

## Flexible rightsizing of airline staff in times of uncertainty

Airlines are now facing the challenge of reducing staff to save money while ensuring sufficient flexibility for ramp-up, managing public opinion and minimizing long-term negative impact on corporate culture. Finding the right balance between cost savings to survive financially and necessary expenses to respond flexibly to a future return in demand will become a key factor in the battle for market share in the New Normal.

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For the aviation industry, adaptation in the corona crisis means one thing above all: shrinking – the industry is forced to shrink to cope with the drop in the demand caused by the worldwide closure of borders and travel restrictions. Consequently, airlines are trying to save costs and to secure cash flow immediately.

While the variable costs of operating an aircraft can be significantly reduced by grounding the fleet, one of the biggest fixed cost drivers for airlines are personnel expenses – including both, flying and non-flying personnel. As environmental variables continue to change dynamically it is unclear if and when the aviation market will return to pre-crisis level. One of the biggest challenges for airline managers now is finding the right balance between the urgent call for savings and the need for expenses to later allow for a flexible ramp-up whenever the demand for travel returns.

### The development of demand follows a four-phase model for almost all airlines

The underlying figure consists of four phases and looks similar for most airlines worldwide (see figure 1).

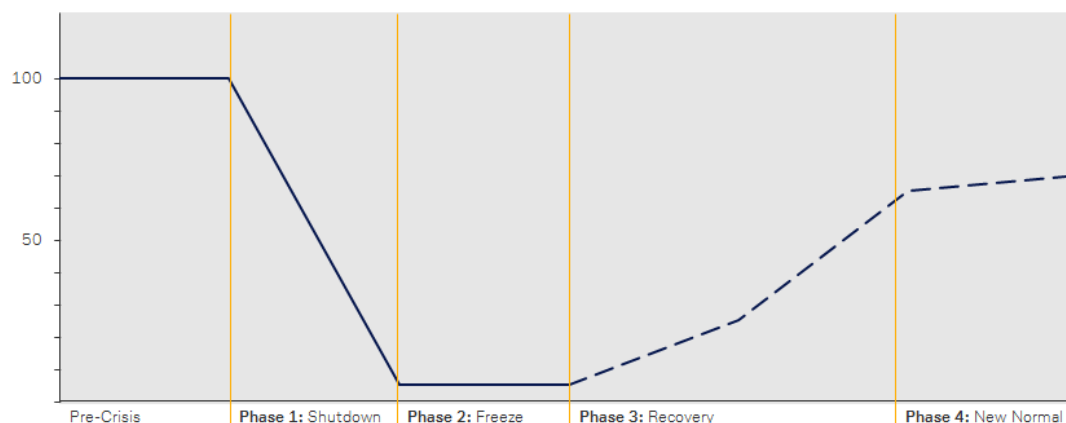


Fig. 1: Simplified travel demand curve and outlook

During the **Shutdown** (phase 1) which was characterized by the sudden collapse of global travel demand due to border closures and travel restrictions, the focus was on the operational management of the shock and conducting recovery flights while securing cash by all means.

Due to different company models, collective bargaining agreements and country regulations, airlines all over the globe were given different leeway in which they were able to reduce personnel costs. Employees were either dismissed directly or sent on unpaid leave. In the few countries that supported such a model, employees were sent home on short-time work. Many formerly proud and independent airlines found themselves in direct financial dependence on their home countries.

The critical decisions during the **Freeze** (phase 2) largely took place behind closed doors of the executive boards and ministries. Based on rather rough forecasts of travel demand, many airlines entered the planning phase for a roadmap back to economic independence. They are now facing drastic personnel consequences with the outlook of staff cuts and long-term restructuring of employment contracts. Some political parties and especially trade unions demanded that airlines refrain from layoffs in return for taking advantage of government rescue packages. This will soon prove to be economically unfeasible in light of the dramatic and still growing gap between capacity and expected travel demand after recovery.

The short and long-term efforts to cut costs in the domain of human resources stand in contrast to the preparation for a **Recovery** (phase 3) and the required workforce flexibility to follow the pace of the market. Hiring and training new operational personnel is costly and time-consuming. When the demand returns - be it due to essential progress in vaccine development or at least due to the lifting of travel restrictions - a race for available market share will begin in which speed and flexibility are the key.

While the overall market will likely decrease it is unclear at what level the market will stabilize in the so-called **New Normal** (phase 4). Rather, the management of resources up to and during the recovery phase will decide the fate of the airlines: Who will be able to place capacity on the market quickly through flexible structures when things start to improve? Quantifying the required flexibility and the corresponding budget and then implementing it in practical terms is one of the most complex issues of this crisis.

### How to design a holistic approach to managing operational staff

The decisions to be taken in terms of cost savings while preserving flexibility can be organized into four areas (see Fig. 2).

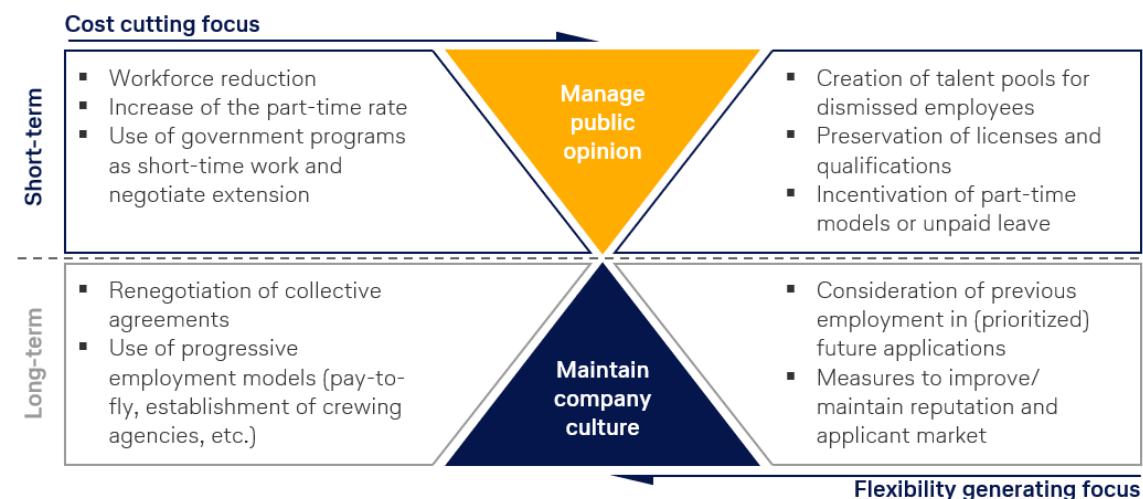


Fig. 2: Action model for HR staff

In the short term, conventional tools are available for the rapid and effective reduction of personnel costs. This includes the use of all government programs, the full utilization of increasing the rate of part-time work, if necessary in consultation with unions, and the layoff of redundant employees. To set a threshold, decent social compensation plans are advisable. In general, dismissed technical and crew staff represent significant investments and assets that cannot be easily reproduced. A particular challenge is also the preservation of residual loyalty after a layoff in this specific context.

In order to ensure flexible deployment of employees and create such a non-binding return loyalty, a three-tier model could be introduced (see Fig. 3). The levels of the model differ in the proximity to the company and in the speed of reactivation of the workforce - comparable to the different stages of aircraft storage, from immediate reactivation to deep storage with longer lead time until reactivation. These employment levels allow for a relatively fast recovery of flight operations.

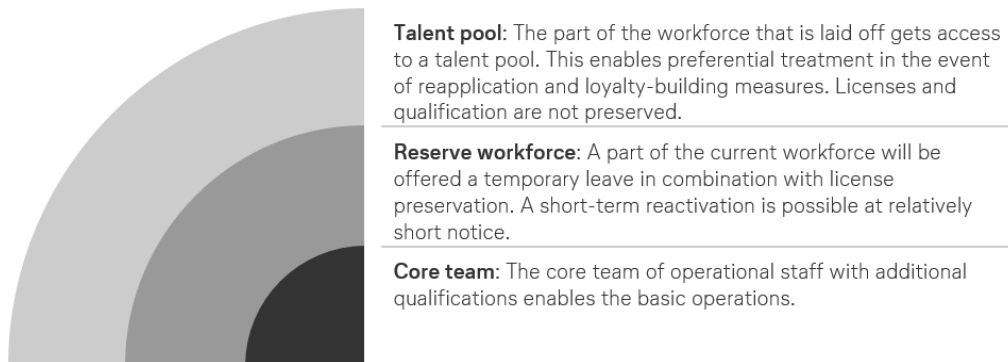


Fig. 3: Three tiers of employees during crisis and ramp-up

The first group of employees is the so-called **core team**. This core team is capable of ensuring tasks relevant for the operations during phase 2. When selecting employees for the core team, it is important to ensure that the size of the operations can be scaled up as quickly as possible with the help of these employees when demand increases. A social compensation plan supports choices between relatively similar employees. The selection of these employees also makes it possible to ensure that, in addition to e.g. flight trainers, also operational employees with specific and unique know-how remain in the company as know-how carriers.

This core team is **supplemented by a reserve workforce** which remains in a kind of hibernation but is nevertheless employed by the company until operations increase. These employees are subject to temporary leave (e.g. short time work or unpaid leave) but with maintained trainings and licenses. The size depends on the possibility of taking advantage of government support programs and the financial capability of the airline. Alternative occupation for this group of employees is possible but it is important to ensure a validity of licenses and certificates to allow a quick return at all times. It is crucial to maintain the highest level of safety standards even if employees only have a low number of training flights and actual flight operations. A detailed plan for risks and mitigations needs to be set up and communicated.

The **creation of a talent pool** for employees who were laid off during the crisis allows for residual loyalty in exchange for preferential treatment in future job offers at relatively low cost. This enables younger employees in particular to pursue a second career while maintaining at least a rudimentary



bond with their former employer. The airline, in turn, is given the opportunity to benefit from the investment in previous selection procedures and training when reemploying.

While the commercial responsibility for renewing the licenses of employed pilots usually lies with the employer, the cost-intensive preservation of professional qualifications from the first day of unemployment is the sole responsibility of the individual. It is not part of any state unemployment insurance or support. The same applies to the costly maintenance of type ratings which many airlines require as a prerequisite for entry. It is the additional costs and risks of unemployment that consequently lead to the special pressure on the situation of pilots and, especially in times of pilot surplus, has led to a large number of so-called "atypical employment relationships".

Unlike pilots, the challenge in the case of cabin crews is not so much the loss of licenses but rather the recruitment of personnel and rapid (re-)training while ensuring high quality standards. This also applies to all other technical staff and experts, especially in positions with a longer lead time for selection and training.

The provision of training and bonding can at least offer tangible perspectives even for the groups of employees who are not part of the core team. Furthermore, the time window in phase 2 is ideal for reshaping the collective bargaining conditions on the cost and flexibility side in order to gain improved sustainable competitiveness. Not only in the case of pilots, the assumed changed balance of power on the labor market opens the window for the renegotiation of collective agreements. It is furthermore possible to establish different employment models. While maintaining the traditional employment relationships for the core team, the experiences of the last weeks have shown the advantages of implementing crewing agencies. These crewing agency models make it possible to keep employees at arm's length away from the airline. Thus, airlines are enabled to react much faster to changes in demand for travel by adjusting the size of the operational staffing pool. Although they will always be a less attractive option for job-seekers, they also enable the revival of models such as "pay-to-fly" (e.g. as an option to keep the licenses and qualifications for people from the talent pool).

In addition to the relatively technical perspective on cost reductions and the provision of the necessary resources for the recovery phase, a holistic approach also requires planning and **managing public opinion** as the implementation of HR changes will lead to an increased public attention. Especially, since international air traffic has become the hotspot of the structural effects of the Corona crisis and state intervention was necessary in many cases to ensure the survival of the companies. The attention of politics and media has increased dramatically. It is important to plan internal and external communication from the very beginning, in addition to the technical planning of personnel measures. All employees and their professional associations and labor unions, political parties and government departments as well as the media must be kept informed in a transparent and objective manner.

While the management of public opinion falls into the category of short-term measures, due to the volatile orientation of the public media, the **preservation of corporate culture** is a longer-term leadership challenge. In connection with dynamically changing variables and increasingly drastic measures as well as a continuous public discussion and media coverage, fears and resistances with a potential to disrupt corporate culture in the long run will automatically grow.

In addition to safety challenges that are caused by a low utilization rate, the corporate culture has a direct impact on flight safety as a stressor. Especially for operational personnel. Therefore, special attention from operational managers is required (captains, purser, etc.). In addition to this primary



concern, which can only be countered by a stable CRM system and training, the longer-term consequences are not directly visible.

To counteract these effects, internal communication planning must be coordinated with the external communication plan as described above. This should address employees on both emotional and objective levels and make the priorities and key influencing factors of the company management tangible and plausible. Moreover, it is the responsibility of the management to present perspectives to differently affected groups of employees.

### **To make it short**

The current crisis is turning the rules that have proven themselves over the past decades upside down. The economic constraints which are similar all around the globe, make immediate measures, e.g. cutting operational staff, unavoidable. The personnel requirements in the ramp-up phase are only roughly predictable. The necessary personnel flexibility to keep the pace of an awaking market comes at a price. The challenge for the leadership teams of airlines is to balance short and long-term cost pressure against the required flexibility to ensure an accurate response to a growing travel demand. Furthermore, a key factor lies in the management of public opinion for the period of special media and political attention. In addition, constant empathic internal communication with the objective of not unintentionally limiting the scope of action and preventing avoidable effects on corporate culture. All this requires a holistic approach that can serve as a reliable guideline for management and stakeholders to ensure a flexible rightsizing of employees to adapt to constantly changing conditions.

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