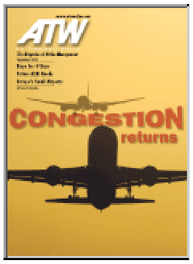


Identity Crisis

Network airlines must change their corporate cultures to survive and prosper in the new world; it won't be easy but it has to happen

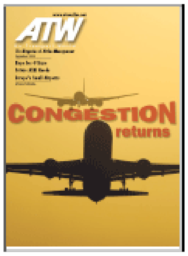
By Geoffrey Thomas

Charles Darwin wrote, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." British Airways CEO Rod Eddington warns that achieving that responsiveness is extremely difficult—"Changing airline culture is like trying to perform an engine change inflight," he maintains. While not all legacy airline CEOs have to face as daunting a task as that, the magnitude of reform required to meet the actual or threatened competition from low-cost carriers is enormous, and for many airlines seemingly impossible to achieve.

The reasons for the reluctance to change culture are numerous and varied. In some cases, staff believe that the launch of a distinct low-fare brand will mitigate or eliminate the need for further adjustments at the mainline. Top management at state-owned carriers often must deal with political intrusion on behalf of well-connected appointees and entrenched unions.

Surveys have shown that another reason for the resistance to change is that although employees agree change is needed, they don't believe they themselves need to change. For example, at an American Airlines management conference in the late 1990s, all participants were polled on a series of questions. More than 90% responded positively to the proposition that management, colleagues and subordinates needed to change, but 90% responded in the negative to the item "I need to change how I work with people."

British Airways was among the first legacy carriers in Europe to launch a standalone low-fare airline, but when Eddington arrived in 2000 he made the decision to sell Go Fly to resolve the issue of whether further change was needed at the mainline. "My staff told me that Go was the solution," he says. "I said I could possibly accept that if



Go was making £300 million a year, which is what our European division was losing." He notes that it was difficult to change this mindset until Go was gone. "Once we sold Go, the staff at BA really focused on making the changes necessary to make BA itself competitive."

One of the reasons BA staff could not be convinced of the need for change was that the competition from Ryanair and easyJet was not visible, says one BA executive; "These airlines don't fly into Heathrow—all you see are BA tails everywhere." BA is not alone in this regard. At Chicago O'Hare, around four of every five flights are operated by American Airlines and United Airlines. Southwest Airlines and ATA are down the road at Midway, out of sight and out of mind for many. Minneapolis is dominated by Northwest.

"The problem for culture change is that you have to see death right between the eyes before the impetus to change becomes strong enough," says Nawal Taneja, author of a number of books for airline practioners including "Simpli-Flying" and "Airline Survival Kit," and an experienced airline business strategy planner.

Aer Lingus faced death in 2001 and there was no ignoring one of the causes. Taneja observes: "At Aer Lingus not only could you see the tails of the Ryanair jets but you could see its offices from the Aer Lingus offices." This enabled CEO Willie Walsh to convince his staff that radical surgery was needed. Since late 2001, the airline has stripped 40% from its costs with the departure of 40% of its staff, including 60% of management.

On the other side of the globe, Air New Zealand's staff had a similar near-death experience. In September 2001, the carrier's Australian subsidiary Ansett was put into bankruptcy and its two major shareholders walked away from a rescue after ANZ posted the biggest loss in New Zealand corporate history. "Our staff was shattered and only 29% bothered to complete a staff survey in late 2001. Of those, 90% of respondents said that management was disconnected and out-of-touch," says one executive.

Fortunately, the airline received a new leader whose mantra is "people and technology." Ralph Norris, MD and CEO, declares, "This is a people business and it's not about flying planes." In a statement likely to be viewed as heresy at leading business schools and on Wall Street, he declares, "I am not primarily interested in shareholder returns. If we look after and inspire the staff, they will look after the customers and that will take care of shareholder returns." He adds that "management must show the way by setting an example, but if staff won't play the game they must not be allowed to affect the organization and consequently must be shown the departure lounge."

"Changing airline culture is like trying to perform an engine change inflight."
—Eddington

When Norris took over, he asked the staff for a wage pause and slashed executive salaries by up to 30%. Further, he took away perks like chauffeur-driven cars. "Only then did the staff start listening," he explains (*ATW* will report in depth on the remarkable recovery at ANZ next month).

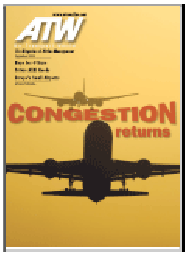
If workers today are cynical about management mantras, they have a reason to be, Taneja says. "The failure of companies such as Enron has had a chilling effect on labor-management relations. While executive management enjoy top-up pension plans, huge bonuses and are seemingly isolated from the effects of bad decisions, the rank-and-file have felt pain with pressure for improved productivity and in some cases unfunded pension plans." This helps to explain, for example, the seemingly self-destructive attitude reflected in the badges worn by some United Airlines flight attendants during the height of wage concession talks last year: "Full pay to the very last day."

Author Kaye Shackford agrees with Norris and Taneja. In her book "Charting a Wiser Course: How Aviation Can Address the Human Side of Change," which was co-authored by husband Joseph with a forward by *ATW* Editorial Director J.A. Donoghue, she says, "You can't treat your shareholders better than your partners, customers or employees."

One of the major problems in changing staff culture is how to strip out complexity. According to Taneja, airlines have added enormous complexity to their operations and processes over time and staff are ingrained with these systems. "Enormous fleet and network complexity and labor contracts have been built around these complex systems and processes which often relate to charging higher and complex fares. Unfortunately, many passengers now are not willing to pay for this complexity given the Web-enabled transparency in fares and the increasing availability of low-fare service by the LCCs."

He cautions those who hold to the line of thinking that the good times will return. "Some of the structural changes we are seeing are permanent and global," he warns. "There has been a massive transformation of the industry. The change is equivalent to what the former chairman of Intel called 'strategic inflection point,' representing a 10x change. The change is also global—exemplified by the recent growth of LCCs in the Asia-Pacific region."

An American Airlines flight attendant comments, "I personally think some of our airlines are having a hard time changing mostly because management doesn't want to give up the hope that the old days will return and businesses will start to let their execs have first-class and business-class seats as perks again. I fly mostly in the leisure markets and we hardly ever see a full-fare ticket—just frequent flier upgrades."



"There is nothing more sobering than seeing a line-up of 20 Southwest 737s first thing in the morning."

Yet another stance on culture change comes from one operations manager, who explains that the enormous emphasis on safety in airline culture is built around strict management systems and attention to detail, "which is the opposite of flexibility and flair." He notes that "airlines have built up a rigid model over decades for very sound reasons."

Shackford analyzes airline culture problems in her book. "The aviation industry has evolved out of a military base. Much of our management style, marketplace orientation and paraphernalia of culture still reflect an authoritarian, hierarchical and command-and-control worldview," she suggests. "This was especially true at the top. People at the top saw the world that way, responded that way and succeeded. Their life lessons were that this is the way the world is."

Joseph Shackford adds another perspective by pointing to the dot.com companies and energy traders such as Enron. "If you're meeting your measurements, if your business is growing, your model must be right and you must be a winner."

The industry's enormous growth over the decades, made possible by the massive advance of technology and economic deregulation, naturally has led managers to think that their management style has been successful. Some tend to believe that the formula works, that the current LCC trend will not expand and that premium travelers will return in droves. "Some of us have ended up in an arrogant comfort zone," concedes one executive. "It has taken the emergence of the LCCs to reveal the entrenched nature of traditional airline culture and expose many airlines as hopelessly out of touch with market realities with too few leaders with vision."

Taneja agrees that "Some traditional airlines need to let go of their inside-out perspectives and develop business practices from an outside-in perspective. The degree of complexity implemented in the fare structure and in the fleet composition and customization, as well as the culture to insist on performing noncore functions and activities in-house, are just a few examples."

Changing culture is a "gargantuan task," Kaye Shackford warns. She sees a parallel to Einstein's belief that you can't solve a problem at the level of the problem. "In relation to airlines, you can't change behaviors by seeking to change behaviors. Our behaviors flow out of largely unexamined assumptions, which flow from paradigms for how to make the world work, and these are deeply embedded."

She also refers to the work of Willis Harman, futurist, strategic planner and former professor of engineering and economic systems at Stanford University. Harman's recent books include "Global Mind Change and Creative Work." Shackford suggests that when staff and management do change what Harman calls their "basic ways of perceiving, thinking, valuing and doing," their assumptions change, their behaviors change and they "can do things with relative ease and simplicity that felt like pulling teeth before. Culture change takes a perceived need, a shared decision, persistence and visible patterns of consistently trustworthy action at all levels," she says, while insisting that the solution and the pain must be shared. "The Sausage Casing School of Economics where you squeeze various parts to obtain a gain in your part is the most destructive form of combating change. I can think of nothing that breaks down the relationship between all members of the system faster than this, with more discord and resultant wasted energy."

Another obstacle in the race to convince management and staff of the need for culture change is the marketing by airlines of the luxury side of travel. "The network and legacy airlines have created the image of luxury and excess to attract high-yield passengers," notes one executive. "This contradicts the message of restraint and cutbacks we are preaching to our staff."

There are still many employees who spent much of their careers under strict economic regulation and who can remember Singapore Airlines breaking IATA rules by serving free alcoholic beverages to economy passengers. There are also many airlines around the globe that retain first class from government pressure or decree. "What sort of message does that send to the staff?" the executive questions.

One airline that has demonstrated the ability to create a winning culture for more than three decades is Southwest. Although there are some signs that success and growth are taking a toll—most recently the protracted salary negotiations with cabin staff—Southwest remains the archetype of the winning corporate culture. That performance is built around total staff involvement capped by profit-sharing and one of the most generous staff stock option bonus systems in the industry. "It is little wonder," quips Norris, "that getting a job at Southwest is harder then getting into Harvard Business School."

Or as one airline executive told *ATW,* "There is nothing more sobering than seeing a lineup of 20 Southwest 737s first thing in the morning."