CASE 23

Southwest Airlines in 2020: Culture, Values, and Operating Practices

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In 2020, Southwest Airlines was the largest U.S. domestic airline with 162.7 million passengers boarded in 2019. The company had held the title of largest U.S. air carrier since 2003, despite offering few international flights relative to major airlines, such as American Airlines, Delta Air Lines, and United Air Lines—see Exhibit 1. Southwest also had the enviable distinction of being the only major air carrier in the world that had been profitable for 46 consecutive years (1973–2019). In 2020, Southwest was named to *Fortune*'s list of the World's Most Admired Companies for the 27th consecutive year, coming in at number 11.

From humble beginnings in 1971 as a scrappy underdog with quirky practices that once flew mainly to "secondary" airports (rather than high traffic airports like Chicago O'Hare, Los Angeles International, Dallas-Fort Worth International, and Hartsfield-Jackson International Airport in Atlanta), Southwest had climbed up through the industry ranks to become a major competitive force in the domestic segment of the U.S. airline industry. It had weathered industry downturns, dramatic increases in the price of jet fuel, cataclysmic falloffs in airline traffic due to terrorist attacks and economy-wide recessions, and fare wars and other attempts by rivals to undercut its business, all the while adding more and more flights to more and more airports.

In 2019, Southwest earned after-tax profits of $2.3 billion on revenues of $22.4 billion, as airline passenger travel in the United States set a fifth consecutive record high with enplaned passengers increasing by 4.2 percent since 2018, 9.1 percent since 2017, and 12.5 percent from 2016. The grounding of the Boeing 737-MAX by President Trump on March 13, 2019 impacted Southwest Airlines' profitability for

EXHIBIT 1 Total Number of Domestic and International Passengers Traveling on Selected U.S. Airlines, 2015, 2017, 2019 (in thousands)

Carrier	Total Number of Enplaned Passengers (including both passengers paying for tickets and passengers traveling on frequent flyer awards)		
American Airlines	**2015**	**2017**	**2019**
Domestic	93,280	116,528	126,067
International	25,010	28,391	29,752
Total	118,290	144,919	155,819
Delta Air Lines			
Domestic	114,904	120,929	136,407
International	22,828	24,508	26,066
Total	137,732	145,437	162,473
Southwest Airlines			
Domestic	**142,408**	**153,859**	**158,446**
International	**2,167**	**3,868**	**4,262**
Total	**144,575**	**157,727**	**162,708**
United Air Lines			
Domestic	69,179	80,554	87,586
International	25,713	26,607	28,743
Total	94,892	107,161	116,329

Source: U.S. Department of Transportation, Bureau of Transportation Statistics, Air Carrier Statistics, Form T-100.

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the year as its fleet included 34 737-MAX aircraft. The reliability of the 737 MAX had been brought into question after the crash of Lion Air Flight 610 in Jakarta, Indonesia, on October 29, 2018, which was followed by the crash of Ethiopian Airlines Flight 302 on March 10, 2019. As of mid-2020, all 737-MAX aircraft remained grounded until Boeing could develop design changes necessary to meet the Federal Aviation Administration's airworthiness directive.

More challenges to the airline industry arose in 2020 as novel Coronavirus brought about stay-at-home orders, social distancing requirements, and remote working protocols. U.S. passenger airlines experienced a combined loss of $5.2 billion for the first quarter of 2020 as a result of the impact of the COVID-19 pandemic on global air travel. The number of passengers flying on U.S. airlines had declined by 96 percent between April 2019 and April 2020 as the world focused on limiting potential exposure to the virus. Only three million passengers flew on U.S. airlines in April 2020, which was the smallest number of monthly air travelers in the United States since 1974. Between March 2020 and April 2020, airline employment had decreased by 31,000 workers to approximately 428,000—the lowest total number of full-time employees in the industry since August 2017. Southwest Airlines' strategy, commitment to excellence in operations, and strategy-supportive culture would help the company recover from the devastating effects of the pandemic on the airline industry, but few were predicting when air travel would return to pre-COVID-19 levels.

COMPANY BACKGROUND

In late 1966, Rollin King, a San Antonio entrepreneur who owned a small commuter air service, marched into Herb Kelleher's law office with a plan to start a low-cost/low-fare airline that would shuttle passengers between San Antonio, Dallas, and Houston.[1] Over the years, King had heard many Texas businessmen complain about the length of time that it took to drive between the three cities and the expense of flying the airlines currently serving these cities. His business concept for the airline was simple: Attract passengers by flying convenient schedules, get passengers to their destination on time, make sure they have a good experience, and charge fares competitive with travel by automobile. Kelleher, skeptical that King's business idea was viable, dug into the possibilities during the next few weeks and concluded a new airline was feasible; he agreed to handle the necessary legal work and also to invest $10,000 of his own funds in the venture.

In 1967, Kelleher filed papers to incorporate the new airline and submitted an application to the Texas Aeronautics Commission for the new company to begin serving Dallas, Houston, and San Antonio.[2] But rival airlines in Texas pulled every string they could to block the new airline from commencing operations, precipitating a contentious four-year parade of legal and regulatory proceedings. Herb Kelleher led the fight on the company's behalf, eventually prevailing in June 1971 after winning two appeals to the Texas Supreme Court and a favorable ruling from U.S. Supreme Court. Kelleher recalled, "The constant proceedings had gradually come to enrage me. There was no merit to our competitors' legal assertions. They were simply trying to use their superior economic power to squeeze us dry so we would collapse before we ever got into business. I was bound and determined to show that Southwest Airlines was going to survive and was going into operation."[3]

In January 1971, Lamar Muse was brought in as the CEO to get operations underway. Muse was an aggressive and self-confident airline veteran who knew the business well and who had the entrepreneurial skills to tackle the challenges of building the airline from scratch and then competing head-on with the major carriers. Through private investors and an initial public offering of stock in June 1971, Muse raised $7 million in new capital to purchase planes and equipment and provide cash for start-up. Boeing agreed to supply three new 737s from its inventory, discounting its price from $5 million to $4 million and financing 90 percent of the $12 million deal. Muse was able to recruit a talented senior staff that included a number of veteran executives from other carriers. He particularly sought out people who were innovative, would not shirk doing things differently or unconventionally, and were motivated by the challenge of building an airline from scratch. Muse wanted his executive team to be willing to think like mavericks and not be lulled into instituting practices at Southwest that imitated what was done at other airlines.

Southwest's Struggle to Gain a Market Foothold

In June 1971, Southwest initiated its first flights with a schedule that soon included six roundtrips between

Dallas and San Antonio and 12 roundtrips between Houston and Dallas. But the introductory $20 one-way fares to fly the Golden Triangle, well below the $27 and $28 fares charged by rivals, attracted disappointingly small numbers of passengers. To try to gain market visibility and drum up more passengers, Southwest undertook some creative actions to supplement its ad campaigns publicizing its low fares:

- Taking a cue from being based at Dallas Love Field, Southwest began using the tag line "Now There's Somebody Else Up There Who Loves You." The routes between Houston, Dallas, and San Antonio became known as the Love Triangle. Southwest's planes were referred to as Love Birds, drinks became Love Potions, peanuts were called Love Bites, drink coupons were Love Stamps, and tickets were printed on Love Machines. The "love" campaign set the tone for Southwest's approach to its customers and company efforts to make flying Southwest Airlines an enjoyable, fun, and differentiating experience. (Later, when the company went public, it chose LUV as its stock-trading symbol.)
- In order to add more flights without buying more planes, the head of Southwest's ground operations came up with a plan for ground crews to off-load passengers and baggage, refuel the plane, clean the cabin and restock the galley, on-load passengers and baggage, do the necessary preflight checks and paperwork, and push away from the gate in ten minutes. The 10-minute turn became one of Southwest's signatures during the 1970s and 1980s. (In later years, as passenger volume grew and many flights were filled to capacity, the turnaround time gradually expanded to 25 minutes. Even so, the 25-minute average turnaround times at Southwest were shorter than the 30-to-50-minute turnarounds typical at other major airlines.)
- In late November 1971, Lamar Muse came up with the idea of offering a $10 fare to passengers on the Friday night Houston-Dallas flight. With no advertising, the 112-seat flight sold out. This led Muse to realize that Southwest was serving two quite distinct types of travelers in the Golden Triangle market: (1) business travelers who were more time sensitive than price sensitive and wanted weekday flights at times suitable for conducting business and (2) price-sensitive leisure travelers who wanted lower fares and had more flexibility about when to fly.[4] He came up with a two-tier on-peak and off-peak pricing structure in which all seats on weekday flights departing before 7 p.m. were priced at $26 and all seats on other flights were priced at $13. Passenger traffic increased significantly—and system-wide on-peak and off-peak pricing soon became standard across the whole airline industry.
- In 1972, the company decided to move its flights in Houston from the newly-opened Houston Intercontinental Airport (where it was losing money and where it took 45 minutes to get to downtown) to the abandoned Houston Hobby Airport located much closer to downtown Houston. Despite being the only carrier to fly into Houston Hobby, the results were spectacular—business travelers that flew to Houston frequently from Dallas and San Antonio found the Houston Hobby location far more convenient and passenger traffic doubled almost immediately.

All these moves paid off. The resulting gains in passenger traffic enabled allowed Southwest to report its first-ever annual profit in 1973.

More Legal and Regulatory Hurdles

During the rest of the 1970s, Southwest found itself embroiled in another round of legal and regulatory battles. One battle involved Southwest's refusal to move its flights from Dallas Love Field, located 10 minutes from downtown, out to the newly-opened Dallas-Fort Worth Regional Airport, which was 30 minutes from downtown Dallas. Local officials were furious because they were counting on fees from Southwest's flights in and out of DFW to help service the debt on the bonds issued to finance the construction of DFW. Southwest's position was that it was not required to move because it had not agreed to do so or been ordered to do so by the Texas Aeronautics Commission—moreover, the company's headquarters were located at Love Field. The courts eventually ruled Southwest's operations could remain at Love Field.

A second battle ensued when rival airlines protested Southwest's application to begin serving several smaller cities in Texas; their protest was based on arguments that these markets were already well-served and that Southwest's entry would result in costly overcapacity. Southwest countered that its low fares would allow more people to fly and grow the market. Again, Southwest prevailed and its views about low fares expanding the market proved accurate. In the year before Southwest initiated service, 123,000 passengers flew from Harlingen Airport in the Rio Grande Valley to Houston, Dallas, or San Antonio; in the 11 months following Southwest's initial flights, 325,000 passengers flew to the same three cities.

Believing that Braniff and Texas International were deliberately engaging in tactics to harass Southwest's operations, Southwest convinced the U.S. government to investigate what it considered predatory tactics by its chief rivals. In February 1975, Braniff and Texas International were indicted by a federal grand jury for conspiring to put Southwest out of business—a violation of the Sherman Antitrust Act. The two airlines pleaded "no contest" to the charges, signed cease-and-desist agreements, and were fined a modest $100,000 each.

When Congress passed the Airline Deregulation Act in 1978, Southwest applied to the Civil Aeronautics Board (now the Federal Aviation Agency) to fly between Houston and New Orleans. The application was vehemently opposed by local government officials and airlines operating out of DFW because of the potential for passenger traffic to be siphoned away from DFW. The opponents solicited the aid of Fort Worth congressman Jim Wright, then the majority leader of the U.S. House of Representatives, who took the matter to the floor of the House of Representatives; a rash of lobbying and maneuvering ensued. What emerged came to be known as the Wright Amendment of 1979: no airline may provide non-stop or through-plane service from Dallas Love Field to any city in any state except for locations in Texas, Louisiana, Arkansas, Oklahoma, and New Mexico. Southwest was prohibited from advertising, publishing schedules or fares, or checking baggage for travel from Dallas Love Field to any city it served outside the five-state "Wright Zone." The Wright Amendment continued in effect until 1997 when Alabama, Mississippi, and Kansas were added to the five-state "Wright Zone"; in 2005, Missouri was added to the Wright Zone. In 2006, after a heated battle in Congress, legislation was passed and signed into law that repealed the Wright Amendment beginning in October 2014. With the repeal of the Wright Amendment, Southwest Airlines increased flight activity from Dallas Love Field by 50 percent to add 20 new nonstop destinations with 180 daily departures to a total of 50 nonstop destinations.

The Emergence of a Combative Can-Do Culture at Southwest

The legal, regulatory, and competitive battles that Southwest fought in these early years produced a strong esprit de corps among Southwest personnel and a drive to survive and prosper despite the odds. With newspaper and TV stories reporting Southwest's difficulties regularly, employees were fully aware that the airline's existence was constantly on the line. Had the company been forced to move from Love Field, it would most likely have gone under, an outcome which employees, Southwest's rivals, and local government officials understood well. According to Southwest's former president, Colleen Barrett, the obstacles thrown in Southwest's path by competitors and local officials were instrumental in building Herb Kelleher's passion for Southwest Airlines and ingraining a combative, can-do spirit into the corporate culture:[5]

> They would put twelve to fifteen lawyers on a case and on our side there was Herb. They almost wore him to the ground. But the more arrogant they were, the more determined Herb got that this airline was going to go into the air—and stay there.
>
> The warrior mentality, the very fight to survive, is truly what created our culture.

When Lamar Muse resigned in 1978, Southwest's board wanted Herb Kelleher to take over as chairman and CEO. But Kelleher enjoyed practicing law and, while he agreed to become chairman of the board, he insisted that someone else be CEO. Southwest's board appointed Howard Putnam, a group vice president of marketing services at United Airlines, as Southwest's president and CEO in July 1978. Putnam asked Kelleher to become more involved in Southwest's day-to-day operations, and over the next three years, Kelleher got to know many of the company's personnel and observe them in action. Putnam announced his resignation in Fall 1981 to become president and COO at Braniff International. This time, Southwest's board succeeded in persuading Kelleher to take on the additional duties of CEO and president.

Sustained Growth Transforms Southwest into the Domestic Market Share Leader, 1981–2019

When Herb Kelleher took over in 1981, Southwest was flying 27 planes to 14 destination cities and had $270 million in revenues and 2,100 employees. Over the next 20 years, Southwest Airlines prospered under Kelleher's leadership. When Kelleher stepped down as CEO in mid-2001, the company had 350 planes flying to 58 U.S. airports, annual revenues of $5.6 billion, over 30,000 employees, and 64 million fare-paying passengers annually.

Under the two CEOs who succeeded Kelleher, Southwest continued its march to becoming the market share leader in domestic air travel. In the process, the company won more industry Triple Crown awards for best on-time record, best baggage handling, and fewest customer complaints than any other U.S. airline. While Southwest fell short of its on-time performance and baggage handling goals in some years, it still led the domestic airline industry in Customer Satisfaction and received other awards and recognitions, including #1 U.S. Low-Cost Carrier for Customer Satisfaction by J.D. Power, Best Airline Rewards Program by *U.S. News & World Report,* 2019 Airline of the Year by Airlines Reporting Corp., #1 for Customer Satisfaction with Airline Travel Websites by J.D. Power, and the top ranking by the Freddie Awards for Best Customer Service and Best Loyalty Credit Card.

Exhibit 2 provides a five-year summary of Southwest's financial and operating performance.

HERB KELLEHER: THE CEO WHO TRANSFORMED SOUTHWEST INTO A MAJOR AIRLINE

Herb Kelleher majored in philosophy at Wesleyan University in Middletown, Connecticut, graduating with honors. He earned his law degree at New York University, again graduating with honors and also

EXHIBIT 2 Summary of Southwest Airlines' Financial and Operating Performance, 2015–2019

	Year ended December 31,				
	2019	2018	2017	2016	2015
Financial Data (in millions, except per share amounts):					
Operating revenues	$ 22,428	$ 21,965	$ 21,146	$ 20,289	$ 19,820
Operating expenses	19,471	18,759	17,739	16,767	15,821
Operating income	2,957	3,206	3,407	3,522	3,999
Other expenses (income) net	–	42	142	72	520
Income before taxes	2,957	3,164	3,265	3,450	3,479
Provision (benefit) for income taxes	657	699	(92)	1,267	1,298
Net income	$ 2,300	$ 2,465	$ 3,357	$ 2,183	$ 2,181
Net income per share, basic	$4.28	$4.30	$5.58	$3.48	$3.30
Net income per share, diluted	$4.27	$4.29	$5.57	$3.45	$3.27
Cash dividends per common share	$0.70	$0.61	$0.48	$0.38	$0.29
Total assets at period-end	25,895	26,243	25,110	23,286	21,312
Long-term obligations at period-end	1,846	2,771	3,320	2,821	2,541
Stockholders' equity at period-end	9,832	9,853	9,641	7,784	7,358
Operating Data:					
Revenue passengers carried (000s)	134,056	134,890	130,256	124,720	118,171

(*continued*)

	Year ended December 31,				
	2019	2018	2017	2016	2015
Enplaned passengers (000s)	162,681	163,606	157,677	151,740	144,575
Revenue passenger miles (RPMs) (in millions) (a)	131,345	133,322	129,041	124,798	117,500
Available seat miles (ASMs) (in millions) (b)	157,254	159,795	153,811	148,522	140,501
Load factor (c)	83.50%	83.40%	83.90%	84.00%	83.60%
Average length of passenger haul (miles)	980	988	991	1,001	994
Average aircraft stage length (miles)	748	757	754	760	750
Trips flown	1,367,727	1,375,030	1,347,893	1,311,149	1,267,358
Seats flown (000s) (d)	206,390	207,223	200,879	193,168	184,955
Seats per trip (e)	150.90	150.70	149.00	147.30	145.90
Average passenger fare	$154.98	$151.64	$151.73	$152.89	$154.85
Passenger revenue yield per RPM (cents) (f)	15.82	15.34	15.32	15.28	15.57
Operating revenues per ASM (cents) (g) (j)	14.26	13.75	13.75	13.66	13.98
Passenger revenue per ASM (cents) (h)	13.21	12.80	12.85	12.84	13.02
Operating expenses per ASM (cents) (i)	12.38	11.74	11.53	11.29	11.26
Operating expenses per ASM, excluding fuel (cents)	9.62	8.85	8.88	8.73	8.60
Operating expenses per ASM, excluding fuel and profitsharing (cents)	9.19	8.51	8.53	8.34	8.16
Fuel costs per gallon, including fuel tax	$2.09	$2.20	$1.99	$1.90	$1.96
Fuel consumed, in gallons (millions)	2,077	2,094	2,045	1,996	1,901
Active fulltime equivalent employees	60,767	58,803	56,110	53,536	49,583
Aircraft at end of period	747	750	706	723	704

(a) A revenue passenger mile is one paying passenger flown one mile. Also referred to as "traffic," which is a measure of demand for a given period.

(b) An available seat mile is one seat (empty or full) flown one mile. Also referred to as "capacity," which is a measure of the space available to carry passengers in a given period.

(c) Revenue passenger miles divided by available seat miles.

(d) Seats flown is calculated using total number of seats available by aircraft type multiplied by the total trips flown by the same aircraft type during a particular period.

(e) Seats per trip is calculated by dividing seats flown by trips flown.

(f) Calculated as passenger revenue divided by revenue passenger miles. Also referred to as "yield," this is the average cost paid by a paying passenger to fly one mile, which is a measure of revenue production and fares.

(g) Calculated as operating revenues divided by available seat miles. Also referred to as "operating unit revenues" or "RASM," this is a measure of operating revenue production based on the total available seat miles flown during a particular period.

(h) Calculated as passenger revenue divided by available seat miles. Also referred to as "passenger unit revenues," this is a measure of passenger revenue production based on the total available seat miles flown during a particular period.

(i) Calculated as operating expenses divided by available seat miles. Also referred to as "unit costs" or "cost per available seat mile," this is the average cost to fly an aircraft seat (empty or full) one mile, which is a measure of cost efficiencies.

(j) Year ended 2015 RASM excludes a $172 million one-time special revenue adjustment in July 2015 as a result of the Company's amendment of its co-branded credit card agreement with Chase Bank USA, N.A. and the resulting required change in accounting methodology. Including the special revenue adjustment, RASM would have been 14.11 cents for the year ended 2015.

Source: Southwest Airlines 10-K Report, 2019.

serving as a member of the law review. After graduation, he clerked for a New Jersey Supreme Court justice for two years and then joined a law firm in Newark. Upon marrying a woman from Texas and becoming enamored with Texas, he moved to San Antonio where he became a successful lawyer and came to represent Rollin King's small aviation company.

When Herb Kelleher took on the role of Southwest's CEO in 1981, he made a point of visiting with maintenance personnel to check on how well the planes were running and talking with the flight attendants. Kelleher did not do much managing from his office, preferring instead to be out among the troops as much as he could. His style was to listen and observe and to offer encouragement. Kelleher attended most graduation ceremonies of flight attendant classes, and he often appeared to help load bags on "Black Wednesday," the busy travel day before Thanksgiving. He knew the names of thousands of Southwest employees and was held in the highest regard by Southwest employees. When he attended a Southwest employee function, he was swarmed like a celebrity.

Kelleher was a strong believer in the principle that employees—not customers—came first:[6]

> You have to treat your employees like your customers. When you treat them right, then they will treat your outside customers right. That has been a very powerful competitive weapon for us. You've got to take the time to listen to people's ideas. If you just tell somebody no, that's an act of power and, in my opinion, an abuse of power. You don't want to constrain people in their thinking.

Another indication of the importance that Kelleher placed on employees was the message he had penned in 1990 that was prominently displayed in the lobby of Southwest's headquarters in Dallas:

> The people of Southwest Airlines are "the creators" of what we have become—and of what we will be.
>
> Our people transformed an idea into a legend. That legend will continue to grow only so long as it is nourished—by our people's indomitable spirit, boundless energy, immense goodwill, and burning desire to excel.
>
> Our thanks—and our love—to the people of Southwest Airlines for creating a marvelous family and a wondrous airline.

In June 2001, Herb Kelleher stepped down as CEO but continued on in his role as chairman of Southwest's Board of Directors and the head of the board's executive committee; as chairman, he played a lead role in Southwest's strategy, expansion to new cities and aircraft scheduling, and governmental and industry affairs. In May 2008, after more than 40 years of leadership at Southwest, Kelleher retired as chairman (but he remained a full-time Southwest employee until July 2013 and carried the title of Chairman Emeritus in 2016). Herb Kelleher died in Dallas, Texas at age 87 on January 3, 2019.

EXECUTIVE LEADERSHIP AT SOUTHWEST: 2001–2020

In June 2001, Southwest Airlines, responding to anxious investor concerns about the company's leadership succession plans, began an orderly transfer of power and responsibilities from Herb Kelleher, age 70, to two of his most trusted protégés. James F. Parker, 54, Southwest's general counsel and one of Kelleher's most trusted protégés, succeeded Kelleher as Southwest's CEO. Another of Kelleher's trusted protégés, Colleen Barrett, 56, Southwest's executive vice-president-customers and self-described keeper of Southwest's pep rally corporate culture, became president and chief operating officer.

James Parker, CEO from 2001–2004

James Parker's association with Herb Kelleher went back 23 years to the time when they were colleagues at Kelleher's old law firm. Parker moved over to Southwest from the law firm in February 1986. Parker's profile inside the company as Southwest's vice president and general counsel had been relatively low, but he was Southwest's chief labor negotiator and much of the credit for Southwest's good relations with employee unions belonged to Parker. Parker and Kelleher were said to think much alike, and Parker was regarded as having a good sense of humor, although he did not have as colorful and flamboyant a personality as Kelleher. Parker was seen as an honest, straight-arrow kind of person who had a strong grasp of Southwest's culture and market niche and who could be nice or tough, depending on the situation.

Parker retired unexpectedly, for personal reasons, in July 2004, stepping down as CEO and Vice Chairman of the Board and also resigning from the company's board of directors. He was succeeded by Gary C. Kelly.

Colleen Barrett, Southwest's President, 2001–2008

Barrett began working with Kelleher as his legal secretary in 1967 and had been with Southwest since 1978. As executive vice president—customers, Barrett had a high profile among Southwest employees and spent most of her time on culture-building, morale-building, and customer service; her goal was to ensure that employees felt good about what they were doing and felt empowered to serve the cause of Southwest Airlines.[7] She and Kelleher were regarded as Southwest's guiding lights, and some analysts said she was essentially functioning as the company's chief operating officer prior to her formal appointment as president. Much of the credit for the company's strong record of customer service and its strong-culture work climate belonged to Barrett.

Barrett had been the driving force behind lining the hallways at Southwest's headquarters with photos of company events and trying to create a family atmosphere at the company. Believing it was important to make employees feel cared about and important, Barrett had put together a network of contacts across the company to help her stay in touch with what was happening with employees and their families. When network members learned about events that were worthy of acknowledgment, the word quickly got to Barrett—the information went into a database and an appropriate greeting card or gift was sent. Barrett had a remarkable ability to give gifts that were individualized and connected her to the recipient.[8]

Barrett was the first woman appointed as president and COO of a major U.S. airline. In October 2001, *Fortune* included Colleen Barrett on its list of the 50 most powerful women in American business (she was ranked number 20). Barrett retired as president in July 2008.

Gary C. Kelly, Southwest's CEO, 2004-Present

Gary Kelly was appointed Vice Chairman of the Board of Directors and Chief Executive Officer of Southwest effective July 15, 2004. Prior to that time, Mr. Kelly was Executive Vice President and Chief Financial Officer from 2001 to 2004, and Vice President-Finance and Chief Financial Officer from 1989 to 2001. He joined Southwest in 1986 as its Controller. In 2008, effective with the retirement of Kelleher and Barrett, Kelly assumed the titles of Chairman of the Board, CEO, and President.

As CEO, Kelly and other top-level Southwest executives sharpened and fine-tuned Southwest's strategy in a number of areas, continued to expand operations (adding both more flights and initiating service to new airports), and worked to maintain the company's low-cost advantage over its domestic rivals.

Kelly saw four factors as keys to Southwest's recipe for success:[9]

- Hire great people, treat 'em like family.
- Care for our Customers warmly and personally, like they're guests in our home.
- Keep fares and operating costs lower than anybody else by being safe, efficient, and operationally excellent.
- Stay prepared for bad times with a strong balance sheet, lots of cash, and a stout fuel hedge.

To guide Southwest's efforts to be a standout performer on these four key success factors, Kelly had established five strategic objectives for the company:[10]

- Be the best place to work.
- Be the safest, most efficient, and most reliable airline in the world.
- Offer customers a convenient flight schedule with lots of flights to lots of places they want to go.
- Offer customers the best overall travel experience.
- Do all of these things in a way that maintains a low-cost structure and the ability to offer low fares.

SOUTHWEST AIRLINES' STRATEGY IN 2020

From day one, Southwest had pursued a low-cost/low-price/no-frills strategy to make air travel affordable to a wide segment of the population. While specific aspects of the strategy had evolved over the years, three strategic themes had characterized the company's strategy throughout its existence and still had high profiles in 2020:

- Offering air travelers a robust route network
- Creating compelling brand appeal through customer service, low fares, and its frequent flyer program

- Ensuring a superior financial position through a low-cost operating position

Southwest's Development of a Robust Route Network

Southwest's route network was based upon a point-to-point flight model that was more cost-efficient than the hub-and-spoke systems used by most rival airlines. Hub-and-spoke systems involved passengers on many different flights coming in from spoke locations (and sometimes another hub) to a central airport or hub within a short span of time and then connecting to an outgoing flight to their destination—a spoke location or another hub). Most flights arrived and departed a hub across a two-hour window, creating big peak-valley swings in airport personnel workloads and gate utilization—airport personnel and gate areas were very busy when hub operations were in full swing and then were underutilized in the interval awaiting the next round of inbound/outbound flights. In contrast, Southwest's point-to-point routes permitted scheduling aircraft so as to minimize the time aircraft were at the gate, currently approximately 25 minutes, thereby reducing the number of aircraft and gate facilities that would otherwise be required. Furthermore, with a relatively even flow of incoming/outgoing flights and gate traffic, Southwest could staff its terminal operations to handle a fairly steady workload across a day whereas hub-and-spoke operators had to staff their operations to serve 3-4 daily peak periods.

Expanding Daily Departure and Route Options for Passengers. Southwest's strategy to grow its business consisted of (1) adding more daily flights to the cities/airports it currently served and (2) adding new cities/airports to its route schedule.

It was normal for customer traffic to grow at the airports Southwest served. Hence, opportunities were always emerging for Southwest to capture additional revenues by adding more flights at the airports already being served. Sometimes these opportunities entailed adding more flights to one or more of the same destinations and sometimes the opportunities entailed adding flights to a broader selection of Southwest destinations, depending on the mix of final destinations the customers departing from a particular airport were flying to.

To spur growth beyond that afforded by adding more daily flights to cities/airports currently being served, it had long been Southwest's practice to add one or more new cities/airports to its route schedule annually. In selecting new cities, Southwest looked for city pairs that could generate substantial amounts of both business and leisure traffic. Management believed that having numerous flights flying the same routes appealed to business travelers looking for convenient flight times and the ability to catch a later flight if they unexpectedly ran late.

As a general rule, Southwest did not initiate service to a city/airport unless it envisioned the potential for originating at least eight flights a day there and saw opportunities to add more flights over time—in Denver, for example, Southwest had boosted the number of daily departures from 13 in January 2006 (the month in which service to and from Denver was initiated) to 79 daily departures in 2008, 129 daily departures in 2010, and 214 daily departures in December 2019.

Creating a Compelling Brand: Southwest's Strategy to Provide a Topnotch Travel Experience

Southwest's approach to delivering good customer service and building a loyal customer clientele was predicated on presenting a happy face to passengers, displaying a fun-loving attitude, and doing things in a manner calculated to provide passengers with a positive flying experience. The company made a special effort to employ gate personnel who enjoyed interacting with customers, had good interpersonal skills, and displayed cheery, outgoing personalities. A number of Southwest's gate personnel let their wit and sense of humor show by sometimes entertaining those in the gate area with trivia questions or contests such as "who has the biggest hole in their sock." Apart from greeting passengers coming onto planes and assisting them in finding open seats and stowing baggage, flight attendants were encouraged to be engaging, converse and joke with passengers, and go about their tasks in ways that made passengers smile. On some flights, attendants sang announcements to passengers on takeoff and landing. The repertoires to amuse passengers varied from flight crew to flight crew.

Fare Structure Strategy

Southwest employed a relatively simple fare structure, displayed in ways that made it easy for customers to choose the fare they preferred. In 2020, Southwest's fares were bundled into three major categories: "Wanna Get Away," "Anytime," and "Business Select":

1. "Wanna Get Away" fares were always the lowest fares and were subject to advance purchase requirements. No fee was charged for changing a previously purchased ticket to a different time or day of travel (rival airlines charged a change fee of $75 to $550), but applicable fare differences were applied. The purchase price was non-refundable but the funds could be applied to future travel on Southwest, provided the tickets were not canceled or changed within ten minutes of a flight's scheduled departure.
2. "Anytime" fares were refundable and changeable, and funds could also be applied toward future travel on Southwest. Anytime fares also included a higher frequent flyer point multiplier under Southwest's Rapid Rewards frequent flyer program than do Wanna Get Away fares.
3. "Business Select" fares were refundable and changeable, and funds could be applied toward future travel on Southwest. Business Select fares also included additional perks such as priority boarding, a higher frequent flyer point multiplier than other Southwest fares (including twice as many points per dollar spent as compared to Wanna Get Away fares), priority security and ticket counter access in select airports, and one complimentary adult beverage coupon for the day of travel (for customers of legal drinking age). The Business Select fare had been introduced in 2007 to help attract economy-minded business travelers; Business Select customers had early boarding privileges, received extra Rapid Rewards (frequent flyer) credit, and a free cocktail.
4. No fee was charged for changing a previously-purchased ticket to a different time or day of travel, but applicable fare differences were applied. The purchase price was nonrefundable, but funds could be applied to future travel on Southwest, provided the tickets were not canceled or changed within ten minutes of a flight's scheduled departure. Also, the company's "Bags Fly Free" program that allowed passengers to check two bags at no additional charge was unmatched by all major airlines in 2020.

Southwest's Rapid Rewards Frequent Flyer Program

Southwest's Rapid Rewards frequent flyer program, launched in March 2011, linked free travel awards to the number of points members earned purchasing tickets to fly Southwest. The amount of points earned was based on the fare and fare class purchased, with higher fare products (like Business Select) earning more points than lower fare products (like Wanna Get Away). Likewise, the amount of points required to be redeemed for a flight was based on the fare and fare class purchased. Rapid Rewards members could also earn points through qualifying purchases with Southwest's Rapid Rewards Partners (which included car rental agencies, hotels, restaurants, and retail locations), and they could purchase points. Members who opted to obtain a Southwest co-branded Chase Visa credit card earned two points for every dollar spent on purchases of Southwest tickets and on purchases with Southwest's car rental and hotel partners, and they earned one point on every dollar spent everywhere else. Holders of Southwest's co-branded Chase Visa credit card could redeem credit card points for items other than travel on Southwest, including international flights on other airlines, cruises, hotel stays, rental cars, gift cards, event tickets, and more.

The most active members of Southwest's Rapid Rewards program qualified for priority check-in and security lane access (where available), standby priority, free inflight WiFi, and—provided they flew 100 qualifying flights or earned 125,000 qualifying points in a calendar year—automatically received a Companion Pass, which provided for unlimited free roundtrip travel for one year to any destination available on Southwest for a designated companion of the qualifying Rapid Rewards Member.

Rapid Rewards members could redeem their points for every available seat, every day, on every flight, with no blackout dates. Points did not expire so long as the Rapid Rewards Member had points-earning activity during the most recent 24 months.

Ensuring a Superior Financial Position: Southwest's Strategy to Create and Sustain Low-Cost Operations

Southwest management fully understood that earning attractive profits by charging low fares necessitated the use of strategy elements that would enable the company to become a low-cost provider of commercial air service. There were three main components of Southwest's strategic actions to achieve a low-cost operating structure: using a single aircraft type for all flights, creating an operationally-efficient point-to-point route structure, and striving to perform all value chain activities in a cost-efficient manner.

Use of a Single Aircraft Type For many years, Southwest's aircraft fleets had consisted only of Boeing 737 aircraft. Operating only one type of aircraft produced many cost-saving benefits: minimizing the size of spare parts inventories, simplifying the training of maintenance and repair personnel, improving the proficiency and speed with which maintenance routines could be done, and simplifying the task of scheduling planes for particular flights. In 2019, Southwest operated the biggest fleet of Boeing 737 aircraft in the world. Exhibit 3 provides information about Southwest's aircraft fleet.

Incorporating Larger Boeing Aircraft into Southwest's Fleet Starting in 2012, Southwest began a long-term initiative to replace older Southwest aircraft with a new generation of Boeing aircraft that had greater seating capacity, a quieter interior, LED reading and ceiling lighting, improved security features, reduced maintenance requirements, increased fuel efficiency, and the capability to fly longer distances without refueling. Southwest had consistently removed older and smaller versions of the 737, such as the Boeing 737-300 aircraft (with 143 seats and an average age of 20 years), and 15 Boeing 737-500 aircraft (with 122 seats and an average age of 22 years) from its fleet and replaced them with new Boeing 737-700s (143 seats), 737-800s (175 seats), and 737-MAX aircraft (up to 189 seats). The company had firm orders for 30 new Boeing 737-MAX 7 and 219 MAX 8 aircraft were scheduled to be delivered in 2020–2026 (with options to take delivery on an additional 131 planes)—Southwest was Boeing's launch customer for the 737-MAX. Plans called for some of the new aircraft to be leased from third parties rather than being purchased—of the company's current fleet of 747 aircraft, 625 were owned and 122 were leased.

Southwest expected that the new Boeing 737-800 and 737-MAX aircraft would significantly enhance the company's capabilities to (1) more economically fly long-haul routes (the number of short-haul flights throughout the domestic airline industry had been declining since 2000), (2) improve scheduling flexibility and more economically serve high-demand, gate-restricted, slot-controlled airports by adding seats to such destinations without increasing the number of flights, and (3) boost overall fuel efficiency to reduce overall costs. Additionally, the aircraft would enable Southwest to profitably expand its operations to new, more distant destinations (including extended routes over water), such as Hawaii, Alaska, Canada, Mexico, and the Caribbean. Southwest management expected that the new Boeing 737-MAX planes would have the lowest operating costs of any single-aisle commercial airplane on the market.

EXHIBIT 3 Southwest's Aircraft Fleet as of December 31, 2019

Type of Aircraft	Number	Seats	Comments
Boeing 737-700	506	143	Southwest was Boeing's launch customer for this model in 1997. All were equipped with satellite-delivered broadband internet reception capability
Boeing 737-800	207	175	All were equipped with satellite-delivered broadband internet reception capability
Boeing 737 MAX 8	34	175	Southwest was Boeing's launch customer for this model in 2011. All were equipped with satellite-delivered broadband internet reception capability
TOTAL number of aircraft	747		

Other Fleet-Related Facts

Average age of aircraft fleet—approximately 11 years

Average aircraft trip length—749 miles, with an average duration of 2 hours and 4 minutes

Average aircraft utilization—more than 5 flights per day and approximately 11 hours of flight time

Fleet size—1990: 106 1995: 224 2000: 344 2009: 537

Firm orders for new aircraft—2020–2026: 380

Source: Company 10-K Report, 2019 and Southwest Corporate Fact Sheet (**https://www.swamedia.com/pages/corporate-fact-sheet**).

Grounding of the Boeing 737-MAX With 189 crew and passengers lost in the Lion Air Flight 610 crash in October 29, 2018 and another 157 people killed in the March 10, 2019 crash of Ethiopian Airlines Flight 302, President Trump ordered the plane grounded on October 13, 2019 until the mechanical problems with the plane could be identified and corrected. As of mid-2020, Boeing had yet to satisfy the Federal Aviation Administration that the 737-MAX was airworthy. Southwest Airlines and other airlines who had purchased the planes were unable to utilize the equipment in their fleets until the FAA had concurred that Boeing has identified the mechanical failures of the aircraft and all planes were made safe to fly. The 737-MAX grounding resulted in $828 million in additional costs for Southwest Airlines in 2019 and continued into 2020 as planes remained grounded.

Striving to Perform All Value Chain Activities Cost Effectively Southwest made a point of scrutinizing every aspect of its operations to find ways to trim costs. The company's strategic actions to reduce or at least contain costs were extensive and ongoing.

- Southwest was the first major airline to introduce ticketless travel.
- Southwest was also the first airline to allow customers to make reservations and purchase tickets at the company's website (thus bypassing the need to pay commissions to travel agents for handling the ticketing process and reducing staffing requirements at Southwest's reservation centers).
- For most of its history, Southwest stressed flights into and out of airports in medium-sized cities and less congested airports in major metropolitan areas (Chicago Midway, Detroit Metro, Houston Hobby, Dallas Love Field, Baltimore-Washington International, Burbank, Manchester, Oakland, San Jose, Providence, and Ft. Lauderdale-Hollywood). This strategy helped produce better-than-average on-time performance and reduce the fuel costs associated with planes sitting in line on crowded taxiways or circling airports waiting for clearance to land.
- To economize on the amount of time it took terminal personnel to check passengers in and to simplify the whole task of making reservations, Southwest dispensed with the practice of assigning each passenger a reserved seat. All passengers could check in online up to 24 hours before departure time and print out a boarding pass, thus bypassing counter check-in (unless they wished to check baggage).
- Southwest flight attendants were responsible for cleaning up trash left by deplaning passengers and otherwise getting the plane presentable for passengers to board for the next flight.
- Southwest did not have a first-class section in any of its planes and had no fancy clubs for its frequent flyers to relax in at terminals.
- Southwest did not provide passengers with baggage transfer services to other carriers—passengers with checked baggage who were connecting to other carriers to reach their destination were responsible for picking up their luggage at Southwest's baggage claim and then getting it to the check-in facilities of the connecting carrier.
- Southwest was a first-mover among major U.S. airlines in employing fuel hedging and derivative contracts to counteract rising prices for crude oil and jet fuel.
- Southwest regularly upgraded and enhanced its management information systems to speed data flows, improve operating efficiency, lower costs, and upgrade its customer service capabilities.

For many decades, Southwest's operating costs had been lower than those of rival U.S. airline carriers—see Exhibit 4 for comparative *costs per revenue passenger mile* among the five major U.S. airlines during the 2005–2019 period.

SOUTHWEST'S PEOPLE MANAGEMENT PRACTICES AND CULTURE

Whereas the litany at many companies was that customers come first, at Southwest the operative principle was that "employees come first and customers come second." The high strategic priority placed on employees reflected management's belief that delivering superior service required employees who not only were passionate about their jobs but who also knew the company was genuinely concerned for their well-being and committed to providing them with job security. Southwest's thesis was simple: Keep employees happy—then they will keep customers happy.

EXHIBIT 4 Comparative Operating Cost Statistics per Revenue Passenger Mile, Major U.S. Airlines, 2005, 2010, 2015, 2019 (in cents)

	Costs incurred per revenue passenger mile (in cents)							
	Total Salaries and Fringe Benefits	Fuel and Oil	Rentals	Landing Fees	Advertising	General and Administrative	Other Operating Expenses	Total Operating Expenses
American Airlines								
2005	4.65	3.67	0.41	0.32	0.10	0.95	3.66	15.18
2010	5.18	4.57	0.47	0.35	0.13	1.23	3.68	17.53
2015	5.01	3.08	0.67	0.30	0.07	2.26	3.93	17.09
2019	6.31	3.54	1.27	0.31	0.06	2.55	6.03	20.07
Delta Air Lines								
2005	4.31	3.68	0.38	0.22	0.16	0.84	6.01	16.69
2010	4.15	4.51	0.14	0.28	0.10	0.64	6.26	17.41
2015	5.55	3.45	0.18	0.27	0.12	1.38	5.08	17.50
2019	6.18	3.36	0.68	0.29	0.13	1.29	6.77	18.69
Southwest Airlines								
2005	4.70	2.44	0.31	0.34	0.29	0.73	1.23	11.21
2010	4.97	4.63	0.28	0.46	0.26	0.83	1.32	14.23
2015	5.69	3.07	0.25	0.42	0.18	1.02	1.28	13.35
2019	6.60	3.29	0.79	0.42	0.16	1.22	2.23	14.72
United Air Lines								
2005	3.72	3.53	0.35	0.30	0.16	0.60	5.09	15.35
2010	4.34	4.46	0.32	0.38	0.06	1.31	5.24	17.96
2015	5.45	3.44	0.32	0.36	0.11	1.58	5.04	17.81
2019	6.03	3.45	0.65	0.38	0.10	1.50	6.18	18.29

Note 1: Cost per revenue passenger mile for each of the cost categories in this exhibit is calculated by dividing the total costs for each cost category by the total number of revenue passenger miles flown, where a revenue passenger mile is equal to one paying passenger flown one mile. Costs incurred per revenue passenger mile thus represent the costs incurred per ticketed passenger per mile flown.

Note 2: US Airways and America West started merging operations in September 2005, and joint reporting of their operating costs began in late 2007. Effective January 2010, data for Delta Airlines includes the combined operating costs of Delta and Northwest Airlines; the merger of these two companies became official in October 2008. United Airlines acquired Continental Airlines in 2010, and the two companies began joint reporting of operating expenses in 2012.

Note 3: Southwest Airlines acquired AirTran in late 2010; starting in 2013 and continuing into 2014, AirTran flights were rebranded as Southwest Airlines flights. Southwest's first international flights began when some of AirTran's international flights were rebranded as Southwest flights in 2013.

Note 4: United Airlines acquired Continental Airlines in 2010, and the two companies began joint reporting of passenger traffic in 2012. Prior to 2012, traffic count data is only for United flights.

Source: United States Department of Transportation, Bureau of Transportation Statistics, Form 41.

Since becoming the company's CEO, Gary Kelly had continuously echoed the views of his predecessors: "Our People are our single greatest strength and our most enduring long-term competitive advantage."[11]

The company changed the personnel department's name to the People Department in 1989. Later, it was renamed the People and Leadership Development Department.

Recruiting, Screening, and Hiring

Southwest hired employees for attitude and trained for skills. Herb Kelleher explained:[12]

> We can train people to do things where skills are concerned. But there is one capability we do not have and that is to change a person's attitude. So we prefer an unskilled person with a good attitude. . . .[to] a highly skilled person with a bad attitude.

Management believed that delivering superior service came from having employees who genuinely believed that customers were important and that treating them warmly and courteously was the right thing to do, not from training employees to *act* like customers are important. The belief at Southwest was that superior, hospitable service and a fun-loving spirit flowed from the heart and soul of employees who themselves were fun-loving and spirited, who liked their jobs and the company they worked for, and who were also confident and empowered to do their jobs as they saw fit (rather than being governed by strict rules and procedures).

Screening Candidates. In hiring for jobs that involved personal contact with passengers, the company looked for people-oriented applicants that were extroverted and had a good sense of humor. It tried to identify candidates with a knack for reading peoples' emotions and responding in a genuinely caring, empathetic manner. Southwest wanted employees to deliver the kind of service that showed they truly enjoyed meeting people, being around passengers, and doing their job, as opposed to delivering the kind of service that came across as being forced or taught. Kelleher elaborated: "We are interested in people who externalize, who focus on other people, who are motivated to help other people. We are not interested in navel gazers."[13] In addition to a "whistle while you work" attitude, Southwest was drawn to candidates who it thought would be likely to exercise initiative, work harmoniously with fellow employees, and be community-spirited.

Southwest did not use personality tests to screen job applicants nor did it ask them what they would or should do in certain hypothetical situations. Rather, the hiring staff at Southwest analyzed each job category to determine the specific behaviors, knowledge, and motivations that job holders needed and then tried to find candidates with the desired traits—a process called targeted selection. A trait common to all job categories was teamwork; a trait deemed critical for pilots and flight attendants was judgment. In exploring an applicant's aptitude for teamwork, interviewers often asked applicants to tell them about a time in a prior job when they went out of their way to help a co-worker or to explain how they had handled conflict with a co-worker. Another frequent question was "What was your most embarrassing moment?" The thesis here was that having applicants talk about their past behaviors provided good clues about their future behaviors.

To test for unselfishness, Southwest interviewing teams typically gave a group of potential employees ample time to prepare five-minute presentations about themselves; during the presentations in an informal conversational setting, interviewers watched the audience to see who was absorbed in polishing their presentations and who was listening attentively, enjoying the stories being told, and applauding the efforts of the presenters. Those who were emotionally engaged in hearing the presenters and giving encouragement were deemed more apt to be team players than those who were focused on looking good themselves. All applicants for flight attendant positions were put through such a presentation exercise before an interview panel consisting of customers, experienced flight attendants, and members of the People and Leadership Department. Flight attendant candidates that got through the group presentation interviews then had to complete a three-on-one interview conducted by a recruiter, a supervisor from the hiring section of the People and Leadership Department, and a Southwest flight attendant; following this interview, the three-person panel tried to reach a consensus on whether to recommend or drop the candidate.

Training

Apart from the FAA-mandated training for certain employees, training activities at Southwest were designed and conducted by Southwest Airlines University. The curriculum included courses for new recruits, employees, and managers. Learning was viewed as a never-ending process for all company personnel; the expectation was that each employee should be an "intentional learner," looking to grow and develop not just from occasional classes taken at Southwest Airlines University but also from their everyday on-the-job experiences.

Southwest Airlines University conducted a variety of courses offered to maintenance personnel and other employees to meet the safety and security training requirements of the Federal Aviation Administration, the U.S. Department of Transportation, the Occupational Safety and Health Administration, and other government agencies. And there were courses on written communications, public speaking, stress management, career development, performance appraisal, decision-making, leadership, customer service, corporate culture, environmental stewardship and sustainability, and employee relations to help employees advance their careers.

Leadership development courses that focused on developing people, team-building, strategic thinking, and being a change leader were keystone offerings. New supervisors attended a four-week course "Leadership Southwest Style" that emphasized coaching, empowering, and encouraging, rather than supervising or enforcing rules and regulations. New managers attended a two-and-a-half-day course on "Next-Level leadership." There were courses for employees wanting to explore whether a management career was for them and courses for high-potential employees wanting to pursue a long-term career at Southwest. From time to time supervisors and executives attended courses on corporate culture, intended to help instill, ingrain, and nurture such cultural themes as teamwork, trust, harmony, and diversity. All employees who came into contact with customers, including pilots, received customer-care training.

The OnBoarding Program for Newly-Hired Employees. Southwest had a program called OnBoarding "to welcome New Hires into the Southwest Family" and provide information and assistance from the time they were selected until the end of their first year. All new hires attended a full-day orientation course that covered the company's history, an overview of the airline industry and the competitive challenges that Southwest faced, an introduction to Southwest's culture and management practices, the expectations of employees, and demonstrations on "Living the Southwest Way." All new hires also received safety training. Anytime during their first 30 days, new employees were expected to access an interactive online tool—OnBoarding Online Orientation—to learn more about the company. During their first year of employment, new hires were invited to attend a "LUV@First Bite Luncheon" in the city where they worked; these luncheons were held on the same day as Leadership's Messages to the Field; at these luncheons, there were opportunities to network with other new hires and talk with senior leaders.

An additional element of the Onboarding Program involved assigning each new employee to an existing Southwest employee who had volunteered to sponsor a new hire and be of assistance in acclimating the new employee to their job and Living the Southwest Way; each volunteer sponsor received training from Southwest's Onboarding Team in what was expected of a sponsor. Much of the indoctrination of new employees into the company's culture was done by the volunteer sponsor, co-workers, and the new employee's supervisor. Southwest made active use of a one-year probationary employment period to help ensure that new employees fit in with its culture and adequately embraced the company's cultural values.

Promotion

Approximately 80 to 90 percent of Southwest's supervisory positions were filled internally, reflecting management's belief that people who had "been there and done that" would be more likely to appreciate and understand the demands that people under them were experiencing and also more likely to enjoy the respect of their peers and higher-level managers. Employees could either apply for supervisory positions or be recommended by their present supervisor.

Employees being considered for managerial positions of large operations (Up and Coming Leaders) received training in every department of the company over a six-month period in which they continued to perform their current job. At the end of the six-month period, candidates were provided with 360-degree feedback from department heads, peers, and subordinates; personnel in the People and Leadership Department analyzed the feedback in deciding on the specific assignment of each candidate.[14]

Compensation and Benefits

Southwest's pay scales and fringe benefits were quite attractive compared to other major U.S. airlines (see Exhibit 4). In 2020, in addition to vacation, paid holidays, and sick leave, Southwest offered full-time and part-time Southwest employees a benefits package that included:

- A 401(k) retirement savings plan
- A profit-sharing plan

- Medical and prescription coverage
- Mental health chemical dependency coverage
- Vision coverage
- Dental coverage
- Adoption assistance
- Mental health assistance
- Life insurance
- Accidental death and dismemberment insurance
- Long-term disability insurance
- Dependent life insurance
- Dependent care flexible spending account
- Health care flexible spending account
- Employee stock purchase plan
- Wellness program
- Flight privileges
- Health care for committed partners
- Early retiree health care

Employee Relations

About 83 percent of Southwest's 60,800 employees belonged to a union. An in-house union—the Southwest Airline Pilots Association (SWAPA)—represented the company's pilots. The Teamsters Union represented Southwest's material specialists and flight simulator technicians; a local of the Transportation Workers of America represented flight attendants; another local of the Transportation Workers of America represented baggage handlers, ground crews, and provisioning employees; the International Association of Machinists and Aerospace Workers represented customer service and reservation employees, and the Aircraft Mechanics Fraternal Association represented the company's mechanics.

Management encouraged union members and negotiators to research their pressing issues and to conduct employee surveys before each contract negotiation. Southwest's contracts with the unions representing its employees were relatively free of restrictive work rules and narrow job classifications that might impede worker productivity. All of the contracts allowed any qualified employee to perform any function—thus pilots, ticket agents, and gate personnel could help load and unload baggage when needed and flight attendants could pick up trash and make flight cabins more presentable for passengers boarding the next flight.

Except for one brief strike by machinists in the early 1980s and some unusually difficult negotiations in 2000–2001, Southwest's relationships with the unions representing its employee groups had been harmonious and non-adversarial for the most part. However, the company was engaged in difficult contract negotiations with its pilots in 2016 and had been at odds with mechanics in 2019 over maintenance and safety concerns that had resulted in 40 planes being taken out of service and the company declaring an operational emergency.

The No-Layoff Policy

Southwest Airlines had never laid off or furloughed any of its employees since the company began operations in 1971. The company's no-layoff policy was seen as integral to how the company treated its employees and management efforts to sustain and nurture the culture. According to Kelleher,[15]

> Nothing kills your company's culture like layoffs. Nobody has ever been furloughed here, and that is unprecedented in the airline industry. It's been a huge strength of ours. It's certainly helped negotiate our union contracts. . .. . .We could have furloughed at various times and been more profitable, but I always thought that was shortsighted. You want to show your people you value them and you're not going to hurt them just to get a little more money in the short term. Not furloughing people breeds loyalty. It breeds a sense of security. It breeds a sense of trust.

Southwest had built up considerable goodwill with its employees and unions over the years by avoiding layoffs. Despite the impact of the Coronavirus pandemic, CEO Gary Kelly reiterated to employees in March 2020 that the company remained committed to its no-layoff policy even though small pay cuts might be necessary to protect the company's solvency. Kelly even pledged to employees that he would work for no salary if the company was forced to ask employees for large pay cuts as a result of the COVID-19 pandemic.[16]

Management Style

At Southwest, management strived to do things in a manner that would make Southwest employees proud of the company they worked for and its work force practices. Managers were expected to spend at least one-third of their time out of the office, walking around the facilities under their supervision, observing firsthand what was going on, listening to employees and being responsive to their concerns.

Company executives were very approachable, insisting on being called by their first names. At new employee orientations, people were told, “We do not call the company chairman and CEO Mr. Kelly, we call him Gary.” Managers and executives had an open-door policy, actively listening to employee concerns, opinions, and suggestions for reducing costs and improving efficiency.

Employee-led initiatives were common. Southwest’s pilots had been instrumental in developing new protocols for takeoffs and landings that conserved fuel. Another frontline employee had suggested not putting the company logos on trash bags, saving an estimated $250,000 annually. It was Southwest clerks that came up with the idea of doing away with paper tickets and shifting to e-tickets.

There were only four layers of management between a front-line supervisor and the CEO. Southwest’s employees enjoyed substantial authority and decision-making power. From time to time, there were candid meetings of frontline employees and managers where operating problems and issues between/among workers and departments were acknowledged, openly discussed, and resolved.[17] Informal problem avoidance and rapid problem resolution were seen as managerial virtues.

Southwest’s Two Big Core Values—LUV and Fun

Two core values—LUV and fun—permeated the work environment at Southwest. LUV was much more than the company’s ticker symbol and a recurring theme in Southwest’s advertising campaigns. Over the years, LUV grew into Southwest’s codeword for treating individuals—fellow employees and customers—with dignity and respect and demonstrating a caring, loving attitude. LUV and red hearts commonly appeared on banners and posters at company facilities, as reminders of the compassion that was expected toward customers and other employees. Practicing the Golden Rule, internally and externally, was expected of all employees. Employees who struggled to live up to these expectations were subjected to considerable peer pressure and usually were asked to seek employment elsewhere if they did not soon leave on their own volition.

Fun at Southwest was exactly what the word implies and it occurred throughout the company in the form of the generally entertaining behavior of employees in performing their jobs, the ongoing pranks and jokes, and frequent company-sponsored parties and celebrations (which typically included the Southwest Shuffle). On holidays, employees were encouraged to dress in costumes. There were charity benefit games, chili cook-offs, Halloween parties, new Ronald McDonald House dedications, and other special events of one kind or another at one location or another almost every week. According to one manager, “We’re kind of a big family here, and family members have fun together.”

Culture-Building Efforts

Southwest executives believed that the company’s growth was primarily a function of the rate at which it could hire and train people to fit into its culture and consistently display the traits and behaviors set forth in Living the Southwest Way. Kelly said. “. . ..some things at Southwest won’t change. We will continue to expect our people to live what we describe as the ‘Southwest Way,’ which is to have a Warrior Spirit, Servant’s Heart, and Fun-Loving Attitude. Those three things have defined our culture for 36 years.”[18]

The Corporate Culture Committee. Southwest formed a Corporate Culture Committee in 1990 to promote “Positively Outrageous Service” and devise tributes, contests, and celebrations intended to nurture and perpetuate the Southwest Spirit and Living the Southwest Way. The Committee was composed of 100 employees that had demonstrated their commitment to Southwest’s mission and values and zeal in exhibiting the Southwest Spirit and Living the Southwest Way. Members came from a cross-section of departments and locations and functioned as cultural ambassadors, missionaries, and storytellers during their two-year term.

Over the years, the Committee had sponsored and supported hundreds of ways to promote and ingrain the traits and behaviors embedded in Living the Southwest Way—examples included promoting the use of red hearts and LUV to embody the spirit of Southwest employees caring about each other and Southwest’s customers, showing up at a facility to serve pizza or ice cream to employees or to remodel and decorate an employee break room. Kelleher indicated, “We’re not big on Committees at Southwest, but of the committees we do have, the Culture Committee is the most important.”[19]

Each major department and geographic operating unit had a Local Culture Committee charged with organizing culture-building activities and nurturing the Southwest Spirit within their unit. The company had created a new position in each of its major operating departments and largest geographic locations called Culture Ambassador; the primary function of cultural ambassadors was to nurture the Southwest Spirit by helping ensure that the Local Culture Committee had the resources needed to foster the culture at each of their locations, planning and coordinating departmental celebrations and employee appreciation events, and acting as a liaison between the local office and the corporate office on culture-related matters.

Efforts to Nurture and Sustain the Southwest Culture. Apart from the efforts of the Corporate Culture Committee, the Local Culture Committees, and the cultural ambassadors, Southwest management sought to reinforce the company's core values and culture via a series of employee recognition programs to single out and praise employees for their outstanding contributions to customer service, operational excellence, cost efficiency, and display of the Southwest Spirit. In addition to Kick Tail awards, there were "Heroes of the Heart" awards, *Spirit* magazine Star of the Month awards, President's Awards, and LUV Reports whereby one or more employees could recognize other employees for an outstanding performance or contribution.

Other culture-supportive activities included a CoHearts mentoring program, a Day in the Field program where employees spent time working in another area of the company's operations, a Helping Hands program where volunteers from around the system traveled to work two weekend shifts at other Southwest facilities that were temporarily short-handed or experiencing heavy workloads, and periodic Culture Exchange meetings to celebrate the Southwest Spirit and company milestones. Almost every event at Southwest was videotaped, which provided footage for creating such multipurpose videos as *Keepin' the Spirit Alive* that could be shown at company events all over the system and used in training courses. The concepts of LUV and fun were spotlighted in all of the company's training manuals and videos.

Southwest's monthly employee newsletter often spotlighted the experiences and deeds of particular employees, reprinted letters of praise from customers, and reported company celebrations of milestones. A quarterly news video was sent to all facilities to keep employees up to date on company happenings, provide clips of special events, and share messages from customers, employees, and executives. The company had published a book for employees describing "outrageous" acts of service.

Employee Productivity and Effectiveness

Management was convinced the company's strategy, culture, esprit de corps, and people management practices fostered high labor productivity and contributed to Southwest having low costs in comparison to the costs at its principal domestic rivals (Exhibit 4). Southwest's current CEO, Gary Kelly, had followed Kelleher's lead in pushing for operating excellence. One of Kelly's strategic objectives for Southwest was "to be the safest, most efficient, and most reliable airline in the world." Southwest managers and employees in all positions and ranks were proactive in offering suggestions for improving Southwest's practices and procedures; those with merit were quickly implemented.

Much time and effort over the years had gone into finding the most effective ways to do aircraft maintenance, to operate safely, to make baggage handling more efficient and baggage transfers more accurate, and to improve the percentage of on-time arrivals and departures. Believing that air travelers were more likely to fly Southwest if its flights were reliable and on-time, Southwest's managers constantly monitored on-time arrivals and departures, making inquiries when many flights ran behind and searching for ways to improve on-time performance. Exhibit 5 presents data comparing Southwest against its four domestic rivals on four measures of operating performance.

SOUTHWEST AIRLINES STANDING IN MID-2020

The 737-MAX grounding had affected Southwest Airlines' financial performance in the second half of 2019, but the effect of the novel coronavirus on the airline industry was a far more financially severe event and was expected to have longer term implications for the industry than even the September 11,

EXHIBIT 5 Comparative Statistics on On-Time Flights, Mishandled Baggage, Boarding Denials Due to Oversold Flights, and Passenger Complaints for Major U.S. Airlines, 2016–2020

Percentage of Scheduled Flights Arriving within 15 Minutes of the Scheduled Time (during the first quarter of each year)

Airline	2016	2017	2018	2019	2020
American Airlines	81.7%	79.2%	78.6%	77.4%	78.4%
Delta Air Lines	87.2%	80.7%	82.1%	82.3%	83.3%
Southwest Airlines	**81.1%**	**78.7%**	**79.3%**	**78.7%**	**84.8%**
United Air Lines	80.9%	80.3%	79.7%	73.6%	78.7%

Mishandled Baggage Reports per 1,000 Passengers (in March of each year)

Airline	2016	2017	2018	2019	2020
American Airlines	3.08	2.63	3.33	7.44	5.91
Delta Air Lines	1.56	1.63	1.81	4.39	4.09
Southwest Airlines	**2.77**	**2.36**	**2.65**	**4.23**	**3.04**
United Air Lines	2.29	2.42	2.42	6.82	4.70

Involuntary Denied Boardings per 10,000 Passengers Due to Oversold Flights (January through March of each year)

Airline	2016	2017	2018	2019	2020
American Airlines	0.84	0.75	0.16	0.77	0.39
Delta Air Lines	0.10	0.12	0.01	0.00	0.00
Southwest Airlines	**0.91**	**0.72**	**0.18**	**0.43**	**0.04**
United Air Lines	0.49	0.44	0.02	0.01	0.00

Complaints per 100,000 Passengers Boarded (in March of each year)

Airline	2016	2017	2018	2019	2020
American Airlines	1.99	1.45	1.05	1.46	5.15
Delta Air Lines	0.45	0.45	0.56	0.31	2.24
Southwest Airlines	**0.29**	**0.34**	**0.27**	**0.38**	**2.62**
United Air Lines	1.99	1.35	2.25	0.96	17.89

Source: Office of Aviation Enforcement and Proceedings, Air Travel Consumer Report, various years.

2001 terrorist attacks. Southwest Airlines recorded a first quarter net loss of $94 million, with operating revenues down 17.8 percent year over year. The company had obtained financial support in the amount $3.3 billion provided by the CARES Act, which protected the salaries of Southwest's 60,000+ employees and bolstered cash on hand.

CEO Gary Kelly commented in a weekly YouTube broadcast to employees that the company was in "intensive care" and the future airline competitive environment would be "a brutal, low-fare environment as there are fore more airline seats, and there will be for some time, than there are customers."[20] The company's historic focus on operational excellence, low-costs, and strategy-supportive organizational culture would likely become even more important and would be heavily relied upon during a recovery of the industry.

ENDNOTES

[1] Kevin and Jackie Freiberg, *NUTS! Southwest Airlines' Crazy Recipe for Business and Personal Success* (New York: Broadway Books, 1998), p. 15.
[2] Freiberg and Freiberg, *NUTS!*, pp. 16–18.
[3] Katrina Brooker, "The Chairman of the Board Looks Back," *Fortune*, May 28, 2001, p. 66.
[4] Feiberg and Freiberg, *NUTS*, p. 31.
[5] Freiberg and Freiberg, *NUTS!*, pp. 26–27.
[6] Ibid., p. 72.
[7] Speech at Texas Christian University, September 13, 2007; accessed at **www.southwest.com** on September 8, 2008.
[8] Freiberg and Freiberg, *NUTS!*, p. 163.
[9] Speech to Greater Boston Chamber of Commerce, April 23, 2008; accessed at **www.southwest.com** on September 5, 2008.
[10] Speech to Business Today International Conference, November 20, 2007; accessed at **www.southwest.com** on September 8, 2008.
[11] Statement posted in the Careers section at **www.southwest.com**, accessed August 18, 2010 and re-accessed on May 16, 2016. Kelly's statement had been continuously posted on **www.southwest.com** since 2009.
[12] As quoted in James Campbell Quick, "Crafting an Organizational Structure: Herb's Hand at Southwest Airlines," *Organizational Dynamics* 21, no. 2 (Autumn 1992), p. 51.
[13] Quick, "Crafting an Organizational Structure," p. 52.
[14] Sunoo, "How Fun Flies at Southwest Airlines," p. 72.
[15] Brooks, "The Chairman of the Board Looks Back," p. 72.
[16] Mary Schlangenstein, "With 'Virtually Zero' Air Travel, Southwest Warns of Pay Risk," *Bloomberg*, April 23, 2020, accessed at **https://www.bloomberg.com/news/articles/2020-04-23/southwest-ceo-urges-pay-cuts-with-air-travel-at-virtually-zero**.
[17] Hallowell, "Southwest Airlines: A Case Study Linking Employee Needs Satisfaction and Organizational Capabilities to Competitive Advantage," p. 524.
[18] Speech to Business Today International Conference, November 20, 2007; accessed at **www.southwest.com** on September 8, 2008.
[19] Freiberg and Freiberg, *NUTS!*, p. 165.
[20] As quoted in Kyle Arnold, "Southwest Airlines CEO Gary Kelly: 'It will be a brutal, low-fare environment'," *The Dallas Morning News*, May 29, 2020, accessed at **https://www.dallasnews.com/business/airlines/2020/05/29/southwest-airlines-ceo-gary-kelly-it-will-be-a-brutal-low-fare-environment/**.