

Happy 40th Birthday Southwest Airlines!

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Is there anybody out there who wouldn't like to enjoy the business success of Southwest Airlines? This year Southwest celebrates its 40th birthday and, can you believe it, in their wild and crazy airline industry, with bankruptcies and mega-losses everywhere, *Southwest has been profitable 38 years in a row*. They have suffered losses in a few quarters in recent years but no annual losses. Have you checked out the financials for United, American, Delta and the other big boys over the same period? No competition. Not even close. Last year Southwest flew 86 million passengers in the USA, more than any other airline (*NY Times*, 21 Nov 2010). This is a huge success story.

It Takes A Brilliant Business Model

So what can we learn from Southwest? The first thing to get our attention has to be their airline business model. Southwest pioneered a point-to-point travel model in place of the traditional hub-and-spoke model. They have also often chosen to fly in and out of "secondary" airports like LaGuardia (instead of JFK), Midway (instead of O'Hare), Oakland (instead of SFO) (often with better pricing, more convenience, less congestion as a result). They have a fleet of 550 or so aircraft, all of them the same Boeing 737 model (simplified maintenance, purchasing economies of scale). They have done a better job than any other airline of hedging fuel costs; buying contracts in advance and locking in lower prices. They also lower costs by maintaining a strong cash position instead of living off credit and paying big-time interest. They have a simplified passenger seating system (no assigned seats, no first class section) enabling faster booking, boarding, and exit.

It Takes High Performance

On the performance side, Southwest Airlines has the best on-time arrival record, the best airline travel safety record, the least luggage lost, and the fewest customer complaints. They are almost always the poll winners for best customer service --- and for best employee place to work. They have the fastest turnaround time (ten minutes or so) to get docked arrivals back on their way to the next destination (SWA leaders often say "we're not making any money if the planes are just sitting there; let's get them back in the air").

Problems have been rare but when they occur, Southwest has been exemplary in response. For example in 2008 it came to light that airplane fuselage inspections had been overlooked. SWA executives issued an immediate public apology and increased the scope and frequency of all their plane audits and maintenance work.

It is Not A Function of Exploiting People

Many people assume that Southwest must succeed because it is younger and not burdened with legacy union contracts and the like. Wrong! Southwest has the highest percentage of union employees (85%) of any airline. Or some may think they pay low wages in an economy with lots of unemployment. Wrong again: Southwest agents, flight attendants, mechanics, and crew have industry-leading wages and benefits. Southwest's 5600 pilots earned \$171,000 on average in 2009, 20% to 40% more than the average pilot salary at the big legacy airlines (*NY Times*, 21 Nov 2010). Employees can participate in a profit-sharing program. Southwest hired the first black chief pilot in the industry and has been a leader in promoting women in leadership positions (Colleen Barrett being the prime exemplar as long time COO before her recent retirement). No wonder that in 2008, some 90,043 applicants sought the 831 jobs filled at Southwest (a tighter admissions percentage than getting into an Ivy League school, the *NY Times* writer noted).

One thing I am in the habit of doing on airlines (and in restaurants, banks, and other businesses) is asking the personnel "how do you like working here?" Do I need to summarize for you the difference

between how Southwest (and Jet Blue) people respond --- compared to United and American people? I didn't think so. Southwest is a great place to work by all accounts.

One place where wages are actually significantly lower at Southwest is in executive compensation: Herb Kelleher, Gary Kelly, Colleen Barrett and their executive suite colleagues at Southwest take salaries in the hundreds of thousands of dollars; they are share holders and are doubtless very wealthy. But they do not award themselves tens of *millions* of dollars while sticking it to employees, defaulting on pension commitments, cutting benefits, increasing workloads, and presiding over bankruptcy proceedings --- all pretty common stories at the legacy airlines in recent decades. Executive compensation practices, I find, are a pretty reliable index of the cultural and ethical health of a company.

Ethics, Values, & Culture Are A Huge Factor

As you might expect, other airlines have tried to replicate the business model and the financial success of Southwest. United Airlines tried it with "Ted" airlines for a brief while. These efforts have failed. Jet Blue is pretty much the only successful "son of Southwest" --- launched by former SW execs. Why is this?

Jet Blue succeeds because they not only have the business smarts but a leadership that understands the importance of Southwest's values and culture. High values and great cultures will not save a lousy business model and they cannot overcome a radical shift in the market (i.e., a great culture would not make a buggy whip or typewriter business a success today). *But a great culture will empower and enable a good business and product to thrive and achieve excellence.* This is what happens at Southwest (and Costco, and In'n'Out Burger).

Probably the best study of Southwest is Jody Hoffer Gittel's *The Southwest Airlines Way*. This major analysis originated as Gittel's Ph.D. research. What she discovered was that from day one in 1971, Southwest built a harmony model of relationships instead of a conflict model. Unions and management agreed that it was in their interest to work together instead of against each other in a "zero-sum" game mentality. Flight attendants might help ramp agents; pilots might give a quick hand to flight attendants. It's not in their job descriptions or union contracts --- but these acts of teamwork create the SWA difference. This is how the fast turnaround times are achieved. This is why people love working together at SWA.

In fact, Southwest has often said that taking care of their employees is their top priority. Happy, well-cared-for, respected employees will turn around and give comparable care to customers, Herb Kelleher and his colleagues argued. The SWA values statement says "Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer."

Southwest Airlines is careful about who it hires. Their mantra is "Hire for attitude & train for skill." SWA has long had a formal "Culture Committee" charged with maintaining the distinctives of the company. There is constant, relentless communication and celebration. The SWA "University of People" (U4P) offers frequent orientation and training sessions. A bi-annual employee survey asks for ways to improve SWA.

Nobody's perfect, of course, but Southwest is way ahead of second place. Personally, I will change planes halfway along my route if that's what I need to do to fly Southwest instead of the other guys. I will pay a few dollars more to fly Southwest -- although usually I pay a few dollars less because their prices are better. I own no SWA stock and don't get paid for my positive opinion, but these guys are a marvelous business success story I can't keep quiet about. People who are so jaded that they think all business is evil, or all executives greedy and corrupt, need to have a look at Southwest Airlines. And all businesses in all industries could learn a thing or two from these pros.

Happy birthday dear Southwest! Happy birthday to you! (And many more).