

Pilots strike in china eastern airline

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On March 31, 2008, 14 flights of China Eastern Airlines Yunnan Branch turned back to Kunming without landing at their destinations. Passengers were told it was due to poor weather conditions. However, the weather did not affect flights from other airlines to the same destinations. The real reason was a strike by disgruntled pilots, according to the April 2 Guangzhou Daily. China's airline industry has been hit by a number of pilot protests in the last few weeks. On March 14, 40 Shanghai Airlines pilots took sick leave. On March 28, eleven pilots from Wuhan's East Star Airline requested sick leave.

An April 1 emergency meeting of the Civil Aviation Administration of China (CAAC) blamed the strikes on a lack of qualified pilots and poor consultation procedures. CAAC said pilots who took strike action on March 31 would be severely punished, and strike leaders may face a lifetime employment ban. Company background: China Eastern Airlines Corporation Limited is one of the three major airlines in mainland China. It has a history dating back to the first Shanghai squadron of the PLA Air Force built up in 1957. In 1997, China Eastern became the first Chinese airline listed simultaneously in New York, Hong Kong and Shanghai stock market.

The company operates 50 overseas offices and 11 domestic branches. Moreover, it holds controlling shares of over 24 subsidiaries including Shanghai Airlines, China Eastern Yunnan Airlines, China Cargo Airlines Co., Ltd and China United Airlines. China Eastern serves nearly 70 million travelers annually and ranks among the world's top 5 airlines in terms of passenger transportation volume. Following the concept of "providing heart-to-heart service to our customers", China Eastern strives to become an

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excellent aviation service integrator that is “cherished by staff, preferred by customers, satisfied by shareholders and trusted by society”.

In the past three years, China Eastern gains more than 10 billion profits, which ranks among the top state-owned enterprises with respect to ROA and therefore been rewarded the “Golden Phoenix Award” by China Capital Market Annual Conference 2011. With the concept of “World-class hospitality with Eastern charm”, China Eastern will create splendid travel experiences for customers with an “accurate, delicate and precise” service quality.

Case Analysis: 1. Macroscopic view in how China Civil Aviation restructuring affect airlines staff When we look back and put whole case into the big platform, we can get the real insight and dig out the root cause about why pilot strike case happening in China Eastern Airlines and how China Civil Aviation restructuring affect airlines staff, especially for pilots in China stated own enterprises. 1) China SOEs Merger: Yunnan Airlines merged into China Eastern Airline In 2003, China Yunnan Airlines and China Northwest Airlines merged into China Eastern Airlines.

All the airliners were transferred to China Eastern Airlines and now painted in parent company’s livery. And Yunnan aviation market was the latest one to be opened for real market competition. China Yunnan Airlines was based in Kunming Wujiaaba International Airport in Yunnan province and operated a fleet of Bombardier CRJ-200, Boeing 737-300 and Boeing 767-300 aircraft before the merger with China Eastern Airlines. China Yunnan Airlines operated mostly domestic flights from Kunming to major Chinese cities and

also provided international services to Hong Kong, Singapore, Thailand and Laos.

Before the merger, Yunnan Airlines was profitable, and Yunnan airline pilots income, was a leader in the industry. At that time, all the airlines, airports, civil aviation authority in eastern Yunnan Province were integral. That means, all the flights in Yunnan Province were conducted by Yunnan Airlines which brought the monopoly profits to the company. 2) Business Impact after merger: Unfortunately, the good intention that two profitable airlines integrating into a giant with stronger profitability didn't come true in later 3-4 years but created more negative integration impact after merger.

Most importantly, after this merger, the monopoly in Yunnan aviation market was released. Some new market entry, like Hainan Airlines started to set up branch Airlines Company in Yunnan. In addition, after the merger, China Eastern Airlines reorganized the routes design and package to maximize the margin, certain kinds of actions have been implemented such as reducing the tickets fare in branch region, decreasing the profit in branch lines to increase the total income of main lines. 3) Potential Personnel conflict after merger:

With many adjustment and reorganization in business structure and operation process, the organization structure was changed to support the whole company after-merger strategy. In 2002 after the merger, parts of high management staff of former Yunnan aviation were transferred to China Eastern Airlines and the whole management team were restructured with these typical China SOEs high managers exchange. China Eastern Airlines

also put more aircraft to Shanghai, in order to increase the market share in Shanghai, thus causing a great burden to many airline staff, especially for the pilots.

They could not well handle their work life balance and the benefits distribution mechanism became a problem in frontline staff of the company. When China Eastern Airlines in operation restructuring to focus on main lines profit increasing, the interest adjustment also became the problems: pilot's per hour income in branch line was much lower than main line and international line, which means, before the merger, former Yunnan Airline pilots can get decent pay depending on their own contribution in branch line.

But now, even with same flying working hours & high technical difficulty in branch line, they earned less than before, also less than other pilots who working for main line and international line. We believed that the root problems of reorganization were not totally solved although China Eastern Airlines hope through mergers to achieve operation optimizations and enhance the level of profitability. On the contrary, China Eastern Airlines have to face personnel and management historical burdens.

For personnel management dilemma: Some real cases showed that, as one of typical China Stated Owned Enterprise in Aviation Industry, China Eastern Airlines did not pay much more attention to the implementation change of general staff compensation plan and lack of enough transaction management schemes to well handle all kinds of ongoing different HR operations. For example, before the merger, Yunnan Airlines paid all the

expenditure for pilots' home utilities, heating costs and kids' education fee, etc.

After the acquisition, all these benefits policies need to be reformed which means to be well deducted or cancelled and titled other fewer substitutes.

For company control dilemma: Although China Eastern Airlines merged Yunnan Airlines but the headquarters of China Eastern Airlines did not own the real control and have not enough power to speak out. The realistic situation is, in China current domestic aviation market, even many small local aviation companies have been restructured by three largest aviation groups, each branch company still has their own operation control system, own marketing systems, as well as its own pilots and aircraft.

It becomes much more difficult and challenge for China Eastern Airlines which already operated 9 branch companies to merger Yunnan Airlines at that time. A number of human resource (HR) issues surface during a merger between companies. Staff members can be affected personally if benefits are changed, layoffs are done or if workers are relocated. Merger takes time and effort, both for the physical transfer of work equipment as well as for all affected parties to adjust to the new working environments.

A merger is a marriage between two companies, not only in terms of liabilities and assets, but in terms of combining corporate cultures. " History have taught us that failing to do a due diligence assessment of cultural fit can bog done - and even derail - mergers when people issues are ignored" says Joan Lloyd. For example, if the cultures are very different, we will need to allow more time to build trust and introduce any changes. For Macroscopic

review, we believed that Implementing HR Due Diligence with clear purpose could benefit more in well handle people issue before such kind of China SOEs Merger & Acquisition.

Here we summarized four steps as Human Resources Management proposal during similar case as follows: Step 1, Gather data and conduct audit: with request comprehensive information, assemble and review all business plans, policies, valuations, governments' forms and contracts, altogether with summery plan implementation descriptions. To conduct onsite visit and interviews with executives are necessary and helpful to prepare multilevel analysis of benefits, compensation and HR plans.

Step 2, Financial & Compliance Analysis: To identify asset and liabilities of current benefits and compensation plan, that means we need to perform cost or expense projections, and to estimate restructuring and severance costs as whole M&A forecasting together put in people issues. Meanwhile, it's necessary to identify impact of employment agreements and contracts, whether there are any legal compliance problems, how about the culture fit and provide all the assessments about current company HR operations.

Step 3, Cost projections and assessment: The total ongoing benefit and compensation cost should be calculated and all the issues that affect the value should be prioritized together with identify major integration challenges. Step 4, Build Human Resource function readiness for business transactions: With clear understanding about current compensation and benefits plans, this transaction HR team need to figure out key HR factors affecting business performance and help staff to well understanding and

accept the business driven goal behind the deal, how company will change to value of human capital for continuous improvement.

2. Microscopic view in Pilot's Compensation & Benefits management of China Eastern Airlines When we try to study the compensation & benefits management system in China Eastern Airlines, we would like to more focus on performance management and pilots' incentive scheme. The key content will be more specified to the C&B system problems during two different Stated Own Enterprises integration and key learning from these difficult situations, how corporate HR can perform better to improve C&B management during the corporate integration period.

1) C&B system problems after integration: According to 2010 China government C&B investigation, the average annual package of a pilot was around 150K - 300K, actually far away from 500K - 600K as public assumptions. Take the examples from China Eastern Airlines pilots strike case on Mar 13, 2008: Generally, the fixed wage is 9, 000 CNY for an assistant pilot in China Eastern Airlines, but the incentive will be huge different between branch line and main line. According to after-case survey, flights in Mar 13 strike are mostly branch lines to Yunnan Dali and Lijiang.

At that time, the pilot job grading was segmented into three different levels, Trainer Pilot, Assistant Pilot, and Chief Pilot. It's the common phenomenon in China Aviation industry that many pilots took overtime in flights. According to the Flight Division's policy of China General Civil Aviation Administration Bureau: pilot at any 7 consecutive calendar days, being arranged once or

more than once on the stage crew, should arrange a at least 48 consecutive hours of rest period.

But in general, due to China pilots' shortage, most of them are arranged by the company overtime flights. Some pilots due to long time overtime flights, separated from their families, more than half are difficult to stay with family in a day at six months. Airlines offer with "hour fee" as compensation for pilots to overtime flight complaints, but the pay difference between branch line and main line is quite big. From the airline's point of view, to make a difference "hour fee" between main line and branch line is appropriate which can balance the final revenue.

Undoubtedly, the total revenue of main line run higher than branch line and bring much more profit for the whole company, which naturally affect the employee compensation. This seems logical and rational. However, from another angle of staff, they contributed same labors and working hours at main line and branch line, and even pay much more extension efforts in branch line for technical requirements in some landing airports. The differential treatments are clearly unacceptable by the staff.

So how to figure out the key answer to interpret these two different angles? First of all, we need to well understand whether the works offered by employees are really non-difference. For HR professional view, that means we need to conduct realistic job analysis, in terms of different positions and working environment, to measure how different or equal for same employees working in different situation. Secondly, how the individual employee's contribution can influence company final operation result?

If there are any differences, or the labor quality and efforts of employees can affect the company revenue and operation in more convincing way, it's crucial necessary to link staff compensation with company profit to guarantee well staff motivation and drive people to fulfill company profitable goal and result. Otherwise, although the company C&B system has been designed very complicated and attractive, they still can't answer the simple questions as: Pay for what objectives, position, merit or performance? How to pay equity and fairness?

2) how corporate HR improve C&B management during the corporate integration period: China SOEs mergers must overcome numerous obstacles. One of the most common—and challenging—involves compensation and benefits from management and frontline staff. Merging companies usually have differences in compensation levels, compensation methods and benefits packages. It's crucial for talent and management retention that the merging companies combine the varying systems into one without people feeling like they came out losers.

As professional corporate HR who wants to bridge compensation gaps in a merger, the first of all, it still needs to think about the fundamental framework of Compensation & Benefits management in the company. Especially during the board of company decided to take merger as strategic actions to win the competition in the market, planning C&B structure strategically should be initiated before the whole project announced. The key purpose for strategic C&B management during transaction is recommended to focus on improves employee productivity.

That means, by refining C&B schemes, some former HR operations should be gotten rid of and some should be tentatively kept for key position retention or other management considerations. To offer innovative solutions is much more important to address the problems during the progress. Back to basic, we understand that an organization's pay structure classifies jobs into categories based on their relative worth. Specifically, how does China Eastern Airlines come up with the idea to create salary bands for each of three categories (i. e. Trainer Pilot, Assistant Pilot, and Chief Pilot)?

How wide should these bands be? How many bands should be included in the refined C&B system after integration? Information to answer each of these questions is provided by what is called job evaluation. Job evaluation is a process of data collection through which an organization can understand the worth of the various jobs and as a result, can create a pay structure. Job evaluation includes a consideration of what skills, knowledge and abilities are required for each job, how valuable the job is for the organization, and how much pay other organizations allocate to these jobs.

Then, we can move to next step to study how were rewards allocated? How effective were the rewards that were given? Did they help improve employee motivation and performance? Hicks Waldron, former CEO of cosmetics giant AVON, said: " It took me 30 years to figure out that people don't do what you ask them to do, they do what you pay them to do. " How about China Eastern Airlines that are struggling financially? Can they afford to give performance-based rewards to their employees, whatever their permanent

staff or the staff merged from other airlines? We believed the answer would be yes for both questions.

Precisely, making sure those high performers are rewarded appropriately can help keep them motivated and prevent them from leaving or slow down during difficult times. During studying this pilots strike case, although lacking of actual personnel data and more internal documentations as evidence, we can estimated or even daringly supposed that HR team of China Eastern Airlines or Yunnan Airlines may not well implement job analysis and mapping, HR operations systems review and auditing during the handover. Some actions have been taken only for the compromise in power struggling or temporary arrangements.

Here are some key issues which can help HR professional improve C&B management during the corporate integration period: First of all, reconciling differences in pay and benefits offered by the merging companies. Manager, talents and general staff who feel like the merger is hurting them financially are much more likely to quit the combined company. So, at this Pilot case, we may suggest to keep former bonus package for Yunnan Airlines pilots (Elite talents in the aviation industry) for certain time to reduce the integration impact to people.

Secondly, company should deal with potential compensation complications in the merger agreement. The document should provide details and deadlines for how pay and benefits will be handled in the new teams and organization structures. Last but not least, Culture, chemistry and communication are essential ingredients in a successful merger. When they combine those with

collaboration and creativity, companies, especially for China SOEs with long difficult operation history, could reconcile compensation and benefits differences.