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THE CAUSES OF FAILURE OF OLYMPIC AIRWAYS' S RESTRUCTURING EFFORTS APPLIED BY THE GREEK STATE

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Olympic Airways (O.A.), the former Greek flag carrier, was nationalized in 1975. For the period 1975-1994 its cumulative deficits had mounted to 455 billion GRD, (1.63 billion US\$). However, at the same time all governments enforced on O.A. the implementation of their various policies, always at the company's expense. The state debts to O.A.- due to the aforementioned reason were in 1993 (E.U. involvement) almost three times higher than O.A.'s operational deficits. These state debts have not been permitted to O.A. to register in their accounting books. Since 1993 the Greek state, O.A.'s exclusive shareholder, has attempted to introduce changes which were considered to be appropriate in order for O.A.'s crisis to be overcome, by passing two laws; one in 1994 and a supplementary one in 1998. These efforts, as well as the five efforts for O.A.'s privatization which followed, have failed to date.

Keywords: Airline-changes-introduction, Airline-crisis-methodological-approach, Airline-crisis-symptoms-causes, Airline-economics, Airline-management, Airline-restructure-measures-methods, Airline-State-aid, Airline-State-ownership, Olympic-Airways.

The aim of the present paper

is the determination of the causes which have led to failure of the Greek government's efforts as O.A.'s exclusive shareholder to introduce appropriate changes for overcoming the crisis.

The contribution of the author is:

- 1) the determination of the causes due to which the Greek government's efforts of O. A. restructuring have been inefficient
- 2) the proposal regarding the general steps which must be followed for effective introduction of changes in an organisation
- 3) the implemented methodology (analysis and synthesis) which distinguishes the symptoms from the causes of the crisis manifestation in O.A., focusing on the primary causes. This methodology can be implemented efficiently to any similar case.

Introduction

The efficient introduction of changes in an organization is essential in order for its operation to be compatible to the alterations in its internal and external environment. There is no specific international formula of introducing changes, according to which procedures, methods, mechanisms or measures could be decided and effectively employed. This is due to the diverse factors which differentiate the measures and the methods needed for each organization and the high complexity of the implementation process due mainly to the differentiation of cultures (Burnes, 1996, 2000, Kotter 1995; Lainos 2001 Lewin 1947; Pettigrew 1985; Pettigrew & Whipp 1991, 1993;).

The case study of the Greek state's efforts 1994-2003 to restructure Olympic Airways

The Greek flag carrier Olympic Airways (O.A.) was nationalized in 1975, because its former owner, Onassis, demanded a state subsidization of 60 mil. US \$ for the year 1975. In the same year, the government acquired the airline by paying 69

mil. US \$. (Lainos 1992) O.A.'s cumulative deficits since its nationalization up to 1994 have reached 455 billion GRD, (1.63 billion US\$).(Lainos 2001).

Since the implementation of any recovery program required state aid which is not authorized by the E.U., the Greek Government in 1993 conducted the first program for O.A.'s restructuring in collaboration with the private consultant "AVMARK". That program was submitted to the E.U. but it was rejected due to its low reliability standard. (E.U.1994). The second recovery program was conducted by the then newly elected Greek Government (1993-10) in collaboration with the aforementioned consultant. (E.U. 1994). Then Olympic Airways' B.O.D. assigned to the author the conduction of a research-study regarding the debts of the state-shareholder to O.A. (TABLE 1) according to the E.U. Commissioner's requirements. These debts had been the result of the Greek state implementation on the O.A. of the various policies mentioned below at the company's expense. These debts have not been permitted to O.A. to register in their accounting books. (Lainos 2006)

TABLE 1

1. Non deposit of the share capital
2. Discounts offered to certain passenger groups in the domestic network due to obligatory application of the governmental policy
3. Burdening the O.A.'s economics with the cost of Prime Ministerial and Presidential air travels by enforcing the governmental policy
4. Unpaid debts of Ministries and other state services from ticket fees for public servants official flights
5. 97% discount on the fares of the daily and weekly press, transported daily by O.A. in obligatory application of governmental policy
6. Under-pricing of passenger fares in domestic flights in obligatory application of governmental policy resulting to violation of the 11th article of O.A.-State convention
7. Refusal of the Greek Civil Aviation Authorities to pay some conventional fees to Olympic Airways.
8. Strains on O.A. due to the debts of political parties offering their voters free air transport during election periods
9. The cost of the compulsory covering of the loss making domestic itineraries with small frontier airports (Public Service Obligation according to the E.U.'s legislation)
10. Obligatory annual subsidization of the affiliated companies by O. A.
11. Inclusion in O.A.'s payroll of about one hundred O.A.'s employees appointed to the offices of various politicians
12. Loss of O.A.'s annual revenue from the interest of the aforementioned state debts

It must be pointed out that the operational convention of Olympic Airways which was signed in 1956 between Onassis and the Greek state which became state law, mentioned that the state was compelled to cover the aforementioned costs. Onassis, during his ownership regime used to force the state fulfill its conventional obligations. However, since O.A.'s nationalization in 1975 the state-shareholder ceased fulfilling its conventional obligations to O.A.

The results of this study prove that the cumulative (1975-1992) debts of the state-shareholder to O.A. had been almost three times higher than its operational deficits.

The same rapport between state debts and O.A.'s operational deficits remained in 1994 as well.

A great part of the aforementioned results of our research-study (state debts to the O.A.) has been included in the restructuring program which the Greek state submitted to the E.U. on 20th May 1994. This program was approved by the E.U. in October 1994 and it was transformed by the Greek parliament into state law 2271/1994-12-23 with validity from the 1997-12-31 on.

The majority of the employees (more than 80%), supported via their unions this program, which required, inter alia, deterioration of the terms and conditions of their labor (reduction in their salaries etc)

During O.A.'s first recovery period (1994-1997) none of the administrative measures which had been included in the law was applied. However, a great part of the measures resulting in deterioration of the working terms and conditions was fulfilled.

When, on the expiring date of the aforementioned law, the board of directors and the Greek Government realized that they had failed to implement the measures towards overcoming O.A.'s crisis, a new law 2602/ 1998-4-13 was passed with complementary recovery measures and with expiring date 2001-12-31.

The majority of the employees (more than 65%) after their negative experience from the application of the first restructuring program (worsening their labor terms and conditions without application of recovery measures) rejected the application of the second one and went on strike.

Six months after law 2602/1998 with expiring date the 2001-12-31 had been enacted, the Greek government announced their decision to privatize O.A. (firstly its management and subsequently the majority of its share capital).

After five unsuccessful attempts of the Greek governments for O.A.'s privatization, the Greek flag carrier was liable to prosecution by the European Committee (2003/4, 2003/5, 2006/10) in the European Court for 540 million euros illegal state subsidization. Questions arose for the intentions of the E.U., because, since 1994 they had been aware of the huge debts of the Greek state to O.A. with no intention of taking any legal actions against the Greek state enforcing the debts repayment.

The E. U. relegated Greece to the European Court in 2003 based on the imprecise statement of the Greek Minister of Transport that the Greek state owed to OA the amount of 43,5 million euros,

while the E. U. claimed that OA had been illegally subsidized by the state, with 161 million euros.

In February 2003 the Greek government decided to dichotomize O.A. in two companies : Olympic Airlines which included only the flight operations and Olympic Airways-Services. This dichotomization was completed in December 2003.

In their letter to the E.U. the Greek government presented potential facilitation of the company's privatization as the reason for O.A.'s dichotomization. When addressing the Greek press at the same time, they stated that the reason for dichotomization was the facilitation of O.A.'s recovery.

On 3rd July 2005, the Greek government, (elected in April 2004) with a letter to the E.U. promised to cease the operation of Olympic Airways and its affiliated Olympic Aviation.

In September 2005 after the failure of another two attempts of O.A.'s privatization the shareholder announced (Greek Prime Minister 2005) that the government had decided that O.A. had to cease operation within the following two months (end of October 2005) because O.A.'s operation has been a burden to Greek taxpayers. The day after the Greek Prime Minister had announced his decision for O.A.'s operation recess, the B.O.D. of the Aegean Airlines - O.A.'s sole private domestic competitor - announced that they had ordered 12 Airbus-320 aircrafts, eight confirmed and four optional.

The statement of the Prime Minister in September 2005 regarding the cease of O.A.'s operation, was followed by a wide media campaign (in which the author contributed decisively) in order to inform society that O.A.'s real financial position was not loss making - as it appeared to be according to its accounting books - but profitable as our 1994 study had proved and as the O.A.'s B.O.D. and the state-shareholder have already accepted since then.

It is underlined that after 1994 (first year of application of O.A.'s restructuring program) until today, the state has never stopped burdening O.A.'s operating cost with the cost of the obligatory fulfillment of the various governmental policies, although this has been prohibited by the E.U. The majority of these new state debts is still not registered in O.A.'s accounting books. In 2006 the rapport between O.A.'s cumulative deficits and the states debts has been increased to one tenth.

The aforementioned campaign towards informing public opinion with regard to the profitable O.A. operation resulted in the

negative reaction of a 73% of the population against O.A.'s cease of operation.

On 3rd October 2005 the vice president of Lufthansa - ally of Aegean Airlines - stated that after O.A.'s cease of operation its Greek domestic routes will be served by Aegean Airlines while the international ones will be covered by Lufthansa.

Besides the social reactions, the Greek government on 22nd November 2005 enacted a law according to which the "PANTHEON", a new air-carrier, would substitute O.A. services up to May 2006 after the latter had ceased operation.

The establishment of "PANTHEON" and O.A.'s cease of operation were never materialized.

On the other hand, between December 2005 and March 2006, for the first time in OA's history, O.A-Services B.O.D. prosecuted its exclusive shareholder the Greek state, in the Supreme Court, demanding the return of almost a billion Euros from these debts.

In September 2006 the shareholder (Greek Prime Minister 2006) announced his decision regarding the extension of O.A.'s operation at least for two more years.

The inconstancy of the Greek government regarding its vision about the prospects of O.A. is obvious.

We consider that this inconstancy is not due to incapability of the governmental dignitaries but it is an expression of an internal governmental struggle regarding the prospects of O.A., which were:

a) immediate cease of O.A.'s operation on the benefit of its sole domestic private competitor Aegean Airways and its Giga European ally Lufthansa.

b) escalated privatization to be maintained at least a typical competition

On October 18th 2006, the European Committee impeached Greece to the European Court on the grounds of illegal state subsidisation to O.A. of up to 540 million euros. However on 2006-12-21 the minister of transport announced that O.A.'s exclusive shareholder, meaning the Greek state, had been sentenced by the Supreme Court to return to O.A. only a part of its debts to the company reaching the amount of 586 mil Euros, while there have been legal demands of O.A. against the Greek state amounting to 340 million euros. Further more the minister encouraged the B.O.D. of the airline to prosecute its exclusive shareholder the Greek state,

to the Supreme Court, demanding to return a greater part of its debts.

Corresponding to this encouragement the B.O.D. of Olympic Airlines announced in January 26 2007 that it had prosecuted its exclusive shareholder the Greek state, in the Court, demanding the return of the amount of 340 millions Euros from its debts.

It must be emphasized that both the Greek Prime Minister and the leader of the major opposition had stated that the two main reasons for the manifestation of the crisis in O.A. are wrong political decisions and mismanagement by O.A.'s B.O.D. and hierarchy members. However, no politician has resigned due to the aforementioned wrong political decisions and none has accused any members of the O.A.'s B.O.D. to date.

Conclusions

- 1) Taking into account the E.U.'s legislation which prohibits illegal state aid, the Greek Government was not obliged to involve the E.U. in O.A.'s restructure since O.A. was actually profitable and not loss making as it appeared to be in its balance sheets.
- 2) The profitable financial position comes, from the co-calculation of the debt of the State shareholder to O.A., due to the free of charge obligatory implementation of the various governmental policies. The Greek state never returned its debts to O.A.. Further more the registration in the O.A.'s accounting books, of these state debts was not permitted. These facts may lead one to the conclusion that the state-shareholder had deliberately oriented O.A.'s operation into loss making. This is the cause of the false impression that the O.A. was considered to be under bankruptcy.
- 3) Consequently the financing of the O.A.'s restructuring program (overcoming the administrative malfunctions, rationalisation of its fleet composition e.t.c.) did not need state aid as the government had argued. The return of only a part of the huge state debts to O.A. was enough.
- 4) The only rational explanation regarding the involvement of the E.U. by the Greek government, in O.A.'s restructuring may be considered to be its pursuit to avoid burdening the political cost caused by the implementation of unpopular measures essential to achieve its hidden vision for O.A.'s privatization.
- 5) The reason why the E.U. agreed to participate in this manipulation, although they knew from the beginning (recovery program submitted by the Greek state in May 1994) that O.A. was not loss making, is considered to be its policy which aims at the deduction of the total number of the E.U.'s air-carriers from 27 to three, maximum five.
- 6) The introduction of appropriate changes in O.A.'s internal environment for its restructuring failed due to the following reasons:
 - a) The perspective-vision, had not been clear
 - b) from the start (restructure and development
 - c) under the current state ownership regime or privatization).
 - d) Those who were appointed and involved in the analysis of the O.A. crisis (the hierarchy and the private consultant) not only did they fail to distinguish the causes from the symptoms of the crisis manifestation, but they registered and presented them with an almost equal special weight. Consequently, due to this reason the measures for overcoming the causes and the symptoms had been ineffective
 - e) The implementation of the laws for O.A.'s restructuring was assigned to the same members of the O.A. hierarchy, who were responsible for the O.A.'s crisis manifestation.
 - f) The government, the O.A.'s B.O.D. and its hierarchy members due to their unreliability, failed to persuade the employees for the necessity to introduce specific changes in the specific period of time.
 - g) Those who were appointed and involved in the preparation of the field for the effective introduction of the changes, failed to make the employees to participate in the process and to avoid reactions, although they were in alliance with the union leaders.
 - h) This occurred because, instead of building trust and confidence among the employees relevant to the goals of the changes and the prospects of the company, those who were authorized and involved in the introduction of changes (B.O.D. and members of hierarchy), created among the employees conditions of uncertainty and lack of trust and confidence in their future vision for the O.A.
 - i) The B.O.D. avoided to discuss with employees and explain to them: 1) what the problems that the company faced were 2) the short and long term effects of these problems on the viability of their positions and finally on the survival of the company.

- j) Nobody called the employees to submit their proposals concerning the causes of the crisis and the efficient solutions.
 - k) The “negotiations with the employees” were deteriorated by the B.O.D. to discussions with the leadership of the Federation and the unions. However, they had not unified considerations relevant to the O.A.’s restructure. Further more those who agreed with the government had not the expected influence on the medium level and base members of the unions.
 - l) None of the members of O.A.’s B.O.D. or hierarchy’s were prosecuted for their failure to apply the two laws for the O.A.’s restructuring
- 7) In its letter to the E.U. the Greek government presented as the reason for O.A.’s dichotomization the facilitation of its privatization when, at the same time, they stated to the Greek press that the reason for dichotomization was the facilitation of O.A.’s recovery.
- 8) The cause of this manipulation as well as the continuous change, from 2004 to 2006, of the state-shareholder’s vision regarding the future of O.A., is considered to be an attempt of the Greek government to avoid the political cost from its firm decision towards O.A.’s privatization, since the 73% of the Greek population opposed to this prospect.
- 9) Finally it was not any failure of the Greek government to introduce into the O.A.’s internal environment the proper changes towards its recovery and competitive development under state ownership regime. The following facts stand as testimony to the above mentioned assessment:
- a) The former Prime Minister (1990-1993) stated in 1991 that Greece could manage without the flag carrier Olympic Airways.
 - b) On 12th April 2002 during a debate among the members of the “Economic and Transparency Committee” of the Greek parliament, concerning the results of the O.A.’s re-structuring, the minister of Transports (political supervisor of the O.A.) stated that the permanent vision of the government since 1994 had been the O.A.’s privatization. But as the circumstances had not been the desired ones, and the employees might stimulate negative reactions, this vision could not be communicated earlier. This is the reason, he stated, why sometimes the politicians are obliged to present a situation in two different versions. One version is presented to the members of the parliament and the other version is presented during negotiations with the employees.

Proposals

Based on the international literature (Burnes, B. 2000, Clarke Liz 1994, Harvard Business Review 1998, Kotter J. 1995, Mabey C- Mayon- White B. 1993, Senge P-Kleiner A., Ross R Roberts C. Smith B Roth G 1999, Senior B. 1997) and according to our more than ten years experience in O.A.’s restructuring efforts, we have conceived a specific number of steps concerning the efficient introduction of changes, which must be applied in the order specified: (TABLE 2)

Table 2. General stages for effective introduction of changes in an air-carrier

- A) Determination of the strategic and tactic goals of the air-carrier
- B) Determination and assessment of the current status of the air-carrier
 - 1) Determination of the negative symptoms.
 - 2) Determination of the causes of these symptoms
 - 3) Determination of the sources of the aforementioned causes
- C) Research and determination of the necessary changes that must be introduced according to the strategic and tactic goals of the air-carrier
- D) Suitable preparation of the members of hierarchy as well as of the employees
 - 1) Building trust-certainty-confidence among the employees for the future goals-intentions of the company
 - 2) Informing the employees of the existing problem(s)
 - 3) Focusing on the current and the long-term negative effects of the existing problem(s) on the company’s survival
 - 4) Focusing on the negative future effects on particular categories of employees and if possible on individuals. The success of the aforementioned process relies on the acceptance by employees of the certain problem(s) existence
 - 5) Persuading the employees that some changes are necessary to be introduced in order to resolve the problem(s).

- 6) Inviting the employees to submit suggestions and opinions about the necessary changes that should be introduced.
- 7) Informing the employees about the effects of their suggestions concerning the solution of the problems that the company faces.
- 8) Starting discussions with the employees to conclude to mutually accepted suggestions concerning:
 - a) The number of changes, the field and the time of their implementation
 - b) The role of different categories of employees in the efficient implementation of these changes. The discussions concerning all steps of the process should be constant.
- E) Co-decision concerning the necessary changes that must be introduced according to the strategic and tactic goals of the higher ranks of the airline's management. It is obvious that alliances of the company's leader(s) with the official union leadership, together with the unofficial one, facilitate the successful introduction of changes significantly.
- F) Scheduling the introduction of the selected changes (what, when, where, how).
- G) Implementation of the introduction of selected changes (fulfillment of all the agreements between management and employees, determining the individual role of every employee). The methods that must be implemented should depend on factors such as:
 - 1) emergency situation or not (time pressure)
 - 2) existence of relevant institutional framework
 - 3) existence of national and corporate culture
 - 4) employees reactions and attitude
- H) Continuous supervision-control of the implementation of the introduced changes (giving priority to individual self-control) and its effects, in every stage of the process and in every organizational level and unit.
- I) Assessment of the results of the introduced changes.
- J) Stabilization of the introduced changes and of their results.
- K) In case of failure a new effort should be attempted as soon as the mistakes of the previous effort are determined and the general circumstances are appropriate.

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