1996

The Rolls Royce of turnarounds

Bankruptcy, nationalisation, bailout, privatisation … the aircraft, power generation and marine engine maker Rolls Royce has had a chequered history over the last forty years. In the 1990s the company was back in private ownership but not yet out of trouble, and embarking on a make-or-break programme of total re-organisation and culture change. Enter London Business School …

“People may not remember it now with Rolls Royce riding high, but back then it was really touch and go for the company,” recalls Tim Hornblow, who was appointed head of management education programmes for Rolls Royce in the early 1990s. “We had come out of public ownership in the late 1980s but we were still largely dependent on Ministry of Defence contracts and a handful of civil aviation customers. We really could have gone bust again.”

A great British company in deep trouble

Despite being universally recognised as one of the great British manufacturing companies with engineering skills and technology second to none, Rolls Royce had already gone bankrupt once in 1971, overwhelmed by the cost of developing a new large jet engine, the RB211. Difficult years followed, both as a nationalised company and then a privatised one, as Rolls Royce struggled to win over investors and customers. Despite a number of successes, by the time John Rose took over as CEO in 1996, the company’s share price was counted in pennies not pounds, its market share was below 10%, and it was desperately in need of regeneration.

“The old Rolls Royce was an engineering company through and through, not a customer company. “There used to be a joke in the company about how they did not really like to sell engines,” says Jules Goddard of LBS. “Their engineering standards were so high that it was said they interviewed customers to see if they were worthy of owning a Rolls Royce engine. It was a joke, but there was truth in it.”

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“John Rose was recognised as very strategically astute,” says Hornblow. “He understood that we had to iron out the inherent volatility of the civil aerospace market and that to do it we needed to expand in different, complementary markets and grow aftermarket services by offering customers a complete lifetime care package. The question was how to develop the organisation to do it.”

Are you good enough for us?

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“It was difficult, because all we knew for sure was what we didn’t want,” says Hornblow. “We didn’t want a ‘staff college course’ – we wanted something that was both more pragmatic and more inspiring. So, we saw a lot of business schools. We saw people who just came and told us what we needed – they dropped out early. We saw people who told us they wanted to work with us because it would be good for their corporate CV. They dropped out too. But with LBS we felt they were willing to respond to us – for example Jules Goddard and his colleagues came and talked at length to just about every senior executive in the company before we even began to devise the programmes.”

The approach that Goddard and other members of LBS eventually developed was all about changing the culture of a company that was yet to find a way of realising its ambitious strategic aims. By the early 1990s, Rolls Royce had already been through some wrenching times, but the deepest changes were yet to come.

The new Rolls Royce

In the 1980s, under the previous CEO Ralph Robins, the company had abandoned an agreement to produce components on license for General Electric of the US, and embarked on a programme of developing engines for every important segment of the civil aviation industry. It also shed around a third of its 60,000 workforce in the decade from 1990. But what was still missing was a leadership culture that put international customers first.

“At Rolls Royce we did already have an extensive framework for management development,” says Hornblow. “What we didn’t have was a programme for fundamental change.” But he adds, “after we started with the LBS programmes, what was really challenging was learning how to learn from the sessions. At first we didn’t know how to use them – but we got better. And in the end these programmes developed and cemented a lot of senior relationships in the company, relationships across the different businesses, because a key unwritten objective was for people to learn from different parts of the business.”

Out of the comfort zone

Working with LBS helped the company
go on to develop a series of programmes designed to build leadership capabilities and international business awareness at all management levels, says Hornblow.

“Programmes were held as far away as possible from the company’s geographical comfort zone in countries like China, India or Indonesia, working with local business people and organisations, and always avoiding ‘western standard’ hotels, staying instead in the same places that local businessmen would use.”

The path to self-knowledge

“I don’t think our role was primarily to teach,” says Goddard. “Our role was to pose questions, and to lead individuals through a process of self-knowledge. But it was difficult, challenging for everyone. There was John Rose sitting on a stool, talking, listening, talking, and the managers who had never experienced anything like this could find it really nerve-racking – many of them were so nervous at the beginning you would see them sitting there with their shirts absolutely soaked with sweat.”

Both London Business School and Rolls Royce acknowledge that this was a management education programme of high ambition. Were the ambitions realised?

“Rolls Royce was already changing, but the LBS programmes were instrumental in creating a management team that could sustain that change,” says Hornblow. “You have to remember the situation we were in, a period when shareholders got very little value out of Rolls Royce for at least a decade. It took a long, long time before we started to feel that maybe we were out of the woods, but it happened and London Business School played a significant role in that.”

The figures look better now

The Rolls Royce of today certainly looks very different from the company that Jules Goddard went to see in the mid-1990s. In the last ten years alone, its share price has risen by more than four times, while its market share is now close to 50%.

“I think it remains one of the most important executive education programmes we have been engaged in,” says Goddard. “Important in terms of the depth of the relationship, the length of the programme, and certainly in terms of the transformational impact. It was special, because it was a true partnership.”

Jules Goddard is an Associate of the Management Lab at London Business School