Jan Carlzon

In June 1974, at the age of 32, I sat down behind the desk in the president's office of Vingresor, a subsidiary of the Scandinavian Airlines System that assembles and sells vacation package tours. I'd been selected president after only six years of working life. I had authority over 1,400 employees, many of them roughly the same age as I. My qualifications were no better than anyone else's, and there was no obvious reason for making me president. I was afraid—afraid that I wouldn't be accepted and afraid that I would fail.

I had taken over at Vingresor during troubled times. The 1973-1974 oil crisis had escalated air travel prices so much that passengers shied away from charter trips. It was our job to make Vingresor profitable again.

We didn't have many options. The main functions of a tour operator like Vingresor are to contract for flights and hotels and set up a service section at the travel resort that organizes excursions and activities. Then all these pieces are packaged together for the customer to purchase. The operator's profit is to a great extent a question of cost: the more money invested throughout the various stages of assembling the package, the smaller the profit margin and the greater the chances of losing money. The less invested, the less the risk.

In a sagging market, most product-oriented executives would have cut back on service. But this would only bring in less revenue, creating an even more serious problem. Instead, we chose to squeeze costs. At the time, we had about 210,000 customers, 40,000 of whom had purchased specially priced trips that were unprofitable to us. We decided to drive our costs down so that we could turn a profit even if we fell to 170,000 customers.

But we didn't just chop costs right off. We also restructured the organization, making it more flexible and able to handle more customers should the market bounce back. And the market truly did recover! Because of our flexibility, we easily absorbed the new customer demand and came out of the crisis showing a profit. During the first year of my presidency, we earned the largest profit in Vingresor's history.

In 1978, when I'd been president of Vingresor for just under four years, I was offered the presidency of Linjeflyg, Sweden's domestic airline and an affiliate of SAS. Linjeflyg was losing money and desperately needed a strategy to turn it around. I accepted, becoming, at 36, the youngest airline president in the world.

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My first official act at Linjeflyg reaped benefits long afterward. My first day on the job I invited all the staff members, many of whom were stationed hours away, to Linjeflyg's main hangar at 11 a.m. I climbed a tall ladder and addressed the crowd from 15 feet off the ground.

"This company is not doing well," I said straightforwardly.

> It's losing money and suffering from many problems. As the new president, I don't know a thing about Linjeflyg. I can't save this company alone. The only chance for Linjeflyg to survive is if you help me—assume responsibility yourselves, share your ideas and experiences so we have more to work with. I have some ideas of my own, and we'll probably be able to use them. But most important, *you* are the ones who must help *me*, not the other way around.

I sensed immediately that my speech was making a powerful impact. People left the meeting with a new spirit. They had never expected me to ask for their help. "We thought you were going to come and tell us what you were going to do," many employees told me later. "But you turned the tables on us!"

The experience proved to me once again that nobody was asking me to stand up there and tell everyone what to do. The people who worked for Linjeflyg were delighted to hear their "boss" ask them to participate actively in the company's future.

Before I arrived, the most discussed issue at Linjeflyg had been the uniforms of the female staff members—even though the airline had lost $3 million the year before, carried a passenger load of only 50%, and actually put its planes in the air only 4.8 hours a day (the international average was 7 hours). I saw this state of affairs as symptomatic of a company without a logical or companywide strategy.

At the time, Linjeflyg was a classic product-oriented company: 95% of its passengers were business travelers whose companies had basically resigned to paying the fares that Linjeflyg charged. The fares were determined by the airline's expenses, not by the demands and preferences of the market. The expenses stemmed from the size of the fleet, which was based on a self-imposed requirement that all the big cities in Sweden have a flight into Stockholm before 9 a.m. every weekday morning. Consequently, fares were high and standardized.

At the same time, the company had a conflict in objectives. No one had abandoned profit as an objective, but most of the management shared the political goal of forming a "rounder Sweden" in which even remote areas could enjoy convenient and affordable access to Stockholm. Thus, long journeys cost little more than short ones. This was terrific for the people of northern Sweden but not for Linjeflyg. My immediate priority, then, was to turn losses into profits. If nothing was done, the company faced certain bankruptcy.

The overall business strategy we developed had four points designed to convert Linjeflyg from a product-oriented company into a customer-driven company. Using our fixed resources better—that is, getting the planes up in the air more hours per day—was the first of those points. A second one, just as important, was to establish Linjeflyg as "the world's best airline" in terms of passenger service. And in Linjeflyg's case, good service meant offering convenient timetables, frequent departures, and low prices—not chateaubriand and fine wines.

It is hard to explain to an American audience how audacious talk of the world's best airline sounded in Sweden in 1978. Swedes are not by nature brash. Historically, it has been considered unseemly to call attention to oneself. Even public praise or criticism is frowned upon. In saying that we would become the world's best airline, we were violating the social norm of moderation. For that reason, the impact on our employees and on the public was tremendously exciting.

The other two points of our business strategy, though less visible to the public eye, were equally important in transforming Linjeflyg into a customer-driven company. We decided to spread responsibility among more people in the organization and to streamline administrative resources toward a more profit-oriented approach.

We presented our strategy to the staff at a meeting in Stockholm. I began by explaining that Sweden had been transformed from a static, rural society into one that is vital and spread out. This transformation had created a new need for travel beyond the business transportation that Linjeflyg traditionally had provided. I then laid out the entire business strategy—the concept, the new organization, the new timetables and new fares, and even the ads. It was all very simple and logical—but I was stunned at the response.

The entire affair turned into a kind of revival meeting! When people left, "Love Is in the Air"—our new theme song—was played on the loudspeakers, and everyone was talking about how exciting this new challenge was going to be. The reason for all this enthusiasm was that I had communicated with the staff very directly. Virtually everyone said to themselves, "That's exactly what I've always thought!"

From that day on, the number of passengers skyrocketed. And the variety of our passengers broadened substantially—not just businessmen but young people, retired people, and even families flew Linjeflyg.

Although we took a number of steps to improve the airline, the single most effective change was the dramatic cut in fares. If we hadn't lowered our fares enough, or hadn't promoted the reductions well, we wouldn't have reached any new people. We simply would have been lowering the fare for our established customers. To fill the planes in the middle of the day, we knew the off-peak fares had to be extremely low. We also knew that we would have to increase our advertising budget accordingly.

How much of a financial risk were we taking? I tried to calculate the potential loss on a single route, but the numbers were so enormous that I knew if I completed the estimate I wouldn't have the guts to try it. So I stopped calculating and let my intuition outweigh the mathematical computations.

"All Sweden at Half Price!" was the plain and simple message. And we also offered standby tickets to any destination in Sweden for about $20—a discount of 60% to 80%.

From the employees themselves we received several other money-making ideas. One group of cabin attendants had long been requesting permission to sell chocolates, perfumes, and other items on board. (Part of the reason was that they wanted more to do during the flight!) But the idea had run into a wall somewhere in the upper echelons of the company where a battery of studies had shown that it would be a money-loser. We threw out the studies but placed the challenge for success directly on the shoulders of the flight attendants: "You can try the project if you take financial responsibility for making the plan work. And if so, you will earn commissions on what you sell." They came back with a proposal that we accepted. We made millions from this venture, and the attendants earned hefty commissions.

The results tell the whole story: in the first year, we dropped our fares an average of 11% and our revenue increased from about $84 million to about $105 million. And without adding a single crew member or aircraft, we increased the number of passengers 44% simply by putting our planes up in the air more often.

The SAS Turnaround

In 1980, after two years at Linjeflyg, I was asked to take the job of chief operating officer of airline operations at SAS. By that time Linjeflyg was out of its own crisis and running smoothly. I also felt that I knew what was needed at SAS, so it was easy to say yes to the offer.

The entire airline industry was in trouble at the time. Major carriers had always experienced steady market growth year after year, but because of the oil crises during the 1970s, the market for both passengers and freight had finally stagnated. SAS, whose ownership is shared between private interests and the governments of Denmark, Norway, and Sweden, had a proud history of success, but when I took over, the company was in the midst of its second straight year of losing money. After 17 years of profit, SAS was headed toward a $20 million loss—a sizable sum by Scandinavian standards—and everyone realized that something had to be done.

Many people at SAS assumed that I would cut fares dramatically, as I had done at Linjeflyg, and squeeze costs as much as possible, as I had done at Vingresor. But it wasn't that simple. At Vingresor we were faced with a slumping market, so we had to cut costs in order to make a profit on the customers we were able to retain. At Linjeflyg we had fixed costs, so we had to increase revenues; we did that by lowering fares and increasing the number of flights. But at SAS the situation was different—and required a different approach.

At first when the market stagnated, SAS executives assumed that revenues would not increase, and so they concentrated on cutting costs. For the 30 years between the end of World War II and the first oil crisis in 1973-1974, SAS operated in a stable business environment with little competition. The company's annual revenues could be easily and reliably projected well in advance. The product, prices (allowing for inflation), and so on were fixed quantities, leaving the cost side as the only variable in the equation. To improve the bottom line, the obvious tactic was to close the gap between revenue and costs by cutting costs.

SAS's top management at the time used the standard weapon: the cheese slicer, which disregards market demands and instead cuts costs equally from all activities and all departments. The cheese slicer did succeed in cutting some costs that the company could forgo during a slump. But it also eliminated many services that customers wanted and were prepared to pay for while retaining others of little interest to the customers. In cutting costs, the company was, in effect, slicing away its own competitive strengths. The internal effects of the cuts were just as serious: staff members were sapped of their initiative. In the end, no one felt responsible for controlling costs.

The objective handed to us by the SAS board was to make the airline operation profitable even though the market couldn't be improved. We imposed one condition on ourselves: we would not achieve short-term profitability by selling airplanes, which so many airlines do in hard times. We would become profitable by providing the best service in the market, thereby increasing our share of the stagnant overall market.

We realized that SAS had already cut costs to the bone. Continuing to cut would have been like hitting the brakes of a car already standing still. You might push your foot through the floor of the car and cause permanent damage. Indeed, the only solution for SAS's predicament was to increase revenue.

First we needed a clear picture of the outside world and of SAS's position within it. This meant that we had to establish a goal and determine how to reach it. In other words, we had to create a new business strategy.

We wanted SAS to be profitable in its airline operations even in a zero-growth market such as we were then experiencing. To do this we chose to become known as "the best airline in the world for the frequent business traveler." We had pegged businessmen as the only stable part of the market. Unlike tourists, businessmen must travel in good times and bad. Perhaps most important, the business market has special requirements, and developing services to meet those requirements would enable us to attract their full-fare business.

This was not a fresh or particularly brilliant idea. All airlines know you cannot make a profit without attracting business travelers, because they are usually the only passengers who pay full fare. What was unique was the *way* we determined to achieve this goal. It was the opposite of the cheese-slicer approach.

We decided to stop regarding expenses as an evil that we should minimize and to begin looking at them as resources for improving our competitiveness. Expenses could, in fact, give us a competitive edge *if* they contributed to our goal of serving the business traveler.

So we scrutinized every resource, every expense, every procedure and asked ourselves, "Do we need this in order to serve the frequent business traveler?" If the answer was no, then we were prepared to phase out the expense or procedure, no matter what it was or how dear it was to those within the company. If the answer was yes, then we were prepared to spend *more* money to develop it further and make SAS more competitive. If something was missing, we were ready to add it. In other words, we decided to be 100% better at one thing instead of being 1% better at 100 things.

The result was a unique strategic plan for turning the company around. Far from cutting costs more, we proposed to the SAS board that we invest an *additional* $45 million and *increase* operating expenses $12 million a year for 147 different projects, including launching a comprehensive punctuality campaign, improving our traffic hub in Copenhagen, offering service courses for more than 12,000 on our staff, and restoring the olive in our customers' martinis. It was an enormous risk. We had no guarantee that these additional expenses would bring in more revenue. But it was also our only chance because the option of reducing costs had already been used.

Despite the high risk, the SAS board was enthusiastic. At a meeting in Denmark in June of 1981, the board accepted the plan unanimously and a few weeks later offered me the job of president of the SAS group. So, in the midst of a stagnant market, at a time when we were losing close to $20 million a year, we gunned the throttle.

But it wasn't long before we also hit the brakes in some areas. Along the way we discovered a number of corporate policies and procedures that simply weren't contributing to our goal of serving business travelers. So at the same time we were investing $45 million in the company, we undertook a huge project called Trim, which allowed us to cut $40 million.

Once we had identified the clear goal of serving business travelers, the cuts were easy to identify and we knew that they wouldn't hurt us. For example, business travelers were not interested in helping us pay to maintain a department that promoted tourist trips or one that tried to bolster the position of the airline industry.

SAS had a 40-person market survey department that churned out extensive market analyses. The department served a vital function as long as all the decisions were made by a few executives isolated from the customers. But once we passed responsibility out to the front line, we no longer needed so many market surveys—our decisions were being made by people who had direct contact with the market all the time. So we gave those employees who had been immersed in statistics and computer printouts the opportunity to work out on the front line or to take direct responsibility for certain flight routes.

The same was true for paperwork. With the responsibility so decentralized, we no longer needed as many people involved in writing instructions and policies, distributing them, and ensuring that they were obeyed. So we tossed out *all* the reports. Then we revived only the ones we discovered we really needed.

The whole plan was scheduled to be launched in the fall of 1981. During that summer the pieces were still a jumble, but they fell into place with surprising ease. Why? Not just because of the vision of top management but because people throughout the company were able to see that vision and take the initiative to put the pieces where they belonged. Wherever we did not have a system, the good sense and long experience of the employees saved a lot of time. People sometimes made mistakes, but there was nothing wrong with that. Mistakes can usually be corrected later; the time lost in not making a decision can never be retrieved.

The change in employee attitudes was one of the most significant results of the SAS turnaround strategy. By stating that we would turn a profit by becoming a service-oriented airline, we ignited a radical change in the culture at SAS. Traditionally, executives dealt with investments, management, and administration. Service was of secondary importance—the province of employees located way out on the periphery of the company. Now, the *entire* company—from the executive suite to the most remote check-in terminal—was focused on service.

The frontline employees' efforts were suddenly imbued with greater value within the company. All the employees received special training in providing service and, to many of them, the content of these courses was secondary to the fact that the company was investing time and resources in them. They had frequently gone unappreciated. Now they were in the limelight.

Beyond the attention to service, we were also able to stir new energy simply by ensuring that everyone connected with SAS—from board members to reservation clerks—knew about and understood our overall vision. As soon as we received approval from the board, we distributed a little red book entitled "Let's Get in There and Fight" to every one of our 20,000 employees. The little red book gave the staff, in very concise terms, the same information about the company's vision and goal that the board and top management already had. We wanted everyone in the company to understand the goal; we couldn't risk our message becoming distorted as it worked its way through the company.

There is no question that by diffusing responsibility and communicating our vision to all employees, we were making more demands on them. Anyone who is not given information cannot assume responsibility. But anyone who *is* given information cannot avoid assuming it. Once they understood our vision, our employees accepted responsibility enthusiastically, which sparked numerous simultaneous and energetic developments in the company. The media attributed most of these developments to me. But as the company was now organized, I was only one of thousands responsible for generating profits. The new energy at SAS was the result of 20,000 employees all striving toward a single goal every day.

In fact, few of our ideas were new. The previous management had already seen the need to become more service-oriented. Many of the ideas we implemented had already existed in the form of studies and memorandums.

For example, there had long been talk within SAS of creating a special class for business travelers. This was hardly a novel idea. Air France, British Airways, and KLM had already inaugurated such programs. Now that SAS was dedicated to providing the best service for frequent business travelers, however, there was no question that we should institute a similar plan.

One of our problems was that too many SAS passengers were traveling on discount fares, not necessarily first class but full-fare coach as well. Other European airlines had created a business class by adding a surcharge to full-rate coach. We realized that we could improve our financial situation considerably merely by persuading more business travelers to pay full-fare coach prices. So, on our

European flights, we dropped first class (which had mainly served as the world's most expensive dining room for airline executives anyway) and created "EuroClass," which offered considerably better service for full-fare coach prices. We retained our discount fares but did not promote them heavily at first because we were focusing on business travelers.

Having advertised better service for our EuroClass travelers, we then set out to provide it. First, we made the differences between the classes visible. We installed movable partitions on our aircraft to separate the EuroClass section from the others. At the terminals we provided comfortable lounges with telephone and telex services for EuroClass passengers. We gave business travelers separate check-in counters, more comfortable seats, and better food.

We also differentiated the level of service. EuroClass passengers were ushered through check-in in less than 6 minutes, as opposed to 10 for tourist class. Business travelers were allowed to board the plane last and disembark first. They received their meals first and were provided with free drinks, newspapers, and magazines.

The results were not long in coming. Our financial target had been to increase earnings by about $25 million in the first year, $40 million the second year, and $50 million the third year. To our amazement, we increased our earnings by nearly $80 million *the first year alone*—in a market that was slumping so drastically that other international airlines suffered combined losses of $2 billion. Within three years we had increased the number of full-fare passengers by 23% and discount passengers by 7%, even though the overall market was still stagnant. In 1985 and 1986, SAS's increases in passenger growth continued to outpace overall market growth.

Distinction came in other ways, too. An August 1983 survey by *Fortune* named us the best airline for business travelers in the world. The respected trade publication *Air Transport World* named us "Airline of the Year" for 1983.

In a single year we had transformed a troubled airline with a morale problem, a slipping market share, and lots of red ink into exactly what we said it would become: the world's best airline for business travelers. And we were making a profit besides.

The profit itself, however, was not the most important thing. We might have been able to improve our results more than $80 million by cutting costs even more. But that would have been a short-term solution. It would have left us with dissatisfied passengers, an unmotivated staff, and an even lower market share. What was important was that we had achieved our new level of profitability by investing in the market, in the customers, and in the employees. The net result was not just an $80 million increase but millions of satisfied customers and thousands of motivated employees. In effect, we had acquired a major set of resources for the future.

Setting the Strategy

Remarkably, many business executives begin by devising goals and strategies, and only later back into an examination of the business climate and the customers' needs. Obviously, this is proceeding in the wrong order. How can you know what your goals or strategies should be if you don't have a clear picture of the environment you're working in or of what your customers want? Sadly, by the time many businesses recognize they should have planned the other way around, it's too late.

Given today's increased competitiveness and emphasis on service, the first step must be to acquire a customer orientation. To a certain extent, this means looking at your company and deciding, from the customer's point of view, what business you're really in. For example, is SAS in the airline business? Or is it really in the business of transporting people from one place to another in the safest and most efficient way possible? I think it's obvious that the answer is the latter.

Once you decide what business you're really in, you must determine exactly who your customers are. This sounds easy, but for those sitting at the top of the pyramid—and not working on the front lines, in day-to-day contact with the customers—it can be tricky.

At Vingresor, we realized that senior citizens were becoming an important category of consumers in the travel business. So we worked out a comprehensive approach to attract them to our tour packages.

We—that is, a team of managers like me, just over 30 years old—concluded that senior citizens were fearful of traveling abroad and therefore would want to stay in special hotels filled only with other Swedish senior citizens. No doubt, they would prefer an apartment-type suite with a living room where they could entertain their new friends and a kitchen equipped with a special Swedish coffee maker and Swedish coffee. The social rooms would, of course, have a plentiful supply of Swedish board games and playing cards.

We knew that the tour conductors needed to have some form of medical training and that they should be solid, down-to-earth people—probably ruddy-cheeked, matronly nurses. Special arrangements would be made with a few nearby restaurants to serve Scandinavian dishes suited to our guests' cranky stomachs. And since we assumed that older people prefer getting out and seeing the sights to sunbathing on the beaches, we arranged a wealth of brief excursions, interspersed with plenty of rest room breaks.

We were quite satisfied with our new product but decided to find out what the seniors themselves thought. So we invited a group of about 15 from a Stockholm retirement club for coffee and cookies. We barely sat down when the first one spoke up.

"I just had to tell you that I thought it was crazy that you left Nueva Suecia down at the beach in St. Augustin and instead moved the whole kit and caboodle up to Monto Rojo on the other side of the road," she said. "After all, when we're visiting the Canary Islands, we want to be right at the beach, not sitting beside a hotel pool."

Fine, we thought. This little old lady is an unusually experienced traveler. She can't represent the entire group.

Immediately another woman added, "I don't understand why you've shut down Medaro and started with Los Christianos and Playa las Americos on the south coast of Tenerifa. Medaro was more exciting and more primitive, and that's what suits me best."

All right, we thought. So she doesn't represent the group either.

Then we heard from another one: "Mexico—that's a place I think you should include. We've been to Sri Lanka and Gambia and everywhere else, but Mexico seems *really* fascinating."

And so it continued, until finally not a single retiree there expressed interest in our wonderful product. We thanked them for coming to Vingresor and promptly dismissed all of their opinions. We stubbornly invested $100,000 in beautiful, tabloid-size brochures with huge block letters. And our matronly nurses were left waiting for pensioners who never showed up.

That's what happens when you sit at the top of the pyramid, far from the reality of the market, and you develop a product you think will please your customers. If we'd started by believing the seniors—or listening to our experienced sales staff and tour conductors who knew them—we probably would have ended up mixing the pensioners with the young adults at a hotel that caters to an active life-style.

After you discover what your customers really want, you can turn to establishing your business goals and a strategy to achieve them. These goals need not be complicated. But whatever they are, they should be oriented toward the customer, and you should use them as a yardstick against which to measure your strategy and results.

When I came to SAS in 1981, we decided that our goal was to become the world's best airline for the business traveler. At the time, SAS had just taken delivery of four Airbuses—large, short-haul planes that were technologically modern and had bright, spacious interiors. The four Airbuses alone had cost $120 million and we had ordered another eight.

The Airbuses could be operated six percent more cheaply per passenger mile than the DC-9, our workhorse aircraft. But the Airbuses were also bigger than the DC-9s (240 seats vs. 110 seats), so no savings could be realized unless the Airbuses flew with a full passenger load. And after making the purchase, SAS discovered that its passenger base was too small.

The Airbuses had been purchased based on forecasts that our passenger load would increase from seven to nine percent annually and that cargo would increase rapidly as well. But, with the onslaught of the oil crisis, the market had stagnated. The only economical way for SAS to fly Airbuses from Stockholm to major cities in continental Europe was to fill them up in Copenhagen. They were too big to provide nonstop service from other Scandinavian cities to continental Europe—a service our customers were demanding.

To airline executives who assumed that their passenger market would grow steadily each year the approach of constantly investing in new aircraft made sense—and, indeed, it had helped SAS chalk up 17 consecutive profitable years. But we could no longer afford that kind of thinking now that the market had plateaued. We had to start taking the point of view of our customers, the business travelers. And seen from their perspective, the picture looked very different.

We saw that the only way SAS could use the Airbus economically was to provide poor service to the very customers we were working to attract. How would business executives in Stockholm and elsewhere in Scandinavia prefer to organize their travels? Would they want to fly in our roomy, new Airbuses, even if they would have few flights to choose from and required stops in Copenhagen? Or would they prefer traveling in ordinary DC-9s on frequent, nonstop flights from Stockholm, Oslo, or elsewhere directly to major cities in continental Europe?

To me, the answer was obvious. "Put the Airbuses in mothballs," I said. "Use the DC-9s instead."

Many people at SAS were aghast; it was as if a company had built a brand new factory, only to have the president close it down on dedication day. But it was the decision that made the most sense. I wasn't saying Airbuses aren't fine aircraft; they are. In fact, we have leased them for charter excursions since we stopped using them on our own routes. But to remain competitive in attracting the limited market of Scandinavian business travelers, we had to offer frequent, nonstop flights. And we couldn't do that using the Airbuses.

The Airbus story illustrates the difference between a product-oriented philosophy and a customer-driven philosophy. The classic product-oriented company produces or invests—in this case by purchasing an aircraft—and adapts its operations to the equipment.

In the early days of travel there was nothing wrong with this orientation. Flying was still an event that people considered worth some inconvenience; they weren't seeking good service as much as a novel experience. And it was genuinely important for airlines to keep up with aircraft development because each new model represented enormous productivity gains. During this period the "flag carrier" concept emerged. Airlines from each nation flew to as many destinations as possible, just to put their country's flag there, even if they scheduled only one flight a week.

If a Scandinavian business executive wanted to fly on SAS to Chicago or Rio in 1960, for example, he would plan his trip around our available flights. A loyal SAS customer was perfectly willing to defer to our schedules. The alternative modes of transportation took much longer, and some national pride was involved in his choice of airlines.

Today it works the other way around. When a business traveler plans a trip, he arranges his meetings and then books a flight on the airline that best suits his timetable. If SAS has a convenient flight, he'll buy a ticket from us; otherwise, he won't. That is why SAS now focuses on those destinations that have enough passengers to support frequent flights—and why we cannot use large planes like the Airbus or the 747, for that matter, unless we are able to fill them every day. Our new customer-oriented perspective begins out in the market rather than with the product. Then we adapt the means of production to achieve the best possible product for our customers.

For the same reason that we mothballed the Airbuses we also decided not to replace our fleet of DC-9s when a new generation of aircraft came on the market. We had made all sorts of calculations, but no new airplane was better suited for our business travelers, and thus more profitable for SAS, than the DC-9s we were already using. Our decision was, nevertheless, so unconventional that I myself felt a little uncertain. While visiting another airline, I asked its executives straight out, "How do you arrive at a decision to buy new planes? Is it really more profitable than using the planes you already have? Or does it make your service better?"

A bit puzzled by my question, they replied, "Well, we never made those analyses. It was so obvious that we should buy new planes. We've always done it that way."

Once we had decided not to buy new planes, we knew that we had plenty of time before we would need to replace our fleet. When we began to study the available planes, we noticed that there had been some dazzling technical advances, yet there were surprisingly few refinements in the cabin where the passengers were located. We had the time to develop a new plane that would really be right for us and our customers.

Although well into the 1970s a plane's economic lifetime was much shorter than its technical lifetime (in other words, it was profitable to replace planes long before they wore out), in the 1980s it's the other way around: a plane's economic lifetime is longer than its technical lifetime, and so there are seldom any economic reasons to replace planes.

As I learned more about SAS, I was amazed at how many of its policies and procedures catered to the equipment or the employees, even if they inconvenienced the passengers. Equally amazing was how easy these practices were to spot—and to rectify—by looking at them from the point of view of our target customer—the frequent business traveler.

Early one morning I arrived at Copenhagen Airport on the flight from New York and had to change planes to get to Stockholm. I had plenty of hand baggage, and I was tired from flying all night. Once inside the terminal, I looked around the concourse for the Stockholm gate. There were planes bound for Los Angeles, Chicago, and Rio but none for my destination.

So I asked an SAS employee where the Stockholm gate was. He said that it was in Concourse A—a half-mile away.

"But why isn't it right here?" I asked. "All of us are going on to Stockholm."

Eyeing me with a slight air of superiority he retorted, "Only wide-body planes park here."

"I see," I said. "You mean to say there are a lot of passengers here in Copenhagen who get off the plane from New York and then immediately board the plane to Chicago? Is that why all the wide-bodies are next to each other?"

"No, no," he answered. "They're here because they're all serviced at the hangar right over there."

"But why is my plane at the other end of the airport?" I asked.

"Well, that's because it was operating on Danish domestic routes in the morning and Concourse A is closest to the domestic terminal."

I tried to explain to him that I was standing here right now, not in Concourse A, and it would be nice if my plane were here too.

The problem was that the planes were being positioned at the departure gate that was most convenient for the planes! The ground handlers chose the departure gate closest to the hangar or the gate where the plane arrived.

One often-neglected challenge of developing a business strategy is knowing when to say no to good ideas that don't fit. I remember once asking the late Simon Spies, a sage of the Scandinavian package tour business, why he didn't offer any attractive vacation discounts or special services for children.

"There's nothing wrong with kiddie clubs and all that sort of thing," he said. "But the point is that, in this company, we've decided that what we're selling is vacations for grown-ups—good, simple tour packages for individuals or couples. Children's clubs don't fit into that strategy."

Raising his forefinger, he continued: "Jan, never forget that the hardest part of making good business deals is to resist making bad business deals. I don't care about all the families with children who pass us by, as long as we've decided that we want to do business with another category of customer and are willing to go the extra mile for them."

SAS receives a hundred business offers and proposals a month, many of them quite good. But only a fraction fit in with our goal of providing the best possible service for the frequent business traveler. The rest would require us to dissipate our energy after we have worked so hard to focus it on our goal.

For example, every self-respecting airline is supposed to be represented at the annual international tourist industry convention in San Diego. One year, 20 SAS employees signed up to attend out of sheer habit, but we turned them down. Why should we be interested in a tourist industry convention? It didn't fit in with our business-travel strategy.

Another time, we received permission to fly our Scandinavia-Tokyo route over Siberia. We were quite excited because it meant cutting five hours off the trip, which we anticipated would attract more business travelers.

Then someone suggested that the return trip should take the longer route, with a stopover in Anchorage. His argument was that the plane could then arrive in Scandinavia in the early morning. That way, Japanese tourist groups could begin their first day with sightseeing and save the first night's hotel expenses.

This was actually a very good idea, except for one thing: it had nothing to do with our strategy of targeting business travelers. In fact, it was detrimental to it. Business executives don't want to spend five unnecessary hours in an airplane and arrive wrinkled and tired just when they have to rush off to a business meeting. They would much rather fly the shortest route, arrive in the evening, and pay for a good night's sleep in a hotel.

In contrast to a product-oriented company, where decisions are motivated by product and technology considerations, the customer-oriented company begins with the market and lets *it* guide every decision, every investment, every change.

If we had chosen to be "The Tourist Airline," we would never have mothballed the Airbuses or kept our DC-9s or introduced the DC-10 nonstop service from Stockholm to New York or frowned on the idea of a stopover in Anchorage. We would have bought new and larger planes, scheduled fewer departures, and attracted more Japanese tourists—all of which would have given us lower costs per passenger mile and, therefore, lower fares. Tourists are perfectly willing to wait a day or two as long as the price is low enough. But we had targeted business travelers, and they would rather pay than be inconvenienced. Having targeted them, giving them what they wanted enabled us to remain clearly focused on our chosen strategy.

Our concentration on the business travel market does not mean that we have forgotten or disregarded the tourist market. Just the opposite, in fact. There is an important paradox here: the more we do for business travelers, the easier it becomes to offer low prices to tourist travelers.

The more full-fare business passengers that we have, the higher the revenue per flight. Invariably, however, there are empty seats on flights that, due to the day of travel or departure time, are not attractive to business travelers. Since we generally have a high percentage of full-fare travelers, and those full fares have paid what it actually costs to operate a flight, we can afford to "dump" prices on the empty seats. By selling at a substantial discount what would have otherwise been empty seats, we make even more money per flight. With more money per flight since every seat is sold, our overall revenue is greater and we can then pass the extra earnings on to the business travelers in the form of lower fares for them as well.

That's just what we've done. SAS has the lowest tourist-class fares in Europe today. And the benefits ultimately circle back to our primary market, the business traveler.

Flattening the Pyramid

A few years ago, Werner Tarnowski was appointed to manage the SAS office in Stuttgart. Inheriting an outmoded organizational structure, Werner set three major goals: (1) to cut costs without sacrificing the quality of service, (2) to increase the efficiency of his staff, and (3) to give the organizational structure more flexibility.

The Stuttgart branch operated out of two locations: a ticket sales office downtown, where Werner and other district managers worked, and the airport itself, where the flight-related personnel reported.

The downtown office served little purpose—aside from being a meeting place for Scandinavians staying at nearby hotels—and yet the sales department located there was unable to handle the phone calls from customers and travel agents.

At the airport, meanwhile, the workload for employees was uneven. SAS had only one daily round-trip passenger connection—a flight between Stuttgart and Copenhagen. The plane landed in the evening and took off again in the morning. An SAS cargo plane also made a stopover in the morning. The cargo people in particular had very little to do for long stretches of time.

So Werner decided to consolidate all the employees and services at the airport location and close the downtown office. At the same time he rearranged the organization. He had the passenger-service employees from the airport and the sales staff from downtown teach each other how to do their jobs. This reciprocal training program, intended to introduce new work routines, also broadened the employees' knowledge of the overall operation.

Today, a number of SAS functions in Stuttgart are integrated. The salespeople are now responsible for both cargo and passenger sales. And everybody pitches in to answer phones, sell tickets, check in passengers, handle customer problems, and conduct load checks.

As a result of Werner's changes, the Stuttgart office now costs SAS less money both because one fewer office is open and because the employees' time is spent more productively. And, most important, no services were cut! In fact, service is probably *better* because the organization is more flexible. Now that everyone knows each other's jobs, there is always someone around who can handle the problems of the moment. And for many employees, work has become more fun and challenging.

The Stuttgart story shows that flattening the traditional organizational pyramid works. Any business organization seeking to establish a customer orientation and create a good impression during its "moments of truth" must flatten the pyramid—that is, eliminate the hierarchical tiers of responsibility in order to respond directly and quickly to customers' needs. The customer-oriented company is organized for change.

"Managing" is thus shifted from the executive suite to the operational level where everyone is now a manager of his own situation. When problems arise, each employee has the authority to analyze the situation, determine the appropriate action, and see to it that the action is carried out, either alone or with the help of others.

It may seem like a mere word game to call everyone a manager, but I use the term to remind my staff—and perhaps most those at the upper levels of the old pyramid—that their roles have undergone a fundamental change. If the top executives who were once the managers must learn to be leaders, then those people out in the front lines must make all the operational decisions. They are the ones who most directly influence the customer's impression of the company during those "moments of truth."

Consider the following before-and-after scenario of how flattening the pyramids might make an airline staff better able to serve its passengers' needs.

Let's say that you've pre-ordered a special vegetarian meal for your SAS flight from Stockholm to New York. Nervously, you approach the check-in counter to find out whether your meal has been delivered to the plane.

"I don't know," the agent sighs. "I'm sorry, but I'm busy, and I'm not familiar with the food service."

"But what can I do?" you ask.

"You'll have to ask at the gate," she replies. "They'll certainly be able to help you there."

The agent quickly moves on to help the next person in line. Given no alternative, you go to the gate and ask again.

The gate attendant is friendly, but he doesn't know where your meal is either. "I wish I could help, but I don't have anything to do with food service. Just check with the stewardess when you get on board and things should certainly work out."

Reluctantly, you board the plane. When you ask the stewardess about your vegetarian meal, she is bewildered. She hasn't heard anything about special food orders, but the plane is about to take off and nothing can be done now. "You should have contacted us earlier," she reprimands. "There would have been no problem if only we had known in time."

In this situation, the hierarchical organizational structure has caused the airline to ruin three moments of truth. No one the passenger encountered had the authority to handle the specific problem, and no one dared step out of his normal role to try to solve it.

Let's suppose that the organization has changed its structure by flattening the pyramid and putting a team of people in charge of the Stockholm-New York flight from start to finish.

The team has 15 members, two of whom function as "coaches," one indoors and one out by the plane. The indoor coach sits in on the flight crew's briefing and consults with them about preflight information such as the appropriate time to begin boarding, whether any infants or disabled people are on the passenger list, and whether anyone has ordered a special meal.

In the morning, the indoor team assembles at the check-in counters to solve passengers' ticketing problems, assign seats, handle fragile baggage, and so forth. When a mother arrives with her baby, she is greeted with a smile and told that a suspended cradle has already been put on board and that the seat beside hers will be kept free if at all possible.

When you arrive at check-in and ask about your vegetarian meal, you won't be hurriedly dismissed by the agent behind the counter. Thanks to the new team arrangement, your meal request becomes that agent's responsibility. She can confirm that it is already on board—or take steps to make sure it's loaded by the time you step into the plane.

As more and more passengers check in, the SAS team gradually moves to the departure gate where they nod to their passengers in recognition. They are well acquainted with the flight to New York and can answer all the usual questions: how to transfer from JFK to La Guardia, why there is a stopover in Oslo, the actual flight time, and whether the captain will announce when they are flying over Greenland.

Problems are solved on the spot, as soon as they arise. No frontline employee has to wait for a supervisor's permission. No passenger boards the plane while still worried or dissatisfied.

Furthermore, by giving more responsibility to the frontline personnel, we are letting them provide the service that they had wanted to provide all along but couldn't because of an inflexible hierarchical structure.

Take, for example, the announcements made over a plane's public address system. In the old days, the SAS rulebook included paragraphs that the crew read verbatim. When we gave the employees more flexibility, we encouraged them to toss out the script and improvise in a conversational manner that suited them, the passengers, and the current situation on the plane.

And did our employees take our advice? At least one of them certainly did. On the morning flight from Stockholm to Copenhagen on September 20, 1982—the day after the Social Democrats were returned to power after a six-year hiatus—the captain picked up the microphone and said, "Good morning, comrades." Then he went on to deliver a brilliant political satire.

Now, no instruction manual could have detailed how to address a plane full of businessmen on the morning after a Socialist victory. Allowed to take responsibility for the situation, however, the captain seized a moment of truth that the passengers weren't likely to forget.

On another flight, a curious coach passenger peeked into the first-class cabin. Catching his eye, the purser invited him in and showed him around. After a tour of the cockpit, too, the purser offered him a drink. "How do you like working for SAS these days?" the passenger asked.

"It's wonderful—like being at an entirely new company."

"How, specifically?"

"Well, I can bring a passenger in here and offer him a drink without having to ask any body's permission or write a report later accounting for my actions or the missing drinks."

Of course, the organizational transformation at SAS has not always been smooth and painless. In our hurry to find some quick solutions to SAS's financial problems when I first joined the company, we flattened the organizational structure so rapidly that we certainly stumbled occasionally along the way.

At first, so that the effects of our changes would be immediate, we simply circumvented middle managers and went directly to the front line. The front line, too, bypassed middle managers and came straight to the top for assistance. We responded by issuing companywide memos reaffirming that the front line had the power to make individual decisions.

Initially we met with such fantastic success with the frontline people that we didn't notice anything was wrong elsewhere in the organization.

Yet, the middle managers, who were understandably confused by their new role within the organization, became hostile and counterproductive. We had put them in a completely unfamiliar situation where they were squeezed from both directions. Directives came shooting down from above that conflicted with their expectations and experience. They heard what we said but didn't know how to translate it into practical actions. From below came demands for responsibility and power to make decisions, which they viewed as a threat to their own position.

We had directed middle managers to go out and listen to the people in the front line—to find out what they needed to do their jobs. The managers, however, were not accustomed to thinking of themselves as filling a support function, especially if they are supporting people previously considered subordinates. The word "support" conjures up an image of attending to needs, not administering. At SAS, like at other companies, support and service had always been relegated to a low status. Every promotion had moved people away from serving the customer toward administration.

So, even after we reorganized the company, middle managers continued to sit in their offices lines with regulations books, policies, and directives. And when the people on the front line "broke the rules" to help the customers, naturally the middle managers responded by reining them in. This infuriated the front line.

Although our new strategy of decentralizing responsibility was a big hit with our frontline employees, we had a much tougher time finding the right way to inspire middle managers. For example, once when I was returning to Sweden from the United States, I entered the terminal and was met by a chaotic scene. Apparently the monitors matching up flight numbers with the corresponding conveyor belts that carried the baggage were on the blink, and everyone was madly searching for their luggage.

I suggested to the woman at the information counter that she post a few signs—handwritten, if need be—to alleviate the confusion.

"I wish I could," she responded. "The system broke down last Monday and I told the boss then that we should put up some temporary signs so people could find their baggage. But he said that it would be fixed soon enough, so the signs were unnecessary."

"But that was two weeks ago!"

"I know! But now that an entire week has gone by, he says the monitors are *sure* to be fixed soon."

Back at the head office I phoned the appropriate division head and asked him to give the woman's boss a choice: he could take his handsome desk from his spacious office and move it down to the arrivals terminal, where he could witness the problems personally and continue making decisions about them. Or he could stay right where he was. But if he did, he would have to yield his decision-making power to the frontline people in the arrivals terminal.

The supervisor had not understood that his role had changed under our new organization. In the past he had issued orders and instructions to his staff. Now his job was to serve them by ensuring that they understood their department's objectives and had the information and resources required to meet those objectives down in the arrivals terminal. He wasn't supposed to sit in his office and decide whether or not handwritten baggage signs should be posted.

Much of the fault for this was ours. We had let our middle managers down. We had given the front line the right to accept responsibility, yet we hadn't given middle managers viable alternatives to their old role as rule interpreters. We hadn't told middle management how to handle what might, at first glance, look like a demotion.

Taking Risks

Individual employees—and corporations as a whole—must dare to take the leap. In the corporate world, taking this kind of leap is called "execution." Having a clearly stated strategy makes the execution much easier. It is a matter of courage, sometimes bordering on foolhardiness, combined with a large portion of intuition. These characteristics may be impossible to acquire but, if possessed, can always be developed further.

Unfortunately, many corporate executives are noticeably lacking in intuition, courage, and conviction. The hierarchical company is traditionally headed by people highly skilled in economics, finance, or other technical expertise. These people may be extremely bright, but they are often disastrous decision makers and implementers. They find 10 solutions to every problem, and just as they are about to decide which one to try, they discover five more. In the meantime, opportunities have passed them by. They are faced with entirely new problems and must start the process all over again. Sometimes I suspect they think up new alternatives in order to avoid taking the crucial leap.

Now, I do not oppose analytical thinking. Analysis is crucial, but it must be directed toward the overall business strategy, not toward the individual elements of that strategy. To the rational observer, investing an additional $50 million in improvements at a time when SAS was losing $20 million a year might have appeared reckless. Indeed, it would have been just that had the improvements not been integrated into an overall business strategy.

Before concluding that we needed to make those investments, we analyzed the business environment, formulated an objective, and developed a strategy. Only after we had established a logical context did I take the leap. Once again, I realized that jumping involved a huge risk—but at the same time it was our only chance.

To succeed in executing an idea that no one else has dared to try, you usually have to take a *big* leap. Linjeflyg had tried price cuts earlier—but so sheepishly that the market didn't catch on. Several airlines had launched a business class before SAS did, but they had not made a real dent in the market. Taking small steps, like offering free drinks, won't be enough when you're peering over the edge of a chasm.

Part of the reason many business executives won't leap the chasm is that they assume most things can't be done. Top management at SAS, for example, habitually calculated the odds of obtaining government permission to make a change. Usually determining that the response would be no, they rarely submitted a proposal. Instead, they routinely killed good ideas early in their development with arguments such as "the authorities will never let us," or "that will never work."

I have a saying that helps shake off psychological obstacles like these: "Run through walls." Your goal may seem impossible, but don't stop trying to accomplish it until someone really says no. The walls towering before you may not be as massive as they appear. Maybe they're not stone walls at all but cardboard facades that you can run straight through.

One of the first times I ran through a wall, I did so inadvertently. While president of Vingresor, I heard that Thomson, a major British travel firm, earned $20 per head over and above the money they made on the tour package itself—profits from selling T-shirts, excursions, and so forth. At Vingresor we made less than one-tenth that amount. With our clientele of 200,000 passengers a year, it was obvious that there were millions of dollars to be made.

I explained the situation to Claes Bernhard, one of our marketing people, and charged him with equaling Thomson's success. "Do it whatever way you like," I instructed, "but our minimum target is $20 per customer." Claes launched fantastic promotional gimmicks and arranged in-company sales contests, giving the staff a chance to win everything from cars to cows. Our profit finally crept up to $8 per head but then plateaued. Disappointed and perplexed, I sent Claes to Thomson to find out how they managed to do it.

The people at Thomson were astonished. It turned out that I had misinterpreted the figures. They made $20 per head, all right, but that was their *gross* revenue. Their net profit was actually less than ours had been all along. Now, had I known that from the start, I probably would have been satisfied with the status quo. My misunderstanding, however, inspired me to run through a wall and increase Vingresor's profits substantially.

The biggest wall we faced at SAS—and still ran through—was the one that appeared when we tried to launch EuroClass in the face of strong opposition from other European airlines. The previous year, Air France had instituted a similar business class system. But their Classe Affaires was available only to those passengers who paid a surcharge over the normal full-fare coach price.

When we introduced SAS EuroClass, our aim was to provide better service to those who had already paid the relatively high cost of a full-fare coach ticket. Air France, however, expected us to collect a similar surcharge.

We refused. We once would have acquiesced to our competitor's demands. At the new SAS, however, we realized that we couldn't abandon our business strategy even if our determination touched off a war between civil aviation authorities, which is exactly what happened.

Air France, however, had leverage over us. Commercial aviation in Europe is regulated by a series of bilateral civil aviation agreements among the various countries. In trying to establish a measure of equality regarding production volume, pricing, and levels of service, these agreements, in essence, give each country's airlines veto power over the others' actions. Furthermore, Air France is wholly owned by the French government.

Though it seems extreme for France to terminate its airline agreements with Scandinavia just because SAS refused to charge passengers more money for better service, that was the situation in 1981. The French authorities threatened to stop SAS from flying to France. SAS hasn't always agreed with its governments, but this time we received superb backing; the Scandinavian authorities responded with a parallel threat against Air France.

That put Air France in something of a fix. Whereas using moveable partitions allowed us to adjust the size of the EuroClass section to accommodate the number of EuroClass and discount passengers traveling on each flight, Air France had built permanent Classe Affaires sections on their planes. Thus, their Classe Affaires passenger capacity—and, by extension, their profitability—was physically restricted.

We stuck to our guns, but so did Air France, which received the support of at least some of the other commercial carriers in Europe. It was clearly the most massive wall that had ever loomed before us. We had no choice but to run right through it.

In an effort to keep Classe Affaires competitive with EuroClass, Air France lowered its business fares to match ours and slashed full-fare coach prices even more. We retaliated by lowering our normal fares. A bilateral price war ensued and continued to wage until both the French and Swedish foreign ministers met in Stockholm, with the two airlines in the background, to resolve the conflict. They agreed that SAS could continue to offer EuroClass without a surcharge. Air France, in turn, would be allowed to charge our price in their Classe Affaires and could give slight discounts to those normal-fare passengers who could not be seated in the business class section. (Air France never implemented this system, and to this day they have trouble with their price structure and Classe Affaires seating capacity on their Scandinavian flights.)

Why was this issue so important to us? Because if we had been forced to charge extra on EuroClass flights to France, the whole strategy behind EuroClass would have collapsed. By running through the Air France wall, we established once and for all the principle that EuroClass would cost no more than the full-fare coach. By backing up our commitment to execute our business strategy, we were able to achieve our goal.

Without a clearly enunciated strategy, we never would have received unquestioning support from the Scandinavian authorities. The Air France battle was also a fantastic morale booster for our employees. Everyone united in the fight against an external enemy to uphold a principle we all shared.

Not only must those in top management learn to leap the chasm, but risk-taking must ripple throughout the *entire* organization.

Communication

In 1981, as we were preparing to implement many organizational changes at SAS, we distributed to all 20,000 employees a red-covered booklet called "Let's Get in There and Fight," soon popularly nicknamed "the little red book." The booklet was a tool to help us present our overall vision and strategy and, more specifically, our expectations of the employees themselves.

Many people thought the little red book was far too simplistic for SAS's many intellectual and highly educated employees. It had only a few words, in big type, on each page and was filled with cartoon-like drawings of an airplane smiling, frowning, and even covering its eyes with its wings as it went into a nosedive.

Simplistic or not, the little red book was an effective communications tool internally. Having done away with the old hierarchical structure, we couldn't *order* our employees to do things differently. Instead, we had to convey our vision of the company and *convince* them that they could and should take responsibility for carrying out that vision. The little red book's pictures and words did just that.

Many of the stories I have already told about how we motivated our employees and unleashed hidden energy within the company are really stories about informing, persuading, and inspiring—in a word, communicating. In a decentralized customer-driven company, a good leader spends more time communicating than doing anything else. He must communicate with the employees to keep them all working toward the same goals, and he must communicate with his customers to keep them abreast of the company's new activities and services.

From my first day at SAS I've made communicating, particularly with our employees, a top priority. In fact, during the first year I spent exactly half of my working hours "out in the field" talking to SAS people. The word going around was that any time three employees gathered, Jan Carlzon would probably show up and begin talking with them. It was my way of accepting responsibility and showing that my enthusiasm and involvement were genuine.

In a hierarchical company where the boss issues orders, it is up to the employees to understand what those orders mean. The boss need only make sure that he or she words the message correctly. But in a company like SAS, a leader communicating a strategy to thousands of decentralized decision makers who must then apply that general strategy to specific situations must go further. Rather than merely issuing your message, you have to be certain that every employee has truly understood and absorbed it. This means you have to reverse the approach: you must consider the words that the receiver can best absorb and make them your own.

This may well compel business leaders to use plain, straightforward language. But there is no such thing as an "oversimplified" phrase. It is better to be too clear or too simple than to risk the possibility that one of your employees will misunderstand your message. "The little red book" was a classic example.

Clear and simple messages issued from a leader help establish targets that everyone can work toward. When John F. Kennedy declared, "I want a man on the moon before 1970," for example, he set a target for an entire nation. He wasn't the one who was going to do the actual work, but his vital contribution was this single, brief statement. It steered scientists' efforts in the same direction.

After a speech people often tell me, "That was a phenomenal way of getting across obvious points." I'm not always certain whether they mean it as a compliment; maybe they're not certain either. But I believe I have successfully conveyed my message if what I said has come across as obvious. It means I have found a way to express something that strikes a resonant chord inside the people who are listening to me. I have reached them.

It was this ability to communicate that greatly helped me during my early days at Linjeflyg and SAS. By listening to the employees and speaking in simple terms, I was able to articulate their own thoughts. Not only did their input shape my strategic thinking, but the approach I've described here helped me win their support and, thus, helped the company achieve its goals.

There is no question that the kind of leadership communication I am calling for involves more than a little showmanship. If you want to be an effective leader, you cannot be shy or reticent.

Knowing how to appear before large audiences and persuade them to "buy" your message is a crucial attribute of leadership—almost as crucial as being able to calculate or plan.

Showmanship demands that you sometimes turn yourself inside out a little to communicate the message. The entertainer who fails to give something of himself will never reach the audience no matter how polished the performance. The same applies to the leader of a company.

Only once did I deliver a speech using a prepared manuscript. It was a complete disaster. There was nothing wrong with the content—it was a well-conceived, beautifully worded message. But I was no good at reading speeches.

Conversely, I have given hundreds of talks and lectures relying on no written words—just my own conviction. This allows me to expand a little, talk about something that just happened, or instantly adapt my words to the situation at hand. For example, on the day that I outlined the new business strategy to the employees of Linjeflyg, I had prepared a staid and sober speech about how life in Sweden had changed and how Linjeflyg must also change, but I quickly saw that the atmosphere was far too festive to recite that speech. I had to think on my feet in order to adapt to the excitement of the moment.

The same principles apply to communication outside the company through advertising, public relations, and general "image making." Unless you can communicate your business strategy clearly to your customers, you might as well not have developed it at all. When we began reorganizing SAS, our critics scoffed at our efforts as mere "promotional gimmicks." They claimed we had become too marketing oriented, but in fact we hadn't increased our marketing budget one cent. Rather, we were spending our money more effectively on messages that were easily understood.

Previously, our ads had been vague and generic, with proclamations like "Give the Swedes the World." Few people remember such an ad, and fewer still grasp its intended meaning. So when we introduced EuroClass, we announced "No need to stand in line!" and "As close as you can get to first class on a coach-class ticket!" Far from hype, this was solid information that air travelers could use in selecting an airline.

Communication involves more than just words and advertising images. It also includes symbols. Everything about a leader has symbolic value, from lifestyle and dress to behavior. I recall an example from Linjeflyg, which had the most boring office space imaginable. The president, however, had not only a large, bright office facing the street but also an executive dining room with seating for eight people. Anyone who ate there enjoyed tremendous prestige.

I realized immediately that the executive dining room had to go. Linjeflyg, a small company, was sending out the wrong signals by having such a pretentious dining room. If I began eating there myself, my actions would tacitly condone an image I didn't like. So for the first few weeks I left the building at lunch time and bought a hot dog.

I was still looking for the right opportunity to close the dining room when one of my managers said we should be in better touch with our employees.

"Excellent!" I responded. "Let's start by eating lunch with everybody else. We'll do away with the executive dining room!" Without losing any time, we moved my desk into the dining room and converted my former office into a company conference room that anyone could use—something we really needed.

Meanwhile, the executives began eating their lunch in the staff canteen. It was an unmistakable sign that we were all at Linjeflyg to work together—not so that some of us could occupy large offices. Everyone heard the message loud and clear that something new was happening—that from now on it was results that counted and not prestige.

A leader's ways are watched carefully and adopted by others in the organization. Through their behavior, in turn, the leader's personality starts to permeate the entire company.

All company managements gripe about the bad habits of their staff members. If they were to take a closer look at the patterns, however, they would see that this poor behavior usually originates at the top. Recently we at SAS management became concerned about the tremendous amount of business travel going on in the company. Entire groups were even beginning to travel to other cities just to discuss a few procedural details! What we had not realized at first was that eight members of top management had recently decided to spend a week touring the Soviet Union, a trip only marginally related to SAS business. I intervened and called off their trip, of course, but it was too late to stop the talk that had already spread throughout the company: "If they can do it, so can we!"

Leaders should be aware of how far nonverbal communication can go in illustrating the style that others in the organization should follow. And, in so doing, the leader will be helping create the very image that the organization presents to its customers.

When I first came to Linjeflyg, I traveled around to various airports. Toward the end of one of these visits, I sensed some uneasiness among the staff but didn't know why. Then one employee tactfully pointed out that they were waiting for me to board the plane.

"Is it ready?" I asked. "I didn't hear any announcement."

"No, but if you get on now and decide where you want to sit, we can board the rest of the passengers."

If you indicate by your actions that you are superior even to your customers, then you can hardly call yourself market oriented. I had just come from the intensely competitive tourist charter business where it was out of the question to take precedence over a passenger. So I waited until everyone else got on board and was happy there was an extra seat for me.

Setting a good example is truly the most effective means of communication—and setting a poor one is disastrous! Most traditional managers drape themselves in imperial trappings. But when the customer comes first, you simply can't afford to do that.

Rewarding Employees

On a December day in 1982, every one of SAS's 20,000 employees received a parcel in the mail. Upon opening it, each found a beautiful gold wristwatch with a second hand in the shape of a tiny airplane. In addition, there was a memo outlining new, more liberal regulations governing free trips for employees (an employee benefit at every airline in the world). Also included was a second "little red book," entitled "The Flight of the Century," and an invitation to a party. Finally, there was a letter from me, printed on quality parchment paper, thanking them for the great job they had done during that year in which SAS had vaulted from its worst loss ever to the biggest profit in its history.

Everyone realized, of course, that the letter was preprinted and that all SAS employees had received identical copies. Nonetheless, they understood that it was meant to be personal, as evidence that we, in top management, had appreciated their superb individual efforts.

We had asked 20,000 people to go the extra mile for a year to help pull SAS out of a crisis. Now they deserved our thanks in equal measure; sooner or later you have to step off the track for a breather. Everyone needs to hear that they have done a good job. It's part of what motivates people and helps them maintain their own self-respect and motivation.

Our "reward" plan had two phases: awarding an individual symbol of recognition, the watch, followed by a joint symbol, the party. The watch was a particularly appropriate gift. Not only was it an expression of our gratitude but it tied in with our successful effort to become the world's most punctual airline.

The second phase was the party. We intended this joint symbol of recognition to underscore the fact that SAS is actually a *group*, albeit a very large one. We held parties all over the world to do it. Four thousand people attended the one in Stockholm alone, including mechanics, pilots, loaders, pursers, air hostesses, secretaries, salespeople, computer technicians, and everyone else, all of whom recognized that we had achieved something collectively—not just individually.

The SAS parties had their predecessors at Linjeflyg. There, much the same story had unfolded: because of the tremendous involvement and enthusiasm of the staff, we were able to transform the company and dramatically improve profits.

The Linjeflyg party should have been easy to organize. Since half of the company's 1,200 employees worked nights and the other half worked days, however, the only time to have a party was when everyone was off work—between midnight and 6:00 a.m. Given that constraint, we flew our staff into the Stockholm airport one evening, held our party in an airplane hangar, and flew them back out early the next morning. A hangar may not seem like a festive location, but all who were there will tell you it was a great party. In fact, it was the first opportunity for everyone at Linjeflyg to meet at the same time.

Though the parties and watches may come once a year, employees work hard on a daily basis, often with little or no recognition. Unfortunately, in many companies the only thing that gets attention is a mistake. Whether you do a good job or a poor job—or even if you do nothing at all—no one will bother to comment. It can be disheartening if no one notices when there are slumps or problem-ridden periods. "Does it make any difference if I bungle my job? Doesn't anyone notice it? Why should I exert myself?"

Everyone needs to feel that their contributions are noticed. The work we do and the recognition we get for it contribute to our self-esteem. Especially in a service-oriented business where employees' self-esteem and on-the-job morale have an enormous impact upon customer satisfaction, a word of well-deserved praise can go a long way.

Of course, praise generates energy, but only if it is justified. Receiving unmerited accolades can be an insult that reveals indifference on the part of the bestower. At SAS, for example, we once "thoughtfully" sent thank-you notes to all of the employees who had pitched in to alleviate the effects of a strike. But our effort was not administered carefully, so that even people who had nothing to do with the strike were congratulated. Our good intentions backfired as confusion and resentment ensued.

For a company that has flattened the pyramid, it becomes particularly important to reinforce the self-worth of individual employees. The old hierarchical structure placed great emphasis on the trappings of power such as offices, titles, and salaries. "Promotion," in hierarchically structured companies, has often meant moving talented people from important jobs to positions of no real substance and increasing their salaries. Many highly competent employees end up merely passing on decisions made by higher-ranking executives.

There is no question that symbols are important. The Chinese army once tried to do away with all visible forms of rank. What arose in place of honorific badges and metals was a hierarchy of chest-pocket pens: the number, color, and size of one's pen indicated one's rank.

I believe an organization that rewards its employees with real job satisfaction and a genuine sense of self-worth is more honest to itself and its staff. A better reward for doing a good job is being awarded well-defined responsibility and trust. Helping talented people blossom and develop is one of management's toughest challenges. Resorting to empty promotions as the way of showing appreciation is tantamount to a confession of failure.

The Second Wave

By 1984 it must have seemed to the outside world that SAS had accomplished its goals and could breathe a well-deserved sigh of relief. Passengers were responding positively to our improved service. Our finances had recovered much more quickly than any of us had dared hope. And *Air Transport World* had just last year named SAS "Airline of the Year." We had achieved everything we had set out to do.

Yet for me, 1984 was a year of agony. I was quickly learning yet another lesson about running a business organization: when you reach your goal, you may become a prisoner of success. As Roald Sokilde, our Danish regional manager, observed, it's tougher to win peace than to win war.

During my first years at SAS, the entire company was unified behind a single, logical goal that everyone could back: "We must become profitable! We cannot be profitable by buying, investing in, and selling aircraft. We have to become profitable by being a service-oriented company that earns its money by being number one at service!" That overall goal was clear and unmistakable, and we had a wealth of evidence that it had penetrated everywhere and was accepted by almost everyone. Between 1981 and 1984 all our forces were aligned, and each and every person was striving to surpass his previous best efforts.

But now we had arrived at our objective—before we had given much thought to what we wanted to accomplish next.

The absence of new goals was producing some negative effects at SAS. The atmosphere of togetherness was eroding. The purpose of our work began to be questioned frequently. And our employees' new-found energy began to be redirected toward narrower and more personal objectives. Now that SAS had once again become so profitable, various groups of employees had different ideas about how these profits should be used. One group, for instance, pushed for the purchase of new aircraft. Another decided it was time for SAS to pay its employees higher wages.

Now those interests began to compete against one another. At first it appeared that top management could do little to arrest the deteriorating conditions. We had expressly divested ourselves of the terms of control usually marshaled to bring employees into line. We couldn't issue orders and directives to bring about a renewed buildup of strength. Still worse, we were fully aware that SAS was not completely out of the woods. The immediate crisis had passed, but we had to double profitability to survive over the long run. We needed a new, tangible goal that every individual SAS employee could embrace.

In retrospect I realized that in 1980 we should have set an ultimate, long-term goal and viewed immediate profitability as a short-range subgoal. It would have been much more effective to have told our employees in 1984: "This is where we were in 1980 and this is where we are today. Thank you for all the work you've done to get us here. Now we're going to continue on to our next goal, which is over there."

Instead, we ended up on the defensive.

I had racked my brain for an objective that would engage everyone at SAS. I had asked everyone I encountered in the company: "Is there anything that will grab the interest of every SAS employee? What do people think about while they're on the job? What worries them? Where do we face a common threat?"

One concern was voiced again and again. For years, SAS and the other European airlines had operated in a highly regulated environment that protected us from the cut-throat competition we had seen develop in the United States after its airline industry was deregulated. But what if deregulation came to Europe? What would happen to our cozy market niche if suddenly our competitors were allowed to go after our customers virtually unrestrained?

Here was a tangible threat that could affect every SAS employee. Could we transform it into a positive, new objective around which to unite the company's resources? Could we establish a goal of developing our company not just to survive in a world of free competition but to expand and excel in such a world?

It felt as if we had struck the right chord immediately. We hadn't invented a goal. Rather, we had developed one out of a concern that had been there all along.

Having identified our goal, we moved on to designing new strategies. First we studied the effects of U.S. deregulation. The new business environment inevitably puts a squeeze on revenue. Competitors lower their prices; new entrants appear on the scene. Companies must fight to maintain their positions, and revenue no longer flows automatically.

It is no coincidence that U.S. airlines are more efficient today than they were in a regulated environment (they have cut their costs by roughly 25%). Neither is it a coincidence that they are more efficient than we Europeans are. To survive in a business environment where market share and revenue are no longer givens, a company must be able to reduce its costs.

If we centered our new campaign only around increased efficiency, however, we might wind up with the same result we faced in 1984. Perhaps it would work for a year, but concerns would once again rise about matters such as safety or technical standards. At worst, an overzealous efficiency campaign could hurt the quality of service, and that would be fatal. Having established a vital and profitable organization based on high-quality service to business customers, we couldn't afford to destroy it in the name of efficiency. We also couldn't leave ourselves open to the charge that we were sacrificing safety. Efficiency had to be part of a larger strategy. But what?

At this point, we turned to SAS's impressive history of meeting the challenges of the times. When the commercial airline industry was growing in the 1950s, SAS was at the leading edge of operative developments—important advances in navigation, improved techniques for flying in bad weather, increased safety during takeoff and landing, pioneering short cuts through polar routes, and so on. All were driving forces behind the business.

During the 1960s and 1970s, SAS was at the forefront of technical developments of the aircraft themselves, which, during those decades, was the most important advance. SAS was the first airline to buy and fly the Caravelle and the French-built jetliner with twin engines in the tail, and was active in developing the DC-9, which became our workhorse airplane.

The 1980s, of course, ushered in a new market situation with a greater emphasis on competition. This time the technology itself became secondary to the focus on service and customer orientation. We came out on top once again and were named "Airline of the Year" for 1983.

In other words, every decade had had its own characteristic competitive situation, and SAS had unfailingly taken the lead in each. Building for the future had to involve not only increased efficiency for the short term but also a reinforcement of all three areas—operations, aircraft, and service—that had made us a great airline in the past.

So we decided on this strategy: SAS would work efficiently and skillfully to survive in a free-market situation. We would remain committed to unwavering quality in the vital areas of operations, aircraft, and service. Upon this firm foundation we would mount a determined drive to boost efficiency and hence stride with confidence into a competitive and deregulated market.

How does this translate into concrete terms? Our overall strategy of catering to the business traveler will not change. In addition to sustaining that goal, we will tackle three new areas of development.

First, in an era of free competition, we must become at least 25% more efficient, as the successful American airlines have done. We will not achieve this goal through across-the-board cost-cutting. Instead, we will approach costs as we did in 1981—as a resource for improving our overall profitability. By cutting some costs and using others more effectively to increase revenue, we hope to "do more with less."

Second, we need to set up a system of communication, information, and reservations that will give us a firm grip on our entire market. United and American have already established their own reservation and information systems, partly to maintain their current leading positions and partly to penetrate new markets, including those in which SAS is now strong. We must follow suit or be forced to purchase our reservations and information services from an outside source—maybe even from a competitor like United or American.

Third, we must develop a more competitive system of routes, flight frequencies, and departure times. In part, this will entail adopting the hub-and-spoke example of U.S. airlines. And that, in turn, will require giving greater attention to Copenhagen Airport. Copenhagen is our gateway airport, our counterpart to London, Paris, or Frankfurt. People have long considered Copenhagen Airport less attractive than the others, but we must change their perception if we are to prosper. To that end, SAS and Danish authorities have budgeted $800 million for renovations and expansion.

The ultimate goal: by 1990 SAS will be the most efficient airline in Europe. We will have a competitive, worldwide network of routes. We will be market leaders in quality and safety. We will be able to compete profitably on all distances and with all sizes of planes. By then, we will have the financial strength we need to modernize our fleet, and a "Three-P Plane" will probably be a reality. We will have turned the threat of possible deregulation into an opportunity to secure an even more formidable market position.

We called this "the second wave" at SAS. It differs from the first wave in one crucial respect: we are trying to be more patient. The first time, we hot-wired the entire system and went straight to the front lines and the market to sell the strategies. On the brink of disaster, we had no alternative. Now we have a little more time to present our plan and ensure that each of our employees accepts and fully *understands* its implications for their individual responsibilities.

The early evidence tells us we are still on the right strategic course. The Danish business paper, *Boersen*, ranked us first for having the best corporate image. Also, *Air Transport World* announced that they selected SAS's passenger service as the best for 1986. Wanting to share this prize with our employees—they're the ones who really earned it—we distributed to all 20,000 a solid gold heart. It is a small but tangible symbol that each individual is at the heart of our success.