

# Unethical business practices of northwest airlines essay

[Business](#), [Accounting](#)



I. Abstract This work contains an overview concerning the current situation of the Airline Industry, with a slight introduction which gives the reader a slight information concerning background the background of Northwest Airlines. This work also contains some information which tackles the unethical business practices employed by the Airline in question. II. Introduction The Current situation of the Airline Industry is filled with a lot of uncertainties both for the management teams and its rank and file employees. Airline bankruptcies have been seen much in the news recently. The problem goes deeper than imagined; It is common knowledge that some of the Major Airline companies are on the verge of closing permanently due to bankruptcy. It remains to be seen whether if the said phenomena is an extended dislocation from the aftershocks of 9/11 and an aberration in fuel prices, or a fundamental structural change. As of the present, No consensus has emerged regarding the future structure or composition of the U. S. airline industry. It was noted by analysts that there has been no precedent for this type of contraction in the deregulated era. It was noted by the Government Accounting Office (GAO), that since the deregulation of the U. S. airline industry was implemented, 160 airlines have taken the initiative of filing bankruptcy statements. According to Air Transport World, operating revenues for the 10 largest U. S. airlines amounted to \$80.8 billion in 2003, down from \$97.7 billion in 2000. Moreover, the revenues of the major carriers have declined drastically. As of the moment three of the current six U. S Legacy carriers are in bankruptcy.

According to the Air Transportation Association (ATA), only half of all airline flight seats available in the United States are now operated by airlines under bankruptcy protection. It is because of these factors along with the imminent threat of permanent closure that Northwest Airlines, the nation's fourth largest airline, filed for bankruptcy on the 14th of September 2005. Along with the resonant argument of imminent bankruptcy and closure, the said Airline imposed a number of policies that would change the lives and the perspectives of its employees concerning the business practices and strategies being employed by the 4th largest airline in the United States.

Northwest Airlines (NWA), was established by Colonel Lewis Brittin as Northwest Airways on the year 1926. The said airline was formerly a Michigan corporation with operations based at Speedway Flying Field.

This is the site of today's Minneapolis/St. Paul International Airport, and home of the airline's world headquarters. It has operated continuously under the same name longer than any other U. S. airline.

The roots of Northwest Airlines' current labor crisis was said to have originated from the time when the company was on the brink of bankruptcy in 1991. The airline was going broke and turned to the U. S taxpayers for help. Governor Arne Carlson, in response to this appeal for aid of the Nation's 4th largest airline in the U. S, initiated undertakings by the state of Minnesota to give Northwest an \$835 million-dollar aid package. In return for the state money, Northwest's chairman at that time, Al Checchi, made a promise to build two maintenance facilities in northern Minnesota, which according to him would eventually bring high-paying union jobs to the said

area. Unfortunately the actions implemented was not enough to make the vision of progress into a permanent reality.

Not to take anything away from the Management of Northwest, the promised facilities were opened and inaugurated on 1996, but the said establishment only opened up approximately 500 jobs, which is lesser by far than what gradually was envisioned. Economic woes still continued to hound the company, which culminated to the loss of \$902 million in 1992. Because of this major catastrophe, The airline is again reduced to asking for assistance. This time Northwest turned to the labour unions established by its workers. The airlines union members agreed to the concessions and wage cuts to help the beleaguered company. These wage reductions represented a substantial sacrifice by Northwest employees and were critical to the company's return to profitability. In return for the \$886 million in concessions, The management gave union members some stocks and 3 positions on Northwest's 15-member board of directors.

It is very ironic that the very same persons who were instrumental in helping the Airline overcome one of its critical phases were the very same persons who were left at the edge of poverty. The Airline managed to recover and post record breaking profits in the preceding years, although in the years that followed due to the fluctuating costs of fuel as well as the deregulation the Airline through its board of directors led by then CEO Gary L. Wilson, was finally forced to declare bankruptcy and impose extreme measures concerning the compensation and benefits of their employees. Wilson stated that " Our industry never fully recovered from the economic impact of 9/11

and the Iraq War, as reduced travel and high fuel prices led to massive losses that could only be resolved in bankruptcy.” III. Analysis of the Unethical Business Practices of Northwest Airlines Northwest Airlines filed bankruptcy on the 14th of September 2005. Along with the filing of bankruptcy Northwest Airlines imposed some questionable policies which were detrimental to the welfare of its employees. One of these questionable maneuvers was its move to absolve itself from shouldering \$3.

6 billion pension obligation due to its “bankruptcy” in addition to imposing across-the-board cuts in retirement pay, and forcing its employees to pay a hefty sum to be covered by health insurance benefits. The company invoked the principles of “force majeure,” which states that events beyond its control gave it legal basis for invalidating the agreement. However, no such argument was made in opposition to the multi-billion dollar relief package for the airlines as it was rushed through Congress on September 21. It was apparent through the acts exhibited by the airline company that its offensive against its workers is a part of an industry-wide attack that has seen the destruction of pension plans from other airline companies who had declared bankruptcy earlier, like United Airlines and US Airways.

Northwest has laid off 4,100 AMFA mechanics since 2002–1,900 of them in the Twin Cities. Which makes up almost 40 percent of the maintenance workforce, this is undoubtedly a much bigger hit than the airline’s other unions have taken. Another 900 mechanics will be cut before the end of the year. The said act also spurred a broader corporate onslaught on jobs, wages, pensions and health benefits that has already spread to the auto

industry and would probably be rapidly embraced by every other sector of the economy.

It was because of these machinations being employed by Northwest Airlines that Members of the Aircraft Mechanics Fraternal Organization (AMFA) based their decision to cross the picket line. AMFA is a small union which only in recent years has been chosen by mechanics to represent them at major airlines. It has a small treasury and no strike fund.

The said organization is not affiliated with the AFL-CIO and has had little connection with other unions since its emergence on NWA property six years ago. AMFA went on strike against Northwest Airlines on August the 20th. A group of 4, 400 employees who were members of the Aircraft Mechanics Fraternal Organization (AMFA) walked out after rejecting demands made by the management which imposed higher payments to be shouldered by its employees for health insurance and cuts in sick pay. NWA's "decent" final offer included the right to contract out 53% of the mechanics' work and all of the custodians' and cleaners' work, a wage reduction of 26%, changes in the rules for sick days and vacations, changes in work rules, and the transformation of a pension plan that was more than thirty years old from defined benefit to a 401(k)-type "defined contribution" plan, which would entail sharp cuts in retirement benefits and make them subject to the vagaries of the stock exchange. In addition to these conditions the NWA management also demanded that flight attendants must undergo a 40% cut in their overall compensation..

The management insisted that they needed \$176 to \$203 million at a bargaining session three weeks into the in “ cost savings” from AMFA’s members as part of their larger target of \$2. 3 billion per year from all of its workers. The NWA management is also seeking to impose similar cuts on its other workers and, if they are able to force the mechanics and the flight attendants to accept these cuts, these other workers—pilots, baggage handlers, ticket agents, clerical workers, and others—will have little base from which to resist. The flying public will also have many reasons to question the safety of NWA flights. The mechanics, cleaners, and custodians felt that they had no choice. If the terms being offered in the new contract was accepted, more than half of the NWA employees would lose their jobs, while the survivors would face terms and conditions which were unacceptable considering that the conditions offered were subhuman. This move by Northwest Airlines spurred a series of strikes from its beleaguered employees. The 4400 employees who walked out aired out their grievances by forming picket lines.

This union represents both mechanics and aircraft cleaners. However, the position maintained by the company is that it will be able to operate normally without the 4, 400 workers on strike. Prior to the said protests, it was apparent that the management of Northwest Airlines already anticipated the occurrence of a strike and had begun to implement a plan according to which much of the work carried out by the strikers will be contracted out to other companies at a lesser cost.

Many of the laid-off technicians have found new careers. Their cross-training in electrical engineering, structural engineering, pneumatics, hydraulics, and other high-tech specialties has made them attractive to Minnesota's expanding medical device manufacturing industry, hospitals, refineries, amusement parks, and other employers. Unfortunately, few are earning anything near the \$50, 000 to \$70, 000 a year with benefits that they made at Northwest. The Management of NWA recruited hastily trained "scabs" and employed the infamous union-busting Vance Security company to intimidate the hard-working men and women who have given their lives to help Northwest airlines thrive. NWA management has demanded that mechanics allow the contracting-out of the 53% of the work that remains after management already contracted out 38% of it. Fewer than one-fourth of the mechanics employed in 2000 will continue to have jobs.

For those who remain, management demands a 26% wage cut and the emptying of their underfunded defined-benefit pensions into 401K plans tied to the stock market. Along with this adamant refusal to give way to the grievances of its workers, Northwest Airlines has also announced job cuts which totalled to 10, 000 and has unilaterally refused to issue contractual severance payments to the thousands of laid off workers under union contract. The mechanics who went on strike represent about 11% of Northwest's total labor force of 40, 000. The company hired replacement workers on Saturday to fill in for the strikers.

The airline lined up 1, 200 non union mechanics, plus 400 vendor workers and 300 managers for a total strikebreaking force of 1, 900. This move

unveiled a backup plan the management had quietly drafted 18 months ago. The company had boasted of having prepared for the past 18 months to launch a strikebreaking operation and had spent over \$100 million to hire and house “ replacement” mechanics and flight attendants. NWA hired and trained the replacement mechanics, lodged them in hotels near their hubs in Minneapolis and Detroit, and reassigned management personnel with the appropriate certificates and licenses to take off their white shirts and ties, put on overalls, and go back into the hangars.

NWA expanded their global outsourcing of repair and service work to contractors in Singapore, Hong Kong, El Salvador, and Mexico, as well as non-union facilities in the U. S. South, performing routine maintenance work. Prior to the strike, the management of Northwest Airlines made it clear that it would declare a lockout if the mechanics union decided not to strike when a 30-day “ cooling-off” period expired at midnight Friday. Northwest also threatened to file for Chapter 11 bankruptcy and follow its rivals, United Airlines and US Airways, in using the bankruptcy courts to terminate its employees’ pension plans and impose sweeping concessions and job cuts. By all indications, the bulk of Northwest’s flights from its Minneapolis hub ran on time Monday, despite a weekend walkout by 4, 400 mechanics, cleaners and custodians over a 25% wage cut the company is trying to wrangle from them as part of an overall \$1.

1 billion reduction in labor costs. NWA management is in the midst of spending, by their own admission, more than \$100 million to bust the mechanics’ union. It is ironic that Northwest Airlines owes whatever “

success" it has achieved largely to the betrayal carried out by the trade union bureaucracy. The Air Line Pilots Association, the Professional Flight Attendants Association (PFAA) and the International Association of Machinists, all member unions of the AFL-CIO did not join the other employees in crossing the picket lines. It is because of this apparent betrayal that the airline has been able to continue its operations on a regular basis.

It is very tragic that the working class has been left virtually defenceless by the impotence and treachery of its old organizations. The problem is not that workers are unwilling or unable to fight. The entire history of the American working class testifies to its enormous capacities for struggle and sacrifice. The problem is that the fundamental perspective upon which the trade unions are based is false and reactionary. To add salt to the wound, the present management even went so far as to release a booklet which contains tips which a laid off employee or a badly paid employee could do to "save a buck". The said booklet is offering undignified information and undesired advice which implies that the laid off employees are already living hand to mouth existences. The offensive booklet does not provide any insightful or innovative advice.

What it did was assume that once no longer employed by Northwest, employees lives would turn to desperation. The booklet suggested pulling items out of the trash, reducing thermostats to 60 degrees in winter, move to a cheaper place, sell your car and take public transportation. IV.

Conclusion It is fast becoming a trend nowadays for big corporations in the U.S to just declare bankruptcy to avoid liability. The modus operandi being

done today is to try to offer two options to long term employees, the options would either be to get a diminished “ pay-off” prior to being subjected to forced retirement, or to get nothing because the company is threatening to plead bankruptcy.

After the “ big rip-off” the company would then proceed to look for cheaper labour to continue to “ thrive”, along these options would be to outsource the jobs to workers who are willing to compromise with regards the compensation and benefits. It is not uncommon to have these jobs outsourced to semi-competent persons since these people are willing to be paid less because they lack some skills in performing the specified jobs. Of course, it follows that when an airline company for instance employs an inexperienced aircraft mechanic, the risk of accidents arising from improper handling increases.

Safety, in this scenario has been subordinated to the naked drive for profit. The final act in the drama is unfolding today, as airline bosses reward themselves with astronomical salaries and perks while they break their contractual agreements with their employees, terminating pension plans with the approval of the government and the courts. For too many years the management of Northwest Airlines—along with other U. S. corporations—has demanded that workers give more hours, more effort, and more of their lives to their jobs while at the same time they receive reduced compensation, less security, and less respect. In the midst of the subhuman conditions an ordinary employee of NWA, its management continues to take home fat compensation packages, stock options, bonuses, and golden parachutes.

It is apparent that at every point, in keeping with the pro-capitalist policy of the trade unions, the interests of workers were sacrificed to meet the profit demands of the airlines. The fight to defend jobs, wages, pensions and health care is not simply, or primarily, an economic struggle that can be successfully waged at the level of trade union action—even with the best of unions. Legal contracts are meaningless when big corporations can flout them with impunity, knowing they will be backed by the courts.

The right to strike means little when companies routinely obtain court orders and injunctions restricting picketing to little more than a token gesture. The first lesson that must be drawn from the debacle for workers so tragically expressed in the Northwest strike is the need for the working class to establish its political independence from the ruling elite through the construction of its own mass party. Every airline worker knows that 9/11 became main alibi being utilized by the management to attack airline jobs and impose detrimental policies which are prejudicial to its employees. Unfortunately these conditions that continues to this day.

It is quite ironic that the unions who are fighting for humane working conditions squander millions of dollars in union dues to elect the very politicians who have cynically used 9/11 to deepen the attacks on the working class. It is therefore of Great Import that the beleaguered working class should build its own party to put forward its own solution to the social crisis—one that proceeds from the needs of working people, not the entrenched wealth and privileges of a tiny ruling elite. In the airline industry, the only rational and constructive solution to the crisis is to place air travel

on entirely new foundations. It must no longer be organized and run for the profit of corporate owners, big investors, Wall Street speculators and multi-millionaire executives.

It must instead be placed under public ownership and run as a public utility, subject to the democratic control of airline workers, representatives of the flying public, and the working population as a whole. This is the only basis for insuring safe, efficient and affordable air travel, and securing the interests of airline workers. VI. Bibliography Schultz, J. , Schultz, M.

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