Individual Take Home Assignment/Project #2 for FCHR 2018

Due: Latest 21st March 2018. Tutor: Dr. Vaman Bajnath

Total of 10% of Coursework

**A CEO DILEMMA**

The Chief Executive Officer (CEO) of **Carib Airlines**, Captain Brownstone, is standing in a pensive mood with folded arms in his office at Pacro International Airport. He is wondering about his next move. As he stares out the wide metal-framed glass window on a sunny early Monday morning, he observes approximately twenty five percent (25%) his work force marching back and forth with anti-airline placards, chanting and shouting for his removal. Some placards are accusing him of being a traitor. The CEO is examining his options of scaling back operations in a declining aviation industry or give-in to the workers demands. For the past three years Carib airlines balance sheet has been unhealthy due to his poor handling of some strategic decisions. He must present his deliberations to the Board of Directors of Carib Airlines in the coming days, a meeting summoned by the Chairman of the Board on April 21st, 2011.

In June 2008, **Compunental Airlines**, a major US Carrier announced it was eliminating 3,000 jobs, or 6.7% of its staff, and grounding 67 mainline aircraft in an attempt to cut costs amid record high oil and fuel prices. Compunental, the fourth largest US airline as judged by miles flown by paying passengers – said it was facing the worst industry conditions since the terrorist attacks of September 11, 2001. Later that June, the US number 2 airline, **Re-United** announced it was grounding 100 planes and cutting up to 1,600 jobs. “The airline industry is in crisis: Its business model doesn’t work with the current price of fuel and the existing level of capacity in the market place,” said Lary Kellog, Compunental Chairman and CEO. In a letter to employees he wrote, “We need to make changes in response.”

In recognition of the company’s crisis, Kellog and his board of directors and upper management said they would not be paid the remainder of their 2008 salaries and will refuse payment under the company’s incentive program. The move to decline their salaries is symbolically important, but the company’s image will be still weighed down by impending layoffs. Of the 3000 job cuts by Compunental, most will be made with voluntary severance packages. To offset the shift in the losses at Compunental, the airline hiked fuel surcharges to airfares and added fees to once-free benefits, such as food and beverages and checked baggage. Other US airlines in a similar position joked about charging for air sickness bags, fees to use the toilets, or even charging overweight passengers “by the pound.” These fees were about bringing in money to stave off losses.

At about the same time in 2008, the CEO of Carib Airlines, the biggest operator in the Caribbean viewed the decline in the aviation sector as an opportunity to expand. This is possible by acquiring another carrier and widens the net for new routes and new markets. His vision was to be the CEO of the biggest carrier in the Caribbean so he trained his eyes on the competitor **Air Jam** which had three consecutive years of losses. Although numerous experts advised it was not a good deal to acquire a losing entity as Air Jam in the current economic climate, CEO Brownstone convinced the government of Trinidad and Tobago that it was a great opportunity and the process of a total buy-out should begin immediately.

In 2009 Carib acquires Air Jam by way of a total buy-out and Carib emerges as the biggest Air Carrier ever in the Caribbean. Carib, after the acquisition, now has more routes into the US, more airplanes, and more employees and of course more troubles. Newspapers all over the Caribbean are saying that there is something decidedly fishy about the government unholy haste and dogged determination to rush to acquire Air Jam. The multimillion dollar acquisition of a dubious asset is now turning out to be a massive Caribbean nightmare.

By 2010 Carib Airline is not in a position to save itself much less in a position to serve the Caribbean. One commentator noted “a drowning man trying to save another drowning man will only end up pulling them both down under water.” Was there a greater CARICOM objective behind the acquisition? Was the deal a good deal in buying assets or was it a sour deal in acquiring millions of liabilities? At the time of acquisition Air Jam had a long list of creditors. This included the US government which is claiming millions of US dollars in outstanding taxes and fees from Air Jam.

Further worries for CEO Brownstone emerged when employees of Air Jam were told that they have to be re-located to Trinidad as part of the acquisition. Some Trinidad employees are to be relocated to Kingston, Jamaica to take up supervisory roles. The cultural mix is having a serious setback for a smooth operation. The Pilots of Air Jam continue to make more than pilots of Carib. The pilots of Air Jam are refusing to take a pay cut to match those of the majority shareholder Carib. Other departments between Air Jam and Carib have similar disparities and employees are at loggerheads with each other. The HR department is now located in Kingston and instructions are coming from Kingston, although Trinidad is the home base of Carib.

CEO Brownstone must come up with a strategic plan to now save a cash-besieged airline with a mountain of issues and challenges. An effort to get help from a recent newly installed government of Trinidad and Tobago is proving to be very futile. A current move to purchase new airplanes to replace those of the ageing fleet of Air Jam and in Carib did not get government or public support and the funding must come from the airline. Carib Airline has become a monopoly operator in the Caribbean. Now Carib is facing competition from new low-cost airline operators from the USA and the other regional air operator, LYAT.

Captain Brownstone is thinking about his next move as he stares out the window. The Board is awaiting some strategic moves from him as he is faced with external and internal issues. More employee protests are planned for the upcoming weeks.

**END OF CASE**

*Case Story and Assignment Questions written by Dr. Captain Vaman Bajnath*

**ASSIGNMENT**

1. Do a full case analysis (steps 1 - 6) using the Case Analysis and Evaluation Format tool.

**(60 marks)**

1. Faced with the external and internal issues, and the possibility of layoffs or otherwise alternative measures, as the HR Manager in Carib Airlines, prepare a Human Resource Strategic Plan for Captain Brownstone to take to the Board of Directors to resolve the current employee disruptions.

**(40 marks)**