

# Case 13 southwest airlines: how herb kelleher led the way

Business



The U. S. airline industry experienced problems in the early 1990s. From 1989 through 1993, the largest airlines, including American, United, Delta, and USAIR, lost billions of dollars.

Only Southwest Airlines remained profitable throughout that period. Herb Kelleher, cofounder of Southwest Airlines in 1971 and until recently its CEO, pointed out that “ We didn’t make much for a while there. It was like being the tallest guy in a tribe of dwarfs. ” (1) Nevertheless, Southwest Airlines has grown to the point of having operating revenue of \$5. billion in 2002, which also was its 30th consecutive year of profitability.

This is particularly noteworthy since Southwest flies to only 58 cities in 30 states, and its average flight length is 537 miles. (2) How did a little airline get to be so big? Its success is due to its core values, developed by Kelleher and carried out daily by the company’s 35, 000 employees. These core values are humor, altruism, and “ luv” (the company’s stock ticker symbol). (3) Southwest Airlines’ Unique Character and Success One of the things that make Southwest Airlines so unique is its short-haul focus.

The airline does not assign seats or sell tickets through the reservation systems used by travel agents.

Many passengers buy tickets at the gate. The only foods served are peanuts, pretzels, and similar snacks, but passengers don’t seem to mind. In fact, serving Customers (at Southwest, always written with a capital “ C”) is the focus of the company’s employees. When Colleen Barrett, currently Southwest’s President and Chief Operating Officer, was the Executive Vice President for Customers, she said, “ We will never jump on employees for <https://assignbuster.com/case-13-southwest-airlines-how-herb-kelleher-led-the-way/>

leaning too far toward the customer, but we come down on them hard for not using common sense. (4) Southwest's core values produce employees who are highly motivated and who care about the customers and about one another. One way in which Southwest carries out this philosophy is by treating employees and their ideas with respect.

As executive Vice President, Colleen Barrett formed a "culture committee," made up of employees from different functional areas and levels. The committee continues and meets quarterly to come up with ideas for maintaining Southwest's corporate spirit and image. All managers, officers, and directors are expected to "get out in the field," meet and talk to employees, and understand their jobs.

Employees are encouraged to use their creativity and sense of humor to make their jobs and the customers' experiences more enjoyable. Gate agents, for example, are given a book of games to play with waiting passengers when a flight is delayed. Flight agents might do an imitation of Elvis or Mr.

Rogers while making announcements. Others have jumped out of the overhead luggage bins to surprise boarding passengers. (5) Kelleher, currently Chairman of the Board and Chairman of the Executive Committee, knows that not everyone would be happy as a Southwest employee: "What we are looking for, first and foremost, is a sense of humor.

Then we are looking for people who have to excel to satisfy themselves and who work well in a collegial environment. " He feels that the company can teach specific skills but a compatible attitude is most important.

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When asked to prove that she had a sense of humor Mary Ann Adams, hired in 1997 as a finance executive, recounted a practical joke in which she turned an unflattering picture of her boss into a screen saver for her department (6). To encourage employees to treat one another as well as they treat their customers, departments examine linkages within Southwest to see what their “ internal customers” need.

The provisioning department, for example, whose responsibility is to provide the snacks and drinks for each flight, selects a flight attendant as “ customer of the month. ” The provisioning department’s own board of directors makes the selection decision, as well as other departmental managerial decisions. Other departments have sent pizza and ice cream to their “ internal customers”. Employees write letters commending the work of other employees or departments, and these letters are valued as much as those from “ external customers”.

When problems do occur between departments, the employees work out solutions in supervised meetings. Employees exhibit the same attitude of altruism and “ luv” (Southwest’s term for its relationship with its customers) to other groups as well. A significant portion of Southwest employees volunteer their time at Ronald McDonald Houses throughout Southwest’s service territory. When the company purchased a small regional airline, employees personally sent cards and company T-shirts to their new colleagues to welcome them to the Southwest family. They demonstrate similar caring to the company itself.

As gasoline prices rose during the period of the Gulf War in the early 1990s, many of the employees created the “ Fuel from the Heart Program,” donating fuel to the company by deducting the cost of one or more gallons from their paychecks.

Acting in the company’s best interests is also directly in the interest of the employees. Southwest has a profit-sharing plan for all eligible employees; and unlike many of its competitors, Southwest consistently has profits to share. Employees also can purchase Southwest stock at 90 percent of market value; at least 13 percent of Southwest’s employees own the company’s stock.

Although approximately 81 percent unionized, the company has a history of good labor relations. (7) Southwest Airlines is a low cost operator.

According to Harvard University professor John Kotter, setting the standard for low costs in the airline industry does not mean Southwest is cheap. “ Cheap is trying to get your prices down by nibbling costs off everything ( [firms like Southwest Airlines] are thinking ‘ efficient,’ which is very different. ( They recognize that you don’t necessarily have to take a few pennies off of everything.

Sometimes you might even spend more.

” (8) By buying one type of plane—the Boeing 737 — Southwest saves both on pilot training and on maintenance costs. The cheap paradigm would favor used planes; Southwest’s choice results in the youngest fleet of airplanes in the industry because the model favors high productivity over lower capital expenditures. Southwest currently operates a fleet of 381 Boeing 737 jets <https://assignbuster.com/case-13-southwest-airlines-how-herb-kelleher-led-the-way/>

with the following configuration: (9) TYPE OF 737NUMBER OF AIRCRAFTSEATS PES AIRCRAFT 737-20026122 737-300194137 737-50025122 737-700136137

By utilizing each plane an average of 12 hours per day, Southwest is able to make more trips with fewer planes than any other airline. Since May 1988 Southwest Airlines has won the monthly “ Triple Crown” distinction of airline service ( Best On-Time Record, Best Baggage Handling, and Fewest Customer Complaints ( more than 30 times.

From 1992 through 1996 Southwest won the annual “ Triple Crown” every year. (10) Southwest’s Ongoing Challenges Despite its impressive record of success, Southwest Airlines has pressing concerns to address. Management worries about the effects on morale of limited opportunities for promotion.

The company has created “ job families” with different grade levels so that employees can work their way up within their job category. However, after five or six years employees begin to hit the maximum compensation level for their job category.

Another issue is how to maintain the culture of caring and fun while expanding rapidly into new markets. Southwest’s success has been built with the enthusiasm and hard work of its employees; as Kelleher said, “ The people who work here don’t think of Southwest as a business. They think of it as a crusade. ” (11) Cultivating that crusading atmosphere is a continuing priority for the company.

As Herb Kelleher prepared to relinquish his role as Southwest's CEO, a major concern for investors was whether the company's success could be maintained because so much of Southwest's success was attributable to Kelleher's unique management and leadership styles. Recent events, however, seem to demonstrate that Kelleher's successors ( longtime Southwest employees Jim Parker (currently Vice Chairman of the Board and CEO) and Colleen Barrett (currently President and COO) ( were well-prepared to handle the challenges of maintaining Southwest's culture and success.

As Colleen Barrett wrote in a recent issue of the company's Spirit Magazine: " Air travel changed forever two years ago, but our steadfast determination remains unbroken to provide the high-spirited Customer Service, low fares, and frequent nonstop flights that Americans want and need. " (12) Not even terrorist attacks can derail the company that Herb Kelleher led to success. Southwest Airlines continues to be recognized by Fortune magazine as America's most admired airlines as well as one of the most admired companies in America. In 2003 Air Transport World magazine selected Southwest as the ' Airline for the Year. The reasoning: 30 consecutive years of profitability, while providing affordable fares for millions of passengers.

Other recognitions of Southwest culture and success continue to pile up. (13) 2002 Fun Facts: Southwest received 243, 657 resumes and hired 5, 042 new Employees. Southwest booked approximately 83 million reservations. Southwest served 32. 8 million cans of soda and juices and 11. 7 million cans of water.

Southwest served 162. 4 million bags of peanuts.

Southwest purchased 1.1 billion gallons of jet fuel. Southwest has 1,000 married couples working for the Company. Southwest received requests for service from 140 destinations.

14) Review Questions 1. What role has leadership played in the success of Southwest Airlines? 2. Explain the role of employee empowerment at Southwest Airlines and how it can act as a substitute for leadership. 3. Describe Kelleher's leadership style. 4.

What is the key to Southwest's continued success under leaders other than Herb Kelleher?

You Do the Research 1. How did Herb Kelleher use power and exercise influence at Southwest Airlines? 2. Which of the leadership theories described in Chapter 13 seem to provide the most useful explanation for Herb Kelleher's success in leading Southwest Airlines? . Find examples that show how Herb Kelleher and other leaders at Southwest Airlines have acted with integrity. What lessons do these examples provide for future managers and leaders?

Case Endnotes 1.

Lablich, Kenneth. "Is Herb Kelleher America's best CEO?" *Fortune*, May 2, 1994: 45. 2. Southwest Airlines homepage, <http://www.southwest.com>.

3. Quick, James Campbell. "Crafting an organizational culture: Herb's hand at Southwest Airlines," *Organizational Dynamics*, Vol. 21, August 92: 47. 4.

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Teitelbaum, Richard S. "Where service flies right," *Fortune*, August 24, 1992: 115. . Barrett, Colleen. "Pampering customers on a budget," *Working Woman*, April 93: 19, 22. 6.

Martin, Justin. "So, you want to work for the best ..." *Fortune*, January 12, 1998: 77. 7.

Southwest Airlines homepage, op. cit. 8. "Did we say cheap?" *Inc.*, October 1997: 60. 9.

Southwest Airlines homepage, op. cit. 10. Southwest Airlines homepage, op. cit. 11.

Teitelbaum, op. cit., 116. 12. "Colleen's Corner," Southwest Airlines homepage, <http://www.southwest.com>.

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cit. 14. Ibid.