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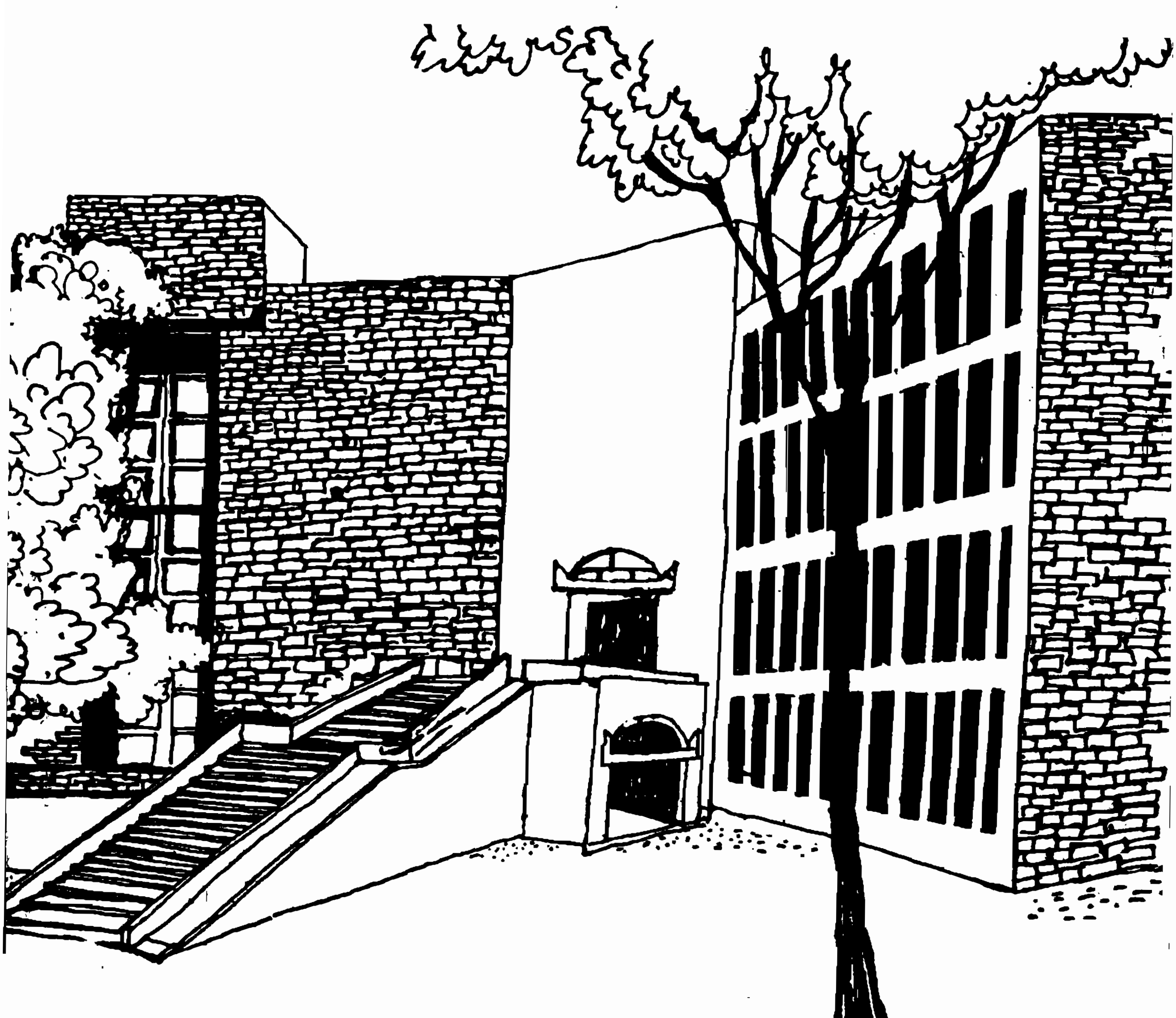

FROM THE GLOBALISED SOUTHWEST EFFECT
IN AVIATION TO "DEMOCRATISED DEVELOPMENT"

By

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Abstract

In the national quest for competitive advantage two basic forces may be crucial. On the one hand, progressive corporations "invest in inimitability" (the so-called institutional effect). Simultaneously, in the interests of time compressed national progress, policy makers try to facilitate imitation and substitution (in short competition) among the fast followers in the economy instead of leaving it entirely to market forces. In this paper we studied the institutional or demonstration effect provided by Southwest Airlines. It has been credited by the US Department of Transportation (DOT) with almost singlehandedly providing the discipline for fare restraint and the impulse for market expansion (or "democratisation") in the US airline industry. It has been called the Southwest Effect. We first examine its diffusion via the bandwagon and competitive effects among the big and small carriers of the US. We then extend the coverage to Europe and Japan to shed light on the Indian authorities' declaration to "democratise aviation in the 21st century". This mission has its parallels in corporate missions in the automobile and telephone industries of the US and the home appliances and equipment industries of Japan decades ago. We conclude that in a policy intensive sector like aviation (where the government has to prevent cabotage and safeguard bilateral agreements) the crux of the matter may lie in "democratised development" than in the particular sectoral focus employed. There may be a great need and opportunity for evolving an innovative methodology for managing and governing the complex process of democratised (or grassroots) development on a societal plane over a couple of decades at a time. The main benefit would lie in facilitating the inter-institutional contest for excellence that may be at the core of such development.

FROM THE GLOBALISED SOUTHWEST EFFECT IN AVIATION TO "DEMOCRATISED DEVELOPMENT"

In the national quest for competitive advantage, two basic forces may be crucial. Firstly, progressive corporations try to invest continuously in inimitability. Simultaneously, policymakers try to facilitate imitation and substitution (in short, competition) on the part of the fast followers in the economy instead of leaving it entirely to market forces. Arguably, the former is dominant (at least in knowledge terms) while the latter is largely latent (and, stereo-typically, "ineffectual"). Ideally, the two have to function effectively in tandem to fill the vast voids in societal space over time.

The levers which policymakers may have at their disposal are suggested by the aphorism "It is more cost effective to do things when they represent a competitive opportunity rather than a competitive necessity." Policymaking must function both to augment "competitive necessity" facing corporate citizens in the short term as well as accentuate the sense of "competitive opportunity" among them over the long term. The latter can be achieved via catalytic action on the "demonstration effect" and "bandwagon effect."

The demonstration effect creates awareness and interest in a focal (or exemplary) strategy.

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The bandwagon effect then converts this into a shaper strategy. By adding a crucial policy ingredient, it may be possible to amplify this movement into a "viral" strategy (an extreme form of shaper strategy). In the case of both shaper and viral srategies, fidelity and adaptablity may be important. The success of such strategies lies in both replicating core success factors and adapting to temporal and contextual differences in at least a potentially innovative way.

We focus on a situation where the policy intensity is deemed to be high. For example, as everyone knows, mergers, acquisitions, alliances, privatisations and internationalisation have been (and even continue to be) viral strategies in the corporate context.Companies are constantly engaging in them in spite of poor success rates. But the policy intensity in these siuations may not be as high as in the case of the Southwest Effect (SWE) as we hope to demonstrate eventually.

In 1993, the US Department of Transportation (DOT), the policymaking body for nearly 40% of the world's air travel business, officially endorsed the quarter-century old strategy of Southwest Airlines (SWA) by calling it the Southwest Effect. In 1998, FORTUNE listed SWA among the "globally admired corporations" even though SWA was purely a domestic operation. In this paper, we review this influential business model (hitherto a shaper strategy), identify the basic elements of SWE and highlight the significant (if only partial and/or temporary) successes achieved by legions of emulators in the US, Europe and Japan.

SWE is potentially a viral strategy because the Indian Civil Aviation Minister has apparently taken a leaf out of SWA's history book, calling for the "democratisation" of air travel in the country. (In democratisation of air travel SWA was, itself, following in the footsteps of the pioneering airline Pan American which had introduced a significant element of it by launching "tourist class" in its international flights in the 1950s). In this paper we first review SWA's strategy to identify the origins and elements of SWE. Then we review the successes/failures and innovations as SWE went national and global. Finally we touch upon the kinds of policies that would be required to realise SWE in India. These include matters such as route prioritisation; aircraft selection; target costing/pricing; entry, consolidation and exit policies; infrastructure development (including airport, air traffic control system and management development); and a progressive regulatory regime including perhaps a crucial disposition to repeal cabotage restrictions.

Origins and Key Elements of SWE

SWA's history highlights the importance of the formative years for a firm. The airline came into being literally fighting for its corporate existence. Proposed in 1967 as Air Southwest Company (ASCO) by a group of Texan entrepreneurs its takeoff was blocked for four consecutive years by three incumbents who obtained a stay order claiming that the market was already saturated. While the lower courts supported the stay, the higher courts including the Texas Supreme Court and the Court of Appeals of the District of Columbia ruled against it. Renamed Southwest Airlines, it eventually began functioning from June 1971. It broke into the black from its second full year of operations despite the price war it ignited at the time and it has stayed profitable ever since, annually.

As an intra state carrier of Texas, SWA was exempt from regulations of the Civil Aeronautics Board (CAB) whose jurisdiction only extended to interstate airline operations. Like Texas, California also had intrastate carriers who enjoyed this exemption. The two states´ airline regulators differed slightly in their approach, however. California was fairly liberal towards both entry and exit but controlled fares. However, the latter was on the sensible basis of least cost rather than the "industry average" on which the CAB relied. Texas controlled entry but had no authority to regulate fares. These particular market oriented approaches fuelled the demand in the 1970s for the deregulation of the US airline industry, culminating in the passage of the necessary legislation in 1978 and the phasing out of CAB by 1984.

For our present purposes it must be noted that the incumbents who opposed SWA´s entry into the Texas market were smaller national or regional carriers headquartered in Texas, not intra state carriers. SWA may, in fact, have been the first of them or at least the best known. Furthermore, corrupt political influences may have played a part in the stay brought against it (see below). Suffice it to say that SWA modeled its operations closely on the lines of Californian (not national) airlines viz Pacific Southwest and Air California. It seems to have even derived its original name from them. Indeed the Los Angeles-San Francisco market, the busiest in the US, is said to be the handiwork of Pacific Southwest.

SWA began as a passenger service between three major Texan cities, Dallas, Houston and San Antonio, 300-400 kms apart in a triangular pattern. Competition on these routes was already stiff. One of the founders, Rollin King, had previously attempted an air taxi operation (unsuccessfully). SWA's plan was to go in for bigger capacity planes viz Boeing 737s, three or four to begin with. These were considered to be cost effective on such short haul routes. SWA targeted ground transportation, specifically the car, as its competition. It therefore relied on high productivity and tight cost control to keep fares low ($20 one way) in the inherently costly short haul situation and eliminated meals in the process. It also decided to stick to one type of aircraft for these purposes building up a fleet of over 250 of them over the years. Finally it went in for a relatively simple point-to-point route structure (also known as turnaround services) and, at first, relied on veteran airline executives to operate it effectively.

In marketing terms SWA positioned itself strategically in the gap left by one of its fiercest competitors, Braniff, an inter-state, CAB regulated airline. Braniff had pioneered a clearly "fun" based approach to the airline business in the mid 1960s. But in just a few years this had faded into a vague mix of fun and restraint. So SWA simply decided to appropriate the "fun" platform from day one. Operating out of Love Field, the Dallas airport, it used "LUV" as its ticker tape symbol and played up the "LUV" theme to the hilt in projecting its public image. When another one of its founders, Herb Kelleher, took over as CEO in 1981, he pushed the idea of fun further by trying to instill it in each of the airline's employees calling it a "patina of spirituality" that is reminiscent of Japanese HRM practices in manufacturing. Thus SWA put the employee before the customer (passenger) while making it fun for both in the process. This was consistent with its low fare, high frequency strategy by keeping planes flying with quick turnarounds at airports at a lower personnel cost per unit. SWA even introduced a profit sharing plan for employees in 1973 and they now own about 10% of the airline.

SWA did make a brief departure from its short haul, no frills strategy in 1985 when Kelleher took over his predecessor, Lamar Muse's airline to prevent it from falling into the hands of another bitter rival, Continental. Muse Air had longer haul flights to California and Florida, provided meals and assigned seats. Though Kelleher soon restored Muse Air's profitability, it suffered a "straddling penalty" in the competitive milieu of the late 1980s, causing SWA's first quarterly loss in 1987. It was soon sold. This cleared the way for SWA to cross the $1 billion based on less restrictive union contracts CALite. Not quite a carbon copy of SWA, CALite provided assigned seats, and offered frequent flier miles even as it eliminated all meals and first class cabins on some flights. Continental was planning to expand this operation to the level of 2/3 of all its flights by end 1994. But a flood of complaints due to delayed flights and non-availability of first class some flights etc led to heavy losses for the airline. Continental had suffered a "straddling penalty" trying to compete in two ways at the same time -- low cost on some routes and full service on others. Its chief executive was replaced and the new management team abandoned CALite to restore the airline's profitability and reputation.

Even as CALite was being disbanded, United Air Lines (UAL) another megacarrier, announced plans for an "airline within an airline" which it dubbed "Shuttle by United" to compete specifically with SWA in the key West coast market. UAL's goal was to make a profit at SWA's prices and set a cost target of 7.4 cents per available seat mile (30% below the prevailing level) and an aircraft utilisation rate of 11 hours per day for the Shuttle. Using a mix of market research, employee teams and turnaround process analysis UAL managed to cut aircraft turnaround times for the Shuttle by half in order to achieve these targets. It also had to introduce a number of innovations based on experimental efforts. Among these were: (1) a boarding process designed to minimise bottlenecks while continuing to accommodate seat assignments (2) provision of templates at gates to check the size of carry on luggage (3) elimination of pre-departure beverages for first class passengers and storage of magazines which tended to block smoothness of boarding by passengers (4) testing of a boarding pass reader to keep continuous count of seats remaining available for standby passengers etc. Other megacarriers such as American, Delta and US Airways Group also launched low fare subsidiaries or planned to do so soon.

UAL did succeed in trimming SWA's share by 10% initially. But UAL was an ESOP, the largest in the world. Yet flight attendants were not a part of it. So inflight service was patchy and due to the resulting difficulties in asset utilisation UAL could not reach its cost reduction targets. It lost money and eventually had to raise fares by $10. Ultimately it repositioned its routes away from those of SWA and even reconfigured them in 1997 as domestic feeders for its San Francisco and Los Angeles hubs which were international gateways for the US.SWA not only recovered the lost market share but even managed to increase it. As a result of these kinds of developments a McKinsey study showed that average daily passengers on low cost airlines grew from 19.000 in 1980 to 199,000 in 1994 at a CAGR of 18%. This resulted in a corresponding increase in the low cost airlines' share of industry passengers from 3% to 15%. But only about half the normal (i.e. short haul high traffic) market for such airlines had any form of low cost competition (including from SWA) leaving scope for the growth of this business over and above the fuller exploitation of the business through higher frequencies of flights. However, much of the "unentered market" was probably in the northeastern US where weather conditions, airport congestion etc are significant factors. Newark was the US airport with the maximum delays per 1000 flights. Two other New York airports, JFK and La Guardia, were also in the top 10 list. On the other hand, on low traffic and long haul, high traffic routes in the US the advantage of discount carriers was yet to be established though Pan American in its new incarnation had tried, unsuccessfully, to pioneer such a role in the latter.

Meanwhile, moves to deregulate airlines had gathered momentum in Europe. Starting mark in revenues, making it a "major" airline in the US industry. Simultaneously, it decided to enter the Californian market, then a stronghold of mega-carrier United Air Lines (UAL).SWA's share climbed from zero to 50% (accounting for 10-15% of its total business) in the California market while UAL's dropped from 50% to 34%. SWA the capped this foray by acquiring Salt Lake City (Utah) based low cost carrier, Morris Air for $10 million in 1994.

The anti-SWA forces did not give up when the stay order was lifted in 1971. The new twist they gave to the idea of ex ante competition in the airline business turned to fierce ex post competition. Not only did they match SWA's low fares on its "golden triangle" in a veritable price war but they fought (unsuccessfully) over its move from Houston's Intercontinental airport to an almost disused secondary field called Hobby which was closer to the city centre. This desparate move by SWA paid rich dividends in the form of a jump in load factors. Consequently, when it was ordered in 1973 to move from Dallas' Love Field to the new Dallas-Fort Worth International airport for the sake of the latter's economic viability,it refused point blank saying that it (SWA) was not a party to the 1968 agreement by airlines using Love Field to make the shift when the new airport was ready. In retaliation, a Texas based Congressman introduced legislation preventing SWA from flying inter-state out of Love Field in the post-deregulation era. (This Congressman was later to be forced out of office on grounds of misuse of public funds. SWA's opponents were also fined for "harrassment" by a higher court of the US). According to a compromise that was worked out, the so-called Wright amendment, SWA could only fly to points in Texas and four adjacent states from Love Field. However, this did not prevent it technically from flying to other states from points in the adjoining states after issuing fresh tickets to passengers. Thus SWA emphasised operations from uncongested airports especially secondary ones which tended to be closer to the city and where landing costs were lower.

During its first six months in 1971 SWA flew nearly 20 times a day between Dallas and Houston while the frequencies on the other two legs of the triangle were around six per day. Thus SWA's post-deregulation growth strategy was predicated on the concept of "controlled growth". It generally avoided "head to head" competition with major airlines preferring to go "between (or around) the legs" instead. This meant that SWA did not go for new city pairs with just one or two departures per day even though there were innumerable requests from communities across the US for this. Instead it aimed for at least six or ten to begin with, ultimately hoping to reach 18 to 20 by stimulating the market with low fares. In order to sustain such frequencies and remain on schedule it also generally avoided airports that were likely to be closed due to bad weather. SWA's route pattern therefore formed a broad crescent swinging down from the west to the south and rising eastwards across the continental US.

Over the years, SWA had refined its approach to entering chosen air travel markets and realizing their business potential. Its time tested startup strategy consisted of assigning a "diamond team" of marketing, sales, advertising, promotion and public relations personnel to the new city to collect detailed demographic data, search for sponsorship opportunities and launch a media blitz. SWA then capped all this by setting its famed rock-bottom fares. And as the traffic volumes swelled, SWA stood by to add gates and more planes.

DIFFUSION OF SWE

After the deregulation of the US airline industry in 1978, about 180 new low cost carriers were launched in the country. Air fares quickly fell by one-third and traffic more than doubled through the 1980s as cheap "point-to-point" services challenged the hub and spoke systems of the incumbents. In time US air fares would average half those in Europe though East coast fares tended to be double those on the West coast.

But 85% of th fledgling carriers did not survive the competition. One of the most spectacular of these was People Express (PE). Founded by a Harvard Business School alumnus, Donald Burr, in 1981 PE began service from Newark, NJ (a satellite airport for New York city) with 3 planes to 3 destinations. Burr had a specific vision of a "better organization". He identified six management "precepts" to guide PE´s policies and practices. Only three levels were used in the company´s organisational structure. In addition there was an elaborate set of teams and committees. Job rotation was used to stimulate personal growth and development and to keep costs low through greater flexibility. Salary differentials were contained and stock ownership and profit sharing were major elements in the compensation package. Burr's altruistic aim was to make PE "the leading institution for constructive change in the world". By 1985, PE's network had grown rapidly to 49 cities served by a fleet of 76 planes and revenues crossed the $1 billion mark making it a "major carrier". The next year its network expanded to 158 cities including some overseas points after acquiring another airline or two. By then the major airlines began to retaliate and the main weapon used for this purpose was the computerised reservation system (CRS) which enabled the continuous auction of seats and thus nullified PE's low fare advantage. PE had to be sold by 1987. In contrast Kiwi International Air Lines, a 1992 startup backed by grounded pilots of bankrupt Eastern Air Lines was able to co-exist with the majors. Though it enjoyed a cost advantage from employee ownership and the use of leased planes, its name recognition was low and its flight schedule was limited. In fact its strategy was to combine low fares with limited capacity by aiming to capture no more than 10% of any market or a maximum of four flights per day. It also targeted business travelers so that the major airlines could not undercut its fares through advance purchase, stay-over and other requirements. Thus Kiwi served the purpose of keeping other new entrants out of the market and thus enjoying the majors' goodwill.

Another approach to the low fare strategy was represented by Continental Airlines, itself one of the top US airlines. The product of growth, acquisitions and mergers among seven carriers, Continental became the fifth largest in the US by the end of the 1980s. Earlier in the decade it had resorted to a restructuring bankruptcy (Chapter 11) to lower its (labour) cost structure in the deregulation era. Subsequently with the takeover of People Express (PE), Continental initiated the concept of an "airline-within-an-airline", calling the new low fare operation with the UK in the early 1980s, complete deregulation of the EU market was phased in over the next 15 years ending March 1997. Ryanair was a low cost carrier that was at the forefront in adapting the Southwest model in Europe. Launched in 1985 as a challenege to the duopoly on flights between Britain and Ireland by British Airways and Aer Lingus, Ryanair made losses for six straight years as a full service airline like its competitors. But after studying the SWA model it switched over to it completely.

Indeed it went a step further in eliminating even snacks which left a mess to be cleaned, serving only drinks because cans and cups could easily be collected before landing. Traffic between Dublin and London rose dramatically from the level of 1 million over the past decade.

But BA had to pull out due to the low fares. Ryanair was the first foreign airline to launch a domestic service in the UK. Now it is expanding in Europe with 10 routes. It has a fleet of 21 aircraft, all vintage Boeing 737-200s and has ordered another 25 with options for 20 more. Its chief executive, Michael O'Leary (38) believed that overexpansion was the biggest risk to budget airlines. Between 1993 and 1997, the 80 new carriers launched in the EU had experienced a 75% failure rate. Ryanair itself had averaged 33% growth in passenger-miles per year during the 1990s and it was shooting for about a 25% rate of "careful growth" in future.

The other independent airline which is closely following the Southwest model is London based EasyJet. Launched in 1995 by Stelios Haji-Ioannou (30) the son of a Greek shipping tycoon, the airline is privately owned by means of a holding company registered in Jersey but is a UK based operating company. It chose Luton outside London as its hub and Edinburgh as the first destination. It has already carried more than 2 million passengers. With seven Boeing 737-300s at the end of 1997 it had another 12 737-700s (new generation model) on order with options on 15. The fleet was expected to increase to 35 in 5 years to provide services to numerous European destinations. It was hoping to finance the purchases through cash flow but the flotation option was also being considered. EasyJet's hallmark so far has been its combative stance vis a vis the majors. It took KLM to court, successfully, for alleged predatory tactics when it launched its Amsterdam service. It also challenged BA's entry into the cut-price market (see below). As a result of such efforts, EU regulators seemed more alert than those elsewhere to the dangers startups faced of being put out of business by the big airlines before anyone could even "blow the whistle".

Another key player in the European low fare airline sector (which aggregated $700 millionm in revenues in 1997 and was expected to triple to $2.2 billion by 2001) was Virgin Express based in Brussels. After it incorporated Euro-Belgian Airlines it managed to shift its passenger mix from chartered travellers to scheduled passengers. It flew to seven destinations from Brussels. The London route was flown on a code sharing basis with Sabena Airlines, Belgium's flag carrier. Virgin Express' revenues are estimated at about $200 million (similar to those of Ryanair) and it is considered to be profitable though it found Brussels to be a high cost base.

The interesting thing is that Virgin Express is 51% owned by Richard Branson's Virgin Group whose flagship is Virgin Atlantic Airways (VAA). This highly innovative long haul airline traces its own roots to Laker Airways which pioneered cut price charter travel across the Atlantic between secondary airports in what were known as "Skytrains"(widebodied jets) during the 1970s. As such Laker was a contemporary of SWA albeit on international rather than domestic routes. It folded up in 1982 and its licence enabled Branson to start his own airline in 1984. Initially aimed at "backpackers" (like Laker) VAA quickly moved upscale stressing value for money (better services at lower prices). It escaped from the predatory tactics of BA and others only because BA was diverted by its privatization process. Once it got the lucrative rights to fly between congested Heathrow and JFK airports, VAA developed a unique "fun" approach a la SWA to the longhaul business which succeeded in attracting business travellers. It was known for its lavish "upper class" service which included massages, haircuts and manicures, and lounges with hydrotherapy baths and four hole putting greens. Kids were entertained on board with kazoo instructors, could participate in face painting pastimes and were served ice cream during movies. With its flights landing at 4 US gateway cities, VAA was even eyeing the American domestic market if and when barriers to cabotage came down.

To return to the SWA model of short-haul aviation, a reference must be made to British Airways (BA's) moves. In France and Germany it acquired 49% stakes in local airlines, naming them Air Liberte and Deutsche-BA respectively. Then after 6 months of secretly planning "Operation Blue Sky", it launched a low cost no-frills subsidiary called GO in 1998. It appointed Barbara Cassani, a BA veteran, as chief executive and based the operation at Stansted field another satellite airport of London. Starting with 2 leased 737-300s (to go up to 8) and 150 employees it initially avoided going head to head with other carriers such as EasyJet in terms of routes operated. It was aware of keen regulatory scrutiny for evidence of "unfair advantage" due to the BA connection in matters such as financial concessions, aircraft lease terms, personnel training etc. BA emphasized that GO was a separate subsidiary with its own name, management and employees. In October '98, however, GO launched a direct attack on EasyJet on the London-Edinburgh route by heavily undercutting the latter with a $84 fare (versus EasyJet's $112) causing Stelios Haji-Ioannou to cry "foul".

Finally reference has to be made to the Japanese experience where, after two years of regulatory wrangling, two discount carriers named Skymark and Air Do (rhymes with go) appeared on the scene in 1998, the first new airlines there in nearly four decades. They challenged the three incumbents viz All Nippon Airways (ANA) with 50% of the domestic market, Japan Air System (JAS) with about 25% and Japan Air Lines (JAL) the national flag carrier with an equal share having been allowed into the domestic market in 1986. In 1995 domestic passengers Mostly on business account numbered nearly 80 million (about 75% of the population). The Japanese majors had a high cost structure relative to the Americans and relied on high domestic fares to cross-subsidise international fares which had to be very competitive. (For their part the Japanese carriers accused the Americans of subsidising their international fares with their large and protected domestic market which accounted for nearly 40% of the world airline business).

Skymark too had openly espoused the SWA model. But it began operations with a single Boeing 767 aircraft which was fitted with 288 seats by adding an extra seat per row to make it 8 versus the usual seven. While scrimping on costs, Skymark did not squeeze the numbers of flight staff as it was crucial to project Japanese style politeness to passengers. Moreover, Skymark was awarded the Tokyo (Haneda) - Fukuoka route the second busiest one in Japan. Meanwhile Air Do which also operated a B-767 was awarded the Haneda-Sapporo route, not only Japan's busiest but among the world's busiest. Air Do signed a maintenance agreement with

JAL which in turn was planning to start a subsidiary called JAL Express using 737s on as many as 9 domestic routes presumably separate from those of Skymark and Air Do.

DEMOCRATISATION

The Civil Aviation and Tourism Minister, Mr Ananth Kumar (39), has visualised the "democratisation of Indian civil aviation in the 21st century". By this he means that it should be accessible to the average person and not "elitist" as at present. In fact the main constituency of the public sector airlines seems to be the politician travelling at tax payers' expense while next in line is the businessman who is on an expense account. The common man is priced out by the exorbitant and steadily increasing fares. If the Minister's vision is quantified then, perhaps, it could be taken to mean at least one plane trip per person per year which would translate into 1 billion passengers per year for the current population of the country. Thus the Minister has rightly envisaged that a century would be required to achieve this goal given that it requires a hundred fold increase over current levels! Let us therefore look at an intermediate target of 100 million passengers per year by the year 2020, a 10 fold increase over current domestic levels. By comparison, the Indian Railways carry 10 million passengers PER DAY over their network at the present time although half the number is accounted for by commuter trains of the metropolises.

According to recent data, Indian Airlines (IA) and Jet Airways (JA) carried about 10 million passengers over 54 domestic destinations using 70 aircraft and 24,000 employees. On the other hand, Southwest Airlines flew 50 million passengers over 52 destinations using 23,000 employees and 262 planes at the rate of 2300 flights per day. This suggests that if the country's air travel market was divided into two for hypothetical reasons, then the equivalent of two SWA's could theoretically handle 100 million passengers over a hundred Indian destinations with 500 aircraft and 50,000 employees. Hence this is essentially what may have to be accomplished over a 20 year period (suggested earlier) if progress is to be made towards democratisation in the 21st (rather than the 22nd) century.

When an ambitious target such as this is proposed, the first question that crops up is about the required resources. Obviously financial resources have to be earned or borrowed or otherwise negotiated on the basis of shared perceptions of the future. In fact, management or rather governance, both in its thought and action modes, seems to be the key resource for the whole endeavour. Aviation is primarily a dollar denominated business. Hence earnings to finance it must also be heavily dollar denominated at least to begin with. Thus international tourism may have to be heavily leveraged at the outset for funds generation purposes. Even though India attracts a mere 2 million tourists per year, they generate $3 billion in receipts which makes this one of the top foreign exchange earners of the country. A ten fold increase in tourism in a fifteen year time frame may have to be envisaged to jump start a 20 year effort to democratise civil aviation in India. Other sources of hard currency to be actively explored include export/import air cargo, offset manufacturing of aircraft components, foreign investment in the aviation/tourism sector etc.

Regarding the required investments in tourism, it may be instinctively felt that a lot of "Taj Mahal" hotels and other man made attractions would be the key to success. But this may be a big mistake. In fact, as far as large scale international tourism to India is concerned, this may be actually the easy part. The really big challenge may lie in first of all launching a sustained and widespread campaign to rid the country systematically of so many anti-civic tendencies which put off the discerning traveller. An even bigger challenge to begin with is the inculcation of a tourist friendly attitude among the populace at large and especially among airport officials through education, media blitzes and training programs where possible.

In the case of airports too, it may be a mistake to focus only on "vision" architectures, international gateways etc in fits of "conspicuous construction". In fact the first priority should go into putting all existing airports into a state of "functional fitness" for scheduled airline operations. Simultaneously efforts should be mounted to attract airline flights to these airports so that revenue generation and funds accumulation can begin. As time goes on, expansion, modernisation etc can and should be undertaken systematically. As stated earlier all this represents a great challenge to management skills if time bound goals have to be met. Furthermore, given the need for a host of complementary facilities and activities, such as air traffic control and telecommunications, hotels and restaurants, surface transport links, reliable electricity and water supplies, retail shops and establishments etc the challenge to governance is even greater. Airports may have to be viewed as the growth centres (or "clusters") of the future as industrial estates tried to be in the past.

In the case of aircraft, it may be necessary to evaluate almost all available types in the world to converge over time on those which best meet our needs. But assessments have to be made objectively and orders placed expeditiously if the necessary flying experience has to be gained on a world class basis. The appropriate lessons have to be learned from India's aircraft acquisition and induction experience of the 1980s and 1990s. At some point, India must be able to contribute to aircraft designs (and their manufacture) which are appropriate in a global context including from the all important environmental standpoint.

Eventually we arrive at the whole issue of viability of airlines. Worldwide experience shows that, overall, the industry makes only marginal long term returns on a cyclical basis, SWA being perhaps the only shining exception. India must accept this reality too. The industry's needs for financial and strategic flexibility are too acute to warrant indefinite reliance on public control. Repeated fare increases due to cost inefficiencies are simply a recipe for market contraction when there is no freedom of entry or exit. Safety regulations, are of course, imperative. There is a clear and ever present tradeoff between low cost airline operation and safety of aircraft. This tradeoff must be closely monitored at the regulatory level. It is closely tied to the issue of an airline's financial fitness and hence the resources required for this purpose. Leasing of aircraft and the specification of the balance between leased and owned aircraft in a fleet have to be judiciously regulated to safeguard affected parties while ensuring that the gorwth and expansion of the industry is faciolitated rather than hindered. One of the problems here in the past has been the huge amount of dues to the government via taxes and duties of various kinds by airlines with leased aircraft going out of business.

CONCLUSIONS

Our study of the Southwest Effect reveals that it is now a signficant force in global aviation. The US Department of Transportation (DOT) which first observed and named the phenomenon in the early 1990s laid so much store by it that until very recently it believed that Southwest Airlines, an established and major US carrier, had a greater impact on fare restraint and market expansion (or "democratisation") in the industry than the squadrons of new entrants with discount prices. However, in Europe, the authorities (i.e the EC) were sensitive to the plight of new entrants in the face of predatory tactics by the incumbents (backed by their governments) in the deregulation era. They were developing a rapid reaction capability to complaints lodged by the new no-frills players as a delay of just a few months could seal the fate of a fledgling carrier. As a result DOT too developed guidelines to be observed by the US majors in this sphere or risk penalties. But these guidelines were yet to go into force because of protests from the concerned groups that they amounted to re-regulation.

The situation in Japan is rather intriguing, however. There seems to be an implicit endorsement of the Kiwi model by limiting the scope of the new entrants -- one (big) plane, few take-off and landing slots at the most congested airports, one route etc -- presumably so as not to pose an immediate threat to the incumbents. At the same time, the new entrants have been allowed into the busiest routes thus virtually guaranteeing their viability in the short run. In the process they may have assumed the hybrid character of "scheduled charters". Meanwhile, the country's flag carrier, a tertiary player in the domestic sector, is developing a more SWA-like operation with 737s on an airline within an-airline basis over a clutch of other routes.

In this global scenario, the Indian authorities have proposed the idea of "democratising aviation", most probably taking a leaf from reports of the SWA model. To be sure, the idea has a precedent in Pan American Airways' introduction of a "tourist class" on its international routes since the 1940s towards this same end. Similar missions have existed even earlier in other sectors e.g. the "affordability" of Ford cars, AT & T's mission of "universal service", Matsushita's aim of "producing household appliances/equipment on demand like water from a tap" etc. They have shown convincingly that such missions are achievable at the corporate level in a benign or supportive policy/regulatory context. In contrast, India which was among the first countries in the world to have telephone exchanges still has a density of a paltry 1 or 2 telephones per 100 inhabitants. For many decades, household products such as cars, TVs, washing machines, refrigerators etc were considered to be "luxuries" and were taxed accordingly and output restricted. So the "democratisation of aviation" may prove to be only a catchy political slogan in this historical context.

Hence we take the view that democratisation of aviation should be viewed as a means to an end rather than an end in itself. The larger goal may be that of "democratised development". For various reasons, five decades of five year planning have not led to democratised development of India. One third of the population still remains mired in abject poverty. In absolute terms this amounts to a bloc of people which is larger than the entire population of the country at the start of the whole effort. What is worse, it is the largest single bloc in any country, exceeding even China's by 50%. To achieve democratised development by any means, including via aviation, basically calls for a great deal of concerted efforts sustained over long but sufficiently challenging time frames in the face of entrenched opposition from divisions in society along various lines to which democratically minded people are (rightly) sensitive. But what is the value in letting things simply evolve; management and governance should be able to make a difference through time compression. Competition does help so policy innovation is required to stimulate it, perhaps even to simulate it.

In the past the country paid a heavy development penalty for the lack of coordination and inegration among the linked operations of coal mines, power plants, steel mills, wagon builders and the railways in the eastern region. Dams, industrial estates, and nationalised banks have failed to emerge as growth centres for the dispersed and far reaching development of Indian society. Aviation development calls for coordination and forward looking integration from literally a host of heavyweight ministries at the Centre (not just two or three) and between them and the numerous states. If such large scale integration materialises it is reasonable to expect that along with the democratisation of aviation we would also achieve a measure of democratised development. A very basic proof-of-concept in this regard is provided by the symbiotic relationship between the city-state of Singapore and its aviation sector led by Singapore Airlines and Changi Airport.

There seems to be a great opportunity and need to evolve methodologies for democratised development for large and tradition bound societies like India. Some approaches which may have a bearing on this have emerged in recent times. The chemical industry in the West is said to be at the forefront of an approach to "sustainable development". The distinguishing feature of this approach is a truly planetary perspective to guide corporate strategies so as to ensure that the earth does not exhaust its capacity to support large populations and rapid economic growth. There is also the idea of "cluster economics" which delineates in greater detail than ever before the rich economic linkages in regional concentrations which help particular industries succeed spectacularly. What if a country was viewed as a "cluster of clusters"? What would the external environment of such a system be? What uniques strategic position should it stake out for the next half century? What are the core competences of a country? And finally, what is the national process of strategic planning which would result in progress towards democratised development? These are the kinds of questions which we are unexpectedly left to ponder at the end of this study of the Southwest Effect.