

# Impact of Covid-19 on the Aviation Industry

Aradhita Maheshwari & Aryamun Maheshwari

## Introduction

The Coronavirus outbreak has caused disruption to all sectors of the economy, causing heavy losses, displacement, and even collapse of organizations. The Aviation and Airline Industry have been the worst hit due to restrictions in movements, social distancing norms, the fallout of tourism, income deficit and the worldwide lockdowns. These unanticipated catastrophes in the world critically impact organizations and their functioning. This paper attempts to examine the impact of Covid-19 on organizations in the Indian Aviation Industry, their functioning, and impact on employees. This will be done by drawing a comparison of the Before Covid and During Covid situation in India, Asia, and the Global sphere. It all also assess the impact of Covid-19 on aviation organizations and employment. Furthermore, it will analyze the place of Government airlines in the pandemic. Lastly, the paper will evaluate and provide suggestions regarding organizational development and response to change, to Air Asia, a company in the Airline Industry.

The aviation sector contributes about \$72 billion to the Indian GDP and limitation of movement has drastically impacted it, especially during the first wave of Covid-19. All airline services were suspended for two months, leading to a 33% decline in traffic of passengers from 11.5 million reported in March 2019 to 7.8 million in March 2020 in only six days (Business Standard, 2020). According to the CRISIL Infrastructure Advisory report, the aviation sector in India was expected to incur a loss of a Rs. 240 billion in the April-June quarter, which implies a loss of about Rs. 2.67 billion per day (The Economic Times, 2020). This will be followed by losses in services allied with airlines, like ground handling and a grim recession.

Limitations in movement, destinations, disposable income, and decline of an industry marks its way with due to the Covid-19 pandemic.

## **Literature Review**

### **1. Comparison of the Aviation Industry before Covid-19 & during Covid-19 in the Global, Asian, and Indian context**

The tourism industry is fully dependant on the aviation industry, and work in an ecosystem to generate economic growth together. Before the coronavirus outbreak, an approximate of 1.4 billion tourists crossed international borders through air in a year (International Civil Aviation Organization). In March 2020, the global revenues from passengers had a steep decline, causing a V-shaped pattern.

Before Covid-19, the world had witnessed another disease outbreak, the SARS in 2003, which peaked in the May of 2003. Due to it, monthly revenue passenger kilometres (RPKs) of Asia-Pacific airlines declined by 35%. (International Air Transport Association). The dip in the industry was noted as a V-shape decline. In comparison, the Covid-19 V-shape decline has been much shorter and steeper to the one during SARS in 2003. The graph is concerning as the deeper the decline, that harder the recovery.

The International Civil Aviation Organization (ICAO), predicted that there will be an overall reduction of 47% to 58% of seats offered by airlines, with about 503 to 607 million passengers, and a loss of gross of operating revenues of airlines of 112 to 135 billion USD (International Air Transport Association). According to the Five Demand scenario defined by Boston Consulting Group, the recovery can be anytime between 3 months to 18 months (Molenaar et al.).

The characteristic of the covid-19 resulted it to quickly spread across geographies with an initial peak in Asia. Most Airlines operated as schedules until countries imposed restrictions. In Europe, Italy saw a sudden spike in cases which led to shutting internal borders in the European Union. America suspended operations when they saw a sudden peak in cases. Hence, since mid-March 2020, there was a sudden drop in flights, especially across international borders, causing a sudden shock to the airline industry. Domestic markets experienced a rather slow reaction, as they kept a certain level of activity.

As China recovered, Asia-Pacific's aviation industry saw a hope of recovery in March. However, it turned into a double-dip in April as other Asian countries experienced drops in domestic traffic the wave of Covid hit them.

India experienced its first wave of covid in March 2020, leading two month suspension of all aviation activities. After they began, it was only for emergency evacuations, to get back Indian Citizens from across the globe. Later, as the cases declined, flights began with a long set of rules for their operations, including 50% occupancy and quarantine for 7-14 days. Currently, India is in its second wave of Covid, and has turned out to be the worst hit country in the world. Over 20 countries have suspended their interactions with India, which results in no flights to these areas.

## **2. Functioning of Aviation Organizations and Employment shocks**

The aviation industry accounts for about 65.5 million jobs globally, with about 10.2 million direct jobs, around 3.5 million are employed in a navigation and service providers, 1.2 million people in the civil aerospace sector, manufacture aircraft's systems and engines. Furthermore, 5.6 million people cater to positions at the airport, and the remaining 55.3 million work in airline related industries like tourism, travel agencies etc. (International Civil Aviation Organization). In 2016, there were about 37 million jobs which

were supported by the tourism sector, who contributed an approximate of \$897 billion a year to global GDP. Forecasts had indicated that by 2036, about 98 million jobs will be generated, and the contribution of tourism would increase by a 110%, to \$5.7 trillion in GDP (International Civil Aviation Organization)

However, as covid continued to spread, there has been a decline in consumption which has led 10 million people to be jobless in March, 2020 (Wolfers, 2020). It was said that a financial situation like this, could lead to a financial crisis, like the Great Recession. Due to bankruptcies faced by organisations or mergers to sustain them, there have been continuous job layoffs labour contract renegotiations. The employees who managed to retain their jobs faced wage or benefits cut from 9% to as much as 50% (von Nordenflycht and Gittell, 2013).

The Full-Cost Airlines are impacted even more severely than the Low-Cost Carriers, as they are highly inflexible in their models (Neal and Kassens-Noor, 2011). Therefore, the employees in these major airline companies, have ended up facing a the majority brunt of the joblessness. The LCC may experience sharp declines, yet they recover faster as a result of their business model making it attractive during these uncertain periods (Cho and Min, 2018). After the 9/11 attack, low-cost carriers bounced back in comparison to major airlines (Franke, 2004), and it is expected that the same outcome will be seen after the uncertainties of the Covid-19 crisis.

Regional as well as domestic airlines are expected to show more efficiency, and they might present competition to major airlines, whose size accounts for their biggest vulnerabilities, especially when travel restrictions are lifted, increasing employment for people. About 13% of the workforce will be reduced and 7% of the workforce will displaced, due to the uncertainties presented by the pandemic (Sobieralski, 2020).

The airline industry will see a slow recovery, especially as the second wave of covid presents itself in a lot of countries. Moreover, the recovery will begin in the domestic markets rather than the international ones. For instance, Airlines in China have recovered much quickly in comparison to airlines like AeroMéxico from Mexico and Copa Airlines from Panama which relied on international markets before Covid-19 (Aznavorian 2020; Dominguez 2020; Lange 2020). To recover and generate revenue while the international flying scenario is on hold, AeroMéxico are opening domestic flights. Moreover, Panama was under a lockdown for seven months, after which they finally allowed 30 aircraft to fly in the fourth quarter of 2020, and increased it to only 45-50 aircrafts in 2021. Before the pandemic, Copa Airlines maintained a fleet of 100 aircrafts (Dominguez 2020). Additionally, numerous airlines have increased services for cargo operations (Garrow 2020).

### **3. Role of state through Airlines and Evacuation Missions**

The role of the state plays a significant role in unprecedented times. There are debates about whether the state should intervene in the functioning of private players or not, yet it is important to realize that without cushioning from the state, not only does the company get affected, but the entire ecosystem including workforce, related industries and the entire supply-chain ecosystem.

Air India, the government owned Airlines in India has acted as the unsung hero in these unprecedented times. Despite being rated as an average carrier, it has shown dedication and provided services whose worth cannot be measured by ratings. When the world came to a standstill, India found its citizens stuck in countries across the world. Air India made it their mission to tirelessly evacuate people and bring them home safely. These flights were named “Vande Bharat” and flew free of cost.

It continued to send flights to China, which was known to be the originator of the virus, up until 9 April 2020, to bring back all the citizens. It operated about 86 charter flights to transport medical equipment to countries in need. Air India used its fleet of wide-bodied aircrafts as evacuation flights, as they were best suited for long flights and international routes. Additionally, domestic airlines like Indigo and SpiceJet also began sending their flights for domestic relief. Both airlines operated from Delhi to Jodhpur in the end of March 2020 to ferry about 275 Indian nationals who had been evacuated from Iran and were isolated in Jodhpur. SpiceJet's MD Ajay Singh even offered to fly the migrant workers across the country.

In the of three months, Air India was at a debt of Rs. 62,000 crores, out of which the government would write off two-third, to encourage investors. Additionally, IndiGo incurred loss of Rs. 2,884 crores and SpiceJet of Rs. 600 crores.

### **Analysis: Organizational Development Changes in Aviation during Covid-19**

Air Asia is a Malaysian Airline which was sold by the government as a private carrier to promote tourism. The LCC has the slogan "Now everyone can fly" promoting itself as affordable and across wide range of destinations in the ASEAN neighborhood. Its vision was to "Continue to be the lowest cost airline in every market we serve" (Mohamad, 2021). In India, Air Asia joined hands with the Tata Group and provided services across all the major cities including Delhi, Mumbai, Bangalore etc.

This section will examine the case of Air Asia during Covid-19, and how it could come out as a winner during these uncertain times with the help of organizational development and change management. To understand an organization one must understand its core values and approach any change in a top-down manner throughout the organisation which is beneficial for its long term effectiveness, which is planned in accordance to its environment. The situation presented by Covid is highly volatile as its constantly changing

and highly uncertain as nobody knows the outcome. As Air Asia has expanded its base in various countries across Asia, it finds itself in a highly volatile situation based on every country's reaction to Covid-19. This gives them uncertainty to manage change in a systematic manner. Furthermore, as the pandemic is affecting the industry in various ways, it becomes rather complex to deal with. The rising costs with each day during the pandemic is acting as a complex problem. Additionally, as people are unaware about the future of the airlines, with no "correct" answers, it is very ambiguous. As countries are now facing the second wave of Covid, and going under lockdowns, there is ambiguity about the future of Air Asia. Therefore, the VUCA model for the Air Asia is on the higher side.

The Climate and Culture of the organization has been healthy since its beginning although it faced a few issues while expanding the base. For instance, during the merger with Tata Sons, they were proposed to fundamental changes on the operations of Air Asia in India. This was not accepted by the founder of Air Asia, Tony Fernandez, as he wanted to enjoy full autonomy. This caused a slight conflict in the merger of the companies.

As Covid-19 spread, it was time for Air Asia to manage crisis at all levels of the organization. At the larger Organizational Level, Air Asia must maintain one brand across all its groups in different countries. This will happen by unfreezing the old way of functioning, imbibing the same values across all the different branches, and consolidating them.

Air Asia can use technology and creativity to its benefit. Costs of operations are constantly rising making it a highly competitive industry. 75% of bookings of AA are through online methods leaving only 25% for travel agents and airport booths. AA should use its partner Tata Sons' IT company, Tata Consultancy Services to develop their own booking portal at a minimal cost, to save revenue. AA should use the diversification

strategy and put their eggs in different baskets. There is high amount of uncertainty about whether the aviation industry will bounce back or not. AA should look for substitutes to Aviation and invest in other sectors. For instance, investing technologies like in Hyperloop or DMHC, which may result in future gains. Additionally, Covid-19 may drift the focus towards cargo due to the growing importance of e-commerce. Air Asia can integrate with express carriers like UPS, FedEx, DHL for additional revenue and growth.

Employee Engagement and management is highly important at these times. Most employees, especially in the aviation sector are worried about their job security. Along with reassuring security, Air Asia should invest in Human Capital Development, which include both hard and soft skills. Along with this, communication is necessary. All decisions must be transparent and communicated effectively to the people concerned.

## **Conclusion**

As Covid-19 spikes again, it presents a blurry future to the airline industry. There seem to lead to a significantly smaller industry. In the post-covid stage, airlines may require additional state aid to sustain themselves, or at least provide a level playing field. Additionally, the full-cost carriers are the worst hit segment in the industry, as international markets may time to get back on their feet. Carriers like KLM, Singapore Airlines or British Airways may face a bigger blunt of the pandemic. In comparison, local airlines may seem to have an edge over others due to shorter-route-domestic travels. With the help of Organisational Development strategies, these airlines can sustain themselves during the pandemic.



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