

JAL's Recovery: Philosophy or Practice?

By [Henrich Greve](#)

There is mounting excitement over how well Japan Airlines (JAL) is emerging from bankruptcy to now have good profit margins (17 percent last year) and the confidence to start adding routes again after a period of cutting. As always when there is excitement about a firm, there will also be a great deal of hype. Can we separate the parts of the recovery that are genuinely interesting for observers (and worrying for competitors) from the hype? I don't have a crystal ball, but I can make a few suggestions.

First, the government gave them money. They are getting current and future tax exemptions. Second, the banks forgave them loans to the tune of \$6 billion. Third, they cut their pension liabilities radically, reducing the pensions paid out to current retirees by 30 percent, and those to current employees to half. There is nothing special about these approaches to recovery except that they are tools given to firms in bankruptcy (in the US, this would be Chapter 11 bankruptcy; JAL is using a similar Japanese code). As many US firms and workers have discovered, bankruptcy law is a quick way to reduce or eliminate pension obligations in addition to bank loans.

The fourth part is a set of changes in internal management that are focused on operational efficiency, including such details as mechanics carrying small airport bags in used lunch bags instead of in special-purpose bags. This part has yielded impressive results, but we should probably not see it as a unique or very impressive. As a company known for its free-spending ways in earlier days, JAL had plenty of room to cut, and the cost-cutting tactic ("strategy" is too generous a term) is so often used in the airline industry that it is not a display of originality.

JAL's CEO Kazuo Inamori has issued a booklet espousing its "JAL Philosophy." It is hard to make sense of this, because such booklets range all the way from empty self-promotion to profound changes of organizational culture and operations. Some of the elements in the booklet, such as the emphasis on open dialogue and independent decision making, are clear breaks with the hierarchical culture that JAL had before. However, they are hard to jibe with the centralized control and oversight issued by Mr. Inamori during his tenure. Although something important could be going on there, I tend to be skeptical.

JAL has rearranged its routes to make its domestic routes less political (no longer going to airports favoured by local politicians) and its international routes more US-centered. Not only that, they are using the new generation of long-distance jets (Boeing 787) to fly directly to second-tier US cities rather than to the major hubs. To me, this is the more interesting part of their strategy. They are using a new technology to rearrange how passengers are moving between cities, and by being early in doing so they are avoiding direct competition. There is still substantial uncertainty on whether this is the right direction for the airline industry, as seen by all the airlines investing in Airbus A380. This jet is the largest in the world and a deeper commitment to intensive exploitation of hubs, so it is a reflection of the exact opposite strategy of favoring hubs.

It will take a while to know which strategy is the right one; the second-tier strategy or the hub strategy. That is an advantage for JAL and any firm that goes for the second-tier strategy, because the uncertainty keeps the competitors from investing in the assets needed to execute the second-tier strategy, if they should want to. In my research, I have found that the advantages from investing in a new technology that is coupled with a new successful strategy can be substantial and long-lasting: as long as a decade. JAL is placing a big bet, and it will be interesting to follow it in the future.

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