

# Lufthansa: Route to Success

By Nagami Kishi

**L**ufthansa German Airlines was a pioneer among European airlines in the Japanese market. It has also served as a good model for Japanese companies of a company providing an advanced working environment.

The predecessor of Lufthansa was an airline established by Professor Hugo Junkers, when he produced the world's first commercial metal airplane, the F13, in 1919. Some 30 companies were established one after another, finally evolving into the present organization in 1926.

Lufthansa is a national airline wholly owned by the German government, but is being operated by people in the private sector. Its first plane to Japan arrived in Tokyo in 1937. The establishment of the Japanese subsidiary in 1960 was followed by the inauguration of the southern route regular service between Germany and Tokyo in 1961. This route started from Frankfurt, made transit stops in Rome, Cairo, Karachi, Calcutta, Bangkok and Hong Kong, and ended in Tokyo, requiring passengers to endure stupefyingly long journeys by present standards. Since then, Lufthansa has launched aggressive strategies one after another, always going ahead of its competitors from Europe. It added a service on the northern route between Germany and Tokyo in 1969, and started a Germany-Nagoya route in 1991.

The inauguration of the Nagoya route by Lufthansa startled many in the industry. The runways of Nagoya Airport are too short for a jumbo jet to take off, and are structurally too weak to bear a fully loaded jumbo. Lufthansa inaugurated the Nagoya route in spite of its knowledge of these facts for three reasons. One is that East Asia, with Japan as its center, has greater potential for growth in demand than any other region in the world. Second is that Narita Airport is now operating at full capacity and cannot accept additional flights. Third is the planned construction of a new international air-

port in Nagoya; by starting operations at Nagoya before the completion of such an airport, Lufthansa aims to obtain automatic landing rights there as an existing airline.

To cope with the drawbacks of the airport, Lufthansa loads jumbos with the minimum amount of fuel in Nagoya, because, when the plane makes a transit stop in Hong Kong, it can be filled with fuel and then fly to Frankfurt. This business policy of Lufthansa, which is both aggressive and fairly practical, is also reflected in an incident which took place in the 1970s. When the then Soviet government demanded high fees for Japan-Europe flights via Moscow, Lufthansa discontinued the route.

## Potential for growth

Lufthansa's aggressive as well as practical business attitude comes from its understanding of business in terms of a plane, not a set of points. From this viewpoint, Lufthansa has a negative view concerning the start of new air routes involving airports other than Tokyo, Osaka and Nagoya.

Karl W. Ambrosius, managing director for Japan and Korea, says, "Seventy percent of Japan's total population live in the coastal areas within a 500-kilometer radius from Tokyo to Nagoya to Osaka. Considering various requirements for the present Japan-Europe nonstop flights on jumbo jetplanes, there are no merits in operating routes departing from or landing in airports other than those in these three metropolitan areas. The Kansai region centering around Osaka, on the other hand, will soon have a new international airport, and has great potential for growth in demand toward the future. We are thinking of increasing the present four-days-a-week service from/to Osaka to daily."

At present, Lufthansa German Airlines uses Hong Kong, Singapore and Bangkok as the hub airports of its service

in Asia, as demonstrated by the fact that every Osaka- and Nagoya-Germany route flies by way of Hong Kong. By rights, Narita Airport in Japan should serve as one, but the prospects for the future expansion of the airport are far from certain, mainly due to the activities of groups opposing such expansion.

Chitose Airport in Hokkaido and some other airports in provincial areas have sounded out Lufthansa on its intention of using one of these airports as a hub. Lufthansa does not intend to change its present system, however, in consideration of geographical convenience and sources of potential passengers.

Foreign airlines have not been able to do business in the gigantic Japanese market as they would like because of the problems with Narita Airport. At present, the airport has a waiting list of 200 to 300 routes which foreign airlines want to inaugurate. While being dissatisfied with such a state of affairs, Lufthansa is trying to cope by using Nagoya or Hong Kong and other Asian airports.

Lufthansa has had a significant influence on the personnel management policies of Japanese companies. One example is the flextime system, which has been introduced by many Japanese companies. Lufthansa was the first organization in Japan to introduce the flextime system, which was conceived in Germany in 1969, and introduced by Lufthansa's Tokyo office in 1973. The news of Lufthansa's starting this system traveled rapidly among Japanese companies and local offices of foreign companies, many of which contacted Lufthansa for advice on how to introduce the system.

Lufthansa also launched other advanced personnel management policies, such as an equal wage system for male and female employees, a wage system based on job evaluation, and allowing female employees to stay with the company even after marriage. All of these policies are now common among Japanese companies, but not so back in 1960,

when the airline's Tokyo office opened. Lufthansa carried out these policies immediately after the establishment of its office in Tokyo. Recently, the office promptly cut annual total working hours to 1,700, following the example of companies at home.

The employees at Lufthansa's Tokyo office enjoy the advantages of both the Japanese and German systems, maintaining working conditions which most Japanese would envy. This had a considerable influence on Japanese industry, and the Tokyo office has had many inquiries from other companies.

"I receive frequent requests for lectures on our flextime and other systems, to which I try to respond as often as possible. I am spending a considerable part of my time for this purpose," says Chikako Oshima, public relations representative in Japan.

## Foothold in Japan

Through its aggressive strategies targeting Japanese passengers, Lufthansa succeeded in partially overcoming a feeling of insecurity among Japanese about using foreign airlines when they went abroad, establishing a solid foothold in the Japanese market.

"At present, 80% to 90% of all the passengers on the Tokyo-Frankfurt and other air routes between Japan and Germany are Japanese," says Oshima. This means that Lufthansa earns approximately 12% of the global sales in the Japanese market. This ratio demonstrates how significant Lufthansa's success in the Japanese market is, all the more so when considering the fact that Lufthansa almost monopolizes the German market and that it is an organization similar to Japan Airlines, All Nippon Airways and Japan Air System combined.

The Tokyo office of Lufthansa has expanded rapidly under its aggressive strategies and has established a working environment that satisfies its employees, but now faces great changes in circumstances. The management is holding serious negotiations with the union concerning a growing opinion that the employees in Tokyo have better



Frankfurt airport—an international hub and the home base of the Lufthansa fleet.

conditions than those in Germany.

What triggered this situation was the worsening of the whole of Lufthansa's business and the resultant loss in the 1991 financial results. In the 1980s, the management in Germany promoted an aggressive expansion strategy to prepare Lufthansa Germany for the upcoming unification of the EC, doubling the number of employees close to 60,000. After the expansion, the German economy suddenly became unstable due to the unification of West and East Germanys. Besides, the unification required Lufthansa to reorganize itself, involving shifting the center of its business from Frankfurt to Berlin. In addition to these domestic circumstances, the deregulation of the American commercial airline market intensified international competition, placing Lufthansa under even severer stress.

Driven into a more difficult business environment than ever, Lufthansa, which has allowed shorter working hours and higher labor costs, faces the urgent necessity of streamlining its operation radically. When the main office at home cut its labor force by 8,000 and refrained from hiring new employees, the employees of the Japanese subsidiary of Lufthansa could not remain unaffected.

The management began to demand the reconsideration of the various generous systems which have been enjoyed by the employees at Lufthansa in Japan and adopted by many other companies in Ja-

pan, especially the retirement allowance system, which has been an exceptional benefit in the global Lufthansa organization. The management finally asserted that the labor agreement providing these systems should be revoked. The management, however, soon found itself in a dilemma. That is, the existing agreement includes provisions essential to daily operations, such as one concerning the automatic transfer of salaries; it was impossible for the management to revoke the agreement unless a new one was prepared, which required the consent of the union.

The airline's streamlining efforts are now beginning to have noticeable effects, however. "Since the Asia-Pacific region with the Japanese market as its center promises future growth in demand, we will continue to be aggressive in promoting our business strategies," says managing director Ambrosius. But the subsidiary's efforts at streamlining and improving efficiency in personnel management seem likely to continue as well.

One manager with the Japanese subsidiary confesses, "The union of the parent company in Germany has accepted the demand of the management to increase the working hours from 37.5 to 40. Our working environment will become tighter from now on. However, ours may have been too good to last."

*Nagami Kishi is a free-lance writer specializing in foreign businesses in Japan.*