

Strategic analysis of southwest airlines case study management essay

[Environment](#), [Air](#)



1. INTRODUCTION

The current paper attempts to underpin various frameworks that presented in strategy management literatures that would better improve the overall performance of the firms. The paper first discusses the case of southwest airlines, the first successful low-cost carrier in USA. Two problematic situations have considered from southwest Airlines cause experiences, which was to some extent associated to the new leadership management that appointed in 2001. These difficulty are the dramatically change in southwest culture, and the cost increasing in fuel and wages. These problems also have also associated with the expansion of southwest business. The following section briefly presents the case problem of southwest airline and highlights some important facts about their status. After, the paper will investigate and analyses southwest airline strategy and the external environment. The analysis primary considered how southwest airline achieved a competitive edge and posted on the top five corporations in USA. After that, the paper discusses two academic journals that provide useful frameworks for southwest airline to overcome its difficulties. One of these academic journals provides framework (Goolsby Leadership Model) that underpin culture aspect, and the other one provides framework (Porter's Generic Strategies) that considers cost effectiveness and competition in market. After presented these two academic journals and its literatures, the current paper attempts integrate the theoretical concepts and apply it to the case southwest airline. Finally, the paper presents some suggestions and recommendation that would better improve the work in this company.

2. CASE PROBLEM

The current paper discusses leadership changes that occurred in Southwest airlines in the 2001 when Herb Kelleher promoted two of his close aids for leadership positions; Colleen C. Barette, Vice-presidents for customers, promoted to be the president and chief operating officer, and James F. Parker, general counsel promoted to be the chief executive officer. Since Southwest's airlines experienced leadership change, radical change in the organizational cultural experienced too. Instead of working as teamwork, there were increasingly distance between employees, managers and top management. Before changes, the top management was very close to its employees and personally contacts them and celebrates their birthday and events.

However, after changes, keeping in close touch with personnel become an increasingly challenging task to the new leaders. Furthermore, warm employee relations at southwest seemed to be absurd over time. Unions played a great role in the game and were becoming more aggressive in expressing their frustration. Employees uttered that the new management spend too much time in the back offices of Southwest while managers uttered that they feel their organization culture is at risk because of the actions taken by Southwest's new management during negotiation with Unions. The paper argues that the growth of the company and the consequent increase in the number of employees also posed challenges of keeping the culture intact.

Furthermore, Southwest was experiencing cost increasing in fuel and wages. For example, the cost per average seat mile (ASM) went up from 7.07 cents in 1995 to 8.8 cents in 2006. Most of Southwest's Airlines customers reserve online (71.2 %) and the labor cost advantaging narrowing between major airlines after restructuring, the new management expressed that further cost reductions are very difficult and only could be achieved through increase modest fare increase and employee layoffs. These two available solutions for the new management are directly contradicting southwest culture.

Moreover, the new management faces growing competition in the low-fare segment as most of other airlines have copied their business model.

Competitors has make restructured and adapted Southwest airline model, and then develop various business model to attract customers. For example, they use leather seats and in-flight entertainment system for almost the same fare. Few years after their great victory that post them among the top five corporation in USA, the company now questioned whether loyal customers would still stick with the airline when they could get more value for their money elsewhere. In short, Southwest airlines can say that the current paper thus investigates to what extent changes in culture, costs and competition were related to leadership change in Southwest Airlines.

Whether thing would be the same after Kelleher left the scene completely was another important question facing southwest.

3. STRATEGIC ANALYSIS OF THE CASE

Southwest Airlines has grown from a small Texas carrier in 1971 to the nation's fourth largest airline. It is important here to notify that the current

section primary analysis the strategic management of Southwest Company before changes in leadership occurred. Before experiencing the leadership changes, southwest Airlines' was very successful and competitive firm that rated on the top of five companies in USA Southwest clearly defines its existing purposes, which is to provide the lowest fares for business and leisure travelers traveling between states. Instead of competing with large-scale airlines to fly international routes, Southwest focuses on “ point-to-point” interstate short trips, and more on maximizing the profitability than focusing on market share. This strong vision outweighs the allurements of international flight market, keeping Southwest airline concentrated on its own niche to gain profit.

3. 1 COST CONSCIOUSNESS

A key component of providing the highest quality of Customer Service and a stable work environment is low fares. In order to keep their fares low Southwest airlines must keep their costs low. Southwest airlines therefore, dedicated to finding ways to lower their costs and increase their productivity and quality. Southwest airlines value suppliers who have the same focus and look internally for ways to improve their processes and service, and willingly pass on cost savings. Southwest is also dedicated to creating an environment of trust and respect for its Customers, Employees, and suppliers. Employees are expected to maintain the highest ethical standards and conduct business with integrity, and in a manner, that excludes consideration of personal gain. Southwest airlines require the same ethical standards and conduct from their suppliers. Southwest airlines value

diversity and seek to create an environment that encourages it, both in the workplace and among their supplier base.

Since low fares have become its selling point, decreasing the cost becomes very important. Southwest Airlines tries to save money by simplifying its operating process. Utilizing strategies such as having “ One type of aircraft”, “ cash-register receipts as tickets”, “ no computer reservation system” and “ no meal service” are some examples of its low cost strategies. Southwest knows that airplanes generate revenue only when they are in the air. Accompanied with the “ point-to-point” strategy, Southwest chooses to operate by the most efficient way of adopting the concept of “ high average velocity” instead of conventional “ hub-and- spoke” system.

In order to provide low fare costs, the company has excluded the meal service from its flights, by serving beverages, crackers and other light snacks to the passengers during flights. Another reason for the cost advantage derives from the work force – the company has the shortest turnaround time, and also, in comparison with other airlines, its pilots fly longer hours, therefore the time is used in a more efficient way.

Airline can generate significant cost savings by sending tickets, newsletters, quotes, and other documents via Internet, rather than by post or facsimile. Airline can use Web site to publish – in a cost-effective way – public domain documents such as annual reports, product brochures, positions vacant, contact details and other important Airline information. American Southwest Airlines CEO, Gary Kelly said the Web site is playing a major role in

mitigating the rise in unit costs affected by high fuel prices. It's 10 times cheaper to deliver to customers through the online service than through a travel agent, Kelly said, and costs 5 times less than using Southwest's own reservation staff. The booking cost per passenger online is "well under \$1," said Kelly, and is scaling down even further. He said Internet use by passengers was helping the carrier keep fares at low discount levels.

3. 2 SUCCESSFUL INTERNAL MARKETING

Southwest airline has "Southwest spirit", which is deep in everyone's heart. They treat each other like family members. Good interpersonal relationship and communication ability won't leave with Kelleher. If Kelleher leaves Southwest, the organization would still be able to function with the same dedication as before.

Southwest emphasizes customer service. It is the company's policy not only to treat the customer in the best way possible, but also to treat employees as internal customers. This way, southwest becomes a comfortable and fun place to work. "If you are comfortable, you are smiling more and you give better service", says Colleen Barrett (p. 7 in the case study text). Another example of the Southwest attitude towards its employees is a quote by Herb Kelleher (CEO): "Fun is a stimulant to people. You don't have to surrender your individuality to work for Southwest Airlines, work is important don't spoil it with seriousness" (p. 9, the case study text).

The Southwest culture is to serve people in a fun and innovative way, but at the same time, make profits. Southwest's human resources department, also

called "The People Department," has its own principles to select employees. The motto is, "Employees are hired for attitude and trained for skill."

Southwest believes that it should satisfy its employees first and then they would satisfy its customers. The secret for the success of Southwest Airlines is that it never sacrifices happy employees in order to satisfy customers. In other words, Southwest uses the Market-Focused Management Model. It believes that the company should trust and stand on its employees' side because sometimes customers might be wrong.

Southwest lets inexperienced workers be hired as interns to learn from a good well-experienced employee for a period of time. This is done so that a newbie can observe the essence of Southwest culture from the demonstration of the experienced one. It also trains employees to put their own shoes on other colleagues of different departments. They have the chance to experience other department's work so that they can understand others' difficulties and become more willing and natural to help. Also, managers often come to walk around to work with the front line employees to understand their working and difficulty.

Southwest tries to let employees know that it is not a company but a big family. The profit sharing plan is an example. Also, Southwest promotes celebration. Every year, there are many times to celebrate for the new opening of an airport or for someone to be the best server of the year. They care about each other and even the president can know somebody is sick and needs encouragement.

All the employees of Southwest Airlines work as a big family, and everyone in the crew share the responsibility of cleaning up the aircraft, and enabling their planes to have the take-off again after a spending very short period of time after the ground duty. Southwest Airlines have, in fact, pioneered a rapid turnaround service on keeping its aircraft on the ground for less than twenty minutes. Beside the fact that they have all the people working to get the plane ready for the next flight despite of the original duty , Southwest Airlines has also gone into the effort of change the internal design of the aircraft in order to speed up the time of ground duty.

Every employee of Southwest is creative and has his or her own personality. Their original clothing and dress, humorous conversations, and interesting broadcasting lead to a relaxing and delighted atmosphere. It can relieve the stress and pressure for passengers that take Southwest Airlines as well as create additional entertainment for everyone onboard without spending additional money. Too much emphasis on deference can build a wall between people. It's hard to express ones true self in an environment that is focused on providing the most professional service. Instead, Southwest employees always treat everyone properly with their heart, and they do it not because the company requires them to, but because they want to. This is part of the Southwest spirit.

Just as wearing one's favourite clothes can help let someone relax, Southwest Airlines also has many ways to let their employees relax as well. There are gadgets, games, and other creative outlets readily available on planes and in the corporate offices to make it easy for employees to engage

in breaks. Having a humorous time cuts down on the time spent on feeling stressed and creates a work environment that is interesting and fun. Every employee of Southwest is emotionally-connected with their company, and as such is willing to do anything for the beneficial growth of Southwest. Every employee infects each other with an extreme sense of joy and satisfaction; therefore as a result, customers are also influenced by the employees' delight and are, consequently, may also feel happiness. This is how Southwest became one of the most efficient airlines.

3. 4 FLAT ORGANIZATION

Southwest has a lean structure and informal code of conduct. The leanness leads to the cross-functional communication. Employees can connect with managers or even the president immediately whenever they want to deliver opinions and suggestions. Its hierarchy is quite simple so that department supervisors can manage employees very well and both sides can maintain good and direct communication. The leaders of Southwest are not in a prominent or unreachable position. Any employee can enter their offices to discuss anything at any time. If there are suggestions to be made, the leaders are there to hear them. The leaders also, surprisingly, help with ground work such as baggage handling. This type of organization allows Southwest employees to feel free to do their job and continuously improve upon whatever needs to be improved without many restrictions or pressure. Southwest realized that the real ownership of an organization doesn't come from how much stock one owns. Southwest claims, " Ownership is the result of believing that you can make a difference, then acting on that belief in

everything you do.” Southwest empowers its employees to solve service problems in a timely manner without asking supervisors for permission. They are encouraged to offer extraordinary service and their judgments are trusted, whether they are flight attendants or engineers.

Southwest believes the more employees know, the more they care. The most updated information about Southwest is easily available for every employee. It lets employees know the profit of Southwest is not only the president’s concern, but also related to your employment security. If every employee understands how the company makes money and how a single customer would influence on the performance of profitability, they would know their service to each customer mean a lot. In this case, they are more eager to suggest solutions for reducing cost and the front-line service providers can be in a better position to provide better services.

3. 5 SUCCESSFUL EXTERNAL MARKETING

Southwest Airlines stewardesses always let passengers enjoy their journey by telling some interesting jokes and stories, which make many customers enjoy their flight, despite lacking other forms of entertainment. In a longer haul flight, such as in a five to six hour flight, stewardesses would have a very difficult time to maintain their enthusiasm. In such a situation, Southwest would have to upgrade its facilities, or hire more stewardesses such that one could take a break while the other serves. It is obvious, in this case, that hiring more stewardesses would not make sense because they would just take up passenger space. Ultimately, this would mean that

Southwest Airlines would have to upgrade its airplanes to include in-flight entertainment, and subsequently, Southwest's future passengers would have to carry the burden of these costs.

Southwest could choose to add some forms of entertainment without installing costly equipment on every plane. However, this strategy would also be very costly in the long run. When one takes into account that Southwest has over 300 aircrafts, it is immediately obvious that even if Southwest provides newspapers and magazines, that its daily or even weekly and monthly distribution costs would quickly add up to become a financial burden. It would be cheaper in the short run to choose magazines and books; however, in the long run, installing electronic entertainment would be cheaper. Regardless of the choice of entertainment, Southwest would have to pay a lot of money in order to entertain its passengers on long haul flights-and the fares would also increase.

A five to six hours transcontinental flight with no food and movies would be very boring. As such, most consumers would probably choose to pay more for proper amenities like movies and food. I think having no food or movies is tolerable for a flight that is up to three hours. Any longer, however, the passengers would probably be willing to pay more. An exception to this case might be if saving money is the primary goal. Southwest provides nuts as a snack, which is terrific for a short-haul flight, but in a long-haul flight, nuts will probably not be sufficient for many American customers.

3. 6 EXTERNAL ENVIRONMENT ANALYSIS

Southwest airlines face many external factors that influence the way they run their business. Despite the economic downturn, Southwest's position will continue to remain unassailable by competitors and industry environments. Southwest is the leader of all of the airlines in the United States for its ability to attract customers based not only on its low-fares and exceptional service, but also on its ability to change and evolve as it needs to. In recent years, the global price of oil has caused many airlines to collapse as airlines were forced to raise ticket prices and lose customers.

Airlines were also hurt by low ridership rates. Southwest Airlines was able to overcome these issues, and it will continue to do so. In the greater part of 2008, the price per barrel of oil soared to the highest that the world has ever seen. As a result of this, world gas prices also increased and as such, it became more costly to operate airplanes. Due to rising oil costs, and other factors such as a weak economy (leading to poor ticket sales), many different airlines went bankrupt and were subsequently absorbed by other airlines. This has affected many airlines, but the airlines that are the most affected are low-cost airlines because they run on a lower operating income compared to normal carriers. Although Southwest Airlines is also a low-cost carrier, it has effectively escaped this fate.

Due to the sluggish economy, many potential passengers are mainly concerned about price before other factors. Southwest is suitable for this type of customer in the current economic environment. This is an advantage for Southwest because it is typically the lowest-cost airline. The main threat

in the sociocultural segment is the ongoing concern about terrorism and its effect on aviation safety. The major political/legal force was the 1978 deregulation of the airline industry that essentially removed all entry barriers and opened the industry to intense competition. During the first decade after deregulation, more than 150 carriers filed for bankruptcy. Another political/legal issue is related to federal taxation. Southwest has done well despite these threats, but the current threats in the form of federal taxes are likely to have a disproportionate effect on the “no frills” strategic group of competitors.

A number of technologies are available to assist airlines in minimizing costs and maximizing revenues. However, Southwest and other low-fare carriers did not use a flexible pricing approach; it did use other technologies to reduce costs. Southwest is generally known as a first mover in the use of technologies. For example, southwest were the first airlines to have tactless by having internet website. With new aircraft coming on stream, airlines also have access to more efficient aircraft as well as flight management systems to minimize fuel burn.

3. 7 SWOT ANALYSIS

The following table present SWOT analysis for Southwest Airline

Table 1: SWOT analysis for Southwest Airline

Strength

Weakness

Concentrating on the niche market

Cost-consciousness

Speed and Efficiency

High Service Quality

Flat Organization

Successful Internal Marketing

Successful External Marketing

Strong leadership (Herb Kelleher, Colleen Barrett)

Excellent relations with customers

Excellent relations with employees

Culture/Values/Spirit

Image of fun/excitement

Dependence on single aircraft supplier (Boeing)

Retirement of Herb Kelleher

The current Boeing 737 jets may not be enough to fly long-haul flights

Increasingly costs

Entertainment and food are two unavoidable issues for Southwest when it comes to long-haul flights and international flights.

Weak relations with labour unions

Leadership management and challenges

Opportunity

Threats

Short-haul business traveller market is a potential market. Point-to-point trips between cities are a new niche in airline industry.

Few low-cost competitors that fly internationally (JetBlue, Virgin Atlantic)

Code-sharing with other airlines can save costs of expanding into this market by themselves

International destinations are desirable places to visit for leisure

The market segment to grow in the future

Uncertainty of economy - not so much money for holiday travels

High fuel costs (not a current issue, but perhaps in the future)

Other large-scale airlines could offer lower fares to compete with Southwest.

decline in customers' need for affordable short-haul carriers.

Rise in ticket costs because of international airport taxes

Some threat of substitutes

Federal tax burdens (effect on price-conscious travellers)

Intense rivalry in industry

Concern about terrorism among travellers

4. ACADEMIC JOURNAL

Section 2 presents primary two challenges that face Southwest Company due to the leadership changes, these challenges mainly happen because of expanding the company and thus its manpower. Firstly, the communication become difficulty and obviously changes in Southwest culture, as described by its management ' it becomes new creature'. Secondly, southwest experienced increasing costs and competition in the airline industry. Related to these two problems, which briefly presented in section 2, the following section attempts to provide two academic articles that would be the framework for this paper. Primary the paper address 1- how a company by adapting Goolsby Leadership Model, could enhance its organization healthy and better creates a culture that personnel work in good and satiable environment, and 2- how a company could use Porter's generic strategies to reduce its costs and sustain its competitiveness edge.

4. 1 ARTICLE ONE: ORGANIZATIONAL HEALTH AND THE GOOLSBY LEADERSHIP MODEL

Studies explains that organizations could maintain vigour, productivity, and their competitive edge though top management and executives who are healthy, strong, and talented (Gowing et al., 1998). In his study, Gowing et al. (1998) argued that Organizational health is three-dimensional framework that takes into consideration healthy employees and healthy organization. Moreover, he explained that Healthy top management and leaders is at the

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core of organizational health in which it provides healthy for employees. He explained that of leader is unhealthy then it is not possible to make employees healthy, as leader healthy is the heart of organizational health. Table 2 table present the attributes of organizational (leader) health.

Table 2: attributes of organizational (leader) health

Leading a life of purpose

- Clear mission and goals
- Give back to the community
- Integrity
- Quality focus
- Principled
- Provides opportunities for growth
- Rewards or recognizes achievement

Quality connections to others

- Open, honest communication norms
- Fairness or justice in practices
- Opportunity
- Trust and safety norms

- Mutual purpose and sense of belonging to the bigger whole
- Embrace and encourage diversity of people, skills and ideas
- Cohesiveness and positive affiliation
- Pride in group accomplishments
- Facilitates interdependent workers

Positive self-regard and mastery

- Encourage balance
- Growth opportunities
- Support systems for problems
- Fitness support systems
- Positive physical work environment
- High safety focus

Source: James Campbell (2007)

On the other hand, studies indicated various attributes under health employees such as confidence, hope, optimism, and self-Efficacy (Luthans et al. (2007)). In his studies, Luthans (2002) and Luthans et al. (2007) indicated that these attributes is directly linked to positive organizational behaviour.

Table 3 present characteristics of healthy employees.

Table 3: characteristics of healthy employees

Leading a life of purpose

- Clear mission and goals
- Balanced - living within one's value system
- Integrity
- Productive
- Purposeful work
- Spiritual or higher purpose basis
- Passion or motivation to achieve for the better good

Quality connections to others

- Interdependent: strong, positive social support system
- Emotional competence
- Mature, intimate connection to family and significant others
- Communication competence

Positive self-regard and mastery

- Humour
- Hope and optimism

- Self-efficacy or confidence

- Self awareness – strength focus – a component of emotional competence

- Subjective well being/happiness

- Hardiness, self-reliance, and adaptability

- Vigour, physical and mental energy

- Personal challenge and growth goals

Source: James Campbell (2007)

Traditional framework to leadership considered various dimensions and approaches such as leader attitude (traits versus behaviours) and degree of generalizability (universal versus contingent) (Jago, 1982). Voluminous studies explained that this framework give great intention to inspirational styles of leadership, including visionary, charismatic, and transformational. (Jackson, 2005; Michie and Gooty, 2005; Wood, 2005). Few years later after publishing this framework, researchers explained criticisms of the inspirational styles, which deemed as unethical due to the ability of leaders to exploit followers to their detriment and to the benefit of the leader (Wood, 2005). Therefore, academic research are aiming to differentiate between authentic and inauthentic leaders (James Campbell, 2007).

One of the most popular frameworks in scholars is the Goolsby Leadership Model, which primary developed from the transformational leadership approach and anchors in the more recent emphasis on authentic leadership. Goolsby Leadership Model suggested that positive leadership could influence on three dimensions of employees healthy, which are Integrity, Courage, and Impact (Keller et al., 2005). The model explains that only leader with positive attitude, healthy, courage and passion can improve employees healthy. The Goolsby Leadership Model shown in Figure 1 elaborates key dimensions of Integrity, Courage, and Impact.

Figure 1: Goolsby Leadership Model

Source: James Campbell (2007)

Integrity

Studies defined Integrity a “ the heart of good business practices” (Hull, 2004). Moreover, studies defined integrity as good moral character (Gavin, 2002). The four core questions of the Four-Way Test aim to test personal integrity. Authenticity and emotional competence are two key attributes of integrity in the healthy leader. In their study, Avolio and Luthans (2006) provide four sub-factors under authenticity factor, which are presented in Figure 1: self-awareness, transparency, positive psychological states, and personal integrity. Avolio and Luthans (2006) explained that the authentic leader have good self-awareness, is apparent to others while being provoke positive psychological states between employees. In his study, James Campbell (2007) explained that authentic leaders are “ who they say they

are”; which mean that there is a consistency between their values, their intentions, their beliefs, their promises, and their actions and behaviours.

Studies indicated that the other dimension of integrity is emotional competence, which concerns the integration of thought and emotion, goes to the authentic characteristic of self-awareness (Boyatzis and McKee, 2005). Emotional competence is the self-awareness, self-management, other-awareness, and other management (Boyatzis and McKee, 2005). In their study, Boyatzis and McKee (2005) explained indicated that leader who are emotionally competent is one who is aware of his/her own feelings and emotions as well as being aware of the feelings and emotions in other people. James Campbell (2007) explained that emotional competence assists the healthy leader to be optimistic, positive, and compassionate in their actions and behaviours.

Courage

As figure 1 shows, Courage as the second factor in the Goolsby Leadership Model. In his study, James Campbell (2007) defined courage as “ the capacity to act, even in the presence of adversity, fear, and danger”. Previous studies explained that Courage are three combined factors; purpose, energy, and character. In his investigation study, Thomas (2005) conducted an investigation study and interviewed 28 senior executives, he concluded that a wide variation in leadership concept, leadership attributes and leadership characteristics existed (Thomas, 2005). On contrary, other studies indicated that there was no discrepancy along the dimension of purpose (Macik-Frey et al., 2006). In his study, Levinson (2006) explain that

the purpose, goals, and objectives are at the crux of good leader where character is found.

In their study, Loehr and Schwartz (2003) suggested that while some leaders focus on time management, energy management is very important to healthy productivity and achievement. Moreover, studies indicated that Character is very important to courage, and it may be defined as who you are when no one is looking (Murray, 1998). In his study, Gavin et. al (2003) explained that character has an important role in a leader's health because it leads to consistency in actions and behaviours based on core values and principles. Studies explained character can be empirically measure