

## Flying into a Storm: British Airways (1996-2000)

**BRITISH AIRWAYS**

The British Airways logo, featuring a stylized white winged figure (the Concorde) in flight, is positioned to the right of the text 'BRITISH AIRWAYS'. The background of the page features a faint grid of curved lines that converge towards the top right corner, creating a sense of depth and perspective.

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This case was written by Jean-Louis Barsoux, Senior Research Fellow, and Jean-François Manzoni, Associate Professor, both at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is based on publicly available sources.

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## **Grounded**

In early March 2000, Bob Ayling posed smiling for the press, alongside Lord Marshall and Lord King, his two predecessors as chief executive of British Airways. The occasion was the official opening of the London Eye millennium wheel – a spectacular structure championed by Bob Ayling and sponsored by the airline. The three men gave the semblance of a united front. In reality, it was to be Ayling's last public act as chief executive of the airline. Just four days earlier, on returning from holiday, Ayling had been told by his chairman, Lord Marshall, that his 50-month reign at the airline was over. The announcement put an end to three years of almost constant speculation about Ayling's future in the press, reflecting a long, slow dive in BA's share price (see Appendix 1 for evolution of BA's share price against FTSE 100).

With no obvious successor in place, 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."<sup>1</sup> The unanswered question, if the board was endorsing the strategy, was why had it lost faith in its architect?

## **From Basket Case to Show Case**

Between 1981 and 1996, British Airways was turned from a loss-making, state-owned national carrier with a dire reputation for customer service into aviation's standard-setter for innovation, high quality personal service and consistent profitability (see Appendix 2 for evolution of key data). By January 1996, when Ayling took over as Chief Executive, it had been voted world's best airline for seven years running in the independent *Business Traveller* survey. To fully appreciate what this meant, it is worth recalling that in 1980 BA was voted airline to be avoided at all costs - ahead of Aeroflot, Nigeria Airways, and even teetotal Arab carriers<sup>2</sup> - and was *the* most unpunctual airline in Europe out of its own home base.<sup>3</sup> Its subsequent transformation, a testament to the clear vision and strong leadership of Lord King, then Sir Colin Marshall, was achieved in an industry known for its thin margins and its sensitivity to economic cycles.

The turnaround started in 1981 when Margaret Thatcher entrusted Sir John King with the task of preparing the airline for privatisation. 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 (see Appendix 2 for evolution of the workforce). King also commissioned the advertising agency which coined the "World's Favourite 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 as his number two, in order to improve the airline's dismal service reputation. Marshall's previous experience of consumer goods and car rental

had ingrained into him a keen sense of marketing and a deep commitment to customer service.<sup>a</sup> 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.<sup>b</sup>

In parallel, Marshall was quick to initiate customer service training for all employees, followed by intensive management training for those supervising front-line 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. The result was a rudimentary version of what we would now label a competency-based management and evaluation system.

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 maximise yields – the average amount paid by each passenger for each kilometre flown – helped by sophisticated computer programmes which juggled ticket prices and discounts to fill the maximum number of seats with full-fare passengers.

Thanks to systematic training, specialised performance tracking units, innovative complaints handling systems and the empowerment of front-line operators, the airline developed a virtual obsession with 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. The company was recognized by consultants and management writers as “world class”. By the early 1990s what had started out as a hollow boast – the world’s favourite airline – had become a legitimate description.

## **Bob Ayling and BA**

Ayling first came into contact with BA in the early 1980s as a government lawyer drafting the bill to privatise the state-owned airline. Lord King recognised his talent and brought him into the company in 1985 as legal director. Ayling made remarkable progress, accumulating experience in a diversity of roles, as company secretary, then director of human resources and later director of marketing and operations. His nomination as group managing director in 1993, benefited in part from the Virgin “dirty tricks” saga that resulted in the premature departure of Lord King, obliging Sir Colin Marshall, chief executive at the time, to step up as chairman.

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<sup>a</sup> In fact, Marshall spent his whole career in service related industries, having started as a ship’s purser (that is, responsible for accounts and for the comfort and welfare of passengers).

<sup>b</sup> These included Gordon Dunlop (a top-notch finance director and former CEO), Michael Levin (a maverick consultant), Nick Georgiades (a professor of industrial psychology who became head of HR), John Watson (a business minded and innovative IT expert) as well as Ayling himself.

By handing over responsibility for the day-to-day running of the business, it seemed clear that Marshall was anointing Ayling as his successor. Sure enough, two years later, Marshall announced his intention to remain chairman but in a non-executive capacity, thus devoting only half of his time to BA – from January 1996. Ayling would become chief executive, taking control of finance and corporate strategy, and preserving his existing responsibilities for operations and marketing. 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”.<sup>4</sup>

Following in the footsteps of King and Marshall, as head of Europe’s leading airline, looked like a stiff challenge. Quite apart from their achievements, they had marked the airline with their strong personalities and their “gritty but avuncular management”.<sup>5</sup> Yet Ayling had strengths of his own. His strategic understanding, his sharp mind, his thoughtful answers and even his “disarming modesty” tended to impress outsiders 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 at the helm, Ayling made his first pronouncements about the internal challenges facing BA and what he intended to do about them. He 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.”<sup>6</sup> The airline’s main problem, as he diagnosed it, was one of complacency.

## Riding High

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.”<sup>7</sup>

Soon after, he presented the board with four objectives for building on BA’s existing success: first, to sustain BA as “the world’s favourite 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.”<sup>c</sup>

The last objective was the one Ayling felt most strongly about. Better managed, as he saw it, meant fostering an environment 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.”<sup>8</sup>

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

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<sup>c</sup> These objectives were subsequently published in the Annual Report.

one billion pounds. The so-called Business Efficiency Plan (BEP) was based on projections showing 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 profits of £585m and the biggest bonus payout for employees ever announced by a British company (see Appendix 3 for press release).<sup>d</sup> 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."<sup>9</sup>

The second platform of Ayling's strategy involved an industry transforming alliance with American Airlines, announced in June 1996.<sup>e</sup> 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."<sup>10</sup> 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.<sup>f</sup>

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."<sup>11</sup>

Though impressed by Ayling's ambition for the airline, some managers were taken aback by the projected job losses: "Such issues will have to be handled very sensitively,"<sup>12</sup> said one. For others, the plans proved less dramatic than the earlier rumours 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."<sup>13</sup> 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."<sup>14</sup>

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 considerably lower

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<sup>d</sup> BA overtook Singapore Airlines as the world's most profitable carrier.

<sup>e</sup> By the same token, this agreement signalled the end of BA's unsatisfactory relationship with USAir, established in 1993 by Marshall.

<sup>f</sup> Moreover, a previous tie-up between Lufthansa and United Airlines (later to form the basis of the Star Alliance) had taken only three months to be approved by the US authorities.

salaries than the UK. Some cost centres 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.

Meanwhile, BA's senior managers in the core areas of activity were busy negotiating how to achieve the savings targets set for their areas. Discussions mostly revolved around pay freezes or pay restructuring for new hires, early retirement, voluntary severance or redeployment – and the introduction of practices promoting greater efficiency such as automation and new rostering arrangements. Over the first few months of 1997, BA secured a number of important concessions from various areas. These were not achieved without some resistance. In particular, the unions made a lot of an alleged reference by Ayling to a “virtual airline”. They seemed obsessed with it, 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 unwavering stance. The evident drive behind the BEP, allied to the anticipation 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.<sup>g</sup> Nevertheless, the case for approval was strengthened by the announcement in May 1997 of another powerful partnership known as the Star Alliance.<sup>h</sup> 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 announcing new record profits of £640 million, it had surged to 760p.

## Experiencing Turbulence

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 decision to change was based on market research suggesting that passengers viewed the airline as staid and stuffy. As Ayling put it: “We don't want to ram our Britishness down people's throats... There's no more empire. We're just a small nation on an offshore island

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<sup>g</sup> “Brussels butts in” was the Lex Column headline in *The Financial Times*, 14/1/97, 18. EU regulators had not interfered with the three previous transatlantic tie-ups involving Lufthansa/United, KLM/Northwest and Swissair/Delta.

<sup>h</sup> Led by United Airlines and Lufthansa, together with Air Canada, SAS and Thai Airways.

trying to make our way in the world.”<sup>15</sup> The identity overhaul 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 colourful designs attracted tremendous free publicity, with the front pages of most British papers featuring large colour 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 (see Appendix 4). The backlash was disappointing, but Ayling anticipated that these emotionally charged reactions from the more conservative-minded sections of the British public would soon blow over. 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 pounds in a vast programme of improvements: including the acquisition of 43 new aircraft (already ordered from Boeing and awaiting delivery), as well as the building of a £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 the start of two trade union ballots on possible strike action, which prompted union jibes that the airline should attend to its industrial relations rather than its image. One dispute over the sale of the company’s catering division was quickly resolved with management proposing a new deal. The other dispute, concerning the cabin crews, looked rather more delicate. 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 over three years. However, a rival (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, on the other hand, 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 3-1 majority in a 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 (see Appendix 5). Only 300 staff officially went on strike but 1,500 called in sick, disrupting BA’s schedule for days (see Appendix 6). During the strike, BA’s director of human resources, Mervyn Walker, maintained that the strike ballot was procedurally flawed, making the strike illegal.<sup>i</sup> He added: “The only way to achieve that target is through the deal on the table. We will not discuss the terms of the deal.”<sup>16</sup> 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 and resources of doctors.

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<sup>i</sup> Walker, a former lawyer, became Director of HR in January 1996, after a spell as Purchasing Director. According to him, the union seemed to have balloted more cabin crew than were actually on the payroll – though the discrepancy would not have affected the outcome of the 3-1 strike vote (*The Guardian*, 10/7/97, 1).

BA's hard-line approach drew widespread condemnation, not just from the press, but also from 10 Labour MPs who published a parliamentary motion attacking "the tactics of intimidation being pursued" by the airline. Ayling also recognised the anger provoked by BA's approach and wrote in the *Times*: "If we have appeared heavy handed or clumsy, I apologise."<sup>17</sup> 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."<sup>18</sup> 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. Fortunately, BA's fragmented shareholder base made it unlikely that there would be an investor revolt. As it turned out, private shareholders seemed much more agitated by the airline's new livery than by the previous week's cabin crew strike. Ayling was heckled when he said there were elements of "Britishness" that were standing in the way of the company's development plans: "Sometimes when you are trying to do business abroad there are aspects which are not always helpful. We are seen to be slightly aloof."<sup>19</sup> Later, when someone remarked that employee morale was at all-time low, Ayling replied that the radical changes were bound to upset people but said that he hoped to push through his programme as quickly as possible before seeking to rebuild relations.

## The New Deal

In September 1997, BA issued a press release announcing the settlement of the cabin crew dispute that had provoked the strike. 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.<sup>j</sup> The estimated cost of the disruption to the airline was £125m. 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."<sup>20</sup> Mike Street, a rare BA veteran in Ayling's team, confirmed that "Lessons have been learnt all round."<sup>21</sup>

In the immediate 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 Robert 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."<sup>22</sup>

BA set up a task force called *The Way Forward* specifically designed to try to learn lessons from the dispute and produce a new spirit of co-operation. Headed by 36 year-old Martin

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<sup>j</sup> The agreements with unions meant, for example, that a BA flight attendant who retires is replaced by a new recruit who costs 66% less to employ (*The Financial Times*, 24/5/99, 20).

George, the recently appointed marketing director, the task force comprising managers from different levels and parts of the airline was split into three sub-groups. Their mandate was to look at how morale and motivation could be rebuilt, find ways to mend customer relationships and repair the damage to BA's reputation, as well as ways to ease baggage bottlenecks, improve punctuality and ensure the airline "gets 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."<sup>23</sup> The first priority would be to improve operational performance as there was little point telling front-line staff "We care about you" if, at the same time, they were constantly hassled by unhappy customers. 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 hotel at Heathrow just for its staff. The airline's new philosophy would also be underlined by its new headquarters, currently under construction and due for completion 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."<sup>24</sup> In an effort to do away with hierarchy and barriers, there would be no permanent desk-space, even for Bob Ayling. Commentators saw it as evidence that BA was "concerned to house its 3000 staff with the same blend of service and modern cosmopolitan lifestyle it promotes for its customers."<sup>25</sup>

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'. The jargon-free summary would provide a foundation for the desired style of management within BA – and was used to simplify the performance management system by introducing more observable behavioural criteria as well as certain mandatory tasks, such as two proper performance reviews per year and at least one career development discussion. Another initiative was to resuscitate a programme called *In Touch* whereby employees not in direct contact with customers spent one day a year on the front-line, to see how it felt. A confidential help-line was also created, offering practical advice and counselling for employees.

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 airlines employee suggestion scheme, *Brainwaves*, to be run by management consultants. Future savings would come from making better use of aircrafts and new deals with outside parties, including probable cuts to travel agents' commissions.<sup>k</sup> Having established a lower cost base, BA could concentrate on building back what it had lost.

In December 1997, Ayling felt privately vindicated when the cabin crew decided to 'clean its own house' by voting out of office the union representatives who had militated most

<sup>k</sup> Cutting travel agents' commission was an issue that BA had long wrestled with but resisted. With 85% of all tickets sold through the travel trade, going to war with the travel agents would be a bloody battle. On the other hand, one analyst estimated that if commission rates were cut by four points to 5%, the airline would save an estimated £300 million a year. *The Observer*, 16/11/97, 6.

forcefully for strike action. At around the same time the unnamed 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."<sup>26</sup>

## Losing 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 cut plan. BA's demands did not come as much of 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."<sup>27</sup>

At the same time, the economic crisis that hit Asia in the latter half of 1997 soon had repercussions on the airline industry, and particularly on BA. Rival airlines transferred planes from the troubled Asian routes to the North Atlantic routes, resulting in a capacity glut on BA's main air corridor and triggering a price war.<sup>1</sup> 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 Stanstead airport with 150 employees and headed by a 38-year old American, Barbara Cassani. Not expected to move into profit until its third year of operation, the initial losses would have to be absorbed along with the on-going losses from its European domestic operations. The March 1998 pre-tax profits of £580 million were down 9.4% on the previous year, with Air Liberté posting losses of FF680 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. If Van Miert thought otherwise, he was simply wrong. 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. It was claimed that selling the slots would contravene EU regulations and would unfairly favour the bigger airlines. The heavy talks consumed much of Ayling's attention requiring him to make regular trips between the UK, Europe and America. In fact, the alliance was just one of a growing number of on-going distractions for Ayling (see Appendix 7).

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

<sup>1</sup> Transatlantic flights generated roughly one third of BA's revenues and more than half of its profits.

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.”<sup>28</sup> 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.”<sup>29</sup>

Only a few months earlier, a BA flight from Milan to Heathrow had had 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.<sup>30</sup>

While such incidents befall every airline, they were particularly frustrating for BA, having built its reputation on customer service. Towards the end of 1998, Virgin actually took BA to court, disputing BA’s right to use the slogan “The world’s favourite airline”, challenging the accuracy of the statement. Britain’s Advertising Standards Authority eventually backed BA, noting that it carried more international passengers than any other airline – but the verdict fell at the same time as a bi-annual survey of leisure travellers in Britain showing that BA had slipped from 13<sup>th</sup> to 24<sup>th</sup> as the most recommended airline.

It was a strenuous time for Ayling and there were signs that his initially laid back style was increasingly giving way to a more abrasive approach. In the wake of Marshall and King’s rather stiff manner, Ayling had attempted to instil 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.”<sup>31</sup>

As 1998 came to a close, Ayling realised he would soon have to announce BA’s first ever third-quarter loss – a traumatic 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.”<sup>32</sup> In the immediate wake of his efforts, the share price rose by close to 25%.

Meanwhile, sensing that it had perhaps cut too deep in some areas, the airline launched two internal initiatives designed to raise staff morale and performance. *It’s Your Shout!* was an

opinion survey sent out 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 registered concerned 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.<sup>m</sup>

The second initiative was a plan to introduce a new training programme. Like the original and highly successful customer service course *Putting People First*, this motivational programme would be aimed at BA's entire workforce. Less than a quarter of BA's 64,000 employees had been through the original course and it was considered important to keep an explicit link with the company's history. 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."<sup>33</sup> The *Times* was equally scathing: "[But] where BA has been putting people recently? Bob Ayling has been focusing on profit rather than people".<sup>34</sup>

In May 1999, BA announced its lowest annual profits in six years – down 61% to £225 million – citing a decline in premium passenger traffic and fierce price competition on Atlantic routes as the two 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.<sup>35</sup>

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.

This reconfiguration of BA's fleet was the brainchild of David Spurlock, a 32-year old American, who had moved from Boston Consulting Group two years before 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 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, with no implications on cost. Ayling stubbornly denied that this reversal meant that the ethnic designs in 1997 had been a mistake: "They're immensely popular. They're talked about all over the world."<sup>36</sup> He explained: "Effectively what has happened is the research has shown that it's what customers, particularly UK

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<sup>m</sup> These findings were further discussed in the *British Airways Social and Environmental Report 2000*, published three months after Ayling's departure.

customers, want. It is detailed, scientific and ongoing. It is not a knee-jerk reaction to recent criticism... No one in business who does not listen to what customers want is going to survive for very long.”<sup>37</sup>

In August 1999, the airline announced that it would be paring down unprofitable routes and cutting excess capacity in a wide-ranging rationalisation programme. 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.”<sup>38</sup> Reduced exposure to low-paying transfer passengers was also expected to ease the strain on baggage handling systems.

That same month, BA also announced its second plan to trim overhead. In addition to 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.”<sup>39</sup>

## **Ready for Take off**

In September 1999, BA announced a restructuring of top management, in an attempt to render decision-making “crisp and efficient”.<sup>40</sup> There were no immediate top-level casualties, but changes meant that the executive committee was reduced from 14 to six (see Appendix 8). Henceforth, BA would comprise six areas, each headed by a director, and these would form the core team that replaced the current executive team. As one of the executive team later observed, this meant “that we are getting to a degree of unanimity quite fast”.<sup>41</sup>

The shake-up saw non-Britons take over as heads of two of the six reshaped areas. David Spurlock became head of corporate strategy, while Carl Michel,<sup>n</sup> the 35-year-old head of Deutsche BA, the company’s German airline, was named head of the commercial group (20,000 employees) with responsibility for BA’s marketing, sales and revenue generation. For some time, critics had accused BA of not possessing a realistic successor to Ayling, besides Charles Gurassa, until recently head of passenger and cargo business.<sup>o</sup> The executive reshuffle saw Carl Michel emerging as one of the frontrunners to succeed Ayling – indeed some commentators regarded Michel’s promotion as a move by Ayling to hand-pick his successor, suggesting that Ayling had “found his crown prince”.<sup>42</sup>

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

<sup>n</sup> A former McKinsey consultant for 8 years (educated at Oxford and HBS) he joined BA in 1995 as business development head, and two years later was sent by Ayling to head up Deutsche BA.

<sup>o</sup> Gurassa was offered a number of positions as part of the reorganisation but chose instead to become chief executive of Thomson Travel when presented with the opportunity (*Financial Times*, 6/11/99, 16).

than it would otherwise have been.”<sup>43</sup> And now with another £225 million in the pipeline, Ayling was seen to have “[grasped] the nettle of capacity reduction with gusto.”<sup>44</sup> 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 innovation. This started with a £200 million investment in a concept called *Lounges in the Sky* for long-haul business class travellers. It would feature completely flat beds, a new state of the art multi-channel entertainment system with bigger screens, in-seat power for laptop computers, e-mail, phones and fax. 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 – this would include a new cabin class, *World Traveller Plus*, offering more space and facilities than other economy products, and a doubled hand luggage allowance (for cost-conscious business travellers).

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. Inevitably, this raised further concerns among travel agents, a population already antagonised by BA’s decision to cut commissions from 9% to 7%, and then to further reduce the figure on which commissions were calculated.<sup>45</sup> A poll by trade magazine suggested that half of the agents surveyed would actively sell other airlines in preference to BA, in retaliation.<sup>P</sup>

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.”<sup>46</sup>

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* had established itself at the low-cost end of the market and Barbara Cassani, the subsidiary’s “garrulous Bostonian chief”, was emerging as another potential successor to Ayling. November 1999, also brought pleasing results from BA’s German subsidiary, with Deutsche BA reporting its first ever half-year profits (£1 million). Air Liberté, still plagued by labour unrest, was steadily reducing its own losses and preparing to implement a second restructuring programme 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 to 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

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<sup>P</sup> Attempts by BA to keep the travel agents on its side had received an additional blow when the airline was fined £4 million for anti-competitive incentive schemes.

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.”<sup>47</sup>

In mid-February, as part of a general market movement away from ‘traditional’ companies, BA’s share price suddenly fell to an eight-year low of 261p. Besides defying Ayling’s November pledge that the price would never drop below 275p, the fall triggered speculation that the airline might be susceptible to a takeover bid. This coincided with on-going criticism of Bob Ayling’s role in the dismissal of Jennie Page, chief executive of the Millenium Dome.<sup>q</sup> Added to expectations of the first full-year loss since privatisation (in 1987) the board support for Ayling folded. Three weeks later, Ayling himself was gone.

The press spoke of undisguised glee in some parts of the company with one check-in desk employee commenting: “Normal service has been resumed after four years.”<sup>48</sup> And when news of his 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 time continuing to cut costs, including having to implement upwards of 6,000 job cuts. As BA veteran Ron Muddle, GM Strategic Planning, put it: “All the easy savings are made. The real challenge now is to determine how to do business differently. You cannot continue with pure cost-cutting without damaging the business at a certain moment.”<sup>49</sup> He or she would also have difficulty diverging from a pre-set strategic course which itself posed some awkward challenges: in terms of building a premium position in an increasingly cost conscious world; in terms of raising service levels to match the premium strategy; and in terms of trying to maintain an essentially populist brand – the world’s favourite airline – while neglecting certain market segments.

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.”<sup>50</sup> He attacked BA’s costs with vigour 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.<sup>r</sup> 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”.<sup>51</sup> 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 technicolour tailfins.

<sup>q</sup> There was a stir among Millenium Dome board members about the way Ayling handled the affair, believing that there should have been a board meeting to discuss the dismissal. One board member commented: “The issue is the process and how you arrive at it. There should have been discussion on it, even if the outcome was the same” (*The Financial Times*, 25/2/00, 6).

<sup>r</sup> 15,000 people went through *Putting People First Again* in the space of 14 months.

It is easy to conclude that management has been distracted from the real job of keeping [passengers] on seats.”<sup>52</sup> 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.”<sup>53</sup> Simply put: “Few of his staff warmed to him, or to his vision for the airline.”<sup>54</sup> 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.”<sup>55</sup> 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.”<sup>56</sup>

## Epilogue

On 25<sup>th</sup> 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 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.”<sup>57</sup> 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 Millenium 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.<sup>58</sup>

A few weeks later, Ayling commented on the circumstances of his dual resignation in a radio programme. 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.”<sup>59</sup>

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.<sup>60</sup> As the business press saw it: “Rod Eddington has a firm grasp of the joystick, but Bob Ayling, the previous pilot, set the course.”<sup>61</sup>

**Appendix 1**  
*Evolution of BA's Share Price against FTSE 100*



Source: DATASTREAM

**Appendix 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 appendix are those that appeared in the given year's annual report.)

**Appendix 3***Press Release (May 20, 1996)***Profits climb to £585 million in record year (abridged)**

British Airways today announced **record pre-tax profits** of £585 million for the year to March 31, 1996. The result represents a climb of 29.4% on the £452 million (before provision against the investment in USAir) achieved last year. It was achieved on revenues rising by 8.1% to £7,760 million.

Sir Colin Marshall, the Chairman, said: "The result reflects the continued strong performance in customer service standards, creating demand for passenger and freight services on a capacity growth which produced record seat and overall load factors. Continued focus on managing costs also contributed."

The 55,000 employees will share a record bonus of £94 million, equivalent to just under four weeks' basic pay each, with a minimum of £1,210 for those in the UK. Last year, their bonus represented just more than three weeks' basic pay, totaling £66 million.

During the year, 36.1 million passengers chose to fly on British Airways, including Deutsche BA and TAT, an increase of 1.2% on last year, which included Caledonian Airways. More than 32 million passengers flew on mainline British Airways, a rise of 5.8%.

Revenue passenger kilometres on mainline services were up 9.8%, against a capacity increase of 6.7%. This led to the airline's best yet passenger load factor for the year of 73.6%, up 2.0 points, with records broken for the percentage of seats occupied in each of the past six quarters.

Yield improved 0.8% on mainline scheduled passenger services, rising through the year. This reflected continued strength in the market and the airline's on-going investment in brands, including this year individual compartments fitted with flying beds in First class and "cradle seats", with 25% more leg room, in Club World. Cargo yield was up 4.7%.

The airline achieved its performance improvement target by taking £150 million of costs out of the business during the year - on top of £750 million in the four previous years.

The group's plans for the next three years are being designed to deliver **business efficiencies worth £1 billion**, to fund continued investments in products, services, infrastructure and people. This will be achieved through a combination of reducing costs, improving use of assets and enhancing revenue. Sir Colin said: "Every aspect of the group's operations is under review to achieve this goal, including commercial, operational and overhead activities. Achieving competitive unit costs is an important part of this programme which is now underway, with a process in place to generate and review proposals for change."

Looking ahead, Sir Colin said: "The economic outlook is encouraging and latest industry results continue to show improvements in international airlines' seat factor performance. Industry financial performance remains on the upswing, with IATA forecasting increased profitability for 1996. We expect British Airways to continue to improve profitability through volume growth, improved services and more efficient use of our resources, particularly our people and tangible assets."

**Appendix 4**  
*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.”<sup>62</sup>

**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”.<sup>63</sup>

**Margaret Thatcher’s “handkerchief offensive”**



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



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

**Appendix 5**  
*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.*

**Appendix 6***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.

**Appendix 7**  
*The “Attention Diverters”*

Ayling’s strategy pulled his attention in numerous directions, and involved him in a demanding portfolio of on-going responsibilities:

**BA’s alliance network:** Unlike international rivals that have relied on commercial agreements to constitute their international networks, BA has tended to opt for financial stakes in other airlines (such as Spain’s Iberia or Australia’s Qantas). This option demands more management attention, notably in the case of BA’s European subsidiaries, Air Liberté and Deutsche BA. The years of losses, repeated restructuring efforts and labour strife (in the French operation) finally led to modest profitability for Deutsche BA and the sell-off of Air Liberté in May 2000. Of course, these were not the only operations absorbing management attention during Ayling’s tenure: BA’s low-cost operation, Go, was also launched and attracted immediate flak from budget rivals who accused of cross-subsidising the airline.

**The strategic alliance with American Airlines:** BA Ayling’s efforts to make the deal were monumental – but BA underestimated the opposition, not just from industry regulators in the US and Europe, but also from other airlines. In an unprecedented show of unity, six US based airlines joined forces to block regulatory approval. Meanwhile, over in the UK, Virgin planes were repainted with the slogan “AA-BA: No Way”. Discussions with the regulatory authorities got bogged down in the ‘slot wars’ at Heathrow, and after two years of unrewarded efforts, the would-be partners settled instead for a broader, but diluted marketing alliance, called Oneworld (initially with three other airlines). Unlike the better established Star Alliance, the carriers were not allowed to co-operate on pricing.

**External responsibilities:** Ayling was also drawn into government plans to celebrate the new millennium. Appointed chairman of the organisation responsible for building and running London’s Millennium Dome, in June 1997, Ayling was placed in the unusual position of simultaneously running both a large public company and a nationalised organization. Devoting half a day per month to this responsibility made a lot of sense in a highly-regulated industry such as airlines where good relations with government were essential – and had echoes of Lord King’s relationship with the Thatcher government. On the other hand, the high-profile appointment also exposed him to public criticism over the sacking of the Dome’s chief executive, Jennie Page, and the failure of the BA-sponsored ferris wheel that failed to open on time for London’s New Year’s Eve Celebrations.

**Press relations:** Ayling’s perceived proximity to the Labour government provided additional ammunition for the already unsympathetic press.<sup>5</sup> Opposition to the new tailfins was sustained and vocal. There had been heavy coverage of Baroness Thatcher’s “handkerchief offensive” and the press had cheered when Virgin’s mischievous chairman, Richard Branson, had seized the opportunity to paint Union flags on some of his planes.<sup>64</sup> The media had also published reports, which proved to be unfounded, that airport ground control staff could not recognize aircraft as they taxied on the runways.<sup>65</sup>

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<sup>5</sup> He was dubbed one of ‘Tony’s cronies’ and accused of political opportunism (having first been approached to oversee the Millennium Dome by the Conservative Party).

**Appendix 8**  
*The Executive Team Reshuffle (September 1999)*

<b>Before</b>	<b>After</b>
Robert Ayling (52) Chief Executive	Robert Ayling (52) Chief Executive
Martin George (37) Director of Marketing	
Charles Gurassa (42) Director of Passenger & Cargo Business	Carl Michel (36) Commercial Director
David Holmes (63) Director of Corporate Resources	
Mike Jeffery (54) Director of Flight Crew	
Colin Matthews (43) Managing Director, BA Engineering	Colin Matthews (43) Director of Technical Operations
Roger Maynard (56) Director of Investments & Joint Ventures	
Dale Moss (52) Director of Sales Worldwide	
John Patterson (50) Director of Strategy	David Spurlock (32) Director of Strategy
Derek Stevens (60) Chief Financial Officer	Derek Stevens (60) Chief Financial Officer
Mike Street (51) Director of Customer Service & Operations	Mike Street (51) Director of Customer Service & Operations
Mervyn Walker (40) Director of Human Resources	Mervyn Walker (40) Director for People
Simon Walker (45) Director of Communications	
Robert Webb (51) General Counsel	
Peter White (52) Director of Sales	
<b>Average age: 50</b>	<b>Average age: 45</b>

Source: BA public documents.

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2 Campbell-Smith, D. (1986) *The Struggle for  
Take-Off*. Hodder & Stoughton: London, 11.  
3 Corke, A. (1986) *British Airways: The Path to  
Profitability*, Frances Pinter: London, 120.  
4 *The Financial Times*, 11/11/95, 8.  
5 *Air Transport World*, October 1997, 59-60.  
6 *The Financial Times*, 7/11/95, 21.  
7 *The Observer*, 16/11/97, 6.  
8 *Director*, August 1996, 37-40.  
9 *Director*, August 1996, 37.  
10 *The Financial Times*, 12/6/96.  
11 *Business Week*, 30/9/96, 20-21.  
12 *Business Week*, 30/9/96, 21.  
13 *The Financial Times*, 19/9/96, 29.  
14 *The Financial Times*, 19/9/96, 29.  
15 *Fortune*, 7/7/97, 195-197.  
16 *Reuters News Service*, 9/7/97.  
17 *The Times*, 10/7/97, 11.  
18 *Marketing*, 10/7/97, 19.  
19 *The Financial Times*, 16/7/97, 27.  
20 *Daily Telegraph*, 13/9/97, 10.  
21 *People Management*, 25/9/97, 11.  
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24 *Press release*, 22/12/97.  
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33 *The Financial Times*, 27/5/99, 9.  
34 *The Times*, 10/2/99, 23.  
35 *The Financial Times*, 26/5/99, 24.  
36 *The Financial Times*, 7/6/99, 1.  
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