

British Airways 1984-1987

The Transformation Leading to Successful Privatization

Introduction: One of the most extraordinary change efforts of our time

In 1983, an article in the *Financial Times (FT)* called British Airways, “a national disgrace - the world’s least profitable airline and the airline with the worst service record of any airline flying on the North Atlantic.” By 1987, British Airways had completely transformed itself. It was the most profitable airline in the world; it received the best customer service ratings of any airline on the Atlantic routes and underwent privatization through a widely distributed, oversubscribed, public offering of stock that was issued at 50p but was bid up to £37 in the first week.

How British Airways got there is one of the most extraordinary change efforts of our time.

Externalities and the driving need for change

British Airways was the nationalized carrier created in 1976 from the merger of two failing nationalized carriers British European Airlines (BEA) and the British Overseas Airways Corporation (BOAC.) These airlines were created after World War II out of the remnants of the RAF bomber corps (BEA) and the Spitfire fighter group (BOAC). The merger was widely perceived to be a failure. The employees of the two airlines came from remarkably different backgrounds and even in 1984, they occupied different buildings at London Heathrow Airport and had not so subtle differences in logo and marketing materials.

In 1983, when the above mentioned *FT* article came out, the airline had just lost an astounding £1 billion on less than £3 billion in revenue. The article referred to recent customer service surveys that ranked BA dead last in on-time performance and customer satisfaction, and carried damning quotes from important customers who swore they would never fly the airline again. This came at a time when the traffic on North Atlantic routes was growing by 20-30% per year due to increased business between the booming US and UK economies. The competition on the North Atlantic routes was major European and US carriers, not discount airlines. (Sir Freddy Laker’s Laker Airlines and People Express had all but failed and Sir Richard Branson’s Virgin Airlines had not yet been founded.)

At the time of the article, Jan Carlzon’s Scandinavian Airlines System (SAS) had transformed airline service. Virtually all other airlines were flying near full, and BA’s load factor was 60%, even despite a £5 million television ad campaign where actor Robert Morley implored Americans to “Come home-all is forgiven,” and Britons to “Fly the flag - please.”

BA had 58,000 employees, almost twice the number of any of its competitors, yet BA service queues at Heathrow were interminable, and passengers were either ignored or rudely herded like cattle.

The unwanted *FT* publicity was an embarrassment to the government of Tory Prime Minister Margaret Thatcher. Mrs. Thatcher had campaigned on “stopping government waste” and here was unbelievable inefficiency, called “*Blood Awful*” on the front page of the *Financial Times*. In 1983 Mrs. Thatcher announced that she had appointed Sir John King, (later Lord King of Wartnaby) industrialist and the former ambassador to the United States, to be Chairman of British Airways to turn the airline around before privatization early in 1987.

Sir John King’s first act as Chairman was to offer a two years salary severance package to any BA employee who wished to leave. Over 20,000 employees took the package. Prior to this event, British Airways had 58, 000 employees, 48% of whom had never worked anywhere else. Afterwards there were 37,000 employees, 84% of whom had never worked anywhere else.

The first members of the change team

Sir John’s second management act was to hire Colin Marshall (later Sir Colin, then Lord Marshall, of Knightsbridge). Colin Marshall was an experienced British travel industry executive who had worked as a management trainee purser on the Orient Steam Line, and a divisional manager for Hertz Car Rental before being hired at 30 to turn around Avis Car Rental of Europe.

Colin Marshall brought on Nick Georgeiades, an independent consultant, as Director of Human Resources, and a former US Organization of Secret Service (OSS) psychologist, Mike Levin, as his personal consultant and aide-de-camp.

Nick, Mike and Colin later sought out Dr. George Litwin and John Bray, both founders of the Forum Corporation, a management training firm. Also on board were representatives of the Hay Group for executive compensation, and Pilat, an Israeli performance management consultancy.

Initial research findings and the initial change approach

Together this change team conducted initial research on the conditions that created the state of affairs at BA. They discovered that:

- Executives were held accountable for neither profit nor service levels. They were compensated solely on length of service.
- The performance appraisal system was also based upon length of service.
- In fact no one had the words “customer service” in their job description.
- There were no processes in place for customer service emergencies in the terminals. For example, in Heathrow, one of the most fogged-in airports in the world, there were no processes to adapt loading procedures to foggy conditions, which accounted for the large numbers of late gate departures.
- Employees had no conception of the skills and knowledge required to run a service business.

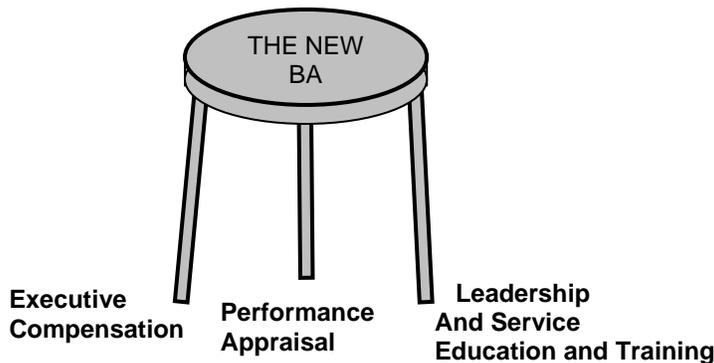
The change team articulated a new vision of what the airline would have to become to transform sufficiently to privatize:

- Customer friendly
- A profitable enterprise
- A winning team and a great place to work

Colin Marshall said this would require “visible leadership, who were focused on customers and serving the people who served them.”

The change team conceived of a change model called the “three-legged stool,” the inclusion of three separate but equal streams of change work:

The Three-Legged Stool



- **Executive Compensation** to align how executives are measured and paid with desired results
- **Performance Appraisal** –to align how all other employees were measured and paid with desired results
- **Leadership and Service Education and Training** to communicate the direction and give employees needed new capabilities.

The Hay Group worked on Executive Compensation, Pilat worked on Performance Appraisal, and George Litwin’s company HRI and John Bray’s Forum Development Group worked on Leadership and Service Education and Training.

The Executive Compensation Stream

Executive Compensation was ultimately changed from length of service to a salary and bonus system where 40% of compensation was “at risk,” depending on goal achievement. Sixty percent of bonus compensation was paid on business goal –e.g. profit, market share, customer satisfaction etc, as appropriate. Forty percent of bonus was paid on feedback from peers and subordinates as to whether the executive led according to the vision and values of the new British Airways, Customer focus, Empathy and Empowerment, Trust, and Personal Responsibility for the transformation of the airline.

The Performance Appraisal Stream

The Performance Appraisal stream began work on defining employee jobs around customer satisfaction and profit. A performance-based performance model and a new computerized performance appraisal system that adjusted for “rater bias was then introduced.”

The Leadership and Service Education and Training Stream

The Leadership and Service Education and Training stream produced many programs aimed at various knowledge and skill deficiencies over the three year period. Further because training included two-way change communications, this stream surfaced much needed work in other areas not anticipated in the somewhat simplified “three-legged-stool” model. This work included process improvements in customer service, organizational redesign, and a series of change projects in all aspects of the business started in Managing People First. These projects were nominally a part of Managing People First, but they took on a life of their own and drove much of the results achieved in the entire change effort.

So the work of this stream often began in a formal training program, but continued outside the “classroom” until it was integrated into day to day operations of the business. Nonetheless, it is most easily described by describing programs in the chronological order in which they began.

The Passenger Group Management Programme

Colin Marshall’s first exhortation was to “FIX THE TERMINALS.” Customer service in Heathrow was terrible. Ticketing queues were long, service personnel were rude, 60% of gate departures were late with half of those missing the air traffic control take-off window and so sitting on the tarmac. In the initial research it was determined that no one had customer service in their job description.

A new job was created, the Passenger Group Coordinator, or PGC, who was responsible for coordinating service as well as the logistics of loading passengers. Front line supervisors (Grade 7, part of the represented workforce) were told that their job was being abolished. They could take a generous severance package or apply for a new more highly paid position (Grade 8, still represented) for which they would go through an assessment center to “determine suitability.” The new job requirements included customer service and empowering leadership. Supervisors who elected to apply for the new position were given two full weeks of intensive training (including a weekend to which spouses were invited) before the assessment.

The program schedule went from 7 AM until 11 PM every day and covered basic supervisory and customer service skills as well as leadership skills and feedback.

In the end, 97% of existing supervisors applied for the new position and after training 98% of those who were trained passed the rigorous assessment center.

Putting People First

Putting People First was a one day long program for all employees that explained the principles of customer service and the emotional component of managing yourself to provide service. It was run by a Danish firm, Time Manager, which had worked at SAS. They adapted their time and calendar management materials to communicate the message of serving customers and those who serve them. Time Manager ran large group sessions of 50 to 200 people with break out groups. The time management materials may not have been the most appropriate methodology, but the fact that every employee was exposed to the message about customer service and the emotional labor it required had a significant impact.

Managing People First

Managing People First was targeted to the top 2000 leaders inside of British Airways. It was a one-week resident program, with a demanding daily schedule (7 AM to 11 PM.) There were several components:

- Peer and subordinate feedback collected by questionnaire and delivered by computerized reports, with leadership coaching by facilitators. This feedback was delivered daily in teaching units corresponding to the leadership values of the new BA: Vision, Empowerment, Trust, Personal Responsibility
- Specific leadership development content customized to individual need
- Work in teams on self selected change projects. As mentioned earlier this work was planned during Managing People First and carried out after the program.
- Teams presented their change program plans to Colin Marshall, who came to every single MPF program.

The Cabin Crew Programme

The Cabin Crew Programme was a “mini-MPF” for all cabin crew. This focused on improving cabin service and redesigning in-flight cabin service processes to reduce the number of cabin crew needed on flights, while actually improving service levels.

How BA Makes Money or The Green Beret Programme

How BA Makes Money was conceived as a way to teach the reading of financial statements and the making of budgets. It evolved from the first pilot program into a way to generate cost saving and revenue development ideas which were then implemented by those in the class. Soon the easy financial improvements were made, but each succeeding group challenged itself to try to save or improve more than the last. The program became a kind of “boot camp” experience producing real tangible results in more and more difficult arenas. People competed to be selected to attend and it took on a new name, The Green Beret Programme named for intensive training of US Army Special Services.

The Seeds Programme - The change agent development programme

The Seeds took its name from the Chairman Mao expression “plant but a few seeds and a thousand flowers will bloom.” These change agents were selected by the facilitators of Managing People First as the Change Agents for the BA Way. They were selected according to the passion with which they engaged the MPF course, and positive impact they had on others – the bravery of their words, the degree to which others listened when they spoke, the degree to which others took action as a result of their words.

There were a few more than 40 of the Seeds out of 2000 leaders in MPF. They were taught three core skills:

- How to deliver an inspiring speech about the BA Way –vision and values
- Organizational process skills – specifically how to intervene in a small group’s process that was “stuck” and get them back on track
- How to give tough behavioral corrective feedback to an executive, senior to them, about the way that executive was living the values.

The Seeds were sent to help the change teams and to drive change in other ways. Not surprisingly by 1987 many of them were in senior positions running the new service focused, profitable airline they had created.

Results, Critical Success Factors, and the post-1987 British Airways

As described earlier, British Airways became extraordinarily customer-focused, efficient and profitable in a three-year period. The published 1986 results showed that BA had earned almost £500 million on revenues of around £5 billion. In 1986 its customer service ratings routinely exceeded every airline except Singapore Airlines and Swiss Air, and in the last month of the year BA was the highest rated airline for customer service, beating even those formidable competitors.

British Airways managed the news of its success extraordinarily well and so when the public offering came in the spring of 1987 (at the hottest time of the hot 1980s market) many people who had never owned a stock had “flutter on the flag.” Consequently the stock went from 50 pence to 37 pounds in the first week. The stock ranged between 15 and 20 for the first year before settling to around £9 for subsequent offerings.

This change effort is now almost 20 years old. It has been written about, and used as a model for countless others. The critical success factors include:

- The driving need to change –“privatize or die.”
- The focus of Colin Marshall aided by the aggressive determination of Mike Levin
- The “early wins” in the terminal provided by the Passenger Group Management Programme
- The large group meetings, Putting People First, which everyone in the airline attended, that communicated the consistent message of customer service
- The universal leadership language created in Managing People First
- The change teams started in MPF
- The development of change agents in the Seeds Programme
- Hard metrics and results focus developed in the Green Beret Programme Executive Compensation, and Performance Appraisal streams

In the years since 1987 British Airways has been on a roller coaster ride along with many other airlines. Deep discounting airlines have provided intense competition and any company is only as good as last quarter’s numbers. In some years profits have been up; in some years down, but customer service has been less volatile and has remained consistently among the highest in the industry. Even today, the firm continues to represent a pride of accomplishment among employees, shareholders, and the general British population. It is a model of what can be accomplished by a group of dedicated employees. For many who are aware of this story British Airways will always be ***The World’s Favorite Airline.***