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Tony McCarthy, HR Director - British Airways

Tony McCarthy is HR Director at British Airways. He was interviewed by Jason Spiller and photographed By Gary Batchelor at BA's Waterside HQ at Heathrow.

As HR director posts go, few HR seniors would envy Tony McCarthy's at British Airways. Whichever way you look at it, it has been a tough, rough and rocky road as the former "world's favourite airline" struggles to get back up where it belongs. Jason Spiller interviews.

Tony, do you ever wonder why on earth you went in to HR? Well, it was a long time ago when I did a degree in Business Studies, and the main reason for doing that degree was...I hadn't got a clue what I wanted to do. I managed to get a placement for just about a year working for GEC, in Sheffield, and got a placement in the HR Department. And I absolutely loved it. Maybe it was that they were ahead of their time, but they seemed to me to be right at the centre of what was going on in the business. And they were influencing what was going on in the business, union issues, people efficiency, and that made my mind up really.

I got a job at what was British Aerospace, and I started as a graduate trainee in British Aerospace, and worked my way through all sorts of different areas of the business and ended up as Group HR Director of what had become BAE Systems. So on that journey, I'd worked in industrial relations in the early years, and in the later years it was all about talent succession, mergers/acquisitions and culture change.

A massive workforce and unrest and strike action, during the Thatcher government years, this must have been valuable experience, dealing with unions? In 1990 we had a hundred and 47,000 people and lots of strikes. Eighteen weeks was the longest all-out strike that we had, that I was dealing with. I left in 2003, and probably in my last five years, my interactions with the unions at BAE systems, not because I was avoiding it, would be once a quarter. Most of the interaction with the unions was carried out at local level, which is where it should be. We had a consultative body, it was once a quarter, and that was it. What that was saying is the business had moved on, the unions had moved on massively, but we were running the business and they were a party to running the business. My main focus at the end was all about culture, succession, talent development, merger and acquisitions and absolutely at the heart of the business.

In the late '80s and early '90s, the business was a conglomerate, essentially a four-legged stool: cars, military aircraft, civil aircraft and construction. And the view was that any one of those at any one time would dip into recession but the other three would keep the stool standing. And after the Gulf War in '91, there was a recession, and the whole lot went. So from '91 to '93 we went from a hundred and 47,000 people to forty-three thousand people. So my job, at that time, was within a division that was cutting to the bone and improving efficiency, getting to the restrictive practices

We consolidated on core business, we knew that what we wanted to be was an aerospace and defence company. And that's what we'd done, we'd got rid of everything else that wasn't aerospace and defence and the one problem was, aerospace and defence is a global business, but BAE was a British company and it had to grow globally, tap into the US market, tap into other markets. Unions were supportive of the strategy and my job then switched from what had been slash, burn, cut, redundancy and so on, either in divisions or in the corporate centre, through to growth, development, culture and organisation which was so refreshing from the adversarial industrial relations which are so sapping. And that's what we did. Wind forward from 1993 to '99, British Aerospace had got itself into shape, both with its people, its leadership and its financial state. It bought Marconi Electronic Systems, which was then GEC basically, and doubled the size of the company in '99. And that gave a huge foothold in the US.

So a success story, so why on earth did you decide to leave and join Royal Mail? Allan Leighton called and said, "Do you fancy coming to work for Royal Mail?" And that's a big decision, twenty odd years at BAE. But to some extent, I'd become stale and bored, believe it or not. And I felt that if I didn't move on and take a challenge at that point in time I never would. So I went for it. In 2003, Allan had been asked by the government to take up chairmanship of Royal Mail and run it, with privatisation in mind. The business was losing a million pounds a day. But had almost a total monopoly (98 percent of the UK market).

There were more union and restrictive practices than I'd ever experienced, and we set on a journey, that was just a really simple journey, and it was about turning the business around, and we focused on customers, the finances and people. The latter of which was straightforward - get them onside, by demonstrating that we were going to do the right thing - there was a lot of mistrust of management within the business and it takes a long time to work your way through this. There's a myriad of reasons why, prior to the new set up, there was a very strong union against very weak management, and a history of senior management overturning local managers' decisions. Staff would walk out and senior management would say, "Get them back"!

That had to change, and it did. Once we'd defined the lines of behaviour, built up trust by communicating effectively and being straightforward, and we turned the business from losing a million a day to making a million a day, in three years. Employee opinion surveys were improved, customer satisfaction improved massively, efficiencies were having an effect. During that period we let thirty thousand people

go as well, changed a whole load of working practices, the whole thing.

And you continued to have some disputes at Royal Mail though. Did you fear that HR wasn't having an impact? The big dispute was in 2003, and we put a huge communications campaign around this dispute in 2003 and we actually won the ballot, which is the first time in history. And yes I was concerned HR wasn't having an impact. In some senses HR was confused as to what it was there to do, and predominantly the safe haven was get it into industrial relations, work in IR. The unions were always kicking off, the management didn't like handling it, so HR dealt with the unions. The second was there were too damn many HR personnel, 3,700 people, I mean, it was a business in its own right!

Presumably it wasn't just a drastic reduction in headcount that achieved that? We had to skill up. We had some great facilities for training, but there wasn't a culture of learning and clearly we had to have a completely different focus to industrial relations by involving and engaging people rather than the focus on adversarial industrial relations. And that was just the tip of the problem… there was nobody in the organisation that was responsible for remuneration and benefits, for example. There were key aspects of the HR function completely missing and the culture was to move across functions, and there were very few trained professionals doing the HR activities, and this was the biggest employer in UK. Nobody was doing any work on culture, and I could go on, but you get the general idea

This is where effective line management comes in, surely? Were you thinking, 'I used to deal with people that built military aircraft'? HR is everything to do with fixing the basics and everything to do with the biggest strategic issues affecting the business… that's what makes it such a challenging sector. But you're right, you can't spend the whole time worrying about fixing basic hygiene issues. I needed to completely refresh the approach. We created HR business partners. We had shared services where we looked over shared services together. The majority of that 3,700, put them all together, put them under one leadership team based in Sheffield. Experts, as I say, there were none, and there was no talent management. So we recruited, trained and developed to work within newly-set parameters. In many ways, it was things that I'd forgotten fifteen years earlier. We put huge emphasis on professional skills, professional development, essentially the Dave Ulrich system, and got Dave over to advise. There comes this point, when you clear the brush away and green shoots start to show, improvements become apparent - and you sit back now and you say, well, 'why wasn't it obvious before'? It's not a three box model it's a four box model, and the fourth box is line management.

So it's true line management is critical to HR strategy? You've got to create a culture in which everybody's clear about what everybody's roles are. What we've also always tried to do is make sure that the responsibility for fronting things up, develop and take things forward is actually with line management, but you can't force line management to do stuff they don't want to do. You've got to bring them along, and that's HR: develop, improve efficiency, reduce cost base, develop talent and so on. And if one of those things that we have to do is to deal with the union issues, then that's what we're paid to do. I think what we try and do all the time is be fair about it.

Royal Mail was in a much better place, and then you got the call from British Airways. Five years at Royal Mail, bringing in the most ground shaping changes in its long history was tough and challenging, an understatement to say the least, but I was starting to get the feeling that I needed to move on, time for somebody else to have a go at it.

So what attracted you to BA, another big challenge? The predominant thing was the massive opportunity for growth.. BA had a foothold, a base, but it had to fundamentally change the culture of the organisation to be more involved, more engaged, and to move beyond the record ten percent profit, which had just been achieved in 2008. That was the hook, and it was to draw on everything that I'd experienced before - the difficult union relationships, the growth bit and turning the organisation into a global business, the culture change and so on. Plus the sector was facing the necessity for merger and acquisition and massive changes in operating in a global market.

So you opened up the HR Airfix model kit, and realised you would have to create your own instructions? From the people aspect of the business there's two answers to this. I found, and still find, that we are very centralised, very finance driven and controlling, and there's nowhere near enough empowerment and skills development and utilisation at the front line, in particular front line leadership. I mean, at BAE, we were putting front line, empowerment and skilling up front-line people in the early 1990s, when we were going through all that massive change, what we called cell managers. One cell manager looking after a cell, say a manufacturing cell, that had fifteen or twenty people in it. At BA we've got ratios of managers to front-line people of one manager for a hundred and eighty people, and all my learning said, get beyond twenty and you start to get a problem.

And that's what I found at BA, made worse by anyone who had some sort of supervision responsibilities at the front line, tended to be bargained for by the union, which was looking after the front line people as well. And it seemed to me that there's a whole raft of reasons as to why the industry has developed like that and why these businesses develop like that. Some of it may go back to the impact of 9/11, cost-cutting, taking out layers of management and all that, which needed to be done, but not necessarily thinking about where the management should be. Some of it is to do with the fact that we've got a remote workforce, and how do you manage a remote workforce on a 1-20 ratio, that doesn't over-complicate rosters of people flying all over the world?

The net of all that is, if you want engagement, involvement, productivity improvement, cost reduction and innovation from your front-line people, which is the majority of the workforce, then they've got to be led, managed and motivated by somebody they respect and know. And the key for me is, you only get improved productivity and performance through being engaged. The model is plain and simple: understanding realms of responsibility. Do I know what I have to do and where I have to do it and what's my performance criteria? How

do I feel about the company as a whole? How do I feel about the team that I work in and what is the team's expected to achieve, how is the team's achievements measured, and am I feeling part of the team? And finally, do I respect my manager?

And engagement is crucial if you are customerfacing, especially at 35,000 feet, dealing with tired and/or emotional passengers?

Customer satisfaction is directly linked to profit and the connecting glue is engagement. That's the journey that we're on now, and we're starting in the areas that we know are more accessible, in places like the ramp, which is baggage handling and aircraft movements. It's important to be able to demonstrate success to the whole business. As I said, we're reorganising the business into teams of no more than 20, giving them clear areas of responsibility.

How has your progress been affected by the wellpublicised difficulties; disputes, strikes, the difficulties with T5? It's tough, very tough, and everything affects you. I've been at BA for three years, within the first few months we hit record profits...great! Then followed the opening of T5, which was a disaster. We then had something that hadn't happened for years, we had an aeroplane that landed short of the runway. And then we had the recession, the banking crisis, oil going up to a 147 dollars a barrel increasing annual fuel costs of a billion dollars. Then with the banking collapse, our main business route, New York – London, was hit massively.

And despite all this, an airline must carry on with seamless reliability, service and safety. It comes back to the same thing, do the right thing for the business, the customers and the people that work for you. And if you can truthfully say you're doing the right thing for those three groups, all the time, and you believe that what you're doing is fair, then all you have to do is make sure that you've got a clear picture of what you're trying to achieve. Under normal circumstances is one thing, but the problem with BA is, so many things keep coming up – whether it's an internal issue or an Icelandic ash cloud – it is one obstacle after another, and it can be easy to get punch drunk with all the relentless hits. And to draw on another analogy, it's also easy for everyone to be madly chasing the ball, heads down like young kids playing football, forgetting formation and strategy.

Anyone reading this will admire your resilience, have you ever thought about walking and, I don't know, being an ice cream man? Ha ha, it's a nice thought, but no! BAE, Royal Mail and BA… I've never chosen a job because it looked easy. You've got to keep saying and reminding yourself that this business deserves to be world class status, the best at what it does. It's going to be a better business and subsequently a better airline, it's going to be a more efficient business, it's going to be better for the customer, and the people that work for BA. I keep those three things in mind and it helps you get through it.

Is it frustrating to be constantly reacting to and defusing situations as opposed to being strategic? That's life isn't it? You set yourself a direction, you keep that strategic goal in mind, but quite often something happens that knocks you off track for the short-term, but long-term you keep going. That's life. It's not always that straight forward

But your main task is the motivation and the engagement and the wellbeing of the staff and, as an outsider, that's not apparent? No! My main task is to help this business become more cost-efficient, more productive, and deliver a better customer service.

But one goal can't be achieved without the other. As you've said delivery is through engagement. That is my mantra, I will never deviate from that path.

So, on a scale of one to ten, where would you say you were, in terms of full engagement of your people? Three out of ten and a long way to go - it's taken a long time to get us into the state we're in at the moment. We're making some progress, we've had a lot of hard knocks, but there are signs that we're finally, properly on the way now. Cabin staff is a crucial focus to get right. But behind the scenes we are making tremendous progress in engineering and ramp. We've adopted a very forward-thinking, holistic approach to people management, a clear understanding that we have to continue, in order to improve productivity and reduce costs, whilst creating a learning environment, creating a thirst for knowledge and development.

It sounds like there are some positive things happening. But I think the problem, from an outsider's point of view is your customers, obviously it's a big issue of trust...shall I book with BA? Yeh, absolutely.. but I truly believe that empowered managers, leading and communicating with their people, that cadre of skilled managers, are on message for what we as a business are trying to do. It sounds really simple but it's not. Crucially, it's about an employer that's being straight and honest, if we say we're going to do something we do it, and if we say we're not going to do something then we explain why

What would you say is an honest opinion of the average mindset of your average worker at BA right now, what are they thinking? There's isn't a Mr or Mrs Average in the company. They're all very proud of the brand and they want the business to succeed and they feel proud of wearing the uniform. But a lot of what's going on is coloured by cost cutting, which is essential, and we've still got an awful lot of costs to cut out of the organisation, for productivity to improve. It's coloured by cabin crew dispute, without question. But the flip-side is, we've got thousands of people who volunteer to train as cabin crew, to work during the strike. And they're typically Unite members. Now some of them are volunteering because they love the brand, some are volunteering because they support the company, some are volunteering because they wouldn't mind doing a bit of flying, it's better than sitting behind a desk for a while. Wouldn't want to do it permanently but, you know, there's a whole raft of reasons. But the core is, people are proud of the brand. Are they proud of the company? No, I don't think they are. I think there's mixed views. But fundamentally, it comes back to this service-profit-chain, engaged people deliver better customer service.

It's a tragic situation. There's no winners in this whatsoever. No, no winners.

And like you say, a business that capitulates on a point it does not agree upon is an untenable position. I think the first thing is, we understand, accept and value the fact that there are unions in this business and will always be in this business. And the second one is that our people have the right to join a union or not join a union, that's their call. Third one is that we've got agreement with the unions about how we bargain and so on, and we're not going to break any of those. But we've got a business that needs to turn round. We're losing money big time, and we've just had a second year of losses. We've got to be careful around what we do this year, when the upturn comes, and how we catch up. And what we must do is reduce the cost base of the organisation and that means structural change.

What do you think is the at the heart of the real problem? I think that over the years, this particular group have been used to getting everything they want, and when they threatened to strike they got more, and when they threatened a ballot they got more and when they took a ballot they got more, when they got the ballot result they even got more, and if they went on strike they got more still. And what we're saying is there's no more to give. This is a group of people who are, without question, the best paid in the industry, they've got fantastic conditions, and they are good at what they do, but there's so many restrictions. We can remove some of the restrictive practices, we can move some of the processes that really don't have an awful lot of effect on the individual. The one big effect on them, if it is a big effect, is taking one crew member off the aeroplane, which is what we've done. And the reality is, it's not had a massive effect on our people. It's basically asking the customer services director on board to be part of the service. The majority of crew onboard are not affected. That is what this is all about.

And, at the end of the day, we have to continually improve, we have to continually reduce our costs, we have to continually improve the service which we provide for our customers. We're in a recession, we're losing money and we need to make sure we've got a strong and healthy business for the future. We've also said that we're going to start recruiting new crew on market, plus ten percent conditions of employment, without all the restrictive practices and so on. And in doing that, provide protection for the existing crew, so that we're not giving all the work to the new crew. But again, the principle is really trying not to hurt the people that are currently here. But unfortunately, for whatever reason, some people seem to want to throw a spanner in the works.

And yet the business is pressing on commercially, news of the Iberia deal, must be a positive for the business? It's not done yet, it's on its way, and it will be positive. The industry is consolidating massively. We look around and see what Lufthansa is doing, which is sweeping up lots of companies all around the world, including the UK, and getting bigger and bigger. Air France and KLM joining together, the American carriers joining together, forming big global businesses is what they're looking to do, and we've got to be part of that. So we're either part of it and continue to merge with others, or we get taken over. What that does is give us a great opportunity, a positive backdrop.

Do you think that will be a positive if it goes through? It has to be, it will be financially, it's bound to be a positive. Culturally I think it will be difficult, as all mergers are, particularly international mergers. But the good bit about it is you can learn from each other. So in many ways, it's going to be hard, but in a lot of ways it's going to be a massive advantage to us, but it is only one step on the journey.

Do you wonder if the Union is really determined to fight to the bitter end, whatever the outcome? Well I think it's much more complex than that. There is a phrase that an organisation gets the union it deserves. And this union is acting on its membership's demands. The management are who they are because of their experiences and so on, and the demands that are put on them. So there's so many different factors. The reality is we are where we are. I do really seriously believe that you get the union you deserve. This business has got through by the growth of the market, and I think there's been many instances over the years where situations should have been addressed in terms of productivity, cost, efficiency and, customer service, that haven't been addressed but have been masked by growth in the market. We haven't got that to hide behind now, and haven't had it for a sustained period.

The fact is we have no option, we have to do the things we're doing. Now do we want to do it in conjunction with the unions? Yes, we do. Do we want to water it down so that it has no effect? Absolutely not! So, do you end up in exactly the same place that you started as a management? No, I don't think you do. And I think if that's how you set out and intend to carry on then you've got a problem. Should you adjust it on the way and develop it, but have the overall goal in mind? You absolutely have to. You have to consider their views - they've got as many ideas as we have. If you can get them to see that we've got a problem, got an issue, we've got some things to deal with, in my experience, they quite often will tell you.

So what you're suggesting here is making a greater ally of the union? What's needed is a superordinate goal. What's the superordinate goal for the organisation? And that's where we move them to in BA. Show that what we are trying to do is right and proper. Sure the unions must challenge the management and vice-versa, it's right and proper that the management should run the business, and that the unions should challenge aspects of that. But also, at the end of the day, we all work in the same company, we all want a successful business, we all want a good living out of a successful business. And if working together to that superordinate goal, then surely that's a better way forward.

The Acas recommendations have been turned down by Unite. Is this your darkest hour? In this current dispute, I think there's a lot more arguments to be had. I think there's a lot more difficulties to be had and there's a deal to be done if they want to do a deal. I can't say whether it's the darkest hour ever, but there's a spirit within the organisation generally that says we've got to get through all this, but

we've a hell of a long way to go.

If you were in an empty aircraft hangar and you invited every single member of BA… what would you say? This company is worth fighting for and what we do is worth fighting for, and the brand is worth fighting for, but we've got to work together. And too much of this has been about fighting each other, and meanwhile the competition's laughing their heads off and taking our business. And so we've got to get in a place where we start working together, trusting each other, developing innovative solutions to problems that we've got to deliver the best customer service ever, and that will be the securer of all our futures. But basically it's getting people fully involved and fully engaged in what we're trying to do as a business . I know I keep coming back to that, but I firmly believe that is the key to turning this business around. Customer service, cost reduction, productivity improvement, puts a hell of a lot of pressure on that front line manager but that's where it is. It's a journey worthwhile because this is a brand and a company that's worth going through the pain and anguish for, but it's going to take us five to seven years.

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