

# MBA Essay Sample

## Introduction

It was in 2011 when the AMR Corporation filed for Chapter in the United States bankruptcy Court for the Southern District of New York. The situation surprised the financial markets; the bankruptcy was expected because the turmoil of the airline industry had already endured. In 2003, AMR Corporation exited bankruptcy through merging it with United States Airways. Therefore, American Airlines group Inc. was formed from this situation. The company was in bankruptcy situation for two years and few days. According to statistics in 2003, this was the most dramatic aspect of bankruptcy in America in the year. Before the AMR Corporation had filed the plan for reorganisation, the company had already agreed to merge with US Airways through its creditors and labour unions. This paper will illustrate the issue of bankruptcy that bombarded the Delta Airlines in description of the situation and how it came to take place and how it affected the economy globally, will be discussed in the paper.

## Essay Background

### History of the Company

According to Judge Sean Lane, the bankruptcy judge overseeing the AMR proceedings approves the disclosure the statement in 2003. The aspect allowed AMR to solidities votes from its creditors (Morris S, 2010, p. 44). He approved the plan for reorganizing the implementation of the reorganization that was dependent on the ruling of the DC court. The risk of the company was the lawsuit that would go to court and AMR could lose in case of delay to exit from bankruptcy. AMR Corporation was the main parent of the company of American Airlines, Inc. (AA), which was the largest airlines in America having more than 100 million passenger that enplanement in 2012. At this year, it had more than 88,000 employees working at different sectors in the company. In 1934, the company was renamed as American Air Lines after being acquired by business magnate E.L. Cord. It was recognised as the first airline company to acquire profit solely from passenger services, without the additional revenue from carrying US email. It was an aviation pioneer in different ways; it was the first to fly the DC-3 and to pen an airport lounge. It introduced a frequent flyer program. Additionally, among the first companies to embrace the electronic reservations system. Currently, the company has more than 600 aircraft, serving 160 destinations having approximately 1,800 daily departures.



AMR was associated as a holding company for broadening AA's ability for raising capital and it does it by several subsidiaries.

### **Factors that led to bankruptcy**

For decades, the AA had been under the purview of the Civil Aeronautics Board. The board functioned as a public utility commission for having a control routes and set fares. The Airline Deregulation Act removed the aspect of economic regulation in 1978. The advent of the internet has created easiness in comparing the better terms offered by companies. Several airlines were not able to stand against the challenges and thus, failed to compete in the market. The bankruptcy issue in this company was one of the major events that had shown some signs before it occurred. This airline company was the one of the major US airline company in the industry. After the situation of the bankruptcy, it unfolded the entire airline industry to be aware of such situations. The industry changed how it was functioning. In 2001, US Airways and United filed for chapter 11 bankruptcy protection then followed by Delta and finally northwest that filed in 2005. The situation was a lesson to many companies that emerged from their recent bankruptcies. Delta and North-West airlines emerged forming one of the largest company in the world (Doganis, 2002, p. 65). Their competitors has successful restructured, reducing debt, slashing labour costs, and divesting assets. AMR is recognised as a company with a high cost structure having lower profit margins. At Delta, the perils of the traditional airlines business model illustrates how the aspect of bankruptcy can affect the whole economy of the country for a long period. One of the major factor that foster the issue of bankruptcy is poor management and leadership in the company. Leadership involve coordination and appropriate plan that will enable to maximize on the resources and avoid the risks that are associated with the functioning of the airlines industry. Before the bankruptcy in the company, Delta had the right culture and values with right people such as directors who were diverse experts. The management had tried to adjust to the new market realities while competing with other airlines companies. Before its collapsing, it had tried to strengthen its culture and pursue more innovative strategies. According to the results regarding the Delta Airline, some of the factors that led to collapsing were labour inefficiency, operating inefficiencies, unsuccessful fuel hedging programs, and the high long-term debt. These issues led to bankruptcy of the company (Morris S, 2010,p. 71). It is evident that bankrupt legacy airlines reduce fares; however, they also reduce capacities significantly. How a company is run will affect its short term and long-term effects. Leadership is of the factor that determines the success or failure of a company, currently, many



companies are hiring external modern management teams to help in running the company. The aspect is called external outsourcing. It is mostly practised where the company has no faith with its current team of management. Delta Airlines used poor management in its assets and had a very poor risk management. Their exposure in subprime market, use of SIV products, red flags on advantage ratio, and blind faith put on mathematical model of risk calculation. The case turned all the researchers dealing with financial analysis to focus on the appropriate methods to avoid and fight aspects that might cause failure in the institutions dealing with finances. Delta Airlines is considered the biggest bankruptcy company that has ever been analysed by society until now represents broad lessons to all financiers. This company offered a very vivid lesson about the corporate culture. All the blame was for putting too much risk in an outmoded culture and failing to see how the very positive side undermined the business. All Americans are supposed to be curious since ultimately Delta Airlines collapsed because of the failure of management and corporate governance of a major headquarter. This situation was a colossal national policy debacle, where the system that led to collapsing is still broken. Researchers argue that the bank failed because of its management that pursued a high-risk business strategy with no appropriate or adequately underwriting its loans (French, 2010, p. 48). This aspect was combined with the housing and mortgage disadvantages with additional of falling stock price.

US airways was hit hard in September, because of the prolonged closure of Washington Reagan National Airport, higher security costs, the recession, and an overall decrease in travelling along the east coast. One of the leader that Delta Airlines seem better to save it from the situation of bankruptcy was David Siegel, who was the new CEO. He was supposed to reverse the losses and return the airline to the point of prosperity. The company had a pre-packaged restructuring plan for reviving the company from bankruptcy. According to analysts, the US Airways underestimated the level of concessions that was needed in the first place to restructure the competitiveness of the company (Morris S, 2010, p. 44). The increase in low-coat carriers had continued to take its toll on the legacy carriers such as Airways. In order to exacerbate the impact of low-cost carriers on Delta Airlines, Southwest Airlines announced that it would begin to fly out of Philadelphia. This was one of the most hub of the Delta Airlines and to be competitive enough in the industry, the company would have to reduce its costs. The first bankruptcy was a real lesson to the industry. Many airlines companies started taking precaution to avoid such incident from occurring in their company. There are several ways that the company implemented strategies to avoid second bankruptcy from taking place. For the company to reduce its costs and compete with the low cost carriers, US Airways started to ask employees for more concessions and considered selling off part of its assets.



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Airline deregulation was categorised as a bankrupt policy. The U.S airline industry from 1978, airline bankruptcy filings have become prevalent in the US and airlines fail at a higher level than companies in other sectors do. The failure of the company was a big lesson that made the company to have strategic plan to tackle the rest of the issues affecting the industry (Hofer, 2005, p. 59). One of the major purpose of the issue of bankruptcy in the industry is to provide honest debtors a new beginning through relieving them of most debt and to pay creditors in an orderly manner to an extent that the assets of the debtor are enough.

The CEO of the Delta Company implemented innovative thinking in reviving the company from bankruptcy state. The idea that is known as unconventional moves from employee profit sharing to the purchase of an oil refinery have made the US a carrier in the industry. In the context of Delta, there is good understanding of the perils of the traditional airline business model applicable in the sector. The industry has been recognised because of its short-term thinking, destructive decision-making, and poor employee relations. For many years, the company was running the management in a certain fixed manner, however, after the incident in 2007, all things changed. It was a point of change and everything started to be treated differently. One of the aspect that was highly considered for change was the program for leadership. The company had a major advantage, which was the right culture, and values and the right people to foster change in a more professional manner. The director of the company were equipped with diverse expertise. Having the right strategies, the company could break away from its competitors. The market had changed because of challenges that the company had been exposed to some leading to bankrupt. One of the major steps that company took was to adjust with other airlines (Eberhart, 2001, p. 92). This was the only way to enable the company have the taste of change because the operation had changed. The company had to face new realities in the market and the only way was to adapt the new methods of solving problems in the industry. Some of the aspects in the change was to add scale and expand the geographical reach through merging with other carriers in the United States. The collapse of the Delta Airlines has been great lesson to many financial institutions in the 21st century. Management being the major cause of failure, all the financial institutions are improving their management through various ways. Current financial institutions are avoiding complex strategies. For many years, loans have been offered to customers in different portions. Documentation of current loans to people has become very complex, more details are needed in order to make loan available. The situation helps to improve and avoid failure of the company because of huge debt. Bankruptcy is a situation that all companies are avoiding. High-risk activities are avoided in many companies to avoid risking the company. Board of directors have set certain standards



to be maintained by the financial institutions. Some of the standards that are relevant for the review and have great significance to such incidence. Governance of the bank is very important and poor governance led to failure of this bank. It was a great lesson to many financial institutions in the country. Management invests heavily on the auditing of many financial institutions to avoid being caught up in unaware. Delta Airlines was rank among the banks that have ever made a bad decision in America (Busse, 2002, p. 71). The aspect attracted debates and attention to both government and private organisations that dal with financial services. The collapsing of the Delta Airlines led to major problems to many in the country. Some employees became jobless because the company could not afford to pay them. Some customers went to other companies and that mean a drastic reduction in profit level. The company had to implement some new changes since the whole industry had change how to operate. This was a big lesson to many companies in the industry. It had to work extra harder in order to strengthen its culture and pursue more innovative strategies. The company merged with Northwest Airlines in order to cope with the changes at a faster rate. There was additional of stock ownership plan, which was unique in the industry and gave the pilots. Flight attendants, ground crew members, other staff 15 percent of the company's equity. The company reclaimed for its reservations system, being the only airline in the United States to own and control the major operations data in the industry. It deepens foreign partnerships through buying a minority stake in three overseas carriers. The company has moved toward vertical integration, this be in terms of better management through acquiring an oil refinery. There was no opportunity for a second chance of bankruptcy. The company had a better structure and operations that determined how to get employees invested in running a top-notch airline in the industry. Currently, Delta is one of the richest, most profitable, and the healthiest airline company in the world. It has the best performance rankings such as customer services, on-time flight arrivals, baggage handling, and cancellation avoidance (Alderson, 2000, p. 47). After many years of struggle, Delta is back again as the leader in the industry.

### **Conclusion**

The history of the Delta Air lines goes back to 1924, tracing its way as a major American airline. The bankruptcy of the company was great pain but also a great lesson to the company and to the whole industry as well. Management and leadership was the major cause of collapsing of the company. A failure to see ahead is a major problem that might affect the running of the company in a negative manner. The airline industry has a rich history of financial distress and seek the protection benefits to file for bankruptcy.



The effect of financial distress is a major challenge that makes a company to realise the changes that need to take in order to avoid future collapsing. The failure of the Delta Airline Company was a great to many companies in the industry. After the company has revived, it implemented modern ways of running the organisation. There were better strategies to solve the issues affecting the company, better skilled staff to cater for the customers and expert CEO to foreseen any future challenges that might bring the company down. The company is one of the best in the Airline industry in the current world. The company merged with the Northwest Company providing the best services to the customers. Therefore, bankruptcy issue is not only a problem but also a great lesson to the industry of airline industry.

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