

An evaluation of the corporate culture of Southwest Airlines

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Summary The attached paper describes the keys to success for Southwest Airlines, including its approach to quality management. Southwest did not implement a formalized "quality management program." Numerous companies in the USA have implemented formalized "quality management programs" and they failed because they were "programs of the month." Implementing "quality" throughout a company is not the result of a formalized program but requires a cultural change in the way daily activities are conducted. The requirement of "doing it right the first time" must be integrated into the daily activities or culture of the company. The chairman of the board and president of a company must establish the tone for quality in not only what they communicate but also in their daily actions. Quality must be ingrained in the overall business model and strategies of a company. Southwest is very effective in integrating the importance of quality in its overall business model, strategic plan and its daily operational activities. Southwest did not engage outside consultants to develop a "quality program" but its style, culture and emphasis on quality were implemented in Southwest's daily activities by Herb Kelleher, Chairman of the Board, and his management team.

Keywords Quality culture, Quality management, Airlines

Southwest Airlines

Southwest Airlines (Southwest) is the only profitable airlines in the USA. The market capitalization of Southwest exceeds the combined market capitalization of the other US based airlines. Southwest has earned a profit every year of its existence other than the first year of operation. Southwest is presently the fourth largest airline in the USA in terms of domestic passenger miles flown, serving 59 airports in 30 states (Donnelly, 2002; Serwer, 2004). Why is Southwest successful and the other airlines in the USA are not? "Its employees work harder and smarter, in return for job security and a share of the profits" (Donnelly, 2002). Southwest's unique culture, called "goofiness" by some individuals, keeps the morale of its employees high. Southwest is very serious about keeping its costs down. Southwest's employees have never gone out on strike. Southwest leads the industry in on-time performance. Through 2002, Southwest's stock price increased 29 percent per annum for the preceding ten-year period (Donnelly, 2002). The glue that holds Southwest together is its corporate culture.

Summary

Herb Kelleher and Rollin King founded Southwest during 1971. They wanted to provide frequent, low-cost airline service in busy markets of less than 500 miles. The first flights were between Dallas, Houston and San Antonio (Gittell, 2003).

Southwest during 1980, nine years after its origination, adopted the following mission statement:

The mission of Southwest is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit (www.southwest.com).

To our employees:

We are committed to provide our employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, 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 (www.southwest.com).

Southwest has maintained this mission statement during the last 24 years. Herb Kelleher and the people (Southwest refers to its employees as "people") (Donnelly, 2002) of Southwest believe in their mission statement. There is clarity of purpose at Southwest. Any one taking a Southwest flight will notice the attitude of the Southwest people.

- Flight attendants cleaning the airplane cabin and the ground crew rushing to the airplane before it comes to a full stop at the gate.
- The friendly attitude of the flight attendants during the flight.

Southwest's business strategy is to be the low cost provider with frequent service and no frills to customers who drive most of the time instead of flying. Southwest's average trip is less than 500 miles and is 50 percent less in length than its major competitors (Gittell, 2003). Southwest devotes significant monies to training and development. Each major work area has its own training department – mechanics, in-flight activities, customer service, operations and reservations. Even though Southwest is the most unionized airline, their work environment is free of rigid rules. The people work together to make Southwest the low cost carrier. Herb Kelleher and his people have adopted a successful family organizational philosophy – Southwest's people turnover rate is the lowest in the airline industry.

In summary, the Southwest culture allows its people to obtain the freedom to travel economically, learn to grow professionally, stay connected with their fellow people solving business problems, obtain financial security, work and have fun, make a positive difference within the company, and be creative and innovative. Southwest has created an environment or culture of shared goals, shared knowledge and mutual respect between people and the various functions of an airline: "pilots, flight attendants, gate agents, ticketing agents, operations agents, ramp agents, baggage transfer agents, cargo agents, mechanics, fuelers, aircraft cleaners, and caterers" (Gittell, 2003).

Herb Kelleher

Herb Kelleher has been very successful in gaining the trust and loyalty of the Southwest people through the years. Mr Kelleher is a very effective communicator and has been honest with the people through the years. He advises the people of the items that are going well and also of the items needing improvement. He also has been consistent through the years especially as it relates to people lay-offs. There have been no lay-offs in the history of Southwest. He cares about the people of Southwest and he even returns the telephone calls and e-mails of the people on a timely basis (Serwer, 2004).

Mr Kelleher has been given credit for being the leader of Southwest. Through the years, he has relied on other company executives to manage the daily activities. Two of those individuals are James Parker and Colleen Barrett. Before starting Southwest, Mr Kelleher was a partner in a

Houston-based law firm. Mr James Parker was an attorney with the same firm and Ms Colleen Barrett was Mr Kelleher's legal secretary. Both Mr Parker and Ms Barrett joined the company shortly after Southwest was incorporated (Buckler, 2001). Mr Parker, Ms Barrett and Mr Kelleher have directed the daily activities of Southwest through the years.

Business model

Southwest has a business model consisting of two parts:

- Identify customers you want to serve.
- Be the low cost provider.

The two-part business model is consistent with the other US carriers. Southwest is unique however in the methodology utilized to execute the two-part business model.

1. Identify customers you want to serve – Southwest's short haul, high frequency, low-fare business model caters to the customers who most often drive rather than fly to their destination (Barlow, 2002). Southwest prices its flights so the aforementioned type of customer may fly rather than drive. Southwest's average leg is 441 miles compared to over 900 miles for the other US carriers (Donnelly, 2002).
2. Be the low cost provider – Southwest offers frequent but no-frills service. Southwest does not serve food on their flights. Southwest only flies one model of airplane – Boeing 737 – that provides cost economies over the other carriers who purchase multiple models from different manufacturers (Barlow, 2002).

Competitive cost advantages

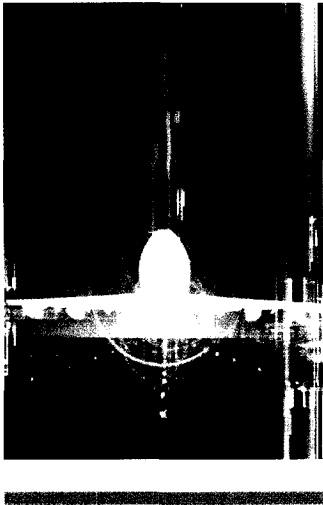
Southwest's unit costs, measured in cost per seat for each mile flown, is 50 percent less than the other US carriers (Southwest Annual Report, 2002). The cost advantages are the result primarily of:

- people job security;
- people work for their compensation;
- meal costs;
- boarding system;
- fare structure system;
- reservation system;
- airports utilized;
- fiscal conservatism; and
- corporate culture.

1. People job security – No people have been laid off nor has there been a strike in the history of the airline. Southwest has a higher proportion of unionized employees (85 percent) than the other US carriers. Southwest's flight attendants are in their fifth year without a contract (Donnelly, 2002). As a result, they have been working five years without a pay increase. Southwest's average compensation, including base salary, fringe benefits and profit-sharing contribution, is the highest in the US airline industry.
2. People work for their compensation – Southwest people are more productive, flexible and creative than employees for the other carriers. Southwest pilots fly 80 hours per month compared with 50 hours for the competition. Southwest pilots are paid per trip rather than by the hour. Southwest pilots are only compensated for the hours they are actually in the air. As a result, Southwest pilots are interested in minimizing the aircraft's time at the gate, as they are not being compensated, whereas, the pilots for other airlines are being compensated while the plane is at the gate or on the ground. Southwest flight attendants fly 150 hours per month versus 80 hours for the competition (Donnelly, 2002). As a result, Southwest has

fewer flight attendants per passenger mile flown. Southwest has another cost advantage with the flight attendants. The Southwest flight attendants are required by their union contract to "make reasonable effort to tidy the airplane between flights" (Donnelly, 2002). This reduces the need for additional ground service personnel at the airports. Ground service people provide the cabin cleaning service for the other airlines, which provides another cost advantage for Southwest. A total of 15 percent of pre-tax income is contributed to the employee profit-sharing plan (Gittel, 2003). Southwest does not have a defined benefit plan, whereas, the other airlines through union contract negotiations possess an expensive defined benefit plan.

3. Meal costs – For the other US carriers, the cost of serving a meal is approximately \$5.00 compared with approximately 20 cents for the peanuts and soda pop provided by Southwest (Southwest Annual Report, 2002).
4. Boarding system – Southwest's boarding system turns planes around quickly at the airport. Southwest's system consists of no assigned passenger seats and reusable plastic boarding passes (Barlow, 2002).
5. Fare structure system – Southwest's simplified fare structure system allows the passenger to be processed more quickly and efficiently at the counter. The average fare for Southwest is \$59 (Southwest Annual Report, 2002). Low fares will cause a passenger to fly Southwest once. If the passenger does not receive quality service, they will not return. Southwest provides good service.
6. Reservation system – 30 percent of its bookings are over the Internet. Southwest does not utilize travel agents (*Dallas Business Journal*, 2001).
7. Airports utilized – Southwest utilizes less congested airports, where practical, to avoid disrupting flight operations and to maximize aircraft time in the air (as opposed to time spent taxiing or being held at the gate due to air traffic control issues) (Barlow, 2002).
8. Fiscal conservatism – Southwest is a fiscal conservative company. It may be liberal or different in relation to corporate culture and management style toward people, but not in financial matters. Southwest's strategy is to maintain financial reserves and a strong balance sheet. In the days preceding 11 September 2001, Southwest averaged 90 days of cash on hand. Most of the other carriers averaged 40 days. Southwest's debt-equity ratio was by far the lowest in the airline industry (Gittel, 2003). This fiscal conservatism style allowed Southwest the flexibility to manage its way through the significant downturn in passenger travel that occurred after the 9/11 incidents without laying off people (Barlow, 2002). The other airlines did not possess the significant financial reserves and were required to lay-off personnel because of the downturn in passenger traffic.
9. Corporate culture – see the next section of this paper entitled corporate culture.



Corporate culture

According to Herb Kelleher, the genesis of the Southwest culture was created in 1971 – the first year of operation for Southwest. Southwest was encountering cash flow difficulties in its first year of operation. Mr Kelleher and his management team faced the dilemma of either selling planes or laying off people to save cash so Southwest could meet their short-term cash obligations. Mr Kelleher met with his ground service people and explained the financial dilemma. He asked the ground service people to reduce the turnaround time at the airport gate from 55 to 15 minutes, thereby, improving the revenue producing capability of the airplanes. The ground service personnel agreed to the goal and accomplished the goal (Donlon, 1999). Mr Kelleher completed his part of the agreement by not laying off any people. During the first 9 years of operation, Southwest was primarily in a survival mode. The emphasis on people started in the early 1980s. According to Herb Kelleher, Southwest started on focusing on people as people and identifying them as valuable assets of the company (Donlon, 1999).

Herb Kelleher and his management team emphasize an easy going relaxed corporate style that provides employees with extensive operational independence. Southwest's culture, which

emphasizes employees as the airline's "first customers" and passengers as the second, has been integral to Southwest's success (Goldberg, 2000). Southwest wants to offer a unique and fun experience to each customer. The flight attendants are liable to say anything over the telecom. The flight attendants often run humorous contests with the passengers, including offering a free-round trip anywhere Southwest flies to the first passenger providing socks with holes. When it was pointed out to Mr Kelleher that mechanics on the graveyard shift could not participate in company picnics, Southwest held a 2.00 a.m. barbecue where Mr Kelleher and several pilots served as chefs for the picnic (Donlon, 1999).

The culture of Southwest has evolved over time from an environment that was different (i.e. – flight attendants wearing hot pants) and based in the Southwestern part of the USA to a culture of shared goals, shared knowledge and mutual respect for a national company with over 29,000 employees.

Creativity is also emphasized especially when it comes to finding relief in high-stress jobs. At the corporate offices of Southwest, employees have been allowed to work in pajamas for a day. Rocking chairs are located throughout the corporate offices for impromptu meetings (Goldberg, 2000).

Southwest's quality paradigms are:

- Communications – The mission statement is communicated to all people and the statement is followed in the daily activities of the over 29,000 Southwest employees. Southwest believes in two types of communications among its people: (1) frequent and timely; and (2) problem-solving.
- Information system – The information system is based on e-mails. Mr Kelleher and the other members of management communicate to the people via e-mails. People will communicate directly to Mr Kelleher utilizing e-mails.
- Teamwork – People work together effectively and make decisions as a team.
- 11 September 2001 – Other airlines, due to decreased passenger traffic, laid-off personnel. Southwest people were willing to take pay cuts to avoid lay-offs. As a result, no Southwest people were laid-off due to the decreased passenger traffic.
- Aircraft turn-around time at the airport – People work together to turn the plane around in less than 20 minutes. Most other airlines average more than an hour.
- Informal hierarchy system – Southwest possesses a relaxed and pleasing work environment. Southwest management encourages and accepts ideas to improve operations (Gittell, 2003).

As Colleen Barrett, the former vice president of customer relations and the current president, stated, "We had a company culture here before I knew what it meant. The main goal is to maintain it, but it's difficult . . . Senior officers don't even touch the workforce" (Goldberg, 2000). Southwest is very effective, even with over 29,000 people, in maintaining the personal touch with its employees. Birthdays, births and even the death of employees' loved ones are acknowledged by Southwest supervisors (Goldberg, 2000).

Many businesses in the USA utilize performance measurements to monitor actual performance versus: last year, current year budget, competition and appropriate benchmarked statistics. Many companies maintain these metrics by functional area to ensure functional accountability. Southwest believes functional accountability leads to finger pointing between departments. Southwest's philosophy is shared goals and shared knowledge. Southwest utilizes team metrics rather than functional metrics (Gittell, 2003). An example of a team statistic is percentage of on-time departures. This statistic is the responsibility of all Southwest people at a specific airport. The people, from all functional departments, must work together to improve the percentage of on-time departures.

In many companies, job descriptions clearly define responsibilities between employees and departments. Southwest's philosophy is shared goals, shared knowledge and mutual respect. Southwest's expectation is that each people's job includes helping colleagues with their work

whenever necessary. By providing greater job flexibility, Southwest believes it improves labor productivity and provides them a competitive advantage.

Training

Southwest has over 29,000 employees and almost half have been with the company less than 5 years (Goldberg, 2000). Southwest has created a work environment free of rigid work rules. Southwest makes a tremendous investment in training and development. Each major work area has its own training department – mechanics, in-flight activities, customer service, operations and reservations. An integral part of Southwest's training is the result of its strategy concerning first line supervisors. Front-line supervisors are "working supervisors." The supervisors are responsible for 10 to 12 frontline workers. This supervisor-to-employee ratio (1 to 10 or 12) is the lowest in the airline industry. Southwest expects its supervisors to spend more time than its competitors in coaching and teaching front line employees (Gittell, 2003). The front-line supervisors work side-by-side daily with their people solving problems.

Successes

For 12 consecutive years, Southwest possessed the best customer complaint record for any US airline. *Fortune* magazine called Southwest "the most successful airline in history" and for six years in a row recognized Southwest as one of the top ten most admired companies (Southwest Annual Report, 2002).

Summary

Numerous companies in the USA have implemented formalized "quality management programs" and they failed because they were "programs of the month." Implementing "quality" throughout a company is not the result of a formalized program, but requires a cultural change in the way daily activities are conducted. The requirement of "doing it right the first time" must be integrated into the daily activities or culture of the company. The chairman of the board and president of a company must establish the tone for quality in not only what they communicate, but also in their daily actions. Quality must be ingrained. Overall Southwest is very effective in integrating the importance of quality in its overall business model, strategic plan and its daily operational activities. Southwest has a business model consisting of two parts:

1. Identify customers you want to serve.
2. Be the low cost provider.

Southwest's competitive cost advantages are the result primarily of:

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The culture of Southwest has evolved over time from an environment that was different (i.e. – flight attendants wearing hot pants) and a company based in the Southwestern part of the US to a culture of shared goals, shared knowledge and mutual respect among management, employees and suppliers for a national company with over 29,000 employees.

Future challenges

Questions are being asked as whether Southwest can continue its unique culture and financial performance in the future (Buckler, 2001). Cracks in the culture and performance are potentially beginning to occur:

- increased turnover;
- competition from other low-cost carriers;
- hiring personnel that fit Southwest's culture; and
- retirement of Herb Kelleher.

1. Increased turnover – During the 1980s and until the mid 1990s, the people turnover rate was 5-7 percent but has increased recently to 9-10 percent per annum (Goldberg, 2000). With over 29,000 people system-wide, a turnover rate of 9-10 percent puts significant pressure on the company's ability to maintain its unique culture and competitive advantages. The challenge for Mr Parker and Ms Barrett is to maintain Southwest's unique culture as the company grows.
2. Competition from other low-cost carriers – A total of 13 low cost carriers have failed since 1991. JetBlue Airways is a new low-cost carrier that is competing favorably with Southwest. Organizations willing to invest the time and effort can learn from Southwest's management style by creating shared goals, shared knowledge, and mutual respect among management, employees and suppliers.
3. Hiring personnel that fit the Southwest culture – With the increased turnover rate and the overall number of employees increasing, Southwest is hiring more personnel. Southwest's search for people goes beyond the typical search for appropriate functional skills and experience. Southwest is looking for individuals that can work in an environment of shared goals, shared knowledge, mutual respect among employees and team problem solving. Southwest is very proactive in reducing "turf-battles" between the various functions within the company. New employees must feel comfortable in this environment of team problem solving.
4. Retirement of Herb Kelleher – Herb Kelleher was one of Southwest's two founders. Mr Kelleher was the CEO for over 30 years. Mr Kelleher was the leader of the company and the founder, architect and developer of Southwest's unique culture. Will Southwest be able to continue its unique culture and excellent financial performance after his retirement? Colleen Barrett, formerly executive vice president – customer relations and currently President and Chief Operating Officer, and James Parker, formerly executive vice president – legal and currently Vice-Chair and Chief Executive Officer, manage and direct the daily activities of Southwest. They have worked directly with Herb Kelleher at Southwest for over 30 years. Both Mr Parker and Ms Barrett are more reserved and low-key than Mr Kelleher. Mr Kelleher is a big-picture person, whereas, Mr Parker and Ms Barrett were the operational tacticians in their former positions.

Only history will prove as to whether Mr Parker and Ms Barrett can maintain the tremendous performance that Southwest's enjoyed under the leadership of Mr Kelleher.

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