Case A: BA Profits in Flight

Teaching Note[1]

Overview

This teaching note seeks to cover the issues raised in Case A: '*The Challenge of Globalising an Airline'.* This case can be used as a stand-alone case or in combination with Case B, the sequel case, '*A Case of a tail fin too far? An identity crisis at BA'.*

This case can be used in conjunction with Chapter 11 of the textbook, along with other cases which examine earlier periods of change at British Airways and other airlines, which further illustrate the challenges involved with managing strategic change in the global context within this particular industry (refer to reference section).

Case Synopsis

This case describes an airline facing considerable domestic and international pressure. In response, the airline underwent significant changes during the 1997-2000 period to implement the new global corporate strategy. This included changing the corporate identity (Utopia), expanding the global network (oneworld alliance), and encountering resistance resulting in disputes with external stakeholders such as unions and the introduction of a range of new products and services. Additionally, rationalisation programmes were undertaken, involving restructuring, outsourcing, redundancies, the creation of new work environments (Waterside, Compass), changes in leadership (CEO) changes to the corporate culture via initiatives such as PPFA, affecting the wider BA community. As a result of these new initiatives, a vast range of reactions occurred. These reactions had implications for other aspects of the strategy implementation process as well as other aspects of service delivery.

The case then introduces the range of new initiatives, training programmes, communications exercises, new product and service launches and behaviour change programmes used to deploy the 'truly global' strategy. Cabin crew were faced with a multitude of changes to their daily working practices. This meant that the frontline cabin crew community were faced not only with this new organizational reality but also with changes to the Cabin Services department. Since the strike in 1997, their working conditions and practices had changed, together with the profile of the cabin crew community. A new layer of crew management had been introduced and the passenger profile and the frequency of routes operated had changed. Over this same period crew had to adjust to their new working environment which included the new fleet configurations (bigger business class), a new corporate identity (tails) and new interiors ('flat bed' seats), as well as changes to the in-flight product and service delivery routines. Crew also had to adopt a new BA service style and culturally specific behaviours as endorsed under the Flags, Kaleidoscope, Next Generation, Passion for Service, BA Service Style Standards and Service Specification training programmes and initiatives.

[1] This teaching note was prepared by Dr Bridgette Sullivan-Taylor as an aid to instructors on the classroom use of the *Case A: The Challenge of Globalising an Airline.*

Case Purpose and Objectives

1. *First, this is a good case to illustrate the way in which service MNEs are being driven by global competitive pressures.*

2. *Second, the case details the logic for adopting a global strategy and illustrates the range of initiatives and components involved in adopting a global strategy in practice.*

3. *Finally, the case allows students to examine the extent of culture change required by national organisations to support a global initiative, as well as the behaviours which managers and frontline service employees need to adopt in the context of global transnational organisations.*

This case was written for a strategic management or an international business course, but could also be used in an international marketing or human resource management course. It gives students the opportunity to develop their analytical and decision making skills regarding implementing an international strategic decision.

This case helps to illustrate the many complex dimensions involved in implementing a global strategy. The organisational challenges the case raises are dilemmas that could be addressed as part of an MBA course, where students have to present their case analysis and recommendations for the organisation in the current context.

Assignment Questions

1. *Identify the key reasons for the difficulties BA experienced in going global.*

2. *To what extent do you consider these difficulties to be a result of poor strategic management or to be a function of organisational inertia?*

3. *To what extent are the issues encountered by BA specific to the airline industry, or are they issues faced by service industries more generally?*

4. *You are the new Chairman of BA. What would you do now? What strategic decisions would you make and why?*

Support Reading

Instructors wishing to provide background reading on the nature of corporate transformations could hand out further readings. The case can be assigned with any combination of the following supplementary readings detailed in the reference section at the end of the teaching note to provide further background reading on managing in a global context. There are also several relevant articles listed which document changes at British Airways that could provide further background reading.

Issues raised by the Case

1. Identify the key reasons for the difficulties BA experienced in going global.

Ayling and senior management tried to create a global organisation. To create a global organisation Yip (2003) identifies four key elements that need to be developed in order to implement a global strategy effectively. We can evaluate management's attempt to develop and implement a global strategy against Yip's (2003) model.

Elements of Global Organisation

Four Elements of Global Organisation	BA's Initiatives and Changes	Difficulties Management Faced
1. Organisation Structure	• Launched insight programme to relaunch brands • Launched BEP£1B cost-cutting: internal restructuring and centralisation, redeployment and re-training • Severance and early retirement was offered to 5,000 volunteers and • 5,000 new staff, skilled in customer services and languages, were recruited • Doubling of proposed destinations through alliances and partnerships, allowing passengers to fly globally with BA • Codesharing with airlines to increase efficiency and route yield • Outsourcing of non-core functions: Half of these jobs became obsolete through automation, while another third were contracted to World Network Services, a new development based in India	• Underestimated scale of transformation • Cost-cutting in customer services areas perceived to reduce quality of the service delivered to passengers • Outsourcing of areas such as catering perceived to affect quality and quantity of catering provided • Oneworld alliance was limited to marketing collaboration due to aviation sector regulations • Asian Economic Crisis 1997-1998
2. Management Processes	• New mission and values, corporate identity, market positioning • Rationalisation, decentralisation and outsourcing of non-core functions • Introduced new generation of products and services via new product development using cross functional teams • This narrowing of strategic focus altered the way BA serviced its main premium markets, operated its flight schedules, and configured its fleet and the associated manpower planning • Targeting of premium customers instead of leisure market • Creation of marketplace performance unit to establish customer perceptions and requirements • Product, service and process innovations to increase customer satisfaction • Branding of classes to allow premium pricing in each service category	• National resistance to identity change by employees, press and shareholders • Cross functional development seen to be ad hoc and only for special projects • Myriad of priorities from different in-house and alliance partners products and services created complexity for frontline employees inhibiting consistency in service delivery
3. People	• Tried to change crew's salaries and make redundancies • Removed union offices • Imposing agreement with the minority on the majority • Threatening sanctions against strikers, confrontational, threatening to sue strikers individually for damages	• Conflict: major strike by frontline employees • Demoralised staff • Crew went off sick • Cost of morale and grounded airline £125m • Bad PR for BA • Alienated cabin crew from management • Ayling became unpopular and never regained faith of crew/many staff and was sacked

4. Culture	• New 'corporate identity' (planes, uniforms and motto): to incorporate a more global identity • Introduced new corporate headquarters with open plan offices and rooms with names of different cities and countries to help make organisational culture more outward and global oriented • Re-introduced a management culture training programme (Putting People First) to put a focus on customer service and other culture training programmes	• New HQ seen as London/UK ethnocentricity of management • Change in external identity threatened British identity of employees who resisted the change and wanted the return of the traditionally British symbols and identity • PPFA seen as a rerun and not new, perceived to insult employees who felt they were cross-culturally oriented.

2. To what extent do you consider these difficulties to be a result of poor strategic management or to be a function of organisational inertia?

We can apply Lewin's (1951) change model to assess the driving and restraining forces on the organisation to determine if the challenges faced in implementing a global strategy were due to the result of poor strategic management or organisational inertia.

Lewin's (1951) *Equilibrium: driving and restraining forces for organizational change*

Driving forces (forces for change)	***Driving forces at BA*** *(forces for change)*	**Restraining forces** *(forces against change)*	***Restraining forces at BA*** *(forces against change)*
		FROM INDIVIDUALS:	
1. New personnel and leadership style	• Highly authoritarian leadership meant CEO replaced (and some of the senior directors)	*1. Loss of status*	• Pride and belief in the airline and its long-term survival and therefore belief there was no imminent threat • Management not 'worthy' of changing an iconic organisation • CEO and senior management needed to be 'airline men' to have the credibility to implement changes • Anti-Ayling feeling: perceived to be less customer focused than Marshall due to cost-cutting initiatives and strike
2. Changing (global) markets	• Competitive pressure on trans-Atlantic routes post 9/11 • Low cost competition on short-haul	*2. Inertia (habit)*	• Developed routines and recipes embedded in airline-difficult to get overall change • High incidence of role culture (formal rules, precedents and regulations) • High level of ethnocentric practices • Highly functional not process view
3. Shorter product life cycles	• Cross functional new product development in order to try to get new products and services launched into the market more efficiently	*3. Fear of the unknown*	• High level of resistance to change • Silo functional structure and old organisational culture resistance to cross functional practices
4. Changing attitudes towards work	• Diverse workforce with multiple perspectives • Different view due to ethnicity or gender	*4. Loss of friends*	• Voluntary redundancies meant loss of thousands of employees • Recruitment of employees of different ethnic backgrounds, cultural skills and languages met with resistance: seen as taking British jobs
5. Internationalisation	• Overseas based offices • Overseas cabin crew	***FROM ORGANISATIONS:***	
6. Global markets	• Global market opportunities sought through oneworld alliance, Utopia and global strategy • Global network and offices based in many countries	*1. Strength of culture*	• United by pride in British airline but resistant to management changes to iconic organisation • High level of local rationality and political behaviour • Occupational views: fragmented subcultures – frontline have power
7. Social transformations	• Introduction of training programmes to develop cross-cultural skills (PPFA) • Employment of diversity of	*2. Rigidity of structure*	• Highly bureaucratic structure • Highly hierarchical and military style promotion (and aircraft working roles) system prevented integration of long-serving frontline employees

	employees from different ethnic background with various language skills		with new ethnically diverse recruits • Rigidity of shift patterns and rota system for worldwide crew inhibited fast implementation of training in new skills and behaviours
8. Increased competition	• From STAR alliance, low cost carriers on short-haul and long-haul routes- especially during gulf war, Asian recession and on trans-atlantic routes post 9/11	*3. Sunk costs*	• Introduction of new aircraft fleet • Cost of overseas cabin crew • Cost of new corporate identity (2x £65milliion) • Cost of new HQ (£250m) • Cost of new product and service innovations
9. New technology	• BA introduced flat beds and inflight entertainment new technology (individual screens) • Oneworld booking privileges • New fleet to cater for larger business class cabins • Centralised IT systems	*4. Lack of resources*	• Cost cutting focus meant frontline staff felt service levels were affected • Less employees due to redundancies • Less resources to fix on-board problems eg; faulty new technology and products • Implementation problems with new products and services • Complexity of coherence between alliance passenger privileges systems
		5. Contractual agreements	• Entrenched IR agreements with a range of occupational groups including frontline, pilots, ground crew, baggage handlers, catering, engineering all requiring separate negotiations • Long-serving union reps with anti-BA management views • Difficult and costly negotiation periods whenever management wanted to introduce operational changes
		6. Strongly held beliefs & recipes for evaluating corporate activities	• Resistance to management decisions and new changes and initiatives • Employees suffered change burnout and cynicism • Employees anti-Ayling and initiatives he tried to implement • Belief in success of the airline and therefore changes unnecessary

We can see from this analysis that although BA management endeavoured to implement a number of initiatives to realise the global strategic intent they were faced with considerable restraining forces at both the individual and organisational level. A state of equilibrium between the driving and restraining forces did not exist, instead considerably more restraining forces arose than had been predicted by management.

Although issues of poor communication between management, employees and unions was a factor it appears that the difficulties identified by the Lewin analysis which posed the most challenges for management were a function of organisational inertia, caused by highly embedded structures, entrenched operational practices, and the highly unionised environment.

3. To what extent are the issues encountered by BA specific to the airline industry, or are they issues faced by service industries[2] more generally?

Several service sector and airline industry characteristics affected the ability of management to achieve strategic change. However, the specific issues raised in this case indicate that overriding industry characteristics and constraints prevented the airline from acting globally, as detailed below.

1. The airline industry is still one of the most highly regulated industries, controlled by international aviation laws. This affects the ability of individual airlines to compete globally, as national markets historically have been protected and dominated by national airlines. National carriers are typically state owned or recently privatised, they have therefore inherited the best positions at major national airports and valuable landing slots, making it difficult for newer national or international airlines to compete domestically. National carriers also are seen to 'carry the flag' for a nation even when the airline has privatised. This can inhibit changes where management endeavour to update the brand to appeal to overseas passengers.

2. National carriers being state owned or recently privatised also inherit a workforce that is highly unionised. This makes operating in the private sector that is highly competitive difficult as management are faced with resistance (including major strikes) from many different sources when they want to implement change to achieve efficiencies. This can include a range of unions representing a range of occupational groups across the organisation, both domestically and often in the international markets, if they have merged with other national airlines.

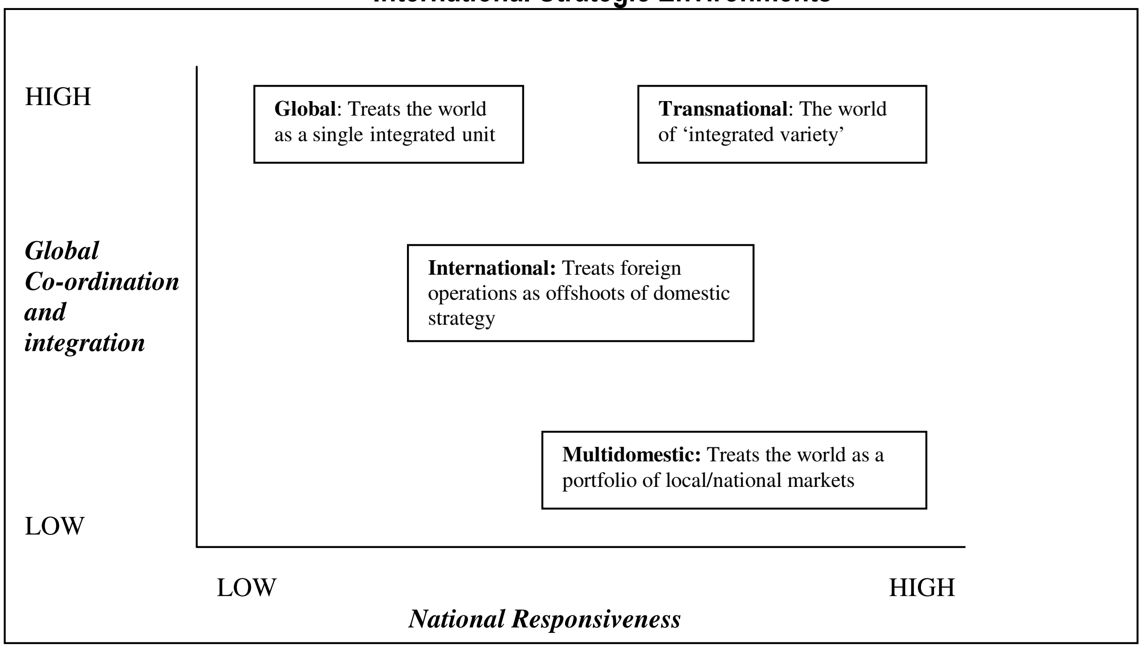
3. Airline alliances are a means for national players to increase their network and offer their customers rewards and privileges through partner airlines. However, the strict anti-competitive legislation ensures that airlines can only discuss certain issues such as joint promotions, code sharing and air miles privileges, but are inhibited from discussing and aligning prices and other operational activities considered to be anti-competitive. This effectively makes the alliances only marketing-type activities as few operational factors can be synergised. Therefore the alliances are not able to provide truly global and standardised products and services.

[2] For further reference to broader service management literature see Segal-Horn, S. (1998). 'The internationalisation of Service Firms', In *The Strategy Reader*. Oxford: Blackwell. 382-405.

4. You are the new Chairman of BA. What would you do now? What strategic decisions would you make and why?

Strategic choice involves making trade-offs. The Chairman should reflect upon the strategic positioning of the airline and the extent to which the airline should be globally co-ordinated and integrated versus nationally responsive. The four basic strategies that companies use to enter and compete in the international environment *are multi-domestic, international, global and trans-national*, depicted in Prahalad and Doz's (1986) International Strategic Environments model below.

International Strategic Environments



International Strategic Environments (Adapted from Prahalad and Doz, 1986).

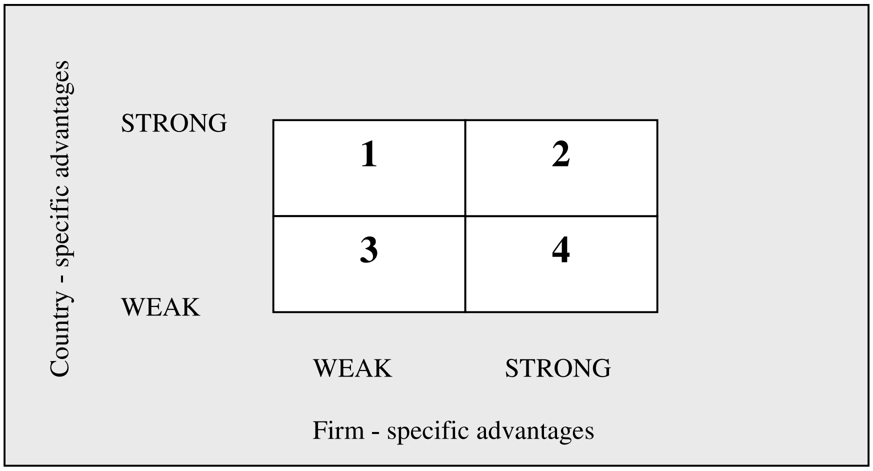
British Airways' had attempted to become more globally co-ordinated and efficient by centralising activities, outsourcing non-core activities, and focusing on highly profitable markets and routes. At the same time the airline had endeavoured to become more locally responsive through changing the corporate identity, recruiting employees from different ethnic backgrounds with different cultural and language skills, and adapting inflight services by route.

British Airways therefore had not adopted a total global strategy which 'treated the world as an integrated unit', as the strategy involved a degree of national responsiveness. BA instead had adopted a 'Think Global, Act Local' strategy whereby it tried simultaneously to meet the needs of both its local and global passengers. The problem with this approach was that BA was not operationally flexible enough on a global scale to be able simultaneously to be both globally integrated and nationally responsive due to the complications posed in the operational service delivery system.

Furthermore, due to considerable negative reactions in the domestic market, from the press, shareholders, passengers and British BA employees, the Chairman was under pressure to retrench the global strategy, as BA was perceived to be 'turning its back on its British heritage'. In a highly competitive marketplace management should consider what unique competencies and capabilities the organisation has which would provide a sustainable long-term competitive advantage. The current strategy was alienating both British employees and passengers, which were the airline's core target market. Hence, the Chairman had no choice but to develop a strategy that would appeal to those who were loyal to the airline's national heritage and leverage this in order to differentiate BA in the global airline sector.

As part of this analysis the Chairman could consider reviewing the firm-specific (FSA) and country-specific advantages (CSA) to identify the best fit with the organisation's unique capabilities and competences. The competitive advantage matrix is useful for identifying the firm-specific advantages (FSA) to describe the unique capabilities of an organisation and country-specific advantages (CSA) which involves investigating the impact of the home base on the MNE.

Competitive Advantage Matrix



(Rugman and Hodgetts, 2003)

Quadrant 1 describes companies that rely on strong CSAs and are usually in mature markets that are globally orientated, commodity in style and marked by price competition. Since BA is not in a position to compete in the low cost end of the market it needed to concentrate on differentiation supported from its strong home base and national identity.

From both sets of analysis it would seem that BA would need to rely on its strong CSAs and adopt an international strategy (instead of a global strategy) and compete by differentiation.

Actual outcome: as a result of the reaction to Utopia, BA management decided to narrow the market focus by appealing to the premium high yield (domestic business) market, thereby differentiating BA's strategic advantage internationally by promoting BA's core brand values, British heritage and BA's premium brand status.

5. Where does the company go from here?

The airline industry is becoming increasingly competitive. Management need to consider what is the best strategic option for the long-term survival of the airline and what sources of competitive and comparative advantage the airline needs to leverage to be flexible enough to respond to constant challenges from the international environment. With the efficiencies already gained management would also need to ensure that the changes were embedded and the new culture, processes and practices adopted across the organisation. A major challenge is to manage the tension between cost cutting and customer service quality, convincing employees of the ongoing need to change.

One way for management to ensure that strategic options are well considered is to use scenarios. Scenarios are a useful means to assess the long-term ramifications of a firm's overall strategy. Analysis of multiple scenarios enable assessment of the implications of different futures for alternative strategies and the uncertainties and risks associated with them (refer to Chapter 14:547). Scenarios can help consider alternative future environments and then key decisions can be 'played out' taking both a pessimistic and an optimistic view-point. Management can then also consider conducting a gap analysis between future strategic options and identifying the core competencies required in each context (refer to Chapter 14:555).

Conclusion

Case A was intended to illustrate the way in which service MNEs are being driven by global competitive pressures, detail the logic for adopting a global strategy and illustrate the range of initiatives and components involved in adopting a global strategy in practice. This case allows students to examine the extent of culture change required to support a global initiative, and the behavioural change required of both managers and frontline service employees, in the context of global organisations.

The case encourages students to apply the theories and models presented in Chapter 11 to enable them identify; the key reasons for the difficulties BA experienced in going global, to evaluate the extent to which they consider these difficulties to be a result of poor strategic management or to be a function of organisational inertia, to determine the extent to which the issues encountered by BA are specific to the airline industry, or are they issues faced by service industries more generally, and to recommend what strategic decisions the new Chairman should make to address these dilemmas.

This case helps students identify the various factors that affected BA's ability to realise a global strategy, enabling them to apply the classroom learning in practice, and to speculate whether the issues raised are unique to this industry or are generalizable to other companies or sectors.

Case A should be used in conjunction with Case B, which further examines reactions to the change in strategic direction, the dilemmas faced by management and the strategic options for BA.

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Further Reading

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Other Useful Cases:

<u>ECCH Cases:</u>

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