

# Financial Mismanagement of Air India

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**Abstract:** It is clearly evident that Air India has had a very difficult time in both making financial decisions as well as in fixing the various repercussions that those decisions have caused them. With the merger and the plethora of assets that they acquired post-merger, their financials have dropped down the drain. With the idea of Privatization also falling apart due to inconvenient conditions in the contract, it is up to Air India to make the call for the reorganization of their committee. It is time that Air India take the time and resources to recuperate their losses and attempt a comeback into the market. Otherwise, it will be a damning defeat for Air India, an airway that still sparks a light of hope in many hearts of the Indian people. Hence, they are a lesson to be vary of all the factors of a company: The company's employees, It's assets and finally managing the finances. The Air India case opens our eyes that things can go wrong anytime and if we were to own a company, we must keep such factors in mind and tread carefully.

## 1. INTRODUCTION

Air India is the flag carrier airline of India headquartered at New Delhi. It is owned by Air India Limited, a government-owned enterprise, and operates a fleet of Airbus and Boeing aircraft serving 94 domestic and international destinations. The airline has its hub at Indira Gandhi International Airport, New Delhi, alongside several focus cities across India. Air India is the largest international carrier out of India with an 18.6% market share. Over 60 international destinations are served by Air India across four continents. Additionally, the carrier is the third largest domestic airline in India in terms of passengers carried (after IndiGo and Jet Airways) with a market share of 13.5% as of July 2017. The airline became the 27th member of Star Alliance on 11 July 2014. Air India had its origin as *Tata Air Services* in 1932, founded by J. R. D. Tata of Tata Sons, an Indian aviator and business tycoon. In its first year of operation, the airline flew 260,000 km, carrying 155 passengers and 10.71 tons of mail and made a profit of ₹60,000 (US\$830). The airline launched its first domestic flight from Bombay to Trivandrum with a six-seater Miles Merlin. In 1938, it was re-christened as *Tata Air Services* and later as *Tata Airlines*.

- **During the Second World War**, the airline helped the Royal Air Force with troop movements, shipping of supplies, rescue of refugees and maintenance of aircraft.
- **After World War II**, regular commercial service was restored in India and Tata Airlines became a public limited company on 29 July 1946 under the name *Air India*.

**After Indian independence in 1947**, 49% of the airline was acquired by the Government of India in 1948. On 8 June 1948, a Lockheed Constellation L-749A named *Malabar Princess* (registered VT-CQP) took off from Bombay bound for London Heathrow marking the airline's first international flight. In 1953, the Government of India passed the Air Corporations Act and purchased a majority stake in the carrier from Tata Sons though its founder J. R. D. Tata would continue as Chairman till 1977. The company was renamed as Air India International Limited and the domestic services were transferred to Indian Airlines as a part of a restructuring. From 1948 to 1950, the airline introduced services to Nairobi in Kenya and to major European destinations Rome, Paris and Düsseldorf. The airline took delivery of its first Lockheed Constellation L-1049 and inaugurated services to Bangkok, Hong Kong, Tokyo and Singapore.

## 2. MERGER

### 2.1. History and Merger

Tata Airlines, founded in 1932 by J.R.D. Tata, became Air India in 1946, an international airline before Independence. It grew rapidly and modernized. The government of India nationalized the air transportation industry and exercised its option to purchase the majority stake in the carrier and Air India International Limited was born. All domestic services were transferred to Indian Airlines, which in 1962 became the worlds first all-jet airline.

The choice to consolidate Air India and Indian Aircrafts into National Aviation Company of India Limited (NACIL) was taken in 2007 by the UPA government. The merger was intended to defeat their problematic execution, anticipating a Rs. 1,000 crore benefit in the principal year itself. Be that as it may, there have been not kidding issues with mix (Air India pilots' strike enters Day 15, ANI). "After the blended element was named Air India, Indian Airlines staff members felt lost personality. It is on the grounds that flying worldwide was at that point considered progressively 'in vogue' at that point and the naming of the new organization was the keep going nail on their box," said George Abraham, general secretary of the Aviation Industry Employees Society (AIEG). As per the arrangement that was struck around then, previous IA supervisors were permitted to head the blended element, as 'remuneration'. However, in five years there was not really any incorporation of the two carriers' units or different HR frameworks.

Normally, the issues to be seriously considered by merging or acquiring organizations are:

- Rivalry among unions of two merging companies
- Merger of rules, procedures, manuals of two companies
- HR policies on transfer, promotion, placement, seniority, etc.
- Redundancy of certain posts/jobs
- Coordination problems

- Psychological superiorities or inferiorities
- Hostile groups among smaller partners

## 2.2. Case from Air India

*“The 2012 strike in Air India is not the only one. Perhaps it is not the last one either. The airline has had a series of strikes and is likely to have several more unless it can settle the issues arising out of the merger between Indian Airlines and Air India. The national carrier, christened NACIL, has faced repeat strikes in 2010, 2011, 2012, the last being the longest. The company and the Ministry have taken only the preliminary steps to resolve this vital issue, five years after the merger was officially done. Unless a comprehensive approach is adopted now to integrate the two erstwhile airlines, Air India & Indian Airlines, there is likely to be repeat industrial relations problems.”*

The 58-day strike from 7 May to 3 July 2012 crippled Air India’s international operations and caused an estimated revenue loss of Rs.625 crores. Even after the strike was called off on 3 July, the airline was not operating all its 45 international services till early August. Among the destinations to be axed first were Hong Kong, Osaka, Seoul and Toronto and the Middle East routes. Previous strikes also led to cancellations and losses.

All the strikes have followed similar patterns:

- Problem issues have emerged and discussions started
- Dead-locked discussions have led to work stoppages and/or declaration of strikes.
- Flights have been cancelled with substantial loss of revenue.
- Government and management have invariably come out as strong critics of union action and remained firm in disapproval.
- Unions have been derecognized and their offices shut down.
- Employees have been dismissed, but reinstated later.
- Unions have been recognized again and continued to function.
- Operations have been resumed after various lengths of partial shut-down.

## 2.3. Government Ownership

Government organizations rarely make profits and airlines are among the worst - as these are considered prestigious.

- There are excessively many employees after the IA-AI merger and the government is reluctant to downsize. Around the world, there about 120 staff for every aircraft on average whereas Air India averages 256. New Air India bosses bet on people power to fix the ailing carrier and these extra people and salaries are a huge drain. Air India spends 20% of its revenues on salaries & benefits and in comparison Jet airways spends only 10%.
- Like any government organization it is not managed professionally. It is headed by/run by civil servants, who might or might not have the necessary business and industry knowledge.
- Like anything with the government, it is scam ridden - making it buy unnecessary planes and overpay for them. And the previous government probably had a hand at that. CBI will probe Air India losses under UPA rule and Air India in Multiple Scams, Says CBI.
- Lots of politicians and government servants are given free or inexpensive air tickets funded by Air India.
- Air India runs on a lot of loss-making routes and these are kept more of political reasons than economic. When the government should be serving the underprivileged and it is spending 10s of thousands of crores on a useless airline company it is classic socialism.

In early 2017, news concerning growing issues over the salaries of workers of 2 Indian airline firms hit the headlines. Jet Airways, a listed entity, made public its money woes, asking workers to require a 25% wage cut. Meanwhile, India’s national carrier, Air India delaying day after day each month for a few times now, currently with August seeing the longest delay — unbroken mum, except an interior memo that blamed “circumstances outside human control”

No surprises there. As a public sector utility (PSU), this is how Air India is expected to be: obscure, and lacking accountability. Over the previous couple of years, the incumbent government has struggled to work out what it will do with the loss-making airline that has associate degree albatross of debts around its neck.

The recent efforts in March to denationalize the airline, providing a 76% stake to the most effective bidder. It found no takers. Air India retains a debt of Rs 48000 crore on its record, and an identical quantity in accumulated losses. Even with GoI backing it, the airline ought to be thought of bankrupt. Answers can’t be found within the case histories of past PSU disinvestments.

Air India need not go all the way. Instead, it may learn what will work for it. the foremost, engaging a part of the method monitored by the National Company Law court (NCLT) is that the clean break that it provides a brand new owner. First, the debt is paid off fully. Second, the previous promoter and its vestiges also are sold. This means that the govt won’t solely hold any equity within the airline or its subsidiaries and it’ll additionally not seize one or two aircraft anytime the prime minister, the president or the vice-president decides to travel abroad. Every such visit takes the 2 craft and workers out of service for some weeks, given the required maintenance checks. A full separation of GoI from Air India can mean the creation of a fleet of craft for official government use, to be maintained by Air India, the service provided at arm’s-length valuation.

Improving operations at the airline, and making certain that its planes keep taking to the skies, could also be the sole choice at the moment. However, GoI wants outside facilitations, and might emulate a model tried out by the steel ministry last

year. In Apr 2017, the Steel Authority of India Ltd (SAIL) engaged with veteran industry majors and a firm to show around its steel plants.

Among others, it brought in former Tata Steel deputy administrator Tridibesh Mukherjee, and B N Singh. They worked along Beantown Consulting group (BCG) and were accountable to assist turn around financials of specific steel plants. SAIL started recording quarterly profits from the second quarter of 2017-18.

**3. EMPLOYEE SATISFACTION AND MOTIVATION**

A straightforward meaning of motivation is that it is the portrayal of individual's rationale to activity. It is 'the thing that makes us do what we do.' The most intricate and profitable assets of each association are the representatives working in it. It needs to be viewed as that individuals ought to be exceptionally energetic and their endeavors ought to likewise be lined up with the objectives of the association. Each employee has work, occasions, people, and objectives in his or her life that keeps them motivating. Along these lines, inspiration about a few parts of life exists in every individual's cognizance and activities.

To create a workplace that persuade the employee to work with motivation, includes both characteristically fulfilling and extrinsically empowering factors. Representative inspiration is the mix of satisfying the employee's need and desires from work furthermore, the working environment factors that helps to inspire the employees. Numerous businesses neglect to comprehend the critical element of inspiration in achieving their main goal and vision. Indeedl, when they comprehend the significance of inspiration, they need the aptitude and learning to give a workplace that encourages employee inspiration.

**3.1. Dimensions of Job Satisfaction**

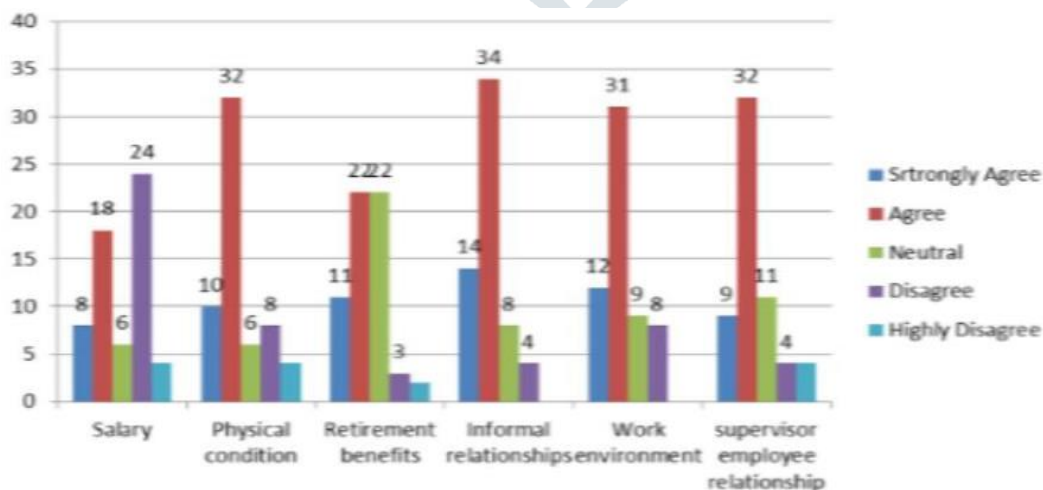
Individual elements in corporate identity, instruction and capabilities, knowledge and capacities, age, conjugal status, introduction to work.

- Social elements incorporate associations with the co laborers; amass working and standards, openings for collaboration, casual association.
- Cultural variables incorporate basic frames of mind, convictions also, values.
- Organizational components incorporate nature and size, formal structure, HR strategies and techniques, representative relations, nature of work, innovation and work association, supervision and styles of initiative, the executive's frameworks, and working conditions.
- Environmental elements incorporate financial, social, specialized and government impacts.

**3.2. Major Issues Caused by the Merger**

- Unified work practices
- Man power integration
- Pay parity
- Carrier progression
- Succession planning

In the perspective of the above explanation of issues, employees' perception morale and motivation level had come down multilevel due to the surmounting losses which company has been trying to overcome in the past years as a result of which employees were getting delayed salary, part payment and a big cluster of cost cutting measures has been a very de-motivating factor for the employee, there by resulting low productivity and ambiguous work culture.



1. Employee dissatisfaction with the company

## 4. SOLUTIONS

### 4.1. Semi privatization

The Public Private Partnership (PPP) model works in India. We've seen it with our Tier-1 airports (Like the CIAL airport in Kochi) and the metro lines in our cities. A large conglomerate would take a stake in the airline. The government will however have to settle its debts to make the airline attractive enough to suitors. The only things it has going for it right now is the brand, Star Alliance membership, the lucrative MRO (maintenance, repair and overhaul) business and some profitable routes.

### 4.2. Airline can be sold off to International Carriers

We see that taking place in Europe and the US, where mergers and acquisitions are quite common. The Lufthansa Group, for instance, itself has a stake in several European airlines. Air France merged with KLM (Royal Dutch Airlines); Alaska Airlines acquired Virgin America; Delta purchased North East Airlines; British Airways merged with Iberia. Singapore Airlines for a while looked like they were interested in Air India, with the Tatas playing matchmaker, but that did not pan out.

### 4.3. Talent from Private Sector

Air India should also focus on its long-term market standing, keeping in mind that it will be stock market listed and engage private capital in future. The immediate next step would be bringing executives from private companies in the top management of the airline.

### 4.4. Strategic Leadership

Strategic leadership is the key element for airline restructuring. This was the case with several other international airlines. Incubating private management had worked in several instances. International senior management who know how to manage commercial operations and fleet development will help an airline to quickly turnaround.

### 4.5. Maximum Fleet Utilization

There are many airplanes sitting idle in New York Airports and this caused the company more money to maintain. Air India could really use approach to restructure their 777 operations to minimize aircraft utilization. Reducing the time spent by the aircraft on the ground especially at USA destinations, which take up almost 6 to 7 hours or turnaround time. And since USA has this concept of Day-Light savings which is the practice of turning the clock ahead as warmer weather approaches and back as it becomes colder again so that people will happen to have one more hour extra of daylight leads to an extra hour of turnaround time which in turn will delay the flights even more. So that is also something which has to be looked after.

### 4.6. Codeshare

A codeshare agreement, also known as codeshare, is a business arrangement, common in the aviation industry, in which two or more airlines publish and market a flight under their own airline designator and flight number as part of their published timetable or schedule.

Air India has added a lot of flights to Star Alliance member hubs in the past few years. They have added a lot of codeshares also. But they fell on short on a few important ones. For example, they added flights to Copenhagen and Stockholm both being hubs for Scandinavian Airlines.

Air India needs to shift their entire European sector to a morning arrival in Europe if they want to enhance codeshares and successfully operate flights. It will help both passengers and themselves as passengers will get more options to connect to European as well as North and South American cities. Air India is only looking at the India connectivity and not the connection at the other end.

## 5. CONCLUSION

It is clearly evident that Air India has had a very difficult time in both making financial decisions as well as in fixing the various repercussions that those decisions have caused them. With the merger and the plethora of assets that they acquired post-merger, their financials have dropped down the drain. With the idea of Privatization also falling apart due to inconvenient conditions in the contract, it is up to Air India to make the call for the reorganization of their committee. It is time that Air India take the time and resources to recuperate their losses and attempt a comeback into the market.

Otherwise, it will be a damning defeat for Air India, an airway that still sparks a light of hope in many hearts of the Indian people. Hence, they are a lesson to be vary of all the factors of a company: The company's employees, It's assets and finally managing the finances. The Air India case opens our eyes that things can go wrong anytime and if we were to own a company, we must keep such factors in mind and tread carefully.

The need of great importance is that Air India doesn't just need capital imbuement, yet it additionally should be progressively streamlined and savvy. As a PSU, it is impeded by numerous wasteful aspects, for example, over business and unbeneficial choices. On the off chance that the legislature is hesitant to turn over the misfortune making behemoth to the Private Sector, at that point it should find a way to guarantee that it capacities like a Private Carrier. To make it operationally productive, the Government may need to settle on disagreeable choices, for example, eliminating courses that run discharge and remember authorities when they are not required. Outwaiting till Air India becomes productive doesn't appear the most sensible methodology. With Kingfisher going tummy up, the channel on funds is progressively obvious and the Government is by all accounts got in a sticky situation.

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