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HUMAN RESOURCES DIRECTOR

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FLIGHT CENTRE
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PAST MISTAKES

RIDING THE PEAKS
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Flight Centre learns from past mistakes

Despite good intentions and careful planning, sometimes corporate strategies and projects simply do not work. Such was the case with Flight Centre's change initiative, Full Throttle. *HR Director* asks what went wrong

Full Throttle was the in-house name given to Flight Centre's business restructure introduced in late 2004 and cancelled in 2005. During the much-vaunted Full Throttle, unique company culture was diluted by introducing external management consultants and giving executive jobs to outsiders. The rawness of the failure is still palpable for key players. Rather than hide behind the mistakes made, the company has embraced the failure as a key component of its history, and has shared its tumultuous ride in a book titled *Family, Village, Tribe*, authored by former Flight Centre executive Mandy Johnson. She chats to *HR Director* about a compelling – and brave – decision on the company's part to 'reveal all'.

HR Director: Can you outline your involvement with Flight Centre – what role did you have at the company?

Mandy Johnson: I started with Flight Centre as a travel agent when they only had a few stores, really as a way to fund myself through university. I rejoined them after travelling overseas for a few years. I managed a couple of stores and then made the mistake of getting drunk at a conference and telling the CEO that the way Flight Centre recruited and trained people was crap. He rang me two weeks later, and I was sure he was going to sack me. Instead he told me that if I knew so much about HR, then I could set up the company's first recruitment and training centre.

Eighteen months later, after that operation was successful, I tried to quit to go backpacking around South America but somehow was bamboozled into heading over to the UK to co-found Flight Centre's operation there instead. I became a director of the UK operation, the company's youngest-ever, before returning to Australia as the national HR head.

HRD: Are you still involved with the company?

MJ: Since I left Flight Centre I've written two books [*Family, Village, Tribe* and *Winning the War for Talent*] and I now run my own speaking/consulting business. Yet it's a standard joke that no one ever really leaves the organisation. Flight Centre doubles in size every five years so it's always changing, and whenever its needs intersect with what I'm doing, I end up getting a call from Graham 'Skroo' Turner [Flight Centre's founder and now managing director]. I'm still friends with many of the people I worked with.

HRD: It's unusual for a 'company biography' to be warts and all, yet your book is. Why did Flight Centre cooperate on such a book?

MJ: This really reflects Skroo's approach, as he is famous for his almost total information sharing. Anyone who's tried to discuss their salary or future career path with Turner ends up talking to him in his open-plan office, with the rest of his team working away around them. He simply doesn't understand why anyone would want privacy discussing anything.

In the same way, when I first approached him about writing this book he told me, "Don't write one of those sickly corporate books that glorify the company.

We need to have all our mistakes in there – that's what has really shaped us". In fact, the original manuscript was so 'warts and all' that I found myself in the rare position of having the publisher censor some of the content, because they thought it was too 'out there', even though Flight Centre was happy for it to run.

HRD: The book is handed out to new recruits at Flight Centre – again, why is this done?

MJ: One of the problems rapidly growing organisations face is how to stay true to their own values and philosophies, and keep that sense of where they have come from. Flight Centre identified this book as a really valuable cultural tool for its people, a way for them to avoid repeating past mistakes yet connect them with the spirit of the founding pioneers. Or as senior executive Joell Ogilvie so aptly put it, "We have to make sure we all know the story about our crackpot vet". Skroo was a veterinarian before he started Flight Centre.

HRD: Can you outline Full Throttle? Why did Flight Centre embark on this restructure/transformation program?

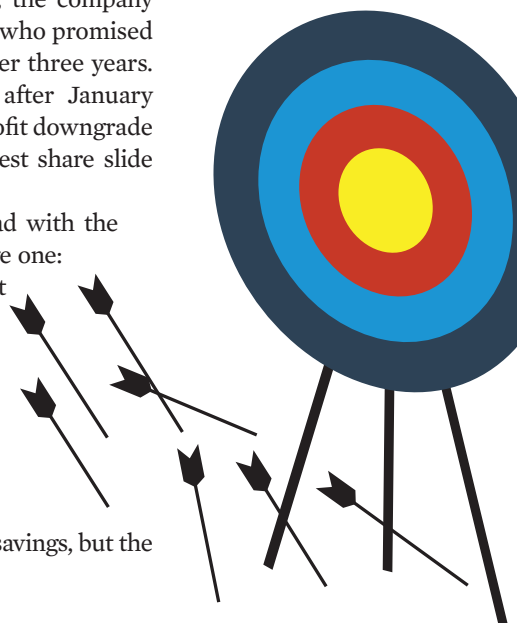
MJ: The Full Throttle campaign, which Skroo now refers to as "Flight Centre's greatest f***-up", started as a simple efficiency improvement project in 2004. In the 2003/4 financial year, revenues had grown 24%, but profits had virtually flatlined and head office staff numbers had blown out.

With the operation out of kilter, the company talked to some external consultants who promised a prize of over \$100m in savings over three years. This was an alluring proposition after January 2005 when the company issued a profit downgrade announcement and suffered its largest share slide since its 1995 listing.

Flight Centre decided to go ahead with the project and began to implement stage one: 10 priority initiatives to bring about quick cost savings.

HRD: Our readers are used to 'success stories' when it comes to transformation programs, but Full Throttle failed. Can you outline what happened?

MJ: No one minded the product cost savings, but the





"No one minded the cost savings, but the restructure of Flight Centre's head office hit the organisation like a tsunami"

Mandy Johnson

restructure of Flight Centre's head office hit the organisation like a tsunami. It was the first time employees' jobs had ever been axed and, because the external consultants had little understanding of what people brought to their roles, many decisions were simply driven by theoretical cost-savings and salary cutting.

They also used practices, such as spilling people from their roles and making everyone reapply, that were the antithesis of Flight Centre's people-friendly culture. Staff responded with outrage as morale plummeted. Police crime tape and chalk outlines of slain bodies appeared around the office in reference to the ongoing cull, and people came to work in pyjamas and threw 'Full Throttle' parties on the day redundancy slips were issued. Many key people quit in disgust at the process, and the impact of losing them would be felt for years afterwards. As senior executive Melanie Waters-Ryan said, "Full Throttle will forever be seen as the era in which the company completely lost its mind".

HRD: How did the company survive the trauma? What steps did it take to improve and restore the former culture?

MJ: Once he realised the true impact of what was happening, Skroo stepped in to disband Full Throttle, almost overnight. Yet the damage had been done. Flight Centre's profits for 2004/5 were down by 17% from the previous year's mark, and it would take several years for the company to rebuild the trust with its own people.

In the soul-searching that followed, the key question raised was why external consultants had been given such complete control. Or as then-

company secretary Greg Pringle said, why did we give them "the keys to the front door and then allow them to change the locks"?

The company identified two significant issues. The first was that the leadership team had been split into two entities a few years earlier, with Skroo as managing director and Shane Flynn as CEO. This joint leadership role had exacerbated the Full Throttle process, with people playing the teams off one against another, and had led to decision-making inertia and lack of ownership. As Skroo said, "In the end you've got to have one person, total responsibility". CEO Shane Flynn was another victim of the process and left the company in September 2005.

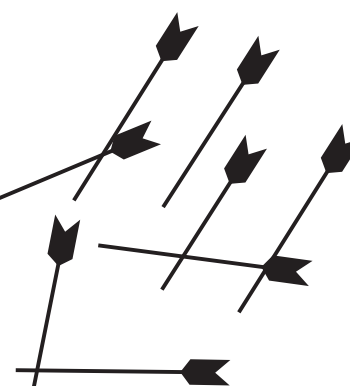
The second factor identified as a cause of the debacle was that six out of 10 people on the executive team had come from outside the business, with little real understanding of the culture. As Skroo said, "We were looking for silver bullets to fast-track growth when these didn't exist".

Turner put a new executive team in place – externals were out and old-timers back in – and updated its philosophies to include: "Promotions and transfers within will always be our first choice". The current executive team has over 60 years' combined experience and the company now actively avoids recruiting external people for senior or executive positions.

HRD: Can you provide any other tips to executives who are perhaps embarking on or have embarked on similar change programs?

MJ: The key message is for a company to stay true to its own values and philosophies, even when it may have to implement difficult change programs. The core reasons for the Full Throttle project were sound; it was the way it was put into practice that was the issue.

During the GFC, Flight Centre laid off some more employees, but with the lessons learnt from Full Throttle, they did it in a much more humane way, with effective communication and transparency, so there was no associated morale loss. Also, the company learnt that constant, focused and incremental improvements, rather than a single defining action or grand project, leads to the most sustained and spectacular results.



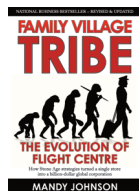
**HRD: What's the status of Flight Centre now?
Has the dust settled from this failure?**

MJ: Even though it was a car crash at the time, the Full Throttle debacle did have one positive effect. It forced the company to go back to basics, focus on its fundamental philosophies and rebuild the trust with its staff. The company created a whole new department called 'Brand Warriors' to educate its own people in its history and promote internal innovations that support corporate values. It took a few years, but this return to fundamentals is now a major factor in the company's current success. Flight Centre's share price is now hovering between the \$40-\$50 mark and it is operating profitably in all 11 countries it has a presence in.

HRD: The travel industry has changed out of all recognition in recent years with the boom in internet bookings, etc. How has Flight Centre survived?

MJ: Flight Centre was called a Neanderthal a few years ago for continuing to grow its 'bricks and mortar' stores, yet now those same detractors are calling the company visionary. People are definitely booking more hotels and point-to-point airfares online, and Flight Centre has bought a number of online businesses to service this trend, yet for anything more complicated or expensive many travellers still want to deal with someone face-to-face. And with travel crises such as volcanic eruptions, bird flu and even revolutions happening on an almost everyday basis, more and more travellers now want to feel they can pick up the phone and speak to a consultant, who they've built a personal relationship with, when they really need help.

The other factor that has enabled Flight Centre to survive this industry metamorphosis is its innovative "family, village, tribe" concept. The organisation's small, flexible team structure means that, no matter how big the company becomes, each employee still feels like they are running their own business within the business. What this does is keep the company innovative when other large corporations become hidebound with bureaucracy, and the smaller teams are much more profitable too. As Skroo often says, "If our business model is right, external factors only play a minor part". **HRD**



Family, Village, Tribe
by **Mandy Johnson**
is available now
through Random
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