

AN EMPIRICAL STUDY ON OPEN SKY POLICY IN INDIA: A CRITICAL ANALYSIS

Dr. Venugopal Janaswamy*
Dr. Jayadeva Reddy Seelam**
Dr. B. Madhusudhan Reddy***
Dr. T. Ravindra Reddy****

ABSTRACT

The present research article has discussed comprehensively on the strategic policy decision adopted by the aviation sector which has posed many challenges on the public sector airlines like Vayudoot Limited, Indian Airlines Limited and Air India Limited. An attempt was made to study the evolution of the airlines in India in various phases like pre nationalization, post nationalization era of induction and implementation of economic reforms in the aviation sector with specific reference to the airline organizations. The significance could be further stated that the airline sector generates employment directly and indirectly to many people, contributes for increase in foreign currency, global integration, also contributes for the development of the other sectors like hotel, car rentals, tourism and development etc. The research design adopted for the purpose of this study was basically descriptive in nature, exploratory, diagnostic / analytical. The data collected was basically from primary sources like administration of structured questionnaires on the subjects those who were reasonably aware about airlines. The sample size is 120. The secondary sources referred were published sources. Simple statistical techniques were employed. The findings have resulted in significant improvement in the performance. An attempt was made to fill the research gap which provides the scope for further / future research. The systematic review of the SWOT- Environmental Analysis on a continuous basis contributes significantly for the overall Organizational Development i.e., Productivity.

Keywords: Corporate, Performance, Design, Development and Productivity.

Introduction

The growth of the airline sector could be stated as Pre-1953 wherein a large number of airlines emerged in the late 1940s, encouraged by the easy availability of transport aircraft from war disposals. The intense competition and lack of proper organization has led to price wars, inadequate income, and inability to meet expenses, inadequate maintenance of aircraft, lack of operational regularity, compromise on safety and lack of proper professionalism has contributed to huge losses. The Post independence period has resulted in that the Government was forced to enact the Air Corporations Act 1953, and amalgamated the eight private airlines to form Indian Airlines and Air India. Subsequently, the Vayudoot was established as feeder airlines in the year January 1981. The Government introduced the air taxi

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- * Professor of MBA, Kasireddy Narayan Reddy College of Engineering & Research, (Brilliant Group of Technical Institutions), affiliated with Jawaharlal Nehru Technological University, Hyderabad, India.
 - ** Associate Professor & HOD, Department of MBA, Kasireddy Narayan Reddy College of Engineering & Research, affiliated with Jawaharlal Nehru Technological University, Hyderabad, India.
 - *** Professor of MBA & HOD; Department of Management Studies, Gurunanak Institute of Technology, Hyderabad, India.
 - **** Dean, School of Management Sciences, Nalla Narasimha Reddy Education Society's Group of Institutions, Hyderabad, India.

scheme in 1986 to boost the domestic and tourism sectors. The impact of deregulation on airline transport was very significant. The policy makers have liberalized the aviation policies which have provided the scope for entry of newcomers into the airline transport business. It was because the airline customer provided with many options e.g., flies by the desired airline. The significance could be further stated that the airline sector generates employment directly and indirectly to many people, contributes for increase in foreign currency, global integration, also contributes for the development of the other sectors like hospitality / hotel, car rentals, tourism and development etc. The airline organizations also have contributed to an increase in foreign exchange reserves.

Rationale Behind the Study

Earlier, there were airline business carried out by the erstwhile Indian Airlines Limited on domestic sectors and some neighboring countries and Air India Limited has carried out its operations on international basis. The ministry of civil aviation has also permitted earlier to operate flights on feeder routes for short haul operations by the erstwhile the Vayudoot Limited. The regulating bodies have taken the decision to merge the Vayudoot Limited with Indian Airlines Limited, Air India Limited and Airports Authority of India Limited. In fact, the merger of Vayudoot Limited with the other government organizations was the first merger that has taken place. The major reason for the merger of Vayudoot Limited was due to occurrence of continuous losses due to abnormal overheads, surplus manpower, unutilized and under utilization of resources including human resources, and uneconomical operations. Some of the important factors considered by airlines in taking merger and acquisition decisions are related to time factor, approvals by the competent authorities, assessment of cost effective operational activities, demand forecasting, assessment of the various internal and external environmental factors in the airline market scenario from a global perspective.

Merger Strategy

The management of Indian Airlines Limited and Air India Limited has taken strategic decisions related to merger with a view to combat the competition from the private sector. In the private sector also, some airlines like Air Deccan merged with King Fisher Airlines and operated for some period and due to accumulated losses finally closed. Similarly, some operators like East West Airlines and VIF airlines operated for some period and closed. The public sector airline, the Air India Limited has adopted various market driven proactive strategies and retained its major share of leadership. The major benefits of the merger could be stated as possession of strong capital base, large number of fleet, optimum utilization of manpower of various functions like operations- pilots, cabin crew, aircraft engineers, information technology, materials management, reduction of idle capacity of resources, minimize or reduction in unutilization and under utilization of resources, effective utilization of training technology, imparting training on need based, economies of logistics by maintaining the best vendor relations, to obtain the market economies by the operation of flights on those areas where demand is more, to avoid duplication of operational activities, to obtain the route economies; similarly the other economical benefits obtained were the large scale economies of merger.

Objectives of Study

- To assess the perceptions of the customers in relation to the Open Sky Policy
- To assess the merger policy whether benefitted the organization in terms of profitability
- To provide the suggestions for the development

Scope of the Study

The investigator has selected the organization, Air India, Hyderabad base. The head office of Air India limited was located at New Delhi with decentralized organizational structure e.g., Northern Region, Western Region, Eastern Region and Southern Region. The Southern Region consists of the states, Telangana, Karnataka, Tamilnadu and Kerala. All the organizational policies were formulated at head office and communicated to all the regional offices for the purpose of implementation on uniform basis which has ensured the high internal consistency. The study was confined to the area of the organization located at Hyderabad.

Literature Review

Mootien, (2012) has opined that deregulation and liberalization are not similar. He felt that simple regulations increase the efficiency, productivity and also reduce the prices and protect the consumers. The contributors have stated (Clifford Winston and Jia Yan, 2015) that the open skies agreements among the countries affect the airline market structure due to the freedom to enter into the

market. Poonam Mehta, (2020) has observed that the latest modification of the open sky policy has affected the exports, foreign exchange, and employment potential besides the other Indian carriers. The contributors (Lilly S., Wasitova, Arif Mustofa, Lidia Rina Dyahtaryani, Koesnadi Kardi, 2021) have opined that the liberalization through ASEAN Open Sky Policy has resulted in the fast growing market and the COVID – 19 has impacted the airlines. Mahesh, R. & Daddikar Prasad, (2012), have felt that the mergers and acquisitions aid growth in the globalized economy. The findings of the research paper have stated that the improvement is not significant in terms of performance criteria e.g., returns on equity, earnings per share, net profit. Abhijit Phukon, Mitali Konwar, Divya Verma Gakhar, (2019), have stated in their research paper that the published sources have evidenced that the mergers have resulted in failures because of cultural differences.

Methodology

The present study was basically a fact finding study based upon the perceptions / attitudes. It was an explanatory study in the sense that the researcher has explored to collect the raw data in several segments to obtain the information on the open sky policy as it was rarely available. It was a purposive investigation or inquiry related to the effectiveness of the implementation of the policy. From the viewpoint of objectives, the present research work was classified as descriptive, co-relational, explanatory, and exploratory as detailed. The study was also descriptive in the sense that the theoretical concepts have been collected from the published literature related to the open sky policy and the strategic decisions adopted by the public sector airlines at corporate level were also analyzed.

Data Collection Process

The data was collected from various sources like primary sources and secondary sources. The primary sources include administration of structured questionnaires on the intellectuals, those who are reasonably aware about the airline organization like professionals of the organization, retired personnel from the airline, some employees of the organization and the other stakeholders. The interviews / schedules were organized with the respondents with prior appointments. The secondary data was collected from the various published sources like annual reports, organization manuals.

Sample Size

The size of the sample was 120 intellectual respondents identified for the purpose of data collection.

Data Analysis

The raw data collected was analyzed and computed. The analysis was carried out by the adoption of the technique known as item wise analysis where a certain number of questions were identified and finalized based upon the suggestions provided by the subject experts, professionals of the organization, aviation experts etc.

Statistical Techniques

The simple percentage technique was applied to analyze the content factors.

Limitations

- The study is limited to the Hyderabad base of Air India only. The response pattern was from those persons who have retired and closely aware about the airline activities.
- The validity of the results may or may not valid for the other organizations.

Interpretation of Primary Data Analysis

The primary data analysis was carried out on the basis of item wise classification of the statements designed in a structured fashion. The instrument was administered to the subject specialists, research experts, professionals of the organization, etc., and basing upon the consensus arrived, the statements were finalized. The table has indicated positive response for all the statements. It was observed that the monopoly position of the public sector airlines was changed. After the entry of private operators, the profitability of the public sector has also declined. The airlines have adopted the merger strategy and successfully implemented, and able to retain its leadership position. The open sky policy has benefitted the customer significantly rather than public sector airlines. The welfare of the employees was protected off / retrenchment. All the staff at various levels of both the organizations have cooperated i.e., Indian Airlines Limited and Air India Limited. The behavioral attitude of the employees of the public sector airlines also has drastically improved. The overall rating of the survey has indicated that the vast majority of the respondents have expressed very positively.

Table 1

S. No.	Questionnaire	Response (%)
01.	The liberalization policy and implementation of the economic reforms has facilitated for initiation and induction of the open sky policy by the Government	85
02.	The open sky policy has been formulated by the Government of India in the best interest for the development of the aviation sector	88
03.	The policy makers have well planned in systematic way very advance before the initiation of the open sky policy	78
04.	The regulatory authorities have consulted the various stakeholders before announcement of the open sky policy	81
05.	The open sky policy announced by the regulating bodies has opened the door for entry of private operators in aviation sector	95
06.	Some private operators have entered into the airline market any experience in airline field	82
07.	The entry of private operators in airline scenario has given severe competition to the public sector airlines like Indian Airlines Limited and Air India Limited	96
08.	The implementation of the open sky policy has benefitted the airline customer very significantly	98
09.	The monopoly position of public sector airlines was changed	98
10.	The open sky policy has facilitated the customers to fly by choice	97
11.	All the airline operators has to follow the norms stipulated by the regulating authorities like Directorate General of Civil Aviation and others	96
12.	The implementation of open sky policy and the entry of private operators into the airline market have discounted the profitability of the public sector airlines very significantly.	88
13.	The state owned domestic and international airlines have formulated the corporate merger strategy with a view to combat the competition.	88
14.	The merger process (Merger of Capital, HR, and the functional integration) was successfully initiated and implemented in a very systematic way	82
15.	The combined entity has reaped out the economies of large scale significantly	80
16.	The merger process has taken the welfare of all the employees at all levels in the combined entity	98
17.	The seniority and the other benefits of all the employees like promotions, transfers, career progression and development was protected at all levels	92
18.	The public sector airline has modified its internal policies from time to time keeping in view of the global scenario	96
19.	The private airline operators are in very advantageous position related to operational activities on profitable routes	97
20.	The public sector has fulfilled the social obligations in case of any unexpected events	98
21.	The public sector has operated flights in uneconomical routes to meet the social obligations like connectivity in north eastern sectors, where private operators have not entered.	90
22.	The entry of private operators in the airline market has caused to decline the financial performance of the public sector airlines	92
23.	The implementation of Online ticketing / e ticketing has benefitted the air- line customer significantly	88
24.	The role of middlemen like agents and sub agents of the public sector airlines has drastically reduced which resulted in savings to the airlines	90
25.	The behavioral attitude of the public sector airline has drastically changed after the entry of private airline operators	96
26.	The public sector airline has met the various challenges and maintained / retained its leadership position	97
27.	The service pattern of the staff at various levels of the public sector airline has still to improve i.e., assistance centers to the customers, post journey service, on board service etc	88
28.	The Overall Rating found is "EXCELLENT" with respect to the customer satisfaction level.	85

Interpretation of Secondary Data Analysis

The secondary data was analyzed for the period from 2010-11 to 2020-21. The Table No. 02 has indicated that the total revenue and total expenses and profit and loss for the stated period in terms of the assessment of financial performance. It was observed that the total revenue has increased from 2010-11 to 2020-21 onwards in progressive with marginal deviation in the year 2016-17 which was negligible. The inference was that the revenue generation for the period was significant. Surprisingly the pattern of expenditure was also on increasing trend which has resulted in decline in revenue. This increase in expenditure may be due to foreign exchange fluctuations, changes in dollar rate, fluctuations in fuel prices, and the other factors like staff costs etc., contributed for decline in profits. The competitive scenario has also caused for decline in profitability of the public sector airlines. The physical performance in terms of passengers (millions) and freight (Tonnes) carried by the public sector airline was very favorable. The table has indicated that there was improvement in physical performance and the financial performance was not up to mark. The major cause for sudden decline in performance was due to the COVID-19 pandemic delivered the largest shock to aviation industry. The public sector airline has recovered and able to maintain its leadership position.

Table 2

Financial Performance: Rupees in Millions				Physical Performance	
Year	Total Revenue	Total Expenses	Profit/Loss	PAX (Million)	Freight (Tonnes)
2020-21	121,040.5	190,833.3	-69,792.8	22.5	74915
2019-20	285,244.4	362,901.7	-77,657.3	6.3	221257
2018-19	264305.9	349053.9	-84748	22.1	240656
2017-18	239004.8	291258.3	-52253.3	20.9	219524
2016-17	221971	263332.5	-41361.5	19.4	196918
2015-16	236386.1	279600.8	-43214.7	18.4	192809
2014-15	232452.4	295099.6	-62647.2	17.2	193495
2013-14	190934.9	264201.9	-73267	15.8	211162
2012-13	160721.1	237039.5	-76318.4	14.3	158219
2011-12	147138.1	234594.8	-87456.7	13.7	136809
2010-11	140620.1	213215.9	-72595.8	13.08	174466
Total	1833534.4	2427397.2	-593862.6	154.88	1724058

Source: Annual Reports 2012 to 2021

Observation, Findings and Suggestions

The deregulation of the aviation policy has facilitated many new entrepreneurs to enter into the airline business. The airline customers were also benefitted in so many ways like more options to fly in any airline. The airline operators have adopted different proactive market driven strategies to consolidate their leadership position in the airline market. The two state owned airlines has adopted the merger strategy. The induction of the Low Cost Carriers by some operators has impacted the scheduled / non scheduled carriers. The reasons for decline in profitability of state owned airline were fuel costs, staff costs, uneconomical operations, union and political interference, competitors' reactions, government culture in the organization, fulfilling of certain social responsibilities disaster management etc.

Discussion

The aviation experts, subject specialists, professionals have opined that the profitability of the state owned airlines could be strengthened by providing the qualitative services to the customers, implementation of various cost cutting measures, effective utilization of the human resources in the newly merged entity, operational activities on commercial basis, the best blend of demand and supply features, management of affairs may be entrusted to the external competent professionals which is to be based upon mutually agreed basis, efficient customer redressed system, organizing the SWOT Analysis at regular / periodical intervals and the other proactive measures may be adopted.

Conclusion

The merged entity of the state owned airline with its potentiality is operating well both financially and physically. The merged entity has to face many challenges like handling the internal issues related to the motivation of the human resources like protection of seniority and promotions, and the other welfare measures. The merged entity has resulted in to reap out the economies of large scale which results in

the overall development. The state owned airline has to focus on research and development, modify and formulate market driven functional policies. It has to focus on future research on continuous basis in order to meet the competitive edge. The performance of the airline depends upon its service to the customer. It was essential to identify the prospective customers, retain and develop the brand loyalty towards the organization.

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