CBC Video Case Incident

Organizational Change at Air Canada

In early 2003, Canada's national airline was in crisis. The downturn in air travel caused Air Canada to post a $428 million annual loss. Air Canada executives decided to restructure the company and approached its employee unions to talk about ways of cutting $650 million in labour costs from its 35 000-employee workforce. By April 2003, the corporation had restructured the company and cut more than 4000 jobs. However, the airline continued to sink further into debt and filed for protection from its creditors. The CEO, Robert Milton, communicated to employees that the company was in financial crisis and that all employees were expected to "make significant concessions" in order to save the company. Unions representing Air Canada staff agreed to over $1 billion in cuts to compensation and benefits. The corporation's major investor, Victor Li, proposed an injection of $650 million into Air Canada in return for an equity stake in the airline, on the condition that the employees agree to further concessions. Employees were asked to agree to additional reductions to their pension plan.

Air Canada employees then discovered that, while they had agreed to major cuts in benefits and compensation, the restructuring plan provided Milton with a $20 million pay raise if he remained CEO of the company for five years. Employees were outraged that Milton had not also made concessions in his own pay and benefits. Morale at Air Canada was driven to an all-time low. Organizational performance declined. Industry experts commented that the airline business was one in which employee morale is critical to organizational performance: unhappy employees lead to unhappy customers.

A similar situation occurred at American Airlines a year earlier. American Airlines' employees agreed to $2.2 billion in pay cuts in order to rescue the company. Just as employees were about to sign agreements to prevent bankruptcy, they discovered that the CEO, Don Carty, had secretly accepted a $1.65 million bonus to remain with the company. Employees were outraged and threatened to back out of the deal. Don Carty resigned, the agreements were signed, and the company turned around. Carty's advice to the Air Canada CEO was that credibility with employees is crucial to the ability to lead the company through times of crisis. Credibility cannot be demanded—it must be earned.

QUESTIONS

1. *For analysis:* Describe the organizational change that Air Canada was going through and what the forces for this change were.
2. *For application:* Why were the employees at Air Canada resisting the change that corporate executives proposed, and what could account for the decline in organizational performance?
3. *For application:* What steps would you have recommended the corporation take to turn around the company and successfully implement change?
4. *For debate:* Outside consultants make the best change agents for most corporations. Do you agree? Explain.

Sources: "Air Canada Employee Morale—The Hostile Skies," *CBC Venture*, February 15, 2004, 914, VA-2070 D; "Air Canada Timeline," June 20, 2005, www.cbc.ca/news/background/aircanada/timeline.html (accessed August 24, 2009).

After you have completed your study of Part 5, do the following exercises on MyManagementLab at www.pearsoned.ca/mymanagementlab:

- ***You're the Manager: Putting Ethics into Action*** **(Boston Scientific)**
- ***Passport, Scenario 1*** **(Nelson Naidoo, Diamonds International)**, ***Scenario 2*** **(Kristen Mesicek, Global One Cellular)**, and ***Scenario*** **3 (Danny Lim, 88WebCom)**