

EMBRACE CHANGE – OR *PERISH*

Lecture by
Pierre J Jeannot, O.C., C.Q., FRAeS
McGill, 2 April 2019

Opening remarks

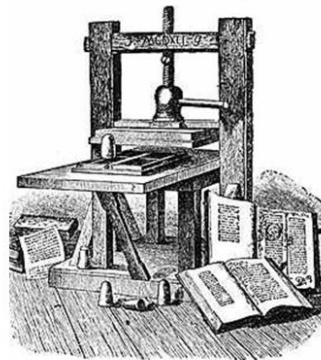
Thank you ... Professor Saba ... for your kind introduction.

Tonight ... we are going to talk about change ... more specifically ... how a company ... some would say an institution ... was changed to ensure its survival.

Change is not something new ... A great philosopher once observed that ... “Change is the only constant in life”.

It may not have been so ... but ever since our human species domesticated fire ... the pace of change has been accelerating.

There have been periods of great change ... The Renaissance ... had a major influence.



The printing press was a major factor ... in the dissemination of knowledge ...

It created new products ... Book production flourished ... and newspapers were born!

The industrial revolution had a *huge* impact.

And now we are in the technological age.

In terms of its impact on our civilization ... the invention of the “internet” is perhaps ... comparable to the invention of the “printing press” ... in 1440.



The internet ... has given rise to tremendous innovations ... including ... of course ... “social media”.

“Social media” deals with the *ideas* economy. ... It deals with intellectual property ... and sells advertising rather than goods.



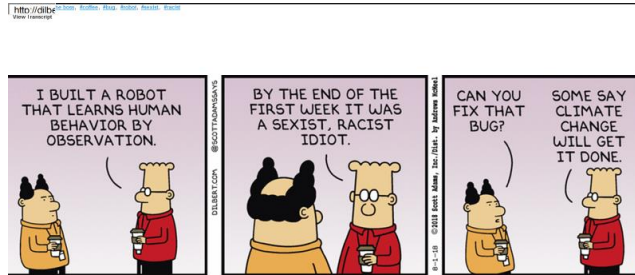
We are ... have been ... and continue to be ... in an era of constant innovation.

For example ...

- The beginning of “space tourism” ... and the commercial usage of space
- Driverless/autonomous transportation ...
And the use of drones ... first for carrying freight ... and for urban transportation. ... Experiments in the Emirates ... and Singapore
- Regional electric airplanes ... 50 passengers maximum? ... a possibility within 10 years? ... Maybe hybrids to start with
- The printing of parts ... or 3D printing ... or “additive printing”!

1 April 2019

- The internet of things
- Artificial intelligence ...
- And robots



As this cartoon of Dilbert ... in the Globe and Mail suggests ... some combination could lead to unexpected results.

INNOVATION ... *can*

- Destroy existing companies
- Create new ones
- Force companies to evolve



Innovation can destroy existing companies ... and it can create new ones ... (creative destruction).

The pressure is on to continue to innovate ... or *perish*.

- **Apple says ... that it needs to refresh or re-invent its consumer products ... and is indeed losing leadership. ...**
- **Think of Blackberry! ... At one time an industry leader ... today barely surviving.**

*** * * * ***

Change can ... and does ... challenge the relevance of certain firms and institutions ... and threaten their very existence.



CROWN CORPORATION

We are now going to discuss a “real” case.

The following example deals with the transformation undertaken by a company

- To ensure that it met evolving market requirements
- And society’s expectations.

More particularly ... I will discuss briefly the nature of that change ...

How it was managed ... to ensure that the corporation was transformed ...

And achieved the relevance required ... to justify its continued survival.

We must understand

- Strengths and weaknesses
- Forces at play
- Transformation required
- Programs required to achieve objective



Specifically ... we will review the changes that were required to ensure the survival of Air Canada ... and how they were accomplished.

As it would be for all such cases ... it is important to understand

- The strengths ... and weaknesses ... of the company
- The forces that are at play ... threatening its survival
- The transformation which is required ... to ensure that it will thrive in the next timeframe ...
- And the kinds of programs required to achieve that objective.

If one is going to dramatically change the purpose ... or the nature of the firm ... it is also important ... to know where it comes from! ... and what it is starting from ... and what was the original culture.



The predecessor of Air Canada ... Trans Canada Airlines ... T.C.A. ... was created in 1937 by C.D. Howe ... nicknamed “Minister of Everything”

(P.M. MacKenzie King and Louis St. Laurent)

- It was a time of nation building
- Mandate: ... To help unite the country: Atlantic to Pacific ... coast to coast ... similar to railroad.
- Shortened the time to cross the country ... at the time 5-6 days.

Provided service with a break-even mandate.

Public service mentality

If you are profitable ... lower the price ...



Renamed Air Canada in the 60's ... to reflect an international role.

- Linking Canada to Europe and the U.S.A. ... as well as the Caribbean ... for example
 - U.K. ... France ... Germany
 - New York ... Chicago ... etc.



**CROWN CORPORATION
CONSTRAINTS**

Budget oversight by government

Approval by Treasury Board

Unable to react to consumer pressures

Must respond to political motives

11

- Budget part of government envelope
- Approval by Treasury Board
- Inability to react to commercial pressure
- Required to respond to political motives

Sometimes ... the Government mandated service to small cities ... e.g. Sault Sainte Marie and Corner Brooks (by Minister of Transport)

A Crown Corporation was required to appear every year at various Parliamentary Committees ... for instance

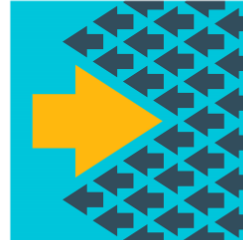
Employment equity ... languages ... Transport Committee

Anecdote for Parliamentary Committee ... concerning the Minister of Agriculture ... attending Transport Committee ... Eugene Whelan (Niagra)

- Requiring more Canadian wines during the hearing
- Adjourned to Parliamentary Restaurant
- Only one Canadian wine was available at the *Parliamentary* Restaurant
- Reconvenes afternoon sessions ... no more questions on wines!

COMMERCIAL AVIATION EVOLUTION *WHAT WAS CHANGING?*

Technological developments
Consumer pressure
Deregulation



12

In the 1970's ... major changes were taking place.

Technology was changing productivity (jetliners and jet engines)

- Boeing 747 ... 350 passengers
- An increase of more than 4-fold ... in productivity

Increasing consumer pressure in North America and Europe.

- Affinity charters – Laker Airways (Sky Train)

Then In 1979 ... the U.S. government decided to introduce the Domestic Airline Deregulation Act ... under the Carter Administration.



IMPACT OF U.S. DEREGULATION

- Emergence of 'low cost' airlines
- Airline consolidation
- Domestic traffic increases

13

- A dozen new airlines emerged
 - Low costs – poorly financed
 - Most failed – exception Southwest
- Traditional airlines could not cope

- Eastern Airlines – Continental
- Domestic hubs created
 - Chicago – Dallas – Atlanta
- Domestic traffic growth in response to consumer demand



IMPACT ON CANADA

- Emergence of “Affinity Charters”
- 1984 “Freedom to Move” Act
 - Any airline could fly anywhere in Canada
 - Freedom of frequency and pricing

14

In Canada ... we witnessed the emergence of Affinity Charters ...

A form of low cost operation ...

- Shortly after ... the requirement for Affinity was dropped.

Given the proximity of the U.S. ... Canada felt the need for progressive deregulation.

1984 “Freedom to Move” – The Canadian Deregulation Act

- Any airline can fly anywhere in Canada
- Freedom of frequency and pricing

The relevance of Air Canada was challenged.



**FOR AIR CANADA ...
IT WAS CHANGE - OR PERISH**



15

For Air Canada ... it was change ... or perish!

Freedom to move ... meant increased competition.

As a crown corporation ... Air Canada was unable to move quickly ... had many constraints

In time ... private airlines would take over the various routes of Air Canada ... and would likely operate at lower prices.

Air Canada would probably not survive ...



THE PRIVATIZATION PLAN

- ✓ *New mandate*
- ✓ *New vision*
- ✓ *Define change elements*
- ✓ *Manage the transformation*

16

We needed a privatization plan.

But first ...

- We needed to believe that the change was feasible.
- We needed to convince ourselves
- We needed to define the change elements.
- We needed to believe we could manage the transition.

OBTAIN



OF

- Government
- Employees
- Communities
- Opinion makers

17

We needed to convince everyone of the need for

- A national ... commercial... international airline ...

- Profitable
- Customer-oriented

Develop a new vision ... shared by all ...

- Was the government *willing* to sell the corporation?
- Will the *employees* support the changes required?
- Will the *communities* support the changes in services?
- Will the *opinion makers* support the changes?

There was a lot of resistance to change!

We needed to define a change program.



PRIVATIZATION CHANGE ELEMENTS

- ✓ Improve productivity
- ✓ Routes/fleet network
- ✓ Change culture
- ✓ Community expectations
- ✓ Financial Community

18

Major elements

- Improve productivity ... efficiency
- Routes network ... optimise fleet
- Change culture ... customer oriented
- Community expectations
- Financial community ... achieve profitability

IMPROVE PROFITABILITY

- Renegotiate contracts
- Outsource when appropriate
- Create cost-effective network
- Develop new fleet plan



19

Setting goals for each change element ... for example ... improved profitability

- Renegotiate contracts – with no government involvement
- Outsource when appropriate
- Create a cost/effective network
- Develop a new fleet plan

REVIEWING ...



Network Needs of small stations

Reviewing the network and the current fleet

- Review service required at small stations.
 - Requirement for different fleet
 - Correct infrastructure/overhead excessive

Solution was to have 12 small stations ... served by different aircraft ... and less heavy infrastructure.

- Create regional airlines e.g. Air Ontario, Air B.C. etc,
- Operate small aircraft – DH-8 100/200
- More frequent services

But communities losing jet service (DC-9) in return for several flights a day by DH-8 turbo props ... had to be convinced.

Air Canada needed to avoid a majority interest ... for labor reasons.



COMMUNICATIONS

- ❖ Communities
- ❖ Local & Federal representatives
- ❖ Unions and employees
- ❖ Local consumers

18

To accomplish ... extensive communications had to be carried out with ...

- Communities ... loss of jet vs turboprop
- Local and Federal representatives
- Unions and employees ... loss of civil status
- Local consumers ... service vs profit?

Improving the productivity of the employees

- Convincing the pilots to support change ... without work interruption
- Improving the productivity of
 - In-flight/cabin groups (5-week work interruption)
 - Mechanics group (IAM) (3-week interruption)
 - Counter/reservations people (2-week interruption)

All of which allowed changes in work rules and in some cases ... outsourcing.

[Anecdote about walking in to a union meeting in Toronto ... discussing strike action.]

Developing a new ... and more ambitious ... international route plan.

- Untapped potential – 5th Freedom from U.K.
- Fully exploiting existing rights to the U.S. ... and to overseas destinations(Asia).

“TOWNHALL” DISCUSSIONS

- Answering questions
- Talking about the future
- Enlisting their support
- Proposing employee partial ownership



27

Communications program.

Carried out an extensive communications program ... to reach each individual employee.

- Joining coffee breaks at various locations in a relaxed “townhall” format
 - Answering questions
 - Talking about the future
 - Enlisting their support
 - Proposing employee partial ownership

Carrying out extensive communication program with the provincial ... municipal ... various opinion makers ... across the country.

- Explaining the service proposed
- The need for a major international airline
- The social and economic advantages

Set up an overall cultural change program

- Involving each employee
- Emphasizing team building
- Customer-oriented
- Pride of ownership. ... Employees were encouraged to become shareholders.

IMPROVING DEBT/EQUITY RATIO

- ✓ Sale and lease back of DC-9 fleet
- ✓ Sale of B-727 fleet to FedEx
- ✓ Sell part investment in Guinness Peat

Generated over \$150 million



18

Improve the debt/equity ratio by ... (find hidden values)

- Monetizing hidden values in the current fleet
 - Sale and lease back of the DC-9 fleet
 - Sale of the Boeing 727 fleet to FedEx ... obtain contract to convert to freighter
 - Sell part of investment in Guinness Peat leasingwhich generated more than \$150 million.
- Develop a new fleet plan
 - To acquire/order long range aircraft to support the international expansion program ... B767-200/300
 - To replace the domestic fleet A-320/A-321 options
 - To provide new aircraft for the regional operation – 50 DH-8 100 & 200

By 1987 - 1988 ...

- ✓ Productivity improved
- ✓ Profitability improved
- ✓ Better debt/equity ratio
- ✓ New regional services
- ✓ New proposed Air Canada Act
- ✓ Government-free contracts for suppliers



24

By 1987-1988 ... we achieved

- Improved productivity
- Improved profitability – adequate R.O.I.
- Better debt/equity ratio
- New regional services (airline and fleet)

- New proposed Air Canada Act
- Government-free contracts for suppliers



**1988 – Partial privatization;
49% of airline sold for \$8 a share**

**1989 – Full privatization;
remaining 51% sold for \$12 a share**

25

Proposed partial privatization to the Federal Government ... as a first step ...

- Enabled Air Canada to sell \$300 million of new equity for 49% of the airline
- Shares sold for \$8.00 each

The Government was able to sell its participation in the airline in 1989 for 500 million CAD

- 51% of its shares ... at \$12 CAD a share

Air Canada was then free to operate as a private enterprise with some constraints:

- Headquarters to remain in Montreal
- Continue to have technical centres in Montreal, Winnipeg and Toronto
- Foreign ownership of shares limited at 25%

The financial community was comfortable with Air Canada.

- Efficient regional services created (JAZZ)
- International expansion strategy
- Optimising aircraft fleet
- Positive change in product – more market-oriented
- Improved debt/equity ratio
- Supported by reasonable/acceptable profit plan

PRIVATIZATION ROAD MAP

❖ Decision to deregulate

❖ Partial privatization

❖ Total privatization



To summarize ... and recap ...

- Freedom to Move ... issued in 1984
- Program started ... Transform airlines to make it “privatizable” e.g. debt/equity ratio ...
- Increase profitability

Partial privatization (1987-1988)

- Dilution of government ownership to 51% ... \$300 million raised. ... First shares sold at 8 CAD a share
- New “Air Canada” Act
- Arms length agreement
- Limit on foreign ownership ... less than 25%

Total privatization ... 1988-1989

- Sale of government 51% share ownership ... raised \$500 million. ... Shares had increased to 12 CAD a share!
- New fleet acquired
- Executive management re-appointed for 2 years

What is wrong with government ownership?

- No incentive to increase productivity
- No competition
- Easier to increase costs ... raise fares ... or taxes ... rather than cut costs.
- More sensitive to union pressures

The notion of public service

- What is expected by the State?
- Vs what should you ... the customer ... individually ... pay for? ...
- Are you getting value for money? ... (perception vs fact)

WHAT HAVE I LEARNED?

- ❖ *Know* the forces at play
- ❖ *Define* where we want to be
- ❖ *Manage* the change program



11

Need to make a sober assessment of my/our situation

- Carrying out a “swot” analysis
- Strengths ... weaknesses ... opportunities ... threats ... challenges

Develop strategy

What are the possible scenarios for tomorrow?

- Seeing “around the corner” ... How is the industry evolving?

Review where we came from

- Evolution of current culture and expectations

Understand that the keys for success yesterday ... are often not the keys to success tomorrow.

Set up and manage a change implementation program with

- Program managers
- Milestones and periodic reviews

Follow up ... and celebrate success

In a changing world ...

EMBRACE CHANGE – AND PROSPER!



12

Thanks ... and good luck!