

APPENDIX GA36d

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Executive summary

The global airline industry is undergoing an intensive phase of mergers and acquisitions. The acquisition of Virgin America by Alaska Airlines in December 2016 made it the fifth largest carrier in the United States, drawing plenty of attention from around the world. The M&A, however, entails a string of issues that needs to be addressed in during the integration stage of the two airlines. In particular, Alaska Airlines faces two important issues pertaining to people management, namely (1) the integration of two distinct pilot groups and (2) employees' heightened stress and anxiety brought about by the merger.

Successful integration of the pilots is fundamental to the smooth operations of the airline's everyday business. Yet, the fact that this profession operates under a 'seniority' system makes it intrinsically difficult to combine the two groups. This report explores alternatives to manage the pilots while also revealing the importance of distributive justice and procedural justice in dealing with seniority. The bottom line is that Alaska Airlines must be able to convince this group of stakeholders that such integration is 'fair' in order to reach a mutually acceptable result.

Apart from pilots, other employees at large also encounter a great deal of stress given that the organisational change also brings a high level of uncertainty to the employees on an individual level. Without a proper outlet, excessive stress would mount up and eventually affect their job performance or even cause turnover. The sense of job insecurity as well as the loss of identity experienced by workers of two former direct competitors in a new, unfamiliar environment must be handled promptly through honest, timely and respectful communication. Laxity in alleviating employees' stress could significantly jeopardise the airline's onward performance.

All in all, the M&A between Alaska Airlines and Virgin America has important ramifications for the aforementioned stakeholders in various aspects ranging from career advancement, job commitment to job performance. In this light, Alaska Airlines' prompt attention to the implications and implementation of the suggested solutions are critical to the ultimate success of this merger integration.

1. Case background

Alaska Airlines (“Alaska”) has a history of almost 90 years. Over the decades, it has grown from operating in a small region to a full-service airline that is internationally reputable. Having its headquarters based in Seattle, the airline has a strong base in the state of Alaska as well as Pacific Northwest. Before acquiring Virgin America, Alaska Airlines was flying an average of 21 million passengers annually to 110 cities with approximately 970 flights every day (Alaska Airlines, 2016b).

Virgin America (“Virgin”), on the other hand, was only established in 2007 with a vision to introduce a fresh, fun and innovative experience to passengers, much contrary to that of legacy airlines. As of 2016, Virgin America was flying 7 million customers to over 20 destinations in the US and Mexico annually (Virgin Group, 2017). The airline positions itself as a budget airline that offers low fares but is much welcomed in the states for its distinctive aircraft interior and innovative in-flight services.

In December 2016, Alaska closed its acquisition of Virgin including its equity for US\$2.6 billion as well as debts, totalling a transaction value of US\$4 billion. After the acquisition, the number of flights would be increased to 1200 daily and annual revenue was expected to increase by 27% (Alaska Airlines, 2016a). Through creating synergy, the airline pledged to provide customers with more flight options at lower fares, better service quality and a combined mileage programme. It will also expand its network from the current major hub in Northwest America along the coastline to West America, becoming the fifth largest airline in the country.

2. M&A trend in global airline industry

In order to keep up with the pace in a fast-changing and globalised business environment, players the aviation industry, in particular airlines, are compelled to vigorously review their strategies so as to remain competitive. However, the airline industry is highly regulated where there are stringent limitations and restrictions regarding an airline's business model and scope. Furthermore, this complex surrounding and fierce competition has created a situation in which it is extremely difficult to simply outlive other competitors.

In this light, one of the effective ways to eliminate the competitors is by absorbing them through mergers and acquisitions ("M&As"). Hence in the past few decades, airlines have sought to consolidate the industry players instead; particularly in the last decade or so, the trend of merger and acquisition is evidently speeding up. This global phenomenon is especially marked in Europe where airlines are fragmented and in the United States where airlines are vigorously trying to monopolise the market (Dennis and Pitfield, 2018).

The consolidation trend in the US market is unambiguous and dramatic. According to Hethcock (2017, cited in Egli, 2018, p.5), there were over 400 certified airlines in the country when the industry was first deregulated in 1978, but 40% of these airlines went insolvent or were bought out in the following 40 years. Recently, a new wave of consolidation between United Airlines and Continental Airlines in 2010, Southwest Airlines and AirTran Airways in 2011, and American Airlines and US Airways in 2013, saw the birth of the 'final four' airlines that dominate the national market (Ciliberto, Cook and Williams, 2019; Dennis and Pitfield, 2018). Nevertheless, this merger frenzy does not seem to be dying down, and some opine that the M&A activities will continue, leading to some mega-mergers in the future, particularly amongst mid-sized carriers (Egli, 2018).

The trend is not limited only to the US, but is rather a global movement. In Europe, the industry is very fragmented but in the years 2011-2015 alone, the number of airlines declined by over 70 (OAG, 2015, cited in Egli, 2018, p.26). Much like the US in earlier years, market concentration is proliferating and larger players are beginning to emerge amidst this era of merger and acquisition. As such, the European market is bound to witness even more mergers, perhaps mega ones, in the recent future (Dichter, Hahn and Maxwell, 2015).

It is indisputable that the global airline industry has been through an intensive period of M&A over the past 10-15 years, a trend that is showing no sign of diminishing. As a result, airlines will become more agile than ever, constantly reacting to M&A opportunities while the desirable partners are still available. Naturally, legacy airlines and larger budget airlines that possess the adequate resources will become key players that lead the trend, targeting small to medium players (Ciliberto, Cook &

Williams, 2019). Consolidation is bound to happen and as such, success depends on how well the particular airline can captivate on this global trend and overcome challenges entailed therein, so as to enable a truly successful M&A.

3. Case significance

As elucidated above, it is well-recognised that the global airline industry has and still is going through an intensive phase of merger and acquisition. More importantly, the size of these mergers and acquisitions is increasing as the industry's firms become bigger and bigger through years of consolidation. This leads to an even more complex integration environment and associated people management issues that industry players must duly recognise if, or more of a question of 'when', the airline faces an opportunity to acquire or be acquired. Hence, airlines ought to carefully review not only the mergers and acquisitions *per se*, but more important the impact and challenges that they need to overcome after consolidating for the merger to be truly successful.

Alaska Airline's acquisition of the entire Virgin America gave birth to the fifth largest airline in the US, and is a prominent example of merger between two reputable, mid-sized firms that combine with a view to quickly increasing market share in this highly competitive environment. This type of merger is bound to become more frequent and prevalent in the coming years, as explicated in the last section, thus giving weight to the analysis of the Alaska-Virgin merger will shed light on many more such airline mergers to come in the short future.

4. Significance of “people” issues in M&As

Mergers and acquisitions can be an attractive way to quickly gain prominence in the market or to galvanise growth in a business environment which is difficult to simply outperform competitors. Especially where the industry is fast-changing and highly competitive, there is pressure to constantly review and consider M&A opportunities in order to stay on top of the game. However, firms ought not to be obscured by the seemingly ravishing advantages of M&As, as repeated research shows that the overall rate of M&As failing to achieve their intended goals is disturbingly high at 70-90% (Christensen et al. 2011, p.50).

However, given the prevalence of M&As, keen efforts have been injected into finding out the causes of failure, rather than to withdraw from this attractive and potentially lucrative activity. Causes of failure have been examined through different facets of business decisions, firm performances and attributed to various factors such as unrealistic expectations and other acquisition strategies (Aguilera and Dencker, 2004). Nonetheless, Aguilera and Dencker (2004, p.1357) opine that such previous research is “incomplete” as it has failed to address one important factor, namely the “personnel” issues that arise in an M&A.

Over time, researchers have moved from a result-oriented approach to start examining M&As through other lenses such as the processes and internal synergisisation that enables success (Larsson and

Finkelstein, 1999, p.18; Brueller, Carmeli and Markman, 2018, p.1799). The importance of human resource management has started to gain ground, though it is still an often neglected aspect as organisations are typically too focused on the business strategies and financial benefits that they hope the new combined firm should achieve.

In essence, managing the ‘people’ within both acquiring and acquired firms is paramount to the success of the M&A and its post-M&A integration. These personnel issues could include an extensive range of stakeholders in areas such as company leadership, impact of new corporate culture on staff, employees’ pay, customers’ retention and loyalty, to name but a few (Amiot, Terry and Jimmieson, 2006; Morrell, 2013). In the context of the Alaska-Virgin merger, emphasis will be placed discussing two particular issues pertaining to managing employee adjustment in the new environment:

- (1) the integration of pilots, and
- (2) the management of employees’ stress.

4. Integration of pilots – solving the “seniority” predicament

4.1 M&A impact on pilots

There are numerous stakeholders to an airline: from passengers, partnering airlines, ground handlers, crew, mechanics, aircraft suppliers, catering suppliers, to government or regulatory bodies, etc. Amongst all these parties, it could be argued that pilots are the one of the paramount, if not the most important, stakeholders of an airline. Their importance could be reflected in the facts that their job performance directly impacts flight safety, and their mere absence could lead to flight cancellations and operations paralysis. Furthermore, even though pilots only make up a small number in an airline's workforce (for example, they account for less than 8% of Lufthansa Airline's employees), their status is prominent and well-respected and will even often have a seat on the Board (Thomas and Kummer, 2015, p.18).

Despite their importance to airlines, pilots are arguably the most affected group of stakeholder in general during and after an M&A activity. The underlying reason is attributed to the fact that pilots' seniority in the original airline will inevitably be affected, most of the time adversely, due to the merger of the two companies. In order to comprehend the potential degree of drastic change for the pilots, it is integral to understand the concept of 'seniority' in the context of a pilot's career.

4.2 The concept of “seniority” and its importance to pilots

With no exaggeration, seniority means everything to a pilot. In a nutshell, seniority increases with the pilots' the year of service at a particular airline. It determines almost every aspect of their careers, from career path and advancement opportunities, remuneration, pensions, opportunities to fly more highly paid aircraft types, status, job security, shift patterns, to holidays preferences (Joyner and Grantham, 2008). Fongern, Principle Vice President of the International Federation of Air Line Pilots' Associations, explicates that this structure is the very basis of the safety culture, one that enables advancement accordingly to experience, consistency and safe practice, rather than a competition of merits and efficiency when flying a plane (Field and Pilling, 2003).

To a large extent, the pilots' seniorities can be calculated, which makes their career advancement rather transparent and relatively foreseeable. As such, predictability and stability in climbing up the career ladder are probably amongst the most appealing aspects of the job. Nonetheless, such a systematic approach and the employees' “long-held expectations” could be entirely rattled and disrupted when a merger comes in, usually requiring the two pilot groups to be combined (Davison and Rogers, 2017, p.5). As a consequence, pilots would go to great lengths to fight for a desirable result on a merging seniority list – it determines the rest of their career path in the newly merged airline.

4.3 Importance of integration of pilots

It has been explained that pilots are a key stakeholder of any airline, and as such it is necessary to pay close attention to their grievances so as to ensure the successful integration of the two merging firms and a smooth operation thereafter. In Alaska's merger with Virgin, acknowledging and solving the pilot issues are important in order to retain sufficient pilots in light of the global pilot shortage as well as to avoid operations paralysis due to prolonged disputes or litigation.

Firstly, Alaska needs to retain both existing Alaska pilots as well as those newly joining from Virgin. Options of not retaining its pilots will be discussed shortly, but in essence one key consideration is the shortage of pilots currently experienced by the industry globally. Worldwide passenger volumes are spiralling and in light of the increasing air traffic demand, Boeing (2018) projects that in the next two decades, 127,000 new pilots will be required in North America alone, totalling 790,000 new civil aviation pilots worldwide in order to meet the global demand. However, despite the dramatic increase in demand, the supply of pilots remains tight and airlines are raging a "bidding war" to attract pilots from across firms (Freed, Setboonsarng and Lampert, 2018). Therefore, given Alaska's expansion of flights and fleet after the acquisition, it must treat the seniority issues with discretion in order to retain sufficient pilots for the newly merged company.

Moreover, conflicts between the Alaska pilots and the Virgin pilots could easily lead to paralysis of operations and delay of the scheduled merger integration plans. History has proven that seniority list problems are typically difficult to reach consensus on and if not addressed properly, could lead to lengthy, obnoxious workforce disputes. In some cases, pilots in one airline were unionised, whilst those of the other airline were not, which would lead the no-unionised pilots feel unfair as they seemed to be less represented and had less bargaining power (Joyner and Grantham, 2008).

Lessons should be learnt from the precedents of pilot seniority disputes arising out of airline mergers. Notably, America West Airlines' acquisition of US Airway in 2005 resulted in serious disagreement on pilot seniority that continued right through its following merger with American Airlines in 2013 (Davison and Rogers, 2017, p.4). The America West pilots felt that they should have higher seniority than all of those in US Airway, since US Airway would have gone bankrupt had America West not acquired it in 2005; but the US Airway pilots thought they deserved higher seniority for the sheer fact that they were more experienced pilots with longer years of service (Reed, 2016). The conflict took 16 years to finally settle in arbitration, which is a serious alert to the industry regarding the catastrophic effects that pilots' seniority issues could bring to a merger in terms of company image, high dispute settling costs, and merger integration failure.

4.4 Options for settling pilots' seniority issues

History has made clear that no pilots will come together willingly to reshuffle or give up their seniorities to any other pilot coming from the acquired or acquiring group, it is perhaps sensible to first consider whether there is any alternative other than to combine the two pilot groups after the merger. To this end, there are essentially two other options that should be evaluated.

Option 1 – to maintain two separate pilot groups

The first option is to keep the two pilot groups separate from each other, or in other words to maintain the two separate seniority lists, even after the acquisition has occurred. In fact, this has been done before in several mergers, including that between Lufthansa and Swiss International Air Lines, Air France and KLM, and British Airways and Iberia (Morrell, 2013). However, in these cases the basic operations of the airlines in many ways were not merged after the acquisition, for example, the flight operations and flight schedules remained relatively independent, thus allowing the pilot groups to also maintain the status quo (Morrell, 2013). Thus, for the pilot groups to remain separate, flight operations would also have to remain separate.

In the Alaska-Virgin merger, the level of integration in operations had not been made clear publicly during initial announcement of the merger in 2016. But in 2017 Alaska announced its plan to integrate completely with Virgin and solidify the operations as one single carrier, and so the two airlines' flights would eventually have to be combined (Goldstein, 2018). Given Alaska's latest decision to merge flight operations, the two pilot groups would inevitably have to be integrated. While the merits of the business decisions will not be evaluated in this report, the implication of this decision on associated people management is clear, that is the pilots' seniority lists cannot remain separate and will require a great deal of attention during the merger integration process.

Option 2 – to replace Virgin pilots with new recruitments

Moving on, the second option to be considered is to lay off a number of pilot and recruit new ones to fill up the shortage. In Alaska's case, one option is to axe all or part of the Virgin pilots, whereby Alaska could save seniority contentions and also take the opportunity to review the crew size after merging the airlines' flights. Recruiting new pilots is unlikely to cause discontent from the remaining Alaska pilots as new join pilots would naturally fall at the bottom of the seniority list. However, Alaska must be aware of the risks entailed in this strategy. Given the global shortage of pilots and the "bidding war" to fight for pilots as mentioned before, Alaska would run a high chance of not being able to recruit sufficient new pilots, or even if it could, it might be at a very high cost which would repudiate the original intention of dismissing the Virgin pilots.

Additionally, it must be noted that Alaska pilots will not be able to step in for any Virgin flights in case of pilot shortage, as the planes inherited by Alaska from Virgin are from a different brand that requires completely different training. Therefore, if Alaska cannot recruit sufficient new pilots in time, the airline's operations will be severely hampered. Considering that the gravity of the associated risks, it is not advisable for Alaska to solve the seniority issue by axing the pilots from the newly acquired airline.

Option 3 – to achieve a “fair” integrated seniority list

This leaves Alaska with the final and most difficult option, which is to combine the two pilot groups into one single seniority list. One central and reoccurring theme during the negotiations in previous airline mergers is the pilots' perception of “fairness”, for instance:

- it is not “fair” that people with shorter years of experience suddenly surpass me;
- it is not “fair” that the decision was made without representatives from my pilot group;
- it is not “fair” that management simply passes down a “judgement” without consultation and explanation.

Thus, before diving into the recommendations, it is worth taking a look at what “fairness” means, especially in a merger situation, and how fairness could be achieved so as to achieve a seniority list that both pilot groups are willing to accept.

4.5 Perception of “fairness”

The concept of fairness is well encapsulated by the Organisational Justice Theory (Greenberg, 1987), which in essence conceptualises the different lenses through which employees perceive justice or fairness in an organisation. Folger and Cropanzano (1998) posits three types of justice, namely distributive justice, procedural justice and interactional justice. The understanding of this fairness framework is especially important for organisations in that if the employees perceive a high degree of fairness, they are more likely to support the proposed changes, even if the changes per se will bring adverse results to the employees (Hill and Seo, 2005, p.431).

Distributive justice is the perception of whether the outcome is fair, and employees would often compare the outcome with their original input (Klendauer and Deller, 2009, p.31). Also, the fairness of outcome might not always be absolute, but sometimes relative, as employees might compare with other colleagues whom they deem should receive similar treatment. In a merger, employees from the newly acquired company might feel that the outcome is unfair if they receive less than those in the acquiring firm for the same job (Klendauer and Deller, 2009, p.31). By the same token, pilots from Alaska would feel that the outcome was unfair if a pilot from Virgin with shorter years of service ended up being placed higher on the seniority list.

Procedural justice is distinct from distributive justice as it refers to the process through which the outcome is reached. It is true that to a certain extent, the two concepts are connected, as the process of decision making often influences the ultimate decision or could even limit the possible outcomes. This is one of the reasons why procedures are deemed as an important aspect of when employees evaluate how fair the organisation is. Thibaut and Walker (1975) emphasis on the degree to which the affected party's "voice" could be heard. The more they can advocate and control the decision-making process, the higher the degree of fairness is perceived.

Last but not least is interactional justice, which could be seen as an extension of procedural justice that emphasises the communication between decision makers and the affected parties. In this sense, employees value the ways in which the employer interact with them, whether they are being treated with respect and politeness, or whether the employer is being genuine and honest (Klendauer and Deller, 2009, p.32). Indeed, in cases of promotion, layoffs, and appraisals, there would be a "take-before-money" conversation between the supervisor and affected employee, and sometimes the employee would also be required to sign to affirm that the conversation has taken place (Folger and Cropanzano, 1998). Therefore, not only the process of decision making important, but also process of communication, an area that needs to be acknowledged.

4.6 Recommendations

The first thing to tackle is to achieve the best possible outcome that brings distributive justice. To recap on the definition of "seniority", priority is essentially determined by the longest year of service. According to this rule, a new list could be created, combining and reshuffling the pilots from Alaska and Virgin. Nonetheless, in reality this is often protested by the airline that hired a greater number of young or relatively less experienced pilots, which in this case, is Virgin America. Alaska was established in 90 years ago, whereas Virgin America was only established in 2007, meaning that the longest possible year of service for a Virgin pilot is only 12 years. According to strict seniority, most if not all Virgin pilots would certainly fall to the very bottom of the combined seniority list.

Hence, instead of simply adhering to the years of service at the original airline, Alaska could consider following 'procedural' seniority to reassign the ranking by the pecking order of pilots from each airline, for example number 1 pilot of Alaska could be followed by number 1 pilot of Virgin, followed by number 2 of Alaska, so on and so forth (Joyner and Grantham, 2008). Doing this manually for the 3000 pilots might be a tedious job, so it is advised to use existing programmes readily available in the market, an example of which is 'seniority_list'. Davison and Roger (2017, p.16) advocates the use of this type of tool especially in airline mergers where labour integration is almost certainly encountered by seniority challenges. Such a computerised programme could aid decision maker to

consider and compare different metrics and possible outcomes simultaneously, which could provide a fairer, more holistic view and act as a good start before going into negotiation with the pilot groups.

Therefore, this draft list is a short-term goal which should be done in a matter of months before officially kick-starting negotiation. This would increase the chances of a successful settlement through bilateral negotiation and facilitated mediation, and accelerate the final decision. A lengthy process, or worse litigation and arbitration, is highly undesirable as it would significantly affect the airline's normal operations and merger integration process. In Delta's merger with Northwest Airlines, management was forced to postpone some merger integration activities due to conflict between the pilots (Adams, 2016). Thus, a merged list of pilot seniority needs to be drafted as soon as practicable.

Moving on, it is not enough to only achieve fairness in the actual outcomes, as procedural fairness is equally important. During negotiation, Alaska should emphasise the procedures used to determine the seniority list, for example the different scenarios and metrics used, or that a computerised programme was used in order to provide a comprehensive view. Furthermore, a taskforce should be formed specifically in regards to dealing with the pilots' issues. It is rightly pointed out that in M&A situations, decisions have to be made swiftly and the acquiring company often acts unilaterally that could come across as autocratic, especially where the acquiring party is significantly more powerful and dominant (Klendaue and Deller, 2009, p32).

This could be tackled by granting equality between groups and using the "principle of proportionality", such that each group be fairly represented pro rata to their proportion in numbers and participate together in important decision making (Hill and Seo, 2005, p.432; Klendaue and Deller, 2009, p32). Although it might not be realistic to have representatives in direct proportion to the number of pilots in both airlines, as ultimately Alaska is the acquiring and dominating firm, forming a collaborative team could nevertheless be a powerful gesture that reduces friction in future negotiation. Also, the fact that both pilot groups belong to the same union, ALPA, does not negate the need to ensure Alaska's taskforce actually has representatives from both parties. Therefore, to establish procedural fairness, Alaska's management should duly invite pilot representatives from both Alaska and Virgin America to sit on the taskforce from an early stage.

Running such an equitably represented taskforce is a short to mid-term goal. It should be formed as soon as practicable to maximise the fairness perceived by both groups, which also benefits Alaska in the long-run. However, the team should not be immediately dismantled after reaching conclusion on the seniority list, as Alaska still needs to negotiate the actual changes in remuneration and benefits with the pilots after the list has settled. For Alaska, having Virgin pilots in the contract negotiation

stage could actually be more advantageous than having original Alaska pilots alone. This is because the pay level at Virgin America, a budget airline, was substantially lower than that in Alaska airline before the merger. A senior captain at Alaska was remunerated at an hourly rate of US\$216, whereas a pilot in the same rank at Virgin was only paid US\$189 (McIntosh, 2017). Therefore, it is safe to say that Virgin representatives would be less demanding or at least more easily satisfied with a new pay level than original Alaska pilots who had been enjoying high pay already.

4.7 Summary

All in all, pilots are integral stakeholders of an airline, whose interests can be gravely affected by a merger activity. Consequences of having disputing pilots have been discussed, and in previous mergers this often led to serious adverse influences on the implementation of merger integration. It is also important for Alaska to solve the pilot predicament given its needs to retain the pilots from both Alaska and Virgin. Different solutions to the pilots' seniority problem were analysed, and it is recommended that Alaska makes use of computerised tools to provide an objective seniority list as a starting point for onward negotiation. Procedural fairness should also be addressed through the formation of a taskforce that involves both Alaska and Virgin pilots. These actions could alleviate the people issues, or the pilot predicament, in this regard and accelerate the settlement on a mutually acceptable outcome, so that Alaska could move forward with its integration with the newly acquired Virgin.

5. Management of employees' stress

The importance of managing the human side during a merger integration has been reiterated across research and literature. There is an abundance of seminal works and later research that substantiate the considerable impact that an M&A could have on the firm's employees (e.g. Cartwright and Cooper, 1993; Ivancevich, Schweiger and Power, 1987). In this sense, employees are a group of key stakeholders that Alaska needs to address. Although pilots are also employees of the airlines, given their distinct job nature and M&A issues, they have been discussed as a separate group in the previous section, and this section will focus on the other employees at large.

Employees are significantly affected in that they often have to deal with a great deal of stress and anxiety in the process of an acquisition (Galosy, 1990; Georgiades and Georgiades, 2014). This is largely because a merger and acquisition in itself connotes dramatic changes in a short span of time, that in turn creates uncertainty. In fact, it is well-established that organisational changes are a contributing factor to employee's stress level (e.g. Marks, 1988). However, a merger, which is an important type of organisational change, leans towards the more radical end on the spectrum due to "the rate of change, the scale of change, and the critical mass of the unknown" (Marks, 1988, cited in Cartwright and Cooper, 1993, p.330). In short, a merger carries with it a string of events that could unsettle not only the firm on a macro-level, but also its employees on an individual level, leaving them anxious and rattled.

5.1 Importance of managing employees' stress

Despite the constant highlight of solid firm performance post-M&A, management should pay sufficient interest in managing the soft issues, as a heightened level of stress and anxiety amongst employees could result in many adverse consequences, one of which is their job performance (Appelbaum et al. 2000a). Georgiades and Georgiades (2014, p.106) points out that when a worker becomes depressed and anxious, other conditions such as their level of concentration, frustration resistance and creativity would fall, contributing to the drop in productivity during an acquisition.

Furthermore, absenteeism is another undesirable consequence that is typically brought about by a merger if employees' stress is not handled appropriately. When the workers are so overwhelmed by stress and distracted by worries about how to adapt or survive in the new integrated environment, it is only natural that they become more detached or absent-minded at work. Such a lack of uncertainty and insecurity would reflect in the employees' increasing loss of interest, commitment and withdrawal which could disrupt the firm's day-to-day operations, eventually affecting the success of the merged company (Georgiades and Georgiades, 2014). As Galpin and Herndon (2014, p.128)

observes, absenteeism and the loss of commitment could be “at least as devastating to performance as the actual loss of people to competitors or other organizations”.

Moreover, if not contained in time with discretion, this sensation of fear and stress could spread and affect other employees at the organisation and seriously hinder the merger integration. Other employees who had not been affected might now be influenced by those colleagues surrounding them, start feeling anxious and even start dealing with the stress by adopting the same attitude and become less committed. This effect could be rippling and become “endemic” across the organisation (Georgiades and Georgiades, 2014, p.103).

5.2 Main sources of stress

1) Job insecurity

The stress experienced by employees arising from a merger stems from various sources, one of which is the sense of job insecurity brought about by the changing environment. When a merger takes place, workers would typically perceive there being a high chance of personnel restructuring, which could entail change of position, or even the immediate loss of job in the worst case, and having to worry about layoffs and survival at the company stirs up stress for the workers (Marks, 1988). Sometimes, such heightened sentiment might not necessary be caused by actual redundancy that is happening in the company; instead, the anticipation of loss and feeling of insecurity alone could trigger employees to become anxious (Ashford, 1988; Georgiades and Georgiades, 2014).

In the Alaska-Virgin merger, it is not hard to imagine that workers from both sides but especially those from Virgin would anticipate such changes and anxiety relating to job insecurity. Despite there being strong advocacy for maintaining separate operations, for example by Richard Branson, Virgin Group’s Founder (Zanger, 2016), Alaska finally announced, but only after the acquisition was completed, that they would completely merge the two carriers *de facto*, removing the brand “Virgin America” from the market. To enable the integrated airline to operate as one carrier, restructuring seems like an obvious means to align the workforce with the new operation needs.

2) Loss of identity

Apart from fear of loss of job, workers also face a loss of identity when two firms merge together.

The greater the attachment and pride the employees have in their accomplishments at the original firm, the greater the degree of loss of identity they are likely to experience (Georgiades and Georgiades, 2014). This is especially the case if the merging firms had been direct competitors before one was acquired by the other, such that employees’ identity crisis might be even more noticeable as they might feel antagonised or hostile towards each other (Cartwright and Cooper, 1993). Although

Alaska is technically a legacy airline, it has often been perceived as a direct competitor of budget airlines like Virgin due to its unique mode of operations, single type fleet and distinct branding (Field, 2016, p.46). Thus, it would not be surprising if employees from the two carriers did not see each other eye to eye.

Additionally, the two airlines carried very different identities, with Alaska projecting a more traditional image that is built on its long established history, whereas Virgin America was created with a clear vision to differentiate itself from conventional airline services by bringing a fresh, innovative experience to travellers (Virgin Group, 2017). It could be imagined that workers from both airlines worked under two diverse cultures that endorsed contrasting brand identities. This identity is not only confined to work culture but would also reflect in the style of management, day-to-day work, co-workers and individual workers' career goals – all of which now have to be adjusted according to the company's new positioning. Strong attachments to these identities could result in a powerful sense of loss to the employees when a merger kicks in and alters or destroys those connections (Georgiades and Georgiades, 2014; Larsson & Finkelstein, 1999).

5.3 Recommendations

There is no one-size-fits-all cure for managing employees stress in a merger integration. Management must pay attention to the fact that different methods ought to be adapted aiming at different employees at different times during the integration. Fugate, Kinicki and Scheck (2002) highlights the ongoing and linear nature of coping with stress, that it is a 'process' that must be dealt with over an extended period of time, and postulates four stages of coping process in a merger: (1) anticipatory, (2) initial change, (3) final change and (4) aftershock. In the Alaska-Virgin merger, the airline has now entered the initial change stage for it has kick-started integrating the operations of the two firms.

Targeting the right employees

The imminent priority is for the firm to identify the employees that are affected. As mentioned, workers in different positions at the firm might face different stress encounters. Hence, Alaska must be clear about who they are helping at any one time. For example, top performers might start mentally checking-out or seek other jobs in an environment that entails uncertainty, insecurity and anxiety (Galpin and Herndon, 2014). Thus, high priority should be given to identifying the top performers that Alaska wants to retain, as losing these employees would bring the most adverse consequences to the airline's onward performance. After watching out for who to retain, Alaska should then divert their attention to help those who survive, as they might suffer from the "survivors' sickness" triggered by witnessing the departure of colleagues, the loss of identity or sometimes the fear of further redundancy (Appelbaum et al. 2000b; Georgiades and Georgiades, 2014).

Communication is the key

The crux of managing employees' stress during the integration process lies in effective communication. Communication is no cliché – it is the key to bringing together two different cultures and help employees to find stronger identification in the merged firm (Giessner, 2011). Galpin and Herndon (2014, p.117) find that even though most managers feel that their communication with the workforce is effective and sufficient post-M&A, their research finds otherwise, with one-third of the respondent employees opining that “communication” is the area that needs the most improvement from their companies in facilitating merger integration (see **Figure 1**). Thus, Alaska must recognise the importance of communication and how to communicate effectively with its employees.

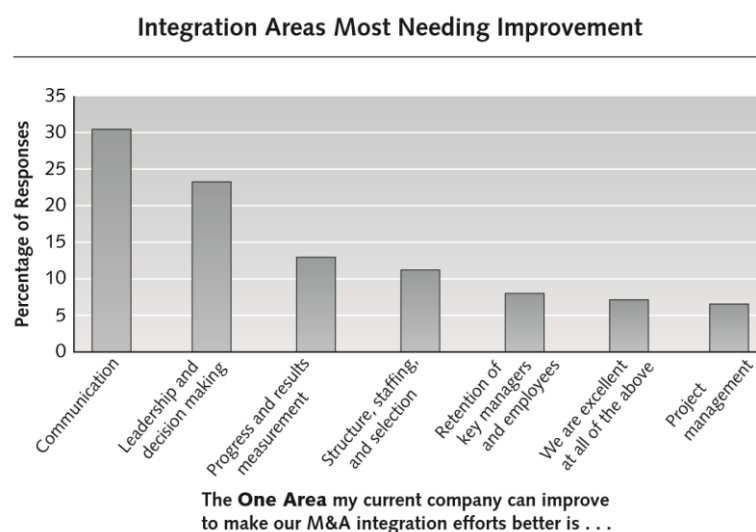


Figure 1 (Galpin and Herndon, 2014, p.118)

1) Honest and candid information

The first quality of effective communication in merger integration is to be honest and candid. Management must be open to identifying the impact that the merger would bring to the employees, and not to hide these problems (Georgiades and Georgiades, 2014). It might be tempting to make many promises so as to quickly soothe the employees' emotions, for example worries about layoff. However, making empty promises, which might become broken promises, could backlash and result in workers feeling angry and betrayed (Appelbaum et al. 2000a). In order to fully integrate the two airlines, it is only natural that Alaska needs to review its resources and streamline the structuring as appropriate. For instance, there might be a need to consolidate the call centres of Alaska and Virgin to provide one single point of contact for customers (West and Gibbs, 2019). Apart from frontline staff, the back-office staff who had been managing these call centres might also have to be streamlined. In fact, according to the Ability-Mobility-Opportunity model, curbing excess resources and personnel

as well as selective hiring in an M&A could increase commitment and encourage the retained employees to identify more strongly with the newly merged firm (Appelbaum et al. 2000a; Brueller et al. 2018). All in all, regardless of the final restructuring plan, Alaska's goal is to enable its employees to develop trust to facilitate further communication. As such, Alaska must ensure that the information disseminated is honest and accurate, and should definitely not lie or mislead employees about promotion opportunities or entirely dismiss the possibility of redundancy.

2) Timely, regular communication and use of different communication channels

Secondly, communication should be timely, regular and done through different channels. At a time of uncertainty, employees become desperate for information and anxiety proliferates if their questions remain unanswered. Appelbaum et al. (2000a, p.655) describes workers who are going through merger integration as "information junkies" who might develop withdrawal symptoms in the absence or lack of information at this stage. Thus, by providing formal information in a timely manner, the firm could significantly avoid workers jumping to their own conclusions, thereby reducing speculation and rumours (Georgiades and Georgiades, 2014; Giessner, 2011).

These information needs to be repeated through different channels. As people often apply "personal filters" to messages because they are only concerned with how the changes will affect them personally, repeated messages could help employees better absorb the content and avoid misinterpretation (Giessner, 2011, p.120). To ensure that the information reaches all affected stakeholders, Alaska should employ various means and have a well thought out plan, including:

- Regular top-down bulletins, memos and corporate newspapers to keep all employees posted on the overall merger progress, and more importantly how the merger can affect or benefit them personally. The regular interval could alleviate the staff's anxiety as they would know when to expect the next update. A bi-weekly update would be a pragmatic target, and the frequency should be adjusted according to the development pace of the integration work. Alaska could consider adopting
- Memos could be used to supplement ad hoc messages on top of the regular bulletins and newspapers, or to disseminate more specific information to targeted groups.

A successful example of timely and consistent communication that could be used for reference is the creation of "FRANK" by Equistar Chemicals, a joint venture between two polymer industry leaders (Giessner, 2011p, p.124). FRANK, a personified electronic news bulletin, provided weekly updates and advice on resolving the employees' issues during. It is worth noting that this news service continued for 18 months into the merger and received overwhelming positive feedback from the workers.

3) Respectful, two-way communication

Another important aspect of effective communication is that employees should feel respected and that such communication is mutual. Since M&A is a sensitive issue, many employees might not be willing to express their concerns despite growing anxiety, for fear that it would compromise their job security (Georgiades and Georgiades, 2014). Thus, Alaska's executives should be patient and proactive in encouraging two-way communication, especially when managing those from Virgin who might have a stronger sense of belonging and identification with their previous company (Giessner, 2011). According to the social identity theory, it is important to recognise that the differences between members of the acquired and the acquiring firms (Terry, Carey and Callan, 2001; Marks, 1988; Seo and Hill, 2005). Alaska's management ought to demonstrate that they support and welcome the full integration of Virgin's staff, that their voices are heard despite the apparently weaker status of the acquired party; and at the same time show respect for Alaska's staff, providing reassurance that their jobs are not threatened by the joining of the other party.

In such a setting, respect can also be shown by endorsing interactional justice which was discussed previously under the concept of fairness, particularly with respect to the topic of redundancy. Downsizing is often inevitable in a merger, but the way it is handled does not only affect the redundant employees, but also has an impact on those who stay behind. Treating the terminated staff in a fair and considerate manner could demonstrate a sense of equity that reduces the survivors' stress, grievance and insecurity, bringing the post-merger team together (Appelbaum et al. 2000b).

To summarise, action items that Alaska could use to engender respectful mutual communication include:

- Identifying top performers or representatives from both Alaska and Virgin and involve them in key meetings to show respect for bilateral communication (and intention to retain as appropriate);
- Arranging face-to face meetings with employees – although these are the most underused, they are nevertheless one of the most effective communication methods especially in a sensitive setting like a merger integration (Giessner, 2011);
- Surveys of employees and merger taskforce members to monitor stress control and reveal any particular concerns as early as possible;
- Exit interviews with redundant or resigning employees to enhance interactional fairness as well as to identify further room for improvement in the merger integration;
- Providing counselling and a hotline or other types of channels as such, dedicated to supporting employees and relieving their stress level during the challenging integration period.

5.4 Summary

Overall, mergers are intrinsically stressful for employees given that the dynamic changes entail an immense sense of insecurity and loss of identity. These emotions in turn have adverse effects on onward company performance. Therefore, Alaska should act early and establish for a well-organised communication plan with a view to soothe the employees' heightened emotions. "The bottom line: managers can 'pay now' by investing in systematic post-merger team building, or they can 'pay later' through the loss of key talent and disappointing results" (Marks and Mirvis, 1992, cited in Appelbaum et al. 2000b, p.681).

6. Conclusion

The acquisition of Virgin by Alaska has attracted attention from around the world. It is a prominent example of the global trend of consolidation in the airlines industry, a movement that has started several decades ago but is still confidently picking up speed. However, precedent mergers across industries and especially between airlines have repeatedly demonstrated that the success of an M&A does not come easy, and that such an organisational change gives rise to many corporate challenges in people management. In Alaska's case, two specific "people" issues have been identified, namely the integration of the two airlines' pilots, and the management of employees' stress and anxiety.

Pilots are a crucial stakeholder of Alaska for the sheer fact that the airline cannot continue with its everyday business without them. However, they are unfortunately also the most adversely affected group of employees in the merger, as bringing the Alaska and Virgin pilot groups together into one airline means that their seniorities will be directly affected. As Parker, CEO of US Airways remarks, "For someone to stay where they are (on the list), someone else has to be worse off" (Adams, 2016). Alternatives to combining the seniority list were evaluated, yet it remains necessary for Alaska. Thus, Alaska should first work towards an integrated list using objective methods such as procedural seniority or computerised programmes as aids so as to achieve distributive justice. However, the power of procedural justice must also be borne in mind, which could be illustrated in the decision-making process essentially by ensuring that both sides are rightly represented. This way, Alaska could consummately establish 'fairness' in solving this predicament and stand a good chance of achieving a mutually acceptable outcome.

Other employees from both airlines also undergo a period of immense stress as a result of the merger, particularly concerning job insecurity and the loss of identity. These issues are exacerbated by the facts that Alaska and Virgin had been direct competitors and that restructuring is needed in order to form one single operating airline. Hence, employees' stress must be promptly and appropriately dealt with so as not to compromise their forward job performance and to avoid undesired turnover. In essence, effective management of employees' stress during M&A integration boils down to a rather familiar buzzword – communication. As such, Alaska must ensure that the interaction is honest, timely and respectful, and must be well-scheduled throughout the integration process. Effective communication is a powerful means that could provide great comfort to its anxious employees in a time of change and uncertainty.

To conclude, the merger between Alaska and Virgin brings dramatic changes that pose challenges not only to the organisation itself but also its stakeholders. Whether these stakeholders can hold up in this complex environment will eventually determine Alaska's onward performance. Hence,

managing the soft side of the M&A and solving the ‘people’ issues are crucial to the ultimate success of the merger at hand.

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