

BRITISH AIRWAYS HITS TURBULENCE

Senior Research Fellow Jean-Louis Barsoux and Professor Jean-François Manzoni prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. It builds on and updates the case Flying into a Storm: British Airways (1996–2000), Ref. ecch #302-106-1, written by the same authors. It is based on publicly available sources.

Jettisoned

On returning from holiday in early March 2000, Bob Ayling was told that his 50-month reign as CEO of British Airways was over.

The announcement put an end to three years of almost constant speculation about Ayling's future in the press, reflecting the sustained underperformance of BA's share price over that period (*refer to Exhibit 1*).

With no obvious successor in place, BA's chairman, Lord Marshall, temporarily resumed the job he had held before Ayling.

Talking to senior managers at BA's trendy Waterside headquarters, opened 18-months earlier, Marshall explained that no single event had triggered the decision. He insisted that "the airline's strategy remained the right one but that Mr Ayling was the wrong man to execute it."¹

The unanswered question, if the board was endorsing the strategy, was why had it lost faith in its architect?

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Mid-Air Turnaround

British Airways became famous in the 1980s by going from a loss-making, state-owned national carrier with poor service and punctuality (most unpunctual airline in Europe out of its own home base, voted #1 airline to be avoided at all costs), into a customer-focused, publicly listed and outstandingly profitable airline (refer to **Exhibit 2** for evolution of key data).

By January 1996, when Ayling took over as chief executive, BA had been voted world's best airline for seven years running in the independent *Business Traveller* survey.

The turnaround started in 1981 when Margaret Thatcher entrusted Sir John King with the task of preparing the airline for privatization. Overmanned and losing money, BA required drastic action. King wasted no time in cleaning up the balance sheet, selling off properties and airplanes, and cutting loss-making routes. The money generated helped to finance some £200 million worth of special severance pay, offered to volunteers willing to leave the airline soon. Within four years, staff numbers had dropped by nearly 20,000 and stood at 36,000 – yet the airline suffered no strikes.

King also commissioned the advertising agency that coined the “World’s Favorite Airline” slogan – a quantitative claim based on the number of international passengers carried rather than a seal of passenger satisfaction.

In 1983 King brought in Colin Marshall from the retailer Sears as his number two, in order to improve the airline’s dismal service reputation. Marshall’s previous experience of the travel industry, first as a ship’s purser and later in the car rental sector, had nurtured a keen sense of marketing and a deep commitment to customer service. Between them, King and Marshall built a kind of “brains trust,” surrounding themselves with individuals – many handpicked from outside the airline industry – with high levels of expertise in very different fields.

In parallel, Marshall was quick to initiate customer service training for all employees, followed by intensive management training for those supervising frontline employees. Specifically, every employee in the airline went through *Putting People First* (1983–86) and all managers went through *Managing People First* (1985–88). In both cases he made a point of personally closing these sessions. He restructured the airline to put more emphasis on marketing and IT. He overhauled the human resource systems so that policies for hiring, compensating, appraising and promoting people were aligned with the new strategy and the training received.

He then brought in brand specialists from consumer goods companies to explore ways of developing each class of service as brands in their own right. Combined with enhanced IT capabilities, this marketing drive enabled BA to maximize yields – the average amount paid by each passenger for each kilometer flown – helped by sophisticated computer programs which juggled ticket prices and discounts to fill the maximum number of seats with full-fare passengers.

Thanks to systematic training (including two more waves of corporation-wide training following PPF), specialized performance tracking units, innovative

complaints handling systems and the empowerment of frontline operators, the airline developed an enviable reputation for customer service. BA set new standards not just within the industry but also for other service-oriented companies. All this translated into higher profits per seat than most other carriers. By the early 1990s what had started out as a hollow boast – the world’s favorite airline – had become a legitimate description.

The Right Stuff

Ayling first came into contact with BA in the early 1980s as a government lawyer drafting the bill to privatize the state-owned airline. Lord King recognized his talent and brought him into the company in 1985 as legal director. Ayling made rapid progress, accumulating experience in various roles: as company secretary, then director of human resources and later director of marketing and operations.

In 1993 he was named group managing director, with Marshall taking over from Lord King as chairman. Two years later, Marshall himself became non-executive chairman, leaving Ayling to run the airline. Marshall told the press he had been “preparing for some time” to hand over to his successor as chief executive, and that the time seemed right with the airline “running relatively well.”²

To many, Ayling seemed like a breath of fresh air. His strategic understanding, his sharp mind, his thoughtful answers and even his “disarming modesty” tended to impress those who had dealings with him. Journalists and analysts considered him a better communicator than either King or Marshall, finding him relaxed, friendly and media-wise. Internally, he had already shown that he had the resolve to impose tough measures, securing £150 million of cost savings during his time as group managing director.

Just before taking over as chief executive, Ayling told employees that while BA was already a well-run company, it needed to be better. He added: “To be better than we are requires a change in attitude. It requires that we throw off for all time the attributes and attitudes of the public sector.”³ The airline’s main problem, as he diagnosed it, was one of complacency.

Soaring Higher

Ayling’s first official act as chief executive was to slim down the company’s top-heavy executive team of 25 to 14. And his first promise as chief executive was to make the customer king. “Customers must intrude into everything we do at every moment of the day.”⁴

Soon after, he presented the board with four objectives for building on BA’s existing success: First, to sustain BA as “the world’s favorite airline”; second, to continue to improve customer service in a more demanding environment; third, to extend BA’s reach through alliances and marketing agreements; and fourth, to “improve further our management; to be the best managed company in the UK by the year 2000.”

The last objective was Ayling's special concern. Better managed, as he saw it, meant fostering a culture that was healthy and democratic: "People have got to be open with each other, they've got to be challenging and professional, they've got to do what they say."⁵

Within six months of taking over, Ayling revealed his twin strategy for preserving BA's dominance. The first platform was a drive to reduce the airline's costs by a headline grabbing one billion pounds. The so-called Business Efficiency Plan (BEP) was based on projections that deregulated competition would continue to erode yields, so the airline would need to reduce its costs to protect profits.

The announcement of the BEP, in May 1996, coincided with the announcement of record net profits of £473 million (BA overtook Singapore Airlines as the world's most profitable airline) and the biggest bonus payout for employees ever announced by a British company (worth around four weeks' pay). The timing was symbolic. It was meant to reinforce the need for constant improvement. As Ayling conceded:

Although I might see a change as necessary because I've analysed the figures and it's my job to consider the long term, most people in most jobs in the company don't think like that. They think about the day-to-day things – that's as it should be – so it's not at all obvious to them why the changes I think have to be made, have to be made.⁶

The second platform of Ayling's strategy involved an industry transforming alliance with American Airlines, announced in June 1996. The far-reaching code-sharing agreement would give the two carriers joint control over 60% of flights between the UK and the US, the world's most lucrative airline routes. Ayling gained plaudits for winning over American Airline's chairman Bob Crandall, widely regarded as the industry's rottweiler. As the *Financial Times* observed: "Although Mr Ayling has proved a tough manager, he is seen as more approachable and personable than his predecessors."⁷ Those same diplomatic skills, allied to his legal training, were expected to facilitate discussions with the US regulators who would want to review the allocation of Heathrow slots.

In September 1996, Ayling assembled BA's top 300 managers to announce to them that BA would be asking for 5,000 volunteers to leave the company over the next 18 months, from November 1996 onwards. Over three years, these employees would be replaced by a similar number of new recruits with greater flexibility and more appropriate skills, including languages and the ability to deal with customers. On the morning of the announcement the *Financial Times* carried a report that BA had been voted second most admired company in Europe, but Ayling warned his managers: "We must do better because our competitors have caught up, and we are slipping back to the middle of the pack."⁸

Though impressed by Ayling's ambition for the airline, some managers were dismayed by the projected job losses. One reckoned: "Such issues will have to be handled very sensitively."⁹ For others, the plans proved less dramatic than the earlier rumors of 10,000 job cuts and a £60 million logo redesign. Ayling confirmed that the company was thinking about a new logo but was not planning to spend £60 million on it: "I can't think of anything more insensitive than asking for 5,000 redundancies then spending £60 million."¹⁰ Commentators applauded Ayling's foresight: "Unlike companies which cut costs when financial disaster

strikes, BA has decided to begin the process when its aircraft are full and it is making record profits.”¹¹

In the first wave of cost cutting, BA offered some operations for sale, notably its ground fleet services, its in-flight catering operations and its landing-gear overhaul unit. It transferred part of its accounting functions to Bombay where it could recruit 200 staff at much lower salaries than in the UK. Some cost centers were simply scrapped – such as the Marketplace Performance Unit previously responsible for generating information on customer preferences and perceptions. This unit had been one of Colin Marshall’s first innovations at BA, and had helped to boost service standards, but it was considered to have lost its edge.

Over the first few months of 1997, BA area managers secured a number of important concessions from their respective employees. These savings were not achieved without some resistance. In particular, the unions made a lot of an alleged reference by Ayling to a “virtual airline,” taking it as a euphemism for redundancy. This in spite of the fact that BA had been increasing employee numbers at a rate of about 2,000 a year and in spite of Ayling’s repeated pledge that there would be more people working for the airline by the year 2000.

The financial analysts clearly admired Ayling’s strategy and firm stance. The evident drive behind the BEP and the prospect of powerful financial rewards from the alliance with American Airlines lifted BA’s share price. The alliance itself was still awaiting clearance, having run into unexpected opposition in January 1997 from the European Commission. (EU regulators had not interfered with the three previous transatlantic tie-ups involving Lufthansa/United, KLM/Northwest and Swissair/Delta, but in this case competitors – both US- and UK-based – were quite vocal in their opposition).

BA was also consolidating its European network by merging its latest French acquisition, Air Liberté, with TAT, its existing French subsidiary. TAT had been acquired back in 1992, along with Deutsche BA, in anticipation of increased deregulation. These operations had yet to break even, but their purpose was largely to feed BA’s intercontinental network.

When Ayling had taken over in January 1996, BA’s stock price stood at 466p. By May 1997, with BA posting record profits of £550 million, it had surged to 760p.

Trouble Ahead

In June 1997, BA unveiled a striking new visual identity. The 50 ethnic designs commissioned from artists across the world would adorn the tailfins of BA’s entire fleet, as well as ticket jackets, cabin crew scarves and business cards. Over the next three years, the new look would gradually replace the sober blue and red livery and crest, along with the motto “To fly, to serve” which dated back to 1984.

The identity overhaul was based on market research suggesting that passengers viewed the airline as staid and stuffy. It presented the airline with an opportunity not just to tone down its national origins and project a more modern image but also to reposition itself as “a citizen of the world” in recognition of the fact that 60% of BA’s passengers came from outside the UK.

The new designs attracted tremendous free publicity, with the front pages of most British papers featuring large color photos. But they also generated more controversy than anticipated, many seeing the revamp as extravagant, confusing or, in the case of Margaret Thatcher, a national betrayal (*refer to Exhibit 3*). The backlash was disappointing, but Ayling felt that these emotionally charged reactions from the more conservative-minded sections of the British public would soon fade. In any case, the £60 million identity change was not to be judged in isolation but as part of a new corporate mission, formally announced in June 1997: "To become the undisputed leader in world travel." Over the next three years, the airline would be investing £6 billion in a vast program of improvements: including the acquisition of 43 Boeing aircraft (already ordered and awaiting delivery), a new £200 million head office (to be called Waterside), and enhanced facilities, in-flight services, products and training.

The launch of the new corporate identity coincided with a busy period for Ayling. He was appointed chairman of the organization responsible for building and running London's Millennium Dome, a large, highly visible project sponsored by the government.ⁱ As the CEO of an organization operating in a regulated industry, this prestigious post was a good opportunity for Ayling to nurture his relationship with the government, at a reasonable cost time-wise (targeted at about half a day per month).

Among employees, however, the mood was less festive. One union representing 3,500 cabin staff had accepted a new salary scheme as part of the effort to reduce area costs by £42 million annually. But the larger (and more militant) cabin staff union, BASSA, accused the airline of trying to impose this agreement on its 8,500 members. BASSA felt that some of its members would lose out from the changes. The airline accepted that a minority of staff might lose money, but it offered a money-back guarantee to make up the shortfall and guaranteed that existing cabin crew would not suffer financially. Newly recruited cabin staff, however, would be paid about £2,000 a year less than previously.

Not normally known for their militancy, the largely female cabin staff voted for a 72-hour strike by a 3 to 1 majority in the secret ballot. As the strike deadline approached and talks broke down, BA warned those considering taking part that they risked being sacked or even sued for damages (*refer to Exhibit 4*). Only 300 staff officially went on strike but 1,500 called in sick, disrupting BA's schedule for days (*refer to Exhibit 5*).

During the strike, BA's director of human resources, Mervyn Walker (a former lawyer), maintained that the strike ballot was procedurally flawed, making the strike illegal. (According to Walker, the union balloted about 10% more cabin crew than were actually on the payroll, a claim the union disputed). He added: "The only way to achieve [the £42 million] target is through the deal on the table.

ⁱ The Dome project, originally conceived on a smaller scale by the previous Conservative government, was to house the *Millennium Experience*, a major exhibition celebrating the beginning of the third millennium. The Labour government elected in 1997 under Tony Blair greatly expanded the size, scope and funding of the project and significantly increased expectations of what would be delivered.

We will not discuss the terms of the deal.”¹² Moreover, staff reporting sick were required to produce a doctor’s note, even for a day’s absence, prompting complaints from the British Medical Association that this would waste the time of doctors.

BA’s hard-line approach drew condemnation, not just from the press but also from 10 Labour MPs who formally denounced “the tactics of intimidation being pursued” by the airline. Ayling also recognized the anger provoked by BA’s approach and wrote in the *Times*: “If we have appeared heavy handed or clumsy, I apologise.”¹³ External supporters of Ayling commented: “The idea of him charging around like a great bully is not him. He is keen to do things with the support of people in the company, but he has radical visions of the future and it is about radical change.”¹⁴ Nevertheless, criticism of his tactics was so strident that the BA board felt compelled to issue a public statement of confidence in him.

At BA’s AGM, barely a week after the strike, passions were still running high – though as much because of BA’s new livery as because of the cabin crew strike. When someone noted that employee morale was at an all-time low, Ayling replied that the radical changes were bound to upset people but that he hoped to push through his program as quickly as possible before seeking to rebuild relations.

In the Clear

In September 1997, BA issued a press release announcing the settlement of the cabin crew dispute. BASSA agreed to the £42 million BEP savings target and BA lifted the sanctions imposed on the 300 cabin crew who had gone on strike. The estimated cost of the disruption to the airline was £125 million. As Ayling saw it:

Today’s agreement signals a genuinely new beginning for relations and spirit of co-operation inside the company. It safeguards our plans for growth and new jobs and will help the airline at the forefront of what is now a ferociously competitive global industry, in the interests of all our customers, employees and shareholders.¹⁵

Mike Street, a rare BA veteran in Ayling’s team, confirmed that “Lessons have been learnt all round.”¹⁶

In the wake of the settlement, BA started an intensive drive to lift staff morale informally dubbed “hearts and minds.” All those who had called in sick at the time of the strike were interviewed to try to understand what had motivated that course of action. Then a weekend meeting of key executives, headed by Ayling, came up with a series of ideas to try to make up lost ground and win passengers. Ayling pledged to staff that he would be more “caring” and declared that people were back at the top of the BA’s agenda. He said, “I know some people doubt that I care about this as much as about efficiencies. But today is the day when I put a stake in the ground and re-involve everyone in this company.”¹⁷

BA set up a task force called *The Way Forward* designed to try to learn lessons from the dispute and produce a new spirit of cooperation. Headed by 36-year-old Martin George, the recently appointed marketing director, the task force comprising managers from different levels and parts of the airline was to look at how morale could be rebuilt, find ways to mend customer relationships and ensure

the airline got the basics of customer service right. "They will take account of staff surveys showing significant declines in morale in some areas, and ideas on how to improve communications between management and staff."¹⁸ An immediate measure was to combine the operations and customer service departments under Mike Street in order to improve cooperation between the areas.

In October 1997, as part of its campaign to raise staff morale, BA announced plans to build a £28 million staff hotel at Heathrow. The airline's new philosophy would also be underlined by its new headquarters, due to be completed by the end of 1997. The entire complex – consisting of offices, street and social facilities – was conceived as "a catalyst for change, transforming the way the company does business."¹⁹ In an effort to do away with hierarchy and barriers, there would be no permanent desk space, even for Ayling.

BA also launched a series of initiatives such as a *Good People Management* framework based on interviews with 100 employees about what good managers actually do – the underlying message being "manage as you would like to be managed."

In November 1997, the airline declared that it had made £600 million worth of its £1 billion proposed savings and had now "drawn a line in the sand." It would not sell any more divisions, contract out any more of its work or ask for more major cuts in staffing costs. Ironically, one of the last areas contracted out was the airline's employee suggestion scheme, *Brainwaves*, to be run by management consultants. Future savings would come from making better use of aircraft and new deals with outside parties, including probable cuts to travel agents' commissions.ⁱⁱ Having established a lower cost base, BA could concentrate on building up what it had lost.

One month later, the cabin crew decided to vote out of office the union representatives who had militated most forcefully for strike action. Ayling felt privately vindicated.

At around the same time the boss of a rival European airline commented:

Everyone in life loves a scapegoat. Ayling has achieved a lot of what his predecessor, Colin Marshall, failed to do 10 years ago, principally making the staff cost-effective... Every time the unions gave the previous management a "hard time" about wanting to cut pay, jobs or BA's legendary staff perks, Marshall bought higher profits with marketing initiatives, special offers and sales pushes that boosted revenue... Marshall was a brilliant salesman but Ayling has addressed the really hard task of cutting staff costs.²⁰

Fighting for Altitude

While internal relations seemed to be on the mend, BA was experiencing unforeseen pressures on a number of external fronts. To start with, relations between the carrier and travel agents had been badly strained by the commission

ⁱⁱ With 85% of all tickets sold through the travel trade, cutting travel agents commissions would be a bloody battle. But a four point cut (to 5%) would save around £300 million a year.

cut plan. BA's demands did not come as much of a surprise as many other airlines already benefited from reduced commissions. As reported in the trade press: "Most agents were expecting something of the sort. But somehow the way it was carried out has ruffled some important feathers."²¹

At the same time, the effects of the economic crisis that hit Asia in the latter half of 1997 were soon felt by BA. Rival airlines transferred planes to BA's profitable North Atlantic routes, resulting in a capacity glut and triggering a price war. The drop in revenues was exacerbated by increasing competition on short-haul routes with the emergence of low-cost airlines such as Ryanair and easyJet.

To compete against these new rivals, BA launched *Go*, its own budget airline, in May 1998. Operating out of London's Stansted airport, it had 150 employees and was headed by a 38-year-old American, Barbara Cassani. It was not expected to show a profit until its third year and the initial losses would be absorbed along with the ongoing losses from its European domestic operations.

For the year ended 31 March 1998, BA reported net profits of £447 million, down 9.4% on the previous year, with French subsidiary Air Liberté posting losses of about £70 million.

Meanwhile, the planned alliance with American Airlines was still bogged down in discussions with both the EU and US regulators. In September 1997, Europe's competition commissioner, Karel Van Miert, had demanded that BA surrender up to 350 airline slots in order to secure EU approval. This had angered Ayling, who had examined the law and decided that the EU had no jurisdiction over what he saw as a US-UK issue. By August 1998, the EU was demanding that only 267 slots be given up, but told BA that the slots would have to be given away free – since selling the slots would contravene EU regulations and would unfairly favor the bigger airlines. The talks consumed much of Ayling's attention, requiring him to make regular trips between the UK, Europe and America.

Equally worrying were the increasing signs of customer dissatisfaction. In October 1998, Heathrow was voted "worst airport for luggage retrieval" by the *Business Traveller* survey. One eminent journalist told Ayling of a colleague who had complained about BA's business class service and received a reply 11 months later. "When he telephoned the customer service department, he was told it was taking at least a month to reply to letters because there were so many complaints, and too few people to deal with them."²² Ayling inquired whether the sufferer had written to him – those who did received a call the very next day.

A more personally embarrassing episode for Ayling occurred in September 1998, when he was a passenger on the inaugural flight of BA's latest Boeing 747 from Heathrow to Denver. As they prepared for take-off, Ayling sat in first class preparing a speech for the next day. But there was a problem with the cabin audio equipment and no one on board was qualified to repair it: "Ayling fumed silently in his seat, not daring to reveal his identity to fellow passengers who had to endure the 4,000-mile journey without films or music."²³

Only a few months earlier, a BA flight from Milan to Heathrow had been forced to land in Geneva because its undercarriage was down. As they came to a stop, smoke rose up from underneath and passengers had to exit via the emergency

chutes. With no BA staff on hand to apologize or assist them, passengers completed their journeys with other airlines. A few weeks later, those who had complained received “a half-hearted letter” from customer care.²⁴

Smelling blood, Virgin challenged BA’s right to use the slogan “The world’s favourite airline.” The advertising watchdog ultimately backed BA, noting that it carried more international passengers than any other airline – but the verdict fell at the same time as a biannual survey of leisure travelers in Britain showing that BA had slipped from 13th to 24th as the most recommended airline.

It was a strenuous time for Ayling and there were signs that his initially laid back style was giving way to a more abrasive approach. In the wake of Marshall and King’s rather stiff manner, Ayling had attempted to instill more open and relaxed communications. But detractors argued that the image had “often worn thin, revealing an intensely ambitious and stubborn individual who is only happy when he gets his way.”²⁵

As 1998 came to a close, Ayling realized he would soon have to announce BA’s first ever third-quarter loss – a major blow for an airline that prided itself on having made a profit even during the Gulf War when the entire industry had nose-dived. It looked unlikely that employees would receive their annual bonus – and the business press was openly speculating about Ayling’s future.

Changing Flight Path

Conscious that third-quarter losses might need to be placed in perspective, Ayling spent the first few weeks of 1999 touring the City, outlining BA’s recovery strategy. As described by one industry specialist, it was “a relaxed performance” with “few signs of the irritation he sometimes shows with those who fail to get his point.”²⁶ In the immediate wake of his efforts, the share price rose by close to 25%.

Meanwhile, sensing that it might have cut too deep in some areas, the airline launched two initiatives designed to raise staff morale and performance. *It’s Your Shout!* was an opinion survey sent to all employees. The results, published in the airline’s internal newspaper in April 1999, showed that 54% of employees completed the questionnaire, though only 40% of them believed that BA would take appropriate action as a result. Significantly, the lowest scores related to the directors of BA. In particular, employees doubted their ability to manage costs effectively without sacrificing quality, their desire to communicate openly and honestly, and the extent to which they cared about the employees. Ayling and his executive team pledged to take the necessary action to address the concerns voiced.

The second initiative was a plan to introduce a new training program for the entire workforce, on the model of BA’s original customer service course, *Putting People First*. News that the airline was launching a training course called *Putting People First Again* was greeted with some irony by the press. The *Financial Times* saw it as “an implicit acceptance that people have not always come first in recent years.”²⁷ The *Times* was equally scathing: “[But] where BA has been putting people recently? Bob Ayling has been focusing on profit rather than people.”²⁸

In May 1999, BA announced its lowest annual net profits in six years – down 61% to £206 million – citing a decline in premium passenger traffic and fierce price competition on Atlantic routes as the principal drag factors. BA's German and French subsidiaries reduced their combined losses by £50 million but BA did not reveal what those losses were.

BA responded quickly by announcing an intensification of its emerging strategy. Faced with industry overcapacity and acute competition from low-fare airlines, BA decided to focus its efforts on the front cabins where margins were bigger. The new strategy would involve phasing out half of BA's big Boeing 747s in its long-haul fleet of 120 aircraft, and replacing them with smaller, more economical 777s, carrying 129 fewer economy passengers.

Reconfiguring BA's fleet was the brainchild of David Spurlock, a 32-year-old American, who had moved from Boston Consulting Group to become BA's head of business development. He had spent a year persuading the board that BA should stop growing. His first success, dating back to early 1998, had resulted in BA switching an order of six 747s for the smaller 777s – resulting in a saving of £1.6 billion on the equipment bill. The new strategy would also entail switching from Boeing 757s to smaller Airbus planes on the short-haul routes.

Precipitated by the need to tell Boeing and Airbus what liveries would be required on the planes shortly to be delivered, Ayling decided to call a halt to the identity revamp. The 180 aircraft featuring ethnic designs would be maintained, but the 160 aircraft not repainted would carry the Union flag.

In August 1999, the airline announced that it would be paring down unprofitable routes and cutting excess capacity in a wide-ranging rationalization program. Ayling announced that BA would be shrinking its capacity by 12% over the next three years – unlike most large carriers that were increasing capacity. Asked whether this would not simply lead to a loss of market share, Ayling commented: "The market share [argument] is illusory. We're talking about a segment of the market that has no loyalty."²⁹ Reduced exposure to low-paying transfer passengers was also expected to ease the strain on baggage handling systems.

That same month, BA announced its second plan to trim overheads. Beyond the BEP cost-cutting, BA intended to reduce annual costs by a further £225 million. This would involve cutting 1,000 jobs, 300 of them in management. Significantly, the airline was clear that these cuts would only involve back office staff. As one senior BA manager put it: "We need to make tough decisions in difficult trading times, and this will affect people. But we cannot afford to impact the front-line operation. Customer service staff will not be jettisoned."³⁰

Back on Course

In September 1999, Ayling reduced the executive committee from 14 to 6 to render decision-making "crisp and efficient," rejuvenating the team in the process.³¹ Spurlock became head of corporate strategy, while Carl Michel, the 35-year-old head of Deutsche BA, was named head of the commercial group (20,000 employees) with responsibility for BA's marketing, sales and revenue generation. Mervyn Walker, a 40-year-old former lawyer, remained in place as Director for People.

In the months that followed, there were some encouraging signs. With the benefit of hindsight, one respected commentator saluted Ayling's early attack on costs: "By setting out to cut annual costs by £1 billion long before he needed to, he put BA in a far stronger position than it would otherwise have been."³² And now with another £225 million in the pipeline, Ayling was seen to have "[grasped] the nettle of capacity reduction with gusto."³³ In November 1999, Ayling communicated his optimism to employees concerned about the plunging value of their BA shares at a time when these were trading at around 275p. "We are never going back to that price again," he pledged in a staff newsletter.

In terms of service there seemed to be a determination to return to BA's tradition of excellence. This started with a £200 million investment in a concept called *Lounges in the Sky* for long-haul business class travelers, featuring completely flat beds and other innovations. This outlay was later tripled and presented at the end of January 2000 as part of a £600 million upgrade in the airline's entire product portfolio.

The company also planned to invest £90 million in e-commerce to lift online sales from the existing 1% of seats to over 50% by March 2004. This project further antagonized travel agents. A poll by trade magazine suggested that half of the agents surveyed would actively sell other airlines in preference to BA.

Commenting on all these investments, Ayling noted:

The quality of service and choice that we will be able to offer is the product of our restructuring and all the immensely hard work that has been put in over the last three years by everyone who works for British Airways. It has been tough getting there but we have done it.³⁴

On the operational front too, there were suggestions that the corner had been turned. Autumn customer service indicators – including punctuality and baggage handling – both showed improvements over the previous year, with BA emerging as the most punctual major airline in Europe. Meanwhile the budget brand *Go* was establishing itself at the low-cost end of the market, though still making losses. November 1999 also saw pleasing results from BA's German subsidiary, with Deutsche BA reporting its first ever half-year profits (£1 million). Air Liberté, still plagued by labor unrest, was steadily reducing its own losses and preparing to implement a second restructuring program with the aim of breaking even within two years.

In early February 2000, the results for the third quarter (ending December 31, 1999) were mixed. On the one hand, turnover was up by 3.2% on the previous year's corresponding quarter. On the other hand, there was an operating loss of £2 million compared with a £92 million profit a year earlier. Some trends were clearly heading in the right direction, with the first yield improvement in seven quarters and traffic statistics showing a 5.2% increase in premium traffic. But workforce levels had also increased, forcing Ayling to announce that a further 6,000 jobs would have to disappear over the next three years. "But this will be by natural wastage and a curb on recruitment."³⁵

In mid-February, as part of a general market movement away from "bricks and mortar" companies, BA's share price suddenly fell to an eight-year low of 261p. Besides flouting Ayling's November pledge that the price would never drop below 275p, the fall left the airline susceptible to a takeover bid. This coincided with

ongoing criticism of Bob Ayling's role as chairman of the Millennium Dome – over its financial difficulties and the sacking of its chief executive. Added to expectations of the first full-year loss since privatization (in 1987) board support for Ayling folded. Three weeks later, Ayling was ousted.

Pilot Error?

The press spoke of undisguised glee in some parts of the company with one check-in employee commenting, "Normal service has been resumed after four years."³⁶ When news of the sudden departure reached dealers, BA stock initially surged by 14%, then eased to close 2.1% up at 299p. With no successor named, and many of the aspiring internal candidates lacking experience, Marshall took over as caretaker manager.

Commentators realized that whoever replaced Ayling would face a delicate challenge. He or she would have to boost the morale of 65,000 employees while at the same continuing to cut costs, including having to implement upwards of 6,000 job cuts.

Looking back on Ayling's contribution, some observers conceded that he had inherited a difficult watch, just as deregulation kicked in. One commentator noted: "Ayling was always going to be the fall guy; whoever comes in will inherit a business that he saved. He was never going to benefit from his own hard work."³⁷ He attacked BA's costs with vigor and did not flinch from taking on BA's powerful unions. He then worked hard to recover staff morale, building a hotel for staff, providing attractive working conditions at Waterside and re-investing in training. On the strategy front, the rest of the industry showed signs of following BA's lead in replacing larger planes with smaller ones. Indeed, Continental's Gordon Bethune, called the move a "master stroke."³⁸ Arguably, Ayling also suffered from bad luck with the Asian crisis in 1998 and a strong pound throughout 1999 and early 2000.

Others saw it differently. As one commentator observed, one year before Ayling's departure:

Under him, the airline has tried to fight on too many fronts. It has been building a continental European network at the same time as launching a budget airline and pursuing its ill-fated alliance with AA. Then there was the appalling marketing gaffe of the Technicolor tailfins. It is easy to conclude that management has been distracted from the real job of keeping [passengers] on seats.³⁹

There was also a widespread feeling that "he failed to take his staff with him, despite the charm, intelligence and persuasiveness he would display in private."⁴⁰ Simply put: "Few of his staff warmed to him, or to his vision for the airline."⁴¹ One BA insider observed: "This is a customer service industry and he wasn't very good at that side of things. To be boss of British Airways you have to be comfortable speaking to everyone from investors to ground crew."⁴² Another airline expert noted: "Ayling's legacy will be more clear in a year or two but the immediate judgment is that he over-managed a good airline."⁴³

Epilogue

On 25 April 2000, British Airways named Rod Eddington, chairman of the Australian airline Ansett, to help restore its fortunes. Already approached informally in early March by BA's chairman, his name had come up repeatedly in the press speculation. He had previously spent 18 years at the Hong Kong-based Cathay Pacific Airways, running the airline from 1992 to 1996, a period of severe cost cutting for the whole airline industry as it reeled from the lack of bookings induced by the Gulf War.

Lord Marshall re-emphasized that the board was totally committed to the strategy and made it clear that Eddington's job would be to restore morale. Eddington himself went out of his way to stress this priority. "This is a customer-facing business and you have to focus on the people in the front-line," he said in one of his first interviews. "My priority will be to work with staff at all levels to ensure they've got the tools they need to deliver a quality product."⁴⁴ A formal commitment to people was made by extending what had traditionally been an environmental report and including the company's performance on social issues. By the end of June 2000 BA's stock was trading at 380p.

Meanwhile, Ayling was forced to resign for the second time in six weeks, this time as chairman of the Millennium Dome Company. Ayling's removal was set as a condition by the government to agree to a £29 million cash lifeline for the company (in addition to the £509 million of lottery cash already absorbed by the project). The Dome's board of directors were shocked at the treatment of Ayling and described it as "outrageous scapegoating" designed to avoid calls for ministerial resignations.⁴⁵

A few weeks later, Ayling commented on the circumstances of his dual resignation in a radio program. Responding to the blunt charge that he had failed at BA, he stood by his actions:

I think that the company is a better managed company than it would have been if the management team had not done the things that it did over the last four years. It would be true to say it had failed if you could establish that the value of the company would have been greater had we done other things. Nobody has ever suggested that. People say the strategy's right, people say the decisions are right, people say the company is in the right position for the future, so "failed" is the wrong word.⁴⁶

Subsequent events seemed to vindicate his position. BA's first half results, announced in November 2000, showed strong signs that the focus on premium traffic and cutting capacity were indeed paying off. Operating profits rose 71% to £361 million and yields had registered record improvements.⁴⁷ As the business press saw it: "Rod Eddington has a firm grasp of the joystick, but Bob Ayling, the previous pilot, set the course."⁴⁸

Since then...

Ayling's career never fully recovered.

He went on to become a non-executive director of a few, smaller companies. Three years after leaving BA, he was appointed non-executive chairman of

Holidaybreak plc, a then £260 million turnover company specializing in camping holidays (where he later brought in Carl Michel as CEO).

In May 2006, he was appointed non-executive chairman of the embattled music group Sanctuary. Within a month of his arrival, he dismissed the founder and chief executive, Andy Taylor, for mishandling the company's financial accounts. A year later the group was sold to Universal Records for £44.5 million.

In April 2008, as Ayling joined the board of Welsh Water (a small water and sewerage services company), he was still chairman of Holidaybreak and vice-chairman of Dyson, the vacuum cleaner company.

At about the same time, Holidaybreak's previous chairman, Angus Crichton-Miller, responded to a journalist asking him about Ayling: "He's a marginally scarred businessman... he's learnt that business is not always simple."⁴⁹

Exhibit 1 Evolution of BA's Share Price against FTSE 100

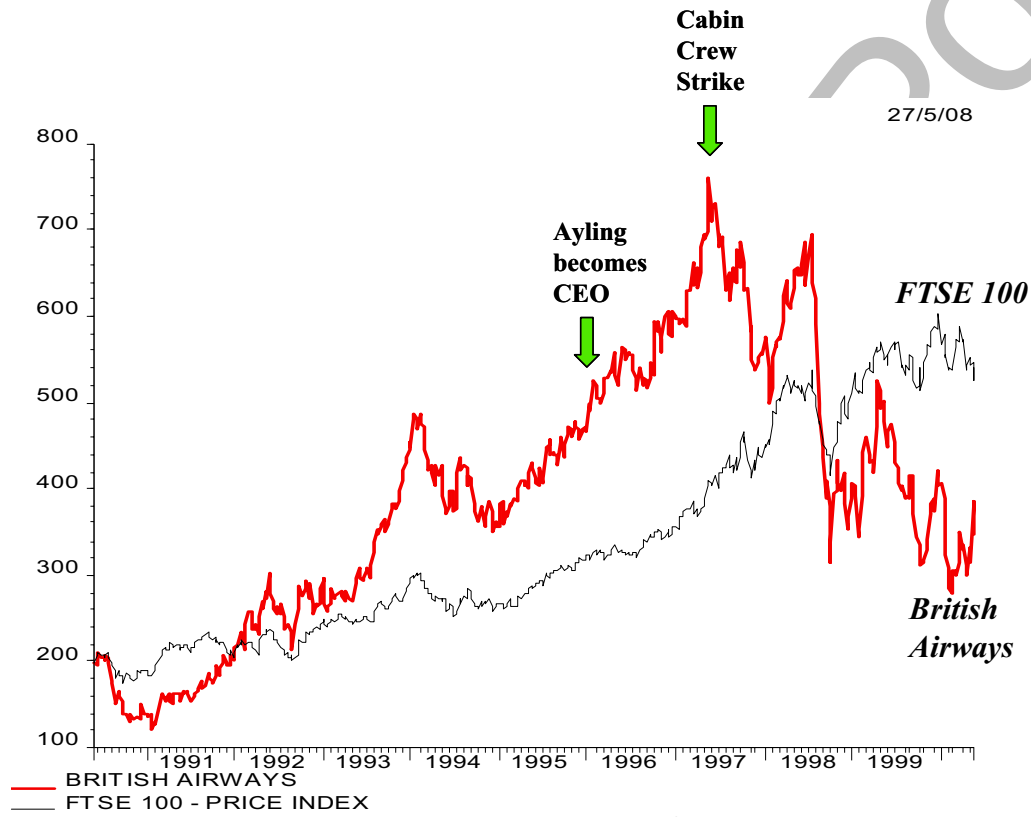


Exhibit 2
Evolution of BA's Financial and Workforce Figures

Year ending March	BA Workforce (000's)	Group Turnover £bn	Operating result (airline only) £m	Pretax profit (Group) £m	Net profit (Group) £m
1980	56.1	1.92	16	20	11
1981	53.6	2.06	(104)	(140)	(145)
1982	47.8	2.24	6	(114)	(545)
1983	40.0	2.50	174	74	89
1984	36.0	2.51	274	185	216
1985	37.0	2.94	303	191	174
1986	38.9	3.15	205	195	181
1987	39.5	3.26	183	162	152
1988	42.7	3.76	241	228	151
1989	* 49.7	4.26	340	268	175
1990	52.1	4.84	402	345	246
1991	54.4	4.94	166	130	95
1992	50.4	5.22	344	285	395
1993	49.0	5.66	310	185	178
1994	** 49.6	6.60	496	301	274
1995	53.1	7.18	618	327	250
1996	55.3	7.76	728	585	473
1997	*** 58.2	8.36	546	640	550
1998	60.7	8.64	504	580	447
1999	63.8	8.91	442	225	206
2000	62.3	8.94	84	**** 5	(21)

* Includes employees from British Caledonian.

** Includes employees from Deutsche BA and TAT.

*** Includes employees from Air Liberté.

**** Includes disposal profits of £249m.

Source: Company Annual Reports (Note: Some figures were subsequently restated, typically to reflect changes in accounting principles. The numbers presented in this Exhibit are those that appeared in the given year's annual report.)

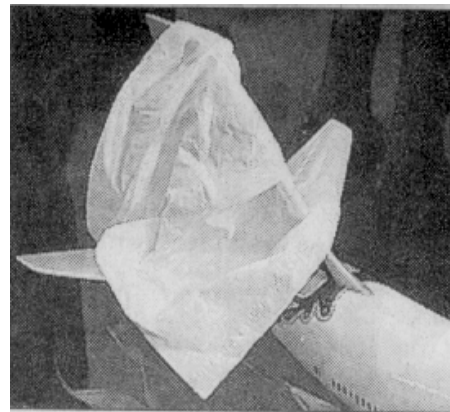
Exhibit 3 Reactions to the Tail Fins



For: One marketing expert noted: “Every 10-15 years, an airline should look at the way it portrays itself to the flying public, signalling that something new is happening... Having said that, only an airline as successful as BA could get away with attempting such a solution.”⁵⁰

Against: The chief executive of one major UK company was allegedly “[Appalled] that instead of exploiting the triple benefits of a strong product with a British name and a British Brand, BA was diluting its message by introducing ‘psychedelic’ tailfins.”⁵¹

Margaret Thatcher’s “handkerchief offensive”



Source: *The Times*, 10/10/97, 10.

Exhibit 4
Internal Bulletin Issued to Employees

IF YOU GO ON STRIKE

- You will lose:

Staff travel for almost three years

Any prospects of promotion for almost three years

Any chance of early retirement or severance under BEP

- You could be dismissed
- You could be sued for damages

Full details inside

Source: *Le Canard Enchaîné*, 16/7/97.

Exhibit 5

Why Staff Went on Strike: Three Union Members Testify

1. *Anne, 44, married with two children. Cabin services director, long-haul; 25 years' service; restructuring has raised her salary £250 a month, but cost her £200 a month in overtime.*

"I got home from a long-haul trip at 2am yesterday, and a few hours later a manager phoned telling me I could be dismissed or sued or lose promotion prospects if I went on strike. It was very intimidatory stuff and put me in tears... I love this job and wouldn't want to do anything else. Like most cabin crew, I'm not usually militant at all and don't take much interest in the union, which certainly has made mistakes in the past... This dispute isn't about money. It's the way we are being treated. British Airways was a disaster 15 years ago, and we've all worked really hard to make it the success it is... We know there are cost savings that can be made, but they have to be negotiated. The management just want to walk all over us. The climate has really changed. When Lord King was in charge, he did unpopular things, but we felt he liked us. With Ayling, we feel he despises us and would rather get in cheap labour from overseas... No one wants a strike. But people feel that if we give in now, we're not going to have a job that's worth doing."

2. *Elena, 26, single. Stewardess on short-haul and long-haul routes; two years service; monthly salary has been raised £100, but monthly overtime is down £300 and motoring allowance of £50 a month has disappeared.*

"Before this dispute, I was very proud to work for British Airways. I worked hard and felt I was well rewarded and regarded the airline as a good employer... Now, I'm fuming at the way they've handled this. The company says we're better off, when we're not, has imposed the deal without reference to the union, and is threatening us with all kinds of things if we go on strike. It's macho-management that is destroying people's feeling for the airline... They've cut the starting-rate for new crew to £8,000. So in three years' time, there will be lots of staff on low rates, holding down wages for everyone else... Normally, the cabin crew centre is a happy place, but if you go in there now, you see people sitting about crying. I don't know what Bob Ayling wants. Not flying the flag makes us feel BA is ashamed of itself. I can't believe what is happening."

3. *Sonia, 38, married. Purser, short-haul; 12 years' service. Monthly salary up £205, but lost monthly overtime of £540 and motoring allowance of £90.*

"It makes me laugh when I see Bob Ayling on television saying the management hasn't been threatening or intimidating. I've had letters and phone calls at home every week since the union called the ballot last month... The overtime system we had was very fair, because if you worked more hours, you got more money. But the new deal is based on converting average overtime into salary, so if you worked a lot of overtime you lose out. And they've changed the rosters, so your basic shifts could be more than 50 hours in a six-day period, which would be shattering. How they think all this will improve our service to the customers, I just don't know."

Source: *The Daily Telegraph*, 9/7/97, 6.

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