From Disaster to Crisis: The Failed Turnaround of Pan American Airlines

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This paper is dedicated to the memory of the victims of the bombing of Pan Am Flight 103 at Lockerbie

The academic and corporate analysis of crisis management achieved considerable impetus during the latter part of the 1980s with the occurrence of a number of major incidents which captured media attention. The terrorist bombing of Pan Am Flight 103 in December 1988 was one of the largest loss-of-life transport incidents of the decade and had serious implications for the integrity of the corporation. The bombing, whilst a discrete crisis event in itself, was part of a longer history of crisis through which the company had passed. The purpose of this paper is to explore the managerial response to crisis events within Pan Am and offer an assessment of the factors that ultimately led to the collapse of the corporation in 1991. Throughout the paper, attempts will also be made to set the events within the context of current thinking in crisis management and, in particular, to examine the demise of Pan Am within the context of a number of models of turnaround management developed within the literature.

Introduction

Crisis management is a complex, highly inter-active process which necessitates a considerable degree of strategic thinking on the part of management before the onset of a crisis event (Greiner, 1972; Mitroff, 1988; Pauchant and Mitroff, 1988, 1992; Mitroff, Pauchant, Finney and Pearson, 1990; Smith, 1992b). Whilst such a statement may seem to be obvious, the uptake of crisis management ideas by corporations has been limited, despite the attention that has been drawn to the problem in the wake of a series of spectacular crises throughout the 1980s (Shrivastava, Mitroff, Miller and Miglani, 1988; Booth, 1990; Mitroff and Pauchant, 1990; Smith, 1990). This paper seeks to address the implications of crisis turnarounds for organizations by an examination of the demise of the Pan Am Corporation in 1991. The terrorist bombing of Pan Am Flight 103 serves to illustrate the complexity of the crisis management process for organizations. In particular, the impact of the bombing and the inter-relationship between that event and other crises faced by the company, provides an opportunity to explore the issues of post-crisis turnarounds within the context of a theoretical framework (Smith and Sipika, 1993).

It has been argued elsewhere, that the process of crisis management can be considered to occur in three phases; namely, the crisis of management, the operational phase and the crisis of legitimation (Smith, 1990, 1993). The demands of each phase will create a series of *specific* requirements for managerial action in order to prevent a crisis or limit its impact. A series of organizational characteristics and factors — termed the 7Cs of crisis management — have also been identified as being of importance within each of the three phases (Smith, 1992a, 1992b) and they assume particular importance throughout the process of turnaround strategies (Smith and Sipika, 1991, 1993). The 7Cs are held to lie at the heart of the strategy process and interact closely with, what has been described as, the 'cultural web' of the organization (Johnson and Scholes, 1988; Smith, 1992b) (see Figure 1). This interaction is held to be of importance in determining the organization's ability to effect crisis turnaround, due to its effect in setting the 'climate of crisis incubation' which is a key determining factor in the 'crisis of management' phase (Smith, 1990, 1992b; Smith and Sipika, 1993). In order to explore these issues in more detail, it is first necessary to examine the process of crisis turnarounds in more detail.

Crises can generally be considered to exist in three phases (Smith, 1990, 1992a, 1993) (see Figure 2). The first phase, the crisis of management, sets the potential for crises. It is here that the organization's culture and communications serve to incubate the crisis until a trigger event propels the organization into the operational phase of the event. During

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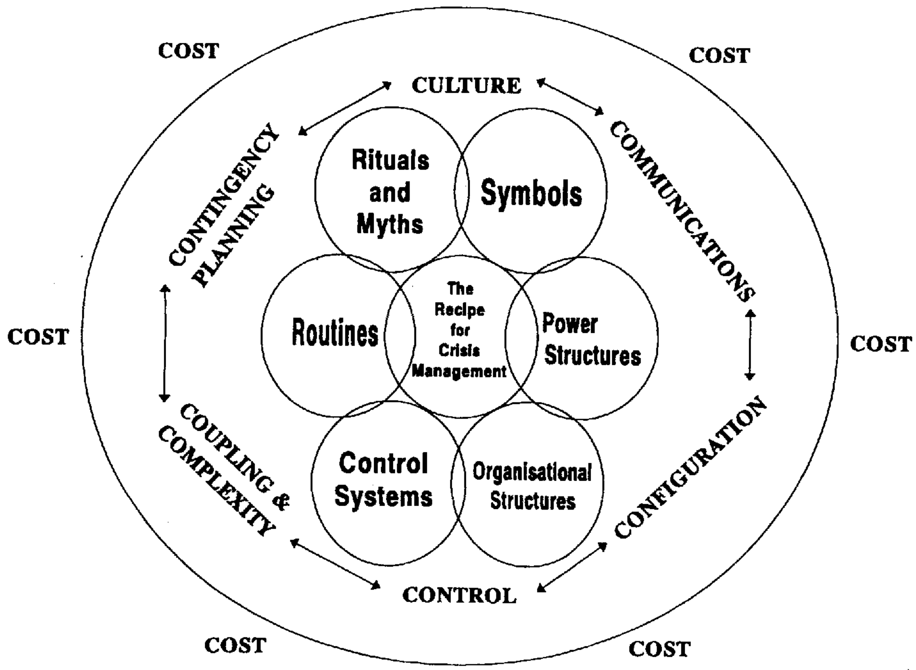
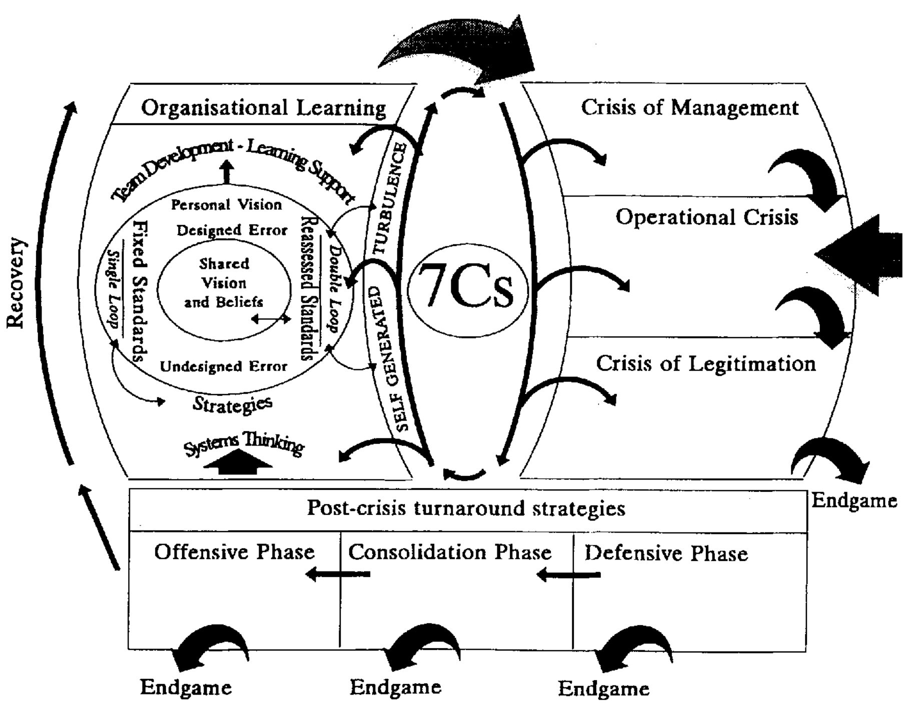


Source: Smith (1992b: 266)

Figure 1: The cultural web and the 7Cs of crisis management



Source: Smith (1993)

Figure 2: The process of crisis management

this phase, the complexity of the technical and organizational systems which are playing host to the crisis event, are stretched to their limits. This opening phase has much in common with the development of a crisis prone culture (Kets de Vries and Miller, 1987; Miller, 1988; Pauchant and Mitroff, 1992) as the potential for crisis events becomes incubated within the organization. As a result of the interaction between an organization's core beliefs, managerial assumptions, structure and strategy, it is possible for them either to be prepared to deal with crises or to allow such interactions to escalate relatively minor events into catastrophes (Perrow, 1984; Reason, 1987; Pauchant and Mitroff, 1992). Following on from this developmental period, organizations move into the operational phase of the crisis. Here they become typified by the convergence of people and materials and by the presence of high-energy levels. Confusion is the hallmark of this period, as the degree of coupling and complexity within the technical and organizational systems becomes exposed and small trigger events escalate to major incidents. After the confusion and energy levels associated with the event have subsided, the organization moves into a crisis of legitimation. Here organizations that fail to cope with the crisis risk moving towards endgame; that is, organizational demise. Those organizations that contain the immediate impact of the crisis will need to adopt a turnaround strategy. It is with a discussion of such turnarounds that this paper is concerned.

Crisis turnarounds

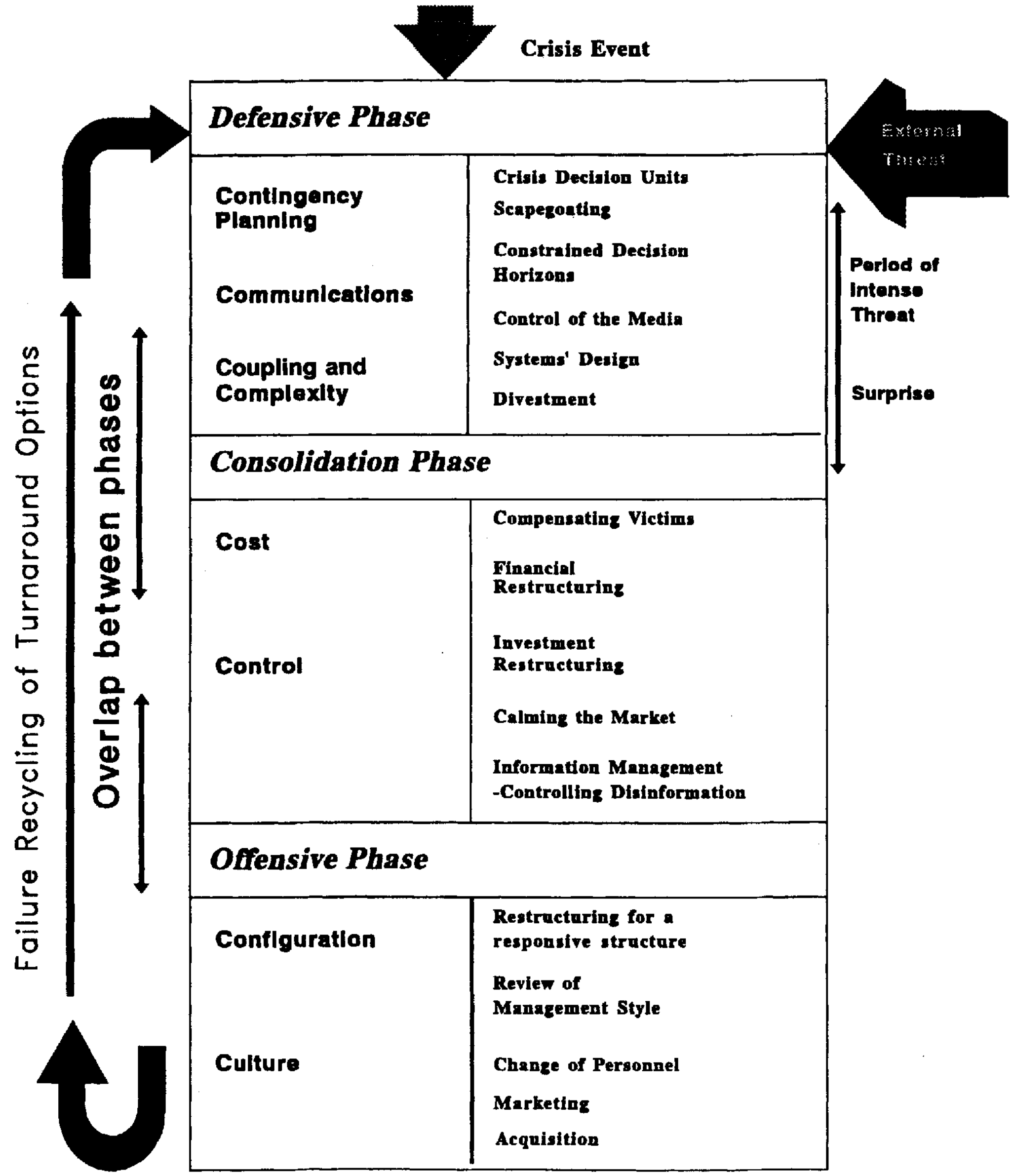
A number of models of the turnaround process have been developed within the literature (Schendel, Patton and Riggs, 1976; Argenti, 1979; Harrigan, 1980; Bibeault, 1982; Slatter, 1984; Peters, 1987; Scherer, 1988; Hoffman, 1989; Thain and Goldthorpe, 1989a, 1989b, 1990). Whilst these models have been mainly derived for economic recovery, they still have implications for post-disaster recovery, of the type experienced by Pan Am after the Lockerbie bombing. As already argued, crisis events bring in their wake a legitimation process wherein the organization has to regain the confidence of the public, government, shareholders or other stakeholder groups (Smith, 1990). The requirements of this phase necessitate that managerial attention be paid to the key elements of turnaround before the onset (or operational phase) of the crisis event. If one examines the turnaround literature then a number of key elements emerge and these can be summarised in Table 1.

It should be noticed that turnaround management can occur at the strategic or operational levels and can either be defensive or offensive. Within this matrix, three main groups of turnaround can be identified: managerial, organizational and financial (Scherer, 1989). Others see the process in terms of management, organization, operations and strategy (Thain and Goldthorpe, 1990). In all cases it is possible to see the strategies employed as being defensive, offensive or occupying a period of consolidation. Within the literature a number of generic turnaround strategies have been suggested (Bibeault, 1982; Slatter, 1984; Hofer, 1988; Hoffman, 1989) and these are grouped under the headings suggested by Thain and Goldthorpe (1990) in Table 1.

Effective turnaround strategies would draw upon such options to create a 'recipe' that was appropriate to the organization in crisis. In addition, it has been argued elsewhere that there are seven key elements which act in combination to create the potential for crisis (Smith, 1992a, 1992b) and which can be used as a framework to effect turnaround (Smith and Sipika, 1993). These 7Cs of crisis management will adopt varying degrees of importance according to the phase of turnaround in which they are to be used. Figure 3 serves to illustrate the relative importance of these elements in the defensive, consolidation and offensive phases of the turnaround process. Within the context of this paper it is proposed to use these frameworks to analyse the attempts to turn the Pan Am Corporation around over the period 1980–1991. These events now need to be outlined in order to provide a firm foundation for the more detailed discussions concerning the Lockerbie bombing and the company's eventual failure.

Table 1: Forms of turnaround

Strategic		Operational
Defensive		Offensive
Management	*Organisational*	*Financial*
Replace the CEO	Organisational change and decentralisation	Impose strict financial control
Restructure		
Change Product/ Market focus	Restructure/realign the organisation to its environment	Achieve growth via acquisition
Improve marketing	Realign corporate values	Reduce cost structures
Improve public relations	Make changes in communications' practices	Restructure debt provision
		Asset reduction
		Investment appraisal



Source: Smith and Sipika (1993: 33)

Figure 3: The model of turnaround

Pan Am: A crisis-prone organization?

Pan Am was, for many years, the premier airline in the USA with a history of international travel stretching back to its foundation in 1927 by World War I navy pilot, Juan Trippe, who flew US mail between Florida and Cuba (Bickerstaffe, 1990). Ostensibly the company saw its market in an international context rather than a domestic one and operated in much the same way as 'national' airlines like British Airways and Air France, with a corresponding image amongst US passengers (Gaunt, 1990). Whilst aviation was regulated by the US government, the organization was, to some extent, protected from excessive competition on its main routes. This meant that Pan Am was largely insulated from the ravages of the free market in that the government created barriers to entry for new US carriers on international routes. This position was overturned with the advent of deregulated US air travel in 1978 which left Pan Am severely exposed and open to increased competition.

Internationally the airline had built up a formidable route network but senior executives had realised for some time that the way forward was to increase the feeds to these services. The inconvenience to passengers of having to change from a 'domestic' airline to Pan Am for international travel was sustainable within the marketplace only as long as regulation was in place on international routes. In anticipation of the problems of deregulation, Pan Am had repeatedly requested the US government to allow them to operate a number of domestic routes but Trippe, the company's founder, had made many enemies in Washington and permission was constantly refused (Heckscher, 1991). As long as government regulation existed, the weakness of feeder routes was a constant restriction to the company's growth. However, with the advent of deregulation, the lack of feeders became a distinct, rather than a potential, threat.

In order to overcome these difficulties, Pan Am sought to develop the domestic feeder system it needed through the acquisition of National Airlines in 1979. However, the purchase of National was deemed a strategic error, given that the cost of the acquisition was excessive in terms of cash and because of incompatible aircraft and routes alongside a range of inherited labour problems (Gaunt, 1990; Heckscher, 1991). The lack of adequate domestic feeder flights following the advent of deregulation, combined with the problems arising out of the ill-fated acquisition of National, bode ill for Pan Am's success during the 1980s (Betts, 1990) and created the potential for crisis which was incubated during the remainder of the decade.

Following the purchase of National Airlines and the sale of its prestigious New York offices in 1980 to release assets, Pan Am appointed Edward Acker, formerly of Texas Air, as Chairman in 1981, in order to lead the corporation's essential restructuring programme (Cassidy, 1988). The early 1980s were indeed difficult for Pan Am as it found its international routes under fierce competition from 'new entrants' into the international market such as Laker Skytrain and People's Express. This, combined with the ensuing price war that occurred between the airlines (Donne, 1981), exposed Pan Am's financial and organizational weaknesses.

One of Pan Am's initial problems was that it found itself in the post-deregulation 1980s with an inflexible and heavily unionised work force together with a mixed aircraft fleet of varying standards. This, coupled with the company's management culture, developed during the secure regulatory years, was to prove to be a problem in the future. With Pan Am's fortunes waning during the highly competitive 1980s, the organization's management adopted a strategy of selling assets to raise essential capital. Prior to Acker's appointment, the organization had already sold its prestigious New York offices to Metropolitan Life in what appears to have been Pan Am's choice of funding the acquisition of National Airlines. In 1981, it sold its Intercontinental hotel chain to Grand Metropolitan in what could be construed as an attempt to focus the business. More likely, this sale reflected the realization that the posting of a $US386.9 million loss would not be acceptable to stakeholders. As a consequence of the sale Pan Am declared a $US18.9 million loss (Pan Am, 1982) for the year and this slowed the company's decline.

In 1982, however, the environment within which Pan Am operated became more turbulent and hostile and the company's operations became the subject of fierce competition from the new deregulated airlines. This competition was particularly felt on the trans-Atlantic network which suffered heavily from the price war affecting these routes since 1981 (Donne, 1981; Pan Am, 1983). As a result of this intense price war, Pan Am was the target of a lawsuit from Laker Airways which alleged a conspiracy to price Laker Airways out of business through the operation of a cartel between Pan Am and other carriers such as British Airways, Air France and Trans World Airlines (Donne, 1982). The upshot of these events resulted in a $US485.3 million loss for 1982, of which $US142 million was allocated to the costs of Acker's planned restructuring program (Pan Am, 1983).

1983 saw the implementation of the company's restructuring programme; with an extensive plan for staff reductions and route revisions. Acker's intention was to focus airport operations around a hub network based at the airports of New York, Miami, Los Angeles and San Francisco. Within this strategy, Pan Am's aircraft types were reduced and consolidated by sale or exchange deals with American Airlines. Pan Am swapped its Lockheed L1011 long-range jets in return for Boeing 747s and cash; Acker deciding that the company would focus its transport requirements on Boeing, with whom Pan Am had a long relationship, and concentrate the Pan Am fleet on the Boeing 727, 737 and 747 aircraft. Acker's consolidation program enabled Pan Am to reduce its debts and post a loss for 1983 of $US51 million, an improvement of $US434 million on the 1982 results (Pan Am, 1984).

However, the impact of this restructuring was lessened as a result of a series of external factors which caused the company to continue to lose revenue. The first of these related to the strength of the dollar on the international market and the net result of this was that Pan Am lost some $US30 million in currency transactions. Because tickets are bought in the currency of the country in which they are sold, thereby requiring currency conversion into US dollars, this cost the company money. The increase in passenger traffic also brought about another price war on the trans-Atlantic routes, again reducing further the revenue available to the organization. Unfortunately for Pan Am, it was unable to take full advantage of the increase in demand as it had recently reduced its aircraft capacity with the sale of its DC10 aircraft and had embarked on a modernization programme for some of its 747 fleet which saw them out of operation for part of this period (Pan Am, 1985). In conjunction with Acker's rationalization programme, Pan Am announced that they had agreed with the US Air Force to modify nine of its 747 fleet for use in a national emergency. This meant that the 747 would be out of commission for up to four months. Although Pan Am had negotiated a good deal with the USAF and would be fully compensated for lost traffic revenue (whilst its ageing fleet of 747s were structurally refurbished to the high standard required by the USAF (Pan Am, 1985)), the company lost ground against its competitors. In what could be seen as a strange move in the light of earlier rationalizations, Acker announced that Pan Am would purchase aircraft from *Airbus Industrie* of Europe for delivery between 1987 and 1990 (Pan Am, 1985). One explanation for this strategy lies with *Airbus Industrie*'s aggressive marketing campaign which offered extremely attractive purchasing prices and finance packages (Heckscher, 1991). However, by the end of the year 1984, Pan Am posted a net loss of $US207 million and part of this loss represented the investment in new aircraft.

The following year started badly for Pan Am when its five labour unions decided to strike in retaliation to Acker's planned staffing and employment reviews. Following the settlement of the strike, in return for wage increases and productivity improvements, Acker made what could be considered a crucial mistake. Acker decided to focus the business strongly on Pan Am's trans-Atlantic and Latin American routes whilst, at the same time, substantially reducing debt. To achieve these objectives, the airline decided to sell its Pacific routes, along with some aircraft and airport facilities, to United Airlines for $US750 million. The concentration of airline resources on the European and South American markets, together with the influx of cash, must have appealed greatly to Acker who was able to reduce debt, increase shareholder equity and post a net profit for the first time since he had become chairman, to the level of some $US452 million (Pan Am, 1986). Pan Am, therefore, approached 1986 with the intention of heavily expanding its trans-Atlantic, European and South American services (Pan Am, 1987). Unfortunately for Pan Am, events were to prove otherwise.

The year of 1986 began with terrorist activity, followed by the Chernobyl nuclear accident in the Soviet Union. These incidents caused a significant drop in Pan Am's trans-Atlantic traffic as US citizens boycotted Europe in fear of terrorism and radioactivity (Pan Am, 1987). The effects on the company were exacerbated due to the sale of the Pacific routes for which demand remained buoyant during this period. Indeed, the routes which Pan Am had sold to United Airlines underwent a considerable improvement in an already good market as the area increased in activity. This was due, in part, to the avoidance of Europe by American tourists and, more specifically, to the growth of the Pacific basin as an industrial and commercial centre (Bickerstaffe, 1990). Whilst the Latin American routes increased in 1986 (and offered considerable growth potential), they could not compensate for lost trans-Atlantic and European traffic (Pan Am, 1987).

The organization was suffering from over-capacity in the market, especially with regard to the trans-Atlantic and European routes which were still being shunned by American fare-paying passengers in the aftermath of the terrorist activities and Chernobyl (Pan Am, 1987). Acker entered 1987 realising that the lost traffic of 1986 would not return overnight and that reduction in the cost structure of $US275 million would be needed in 1987. These savings were announced in the form of a $US95 million reduction in management costs, together with a $US180 million reduction in other employment areas (Pan Am, 1988), developing into a year of acrimony between Pan Am's unions and management. Unable to reach agreement with the unions regarding cost cutting and faced with mounting losses, Acker decided to attempt to sell Pan Am to another airline as he saw this as the only way of relieving the organization's $US1 billion debt burden (Cassidy, 1988). This final move was to cost Acker and some of his management team their positions, as stakeholders and unions alike were to baulk at the thought of the disappearance of the Pan Am organization. This marked the end of the first phase of the corporation's decline.

Pan Am's operational crisis: 1988–1990

Pan Am entered 1988 under the threat of sale to Braniff Airlines following the signing of a letter of intent between Braniff and Acker on 10 December 1987 (Cassidy, 1988). The opening month of 1988 was, therefore, a stormy one for Pan Am, as a result of Acker's attempts to sell the organization and Vice-Chairman Shugrue's attempts to strike a long-term deal with the unions, with regard to manning, and thereby attempting to save the company from the Braniff sale (Cassidy, 1988). On 21 January, following union agreements, Pan Am announced that Acker and Shugrue had been dismissed and would be replaced by Thomas Plaskett, formerly of Continental and American Airlines, as the new Chairman and Chief Executive Officer of Pan Am (Buchan, 1988).

On appointment, Plaskett announced that he would be introducing a new management team to effect a turnaround of the organization and stated that the task would be neither easy or quick. The initial approach became one of defending an already weak position following years of decline and divestment of assets (Pan Am, 1988). The organization's stock was worth a negative $US245 million when Plaskett took control, due to the asset sales in the early to mid-1980s, coupled with the continuing decline in performance. This offered Plaskett little room to manoeuvre (Pan Am, 1988). Plaskett noted three key areas that required attention as part of the turnaround strategy. The first of these was the lack of feeder flights for the international services. The second step taken by Plaskett was to implement revised labour agreements with the five unions which operated within Pan Am, providing initial annual savings of $US145 million (Pan Am, 1988). Marketing the product was another important element in the Plaskett turnaround plan which aimed to ensure that the organization was seen as a quality carrier of high standard and not a cheap-seat airline (Heckscher, 1991).

In attempting to achieve this image, Plaskett announced that passenger safety was to be highlighted and this resulted in US Federal Aviation Administration awards being made to the company for both the quality maintenance and engineering standards of the aircraft (Pan Am, 1989). The scheduling of aircraft to offer a tighter link between feeder services and international flights was also improved so as to reduce overall travel time for the customer (Betts, 1990). To coincide with this increase in travel effectiveness, the route services aircraft would be 'right-sized' with more modern, fuel efficient planes that required less manning, maintenance and operated more efficiently (Heckscher, 1991). One apparent problem with the fleet was that the stock of 747 aircraft were old, requiring large amounts of maintenance and were fuel inefficient, leading to the increased use of *Airbus Industrie* aircraft (Heckscher, 1991). The acquisition of new A300, A310 and A320 aircraft from *Airbus Industrie*, coupled with the refurbishing of the 747 fleet under the US government-sponsored Civil Reserve Air Fleet Plan, offered Plaskett a versatile fleet of aircraft (Pan Am, 1989).

In February 1988, Pan Am announced worse than expected 1987 losses of $US265 million which were substantially lower than the $US469 million loss in 1986 but higher than those forecast by the company (Oram, 1988). Half-yearly figures showed an improvement in profitability for Pan Am (Vincent, 1988). This was followed by a wages deal with its staff in November 1988 which allowed Pan Am greater flexibility in its manning levels (Pan Am, 1989). However, events at the end of 1988 were to prove catastrophic for the company and had a severe effect on the turnaround process being implemented.

The first crisis during turnaround

On Friday, 22 December 1988, at 6.25 pm, Pan Am Flight 103 departed from London Heathrow for John F. Kennedy Airport, New York. The aircraft entered the airspace under Prestwick air traffic control and, soon after, the controller noticed the single green boxed cross symbol for Flight 103 turn into five unlabelled symbols and then vanish from the screen (Elliot, Davenport and Dawe, 1988). Pan Am Flight 103 had broken up in mid-air and plummeted to the ground killing all 259 passengers and crew along with an additional 11 people from the village of Lockerbie (Connett, Leppard, Rofford, Roy, Pragnell and Hosenball, 1989; Air Accident Investigations Branch, 1990; Cox and Foster, 1992).

Pan Am's contingency plans for airline crisis were brought into operation with the pre-determined members of the crisis team taking up residence in the Heathrow EPIC centre and with a forward information post established by Pan Am staff in the local vicinity of the crash site (Carrington, 1989). Images of the 747s cockpit section dominated the news headlines, as did the conjecture as to the cause of the accident. The issue was whether the plane was destroyed by a bomb or, potentially more dangerous for Pan Am, that it broke up in flight due to metal fatigue in the air frame of the ageing 747 (Donkin and Donne, 1988). Given that Pan Am operated the oldest fleet of 747s in operational service (Cornelius, 1988), the problem of ageing planes was a serious issue and had been raised in the media during the preceding year.

The *Maid of the Seas* was one of the aircraft that had been modernised under the US Air Force plan for national emergencies (Pan Am, 1989) and this had involved refurbishing of the air frame to accept the higher stresses incurred during times of national emergency (Donne, 1988). Whilst Pan Am did not initially stress this point, one which could have diverted attention away from the structural failure argument had the accident been due to fatigue, it would have effectively grounded one third of Pan Am's 747 fleet.

The issue took a further turn with the announcement on 23 December that the US Embassy in Helsinki had been advised that the airline would be the target of a terrorist bomb on a flight originating in Frankfurt in the two weeks following 13 December 1988 (Donkin and Donne, 1988). Public outcry at the non-informing of passengers about a warning was vociferous (Johnson, 1989). Claim and counter claim followed during the first week after the disaster, with Pan Am remaining emphatic that they had not been advised of the terrorist threat to one of its airliners.

On 29 December 1988, British air accident forensic experts announced that the cause of the tragedy was, in fact, a bomb (Elliot, Evans, Faux and Dawe, 1988). Whilst this announcement diverted attention away from the ageing Pan Am fleet, it then focussed full attention of both public and media to Pan Am's security system — operated by Alert Inc and a wholly-owned subsidiary of Pan Am (Parry, 1988). The media instantly produced the review of Pan Am security, by a former head of *EL AL* security in 1986, which was particularly damning of procedures and methods (Bremner and Tendler, 1988). In addition, questions were raised about the air transport baggage security system as a whole (Donkin, 1988). Especially damning was the fact that the US government had advised its embassy staff about the bomb threat, so as to allow government officials to change carrier. However, no alert was given to the general public as to the potential threat (Donkin and Donne, 1988).

The effect of the bombing on Pan Am's trans-Atlantic traffic was devastating. It saw its demand drop by 13 per cent in January and February of 1989 as passengers switched carriers and avoided the airline (Pan Am, 1989). Pan Am's domestic feeders, which served the trans-Atlantic routes, were also hit by the Lockerbie incident (Heckscher, 1991). The low yield and lack of passengers in the post-Lockerbie period, running to the end of 1989, cost Pan Am approximately $US450 million in lost revenue (Heckscher, 1991). Pan Am was facing severe problems on both the trans-Atlantic routes and in its domestic market (Graham, 1989). Throughout this period, Plaskett was still courting partners to merge with Pan Am but his discussions with potential partners came to nought due to the company's debt burden (*The Economist*, 1991). By early 1990, Plaskett had re-introduced elements of his turnaround strategy that had been in place at the time of the Lockerbie bombing. These elements were primarily concerned with increasing the basic service aspects of the airline, coupled with a strong marketing campaign to persuade passengers to use the service.

Second crisis during turnaround

Events took another disastrous turn for the company when, in August 1990, Iraq invaded Kuwait. The initial effect on the airline was that the cost of its aviation fuel rose by almost 50 per cent. In addition, bookings on its services began to drop in anticipation of increased terrorist activities against certain flag carriers. Whilst this downturn affected all airlines, few were in such a precarious position as Pan Am which had little reserve capital to see it through recessional periods. The Gulf crisis was to have an even greater financial impact upon the airline than had the Lockerbie disaster of 1988. Pan Am was again faced with selling what little assets it had to remain viable as the crisis took a heavy financial toll on the organization.

At the end of October 1990, it sold its Internal German Service (IGS) network to Lufthansa for $US150 million (Pan Am, 1990). In November 1990, Pan Am decided that to remain as a viable carrier it must sell one of its remaining jewels in the crown — its trans-Atlantic route operation. The sale would not be all one-sided as Plaskett attempted to arrange that the buyer, United Airlines, would agree to a marketing deal and an agreement to coordinate each others flights. Plaskett at last had gained the feeds he had always wanted but at the cost of the trans-Atlantic route operation, one of the most sought after in the world of commercial aviation (Tran and Donovan, 1990). However, any attempt to clear the sale would require the British government agreeing to ease restrictions on new carriers operating from Heathrow. Delays through inter-governmental negotiations followed and, in the interim, TWA attempted to take-over Pan Am in a $US375 million deal.

Finally, terminating any takeover bid by TWA, Pan Am applied for Chapter 11 Bankruptcy Protection in the US courts on 8 January 1991 (Tait and Betts, 1991). This allowed the airline to operate for 120 days free of obligations to pay creditors. At the same time, Pan Am re-negotiated loans to enable it to restructure its finances which had been decimated by the Gulf crisis. Plaskett had pinned his hopes on salvaging the remnants of Pan Am's Atlantic routes together with the Miami and Frankfurt hubs as the basis of Pan Am's future, with the Miami/Latin American route operations being the core of the airline's business (Milnes, 1991). However, the impact of the outbreak of the land war in the Middle East severely increased pressure on the airline's resources as the majority of Pan Am's international and domestic feeder services effectively ground to a halt and cost Pan Am approximately $US700 million (Heckscher, 1991; Jack, 1991).

Whilst negotiations over the sale of Pan Am's slots in Heathrow continued, the airline became increasingly desperate for the finances of the sale to clear; its revenue generation had been severely curtailed due to the lack of demand (Tran, 1990a, 1990b, 1990c). Finally, on 13 March 1991, Pan Am received permission to sell its slots into Heathrow relieving pressure on the organization (Robinson, 1991). Amid recriminations from Pan Am's UK employees and creditors, the organization re-negotiated leases on aircraft, deferred payments on loans and returned some 23 aircraft to the lessors in a bid to remain viable (Tait and Betts, 1991). In July 1991, discussions with Delta Airlines were in place to sell the remnants of the Pan Am empire (Heckscher, 1991) and, on 12 July 1991, Delta Airlines acquired the bulk of the Pan Am operation with the exception of its Latin American and Miami hub operation (Tait, 1991). Pan Am's long fight to survive was drawing to a final conclusion.

Discussion

The case of Pan Am appears to have been one of chronic slow erosion since de-regulation in 1978 (see Figure 4). Acker's period of control was marked by divestment whilst attempting to remain in an increasingly competitive area of operations. The sale of the Pacific routes represented the end of Pan Am's future in that reliance on increasingly competitive and mature routes would ensure reduced load revenues. The turnaround option taken by Plaskett was undertaken with an eroded asset base which meant that adoption of key success factors was reduced through lack of finance. With the multiple problems facing Pan Am in early 1988, the decision to exit must have been high on the list of options. Whilst it could be suggested that an exit strategy should have been taken, the cultural barrier from stakeholders ensured that Pan Am would attempt to recover. During the initial turnaround attempt, the acute crisis events of Lockerbie, economic recession and the Gulf war were too great for Pan Am to counter with its eroded asset base and diminished route system. The ensuing debt burden and filing of bankruptcy protection saw remaining assets sold and the adoption of a divest or 'get out now' end-game strategy (Harrigan, 1980).

Pan Am can be viewed as having initiated an initial turnaround attempt following de-regulation in 1978 with the appointment of Acker in 1981. However, Acker maintained a post-crisis position of decline and, to a considerable extent, unknowingly worsened the situation by his policy of divestment in the early to mid 1980s. To arrest the decline, a decision to introduce a new chief executive officer, Thomas Plaskett, was taken in 1988. During the early period of his appointment, Plaskett undertook a number of the required elements for a successful turnaround. It was during this consolidation stage that a crisis event occurred which threw Pan Am back into the period of post-crisis decline with the bombing of Pan Am Flight 103. Consequently, the organization was forced to switch back to a defensive turnaround position following this event. Pan Am, in effect, now placed certain of the key elements of the Plaskett turnaround plan on hold while it switched into a defensive loop to deal with the Lockerbie incident. During this defensive period, Pan Am operated a sustained communications management programme to deflect criticism of its operating and security procedures, whilst attempting to reduce the impact of the drop in passengers to a minimum. Following the initial defensive phase, Pan Am sought to re-orientate the product and improve its marketing to win back passengers via heavy ticket discounting.

After this period, Pan Am switched back into the consolidation track of its original turnaround strategy with the unsuccessful attempt to acquire NWA. Following this, marketing and service improvements were re-introduced to position the organization back on its turnaround trail but with restricted and severely weakened finances. The attempt to move beyond consolidation was short-lived, with the Gulf crisis of August 1990 forcing the already weakened airline to again switch to the defensive. This period culminated with the

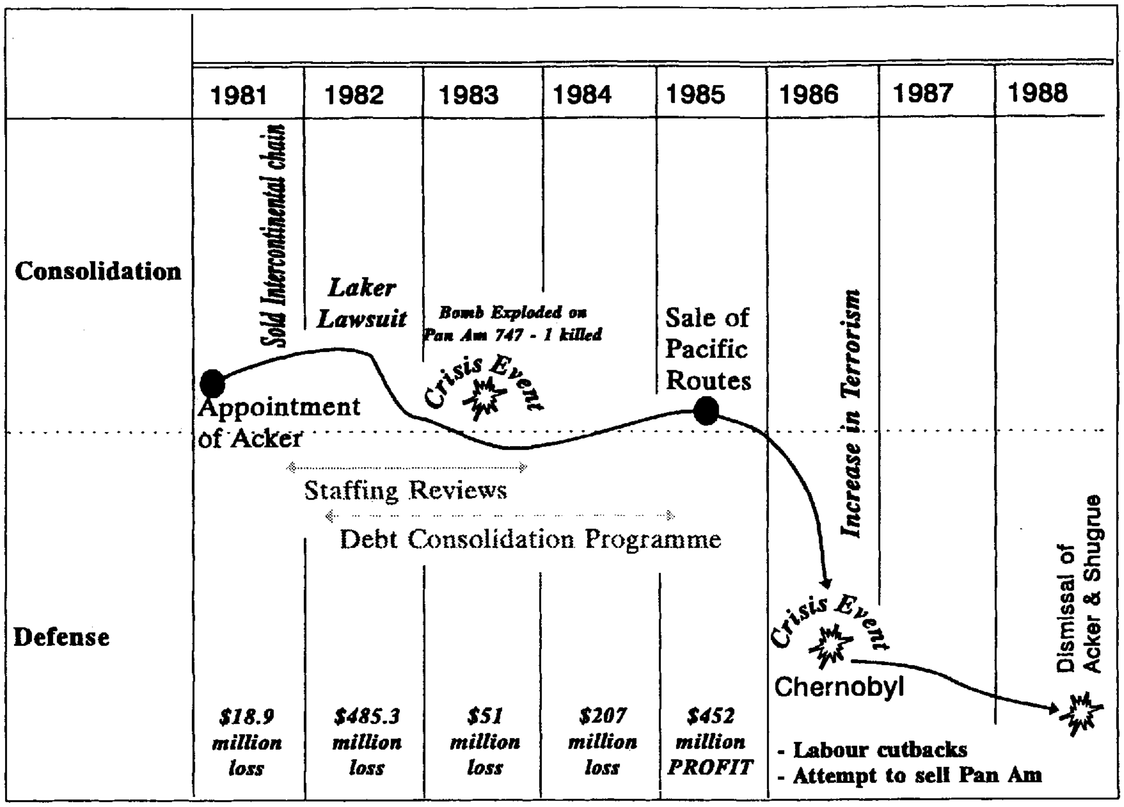


Figure 4: Attempts at turnaround 1981–1988

land war in the Gulf, and consequently a severe reduction of travellers from the USA. This resulted in Pan Am attempting to sell off the bulk of its operations.

In analysing the elements of the turnaround within Pan Am, it is proposed to commence the analysis with the arrival of Thomas Plaskett and his turnaround plan introduced in January 1988 (see Figure 5). The key success elements for turnaround that were adopted with the original Plaskett plan were:

- *Change in management structure*: The removal of Acker and elements of the old management team ensured a change in the management structure with the introduction of the new management team under Plaskett. Many of the new team were brought in from successful US airlines.
- *Strong financial control*: Pan Am's finances were in a poor condition and within the new management team a new head of corporate finance was brought in to attempt financial improvements, notwithstanding the fact that many of the company's assets had already been disposed.
- *Organizational change*: With the introduction of the new management team, organizational responsibilities changed as responsibilities for marketing, service and finance were centralised.
- *Centralised control*: This was linked with the organizational change that shifted responsibilities to central points within the organization all reporting directly to Plaskett.

The elements of the 7Cs that had a high profile during this original defensive period were:

- *Cost*: Within the original time period of Plaskett's introduction, the organization was suffering heavy losses with the organization's net stock value being a negative $US245 million.
- *Control*: It would appear that Plaskett imposed tight control elements following his appointment with regard to strategy, finance and operations.
- *Communications*: During the defensive stage, communication of the plan and the stressing of the required elements needed to enhance the organization were made on a top-down approach.
- *Culture*: The culture that pervaded the organization following its period as a premier airline, now in decline, did not make the potential for recovery easier. Any change within the cultural web would be difficult and could potentially slow down the turnaround process.

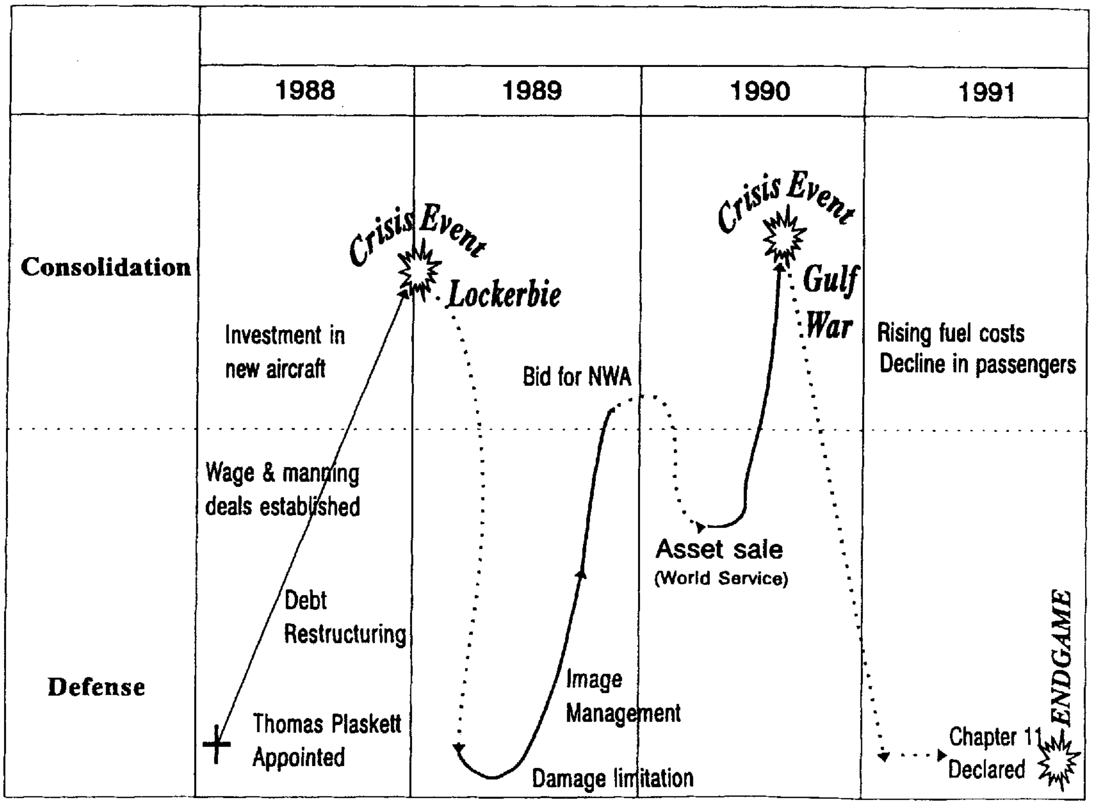


Figure 5: The move towards endgame

Leading on from the early defensive period, Plaskett began to consolidate the turnaround through increased organizational change with the introduction of agreements with the organization's unions. During this period, Pan Am maintained its use of strong financial control, organizational change and centralisation to effect consolidation. The company then introduced elements of improved marketing, to enhance the organization's image with the air traveller, and re-orientated the product through increased quality of in-flight and ground services, together with improvements in flight scheduling and departure targets. One additional key element that was adopted during this consolidation phase was investment, although this is normally seen as an element of an offensive strategy. Pan Am invested in new *Airbus Industrie* jets which were more fuel efficient than their Boeing fleet by up to 15 per cent. The reduction in flight deck staff from three to two, together with the reduction in maintenance costs of the ageing Boeing fleet, meant considerable operational savings.

The elements of the 7Cs highlighted earlier as being of importance remained constant throughout this period with the addition of *Configuration* as a key dynamic within the process. This is suggested because the switch from the old Acker style of organization appeared to be almost complete in terms of how the company was now structured and operating. Pan Am was ready to switch into the offensive period of turnaround following the normally slack winter season. However, it was unable to enter the offensive phase of the turnaround due to the bombing of Pan Am Flight 103 over Lockerbie, forcing the organization back into the loop of crisis period and post-crisis decline (see Figure 5).

The events leading to the Lockerbie bombing and the aftermath of the disaster raise several of the 7Cs to the fore, whilst effectively freezing certain key turnaround elements. Plaskett noted that any attempt to do nothing, thereby retaining his original plan for the spring of 1989, was futile as the passenger boycott of the airline was considerable with a drop of 13 per cent in passenger loads following Lockerbie.

In entering this defensive period, Pan Am maintained the key turnaround elements of strong financial and centralised control and with these, coupled with new product re-orientation and marketing to counter the negative impact of Lockerbie, attempted to defend an already weak position. In this defensive period the elements of the 7Cs, namely Cost, Control, Communications and

Culture, maintained high-status level but with the emphasis slightly shifted due to the crisis event of Pan Am Flight 103. In order to consolidate its position, Pan Am attempted to initiate another key turnaround factor with its planned acquisition bid for NWA. The failure of this bid led to the introduction of extensive debt restructuring to counter the negative effects of Lockerbie together with its high debt obligations to the US Inland Revenue Service of $US800 million. Divestment of its World Services division and the lease transfer of its New York hub-site were part of the divestment programme to enhance its financial restructuring. In early 1990, Pan Am had again recovered its turnaround position to the consolidation phase. Plaskett was again seeking to switch to the offensive stage of turnaround during the cyclically favourable spring and summer months. Events were again to counter this plan, with a deepening recession coupled with the invasion of Kuwait by Iraq in August 1990. These events pushed Pan Am back into post-crisis decline and necessitated the adoption of a defensive strategy.

Pan Am adopted two further key turnaround elements in an attempt to survive. Divestment and debt restructuring were given highest status within the plan as Pan Am sold its IGS together with its trans-Atlantic routes into Heathrow. The funds from divestment were used to restructure its debt position as Pan Am cancelled its new aircraft deliveries and returned other planes to its lessors. The filing of Chapter 11 Bankruptcy Protection enhanced the debt restructuring, as this gave Pan Am increased time to re-finance its debt. The outbreak of the land war in the Gulf, during early 1991, steepened the decline and pushed the organization further into recession. The continued decline forced the organization back to the point where the decision to wind up the company was taken with the sale of the bulk of its remaining route network and with negotiations in place for the disposal of its remaining services.

The case of Pan Am illustrates the problems facing organizations attempting to affect turnaround. Despite the best attempts of management, the corporation remained in the defensive and consolidation phases throughout the 1980s. Pan Am's problems began not with the Lockerbie bombing but with the sale of company assets in the 1970s and the ensuing debt profile of the company. In this case, it seems difficult to imagine how turnaround could have been affected given the constraints that were in place. Every attempt taken by management to move into the offensive phase of turnaround was thwarted by factors largely beyond their control.

Cahill (1993: 22), in discussing the problems facing IBM, refers to the long demise of modern corporations, observing that 'the deaths of corporations, unlike the deaths of individuals, are often decade-long affairs'. For Pan Am, the beginning of its death began in the early 1980s and the attempts at turnaround towards the end of the decade were largely futile, serving only to prolong the suffering rather than effect a cure. Once the decision was taken to deregulate airlines in the US and once Pan Am had sold off its Pacific routes, the company was condemned to eventual demise. Events like Chernobyl, Lockerbie and the Gulf War hastened, rather than caused, the death of the company. They exposed the flaws in the company's organization, culture and strategy which had been embedded within it for decades and which created the feeling of invulnerability within the company in the early years.

In order to successfully deal with the demands of crisis, it is incumbent upon management to consider the nature of the organization's level of crisis preparedness (Smart and Vertinsky, 1977; Pauchant, Mitroff, Weldon and Ventolo, 1990; Pauchant and Mitroff, 1992). The reluctance to deal with the worst-case scenario by many organizations and the feeling of managerial omnipotence are major precipitory factors in crisis generation. What this case illustrates is the importance of the crisis of management phase in fixing many of the parameters needed to ensure that the turnaround process is successful. The paradox is that it is also this crisis of management phase that propels an organization into crisis in the first place.

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