

STRATEGIC CHALLENGES FOR SUCCESSFUL MERGER OF AN AIRLINE (S)

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ABSTRACT

The present article has emphasized on the implementation of the economic reforms in the form of open sky policy by the ministry of civil aviation, which has given the scope to the airline operators to enter into the airline market. Consequently, the two public sector airlines have adopted the merger strategy to consolidate its leadership position in the airline market to meet the competitive edge. The two airline(s) have taken up the challenges and successfully completed the merger process, without any lay-off, retrenchment. The HR merger, financial merger and integration of all other resources, have been restructured in a very systematic way. The functional superiors at all levels educated and well communicated their subordinates about the possible benefits of the merger. The financial and physical performance in respective of the concerned current years found significant improvement. The public sector airline has protected fully the interests and welfare of all the staff at various levels. The experts in the aviation field have opined that the management of affairs if entrusted to the professionals selected from the external environment on payment of adequate compensation, the performance of the public sector airline would substantially improves.

KEYWORDS: *Open Sky Policy, Merger Strategy, Employee Interests and Welfare, Management of Affairs.*

Introduction

Economic reforms could be simply stated as structural adjustments in the economy, which are introduced around in the year 1991 that resulted in competition internally with in India and also globally. Over a period of time this has led to privatization of certain public sector industries in varied form. The terms liberalization, licensing, deregulation, etc., are used synonymously with the term of economic reforms. The reforms are implemented in many organizations like manufacturing, service sectors, etc. The service sector includes banking, insurance; transport the other public utility services like airlines etc. In the airline / aviation field, the concept of open sky policy has been implemented by the ministry of civil aviation. After liberalization took place, the aviation industry saw a sea changes and a number of privately owned airlines have entered the airline business. Over a period of time the low cost carriers also came up in the aviation sector. The open sky policy of the government has helped a lot of different business houses, corporate players to enter the aviation market in India. This service sector e.g., Airline Industry also contributes significantly for the growth of economy. In this sector, the transportation plays very crucial role on the development of the economy. After the implementation of the economic forms in the form of open sky policy in aviation sector, the monopoly position of national airline(s) had been changed. Subsequently over a period of time, many air taxi operators and also some new corporate business houses have entered into the aviation market and adopted different pro active strategies to capture the market and also to reap out the market synergies. But it is found from various sources like annual reports of the public sector airlines, electronic media etc., and the entire airline industry are in financial crisis except few. The various operators have adopted different strategies like mergers / acquisitions to capture the market and to eliminate competition. They have also expected to consolidate their strong capital base to get the synergies. The

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airline industry taking cue from the global developments, moved towards consolidation of stakes so as to scale down the excess competition. Many mergers and acquisitions took place which may result in significant synergies in the industry. This strategy to tie-up with the competitor rather than bleed millions by way of losses is seen as an exemplary move towards healthy competition. Since 1992-93 Indian aviation industry has been recording steady growth. The role of the private airline sector has become very significant with the increase in domestic air traffic and the increased purchasing power of the growing middle-class. The purpose of this study is to assess the overall profitability of the state owned airline. The organization selected for the purpose of the study is the airline organization which belongs to Government sector, functioning under the umbrella of public sector under taking i.e., Air India.

Need and Importance

Air transportation plays vital role in the economic development of the country by transportation of live and non live stock. The nature of product of an Airline is "Space". Transportation by air is very significant due to time economy. There is shift in the purchasing power of individuals due to increase in income level. Earlier people used to travel by mode of rail, road etc., and now a considerable demographic segment shifted to travel by mode of air transport. Aviation sector is one of the least researched sectors in India as it has limited number of players. However, as the sector is growing rapidly, it becomes essential to have knowledge about the sector and the activities which are taking place in the sector. The aviation market and scenario in India has seen major developments in the last 5 years. Not merely has the market grown very rapidly, but the industry has seen, mergers and acquisitions, the entry of a number of new carriers with aggressive pricing policies and significant additions of capacity leading to cut-throat competition. Civil Aviation is a key infrastructure sector that facilitates the growth of business, trade and tourism with significant multiplier effects across the economy. Air transport has contributed in India's international trade by offering a reliable and faster mode of transport services to move products and personnel across boundaries. Countries with the higher connectivity are stated to be in general more successful at attracting Foreign Direct Investment. Increased air connectivity enables the manufacturing sector to exploit the speed and reliability of air transport to ship the components across firms that are based in different and distant locations thereby minimizing the inventory costs. The role of air transport in the development of tourism industry is crucial. The tourism Satellite Account developed for India for the year 2002-03 confirms tourism is one of the largest sectors with value added accounts for 2.78 per cent of the Gross Domestic Product (GDP) in terms of direct contribution, and if the indirect effects are also accounted, the share of tourism in GDP is 5.83 per cent. The contribution of civil aviation sector to India's GDP in 2009 is 1.5 per cent as per the study carried out by Oxford Economics. The study has also supports a total of 9.95 million jobs. Civil aviation sector makes a substantial contribution to the public finances. This include service tax paid by the passengers, corporate tax paid by the airline companies, airport operators, and the other ground support service enterprises. The most important contribution aviation makes to the nation is through its impact on the performance of the other industries as a facilitator of their growth. In order to facilitate the growth potential, India requires more airports, higher capacity, supporting infrastructure, access to finance. There is significant growth potential for the Indian civil aviation industry given the projection of growth of economy.

Normally, the organization has to manage effectively and efficiently to implement the merger strategy for the purpose of development of the organization from the long term perspective. The basic issues involved are integration of human resources i.e., HR merger, financial merger, restructure of the entire resources, optimum utilization of all assets, clearance of all obligations. The entire merger process cannot be completed at overnight; it has to be completed over a period of time at various stages of completion by maintaining the harmonious atmosphere in both the airline organizations. The demographic characteristics like socio, economic, cultural, group norms, internal rules and regulations vary considerably between the two airlines. This is due to the operational activities of these two airlines differ. The Indian Airlines has operational activities at domestic and some nearby stations like Singapore etc., where as the Air India Limited has operational activities across the globe. The employees at the both public sector airline(s) may feel that the adjustments in the new entity may create some adjustments problems like learning new skills, coping up with the new organizational culture, job / position wise adjustments, fear of economic loss, obsolescence of skill due to new technological applications in the new entity and some psychological issues like attachment, loyalty to the older organizations, union related issues at two airlines may create some challenging tasks which have to be very carefully sorted out by the superiors of the airline(s). The management teams of the both organizations have to educate and communicate about the merger benefits and also provide assurance about their welfare. The merger process should be initiated by the involvement of the elected representatives for smooth implementation and completion of the merger at an earliest period.

Rationale behind the Study

The major challenges encountered by the policy makers and also the organization while implementation of the merger policy are resistance to change by the employees, which mainly because of multiple issues like seniority, pay/perks, transfers, promotions, job wise adjustments in the new entity, career progression like time bound promotions, fast track promotions, recognition of professional qualifications, development of professional executives those who have professional qualifications from the national level, apex / prestigious institutions. The purpose of the present study is to assess the impact of the policy decisions on the organizational performance. The emphasis is laid on the Post Merger Analysis of the airline(s) in relation to the performance, both financial and physical, besides assessment of perceptions of the intellectual respondents those who aware reasonably about the public sector airline(s).

Identification of the Problem

The overall scenario of public sector airline(s) has been analyzed. The state owned airline(s) is having the enriched credibility, the best infrastructure facilities, government support - directly or indirectly, best technical expertise, professional environment. In this favorable scenario, what necessitates the policy makers to implement economic policies in this sector? The policy makers have taken the decision to improve the performance of the airline at global level by meeting the international standards. The public sector airline has given top priority to the consumer satisfaction. It is felt the need to adopt strategy at corporate level to reduce the abnormal overheads incurred by the domestic airline and international airline which reduced substantial wastage of resources of varied nature e.g., avoidance of duplication of operational activities, increase operational efficiency & optimum utilization of fleet and the other resources.

Airline Mergers and Acquisitions are on the rise across the globe. These mergers and acquisitions are highly strategic involving several considerations. Moreover airline mergers and acquisitions bear serious implications for travelers as well as airline employees. Important issues related to airline mergers and acquisitions are time, approvals, efficiency, competition, passenger benefits and strife. The airlines industry is abuzz with news of mergers and acquisitions. In the last few years airline mergers and acquisitions have been a growing trend in several countries across the globe. However mergers and acquisitions in the aviation industry are highly strategic in nature and are undertaken after taking into consideration important factors. Strategically an airline would like to merge with or acquire an airline that operates in routes different from its own. This helps in expanding service coverage and avoiding overlapping of flight schedules. The quality of service and brand image of the other airline enhances. Mergers and acquisitions (abbreviated M&A) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. The distinction between a "merger" and an "acquisition" has become increasingly blurred in various respects (particularly in terms of the ultimate economic outcome), although it has not completely disappeared in all situations.

Implications

- **Time:** Airline M&A take much longer time to materialize than in other industries. This is due to the fact that a lot of considerations are involved from costs to operational issues which are generally large in magnitude and complex in nature.
- **Approvals:** Approvals are required from governments, often from different levels and different authorities to establish airline M&A.
- **Efficiency:** Airline M&A can lead to cost efficiency of the operators by the elimination of overlapping routes. For the travelers however, this often leads to lesser frequency of flights.
- **Competition:** M&A in the airline industry help to reduce competition significantly. This helps airlines to achieve higher operating margins. On the other hand, passengers may face higher airfares.
- **Passenger Benefits:** Passengers, who are enlisted for frequent-travel schemes will have higher mileage pints.
- **Strife:** Airline M&A are often accompanied by strife related to seniority issues, New Work Rules.

Economies: Economies of Production

- To achieve economies of scale by amalgamating all the existing facilities through more intensive utilization of the fleet and other ground support equipment.
- To standardize the product / service specifications, improvement of quality in delivery of service at various stages.

- Aimed at consumer satisfaction through strengthening the Post Sale Service.
- To obtain the improved technological services and know – how from the offered company
- To reduce costs, improve quality and produce competitive service to retain and improve the market share and to increase the prospective consumers through the spread of word of mouth communication.

Economies of Logistics

- To cash the credibility of the parent entity by maintaining the best rapport with vendors on global basis
- To obtain the economies of purchase in the form of discount, savings in transportation costs, overhead costs by the purchasing department.
- To share the benefits of suppliers' economies by standardizing the materials, spare parts of aircraft and the other materials etc.

Economies of Market

- To capture all the segments of the market.
- To obtain new market outlets in possession of the offered, e.g., Air Deccan, a low cost carrier with wide network has been shifted to the parent company Kingfisher, but it is in financial crisis.
- To reduce sales promotional expenses e.g., advertising expenses and to enhance the public image.
- To possess strategic control
- To facilitate Route economics i.e., elimination of overlapping/duplication
- To Scan the Environment of the airline market on periodical basis-SWOT Analysis

Economies of Operations

- To utilize the expertise manpower like pilots, cabin crew, engineers, etc., in the best way
- To reduce the overall costs and other overheads of operational function
- To plan the overall net work connectivity, position of manpower accordingly
- To have centralized control in coordinated way
- To plan for optimum utilization of fleet
- To prepare accurate statistics related to aircraft and coordination with engineering and other departments like catering, commercial, ground support etc., to maintain on time performance

Economies of Finance

- To have a stronger capital base
- To improve the liquidity position and to have access to cash / bank resource
- To avail the tax benefits
- To improve the Earning Per Share (EPS)
- To enhance the credibility with the creditors, lenders etc.

Economies of Organization

- ❖ To enhance the corporate brand image on global basis.
- ❖ To reveal the strength of its delivery of qualitative service to the consumers.
- ❖ To improve its own corporate image and attract superior management talent to manage the affairs.
- ❖ To provide the best qualitative service to the consumers
- ❖ To develop the parent company in large scale
- ❖ To achieve the strategic objectives, the acquirer company adopts the merger strategy
- ❖ To develop the corporate friendliness, the acquirer company joins with others

Objectives of Study

- To examine the post merger performance of the public sector airline(s).
- To examine the perceptions of the respondents towards merger.
- To recommend the ways and means for the development.

Scope of the Study

The investigator has selected the organization, Air India which, Hyderabad base, which comes under the Ministry of Civil Aviation. The scope is limited to assess the profitability of the state owned airline in terms of the benefits derived due to merger strategy adopted by the policy makers. The study is also carried out to analyze the perceptions. Thus, the study is interpreted in terms of the benefits derived due to the implementation of the merger policy formulated by the policy makers.

Nature

The study is basically explanatory, descriptive, analytical, and perceptual based upon fact finding process.

Review of Literature

The literature review is based on published articles in the reputed journals in the subject concerned. **Uday, A. R., (2010)**¹ has stated that the civil aviation has contributed to the economic growth by the effectiveness in connectivity, time, and projecting the image of a successful city or region. **Biswajeet Patnayak, (1985)**² has advocated that in the changing business scenario, skilling the corporations through the development of human competencies is the only way to achieve the excellence. **Pradip N. Khandwalla(2001)**³ has discussed in his study on Lufthansa, the German Airline hit a bad pitch in the early 1990s. Successive losses in 1991, 1992, and 1993. The intense price war in the airline industry followed by recession and the war in the Persian Gulf were some factors for loss. The management has a restructured workshop held for many of the company's managers aimed at cutting non personnel as well as personnel costs and also rising revenues. **Nayar (2011)**⁴ has described that most of the mergers and acquisitions do not live up to their promised potential. It is observed from the vast airline data, the airline industry is in financial crisis with very few exceptions. **Adam R. Fremeth & Brain K. Richter, (2011)**⁵ stated that the integrated strategic managers can use in the face of environmental regulatory uncertainty. Managers must adopt the strategies that recognise their existing strengths, and leverage their market positions while taking into account non – market forces, including policy makers' activities. The strategies offered are, advocating for pragmatic, progressive policy, and systematically embracing advancing regulation, that managers should consider when they are preferable to in action. **Christian Engau, Volker H. Hoffmann., Timo Busch (2011)**⁶ has advocated that the Organizational capabilities are generally considered to be those combinations of people related skills, and knowledge that enable firms, to be most effective in allocating and exploitation of the resources, including, unique assets, processes, knowhow and routine capabilities are important for governing firm's strategic activities, particularly under dynamic and uncertain conditions such as those of regulatory uncertainty as well as for capturing the economic benefits associated with specific strategies. **Rajendra Nargundkar (2006)**⁷ opined that organizations have to give priority for relationship marketing that concerns for attracting, developing, and retaining customers relationships. A good relationship between buyer and seller is one in which both parties could receive value in doing business with each other over an extended period of time. For customers, the value of the stream of the benefits from an extended service of transactions might exceed the cost in terms of money, time and efforts involved. The customer value should be computed over a period of time. **Sitii Nuryanah & Sardar, Islam, M.N., (2011)**⁸ have revealed in their study that there was an increasing awareness of companies to have a good board governance by compiling to the corporate governance practice. The study also found that the independence was the main attribute of the board governance including audit committees, which increases the company's performance. The organizations to be successful must have healthy organizational culture. **Rao Indu (2011)**⁹ advocated that organizational culture can be a source of sustained competitive advantage, if it is valuable, rare and imperfectly imitable. **Gary Dessler & Biju Varkkey,(2011)**¹⁰ felt that the organizations have to adopt their department's personnel activities to the requirements of their company's strategic plans. A strategic plan is the company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive edge.

Design

Research is a serious academic activity with a set of objectives to explain or analyze or understand a problem or finding solutions for problems adopting a systematic approach in collecting, organizing and analyzing the information relating to a problem. It is a purposive investigation or inquiry. That is, it has a set of objectives to collect and study about something.

Data Collection Process

Primary data has been collected on the administration / organization of schedules and interviews on the intellectuals those who are familiar with the public sector airline(s) like airline passengers, frequent fliers, regulating officials, agents of the airline, employees - both, present and retired and also the other stakeholders.

Sample Size

The intellectual respondents selected for the purpose of the study were one hundred only. The selected respondents are those who have some awareness and reasonable knowledge about the public sector airlines.

Secondary Data

It is collected from the all ready existing data like various published sources like annual reports, organization profitable manuals, and internet sources, leading news papers. The quantitative data had been sourced from the internet.

Limitations

- The data and analysis given in the report applicable to similar purpose of the study.
- Since the time for closing the project is limited, the time is hunting factor.
- The present study is analyzed in terms of benefits of the merger.
- The study is limited to public sector airline only.

Data Analysis

The table has provided the perceptions of the respondents related to the benefits derived due to implementation of merger policy. The raw data collected is edited, tabulated and inferences drawn in detail form. Data analysis is carried out for both the primary data and secondary data to analyze the quantitative analysis in detail form. The simple percentage Statistical Techniques was used.

Results: Primary Data Analysis

Sample Size: 100 Respondents

Questionnaire		
S. No.	Items	%
01.	PSU airline(s) has given top priority to Consumer Satisfaction.	98
02.	Objective of the merger policy is to enhance the overall performance.	96
03.	Merger strategy has benefitted the both PSU(s) airline(s) very significantly.	85
04.	Merger benefits are well explained to the stake holders in very advance.	90
05.	Merger results in the optimum utilization of resources.	75
06.	No lay off, retrenchments due to implementation of .merger i	100
07.	Merger protects the interests / welfare of the employees at both PSU airline(s).	100
08.	Merger provides competitive advantage and distinctiveness.	93
09.	Merger avoids duplication / overlapping of operational activities.	98
10.	Customer is having choice to utilize the services of any airline.	100
11.	Safety, On time Performance, Qualitative Service to the customer is priority.	100
12..	Implementation of TQM philosophy enhances the credibility at global level.	96

Inference

The merger of the two public sector airline(s) has provided significant benefits. The combined entity has core objective which is consumer satisfaction. The merger builds stronger sustainable business. It has created the largest single airline operated by the Government. It has provided the integrated footprint which enhanced the customer proposition. It has benefitted the both the airline(s) by the optimum utilization of all resources like human and financial. It also avoided duplication and overlapping of operational activities which resulted in huge savings in manpower, fuel and achieved the other large scale economies. The organization has taken various proactive competitive edge market driven policies from time to time to capture the market. The combined airline has the largest fleet strength. The airline customer is having choice to utilize the services of any airline without any differentiation between the public sector airline and private sector airlines. It is known that though the share of all private sector airlines occupied a big share in the airline market, the public sector airlines is still leading the airline market. The public sector airlines have given top priority to passenger / customer safety, on time performance, besides providing the highly qualitative service to the esteemed customer. In this big quantum of worldwide net work, there may be some lapses which are found bare minimum. The implementation of Total Quality Management throughout the network of the organization has resulted in the enhanced credibility of the airline at international level. The quality consciousness has to be spread out throughout the organizational net work. It need not confined to the mandatory areas like engineering, operations etc. The TQM philosophy should be properly educated by the concerned functional superiors to subordinates at all levels. It is expected that all the staff at all levels should provide the highly qualitative service to the customers, who may be internal within the organization or external i.e., airline passenger/airline customer.

Secondary Data Analysis

Financial Performance

The financial performance Table 1 has indicated that the airline has earned the operating profit. It is found that there is an increase in total revenue and also total expenses. There is some increase in operating income and reduction in operating expenses. The loss if any is not belongs to the current year; it is due to the accumulation carried out from the previous years.

Table 1: Financial Performance

(Rs. in Millions)

S. No.	Details	2014-15	2013-14	2012-13
01.	Total Revenue	206,131.6	194,807.4	160,721.1
02.	Total Expenses	264,661.8	264,201.9	237,039.5
03.	Operating Revenue	198,071.10	183,709.6	160,278.4
04.	Operating Expenses	224,370.0	223,488.5	148,873.4
05.	Operating Profit	(26,298.9)	(39,788.9)	111,405
06.	Net Profit / Loss	(58,599.1)	(62,796.0)	(54,901.6)

Table 2: Physical Performance

S. No.	Details	2014-15	2013-14	2012-13
01.	Passenger Load Factor	73.7(%)	73.3(%)	72.4
02.	Overall Load Factor	62.5 (%)	62.6 (%)	59.9
03.	Total Revenue Hours Flown	337335	322319	305783

Source: (http://www.airindia.in/writereaddata/Portal/FinancialReport/1_253_1_management-discussion-analysis-report.pdf) 11

The physical performance has also shown considerable improvement. There is increase in Passenger Load Factor Overall Load Factor and Total Revenue Flying Hours.

Inference

There is significant improvement in physical performance but not in financial performance which may be due to carry out the accumulated losses of the earlier period. It is found that there is significant improvement in performance in the current year.

Observation, Findings and Suggestions

The observations of the study have revealed that after the announcement of the open sky policy by the Ministry of Civil Aviation, many business houses have entered the airline market. The open sky policy has benefited the passengers with a varied choice to fly by the preferred airline. Many business men with or without experience have entered into the airline market. The merger is the most important strategy adopted by the airline operators including the private airline operators. The major reasons for decline in profitability of state owned airline is hike in aviation turbine fuel, staff costs, uneconomical operations, political interference, competitors reactions, government culture in the organization, social responsibilities etc.

Discussion

The experts have opined that if the management of affairs is entrusted to the professionals from the external environment on compensation payable at agreed basis, there is significant scope to improve the performance of the public sector airline. When the private airline operators are managing the airline(s) with limited resources, why can't the public sector airline with its largest network and other resources manage optimally?

Recommendations for Improvement in Civil Aviation Sector

- Tax on Aircraft Turbine Fuel should be reduced because the cost of ATF in India for domestic airlines is almost double the price in the international market.
- The open sky policy in its present form requires some modification. It may cause more damage to the consumers, if flights are cancelled due to various reasons like poor occupancy etc., reasons which upsets the entire programme of the consumers.
- The concept of low cost airport should be initiated as in European countries to enable cost effective for Low Cost Carriers in India.
- Critical component factors need to be identified; pro-active measures need to be taken into consideration in all functional areas.
- Operational activities should be carried out on commercial basis i.e., more number of flights should be deployed on profitable routes during peak seasons.
- Demand and Supply should be suitably matched during all seasons.
- Open Sky Policy should be modified because at present all the airline operators are in financial crisis except very few, who are just managing the show.
- Sophisticated fuel economy aircraft should be utilized.
- Revenue flying hours of the aircraft should be increased.
- Management of affairs should be entrusted to professional experts on mutually agreed basis.

- No external influence / pressures in the internal affairs of the company.
- Public Sector Airline should be given full autonomy to formulate various market driven policies.
- The social obligations should also be met by the private airline operators.
- The policy makers should provide freedom to all the airline operators so that these airline operators develop their own market strategies to capture the airline market.
- The public sector airline may function purely on commercial basis.

Conclusion

The 2007 merger of Air India and Indian Airlines is one of the most significant developments in the Indian aviation sector. The combined entity has huge potential as the largest airlines in India because India is one of the world's fastest growing economies. However, there are many external and internal challenges faced by the Air India in Post merger. Air India will benefit if it is operated on commercial basis. The welfare of the staff has to be taken care of by the organization. This shows a positive sign in the recovery of Air India. Any organization in transformation stages may face some problems like integration of human resources at various levels, career development practices, and mobilization of assets and once the merger process is completed, the airline achieves many synergetic benefits. It is the final consumer who determines the fate of the airline. The airline has to focus on Total Quality Management (TQM) philosophy with focus on Consumer Satisfaction. The immediate merger synergies are strong capital base, brand image, elimination of overlapping operational activities, optimum utilization of resources, high credit worthiness and finally gaining the consumer confidence level. The future research may be focused on human and other resource planning e.g., acquisition of sophisticated technological fuel efficient aircraft, acquire and retain the skilled manpower where huge shortage exists like pilots, aircraft engineers, technicians etc. the public sector airline should develop proactive long run plan to retain its brand image and lead its position in the airline environment. There is no substitute for state owned airline i.e., Air India.

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