

Keeping Quality in Focus During Restructuring

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INTRODUCTION

Good morning ladies and gentlemen. And sure it is a nice mild morning unlike the "snow-in" that you experienced here last week.

As you can probably gather from my brogue, I am Irish, which for many of you is synonymous with green, shamrock, Guinness and Blarney stone; but most of all rain - and we sure do get a lot of that.

For those of you who experienced the "snow-in" of last week, I am sure it's of little consolation to you that my kids look at these scenes on the TV news and feel deprived since they haven't had the privilege of playing in the snow! Perhaps we can have a deal here - we'll give you some rain in exchange of snow! On second thought, let's leave well enough alone - I couldn't sell that - since you probably would not want our summer rains.

I am indeed glad to be here today to make a presentation at this 10th conference on Human Factors in Aircraft Maintenance. I hope that you will all be able to understand my Irish brogue. I will answer any questions later.

The topic I am going to speak on this morning is: "Keeping Quality In Focus During Restructuring"--emphasizing the restructuring journey and importance of Quality.

TEAM Aer Lingus embarked on its restructuring journey in late 1993, and it is still on-going. Over the past 7-8 years, I have attended many presentations by the gurus and consultants who were always at pains to emphasize that world class, total quality, employee involvement, call it what you may, was a "Journey", not a project. I always subscribed to the view, but perhaps thought it was a project. Having been living with it at TEAM for the last 18 months, I can assure you that it is a journey and can confirm similar sentiments from my previous employment.

It takes a lot of hard work and commitment to ensure that you stay on track. It's not just good enough to get on the track. That's the easy part. Once on the track you must keep up the continuous improvement momentum because, as Will Rodgers said, "If you rest on the right track you will get run over by the guy coming along from behind."

A little bit about TEAM Aer Lingus

We are based in Dublin, Ireland -- at the center of the universe! We are in the Aircraft Engineering and Maintenance business.

The services we provide can be broadly categorized as follows:

- | Aircraft Overhaul
- | Component Overhaul
- | World-wide Materials support (Aer Spares/Rotables/Leasing/AOG support)
- | Technical support (Engineering, Planning, Quality, Technical Training)

We are part of the Aer Lingus group of companies employing 1700 people in TEAM. Aer Lingus is the state-owned national airline of Ireland. The current group structure:

- | Maintenance
- | Airlines
- | Services

It is a much slimmed down Group which previously had diversified into hotels, computers, etc. but has now restructured back to its core business strength.

The Maintenance section has:

- | TEAM
- | Airmotive, which is also in Dublin and in the engine overhaul business
- | Shannon Repair Services, which is a single bay airframe overhaul facility based at Shannon airport

The Airlines consist of:

- | Aer Lingus main airline
- | Aer Lingus Commuter, which is regional carrier in Ireland and UK
- | Futura is a charter company based in Palma, Spain
- | Galileo is a reservations system

The Services section wraps up the other companies of the Group.

The Group turnover is £1.3bn and the airline operates a fleet of 32 modern 737 [EFIS](#)/Airbus 330s.

So why did TEAM Aer Lingus restructure?

Very simply, TEAM was losing money and was likely to continue doing so unless something was done with its costs base, as there was no sound basis for expecting an improvement in the yield which is the only other way of "squaring the circle." Such a loss-making situation was unacceptable to the shareholders. Accordingly, TEAM developed a plan which would return it to profitability within the stipulated five-year time frame.

Why was TEAM losing money?

The reasons can be categorized into:

- | External Reasons
- | Internal Reasons

The External Reasons

First, similar to most industries, the competition upped the ante. Secondly, this competition was fueled by enormous over-capacity currently estimated and growing through new entrants and efficiency generated capacity. Thirdly, OEM chain started to target the after-market which had not really been their stomping ground in the past.

Might I also say that by comparison to other industries in which I worked, I believe that the OEM's performance is a significant barrier to progress in our industry since they do not measure up to the best in class practices on:

- | Cost
- | Service
- | Lead-time

Turning to the Internal Reasons

Our costs structure was far too high, which was being impacted greatly by:

- | Out-of-date work practices (i.e., demarcation)
- | Work patterns which meant we did not have flexibility to have our resource available when customer demand dictated. We had to address the peaks with overtime/more people and we had to pay people to sit around during the valley period

We had management issues:

- | People
- | Processes

Things have changed right around the world. All suppliers must focus on Customer priorities and provide them with what they want and this industry has now got to face up to the fact that we must focus on customers needs and it is a buyers market.

In a buyers market, regardless of the fact that different companies place differing weightings on the individual elements of the Total Cost Equation, each vendor must be able to deliver upon the world class measures of:

- | Lowest cost
- | Highest quality
- | Superior customer service

In the cases of Quality and Customer Service, it is necessary to deliver on both the:

- | Hard and definitive elements (technical quality, OTD) as well as the
- | Softer issues - a word that now becoming more widely used in "Perceived"
 - | Perceived "Quality"
 - | Perceived Customer Service

This is the challenge.

In this industry we are having to play catch-up with what the Japanese have done in most other industries in terms of Quality, along with Deming. In fact, it is no longer true solely with the Japanese, the Quality concept is everywhere.

In my view, we are laggards in facing up to the realities of life which practically all other industries have had to face up to and did so long before us. We must, if we want to survive, be World Class. World Class is the highest standards in everything we do, as measured by the customer.

For many years this industry considered itself unique and convinced itself it didn't have to take on these principles. I worked in other industries that could equally have been defined as unique and they had to embrace these concepts. Those who didn't are going/have gone to extinction.

TEAM Aer Lingus has decided -- and perhaps we had no other option -- that we need to embrace World Class standards of performance, if we are going to survive in a highly competitive over-capacity industry.

Survive is the operative word since we are in an industry that has rates of \$30/hour +/- . We all know that your local mechanic charges that or more, and are in this highly regulated industry where our people:

- | Are highly trained with lots of experience

- | Carry a huge responsibility on their shoulders -- that of safety for the flying public -- not to be taken lightly.

One could ask the question, "Are we selling ourselves short?" I can say, "yes" and could support it, "but that's all the customer will pay." So we have to accept the reality.

One could expect and accept that everything will be cut to the bone to operate in this environment, perhaps even to the extent of cutting corners. Someone might ask, "Will quality be compromised?" At TEAM Aer Lingus the answer is a resounding, "NO." Our logo, the Shamrock, our heritage, our people, our conscience and our values will never allow that to happen. In a small country and in a small local community with 1700 livelihoods dependent on the well-being of TEAM, we cannot and will not compromise on Quality, not only for the sake of TEAM, but also for the sake of the Airline.

Each company has to honestly and responsibly answer the question, "So what have we done?" Well, we went through 12 months of negotiations to reach agreement on restructuring, which involved 1300 people being laid-off and Chapter 11 bankruptcy before reaching an agreement. That will give you a flavor of the confrontation and "them" and "us" attitude that prevailed.

There was a complete mistrust and breakdown of communication between worker and management. In fact workers had taken away the consent to manage.

Our priority was to right our costs, which involved addressing both direct cost issues and management issues.

The direct costs included:

- | Payroll
- | Work practices
- | Work patterns
- | Non payroll overheads
- | Purchasing

The management issues tackled were structure and processes. These were the tangible/hard and perhaps easy issues to address. That in itself would not have been sufficient if we were serious about change and viability since TEAM had come from the cost center mentality and had to come to grips with the commercial realities of profits and viability.

Perhaps this is hard for many of you to understand. It was for me also when I joined 18 months ago. But when you are in a "cost" environment (a protected species for 25/30 years) where profits were not a measure of success, then you can begin to understand the difficulties involved in the Paradigm Cultural change.

There are consultants who sell their services on the implementation of World Class and Total Quality programs which are after launched in a blaze of glory. We all know and perhaps we experienced how quickly some of these initiatives failed. At TEAM we did not choose "big bang" approach - why? TEAM had tried a Total Quality program in 1992/93, before restructuring, and it did not work.

As happens in many organizations, for these initiations there is a Project Manager appointed and plans are set down and it is never integrated into day-to-day management and, therefore, takes second priority to the day job.

The same thing happened in TEAM and responsibility was passed down the line.

Senior management personnel were too busy with their day jobs. They delegated and abdicated. So we weren't going to fail a second time.

However, the senior management team and I mapped out a 4 year program of change:

- | Reframing

|
Pathfinding

|
Revitalizing

|
Renewal

We set out where we were going. We were targeting World Class. We know we are on a journey and want to have arrived with success under our belts so as to win back credibility before we beat the drums again.

This is our second year, and maybe in 12 - 18 months time we will give the program more publicity. Having worked in an organization which had a high profile project, I can honestly say that the progress on this less public program is every bit as significant. As I said, we have been through Phase 1/Year 1.

First phase priorities
were:

| Get management to
manage.

| Reassess
costs.

| Move to being output driven, rather than input
driven.

| Focus on the
basics.

| Support these initiatives with appropriate training. This is not only Management development, but also skills of Performance Appraisals, Presentation Skills, Commercial Awareness, etc.

The "Basics", as we refer to them, were the key issues we had to get managers to take on board in terms of being output driven and being focused on profitability in the medium term. To many of you this is perhaps straight forward and a "given"; to others maybe not.

We are aiming to have these basics almost as day-to-day values, not high-powered values, but honest-to-goodness building blocks for the future.

In fact, sometimes organizations miss the point completely when starting out on this type of journey.

This focus manifested itself right across the organization. Specifically dealing with quality assurance, we targeted:

| Moving away from a policeman role to a pro-active role. Build quality upfront.

| We set a vision of where we wanted to get to in terms of QA. We targeted ISO 9000 as an external accreditation of our standards. In your terms, it would be the equivalent of Malcolm Baldrige.

| As I have already said, we wanted managers to be accountable for Quality Assurance, not just those in the quality department

| And above all, we led by example by getting senior management more actively supporting this.

In more specific terms, some of the things we are at are:

| Refresher Courses

| Standards management

| Standard Operating Procedure

| Reminder cards

| Customer complaints

| Auditing with follow-up to completion

| Self auditing

| Perceived Quality

| Supplier and sub-contractor approvals

| We have improved our communications process so that everyone is informed. Difficult as it is, we have to break away from the mold of "information = power". I have addressed all 1700 people in group of 30 - 60 twice in 1995.

| Management commitment and support

| Visibility of management -
MBWA

| Performance expectation for
departments

As you know, success only comes before work in the dictionary. The journey continues:

The hard work - we are not finished.

| We have started to get employee support, trust and credibility.

| In 1996 we will focus on the employee.

| Gold standard - provided you pay

| Competitive Price - not necessarily at \$30/
hour

| On Time -
everything

| Continuous Improvement - continuous re-engineering. BPR is good buzz word. We are doing it, but again without the drum beating.

| Stick to the knitting, and be profitable.

| New IT systems - at a cost of almost five million dollars.

| TEAM, in-house to make it happen and externally to keep customer satisfied.

In a
word:

|
Openness

| Clear
objectives

l Unrelenting/intolerance of less than 100%
input

Thank you very much.