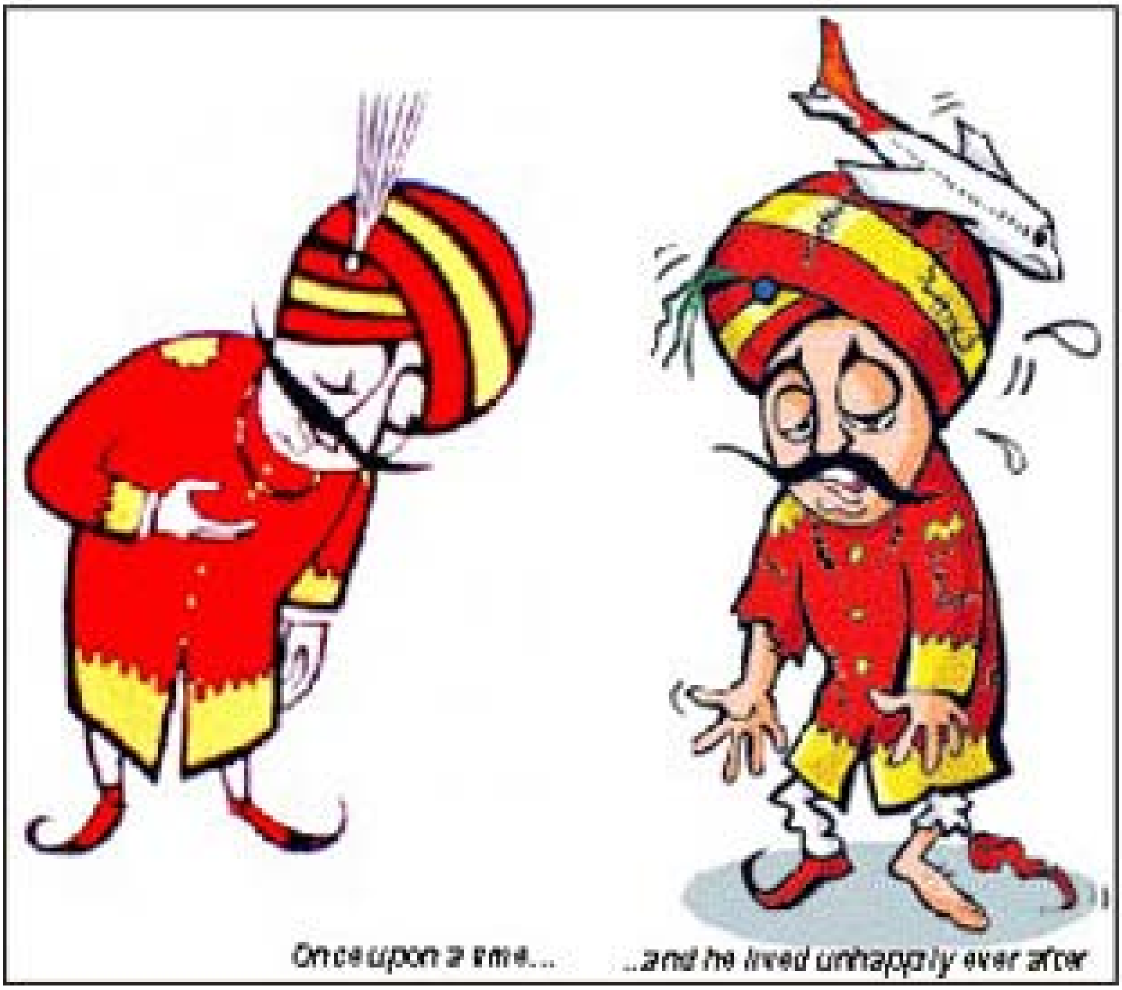
All the Maharajah's Men[1]



Once upon a time…. *… and he lived unhappily ever after.*

[1] The *Maharajah* (trans. a great King) is the official mascot of the Indian national carrier Air India (image above- Source: http://www.ourkarnataka.com/Articles/starofmysore/psu009.htm).

This case has been written by Anisha George under the guidance of Visiting Professor Jeffrey D. Straussman, Lee Kuan Yew School of Public Policy (LKY School), National University of Singapore and has been funded by the LKY School. The case does not reflect the views of the sponsoring organization nor is it intended to suggest correct or incorrect handling of the situation depicted. The case is not intended to serve as a primary source of data and is meant solely for class discussion. This case won the second prize in the Case Writing Competition 2011.

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On a warm, sunny day in December 2011, the Bhaidas Auditorium in the western suburbs of Mumbai city was thundering with laughter and the constant applause of a packed audience. On stage was the country's popular comedian and magician at the time - Ranjeet.

The occasion was the Annual Children's Merit Award Function organized by the Aviation Industry Employees Guild (AIEG), the largest trade union of India's state-owned air carrier Air India, felicitating the academic achievements of the wards of its union members. In the meanwhile, George Abraham, the General Secretary of AIEG, was impatiently pacing up and down the entrance of the auditorium.

Abraham's face was curled in a half smile. He was thankful for the brief comical relief to his fellow union members and their families who were suffering the turned fortunes of their company that had defaulted on nearly three-four months of wage payments. The man of the moment, however, Abraham knew, was the Chief Guest for the occasion, Minister Vayalar Ravi, who had recently been appointed as Minister of Civil Aviation. Ravi was received with an even shriller applause as he assured the eager audience of his commitment to securing their interests. Abraham recounts Ravi saying that he was 'pressing hard and (was) hopeful that the bailout package presented by AI to the Government (would) be approved by the Cabinet'.

Present day AI had existed as two separate airlines Air India (operating international air services) and Indian Airlines (servicing domestic routes and neighbouring countries), denoted as AI_0 and IC respectively[2]. In the early 2000s, the two airlines had run into rough weather following a global aviation slump. In an unexpected move, Ravi's predecessor, former Minister Praful Patel, had decided to merge the two airlines in 2007, in a bid to galvanize their commercial prospects. The winter of 2011 marked four and half years of the merger. However, the fortunes of the now single merged national airline had only further deteriorated since its unification.

As of March 2011, Air India's cumulative loss and debt burden stood at 12.6 billion USD[3]. The carrier had begun defaulting on payments of staff salaries and allowances. The credit rating of its lenders' was plunging by the week. The potential collapse of AI would have severe political ramifications for the Government. The resultant collateral loss would have an adverse impact on the economy and the lives of the 27,000 workers employed with the airline. Patel had come under severe criticism for his alleged role in steering the airline to its present state from significant sections of the media, civil society, Opposition parties but most of all the Airline's labour unions. Following this public outrage, Ravi had been brought in by the Government in January, 2011 to resurrect the national carrier and convince the unions of its best intentions to save the Maharajah.

Abraham, a close acquaintance of Ravi, realised that he had an exceptional opportunity to rally support both within and outside the Government along with the new Minister in steering the airline back to stability if not its former glory. In AI's fragmented trade union scape, Abraham headed the largest union with nearly 10,000 workers under his wings. Abraham was the preferred negotiator for management, and to a lesser degree, the government too, among all of the trade union leaders for his perceived reasonableness and pragmatism.

[2] Pre-merger Air India will be denoted as AI_0 implying Air India (old) and the merged entity will be referred to as AI.
[3] P.R.Sanjai, "Air India cuts losses in US Operations," *Mint (Newspaper)*, September 4, 2011.

The three major options before the Government to avoid the airline's imminent collapse were capital infusion, privatisation or selling off of suitable assets and shrinking the airline to ensure survival and manageability. AI's trade unions, backed by the larger, national labour movement along with the socialist elements in both the Government and Opposition were in favour of a Government bailout. The private and foreign competitors of Air India were in favour of outright sale of the airline or less preferably, shrinking of its operations and were critical of the Government's role in upsetting competitive conditions by constantly supporting AI.

Whilst Abraham and Ravi were most keen on the first option, they realised the necessity for the Government to take a definitive decision but more so to do it quickly. Air India's losses and labour tensions were mounting by the day. The duo were up against a formidable challenge with little or no public support for an airline that was largely perceived, quite simply, as an inefficient public-sector enterprise and a relic of India's socialist past that was overdue for closure or sale.

The Take-off Period

The history of civil aviation dates back to 1903 and in India, to 1931. Air services then were entirely in private hands free from any form of regulation. This free reign, however, had ended soon enough as states had begun to see civil aviation as critical to national, economic and defence interests. Accordingly, the first inter-Governmental regulatory authority, International Civil Aviation Organisation, had been established in 1944. Civil Aviation had, thus, been brought under state control world over and most airlines had been nationalised.

In the mid-1900s, aligned with international trends, the newly independent Government of India had nationalised its air transportation industry under the Air Corporations Act, 1953 and established two autonomous corporations - Air India (AI_0) and Indian Airlines (IC). The two carriers had gone on to register swift growth in fleet and network expansion and soaring profits. Air India (AI_0) in particular had come to be known for its superior and hospitable in-flight service internationally.

In the late 80s, the civil aviation industry worldwide had begun to be liberalized. Corresponding to the liberalization of the Indian economy in the 1990s, Indian domestic skies too were opened up. In 1994, the Air Corporations Act was repealed and the Open-Sky policy announced. This had broken the monopoly of the domestic national carrier as more than 15 private airlines had sprung up in the aftermath. However, most of these airlines collapsed in subsequent years, with the exception of two major private airlines[4], leaving in their wake huge amounts of unpaid dues to oil companies, airport authority, employees and various other vendors.

Into the 2000s, international bilateral[5] air traffic rights were diluted by the Government of India. Indian air carriers' inability to exploit the increased seat capacity had made way for the

[4]The two major private airlines in the 1990s were Jet Airways and Sahara Airlines. Sahara was bought over by Jet Airways in 2007.
[5]Bilateral rights refer to the agreements between two countries on the number of passenger seats transacted between them. For instance if a bilateral agreement is arrived at between India and Singapore to operate 1000 seats to and fro, then it implies that the airlines' of India can operate 1000 seats a week to Singapore and vice versa. No other airline can bring passengers between these two countries.

entry of foreign players. Indian carriers took a further beating with the slump in civil aviation business worldwide following the terrorist attacks of 9/11 and the onset of global recession. Competition in the domestic arena had only intensified with the proliferation of low cost, no frills airlines in the early 2000s. These developments had given civil aviation in India a new lease of life as air travel had been rendered much cheaper for the growing percentage of middle class Indians who were turning to air travel as an alternative to rail transport.

AI had hit an extreme capacity constraint of a slim fleet of 23 aircrafts with an average age of 18 years in 2001. In the light of a shortfall of 2 billion USD, the Government had opted to consider part privatization of the airline with management control. A consortium of Tata Group and Singapore Airlines had been shortlisted. However, the bid had to be aborted at the eleventh hour after the ruling Government, the Bharatiya Janata Party-led coalition Government, failed to secure the consent of its coalition allies and the selected consortium withdrew its bid. Despite all these challenges, the two airlines continued to hold their own under the new competitive conditions since liberalization.

The Dark Horse

George Abraham had joined AI$_0$ in 1981 as a fresh graduate. Having been a university student leader, he had soon begun to take up employee concerns with the management of his new company. Within a short period of three years, he had been elected as an independent candidate to one of the nine posts reserved for employees on the Labour Welfare Board tasked with representing a 20,000-strong workforce. Three years later in 1986, he had been elected chairman of the Board. In 1989, he had been invited by the company's biggest trade union, AIEG, to join them and instantly elected to the post of Assistant Secretary. He had also been inducted into the ranks of the International Transport Worker's Federation (ITF-a global federation of trade unions in the transportation industry worldwide). Abraham had been elected and re-elected consecutively as the General Secretary of AIEG since 1996 and Country Representative as well as Chairman of Civil Aviation Section in ITF's Asia Pacific Region since 1998. He was also nominated to the Think Tank Committee on Civil Aviation constituted by ILO consequent to the crisis in the industry post 9/11.

Abraham explained his approach to trade unionism as thus-

> "Set aside traditional trade union thinking and look at every issue from the company's perspective along with labour's perspective. A responsible trade union must partner the company and keenly follow affairs and prospects of the company apart from protecting employee welfare. If the company does not do well, employees also do not fare well. The company is not our enemy. If we kill the company, then we will be dead too."

This company-centric approach had been particularly on display when Abraham had rallied his union base in support of the company's privatisation bid in 2001. He had come under severe criticism from trade unions all over the country for selling out to the management and private sector interests. He had insisted, however, that in the context of an impending collapse and the Government's adamant refusal to infuse funds, privatisation was but unavoidable. He saw no merit in fighting the decision on purely ideological grounds and had chosen to work with the management to ensure protection of employee interests in the event of privatisation. He had argued "If the company survives and grows, the employees survive and grow too".

In his 24-year long stint at AIEG, Abraham had come to be known as a moderate and pragmatic trade unionist with desirable negotiation skills. Key to Abraham's success, however, was his unsuspectingly friendly nature and charming wit that disarmed the staunchest of his adversaries. He seemed, for the most part, to enjoy the confidence of the airline's management which at times even sought Abraham's help in resolving stand-offs with the Ministry. Abraham had also become a reasonable point person among the multiple and divided union leaders for the Government to engage with. Notably, Abraham's union was not affiliated to any political party unlike other unions in the airline, which lent it a relative position of non-partisanship in the political sphere. Enjoying a relatively high degree of confidence, even among his opposition, put him in a favourable position to negotiate for the interests of the employees effectively and that of the company at large too.

Turbulent Skies - The fall of the Maharajah

The national elections of 2004 had seen a change in Government as the Indian National Congress party-led coalition Government came to power. The Ministry of Civil Aviation (MoCA) was assigned to one of the major coalition partner's elected Member of Parliament - Praful Patel. Patel, a successful industrialist and ambitious politician, had publicly taken it upon himself to give the national carriers a makeover and restore them to their former glory.

The labour unions including Abraham's AIEG, however, were uneasy about Patel's appointment. It was rumoured that the owners of the major private, domestic carriers, Jet Airways and Kingfisher Airlines, had lobbied hard for Patel's appointment to the Ministry to further liberalise the air transport sector and open up new destinations through increased bilateral allocation. These rumours apart, Patel was known to be a strong-headed go-getter with little patience for extensive consultations with various stakeholders. Abraham was wary about forming quick judgements of Patel. He realised that a shrewd entrepreneur like Patel was equal opportunity and threat for the airline. Abraham worked skilfully with Patel in the time to come but their relationship soured eventually due to what Abraham alleged was the Minister's 'continual disregard for the concerns of the unions but more so the sale of AI_0's strategic interests to private and foreign airlines'.

Within a week of his arrival, Patel had announced a host of major initiatives including the launch of an international low-cost subsidiary of $AI_{0,}$ revision of AI_0 and IC's fleet-purchase order and the creation of a new civil aviation policy. Patel also went on to merge Air India and Indian Airlines.

Of these initiatives, Patel launched Air India Express- the international, low-cost arm of AI_0 in 2004. It mostly operated flights from South India to the Middle East and Southeast Asia targeting the significant Indian labour and expatriate population settled in these regions. Despite the diminishing fortunes of its parent airline, Air India Express had been a profitable enterprise for AI_0 since inception. The revision of the fleet purchases, however, would become a source of high financial distress for $AI_{0.}$ Furthermore, the new aviation policy which significantly raised bilateral seat capacity to accomodate Indian private carriers and foreign carriers as well as the merger of the two national airlines would come under severe criticism.

A Massive Shopping Bill

Following the collapse of the privatisation bid in the early 2000s, the Board of AI_0 had considered and approved a proposal to purchase 28 aircraft (10 aircraft from Airbus for AI_0

and 18 from Boeing for Air India Express) in late 2003 and this was pending at the MoCA for approval. At a more advanced stage was IC's proposal for 43 planes that had been approved by its board in March 2002 and passed by two Public Investment Boards. This was before the general elections of 2004. After his induction as Minister, Patel had requested a revision of AI_0 and IC's fleet acquisition plan which had met with resistance from the airlines' Boards. Shortly thereafter, AI_0's proposal had been increased to 68 aircrafts (50 for AI_0 and 18 for Express) and passed despite harsh criticism from certain members in the Ministry given the absence of a corresponding business plan to justify the figures[6].

The final purchase order of 111 aircrafts (68- AI_0 and 43- IA) was in excess of the airlines' own fleet plans. This had resulted in capital expenditure exceeding 8.7 billion USD which the combined airlines' annual sales turnover of 3.1 billion USD could hardly support[7]. The Government had refused to finance the acquisition and instead had suggested raising capital through a public offering for the airlines. This, however, had not come through. As Patel explained "analysts said the airline would not get a proper valuation because of the negative net worth"[8].

Another controversial aspect of the final purchase was the decision to award AI's entire order to Boeing elbowing out Airbus at the last minute. Airbus had demanded an investigation into the deal which, however, never came about. Moreover, the purchase order had been financed by a large loan with an interest rate of 11.75% from a Public Sector Bank instead of the option of "back stop" financing at 4% interest with Airbus[9]. Back stop financing is an arrangement where the Airline makes a small down payment and the manufacturer covers the rest. The Comptroller and Auditor General (CAG) in a performance audit of the deal in 2011 estimated that the losses caused by this single decision of the MoCA would amount to an approximate 490 million USD in total[10].

This deal had continued to haunt Patel long after it had been approved. He had come under severe media and parliamentary scrutiny alleging that the deal had been hurried without due diligence. In 2009, the Parliamentary Standing Committee on Transport, Tourism and Culture in a scathing report had criticised 'the unwarranted hike and lack of transparency in the fleet acquisition'. The CAG had expressed concern at the Ministry's decision to brush aside the objections raised by the Planning Commission (who had found the Ministry's future projections unreliable) and the Department of Expenditure (questioning the assumption that higher capacity would automatically result in higher market share) before approving the deal[11]. In response to all these allegations, Patel had argued that fleet up-gradation had been long overdue and vital to meet competition and that the final purchase had been on the basis of projections made by the airlines' managements after following due processes. The Minister, however, had been lucky to escape a media furore given the surfacing of other, bigger corruption scandals at the time that had hogged public attention.

Bilateral Bonanza

[6]Praveen Donthi, "Tailspin: Praful Patel and the Fall of Air India," *The Caravan,*, December 1, 2011.
[7]Praful Patel, "Air India Should be Sold, But I've Been Asked to Keep it Going," *Business Standard*, August 24, 2009.
[8]Ibid.
[9] Donthi, 2011.
[10] Ibid.
[11] Ibid.

World over, air traffic agreements between countries were negotiated bilaterally between Governments. For an airline to operate air services into another country, the home Government of the airline had to negotiate a treaty with the destination country's Government which was then referred to as a bilateral air service agreement. These treaties contained agreements on traffic rights over routes and destinations, capacity in terms of the number of passenger seats/flights, tariffs, competition policy and security among other particulars. Thus, world over, liberalisation of air transport continued to entail substantial Government intervention.

Bilaterals added sufficiently to the controversies surrounding Patel's innings at the MoCA. Air traffic rights once granted become 'grandfather rights' in the airline industry; they could not be withdrawn. Hence, the general practice in granting traffic rights was to protect the interests of the home carriers (whether Government-owned or private). The critical factor was whether home carriers could mount incremental capacity *to utilize their share* of additional traffic rights. Following AI's aircraft purchase and whilst the aircraft were being inducted, overall seat capacity by way of bilateral agreements was increased dramatically. Between 2004 and 2008, total capacity had grown by more than 300% in India (Exhibit 1). Foreign airlines had gained a competitive advantage of early market entry resulting in higher entry costs for the home carrier deploying capacity at a later stage. Ironically, this action had unwittingly rendered the aircraft purchase of Air India unviable.

During Patel's tenure, bilaterals had been granted to foreign airlines to operate from 13 interior points including the four metro cities to international destinations. This had adversely impacted AI's competitive advantage of operating exclusively from the country's interior points. AI's market share of the home market had fallen from 38% in 2004 to 18% in mid-2008[12]. While private, domestic carriers had benefited a little from the increase in bilaterals, the net outcome of the bilateral policy was largely in favour of foreign airlines resulting in the marginalization of Indian carriers. In early 2011, Jet Airways and Kingfisher Airlines, two of the leading private Indian carriers, joined with AI to protest against the expansion of capacity entitlements which they argued had destroyed the domestic aviation industry.

A particularly harsh criticism of Patel was the awarding of bilaterals to four specific foreign airlines, namely Emirates, Etihad Airways, Qatar Airways and Lufthansa. Abraham's union accused the Government of making these four airlines, with more than 350 flights a week to and from India, the new de facto national airlines of the country. Multiple official inquiries were instituted over the generous increase in capacity granted to foreign airlines to operate in India without securing reciprocal terms. The CAG report particularly decried the "disproportionate economic advantage" accorded to foreign airlines through the sale of traffic rights. The CAG report named Emirates as one of the beneficiaries and questioned the Ministry's disregard of AI's protests over the absence of reciprocity in concluding the bilaterals.

An Unhappy Merger

The two national airlines had been merged in August, 2007. Patel had planned the merger with the objective of creating the largest airline in India. Such a move, the Minister suggested, would not only improve the global ranking of the airline in revenue terms (to number 31 from the original 48 of AI_0 and 67 of IC) but also make it eligible for entry to the

[12] Presentation on The Present Financial Crisis in NACIL (Air India), *Civil Aviation Joint Action Front*, 7 July, 2009.

elite Star alliance of international airlines. Furthermore, the merger would facilitate more efficient utilization of resources and provide the platform to leverage each airline's business strengths. Mergers were not entirely uncommon in the civil aviation industry. The most famous and successful merger had been that of the British Overseas Airways Corporation (BOAC) and British European Airways (BEA) in the mid-1970s which was later renamed British Airways. However, some mergers in this industry had failed miserably and most had failed on issues of integration of the merging entities[13].

Patel's decision to merge the two Airlines had caught everyone by surprise. Of the various reform documents authored on the carriers, none had suggested the possibility of a merger. To the airlines' managements, labour unions and some quarters in the Ministry too, the merger seemed a counterintuitive move. However, Patel had gone public before all stakeholders could be convinced in this regard. The trade unions of both the airlines' had been angry at this utter disregard. The unions' main concern was the incompatible labour terms and services in both the carriers and the protection of workers' interests. Abraham recounts that Patel had calmed the feverish tempers of the union leaders promising that in the process of integration of the two labour forces the 'best of both will prevail at all levels' (in respect of service conditions and emoluments).

Post-merger, the unified entity was to have been sliced up into five subsidiary units-Passenger Services, Cargo, Ground Handling, Maintenance, Repair and Overall (MRO) and Air India. Each of these units was to be headed by a dedicated CEO who would be accountable to a Group Chairman and Managing Director. This was common practice in mergers where huge, ailing companies were bought out and split up (and generally re-sold to other private bidders). Accordingly in 2007, AI_0 (along with Air India Express) and IC were merged into a new company that was called the National Aviation Company of India Limited (NACIL). In 2011, NACIL along with the subsidiary units of the erstwhile airlines formed Air India Limited (AIL).

Despite adverse competitive conditions, AI_0 and IC had been individually posting healthy profits up until 2004-05; however, thereon, signs of the airlines' turning fortunes became visible. Prior to the merger in 2007, IC had registered losses up to 54 million USD and AI_0 up to 88 million USD. Their aggregate losses amounted to 142.5 million USD[14]. This figure rapidly escalated in the next three years of the merger to an estimated 3.1 billion USD. As of March 2011, Air India had accumulated a debt of 8.3 billion USD and an operating loss of 4.3 billion USD[15]. Apart from a backlog of approximately three months of salary payments and six months of allowances, it had also begun missing interest payments which hurt the credit ratings of its lenders. The CAG identified the major causes of the merged Air India's financial woes to be the failed idea of the merger itself and the decision to finance the inflated aircraft purchase order with debt. The report explained that post-merger, 'they were just too many ill-suited aircraft for ill-suited routes.' It alleged that the benefits of the merger were ill-realised due to the lack of route and capacity optimisation.

Thus, NACIL was plagued with problems since its inception. All projections given by MoCA proved wrong. MoCA appointed consultants M/s Accenture were given an extension despite their failure in ably guiding the process of merger. Employees' unions were kept out of the

[13] Steffy, 2010.
[14] Donthi, 2011.
[15] Samiran Saha, "The Grounding of Air India: Shock Figures and Some Questions for Praful Patel," *Tehelka*, Vol. 8 Issue 11, March 19, 2011.

entire amalgamation process. According to an infuriated Abraham, "all promises (given by Minister Patel) were to con us into agreement."

Poor Integration

Prior to the merger, nine committees had been instituted to study issues of integration in the new company including seniority and career progression, computerised systems, common code, welfare, etc. The merger was to have taken place on the basis of the findings of these committees' reports. However, even before the reports could be submitted the merger was carried out in haste. As a result, for nearly three years after the merger, the two airlines continued to operate as separate entities for all practical purposes. Crucial synergies such as route rationalization, IT integration, pooling of resources, manpower, equipment, bulk purchases and office spaces, among others were not coordinated. The merger had run into trouble from the start due to the lack of systematic integration with persistent clashes between organizational structures and functional responsibilities which hurt the company irreparably.

AI_0 and IC had entirely different organizational cultures based on differing operating conditions. IC had been a purely domestic airline which enjoyed monopoly status on its serviced routes until mid-2000. AI_0, on the other hand, was well-versed with the international aviation trends having competed intensely to maintain a frontrunner position in its days of glory prior to the 2000s. A failure to integrate disparities in service conditions of AI_0 and IC employees post-merger became the cause for much labour discontent. Personnel across ranks and hierarchy fought over placements, positions and promotions whilst the Government chose to turn a blind eye to this unexpected hostility. The merged entity was plagued with one-upmanship at the cost of the company. In a particularly acrimonious meeting in the aftermath of the merger, union leaders of erstwhile AI_0 and IC were fuming over the incomplete processes of integration. In a bid to break the tension in the room, Abraham narrated a story of two divorcees, each with kids from their previous marriages, who got married to each other and went on to have two more kids together. One day, they returned home from work to find their kids fighting and the wife quipped to her husband, "*my* children and *your* children are fighting with *our* children!"

The labour integration issues had come to the fore of public attention in the summer of 2011, when 700 IC pilots had gone on strike for more than a week due to wage disparities with their AI_0 counterparts in the merged carrier. This single event had piled on losses to the tune of 40 million USD[16] for the airline. An inconvenienced public had vented its ire on the inefficiencies of the state carrier which had only brought further discredit to the company. Despite repeated requests to Patel, he had failed to initiate action on the integration front, causing the unions to suspect him of having vested interests in the status quo.

Routes Discrepancies

Patel had been further accused by the unions of "transferring several highly lucrative routes from AI_0 and IC to the domestically-owned private and foreign airlines in an arbitrary fashion thereby resulting in heavy losses to the two national airlines"[17]. In a bid to reduce operating losses, several routes had been abandoned by the airline on the instructions of the MoCA. Ironically, AI had forfeited 32 of its *profitable* routes on most of which the load factor was approximately 80-100%, primarily in the Gulf (Middle East) sector which provided a ready

[16]"Air India Pilots End Strike after Managament Promises to Pay Dues," *Economic Times*, January 15, 2012.

[17]Letter to the Prime Minister of India Regarding non-payment and delay in payment of monthly emoluments to employees of Air India , *Aviation Industry Employees Guild (AIEG)*, July 30, 2011.

market to private airlines[18]. These routes had been immediately grabbed by Jet Airways, Emirates and Etihad Airways. Abandoning profitable routes had become even more contentious in the face of the airline's continued operation on loss-making routes despite its distressed financial conditions. The CAG had reported that the operating losses of the airline on the New York sub-route itself had jumped from approximately 15 million USD in 2005-06 to 300 million USD in 2008-09 due to an increase in the number of flights from 725 to 2,183[19]. Another route of Chennai-Bangkok with 95% passenger load capacity had been abandoned, making way for Thai Airways to grab the market. No legitimate explanations had been provided by the airline or the Ministry in support of the above decisions.

In the Maharajah's Kingdom

Government Patronage

The national carrier fulfilled crucial national and socio-political responsibilities apart from being the proud flag-bearer of the country. This included operating flights to remote and far flung areas to foster economic development and national integration, operating subsidised flights for Haj pilgrims and undertaking evacuation from war zones and disaster affected-areas. It was also the official carrier of the Heads of Government. The carrier incurred significant losses on most of these operations that were serviced by disrupting its own scheduled operations at the cost of damaging its own image and operational reliability with passengers. Furthermore, successive Governments routinely defaulted on payment of dues to the Airline for the above-mentioned operations.

In the 75-year long history of Air India (pre- and post-merger), the airline had never once sought financial support from the Government. Until the financial year 2004-05, it had consistently recorded profits with the exception of two years. In fact, the airline had contributed significant gains to the national exchequer on a meagre equity base of 30 million USD. Thus, until 2010, Air India had been one of the most undercapitalised Airlines in the world owned by a national Government. Given this context, Abraham questioned the Government's repeated hesitation to bail out the airline whenever it was in dire need. The first occasion had been in the early 2000s when the airline had hit extreme capacity constraints and the Government had been ready for privatisation but not capital infusion. In 2011 too, the Government was paying mere lip service on the subject of saving the airline, alleged Abraham. In the civil aviation industry, countries were known to protect home airlines the world over due to national strategic interests allied with air transport. Thus, Abraham pointed out that where the market share of national airlines in most countries was around 45%, in India it was a mere 17% with the Government seemingly happy to let go of such a national asset.

Restricted Management

A major area of concern over the years had been the politicisation of the management of AI. The management heads of the airline were members of the Indian bureaucracy mostly appointed by political heads. This had resulted in the absence of a clear and consistent leadership at the helm of the airline. The CEO and MD were frequently changed resulting in little continuity in company policies and absence of long-term corporate vision. Abraham cited that in the fifteen-year period 1996 to 2011, AI_0 and then Air India had seen around ten Managing Directors, ten Secretaries at MoCA and ten Ministers. With the exception of Praful

[18] Saha, 2011.
[19] Aditya Kaul, "CAG blasts Air India for mismanagement," *Daily News and Analysis (DNA)*, May 1, 2011.

Patel who had a six-year long stint at the Ministry, every other minister had only lasted a year. Moreover, the appointees were neither well-versed with industry specifics nor the airline's requirements. This had left the management in a weak position to steer the airline out of its crisis. Furthermore, constant political intervention in business decisions (which employees claimed increased in the course of Patel's tenure) had left the management with little autonomy. Mr. Abey George, Public Relations Executive, Air India asserted that the "turnaround plan prepared by the company was sound. However, it had been around for three years and far from execution. Any turnaround plan would require management comprehension levels at par with industry standards"[20]. He suggested that the current middle management, most of who were close to retirement, were an old and lethargic bunch. Coupled with rigid bureaucrats, George explained, this combination was only likely to slow down the process of company reform.

Little Public Support

India, at the centre of global attention due its remarkable growth rates, was keen to complete its integration into the global liberalised economy and shed the baggage of its socialist past. Air India was such a baggage in modern India. The Airline was a long-standing joke among urban, cosmopolitan travellers for its old 'aunty' air hostesses dressed in traditional Indian attire. They saw little merit in sustaining a public airline wherein 'public' was generally associated with inefficiency. Negative media coverage only fed into this notion. The public display of differences between political and management heads and the unions of AI did not help in garnering public support for the carrier. The general urban, middle class seemed to be of the view that there couldn't be any good in the national airline being artificially sustained at the cost of taxpayers' money.

Divided Union Front

A significant challenge faced by Abraham was the fragmentation of the labour representation in the company. This was due to the poor industrial relations policy followed by the management to control the power of the labour unions which sooner, rather than later, turned out to be counter-productive. The managements of both the erstwhile airlines' and even the merged entity had encouraged the rise of craft unions[21] in a bid to 'divide and rule'. Both AI_0 and IC had multiple unions within the same company which had continued post-merger into the integrated carrier that had 12 unions in total. Certain employee categories in the merged AI were even represented by more than one union. For instance, the pilots had two unions. In April 2011, the management announced a 'one craft, one union' policy but promoting craft unions was against Indian state policy[22]. The airlines had run themselves into greater trouble by promoting political unions (unions affiliated to mainstream political parties) that were even more difficult to negotiate with given their primary allegiance to the political patron.

In the absence of a solitary, unified union of employees for the entire carrier, Abraham was left to leverage his moderate image to bargain as best as possible with the Ministry and the management. The more difficult task was to bring the other unions around. His more aggressive counterparts from the erstwhile IC unions accused him of being hand-in-glove with the management. Abraham explained that given the Government's hostility for trade union agitation, an excessively aggressive stand would be counter-productive. In mid-2011,

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[20] Abey George, interview by Anisha George, January 4, 2012.
[21] Craft unionism as opposed to industrial unionism refers to the organization of workers within an industry along the lines of their specific craft. For instance, the erstwhile AI had not one labour union but instead a union for each class of workers such as the pilots, cabin crew, ground staff, engineering services, cargo, etc.
[22] Phadnis, 2011.

one of the major IC unions was banned following what the management called an illegal strike. This event had further damaged the credibility of the airline's trade unions in public eyes and only increased animosity among employees in the airline.

The Way Ahead

AI's quick descent to chaos and mounting losses in the aftermath of the merger had led to the commissioning of restructuring plans by experts in 2009. AI had gone on to sell three Airbus A300 and one Boeing 747-300M from its fleet-base for approximately 19 million USD to tide over its fiscal crisis[23]. A turnaround plan, prepared by Air India and approved by Deloitte Consultants, which was the only hope had not been approved by the consortium of bank lenders and the airline was stuck in a situation where it could neither go forward nor backward.

Following the scathing reports of the CAG and Parliamentary Committees on Patel's tenure in MoCA and his decisions of merger and fleet purchase, the Government decided to transfer Patel out of the Ministry bringing in Vyalar Ravi. Ravi, basically a trade unionist, had been President of the Port and Dock workers Union in Cochin, Kerala (a province in South India) for many years. He was a Congress Party loyalist and a staunch socialist. He pledged to save the airline and rally the necessary Government support in ensuring this. His entry relieved the unions and employees across the board in the company. However, Ravi's entry was rather late in the day. AI had suffered substantial damage by that time and was in need of a major overhaul to ensure survival.

At the time of Ravi's arrival at MoCA, AI was knocking at the doors of the Government for financial aid to the tune of 8.3 million USD to write off its debts. Abraham argued that Government capital infusion was long overdue and the equity base had to be enhanced; however, the Government seemed reluctant to oblige the airline. Minister Ravi was the brightest hope for the unions in this regard but he too was constrained by the compulsions of coalition politics and staunch dissenters within the party.

Privatisation was the least attractive option to the unions and employees. Unlike in the early 2000s, when Abraham had extended his support to the airline in a bid for part privatisation, he was not too keen to support the same in the post-merger scenario. He reasoned that AI's conditions had been brought on by the Government and hence, it must pay the price for its own follies instead of laying at stake the lives and jobs of 27000 employees. He further explained that world over airlines were experiencing extreme fiscal constraints with rising fuel prices and falling yield margins. India's two major private carriers Jet Airways and Kingfisher Airlines had also been in the red for a while. They too had begun registering recurring losses since 2008-09.

A third option that had been adopted in a few failed mergers internationally was the shrinking of the concerned airline. This would entail the sale of suitable assets to cover debts and losses and shrink operations to make the carrier smaller and more manageable. This was in the scenario of the absence of any external assistance to guard against the airline's collapse. In such an event, the airline would be declared sick and subsequently come under the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR) and be subsequently dissolved.

[23] Donthi, 2011.

Abraham realised that the real task at hand was to push the Government to action. The price of delayed action or even inaction would indeed be the life of the airline itself. Ravi was considered an ally by the unions and the management in its efforts to seek the commitment of the Government in ensuring AI's survival. However, AI seemed last on the agenda of a Government embattled with controversies of corruption in other higher-profile cases in 2011. Furthermore, several sections of the public and the business community in the country saw any extension of financial aid by the Government to the airline as further corruption in terms of artificially sustaining an inefficient airline through taxpayer's money.

Exhibit 1: Increased weekly Seat Capacity into India between 2003-mid 2008[24]

All sectors	End December 2003	End June 2008	Absolute Increase	% Increase
Total	404,508	1,440,838	10,36,330	356%

[24] Civil Aviation Joint Action Front, 2009.