

## Corporate Social Responsibility towards Employees (Case of Kingfisher Airlines and Jet Airways)

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### Introduction

In the past, Corporate Social Responsibility has taken the form of codes of conduct written by Public Relations departments, without serious involvement of employees or other stakeholders, and without any process of monitoring and verification of implementation. Too often, it has been measured in terms of charitable contributions, consultations with shareholders chosen by the corporation, and the corporation's own definition of "Best Practices" with regard to worker safety or environmental impact.

Today, business organizations are considered to be social institutions, apart from being economic entities for two reasons. Firstly, business organizations exist and operate within a social structure. They need to win social acceptance for their survival. Secondly, business organizations need to be socially responsible as they exercise a wide influence on the society's life style. Corporations no longer exist to only earn profits, but also strive to satisfy various societal needs. These societal needs are towards their customers, employees, shareholders, investors, community and the environment [1].

Employees, also referred to as Human Resources of an organization are described as the pillars of any organization. The employees are the backbone of any organization. Their need and importance is accentuated when it comes to the Tertiary sector. In the last 2 – 3 decades, there have been attempts to replace the employees by automated machines, robots, computers etc. But the fact remains that we need human resources to operate these machines. Hence, the need of human resources cannot be undermined. Taking good care of its employees is the responsibility of the organization and its management.

Tertiary industries or service industries are those industries which provide services to help business to move unhindered or uninterrupted. Transport, Banking, Insurance, Communication, Advertising, Healthcare, etc. come under Tertiary Sector. Service Industries are popularly considered as Auxiliaries to trade, as they assist trade immensely. Service sector is a major contributor to our GDP and hence has received due attention in the recent years.

Transportation is one of the prominent service which forms part of the Tertiary sector. After the Indian aviation sector underwent liberalization in late nineties, it has seen a flurry of private service airlines entering the industry. The aviation sector in India holds immense potential for growth; more so because it receives great impetus from the booming tourism industry driven by higher disposable incomes and favorable demographics. The Indian aviation sector was exposed to intense competition with the advent of a low-cost airline – Air Deccan back in 2003. The success of Air Deccan spurred the entry of other LCCs (Low cost carriers) like Spice Jet, Indigo, Go Air and subsequently low fare offerings from Jet airways and Kingfisher airlines. As a result, the sector which was completely dominated by full-service airlines till a decade ago is now dominated by low-cost airlines. This also had led to diverse job opportunities in this sector. There was an increasing demand for cabin crew, pilots, engineers, ground support staff, trainers etc. By 2020 traffic at Indian airports is expected to reach 450 million, making it the third-largest aviation market in the world [2].

### Objectives

The Aviation sector was in its boom stage but there have been sporadic tremors which has upset the whole dynamics of employee welfare. Time and again, leading airlines like Jet Airways and Kingfisher airlines have resorted to retrenchment and downsizing of their staff. This has been done in the pretext of controlling costs and trying to stay put in the market. But is this justified when there is so much talk about discharging Corporate Social Responsibility.

My objective of bringing out this case analysis is to understand the functioning of two of India's leading service organizations when it comes to employee welfare. Are these companies sensitive to the problems and needs of their employees? Do they really think before issuing them a pink slip and asking them to leave the organization? Who is to be blamed? Is it poor Human resource planning or economic slowdown? The bottom line is that employees are the ones who become scapegoats in the name of cost cutting, trimming or streamlining. All fancy terms which only send one message out – Organizations don't really care about their employees; they only are interested in staying profitable. This has been proved right by two of the leading airlines of this decade Jet Airways and Kingfisher Airlines.

### Historical Perspective

If we look at the historical perspective, prior to the First Industrial Revolution, the industries were owned and managed by one or more people and the employers maintained close relations with their workers. This healthy worker – employer relation was demolished by the onset of Capitalism. The Industrial Revolution (1750 – 1850) was a period of change and transformation from hand made products to machine made products. Production started taking place on a large scale, which resulted in rise in pollution levels, working conditions deteriorated and there was a rise in the employment of women and children.

During this phase, Socialist Robert Owen's name is noteworthy. He tried to improve the lives of his employees, by increasing their pay and providing them with better working conditions. He was also the first person to say that children below 11 years of age would not be allowed to work in his factory. Due to his humanistic approach, the title of 'Father of Personnel Management' is bestowed upon him. In 1835, another industrialist Andrew Ure stressed the importance of human factor and provided his employees with benefits like Tea, medical

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treatment and sickness payments. In Indian context, it was J.N Tata who in the year 1886 instituted a Pension fund for his workers and in 1895, he introduced accident compensation. These were the small beginnings in the direction of being socially responsible towards employees.

The Human Relations Movement gave impetus to the employee centric approach of management. The Great Depression in 1929 in America and the Labour movement contributed in developing good employer – employee relations. It believed in treating employees as human beings and not machines. Employee’s feelings, sentiments, ambitions were duly recognized and they were involved in the decision making process. The Behavioral Science Approach also stressed on the importance of employees in the success of an organization.

A legal contract of employment governs the relationship between the organization and the employee. The relationship is considered to be important by society. The reason is that employees contribute towards the growth of an organization and this in turn results in the improvement of society. The employment contract makes the employer responsible towards their employees. In return for their work and effort, employees expect wages, benefits and security. It is the responsibility of every organization to stand up to these expectations of their employees.

The scope of these responsibilities is determined by the nature of employment. Usually the permanent employees enjoy trust and job security, whereas the temporary and probationary employees are the ones whose interests are sacrificed whenever there is a crisis in an organization. To foster a sense of belonging among all employees an organization should maintain a healthy work environment where following responsibilities are adhered to towards all employees.

- ✓ To provide adequate compensation based on experience and standard of living conditions
- ✓ To provide working conditions that respect each employee’s health and dignity

- ✓ To be honest in communicating with employees and transparent in sharing information
- ✓ To listen to and where possible, act on employee suggestions, ideas, requests and complaints
- ✓ To engage in negotiations in order to resolve conflicts whenever they arise
- ✓ To avoid discriminatory practices and guarantee equal treatment and opportunity regardless of gender, age, race and religion
- ✓ To protect employees from avoidable injury and illness in the workplace
- ✓ To encourage and assist employees in developing skill and knowledge which are required for accomplishing the task.

There are many business decisions that do not flout the law, but raise several ethical questions. The manner in which a business deals with its employees is a clear indication of its ethical character. Treating employees ethically does not mean that the business should work towards maximizing employee satisfaction, playing down the need for maximizing long term owner value. But employees should be given their due reward for contributing towards the achievement of business objectives [3].

According to the principle of Ethical Remuneration, a business should not reward anything other than employee’s contributions to long-term owner value. Although effort, talent, and abilities are desired in a person, possessing them alone will not lead to rewards. An employee is rewarded only when these qualities translate into results that contribute to long-term owner value. The Most Japanese corporations provide security to their employees by offering lifetime employment. Some MNC’s like Wipro offer shares to their employees and make them owners in the organization. Some organizations regularly conduct

<p><b>McDonald’s Commitment to Employees</b> Our people promise is more than words. McDonald and its independent owners / operators have made a commitment to employees that we strive to achieve with our actions every day. And to make sure, we deliver on this promise, we have in place five people principles. These people principles reflect McDonald’s values and describe the culture we embrace.</p> <p><b>A. Respect and Recognition</b></p> <ul style="list-style-type: none"> <li>• Managers treat employees as they would want to be treated</li> <li>• Employees are respected and valued</li> <li>• Employees are recognized formally for good work performance, extra effort, teamwork and customer service</li> </ul> <p><b>B. Values and Leadership Behaviors</b></p> <ul style="list-style-type: none"> <li>• All of us act in the best interest of the company</li> <li>• We communicate openly, listening for understanding and valuing diverse opinions</li> <li>• We accept personal accountability</li> <li>• We coach and learn</li> </ul> <p><b>C. Competitive Pay and Benefits</b></p> <ul style="list-style-type: none"> <li>• Pay is at or above local market rates</li> <li>• Employees value their pay and benefits</li> </ul> <p><b>D. Learning, Development and Personal Growth</b></p> <ul style="list-style-type: none"> <li>• Employees receive work experience that teaches skills and values that last a lifetime</li> <li>• Employees are provided the tools they need to develop personally and professionally</li> </ul> <p><b>E. Resources to get the Job done</b></p> <ul style="list-style-type: none"> <li>• Employees have the resources they need to serve the customer</li> <li>• Restaurants are adequately staffed to allow for a good customer experience as well as to provide schedule flexibility, work-life balance and time for training</li> </ul>
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Table 1: Example of Organization’s Commitment to Employees.

training and development programs to keep the employees motivated and also help them in moving up the organizational hierarchy (Table 1).

## Methodology

In order to understand the contributions of the two leading airlines towards the discharge of their Corporate Social Responsibility, information was collected from media reports. The affected employees of both these organizations were hesitant to disclose any information regarding their ordeal. Hence, Secondary data was collected from articles and reports published by magazines and newspapers about the pending salary issues at Kingfisher airlines and layoffs at Jet Airways. Having worked in the Aviation sector for over a decade, I have a complete understanding of the Management attitude and employee problems in the sector.

Analyzing the cases of Jet Airways and Kingfisher airline brings about few questions which are basic foundations of Human Resource Management in any organization. Concepts like Human Resource Planning, Employee Welfare, Quality of Work Life, Effective Wage and Salary Administration, Organization Change and Development, Career Planning and Development, and Grievance Redressal have been grossly neglected. Both the cases have been dealt in detail so as to understand the history of the organization, the values that it stood for and the HR Practices followed in the organization. These cases are an example of how a customer service oriented organization takes the key resource i.e. Human resource for granted.

## Case analysis



Kingfisher Airlines was set up by the flamboyant liquor baron Dr. Vijay Mallya. It started operations in 2005, with its major hub in Bangalore and secondary hubs in Delhi and Mumbai. Though originally conceived as a low cost model, he was quick to morph it into a stylish full-fledged carrier. Hoping to pose as a competitor to the 12 year old market leader-Jet Airways, Kingfisher rapidly expanded its fleet and served 34 destinations. In 2010, the company placed an order for 50 wide body aircrafts (including the A380 and A350) for planned international expansion. Until December 2011, KFA managed to retain the '5 star' airline tag held the 2nd largest share in India's domestic market. Among numerous awards, Kingfisher Airlines has been awarded "NDTV Profit Business Leadership Award for Aviation" by NDTV and been declared "India's No. 1 Airline in customer satisfaction" by Business World.

Kingfisher Airlines, believed that 'people' are the most important when it comes to delivering world class customer service. The airhostesses at Kingfisher come in contact with the customers in the process of providing the service, while the cockpit crew (pilots) contribute to the service product but do not come in direct contact with the customers. Dr. Mallya handpicks the air hostesses for his Airlines as they are expected to possess a pleasing personality with polite service handling whereas the cockpit crews at Kingfisher Airlines require to possess high analytical and technical skills. Also at Kingfisher, there is the ancillary service personnel, the travel agent who plays a very important role in creating the service exchange but is not a part of the service.

At Kingfisher Airlines, the front line staff plays a critical role in ensuring that the service is delivered to the customers as promised. This ensures some amount of reliability, and this in turn affects the degree of responsiveness sought from customers. The quality of service that the front-line staff of Kingfisher Airlines provides is highly dependent on his/her ability to communicate. The front line staff needs to possess 'empathy' which implies that these personnel listen, adapt and be flexible in delivering what individual customers need. Some of the employees at Kingfisher Airlines are sent on a 21 day training programme to the US and Frankfurt which motivates them to stay on with Kingfisher. They are also provided with offers such as one-month bonus or some incentives, on the achievement of the sales targets.

Until 2007, things were going as planned. KFA had carried 17.5 million passengers in its diverse 41-aircraft fleet, on 255 scheduled flights. But the losses had stacked to INR 4 billion. KFA took a bold step of buying out of Air Deccan, a low cost carrier with the intention of monopolizing the low cost market. In 2008, KFA they got their international license and for the first time, flew from Bangalore to London. Their revenue increased to \$55 billion, but so did the losses, \$16 billion. By 2010, the clouds over KFA grew dark. Jet re-established its #1 position with a 25.5% market share, leaving KFA at 19%. By this time, Indigo had established its hold over the Low cost segment. Struggling to cope with competition and increasing taxes, KFA further reduced its network.

In 2011, for the first time, KFA declared that it was having some serious problems with cash flow. It blamed rising fuel costs and taxes. Oil companies refused to supply Aviation Turbine Fuel on credit basis. Delayed salaries caused dozens of pilots and hundreds of crew to leave KFA for other airlines. Finance companies estimated that KFA needed \$159 million in equity in order to restructure their debt. But KFA's top brass believed that the situation was under control, but it eventually slipped out of their hands. Income fell to INR 4 billion, but losses remained at INR 5 billion. In 2012, things were at rock bottom. State Bank of India, the largest creditor of cash-strapped KFA had declared it as a Non-Performing Asset. KFA owed SBI a staggering INR 15 billion. Job cuts and strikes by angry unpaid employees made news.

Kingfisher Airlines had staff strength of 6,000 and spent 58 crores on salaries a month. KFA delayed payment of salaries of its employees for four months in succession from October 2011 to January 2012. Kingfisher also defaulted on paying the Tax Deducted at Source from the employee income to the Income Tax Dept.

On 4<sup>th</sup> October, 2012, 45-year-old Sushmita, wife of Kingfisher Airlines Store Manager, Manas Chakravarti, hanged herself to death at her residence in Manglapuri, New Delhi. Her suicide note, written in Bangla, purportedly said: "My husband works with Kingfisher, where they have not paid him for the last six months. We are in acute financial crisis and so I am committing suicide." This was the first instance of the KFA's financial crisis claiming a human life. There are numerous stories of employees in distress, some even selling family jewelry to keep their stoves burning. The employees continued working without being paid, with a hope that things will become better and they would receive their salaries soon but that day never came.

What made things lead to such a chaos? Did Vijay Mallya put ego before prudence? Were the banks and regulators blinded by Mallya's political clout? Were the operating costs too high? Many such questions arise in the examination of the events that led to the Kingfisher fiasco. Newspaper headlines and TV bites flashed Vijay Mallya posing with air hostesses atop the wings of the planes that would rule the skies. Mallya

was called a game-changer, India's version of Richard Branson. But to anyone willing to forego the momentary aura, this story had flaws even from its early days. Who were the sufferers finally? It was people, those who were supposedly the strength of the airline paid a heavy price.

An airline that was known for the glam quotient of its employees has changed completely. The women employees of KFA who once used to feel proud associating themselves with the airline are now crying "Shame Mallya". Yes just a day before Women's Day the KFA women employees have written a stinging open letter to Mallya questioning the very integrity of the organization. The explosive letter not just charges Mallya of duping the employees, breaking their trust but also blame him for what the employees say commodification of women.

The government is a silent spectator even though TDS violation has taken place. If the judiciary does not intervene in favor of Kingfisher employees, it is a very sad reflection of denial of justice. The harried employees of defunct Kingfisher Airline (KFA) approached the office of Regional Labour Commissioner (RLC) in New Delhi, on March 2, 2014, seeking its intervention over non-payment of salary dues. But the alarming fact is that none of the executives from KFA management came forward to attend the meeting called by RLC.

This is the **story of passion gone wrong** and all the proponents of *Passion* as the driver of success may do well to take a lesson out of this. We are taught that *persistence* is essential to success, but here is a story where it led to a meltdown on a grand scale. In a recent move, United Bank of India has declared Dr. Vijay Mallaya as a Wilful Defaulter, but what happens to those employees who still await their pending dues. Shouldn't there be an intervention to protect the rights of the hundreds of employees who gave their sweat and blood to build the airline. This indicates complete neglect towards the rights of employees, the right to receive a fair remuneration and earn a living [4].

#### Case 2: Jet airways



Recipient of several business and leadership awards, Naresh Goyal established Jet Airways (India) Private Limited in 1991. It commenced commercial operations on May 5, 1993. At that time, Jet Airways claimed to be the only profitable privately owned airline in India. Indeed, by 1997, five of the seven airlines that had been launched since 1992 were grounded. Jet Airways was one of the very few survivors. On March 22, 2004 Jet Airways and rival private airlines in India were free to begin flying *outside* the country. Jet had borrowed about \$800 million to finance new aircrafts. Jet was poised to profit from an expected extension of flying rights throughout Asia.

Over the next few years Jet established itself as a leading Indian player, becoming a case study for in-flight excellence. Possibly excited by this euphoria, industry insiders say, the management made its first big gamble by eying Air Sahara in 2006. Naresh Goyal moved in to buy Sahara a year later for Rs 1,450 crores. Acquiring Sahara meant a huge drain on Jet's resources, both on financial and management fronts. All this happened at a time when the concept of low-cost carriers was completing two years in India. The domestic aviation market was growing at 30-40% and players like Air Deccan were challenging the might of full service carriers like Jet Airways. The management had

ambitious plans to develop its own maintenance hangers and pilot training centers.

Jet had been constantly incurring losses since 2007-08. Buying Sahara was a big strategic mistake by Jet. The first sign of real trouble in Jet became apparent in 2008 when Naresh Goyal entered into an operational tie-up with arch rival Vijay Mallya's Kingfisher. This step was followed by Jet Airways sacking 1,900 cabin crew members in October 2008, all probationary and temporary workers, across all categories and departments. It was justified as an attempt to switch to leaner business models and cost-optimize the business operations of the airline.

According to Jet, the layoffs were "unfortunate" but "unavoidable" because "everybody is bleeding" as the cost of business has gone up by 30 percent and the alliance is aimed at reaping "maximum synergies." "The economic viability of the industry has been severely affected by the record high fuel prices and the crisis of the financial markets globally and the downturn in traffic."

This statement by the airline officials invited severe criticism not just from employees but also from the government, political parties and regulatory bodies who forced the airline to take back the sacked people. It was in fact an example showcasing the importance of managing internal stakeholders in a change management plan. Jet Airways had been ruthless in the way they ended the careers of these employees. There were cases where staff waiting at home for office transport found that the vehicles never came; when some of them reached the airport on their own, they discovered that their jobs were in jeopardy.

Jet Airways Chairman Naresh Goyal in a dramatic press conference reinstated the employees a day later saying that he was not aware of these sackings. Goyal said his conscience did not allow economic consideration to be the reason for sacking employees. This statement was contradictory to the earlier ones and puzzled quite a few analysts.

Anjali Bhargava, Columnist, Business Standard, remarked in October, 2008 - "While the mishandling of the Jet Airways sacking and reinstatement of 1,900 employees was an HR and PR disaster, the larger implications of what happened are also worth considering. It is not just that the chairman of India's most successful airline became the butt of jokes, it is also a question of what he knew, when he knew it, and who did the bungling."

This case of Jet Airways shows that the layoffs seemed to be a step taken in haste and with some other motive rather than just cost cutting. In India it is really difficult to get a job and losing job is something that creates a mental, physical and emotional turmoil. Hence any company before taking such a step should think many times, there were other ways of cost cutting also. Secondly as a HR person one should be aware of how people behave as a group, laying off 1900 people at a go certainly had to create a team and a big emotional upheaval in country where people are so emotional. Hence if such a step had become necessary, it should have been done in batches of 20-50 people with some time gap.

Thirdly the layoffs were made in the month of Deepawali a festival which is the most important festival in whole of India, such a step should have been delayed some more. This really showed the management in a bad light. This is a month when people give bonus and gifts to its employees and what a gift Jet Airways gave. The management should have made a thorough ground work before venturing into the process of retrenching 1900 employees [5].

## Suggestions and Conclusions

If we summarize both the cases, we can conclude that Human Resource Department in any organization should analyze the social and political atmosphere prevailing in the country and make decisions. The lay-off could demoralize the rest of the team and employees' confidence on the company will be down for ever. Secondly HR department should have searched for alternate jobs in the industry for their employees if that was not possible then the company should have held a meeting and explained to their employees about the companies difficulties and asked them to voluntarily resign. They would have made a half yearly performance evaluation (as this is the mid of FY 08 - 09). The low performers can be given the pink slip. They can abstain from recruiting new employees and can avoid replacement of the resigned employees. The percentage of salary hike can be lowered. Cost cutting can be achieved through the withdrawal of the certain avoidable allowances and perks.

Every organization should understand and acknowledge the role of employees in the success and growth of that organization. The employees are not only a part of the organization but also an integral

part of the society and environment in which an organization operates. A corporate which cares for the welfare of its employees, not only fulfills its responsibility towards the internal stakeholders but also towards the community at large. From the economic point of view, it becomes cost effective to undertake CSR through employee welfare. It is important to understand that employees spend majority of their life at workplace and have long term interest in the organization. Concepts like ESOP and Employee Pension schemes play an important role in creating an eternal bond between the employees and the organization. Employees are brand ambassadors of the organization and hence it is a wise decision for the top management to invest in employee welfare activities.

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