

# Japan airlines company analysis economics essay

[Environment](#), [Air](#)



It was in October 2002 when JAL and JAS merged to create the largest airline in Asia Pacific by revenue. This measure was taken by JAL in order to regain the competitiveness in the market. It was expected that JAL would get out of its decline and become a formidable player in the airline industry globally, as the sixth largest airline in the world. Naturally, it was an awe and shock when JAL declared bankruptcy this January.

Subprime mortgage crisis, which occurred in August 2007, was pointed out as one of the major external factors that led to such a circumstance. Mainly it is due to the fact that this led to the global financial crisis which had devastated the world's economy, and had a hard hit on the oil price. Obviously, oil price takes up the major portion of the costs, thus an increase in oil price must have hit hard on the general airline industry, including JAL. Furthermore, the global financial crisis had affected people to reduce unnecessary spending, including travel expenses. This stagnated the market growth. Lastly, the global financial crisis made capital scarcely available for companies, especially under such a bad economy. Thus, it was natural that the general airline industry suffered losses.

However, among the major ones, JAL was the only one that declared bankruptcy. Thus, it suggests that the unfavorable environment is insufficient in explaining the fall of JAL. Internal factors should be accounted for this circumstance as well. It may be necessary to briefly look at the history of JAL in order to get a glimpse of the fundamental issues that were behind the scene.

## **History of JAL**

Japan's airline industry started in 1951, sometime after the Second World War., when the economy recovery began with the Korean War. Japan Airline (JAL) was the first one established by the government, followed by Nippon Airways (ANA), and TOA Domestic Airlines (TDA; which changed its name to Japan Airline System). These airlines maintained a oligarchy, and enjoyed easy growth without much struggle under the government's control. Thus, MBTL started deregulating JAL in 1986 in order improve the efficiency of JAL. Although JAL maintained relatively high growth until late 1990s, it began to suffer deteriorating performance. This circumstance applied to other airlines as well, so the government influenced JAL and JAS to merge together to gain competitiveness by growing in size.

However, this seems to have failed. JAL only survived due to the ties with the government, by asking for financial aid when necessary, until it went bankrupt this year. Thus, it seems like the fundamental problem was the failure to transit from a public firm to private firm, meaning management was not successful during the last two decades. It is necessary to determine the factor that acted as an obstacle to the innovation of JAL.

## **Company Analysis**

### **i. What Crippled JAL: Close Ties with the Government**

Even though there are numerous problems that are being blamed for JAL's bankruptcy, one of the main reasons is its close tie with the government. It is true that close relationship with government can often provide benefits for the company. In the JAL case, however, it only made JAL inefficient.

One of the major aspects of this kind of relationship is Amakudari (amakudari, literally translated as “descent from heaven.”), which is a typical business culture in Japan. In amakudari, politicians or government officials retire to join companies, often as executives or directors, linked with or under the jurisdiction of their ministries when they reach mandatory retirement age.

These amakudari cases made JAL subject to pork-barrel aviation policies that led JAL fly unprofitable routes. Before privatizing the company, airline market in Japan was divided into three segments: international routes of JAL, domestic routes of ANA, and local connection routes of JAS. In 2001, JAL took over JAS which were suffering from huge deficit. As a result, JAL had to unwillingly obtain numerous unprofitable routes, which became a major factor of bankruptcy.

Furthermore, government officials from MLIT (Ministry of Land, Infrastructure, Transport and Tourism) even built unnecessary airports that only create loss, and forced JAL and other airliners to fly routes between them, not to mention that JAL was the number one victim of this scheme because it was originally a government-owned firm, while they secured themselves some cushy positions.

According to NikkanGendai (Nikkan Gendai), there are over 89 amakudari cases in which high ranking government officials from MLIT joined aviation related organizations, and many of them joined JAL and its affiliates. If the analysis were to be expanded to middle rank officials and other ministries, NikkanGendai suspects that the number would be overwhelming.

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Compensation issue was also problematic. Since those who join companies through amakudari are usually offered executives or high rank directors, the amount of money that JAL had to pay them was enormous. Considering amakudari has been a continuing phenomenon, the amount of accumulated pensions, perks and benefits would be even bigger. This has credited noticeably large amount of money from JAL's current assets.

Since JAL has maintained such a strong connection with the government, it was heavily influenced by the recent change of regime. In 2009, the Liberal Democratic Party government handed over the power to the Democratic Party of Japan. Under the LDP government, JAL suffered from bureaucracy on one hand, but, on the other hand, it had received some compensation from the government such as special accounts and subsidiaries. However, things have changed since the DPJ government. These kinds of fenders became no more available, thus acutely aggravating the loss from all these inefficiency.

Masatoshi Fujimori, an airline industry expert and economic journalist, said ' Japanese airline industry always has been a three-legged race between the government and the companies,' and ' the government officials take it for granted'. This is a chronic disease that JAL have to cure. Currently, JAL is now under restructuring plan. With cost-cutting solutions and state-backed funds, now it's the time for JAL to put all of its power and overcome this vicious cycle.

## **ii. What Crippled JAL: Management Principle**

As a result of the unqualified top management, JAL was managed poorly, which led to many costly consequences that led to the declaration of

bankruptcy this year. The major failures include the overly powerful labor unions, and the operation of unprofitable domestic lines.

One key problem of JAL is the necessity to run unprofitable domestic lines. This problem arose as a result of an acquisition of JSA and other airlines under the government order. These airlines were already suffering from losses. The consequence was that while JAL originally was suffering from deficit, it was further burdened by the acquired airlines. However, these airlines did not provide any strategic advantages, like expected economy of scale, which could improve the efficiency of JAL and JSA.

Furthermore, the government held JAL responsible for vitalizing domestic lines. JAL had to give financial aid to the construction of airports in every province in the form of high airport usage fee, and ran the rarely used domestic lines to keep these regional airports going. This led to the construction of unnecessary 100 airports, which is contributing to the high cost of JAL. Thus, JAL had to face heavy financial burden from domestic lines.

Another key problem of JAL is that it has too many labor unions, which turned out to be uncontrollable by the company. Unlike most developed nations, Japan has labor unions within firms, rather than having national trade unions. Often, this leads to the better understanding between the union and the firm, mutually beneficial. However, in JAL's case, it turned out to be a disaster, since there were eight labor unions within JAL, and only one of them was cooperative towards the company. This had a very detrimental effect, since JAL burdened from high labor cost. The worst part was that even

during the decline of JAL, the labor unions remained hostile, looking for self-interests, which worsened the situation.

The worst situation of all was that the top management neither had capabilities, nor the incentives to attempt innovation to solve JAL's problems. As mentioned above, JAL's top executives were filled with former government officials, who did not necessarily have the right experience to run JAL. Furthermore, JAL could easily gain financial support from the government when necessary, which further diminished the executive's, will to run JAL with enthusiasm.

In conclusion, the previous issue of amakudari led to poor top management, which neglected internal issues that increased the cost burden of JAL. Since no one attempted innovation in JAL despite such circumstance, it was natural that JAL ended up declaring bankruptcy in this January.

## **Conclusion and Recommendation**

Because of customary way of business of Japan, Japan Airlines (JAL) went bankruptcy. Besides subsidiary from government of 200 billion yen, internal improvement of JAL is definitely required to make JAL strong enough for the global competition as Peter Harbison, executive of CAPA addressed..

When it comes to the issue of strong bond between political and economic area, executives of JAL have no motivation to innovate and improve the organization because of any risk of getting fired and supplement subsidiaries from government funding. Although JAL became a private management company in 1987, pressure of government and political situations have

affected to the human resource management of JAL, especially for the executive managers, like designating vice president of JAL from bureaucrat. Similar to other companies, long term seizure of power of Liberal Democratic Party (LDP) has given pressure to corporations in negative ways, addressed above. The only benefit of such link to JAL was the government aid. However, as power moved to Democratic Party of Japan (DPJ), which set goal to enhancing domestic consumption and encouraging corporations, such benefit disappeared, leaving no pros in maintaining strong ties with the government. Consequently, this became one major factor of JAL's bankruptcy this January. However, seems that shift of ruling party could work as an opportunity to settle new structure for the whole economy, cutting vicious cycle of practice for stick bond to economy and politics.

For this to happen, the first step is for JAL to attempt becoming independent from government, by giving up the dependence upon the government. Without this, any innovation would be difficult. JAL should compete in the market based on its competence, rather than the government aid to maintain its position as the leading airline in Asia.

Reorganizing and integrating of the whole corporation is also an important solution for JAL to overcome the current situation. Because JAL has kept operating less profitable lines and kept increased the size of corporation, its management has become less competitive, with high cost and low profit. JAL announced its goal on September 2010 to dismiss one third of its employees, which would help reducing the cost burden for JAL, contributing to improving efficiency of the airline. Also JAL now decided to abolish 45 lines of low-



efficiency. These series of actions would help JAL to overcome current situation. In addition, we suggest removing more inefficient lines by associating with other airlines that can provide those lines for JAL instead, as ANA does as Star Alliance members. Such measures may alleviate current cost burdens of JAL, improving efficiency, and eventually allow JAL to become efficient, profit making company again.