

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



The Endless Strike: Avianca and the 700 Angry Pilots

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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The Endless Strike: Avianca and the 700 Angry Pilots

WRITTEN CASE

MANAGEMENT DECISION CASE

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Introduction

September 26th Bogota, Colombia

Hundreds of flights cancelled and thousands of passengers stuck at airports are making the news headlines. This chaos is due to a pilot strike at the airline Avianca.

It has been almost a week since half of the pilots of the indisputable leader airline in the country agreed to walk out of their duties to request salary rises and additional benefits. Since the strike began on the 20th of September, Avianca's operations have been reduced by 40%, more than 1,500 flights have been cancelled and about 146,000 passengers have been affected.

Today, the board of Avianca is meeting representatives of the pilots' Labour Union ACDAC once more to discuss possible solutions to this operational crisis, which has led to substantial financial losses for the company and which has also affected Colombia's economy.

Before following up on this important meeting of the 26th of September, this written case will give an overview of the company and the sequence of events which led to this strike.

Who is Avianca: Background and History

Founded in 1919, Avianca is considered a symbol in Colombia's airline industry. It is the oldest operating airline in the world and a major player in the air traffic business in Colombia as well as the Americas. After a series of mergers and acquisitions with local players in the 1990's and a period of financial crisis, the company was acquired by Synergy Group in 2004. Since then, this investment group, controlled by Germán Efromovich, has been growing externally within the transportation industry in Latin America to eventually form a new parent company to Avianca airline: Avianca Holdings.

Avianca is the flagship company of the group. It has more than 21,000 employees and serves 106 destinations in 26 countries in the Americas and Europe. In 2016, Avianca

had an annual passenger traffic of approximately 29.5 million passengers. As of June 2017, Avianca operated almost 6,000 flights per week and had a fleet of 172 aircrafts. The El Dorado airport in Bogota, the third busiest in terms of passenger traffic in Latin America, is one of the airline's main hubs in the region. From this important gateway, Avianca operates 25 domestic and 39 international direct flights (see **Exhibit 1**).

Moreover, Avianca is a member of Star Alliance and has a dominant position in Colombia, with a share of 61% of the market. Its biggest competitor in Colombia is LATAM, another major player in Latin America. Avianca dominates in the northern part of the continent while LATAM dominates in the southern part of South America.

The airline's mission is to connect the world to Latin America and always strive to do more. Avianca's values are to serve with passion and integrity, to work as one and enjoy what they do, to prioritise security and to innovate with a sustainable impact. Their vision for the future is to be the preferred Latin American airline in the world. Actually, besides its market share, its reputation and awards confirm its market leadership and its likeability within the Colombian society. It is the preferred airline among business domestic travellers. Avianca has been amongst the top 10 companies with the best reputation in Colombia and currently holds the 5th place. It has also been recognised as the second best airline in the world and the best in Latin America.

This summarizes the brand, positioning and reputation of what can be qualified as a successful business.

However, due to the intense growth of Avianca Holdings over the years, there has been a growing complexity in the labour force management, which has resulted in some issues with the company's employees. This eventually led to this strike, one of the biggest in the company's history. The following part presents where the strike stems from.

Origins of the Issue with the ACDAC Labour Union

A number of adjustments had been made after Avianca was acquired by Synergy Group in 2004. Between 2005 and 2006, given that the employees did not benefit from any salary increase for several years, Avianca launched a Voluntary Benefit Plan that would only benefit the non-unionised workers. Among other benefits, this plan included a salary rise of 20% to 30%. The members of the ACDAC Labour Union, which represented almost half of the pilots, judged that this benefit plan would put them at a great disadvantage and was unfair. Following the tensions and disagreements, the company eventually offered a salary rise to the members of the ACDAC Union. However, during the last four years, the Union has insisted on their weak position within the company, as they would still not benefit from this Voluntary Benefit Plan. They tried to negotiate with the airline but with no significant results as

of April 2017. During this month the company offered the ACDAC pilots a salary increase of 11.75%, which was rejected by them.

That is the reason why, in August 2017, the ACDAC pilots at Avianca presented a formal list of requests to the company. They called it the “Dignity Campaign”. This was an initiative to demand additional benefits and salary increases that, according to the union, would put them on par with their peers in Colombia and the region.

Negotiations between the parties about these requests took place between August 23rd and September 15th. The company showed its intention to negotiate by formulating 20 different offers, which the pilots did not agree to as they judged they weren’t satisfying enough. After long and sterile negotiations, the union decided to call for a strike in order to be heard by their employer.

Avianca immediately rejected this strike, calling it illegal, as it would affect clients as well as Colombia’s connectivity. Indeed, the right to strike is guaranteed by the Colombian Constitution and the Substantive Labour Code, except for essential public services. As transportation is considered an essential public service by law, the strike would therefore be illegal.

The Union’s Demands

In order to understand the relationship and tension between the pilots and the company, the pilots’ requests are explained below.

The requests that were part of the union’s ‘Dignity Campaign’ included a 60% increase in wages, a reduction of their weekly working hours and a demand for Avianca to pay up to 70% of their taxes. It was estimated that these demands would cost the airline more than USD 274 million per year. The executive president of Avianca, Hernan Rincón, declared that these requests would put the company’s sustainability and competitiveness at high risk and were therefore inadmissible.

The Strike

After the unsuccessful attempts to negotiate with the ACDAC union, Avianca had to deal with an inevitable reality: there was an upcoming strike and a contingency plan needed to be implemented quickly. The company had never been in a situation of this dimension. There was no guarantee that Avianca had the capacity and the ability to manage this strike.

The Labour Ministry tried to intervene to prevent the strike, given its magnitude and the impact it would have on the country, but also in order to guarantee the citizens’ right to air transportation. However, the Union stood their ground. Approximately

700 pilots out of 1,300 working for Avianca, announced that they were going to strike as of the 20th of September.

Following the strike announcement, Avianca suspended ticket sales from the 20th to the 23rd of September as a first step to manage the situation. On Wednesday 20th, the company announced the cancellation of 46 domestic flights and that they would offer special measures to enable their clients change the date of their flights without charges or request refunds.

While the strike was only starting to affect the company, Avianca and the ACDAC Union met again to conceal in an effort to prevent further impacts. Nevertheless, none of the parties seemed to be willing to compromise. Avianca judged the pilots' requests absurd and released a press release rejecting the strike initiative. For the second time, the company qualified the strike as illegal as it was violating the population's right to air transportation. ACDAC, on the other hand, made sure to defend its right to strike for up to 60 days. Indeed, the Colombian law sets a 60 day limit to strikes. After that period, pilots must go back to work within 3 working days.

The Implications of the Strike

On the 20th of September, the strike was officially declared. On that same day, Avianca was forced to reduce its operations by 40% and cancel 178 flights. The strike was not only disturbing the company, which daily revenue losses were estimated to approximately USD 2.5 million; it was also affecting the thousands of passengers who are not able to reach their destination. On the first day of the strike, a total of 14,678 people were stuck in airports across the country, especially in Bogota, the airline's major hub in Colombia, and more than 4,200 passengers had to be transferred to other flights.

Ultimately, this was having a huge impact on the economy of the country, as transportation was limited: the main airline's traffic operations were working at 60% of its capacity only. Thus, the strike was taking a toll on the competitiveness and productivity of the country. More specifically, it was directly impacting the hospitality sector. On the 20th of September, the tourism association ANATO had already reported sales decrease of around 30%, and the reservations cancellations were continuing to increase. While this is a national strike, the image of Colombia and mainly Bogota was also at risk as well as threatened by the consequences of the strike. This economic and operational catastrophe was harmful to foreign investment and international tourism.

The Final Attempt

There were no evident signs of a possible agreement between the airline and the pilots. So far, every counter offer formulated by the airline has been rejected by the Union. By September 22nd, facing the possibility of more unsuccessful negotiations, Avianca threatened to hire new personnel and to fire the pilots who would not go back to work.

Besides having to handle the tension with ACDAC, the airline was also challenged by thousands of angry passengers who used social media to communicate their frustration. As a response and to manage the public's frustration, Avianca released a video with the hashtag #YoNoParo ('I don't strike'), where a number of employees, including the CEO of the company, said they would continue working to help passengers get to their destination during this challenging time. This initiative was also joined by an intense customer service campaign with which they would address as many complains as possible, directly at the airports and through their different communication channels.

On the 26th of September, after 7 days of strike, which had already affected more than 146,000 users, there was a clear sense of urgency to put an end to the situation. The cancellation of more than 1,520 flights had already led to losses of up to USD 18 million and almost paralysed the passenger air traffic of an entire country.

A summary of the sequence of events can be found in **Exhibit 2**. The timeline gives a clear overview of the case and how the events unfolded.

26th of September, 8:00 P.M.- Bogota Colombia

Given the extenuating circumstances, Avianca and the ACDAC Union decided to meet in a final effort to find a general consensus on the matter. During this last meeting, which involved the Ministry of Labour as a mediator, Avianca presented a last offer to reconcile with the ACDAC pilots. This included a salary raise of 28% within three years and other benefits.

27th of September, 00:30 A.M. - Bogota, Colombia

After a long day of discussion and despite the efforts of Avianca to meet with the Union in the middle, the airline's final offer is rejected by ACDAC.

This sets the end of the dialogue and the beginning of a period of great uncertainty for both parties. Avianca has reached a dead end.

27th of September, 02:00 AM - Bogota, Colombia

After a heated and disappointing meeting, the CEO of Avianca returns to his office and forms a crisis management unit to overcome the biggest challenge of his career.

You are part of this crisis unit and are asked to share your opinions and recommendations with the CEO.

- *As an advisor to the CEO, what solutions or strategies would you recommend in order to manage the crisis going forward?*
- *How can these solutions minimise the damage to the various stakeholders involved?*

Exhibit 1 Avianca Infographic



Exhibit 2 Timeline of Events Leading to the Decision Day

