

Resource based turnaround strategy for air india management essay

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This part of the report deals with understanding the reasons for the near collapse of Air India and proposing a turnaround strategy for the airline. Since its inception by the Tata Group and the subsequent takeover by the Indian Government, Air India has seen a lot of issues emerging and changes happening in the environment in which it operates. These issues and changes have been compounded by volatile economic growth, sluggish European and Asian recoveries, and a crisis of confidence in professional fields, reducing the average time available to the organization seeking to affect a successful turnaround. Also the rising competition in the field it operates has compounded the problems by making Air India fight for limited resources with players which quite often have people with greater conviction at the top and thereby can apportion a greater part of critical resources to the firm's operations.

This challenge is particularly severe for organizations operating in high-tech industries. Airlines business being one that is fairly high tech, is characterized by factors that include product and/or process sophistication, research and development (R&D) intensity, and a large population of technical employees. High-tech firms often exist within a high-velocity environment that is characterized by rapid changes in technology, demand, and competition overlaid by sharp and discontinuous change. Thus unless the management is equipped for change management, it can often struggle to remain profitable. This is precisely what happened to Air India.

Within this high-velocity context, a strategy for recovery faces unique demands. These demands have been depicted in the figure below.

Business Decline

The framework that the group uses in analyzing the reasons for Air India's failure and proposing the turnaround takes a new view of turnarounds by integrating constructs drawn from existing turnaround literature with others from the resource-based view of the firm. It posits that the effective operations of a business are based on the confluence of key resource availability, appropriate strategy, and the right implementation of that strategy through resource leveraging.

Key resources within an enterprise can serve as the foundation for a strategy for sustainable competitive advantage. Such resources are the products of historical strategy and environmental action and withstand rigorous tests of quality. A list of the key attributes of these resources is provided below:

(Refer " High-Velocity Environment Trims Time to Act ... Creating a Framework for High-Tech Turnarounds" by Rolph N. S. Balgobin, NareshPandit; Nov 1, 2002)

Turnaround Strategy

While existence-threatening decline is often a key feature of turnaround attempts, there is less certainty with regard to the origin of the change intervention and the necessity of new top management. Frequently, a turnaround attempt is initiated after pressure from a significant stakeholder, such as a parent company or strong shareholder group. Air India has witnessed this quite a few times as with the ascent of every new government at the center of Power in New Delhi, the attitude towards the airline has

changed. Hence pressure often came from the private players whose bids to takeover the airline provided the fillip to the management of the airline to change the scheme of things at Air India.

In many cases, however, the trigger for change is internally generated by management attuned to signals of decline. Similarly, the need for new top management to start a turnaround is not a rule in high-tech companies. The attitude of the management team is at least as important as having new leadership in getting a turnaround attempt underway.

Recovery plans of successful turnarounds are distinguished from unsuccessful recovery attempts in several ways (shown in the figure below). In successful turnaround cases, a diagnostic review leading to an analysis-led understanding of the dynamics impacting the business provides a clear indication of the opportunities available. These are pursued with the explicit goal of establishing a sustainable market position and a profitable end point.

The Turnaround Process

Traditional frameworks of turnaround often portray recovery as a sequential process, with a change of management initiating the turnaround attempt, followed by retrenchment, stabilization, and finally a return-to-growth stage. Contrary to this, four distinct stages can be identified in the high-tech turnaround process – crisis development, management change, transformation and stabilization, and return to growth.

In the case of Air India, the Crisis Development phase started in the year 2008-2009 when the airline reported financial losses of 5000 crores. Due to

this, the airline couldn't pay the salaries of its employees leading to a massive announced by the employees in the summer of 2009. This was one of the biggest human resource crises in the history of Indian business with nearly 30000 Air India employees going on strike. Immediately following this, the disastrous incident of the crash of Air India Express Flight 812 leading to the death of 158 people, happened.

In the management change phase, contrary to findings in more traditional sectors, change does not always occur at the top of the organization as the turnaround gets underway. Rather, there is frequently a change in problematic management, supporting the view that a CEO's knowledge and relationships can often be crucial to a successful recovery. The same happened in the case of Air India. The entire top management of Air India was recast in a period of 30 days by the then aviation minister Mr. Praful Patel. As part of the shakeup, several old time directors were asked to leave and a Professional Chief Operating Officer was appointed under the CMD, Mr. ArvindJadhav.

In the third phase, a number of simultaneous actions took place, including cost reductions, asset reduction, revenue generation activity, and product-market reorientation. In successful turnarounds, firms are careful not to dispose of resources that could prove useful to recovery efforts, while unsuccessful firms often lose their most valuable assets early as they concentrate on survival rather than competitive leadership. Thus key resources in firms that succeed in turning around their operations are not lost as a result of reflex cutbacks. Rather, costs are reduced in line with a

clearly defined turnaround plan. Also Air India disinvested some of the less efficient parts of its operations, while retaining the more important and useful ones.

After an early emphasis on cost reduction, the focus of Air India then shifted to Structural alterations, joint-venture participation, investment, and the introduction of new products. This is a significant deviation from the turnaround experience of firms operating in less volatile industries and suggests that the high-tech environment demands that changes occur in parallel rather than sequentially. As a result, this phase represents a transformation of the firm's resource base, structure, and approach to market.

As the transformation takes hold, the turnaround firm passes through an inflection point that marks a shift in emphasis from cost and asset reduction to growth. In the case of Air India this has been characterized by the commitment of the top management to the growth of top line and sales and a conscious effort on the part of the airline to drive up volumes and occupancies of the airlines. The airline plans to reduce its price upto 23% by the end of this year. Industry experts see this as a clear sign of conscious effort on the part of the airline to drive up its volumes and occupancy rates.

The final phase of the turnaround effort is marked by an assumption of survival, an emphasis on growth, and increased acquisition activity. In high-tech turnarounds, this phase does not require a change of CEO; either management is not changed at all, or members move on to access other

career opportunities. Our group expects the same to happen by the end of the next fiscal year when the economy would have recovered and new opportunities would arrive at the horizon for the troubled airline.

Influencing Factors

Literature study suggests that there are significant differences between successful and unsuccessful cases when compared in terms of the contextual factors of turnaround attempts. Factors like macroeconomic improvement and market growth appear to assist turnaround attempts. Though, it has also been seen that environmental changes are not deterministic. Because each organization is a unique collection of resources, external events do not have a uniform impact. Thus, a rising tide lifts only seaworthy boats.

External influencing factors thus include:

Macroeconomic improvement and market growth

Stakeholders' attitude. Interaction with stakeholders like buyers, suppliers, employees, bankers, unions, the government and the community go a long way in determining the success of the turnaround efforts. When key stakeholders hold an active interest in the viability of the firm, there appears to be a greater chance of success.

Internal Influencing factors include:

Mission institutionalization

Availability of financial resources

Power concentration, and

Perception of the permanence and controllability of decline.

Mission institutionalization, driven by internal and external expectations of the businesses the high-tech firm should be in, can be a driver or an inhibitor of positive change demanded by a turnaround. In cases in which the changes required place the firm in a new strategic domain (say low cost carriers), mission institutionalization can hinder efforts if a firm's constituents instinctively rule out courses of action that are perceived to be inconsistent with the mission of the firm or its founders. If required changes lead to the firm operating within the same strategic domain, resistance appears less likely. This in Air India's case can be explained by the reluctance of the airline's part to move into low cost carriers' strategic domain. While this remains a possible strategic domain for the future, the airline shows remarkable reluctance in adopting this as a possible strategy. Maybe the Maharaja can't fly cheap after all.

Available financial resources are a requirement for a high-tech turnaround attempt, particularly since many technology companies have significant cash demands. However, the availability of funds has not been found to be a deciding factor in the outcomes of turnaround efforts. This is a potentially significant finding because it is sometimes suggested that high-tech firms in difficulty require only a steady injection of cash until their products gain market acceptance. Also in the case of Air India with the airline being heavily

government funded, the opportunity to save money and possible publicize it makes a great political success story.

Of greater impact on the success of a turnaround attempt is the concentration of power within the organization. Firms with greater levels of power concentration are freer to develop and implement successful turnaround plans, while failing cases are often constrained by parent companies, powerful stakeholders, or internal politics. In non-turnaround cases, management appears to have much less power relative to stakeholders. In the case of Air India, with the creation of a new position of power of CEO, can potentially dilute the power vested in the top management. Yet considerations of operational efficiencies far outweigh the concern for power dilution.

Similarly, with the entire airline industry showing signs of recovery with the economy firmly on the path of recovery, the perception of the permanence and controllability of decline is that of impermanent and one that can be managed by suitable strategy implementation.

Strategy Implementation

Successful firms reduce their resource base in areas that are no longer core activities. Failed firms are more likely to sell off or otherwise lose valuable resources that might support a recovery attempt. In successful cases, the remaining resources are realigned and augmented with resources “borrowed” through development agreements, joint ventures, or outright acquisitions. This is depicted in the diagram as shown below.

The above diagram is also termed as the Resource Leveraging diagram.

As a rule, successful turnaround cases concentrate their resources on a single and consistent turnaround plan, emphasize a few improvement areas at a time, and focus on critical performance levers. They often have strong feedback mechanisms to drive new learning throughout the organization.

Firms that go through successful turnarounds are also able to blend and balance resources to bring products and services to market, while unsuccessful firms often have an imbalance of skills, which effectively neutralizes capabilities that exist elsewhere in the organization. Finally, parsimonious resource use and the ability to implement turnaround plans quickly also characterize successful recoveries.

Thus this is the comprehensive resource based turnaround strategy that we propose for Air India.