell.edu/cup_detail.taf?ti_id=5284 (available in Australia via www.footprint.com.au or in Europe via www.nbninternational.com). We are grateful to many colleagues for helpful comments. We acknowledge that this paper draws on the work of other researchers who have also conducted studies associated with the US Labour and Employment Relations Association Airline Industry Council, including: Michael Barry, Phil Beaumont, Geraint Harvey, Julian Howe, Laurie Hunter, Russell Lansbury, Robert McKersie, Werner Nienhueser, Sarah Oxenbridge, Judy Pate, Kate Rainthorpe, Bernhard Rikardsen, Siobhan Tiernan, Peter Turnbull, Joe Wallace, Lorraine White and their colleagues. Selected articles from this network will be published in the *International Journal of Human Resource Management* and a more substantial version of this paper is forthcoming in the *Journal of Industrial Relations*. We acknowledge research funding from several sources including: Alfred P. Sloan Foundation, Australian Research Council, MIT Global Airline Industry Program, and the US Federal Mediation and Conciliation Service. We thank Nina Jaffe and Lyn Vinton for assistance with editing this paper.

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Symposium and Book Launch at IIRA World Congress, 2009

High Involvement Work Systems? How Airlines and other Enterprises Can Improve Performance by Engaging their Employees

Symposium Co-chairs

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Book Launch

The Symposium should be of interest to practitioners and academics. It will draw on international applied research. It will include a Book Launch of: *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees,* by Bamber, G.J., Hoffer Gittell, J., Kochan, T.A. & von Nordenflycht, A., Cornell University Press, New York, 2009.

The Launch will be conducted by Professor Russell Lansbury, President, IIRA, and University of Sydney. Launch refreshments will be co-sponsored by: Institute of Work and Employment Research, MIT Sloan School of Management; and Australian Centre for Research in Employment and Work, Department of Management, Monash University.

The Symposium

This Symposium should engender debate between academics and practitioners. Our questions focus on airlines, but are relevant to other industries that are facing pressures to compete on costs while maintaining quality standards: For example: How can High Performance Work Systems be operationalised? How can we learn from others? We discuss cases from North America, Europe, Asia and Australia. We consider what stakeholders can do – in airlines and other sectors – to prevent low cost competition from having counter-productive outcomes for customers, workers and investors. By comparing business strategies and IR practices across a range of countries, we also speak to the theoretical debates regarding the "varieties of capitalism" and their effects on employment policies and outcomes.

Discussants The Symposium will include high-profile discussants from management and union perspectives:

Sue Bussell, Executive Manager Industrial Relations, Qantas Airways.

Bruce Highfield, Former General Manager: People, Virgin Blue Airlines.

Terry O'Connell, Executive Director, Australian Federation of Air Pilots.

Symposium papers The symposium will include three papers before a discussion.

Changing employment relations in airlines around the world; International and comparative perspectives. G. J. Bamber (Monash University, Melbourne/Griffith University, Brisbane, Australia), T. A. Kochan (MIT Sloan School of Management, Cambridge,, USA), J. Hoffer Gittell (Brandeis University, USA) and A. von Nordenflycht, (Simon Fraser University, Canada).

Abstract: We discuss deregulation and some of the key international institutions that influence the management of people in airlines. We summarise contrasting models from successful ‘new entrant’ airlines: Ryanair and Southwest. We consider examples of ‘legacy airlines’ and ‘new entrants’ in contrasting varieties of capitalism. These are classified according to which strategies dominate their efforts at cost reduction. We analyse differences in two aspects of IR strategies. First, airlines can focus on *controlling* employee behaviour or seeking their *commitment* to the goals of the airline. Second, airlines can seek to *avoid, accommodate* or *partner* with unions. We show that, in terms of IR, the variety of capitalism context helps to influence the tendency of employers’ strategies, but airlines still have scope for exercising strategic choice, in spite of their institutional and regulatory context.

Strategic choice and employment relations in Australian airlines: A case of convergence? T. Sarina and R. Lansbury (University of Sydney, Australia)

Abstract: This paper examines the strategic choices made by Qantas Airways, a full cost legacy airline, and its low cost carrier, Jetstar, regarding employment relations in the context of increasingly competitive market pressures. Initially both airlines pursued divergent business and employment relations strategies. However, as the external environment became more turbulent, their strategies began to converge. Both airlines have adopted elements of ‘high’ and ‘low’ approaches to employment relations and have moved towards a hybrid model. While Qantas remains highly unionised, it has sought to bring the wages and conditions of its employees ‘back to the market’ and has outsourced various functions to reduce costs. Although Jetstar initially made use of individual employment contracts it has recently negotiated collective agreements with one of the pilots’ unions. Faced with the possibility of a ‘perfect storm’ in the aviation industry, the new management of the two airlines face strategic decisions whether to maintain their separate identities or continue to plot a course for greater degree of convergence.

Explaining the adaptive changes at Aer Lingus: An analysis of the constraints on management approaches to industrial relations. J. Wallace, S. Tiernan and L. White (University of Limerick, Ireland)

Abstract: This paper sets out to explain the limitations on management strategy using Aer Lingus, the former Irish state airline, as a case study. We use the classification of management strategy advanced by Purcell and Sisson’s chapter ('Strategies and practice in the management of industrial relations,' 1983). We show how the Sophisticated Modern approach to managing industrial relations emerged in the airline when it was a legacy carrier and how pressures for change have acted both to preserve, and place pressures, on this approach. From 1992 the airline experienced a number of major shocks due to downturns in the industry accompanying the first Gulf war, the events of September 11 and the rise of Ryanair as a competitor. We argue that events of the early 1990s saw an intensification of the sophisticated modern

approach but that the downturn following 2001 led to pressures to depart from that approach and to align their industrial relations approach with their new status as a low cost carrier. We show that this move was unsuccessful and that privatisation caused a reversal to a sophisticated modern approach. Following privatisation there has again been pressure to move either towards a traditionalist or standard modern approach but to date this has not happened. We show the reasons for the preservation of sophisticated modern approach and locate this in wider problems now faced by the airline.

EXPLAINING THE ADAPTIVE CHANGES AT AER LINGUS: AN ANALYSIS OF THE CONSTRAINTS ON MANAGEMENT APPROACHES TO INDUSTRIAL RELATIONS

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This paper sets out to explain the limitations on management strategy using Aer Lingus, the former Irish state airline, as a case study. We use the classification of management strategy advanced by Purcell and Sissons. We show how the Sophisticated Modern approach to managing industrial relations emerged in the airline when it was a legacy carrier and how pressures for change have acted both to preserve, and place pressures, on this approach. From 1992 the airline experienced a number of major shocks due to downturns in the industry accompanying the first Gulf war, the events of September 11 and the rise of Ryanair as a competitor. We argue that events of the early 1990s saw an intensification of the sophisticated modern approach but that the downturn following 2001 led to pressures to depart from that approach and to align their industrial relations approach with their new status as a low cost carrier. We show that this move was unsuccessful and that privatisation caused a reversal to a sophisticated modern approach. Following privatisation there has again been pressure to move either towards a traditionalist or standard modern approach but to date this has not happened. We show the reasons for the preservation of sophisticated modern approach and locate this in wider problems now faced by the airline.

EXPLAINING THE ADAPTIVE CHANGES AT AER LINGUS: AN ANALYSIS OF THE CONSTRAINTS ON MANAGEMENT APPROACHES TO INDUSTRIAL RELATIONS

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INTRODUCTION

This paper explores the determinants and limits of management choice in approaches to industrial relations. Our starting point is the classification of management approaches advanced by Purcell and Sisson (1983) which was an adaptation of a classification initially developed by Fox (1974). Purcell and Sisson identified a limited number of approaches to industrial relations, which companies could adopt. Subsequent research has focused on the extent to which management could choose an industrial relations strategy. In this paper we examine the way in which a management approach to industrial relations became established in Aer Lingus, the former Irish state airline, and the way in which pressures for change have been mediated within the airline. In focusing our research on Aer Lingus, we have been able to examine the impact of a number of factors. The main ones are the change in the airline industry over time, the challenges of competition, the pressures from the low fares carrier Ryanair and more recently the demands arising from privatisation. We conclude with a consideration of the implications of our analysis for management approaches, and future choices open to the airline and trade unions.

BACKGROUND TO AER LINGUS

Aer Lingus was established in 1936 as a semi-state company and initially only provided a limited pre-war service to Bristol, London and Liverpool. It was only after the war that European services were initiated and a transatlantic route from Shannon to New York was introduced in 1958 (Skinner and Cranitch, 1990; Share, 1986). Major development took place in the 1960s and 1970s with the acquisition of Boeing 707s in 1964 and Boeing 747s in 1970 and Aer Lingus became established as a successful legacy carrier. In common with other legacy carriers Aer Lingus flew to large primary airports, offered transfer connections and operated a Frequent Flyer Program. They provided a high quality of service with an emphasis on the friendliness of the airline, with the air hostesses (initially all cabin staff were female) at the forefront of this corporate image. This high quality service inevitably came at a cost, with these being met through high but differentiated fares (Wallace *et al.,* 2006). It operating in this manner Aer Lingus was not different to many legacy carriers internationally and it enjoyed considerable commercial success.

Over the years the airline was given a number of functions by governments. Apart from providing air access to and from the country, it was also required to promote regional industrial development and provide employment. While these differing objectives had implications for the company, the main influences on its commercial operations, up to the early 1990s, were the cyclical nature of the airline business and the role of the state as sole shareholder. By the late 1990s it became apparent that Aer Lingus's problems were not just due to the cyclical nature of the airline industry. It became clear throughout the 1990s that Irish Governments were no longer prepared to provide continuing capital for fleet renewal or as put by some critics they were no longer prepared to bankroll Aer Lingus (Barrett, 2004). In particular, the economic development function was no longer viewed as an essential part of its remit – or at least not one that the Government was prepared to pay for!

Irish governments had also, from the mid 1980s, sought to develop a "two airlines policy" as part of a strategic policy decision to promote competition. Previously, there had been an effective duopoly position with Aer Lingus and British Airways controlling the market through largely matching fares. Aer Lingus matched Ryanair in the early years using its dominant position in the market place and tactically adjusting fares to ensure it retained market share. Ryanair had seemed financially doomed in its early years but in 1989 (Creaton, 2004) Aer Lingus was required to hand over landing slots at Stansted (outside London) to Ryanair. This stabilised Ryanair's finances and that airline quickly grew to become a major competitor of Aer Lingus from when it took the decision (1991) to operate a low cost model. This model based loosely on the Southwest Airlines model, involved low fares and low costs but was also based on low cost employment terms and conditions with use of contingent labour and outsourcing of peripheral function. Unlike Southwest it also involved strident non-unionisation (O'Sullivan and Gunnigle, Forthcoming).

METHODOLOGY AND CONCEPTUAL FRAMEWORK

We use the classification of Purcell and Sisson (1983) to explain the determinants of the industrial relations choices in Aer Lingus and also comment on the limitations of that schema. Our preliminary research involved building a detailed picture of developments in Aer Lingus since the 1970s. In order to do this we relied on a range of secondary sources and primary sources. Our main secondary source, from the 1980s onwards, was the weekly Irish news journal, Industrial Relations News, which reports extensively on Irish industrial relations issues and has paid particular attention to Aer Lingus. The online Labour Court recommendations provided details on the disputes that proceeded to full Labour Court hearing. This allowed us to build a detailed database of industrial relations developments in the company. From the secondary research we developed a detailed questionnaire. The questionnaire was used for qualitative in-depth interviews with senior human resource managers in the company, representatives of the three main unions – the Irish Airline Pilots Association (IALPA), the Irish Municipal Public and Civil Trade Union (IMPACT) representing cabin crew and the Services Industrial Professional and Technical Union (SIPTU) representing a wide range of workers including cabin crew, administrative and general workers. In all cases we spoke to both full-time union officials and elected worker representatives (senior shop stewards). In addition we met and interviewed the former chairperson of the Central Representative Council (CRC) - a sub-board level consultative body.

The division of management approaches into unitarism and pluralism has been a standard tool of classification since its introduction by Fox (1966) in his work for the Donovan Commission. While useful at a conceptual level, Fox (1974) quickly acknowledged that a simple unitarist/pluralist classification did not match neatly onto the real-world practices of organisations. Thus, there were high standard employers who were non-union and to whom the simplistic low-standard unitarist model did not apply. Furthermore, there were organisations that operated in a collectivist tradition that went beyond the simple proceduralisation of industrial relations, which flowed as a policy prescription, from the unitarist/pluralist analysis. This led Fox (1974) to advance a more elaborate classification, which was subsequently adapted by Purcell and Sisson (1983). This adaptation, which is widely used in the literature, involves the identification of four main categories of approaches available to management (see Figure 1). These are as follows:

1. Traditionalist
2. Standard modern
3. Sophisticated paternalist
4. Sophisticated modern; with two sub-groups – constitutionalists and consulters.

The traditionalist category is the standard unitarist reactive approach adopted by organisations historically when faced with unionisation. In time, a pluralist approach came to be the preferred approach for many larger organisations faced with the reality of the growth in unionisation and the greater power of labour in the mid-twentieth century. However, the adoption of a pluralist approach may fall well short of the planning which Fox (1966) had claimed followed from the adoption of a pluralist approach.

Unitarism	Traditionalist	Low pay and poor conditions. Forcefully oppose unions. Reactive, opposes collective bargaining – may reluctantly accept this if forced to do so but will try to ignore or limit it. Uses dismissals to discourage union membership. Little procedural regulation.
	Sophisticated Paternalism	High standard pay and conditions of employment. Mostly non-union. Do not accept as a given that company and employee views will coincide. Spend a lot of effort on aligning the two. Sophisticated policies on recruitment, selection, performance, training etc. Driven by key personalities (founding owner).
Pluralism	Standard Moderns	Pragmatic and reactive. Industrial relations not seen as a problem unless events prove otherwise. Accept unions, uses collective bargaining and procedures but no ideological commitment to pluralism. Driven by product market changes. Move with the business cycle – more pro-employee in good times, less so in poor times.
	Sophisticated Modern	High standard pay and conditions of employment. Recognise and even encourage union membership. Work with shop stewards, institutionalise conflict (use state agencies), maximise areas of common interest. Reduce power of strategic groups. Develop effective control systems.
Sophisticated Modern sub-groups	Constitutionalists	Strong emphasis on strict/detailed procedures and sophisticated collective bargaining.
	Consulters	Promote employee participation/involvement. Expand integrative bargaining minimising distributive bargaining.

Figure 1: Classification of Management Approaches
Source: Adapted from Purcell and Sisson (1983)

Indeed Fox (1973 & 1974) pointed out the capacity for pluralist proceduralisation to be no more than evidence of the underlying potential for low trust in the employment relationship. Reactivity may also be a feature of pluralism and this is captured in the standard modern category above. Thus in the standard modern approach, management has no ideological commitment to pluralism *per se* and they may be more or less pluralist depending on economic circumstances and the relative power balance between capital and labour. The sophisticated paternalist approach, which is equivalent to soft human resource management, can be seen as an attempt to deal with the tendency towards low trust in the employment relationship. This is done on management's terms within a largely unitarist framework and without the involvement of an outside party – a trade union. Such companies are, however characterised by high pay and conditions of employment. As such, use of this approach comes at a cost, and although found in advanced manufacturing companies like Intel, it is not widespread in Ireland (Gunnigle, 1995). The final category identified by Purcell and Sisson is that of Sophisticated Modern. Companies in this category are pluralist and recognise trade unions but seek to manage the management–union relationship in terms that limit the effects of distributive bargaining and adversarialism. This involves going beyond the standard pluralist prescription of recognising unions, dealing with shop stewards and having procedure agreements in place. They may seek to maximise areas of common interest and decrease the influence of strategic groups. Within the sophisticated modern category, Purcell and Sisson (1983) identify two sub-groups. These are consulters and constitutionalists. Consulters are organisations that seek to maximise the areas of common interest through employee participation and expanding integrative bargaining and minimising distributive bargaining. Constitutionalists, on the other hand, rely on strict and highly developed procedures.

INDUSTRIAL RELATIONS IN AER LINGUS: THE FRAMEWORK

Industrial relations have had a central role in Aer Lingus over the years with the company recognising unions from the earliest days. Today there is a high level of unionisation (in excess of 93 per cent in 2006) among cabin crew, pilots, administrators, craft and general workers. Consistent with the pluralist approach there has for a long time been a high reliance of procedures. Collective bargaining has been the standard mechanism for handling industrial relations with a requirement on both parties to exhaust procedures in the event of disputes. This has involved a commitment to make full use of the voluntarist state industrial relations machinery; most notably the Labour Relations Commission (LRC) and the Labour Court[2]. As the airline industry is highly regulated from a safety and technical perspective, there are also a series of strict and sophisticated agreements signed with groups of workers, notably the pilots union IALPA. These set out operational procedures but also have industrial relations implications. In addition to the standard collective bargaining arrangements, there is also a legislative system of worker participation based on the Worker Participation (State Enterprises) Acts 1977 and 1988. This arose as a result of a general interest in worker participation developments in continental Europe, trade union pressure and the involvement of the Labour Party in the 1973-1977 coalition Government which introduced the initial legislation. From 1977 worker directors were appointed to the board of the company and they comprised one-third of the total complement of directors. The 1988 Act was a response to complaints that worker participation had not been extended downwards. As a result of this legislation, a sub-board participation structure, the CRC, was established. Management were required to consult this group, which as of 2006 had about 50 members, on developments in the company.

[2] The Labour Relations Commission is a body with trade union, employer and independent representations. It has a number of functions including providing a conciliation service, the use of which is optional in trade dispute. The Labour Court is not technically a court of law and only issues a recommendation setting out its opinion on a dispute and the terms on which it should be settled.

From the above it can be seen that, within the Purcell and Sisson (1983) framework, the approach to industrial relations in Aer Lingus conformed from an early date to a sophisticated modern approach and this was intensified over time. This is exemplified by the ready engagement with unions, the highly developed procedures and the high standard pay and conditions of employment. In addition there is the presence of worker participation and the use of highly developed and strict procedures. This coexistence of worker participation, and highly developed and strict procedures, indicates that the distinction between sub-groups in the Purcell and Sisson (1983) framework does not apply. In the case of Aer Lingus the consultation and strict procedures are complements. The preceding narrative also casts doubt on the notion of management choice in their approach to industrial relations, let alone a strategic choice. In Aer Lingus as in other legacy carriers internationally, the fact that air travel was a luxury, if not an exclusive product, in the early days enabled a high cost – high fares strategy. This provided and economic rent, part of which went to employees, or was captured via collective bargaining by employees, resulting in high pay and conditions. The requirement for the proceduralisation of industrial relations arose from the growth in trade union power in the 1960s but was also a requirement of all semi-state companies to negotiate and deal with trade unions. The requirement for strict operating procedures, derive from the requirements of the airline industry and the over-riding safety requirements these present. Finally, worker participation requirements were imposed via legislation and were not a management choice *per se*. Thus, there appears an inherent logic if not inevitability to the Aer Lingus approach to industrial relations and it is probably misleading to even describe this as management approach, as industrial factors, government legislation and unions had substantial influence which made such an approach inevitable. Thus, there must be considerable scepticism that this represented a strategic choice by management and it seems more representative of what modern management research identifies as “emergent strategy”. Mintzberg and Waters (1985) make the distinction between deliberate (realised as intended) and emergent (patterns or consistencies realised despite or in the absence of intentions) strategies. They further argue that these two form poles of a continuum along which real world strategies develop. In other words they argue that strategies will have varying degrees of both.

PRESSURES FOR CHANGE 1980-2008

The pressure for changes to the approach to employment relations within Aer Lingus is divided into five periods, commencing from the 1970s. These periods are from the late 1970s to 1991, 1992 to 2000, 2001 to 2005, 2006 to 2008 and finally developments in 2009. While somewhat arbitrary these periods reflect differing circumstances for the organisation.

Early Commercial Pressures 1970s to 1990

From the 1970s on the company could not solely rely on government injections and sought to address financial pressures of the period through diversification efforts to improve productivity[3]. Management tackled the issue of labour productivity through productivity agreements with the trade unions. This is a standard staple of pluralism and can be seen as lying within the sophisticated modern method of seeking to maximize common areas of interest. Such agreements were, however not always readily accepted and led to some industrial conflict, notably strikes by clerical, avionics and craft workers in the late 1970s and early 1980s. Following this, there was a period of relative industrial relations stability, which was not noticeably disturbed by the early effects of the two airlines policy and the establishment of Ryanair.

Challenging Times and Retrenchment 1991 to 2000

With the outbreak of the first Gulf war Aer Lingus along with others in the airline industry experienced a financial crisis. In the years 1991 to 1994 the company posted net losses of €419 million (Weldon 2002:299). Government indicated its continued willingness to support the airline but at a price – there had to be major cuts in jobs, reductions in operating costs and divestment of the ancillary businesses. This placed industrial relations centre stage in the process of change and they have remained there since. Government requirements were addressed by an agreement with the trade unions, known as the Cahill plan. The details of this are described in another paper to this conference (Wallace *et al.*, 2009). From a management approaches perspective it is sufficient to note that the Cahill Plan involved trade-offs, which helped stabilise the finances of the company and ensured a government injection of capital to help with fleet replacement. Thus, the process did not amount to full-blown concession bargaining as, although there was a wage freeze and redundancies there were reciprocal concessions. Examples of these include redundancies on a voluntary basis with generous severance terms and a 4.6 per cent share ownership for the remaining employees. Viewed in terms of the management approaches, the agreement represented an intensification of a sophisticated modern approach rather than a move towards a standard modern or traditionalist approach. This was dictated by the fact that management and unions had a common interest in putting together a survival plan in the face of the government ultimatum. Simple concession bargaining might have resolved the financial difficulties but the cost of such unilateral action would have been too great, given the power position of the unions but also the government's expectation that the company would handle disputes through the state industrial relations

[3] The company invested in hotels, maintenance and overhaul and a wide range of other activities. Many of these activities were commercially successful and helped to counter cyclical downturns and shocks in the airline industry. However, the company divested themselves of these during the downturn in the early 1990s, a policy which has been strongly criticised by a former secretary of the company (see Weldon, 2002).

machinery. This was also dictated by the emergence of an industrial relations model based on national partnership since 1987.

Continuous Restructuring and a Move to a Low Fares Model 2001 – 2005

Despite the growing threat from Ryanair, over time the gains from the Cahill Plan were subject to slippage. Both management and union representatives noted during interviews that over time the benefits of the 1993 job cuts and efficiencies were eroded. This slippage combined with a confluence of other developments to threaten the survival of the company in 2001, the most significant of which was the fall-off in air travel arising from the events of 11 September 2001. These led to a further survival plan with two key elements. The first involved a decision to move the airline to a low cost model and the second a plan for cost cuts and rationalisation of employment numbers.

The cost cutting and rationalisation was harder to achieve than under the previous Cahill Plan. The Government claimed that it was not free under EU competition law to invest in the airline, a claim hotly contested by the trade unions. The company initially indicated it required 2,500 redundancies and, for the first time, indicated it did not rule out forced redundancies if required. The trade unions rejected any compulsory redundancies and there followed difficult negotiations with agreement only being reached after extensive use of the state institutions – notably the Labour Relations Commission and Labour Court. The pursuit of compulsory redundancies and outsourcing is indicative of pressures on the industrial relations system. Despite the evidence that the company wished to proceed on its own terms, which would have marked a break with the sophisticated modern approach, they were unable to achieve this. In the event, the company engaged with the trade unions, with the result that voluntary redundancies, enhanced severance terms and no outsourcing ensued. In effect there was a continuation of the sophisticated modern approach.

2006 and Privatisation

In April 2006 the Government announced a decision to privatise the airline. The unions strongly opposed this move but were unable to prevent it proceeding. However, because privatisation could not be successful without employee agreement, they had a strong bargaining position on the terms and conditions of employment that would prevail post-privatisation. This led to a requirement for further negotiated change and led to an agreement which was favourable to the unions while again providing concessions on flexibility, productivity, cost-effectiveness and a “fly anywhere agreement”. As a result there was an intensification of the sophisticated modern approach and a backing off from the management attempts to move away from it which had been evident in the years 2002 to 2005. However, it is clear that this intensification was based on the pragmatic requirements of privatisation rather than any ideological commitment to this enhanced form of pluralism.

A Return of Pressure on the Sophisticated Modern Approach 2007 to 2008

Within a short time the agreements reached prior to privatisation came under strain. Management complained that commitments to flexibility were not being honoured and the unions were unhappy at what they considered to be breaches of the agreements reached. The Ryanair bid for Aer Lingus in autumn 2007 prompted the company to respond with a defence document, which the CRC and the trade unions supported. On foot of this in early December 2006, the company presented the unions with a “Programme for Continuous Improvement” (PCI-07), which involved a plan for €20M savings, including proposals for outsourcing. While supporting the resistance to the takeover this proposal became embroiled in dispute and management made a number of efforts to introduce the changes unilaterally, a move which was denounced by the Labour Court. The Labour Court did, however support the principles of the cost reductions and eventually in May 2008 agreement was reached (see accompanying paper on Employment Pacts in Aer Lingus for further details). Following this management sought further cost savings of €74million. These were achieved by a leave and return formula in which workers were made redundant, received enhanced redundancy pay and were rehired on lower wage rates and different conditions. It is evident that since privatisation there has been a return to the strains on the sophisticated management approach, which emerged from 2001 onwards. There is clear evidence of attempts to disengage with the state institutions and for management to push for unilateral change. It is also clear that there are strong limitations on achieving these aims and the practice of trying to maximise common interests through the established procedures and practices remain in place.

Discussion and Conclusion: The Current Situation and Prospects

Aer Lingus has been greatly affected by the current international recession and the contraction of the Irish economy. This saw the chief executive, Dermot Mannion leave the company in April 2009 amidst a projected loss of €50 million in 2009 a run down of the large capital reserves of the company. The underlying issue of competition with Ryanair continues to be the main concern for the company, despite the cost savings achieved in recent years. The company chairman, and acting chief executive, stated in April 2009 "our prices are too high and people are telling us that" (Hancock, 2009:5). He added further changes are necessary and these could mean job cuts without sizeable redundancy payments and he said he will meet the unions head-on if necessary to implement changes. He has said, "if we've got to take on industrial relations strikes then we've got to take on IR strikes" (Hancock, 2009:5). If followed through on, and in the past similar comments have not been followed through on, this would mean an effective abandonment of the sophisticated modern approach and not just its adaptation, which is what has prevailed since 2001. The questions are "what options are available to management?", "are they now free to choose between alternatives?" and, if so, "at what cost?"

A sophisticated paternalist approach can readily be dismissed as an option as this would be just as costly as the sophisticated modern approach and would be inconsistent with the established collectivist norms. In an ideal situation it is clear management would wish to choose a traditionalist low cost employment relations approach to match their low fares model. The option of pursuing a traditionalist approach would run into trenchant opposition from the unions. They have seen what employment conditions are like in Ryanair and they do not like them. An attempt to replicate these in Aer Lingus would likely see a fight to the finish or horrendous relations if the company survived as an independent entity. It is not just union opposition, which makes a traditionalist approach implausible. Aer Lingus has sought to market itself not just as a low fares airline but as an airline that cares. Such an approach requires motivated and committed staff which would not be promoted by a traditionalist approach.

This leaves the standard modern approach as the most viable alternative. This would involve fighting piecemeal battles over discrete issues and addressing the cost base in different areas over an extended time period. Outsourcing is the most likely option which the company would pursue first[4]. This approach opens up the prospects of a guerrilla war situation. Should the company depart from the normal conventions of voluntary redundancy with substantially enhanced redundancy compensation, they would likely have to either refuse to deal with the state institutions or reject a Labour Court recommendation. This would almost inevitably lead to industrial action and continuing running strikes. The incentive for the company is particularly strong to go down this route but so are the incentives for the workers and unions to oppose such an approach.

It is apparent from the above analysis that the two most plausible options available to management have disadvantages. The standard modern approach opens up the prospect of continuing disruption and a loss of confidence among travellers and investors. Any adaptation of the sophisticated modern approach, which is readily acceptable to the unions, may prove too costly. Any which is readily acceptable to management is likely to demand more than workers are willing to concede short of major conflict. Nonetheless, the growth in unemployment in Ireland and wage cuts may make further employee concessions easier to achieve. Whether these will be achieved through the dismantling of the sophisticated modern model or its adaptation is an open question. Industrial relations are not the only, or even main, challenge facing Aer Lingus. The company set out an ambitious expansion plan as part of privatisation and these have been derailed by the downturn of the international and Irish economies. This is the case even on US routes, where Aer Lingus does not face competition from Ryanair. Thus in the current situation the ambitious expansion plans developed as part of the low cost strategy are an albatross around the company's neck. The future approach may be determined by whether or not Aer Lingus is able to continue as an independent operator. If taken over the new owner(s) is likely to have a crucial influence on the approach adopted. Ryanair in its last takeover bid indicated it would

[4] There are substantial savings still to be made by outsourcing catering and other ancillary activities, where earnings are reported to be still well over the market rate.

recognise unions in Aer Lingus, however it is difficult to see them embracing a sophisticated modern approach should they eventually take over the company.

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