**INTRODUCTION**

Kingfisher Airlines was established in 2003. It is owned by the Bengaluru based United Breweries Group. The airline owned by Mr Vijay Mallya started commercial operations in 9 May 2005 with a fleet of four new Airbus A320-200s operating a flight from Mumbai to Delhi. It started its international operations on 3 September 2008 by connecting Bengaluru with London. Kingfisher's head office is located in The Qube in Andheri (East), Mumbai and its registered office is located in UB City, Bangalore. The company’s vision statement:

> “The Kingfisher Airlines family will consistently deliver a safe, value-based and enjoyable travel experience to all our guests”

Company’s mission statement:

We maintain a large and up-to-date database of aviation experts and free-lance consultants. We enable the HR Managers of Airlines, Airports and Aviation Companies to:

- Publish their job opportunities with ease and speed
- Search in the database and find the most suitable candidates
- Benefit from our Candidates Search services

We operate in accordance with the highest standards in all relationships with customers, experts, suppliers and local communities.
Company’s Values

Safety

This is our overriding value. In our line of business, there is no compromise.

Service

We are all in the hospitality business; we must always seek to serve our guests and gain their trust, goodwill and loyalty.

Happiness

We seek to build an organisation with people who choose to be happy, and will endeavour to influence our guests and co-workers to be happy too.

Teamwork

We will succeed or fail as a team. Each one of us must respect our colleagues regardless of their rank, and we must work together to ensure our mutual success.

Accountability

Each one of us will be held accountable for the successful execution of our duties, commitments and obligations, and we will strive to lead by example.

For some years these values made it a great experience in flying for customers. In a short span of time Kingfisher Airline has carved a niche for itself.

Kingfisher Airlines started its operations on May 9, 2005 with a fleet of 4 Airbus A320 aircrafts. It was the first airline in India to operate with all new aircrafts. Kingfisher Airlines is also the first Indian airline to order the Airbus A380. The airline operated on almost all domestic routes. The destinations covered by Kingfisher Airlines are Bangalore, Mumbai, Delhi, Chennai, Hyderabad, Ahmedabad, etc. The airline offers several unique services to its customers. These include: personal valet at the airport to assist in baggage handling and boarding, accompanied with refreshments and music at the airport, audio and video on-demand, with extra-wide personalized screens in the aircraft and three-course gourmet cuisine. It started its international operations in 2010 as the airline got nod for 7 international routes. With mounting losses the airline never reached it break-even. Ultimately Kingfisher’s licence was suspended by the Directorate General of Civil Aviation after it failed to address the Indian regulator’s concerns about its operations. On 25 Feb 2013, its international flying rights and domestic slots were scrapped by the Indian aviation authorities.

Introduction

Global aviation industry is passing through challenging times due to unprecedented fuel price hike during the last 4 years, turbulent financial markets and economic recession. Vijay Malaya’s dream bird, Kingfisher Airlines - popularly known as The King of Good Times - is witnessing its worst phase. Indian domestic aviation is suffering from a serious market failure, caused by misguided government policy and ministers need to step in quickly to fix it.

Annexure-I

<table>
<thead>
<tr>
<th>Sources Of Funds</th>
<th>Mar’07</th>
<th>Mar’06</th>
<th>Mar’05</th>
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<tr>
<td>Total Share Capital</td>
<td>1050.88</td>
<td>362.91</td>
<td>362.91</td>
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<tr>
<td>Equity Share Capital</td>
<td>497.78</td>
<td>265.91</td>
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<tr>
<td>Share Appl. Money</td>
<td>2.95</td>
<td>7.48</td>
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<tr>
<td>Pref. Share Capital</td>
<td>553.1</td>
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<td>Reserves</td>
<td>-4005.02</td>
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<td>Net Worth</td>
<td>-2951.19</td>
<td>-3898.45</td>
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<td>Secured Loans</td>
<td>5184.53</td>
<td>4842.43</td>
<td>2622.52</td>
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<td>Unsecured Loans</td>
<td>1872.55</td>
<td>3080.17</td>
<td>3043.04</td>
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<td>Total Debt</td>
<td>7057.08</td>
<td>7922.66</td>
<td>5665.56</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>4105.89</td>
<td>3540.22</td>
<td>1133.26</td>
</tr>
<tr>
<td>Application Of Funds</td>
<td>1042.15</td>
<td>3540.22</td>
<td>1133.26</td>
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</tbody>
</table>

Exhibit-1
In India, most of the upcoming airlines added a large number of aircraft since 2006 and deployed them mostly on metro sectors resulting into suicidal price war among all the airlines. Every airline in India is currently suffering from operating losses. Ever since the airline commenced operations in 2005, the company is reporting the losses. But the situation became more horrible after acquiring the Air Deccan in 2007. After acquiring the Air Deccan, the company, the airline has been facing financial issues for many years. Till December 2011, Kingfisher Airlines had the second largest share in India’s domestic air travel market. However due to the severe financial crisis faced by the airline, it has the fifth largest market share currently, only above Go Air.

Kingfisher Airlines is one of the only seven airlines awarded 5-star rating by Skytrax along with Cathay Pacific, Qatar Airways, Asiana Airlines, Malaysia Airlines, Singapore Airlines, and Hainan Airlines. Kingfisher operates 250 daily flights with regional and long-haul international services. In May 2009, Kingfisher Airlines carried more than 1 million passengers, giving it the highest market share among airlines in India. Kingfisher also owns the Skytrax award for India’s best airline of the year 2011. Suffered a loss of over Rs. 1,000 crore for three executive years. By early 2012, the airline accumulated the losses of over Rs. 7,000 crore with half of its fleet grounded and several members of its staff going on strike. By 2012 all its operation suspended and the airline ceases to fly.

Milestones and Achievements

During the airline’s short span of flying experience it has earned number of achievements and awards to its credit. Few milestones are:

- Total connections to 70 cities including 7 international destinations flying over 350 flights a day.
- Recognized as one of India’s Most Respected Companies in 2006 and 2007 – Business World
- India’s only 5 star airline – by independent agency Skytrax
- 2007 - The boards of Kingfisher Airlines and Deccan Aviation decided to merge both the airlines. - Company has changed its name from Deccan Aviation Ltd. to Kingfisher Airlines Ltd.
- -The company has announced that it has tied-up with Disney Publishing, a global publisher of children’s magazines and books, to provide specially-designed inflight entertainment to children, reports agency sources.
- 2009- Kingfisher Airlines Ltd appointed Mr. S R Gupte as an Additional Director of the Company. - The company is targeting an equity infusion of around Rs 20 billion through strategic and financial investors and may even monetize aircraft order book over the time.
- 2010-Kingfisher Airlines gets nod for 7 global routes

Exhibit 2

<table>
<thead>
<tr>
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<td>Net Sales</td>
<td>6233.38</td>
<td>5067.92</td>
<td>5269.17</td>
<td>1456.28</td>
<td>1800.21</td>
<td>1285.42</td>
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<td>Other Income</td>
<td>81.58</td>
<td>-333.3</td>
<td>598.9</td>
<td>113.62</td>
<td>342.1</td>
<td>59.64</td>
<td>14.73</td>
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<td>Total Income</td>
<td>6314.96</td>
<td>4734.62</td>
<td>5868.07</td>
<td>1569.9</td>
<td>2142.31</td>
<td>1345.06</td>
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<td>Expenditure</td>
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<td>Raw Materials</td>
<td>56.69</td>
<td>-40.89</td>
<td>51.19</td>
<td>43.79</td>
<td>45.94</td>
<td>36.73</td>
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<td>Power &amp; Fuel Cost</td>
<td>2274.03</td>
<td>1802.99</td>
<td>2602.62</td>
<td>889.3</td>
<td>979.5</td>
<td>625.45</td>
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<td>Employee Cost</td>
<td>680.54</td>
<td>689.38</td>
<td>825.42</td>
<td>244.96</td>
<td>247.72</td>
<td>165.04</td>
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<td>Other Manu. Exp.</td>
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<td>1168.82</td>
<td>1112.85</td>
<td>408.21</td>
<td>617.56</td>
<td>425.48</td>
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<td>Sell. &amp; Admin. Exp.</td>
<td>997.34</td>
<td>996.85</td>
<td>1062.74</td>
<td>180.39</td>
<td>146.78</td>
<td>114.38</td>
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<td>Misc. Exp.</td>
<td>87.94</td>
<td>108.58</td>
<td>167.55</td>
<td>14.81</td>
<td>25.11</td>
<td>33.78</td>
<td>9.85</td>
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<tr>
<td>Total Expenses</td>
<td>5289.34</td>
<td>4747.51</td>
<td>5822.37</td>
<td>1781.46</td>
<td>2062.46</td>
<td>1398.86</td>
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<td>PBDIT</td>
<td>1025.62</td>
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<td>45.7</td>
<td>-211.56</td>
<td>97.9</td>
<td>-53.8</td>
<td>46.01</td>
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<tr>
<td>Interest</td>
<td>2340.32</td>
<td>2245.59</td>
<td>2029.33</td>
<td>434.44</td>
<td>466.05</td>
<td>250.72</td>
<td>55.33</td>
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<td>PBDT</td>
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<td>Depreciation</td>
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<td>162.8</td>
<td>133.2</td>
<td>18.28</td>
<td>17.67</td>
<td>13.34</td>
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<tr>
<td>Other Written Off</td>
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<td>54.49</td>
<td>38.39</td>
<td>18.31</td>
<td>26.25</td>
<td>18.94</td>
<td>5.73</td>
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<td>Profit Before Tax</td>
<td>-1555.73</td>
<td>-2475.77</td>
<td>-2155.22</td>
<td>-682.59</td>
<td>-430.27</td>
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<td>Extra ordinary items</td>
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<td>31.28</td>
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<td>-9.7</td>
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<td>Tax</td>
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<td>-494.45</td>
<td>3.4</td>
<td>3.75</td>
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<td>Reported Net Profit</td>
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<td>-1647.22</td>
<td>-1608.83</td>
<td>-188.14</td>
<td>-419.58</td>
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<td>-16.79</td>
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<td>Per Share Data (annualised)</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Shares In Issue(lakhs)</td>
<td>4977.79</td>
<td>2659.09</td>
<td>2659.09</td>
<td>1357.99</td>
<td>1354.7</td>
<td>981.82</td>
<td>31.06</td>
</tr>
<tr>
<td>EPS(Rs)</td>
<td>-20.64</td>
<td>-61.95</td>
<td>-60.5</td>
<td>-13.85</td>
<td>-30.97</td>
<td>-34.69</td>
<td>-54.05</td>
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<td>Book Value (%)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Equity Divid. (%)</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Awards

- Kingfisher Airlines frequent flyer programme, King Club has won Top Honours at the 21st Annual Freddie Awards in the Japan, Pacific, Asia and Australia region.
- King Club has won the Freddie Awards 2008 in the following categories:
  - Best Bonus Promotion
  - Best customer Service
  - Best Member Communications (First Runner-up)
  - Best Award Redemption (First Runner-up)
  - Best Elite Level (Second Runner-up)
  - Best Website (Second Runner-up)
  - Program of the Year (Second Runner-up)
• Kingfisher Airlines has received three global awards at the Skytrax World Airline Awards 2010. India’s only 5 star airline –by independent agency Skytrax
• Named Best Airline In India / Central Asia; Best Cabin Crew – Central Asia.
• Kingfisher RED named Best Low Cost Airline in India / Central Asia.
• India’s No. 1 Airline in customer satisfaction by Business World.
• Best New Airline of the Year Award for 2005 by Centre for Asia Pacific Aviation (CAPA) Award in the Asia-Pacific and Middle East region.
• Listed in the top 100 most trusted brand in The Brand Trust Report.

Critical Analysis of Crisis

Even though the airline was at one time rated high and had earned customer satisfaction, yet could not sustain for a long period of time. The major reasons for its failure as per author are operational failure, financial failure and strategic failure. Each of these are discussed in detail

Operational failure

One of the major operational crises with any industry in the past several years is the rising fuel cost. Kingfisher airlines also had trouble paying their fuel bills. Due non-payment, several Kingfisher’s vendors had filed winding up petition with the High Court. As on Nov 2011, winding up petition of seven creditors was pending before the Bangalore High Court. In the past Lufthansa Technik & Bharat Petroleum Corporation Limited (BPCL) had also filed winding up petition against Kingfisher Airlines. The total aircraft fuel expenses rose from Rs 480cr. (Q2FY11) to Rs 817 cr. (Q2FY121), nearly 70% increase and also an important crippling factor for the airline.

Another factor that affected operation was raising airlines lease rental dues. Since 2008, it has been reported by airport authorities of India that Kingfisher Airlines has been unable to pay the aircraft lease rentals on time. Due to that, the Kingfisher Airlines has grounded out of 66 air craftin its fleet as it was unable to meet the maintenance and overhaul expenses. Payment of salary to Kingfisher Airline staff was becoming tough for the company.

Kingfisher Airlines delayed salaries of its employees in August 2011, and 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 tax department. Today, accumulated losses stand at about Rs 8,200 crore (FY2012) and the money to pay for fuel, salaries and airport fees were not possible and the government refused for any bailout plan, thus forcing the flying operation of the airlines to a complete halt.

Financial failure

Ever since the airline commenced operations in 2005, the company is reporting the losses. But the situation became more horrible after acquiring the Air Deccan in 2007.

After acquiring the Air Deccan, the company suffered a loss of over Rs. 10 billion for three executive years. By early 2012, the airline accumulated the losses of over Rs. 70 billion with half of its fleet grounded and several members of its staff going on strike. In December2011, for the second time in two months, Kingfisher's bank accounts were frozen by the Mumbai Income Tax department for non-payment of dues. Kingfisher Airlines owes Rs70 crore (US$12 million) to the service tax department. In the situation of loss and tough financial condition, the company went for more loans. Due to heavy burden of debt and interest, in November 2010, the company adopted the way of debt restructuring and under that total 18 leading lenders, those have landed total Rs.8,000 crores, agreed to cut interest rates and convert part of loans to equity. Due to debt restructuring, the company able to down the average interest rate to 11% and to save Rs. 500 crores every year in interest cost. Debt restructuring also couldn’t change the game. By restructuring, company had reduced the interest charges by Rs. 500 crores every year, but due to the high leverage condition and increase in cost, the company started to face the liquidity problem. The company had no funds in hand and it created the following payment problems.

KFA posted a loss of Rs1027.39 Crores (USD 205.95 million) in December 2011 quarter. Presently KFA has a total debt of Rs 7057.08 crores (USD 1414 million) and total accumulated losses of Rs 6000 crores (USD 1202 million)

Strategic failure

Kingfishers decision for merger with Air Deccan was Mallya’s first strategic mistake. Deccan Aviation's Capt G.R. Gopinath, who was desperately looking for a buyer for his airline, Air Deccan, later became the biggest reason responsible for its downfall. It seemed a good deal in the beginning. Mallya got Air Deccan's huge market share and several aircraft as well, plus an immediate listing. Another goody was thrown in their basket: the licence to fly on international routes as Air Deccan had been in the business for five years — a requirement by the regulator for any airline to fly overseas. But this was along the losses incurred by the airline. Through a reverse merger, Kingfishers decision for merger with Air Deccan was completed with necessary approvals from the regulator SEBI in place, Mallya quickly changed the airline's name back to Kingfisher Airlines in 2008. This was a harmful strategy planning which also contributed in its downfall. Mr. Mallya spun off Air Deccan's fleet into a subsidiary called Kingfisher Red. So, Kingfisher Airlines had an economy as well as business class and flew on trunk routes including the metros, while Red did the rounds of tier-II cities' as well as some of the bigger cities. It was picture perfect on first look but, it wasn’t, actually. Mr. Mallya was not just into one business but several and each as different as the other. Normally, for such diverse businesses, one would appoint a CEO each to run it with a hands-on approach who would, in turn, report to the group chairman. While the liquor and the beer businesses had an experienced set of officials running the show, the others needed the undivided attention of Mallya himself. This was where his second mistake came in as he did not appoint any Expert initially. The airline had everything going for itself: great brand visibility, loyal customers and a wide network.
But as a former business partner of Mallya pointed out recently, he was more like an absentee landlord. Mallya was seen everywhere and apparently took more than necessary interest in running the airline but it wasn't just good enough. The business model was coming apart and losses kept mounting. Industry analysts say the third mistake was that the airline should have first consolidated its domestic operations and then introduced international routes because on the foreign routes, the competition only gets bigger and with those who have deeper pockets.

**Conclusion**

After analysing the entire scenario, we may conclude that the airline lacked in long term strategy by joining hands with Air Deccan (frequent change of focus from full service carrier to low cost model & vice-versa), No long term appointment of CEO, opting for unprofitable routes with multiple hopping, thereby resulting in delays of flights. On financial front it was the lost battle from the beginning with high training cost, high maintenance cost, delayed salary, government dues and most important the market conditions (steep depreciation of Indian rupee and increasing fuel cost), were the major factors responsible for its heavy operating expenses, thereby resulting in accumulative losses. Mr Vijay Mallya may be experience Liquor businessman but, could not successfully handled the highly specialize airline business and according to various experts from media his one man show was solely responsible for grounding the airline.

**Bail out Plans**

The revival plan has also been shared with the lenders of Kingfisher Airlines, who, however, have been generally unsupportive of the company's efforts to revive the airline causing further hardship, the annual report-2013 of King Fisher said. According to this annual report, phase 1 of the recovery plan involved restarting operations with a limited fleet of seven aircraft (five Airbus and two ATR planes), gradually raising to 21 aircraft (10 Airbus and 11 ATRs) in 3-4 months. Also UB Group has offered to organise funding of about Rs 650 crore to implement this phase. The second phase (full recapitalisation) envisages bringing a new investor with fresh capital, the report said. It will address debt restructuring, servicing and repayment issues in depth. The company is in dilemma of finding help, but from where? Government has refused for bailing and all the lenders and bankers have no more trust. The employees are also not able to tolerate the salary crisis and the slipping market share leads the more difficulties. Promoter Vijay Mallya has to decide the way ahead. Whether is it possible to save the company? There are very few alternatives. As per the previous news, Etihad Airways was interested in investing in Kingfisher by providing equity in exchange for a stake in the airline. Also involved in the talks was the International Airlines Group, owner of British flag carrier British Airways and Spanish flag carrier Iberia. But the question is the permission by Government. So at present there is very tough situation for Vijay Mallya and for the company. Let’s wait and watch. It the company try to focus first on establishing itself with achieving the breakeven in the coming years and then intensify its domestic operations.

The last stage of its expansion plan should be international diversification.

**QUESTION FOR DISCUSSION**

- Discuss the internal and external factor responsible for the Problem of Kingfisher Airlines?
- What is the Impact of High Level of Debt on the Company’s operating performance?
- Should Government bailout Kingfisher Airlines?
- According to you, what are the possible ways for the company to overcome this situation?

**TEACHING NOTES**

Discuss the internal and external factor responsible for the Problem of Kingfisher Airlines? Ans) The internal and external both factors were responsible for the grounding of King Fisher Airlines. They were:

External Factors: It feels that prospective employees get attracted towards it as it stands for security & stability. In selection, along with preliminary screening & interview, psychological testing & physical examination are also considered important. Police record, health history, relatives of the candidate in the organization, national origin & leisure time activities are other important considerations in selection. The researcher is of the opinion that the attitude of this airline in the context of recruitment, selection & retention is highly influenced by the general practices followed by most of the public sector organization. However this need to be changed if it wants to have the best of the talent with it and also wants to retain it. Retention of pilots is becoming increasingly difficult for this airline as its approach towards recruitment and selection is more bureaucratic as compared to private sector airline. They feel that the factors that affect the recruitment process of commercial pilots in India are: growth rate of the organization, working conditions and salary-benefit packages, company’s image perception of job seekers about the company, the state of economy of Indian Aviation Industry & the state of technological growth in India.

The factors that have limited impact on the recruitment process of these airlines include: demand-supply ratio of commercial pilots, legal & political considerations, diplomatic pressures, job hazards associated with flying. The sources of recruitment used by these airlines include: internal recruitment including promotions & transfers, advertisement, professional bodies related to aviation etc. Unlike public sector airline, they do not use employee referrals as a major source of recruitment. One of them is open to campus recruitment while other does not think it is essential as there are ample candidates at the entry level. These airlines are able to attract both young & experienced pilots to them. Employment Branding plays a major role in attracting pilots to these airlines. What is the Impact of High Level of Debt on the Company’s operating performance?. Ans In a survey conducted by National HRD Network and Ernst & Young (2008), India across many organizations, almost all large organizations stated that the HR function added critical value to their business.
If the organizational goals are to be achieved, the organization must have the strategy that is linked to HR. HR will be able to provide support to the rest of the organization only when it becomes the strategic partner of the organization. However, the Business strategy of Public Sector Airline is not linked to HR. As organizations plan for future, HR managers must be concerned with meshing human resource planning and strategic business planning. But the public sector airline does not strictly follow HRP. As a result of this, the airline does not have the skill inventory of its pilots with it. Job analysis is not considered important by the airline & not much attention is paid to this factor. However, it identifies the potential employees for the position. In case of both the private sector airlines, they understand the importance of linking their business strategy to HR and they both do it. HRP is followed by private sector airlines as a first step towards successful recruitment program. Skill inventory of the commercial pilots is maintained by them as a part of HRP.

Like public sector airline, even private sector airline feel that the role of job analysis, job description and job specification is limited in the actual recruitment effort. The minimum period that the airlines consider while forecasting HRP for pilots is nine months. They feel that the factors that affect the recruitment process of commercial pilots in India are: growth rate of the organization, working conditions and salary-benefit packages, company’s image perception of job seekers about the company, the state of economy of Indian Aviation Industry & the state of technological growth in India. The factors that have limited impact on the recruitment process of these airlines include: demand-supply ratio of commercial pilots, legal & political considerations, diplomatic pressures, job hazards associated with flying.

Should Government bailout Kingfisher Airlines?

Ans Yes, Government should help in bailing out plans for KF on terms and conditions. This decision of government will be a moral boost for the Indian aviation Industry as a whole, as it is passing through bad phase.

According to you, what are the possible ways for the company to overcome this situation?. Promotions are based on experience and merit. One of the airlines does not transfer its pilots almost always whereas the other airline transfers them mostly at the request of the pilots. Training and development is paid attention to and all pilots undergo training before they are promoted to next level. Like public sector airline, the private sector airlines also feel that opportunities for self growth are not very relevant to this profession and hence, not much attention is paid to this factor.

Performance appraisal is used to evaluate the selection of commercial pilots in these organizations. Good pay package and working conditions are considered to be motivating factors along with opportunities to make friends within organization. Pilots are encouraged to take up leadership roles. However, they do not have much voice in decision making. This may actually demotivate many pilots as they do not have control over final decisions. Overall, retention practices of the private sector airlines are observed to be better than the public sector airline due to various factors discussed above. The systematic and proactive recruitment practices followed by the private sector airlines are found to play a major role in the retention of commercial pilots by these air carriers. The private sector airlines are better able to retain their pilots as compared to private sector airlines. Good recruitment practices of the employees lead to greater retention chances of these employees. This is very much in line with the findings of this research. If recruitment is a planned and systematic effort, it will lead to good HR practices that in turn improve the retention rate of the employees.

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