ABSTRACT

Throughout the early onset of air travel until recent decades, the interplay of geography, capital, labor, and more critically, institutions, policy, and innovation, has been prominent in the evolution of United Airlines. Geographic constraints for United corresponded with the company’s growth as it adopted new routes across the US and Asia. Capital and labor have been major concerns throughout the company’s history, as evident in bankruptcy and strikes. Government institutions with regulatory power, regulatory policies, and operating innovations were especially prominent in the evolution of United Airlines. After the revolutionary Airline Deregulation Act of 1978, when United and other airline companies were freed from various restrictive regulation policies, United was able to benefit from newly introduced innovations such as hub-and-spoke systems of airports and new airfare pricing practices. More recently, the institution of the Department of Justice was able to foil the attempted merger of United with US Airways in 2001 before it approved the merger of United and Continental Airlines.

INTRODUCTION

- United Air Lines, Inc. was formed when several smaller companies merged in 1931.
- During World War II, United mobilized its fleet for military transportation of troops, supplies and mail in support of the Allied war effort.
- After the end of World War II, the post-war boom gave rise to an increase in airline travel, leading more passengers to fly United.
- Meanwhile, United acquired Capital Airlines in 1961 to become the world’s largest carrier.
- Regulation was prevalent in the airline industry until the passage of the Airline Deregulation Act in 1978, which radically changed the arena of the commercial airline industry.
- United was the first company to achieve flights to all fifty American states.
- Negotiations with airline pilots, mechanics and other employees resulted in the “Employee Stock Ownership Plan” of 1994, where employees were entitled to own a majority of shares in the company.
- After an attempt to acquire US Airways collapsed in 2001, the federal government approved the merger of United Airlines with Continental Airlines, a move that was predicted to stem losses and increase revenues.

INTERPLAY OF GEOGRAPHY

- Geography has been an important factor in the growth of United Airlines. Initially, United was limited to connecting destinations on the West Coast and flying transcontinental paths between New York City, Chicago, Salt Lake City, and San Francisco.
- These routes “followed the railroad lines connecting large cities along a mostly linear structure...Geographic coverage expanded, but required connections were often poorly coordinated”.
- In an effort to expand its geographic reaches, United Airlines requested permission to operate overseas routes in the 1960s.
- Although United secured connections to Hawaii, the Transpacific Route Case denied United the opportunity to expand its routes to other countries like Japan.
- Tokyo became United’s first non-US destination when the company began operating flights to the city in 1983.
- Shortly afterwards in 1985, United successfully negotiated with Pan American World Airways to obtain Pan American’s Pacific division of operations, thus expanding its geographical reach into the Asian market.
- Thus, United successfully expanded its geographic reaches from a handful of US urban areas into a major carrier with international capacities.

INTERPLAY OF CAPITAL

- Concerns over capital have also molded United Airlines.
- At the dawn of the millennium, United was experiencing significant losses due to factors such as post-9/11 fears, the rising prices of fuel and labor, the burst of the dot.com bubble, and intense competition between other airlines.
- These severe losses forced United Airlines into filing for Chapter 11 bankruptcy.
- During this period, the company was compelled into measures such as cutting employee pensions, placing workers on furlough, and reducing the number of flights that it operated.
- Eventually, the company was able to survive this crisis and emerge from bankruptcy in February 2006.
- In addition, the company had to adjust to changes in capital during the merger with Continental Airlines.

INTERPLAY OF POLICY

- The policies of regulation deregulation have led to changes in routes traveled by United.
- Prior to deregulation, United had serviced smaller, less profitable routes.
- However, the deregulation policy meant that United could leave these markets from small cities.
- In addition, deregulation allowed for innovations in United’s operations.

INTERPLAY OF LABOR

- Labor concerns and events have risen throughout the evolution of United Airlines.
- United pioneered the concept of employing flight stewardsesses with its hire of Ellen Church.
- A major strike took place in 1985 resulting from pilots’ and management’s disagreements over unions and workers compensation.
- United’s labor forces negotiated an Employee Stock Ownership Plan (ESOP) in 1994; in this agreement, pilots, machinists, baggage handlers, and non-employee contrato employees gave salary concessions between 15-25% while gaining about 55% of United’s company shares.
- Consequently, United became the largest ESOP-styled company worldwide.

INTERPLAY OF INSTITUTIONS

- The Civil Aeronautics Authority (CAA) gave way to the Civil Aeronautics Board (CAB) as a federal institution of regulation.
- United and its fellow airlines faced regulation from the CAB in topics related to establishing entrance and exit of airlines, set up and award of aviation routes between regions for various airlines, govern the number of flights, approving monetary rates for transportation of passengers and cargo, subsidize airlines that flew less profitable routes, on-board service quality and mergers and acquisitions of the aviation companies.
- The CAB was dismantled under the Airline Deregulation Act of 1978.
- At the beginning of the 21st century, United’s plan to merge with US Airways was foiled when the US Department of Justice threatened to block the merger.
- United had to seek the approval of the Department of Justice before it could successfully merge with Continental Airlines.

INTERPLAY OF INNOVATIONS

- Innovations have played a central role in the evolution of United Airlines.
- United adopted technologically advanced aircraft as they emerged, such as metal-bodied monoplanes and jet aircraft.
- After deregulation, United took steps to make its route system more effective.
- The “hub-and-spoke” system, where passengers were routed to a central “hub” airport to change planes for their final destination, was adopted by United to streamline operations.
- United used computer reservation systems (CRS) and began offering frequently flier programs and travel agents commission override programs (TACOS) to encourage brand loyalty.

CONCLUSIONS

- The interplay of geography, capital, and labor was prominent in the evolution of United Airlines, but regulatory and deregulatory institutions, policy and innovations have had a lasting impact in the evolution of United Airlines, Inc.
- United has been able to broaden its geographic expanses by adding routes, eventually servicing Hawaii and becoming the first US carrier to fly to all 50 states.
- Capital became an important concern as airlines merged. United Airlines fell into bankruptcy in 2002 due to rising fuel and labor costs, decline in air travel after 9/11, and the burst of the .com bubble.
- Policies resulting from regulation and deregulation allowed United to divest smaller routes and inspired innovations.
- Labor concerned United as a major strike took place in 1985. Eventually, labor and management agreed to an Employee Stock Ownership Plan (ESOP).
- Federal institutions like the Civil Aeronautics Board (CAB) and the Department of Justice have had an especially powerful impact on United Airlines through their ability to regulate and their ability to approve mergers.
- Innovations in route structure and ticketing after the advent of deregulation has revolutionized operations of United Airlines.

REFERENCES