


The Southwest Airlines Way: Using the Power of Relationships to Achieve High Performance



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Emergence of Southwest Airlines

Operating since the early 1970s, but largely invisible to the industry for the first 20 years

Consumers, especially corporate buyers, became more price-sensitive in early 90's

Consumers began to redefine quality more in terms of reliability than amenities

Southwest gained national attention in early 90's by winning California intrastate markets from other majors

During Gulf War crisis, Southwest continued to expand while other airlines shrank



1993 Dept. of Transportation Report on “The Southwest Effect”

“Southwest is having a profound effect on the airline industry. Southwest’s much lower operating costs are making it the dominant airline today in the sense that Southwest, more than any other airline, is causing the industry to change. Other airlines cannot compete with Southwest in the same manner as they do each other.”



Continued growth

- Growing at steady rate of 10-15% per year, Southwest now serves all regions of U.S.
- Growth slowed only briefly after Sept. 11th, while other U.S. airlines shrank, and some entered bankruptcy
- Southwest recently became the largest carrier in the the U.S. domestic market



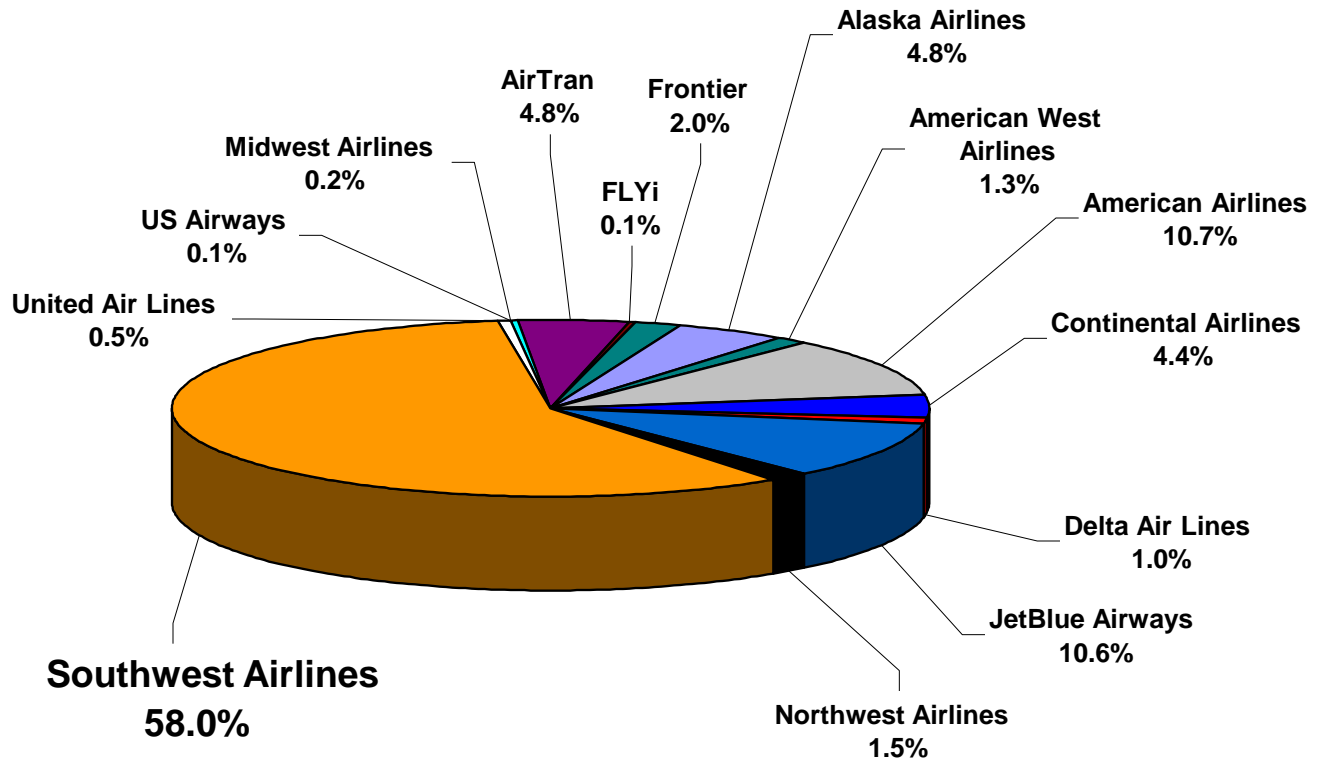
Popular with investment community

While other airlines struggle to achieve 3 or 4 consecutive years of profitability, Southwest has been profitable for each of its 33 years except the first.

Southwest has been called “the most successful airline in history” (Fortune, 2001)

Current Market Capitalization

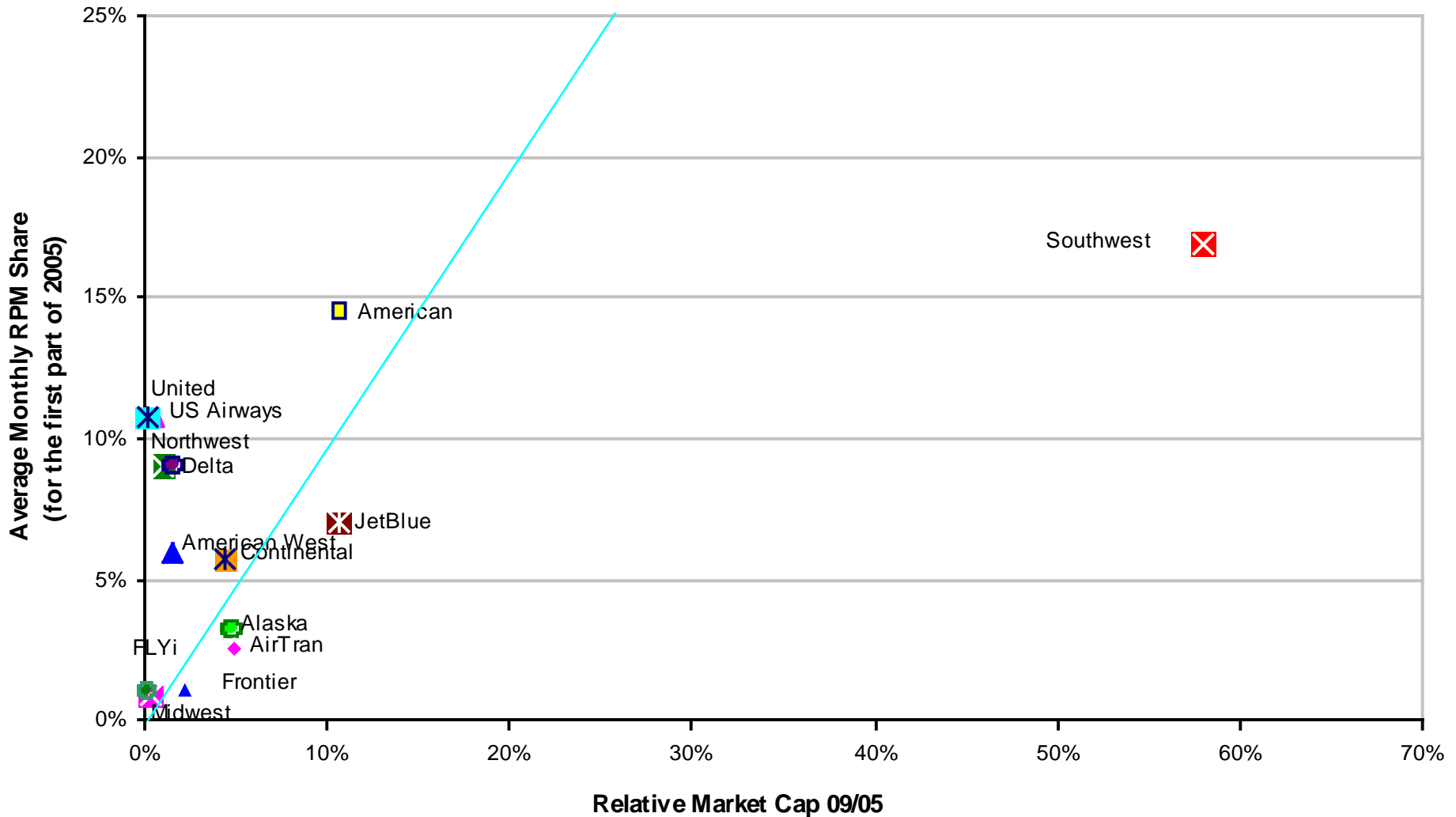
US majors and JetBlue



Total Market Cap: \$18.6 billion

Current Market Cap vs. RPM Share

US majors and JetBlue



Source: Yahoo! Finance and airline traffic reports

Low Cost Sector Growing World Wide

Canada (7, 1 in 2004)

CanJet
 HMY Airways
 JetsGo Airlines
 Tango Airlines
 Westjet
 Zip
Canada West

Europe (60, 3 in 2004)

Aer Arann
 Air 2000
 Air Baltic
 Air Berlin
 Air Finland
 Air Luxor Lite
 Air Polonia
 Air Scotland
 Air Southwest
 Air Wales
 Alpi Eagles
 Azzurra Air
 Baboo
 Basiq Air
 Bexx Air
 BMI Baby
 British European
 BudgetAir
 Corendon
 Deutsche BA
 EasyJet
 Evolavia
 Excel Airways
 Fairline Austria
 Fare4U
 German Wings
 Germania Express
 Globespan
 Hapag Lloyd Express
 Hellas Jet
 Helvetic Airways
 Iceland Express
 Ryanair
 Snalskjutsen
 Snowflake Airlines
 Sterling
 Sun Express
 Swedline
 ThomsonFly
 V Bird
 Virgin Express
 VLM Airlines
 VolareWeb
 Windjet Vola
Smart Wings
Wizz Air
Hop

USA (19, 4 in 2003/2004)

AirTran
 Allegiant Air
 American West
 ATA
 Frontier Airlines
 Interstate Jet
 JetBlue Airways
 Midwest Express
 Pan American
 Southeast Airlines
 Southwest Airlines
 Spirit Airlines
Song Air
 Sun Country
 USA 3000 Airlines
 Vacation Express
Ted
Independence
Virgin USA

South America (3)

Bra
 Gol
 U Air

Africa (2)

1Time
 Kulula

Asia/Pacific (20, 8 in 2004)

Air Arabia
 Air Asia
 Air Deccan
 Athena Air Services
 Citilink
 Freedom Air
 Lion Airways
 One-Two-Go
 Skymark Airlines
 Skynet Asia Airways
 ValuAir
 Virgin Blue
Air Blue
Air One
BackpackersXpress
Jetstar
Nok Air
Pacific Blue
SkyAsia
Tiger Airways



BUT

despite increasing efforts to copy,
the Southwest model has not
often been adopted with success
in the airline industry or beyond

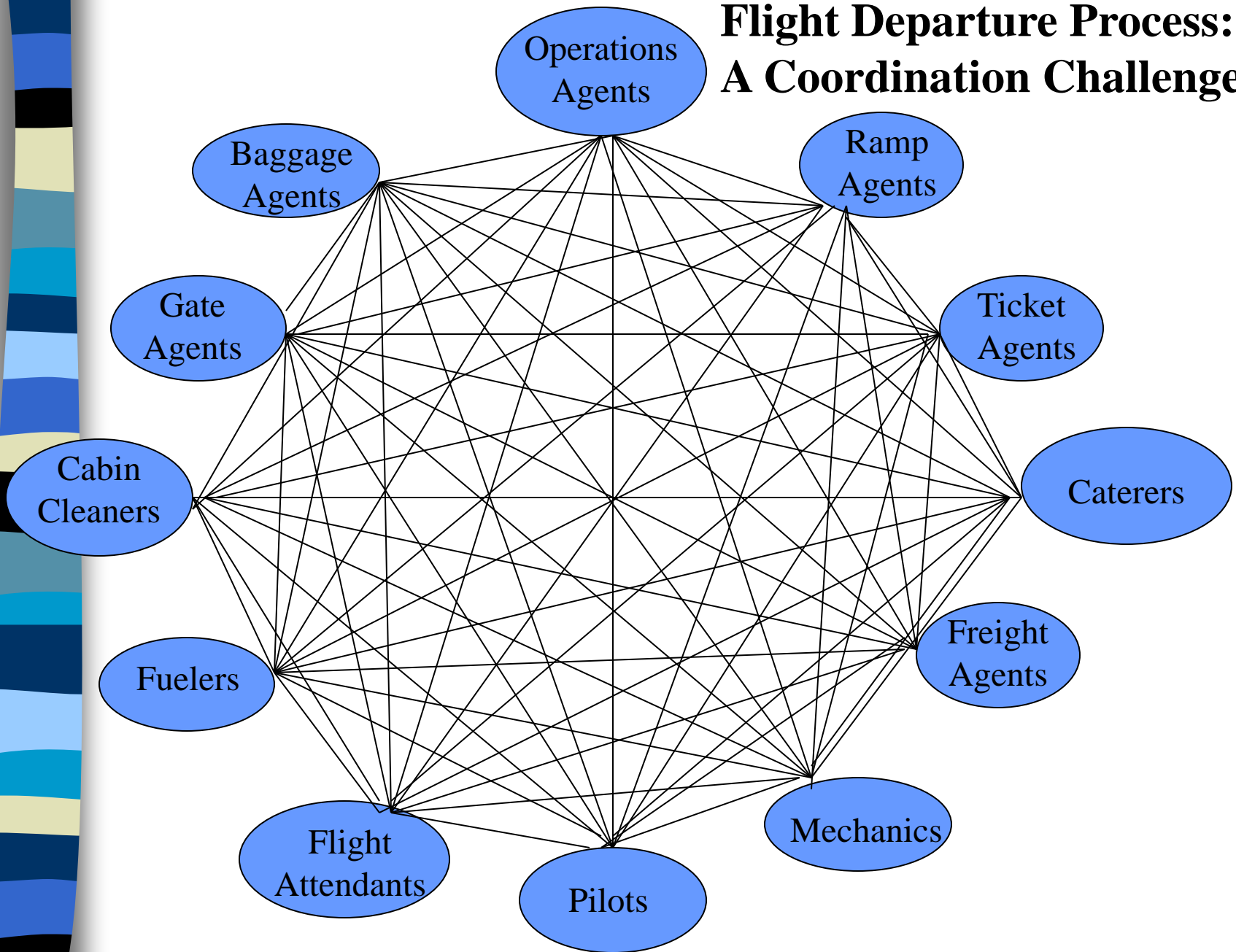
Usual reasons given for its
success are just plain wrong --
or incomplete



Usual reasons given for success

- Wrong
 - No traditional unions
 - Short haul flights
 - Point to point route network
- Right but incomplete
 - Leadership
 - Culture
 - Teamwork

Flight Departure Process: A Coordination Challenge





Site 1: Frequent and Timely Communication

“Here you don’t communicate. And sometimes you end up not knowing things...On the gates I can’t tell you the number of times you get the wrong information from operations...The hardest thing at the gate when flights are delayed is to get information.”



Site 2: Frequent and Timely Communication

“Here there’s constant communication between customer service and the ramp. When planes have to be switched and bags must be moved, customer service will advise the ramp directly or through operations...Operations keeps everyone informed. It happens smoothly.



Site 1: Problem Solving

“If you ask anyone here, what’s the last thing you think of when there’s a problem, I bet your bottom dollar it’s the customer.

And these are guys who work hard everyday. But they’re thinking, how do I stay out of trouble?”



Site 2: Problem Solving

“We figure out the cause of the delay. We don’t necessarily chastise, though sometimes that comes into play. It’s a matter of working together. Figuring out what we can learn. Not finger-pointing.”



Site 1: Shared Goals

“Ninety percent of the ramp employees don’t care what happens. Even if the walls fall down, as long as they get their check.”



Site 2: Shared Goals

“I’ve never seen so many people work so hard to do one thing. You see people checking their watches to get the on-time departure. People work real hard. Then it’s over and you’re back on time.”



Site 1: Shared Knowledge

Employees revealed little awareness of the overall process. They typically explained their own set of tasks without reference to the overall process of flight departures.



Site 2: Shared Knowledge

Employees had relatively clear mental models of the overall process -- an understanding of the links between their own jobs and the jobs of their counterparts in other functions. Rather than just knowing what to do, they knew why, based on shared knowledge of how the process worked.



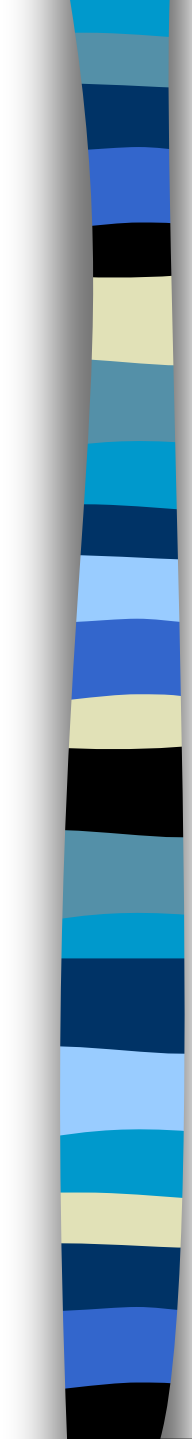
Site 1: Mutual Respect

“There are employees working here who think they’re better than other employees. Gate and ticket agents think they’re better than the ramp. The ramp think they’re better than cabin cleaners -- think it’s a sissy, woman’s job. Then the cabin cleaners look down on the building cleaners. The mechanics think the ramp are a bunch of luggage handlers.”



Site 2: Mutual Respect

“No one takes the job of another person for granted. The skycap is just as critical as the pilot. You can always count on the next guy standing there. No one department is any more important than another.”



Relationships shape the
communication through which
coordination occurs ...



For better...



Shared goals

Shared knowledge

Mutual respect

Frequent
communication

Timely
communication

Problem-solving
communication



... Or worse



Functional goals

Specialized
knowledge

Disrespect

Infrequent
communication

Delayed
communication

“Finger-pointing”





This process is called

relational coordination



Investigated performance effects of relational coordination

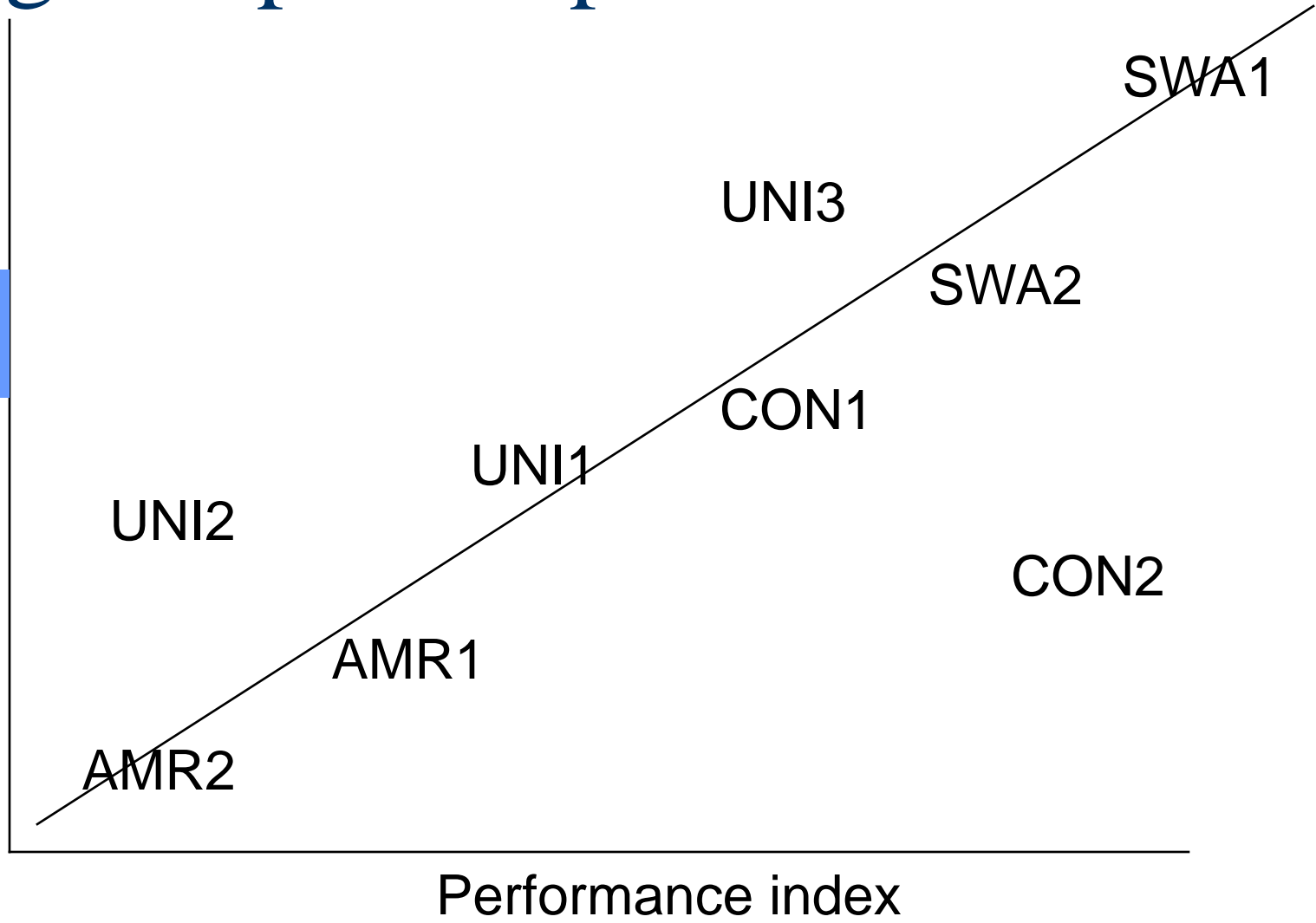
- Nine site study of flight departures over 12 months of operation at Southwest, American, Continental and United
- Measured relational coordination among pilots, flight attendants, gate agents, ticket agents, baggage agents, ramp agents, freight agents, mechanics, cabin cleaners, fuelers, caterers and operations agents
- Measured quality and efficiency performance, adjusting for product differences

Relational coordination and flight departure performance

	Efficiency		Quality		
	Gate time/ flight	Staff time/ passenger	Customer complaints	Lost bags	Late arrivals
Relational coordination	-.21****	-.42***	-.64***	-.31*	-.50**
Flights/day	-.19****	-.37***	-.30***	.13	-.22+
Flight length, passengers, cargo	.79***	.45***	.13	.12	-.54**
Passenger connections	.12**	.19**	.09	.13	.00
R squared	.94	.81	.69	.19	.20

Relational coordination and flight departure performance

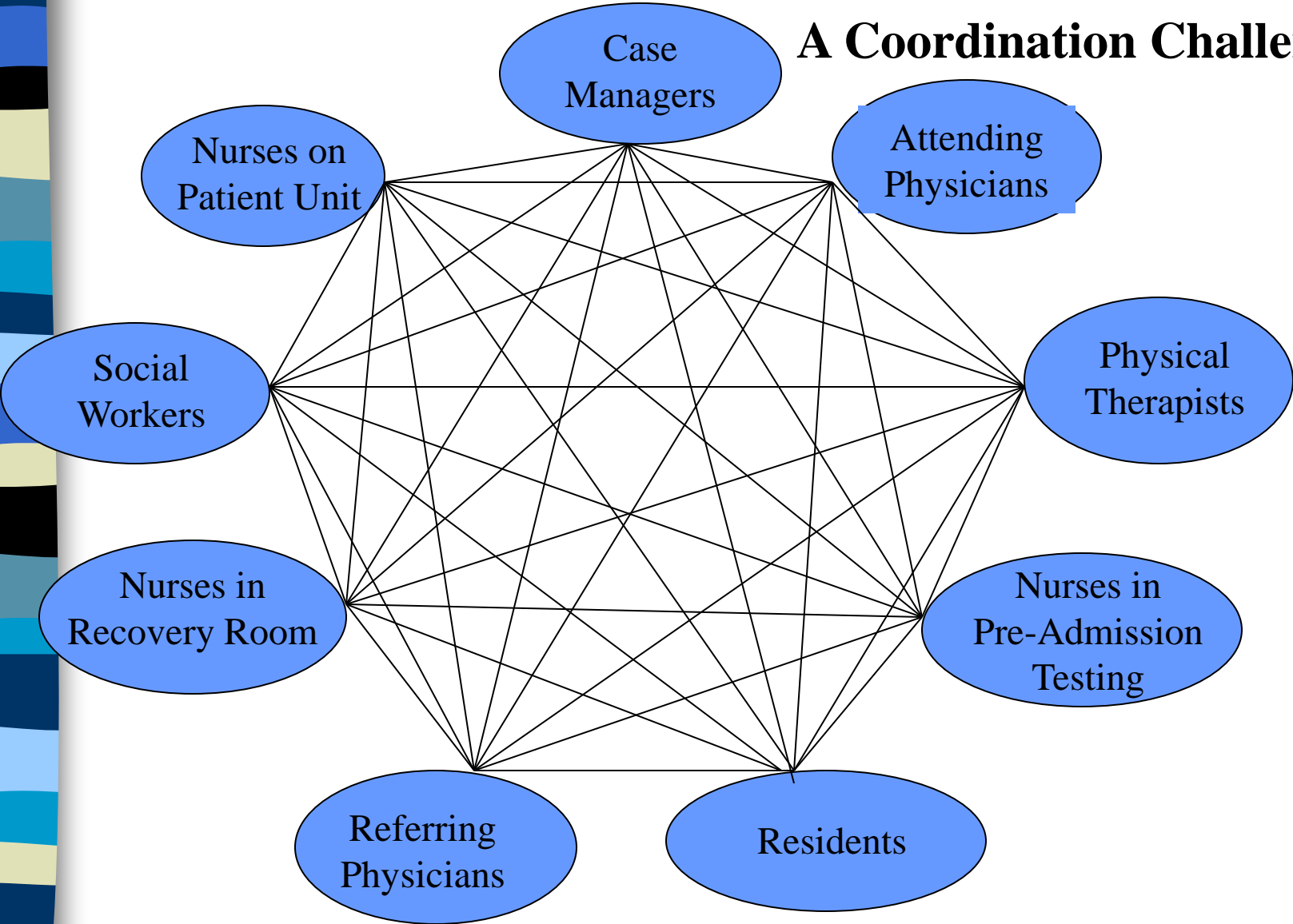
Relational coordination





Does relational coordination
matter in other industry settings?

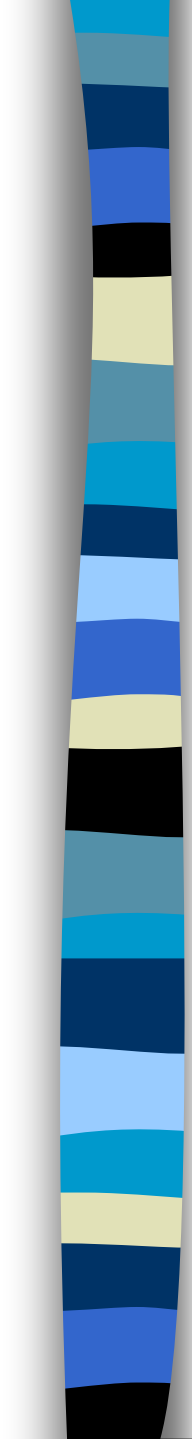
Patient Care Process: A Coordination Challenge



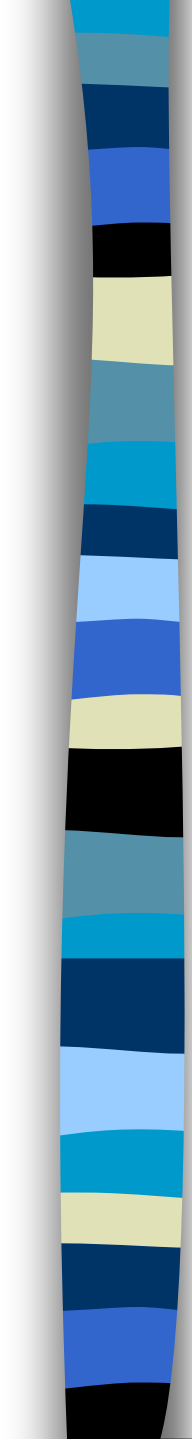


The Challenge of Patient Care

- Patient care is often delivered in a fragmented way
- Patients often forced to sort their way through the system, receiving diagnoses and treatments from a loosely connected set of providers
- Providers often not on the same page
- Physicians in recent survey cited coordination of care as one of their biggest quality concerns (Commonwealth Fund, 2005)



“Miscommunication between the physician and the nurse is common because so many things are happening so quickly. But because patients are in and out so quickly, it’s even more important to communicate well.”



“As the screws have tightened,
we’ve had to look at processes.
We’ve moved from patients
experiencing individuals as
caregivers to experiencing systems
as caregivers. There’s less time to
build individual relationships with
the patient. It’s not just individual
brilliance that matters anymore --
it’s a coordinated effort.”



Same study conducted in hospital setting

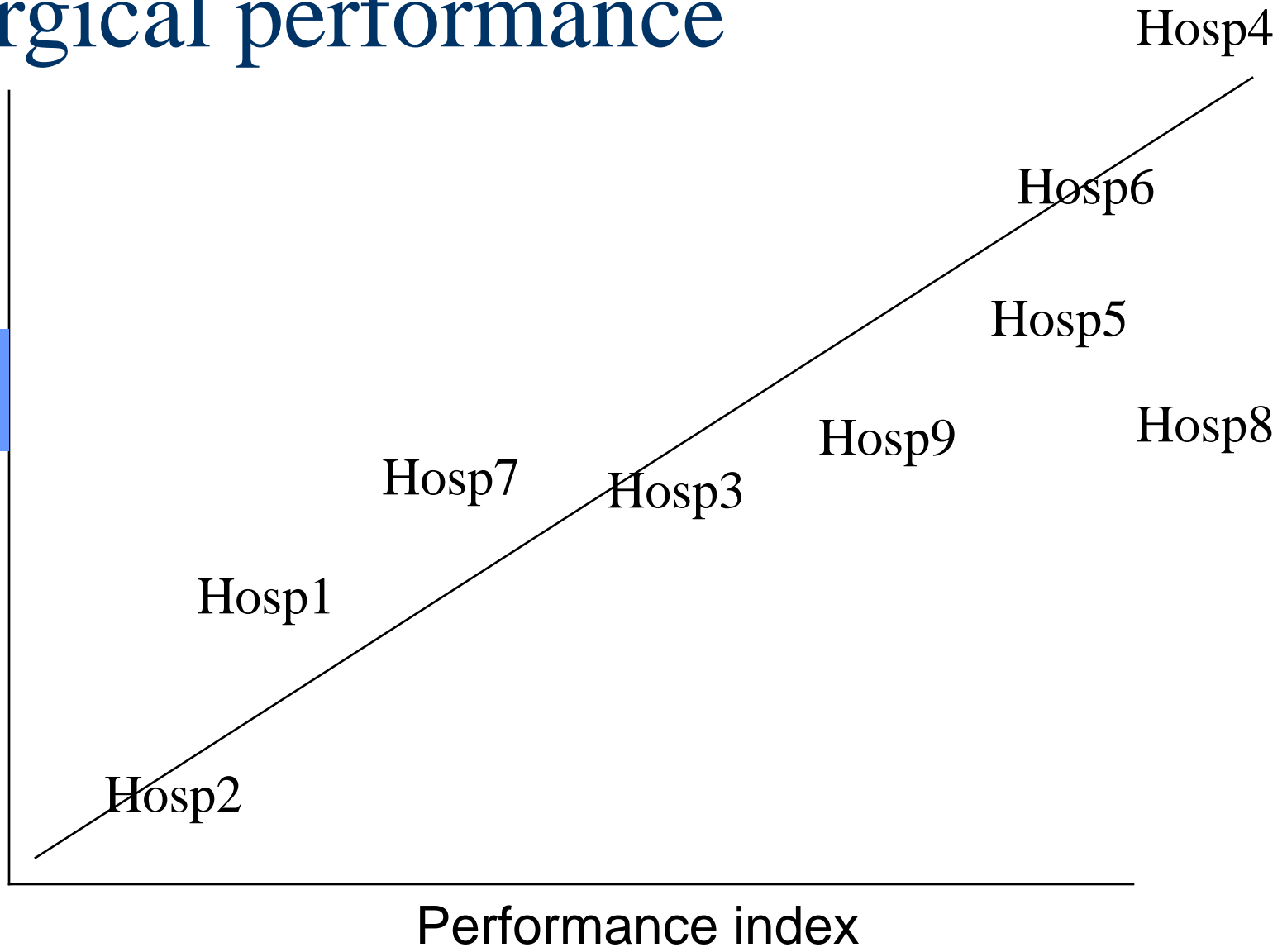
- Nine hospital study of 893 hip and knee arthroplasty patients
- Measured relational coordination among doctors, nurses, physical therapists, social workers and case managers
- Measured quality and efficiency performance, adjusting for patient differences

Relational coordination and surgical performance

	Efficiency	Quality		
	Length of stay	Patient satisfaction	Post-op freedom from pain	Post-op functioning
Relational coordination	-0.31***	0.22***	0.07*	0.05
Surgical volume	0.17***	-0.04	0.05	0.02
Patient age	-0.02	0.13**	-0.01	-0.05
Comorbidities	0.08*	-0.04	-0.01	-0.04
Pre-op status	0.03	-0.15**	0.20**	0.28**
R squared	.17	.11	.37	.39

Relational coordination and surgical performance

Relational coordination





Follow-up study on medical unit

- Single hospital study (Newton-Wellesley Hospital) of 5,986 medical patients
- Measured relational coordination among doctors, nurses, case managers, social workers and therapists
- Measured outcomes from medical records; case mix adjusted using APR-DRGs and standardized to state-wide averages

Relational coordination and medical performance

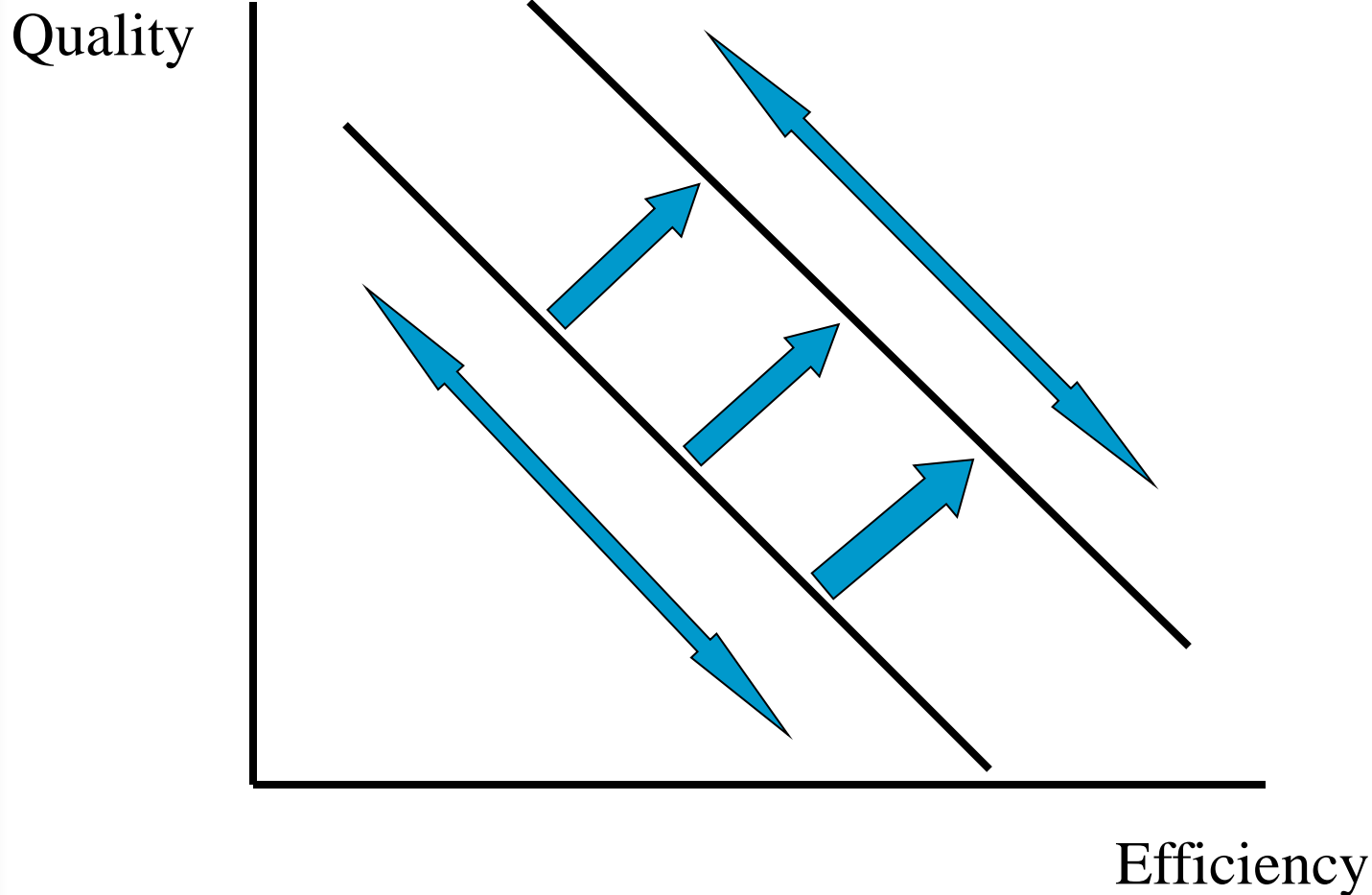
	Efficiency		Quality	
	Length of stay	Total costs	Readmit w/i 7 days	Readmit w/i 30 days
Relational coordination	-0.55*	-671**	-0.60**	-0.69**
Risk adjustment	0.76***	1196***	0.12***	0.13***
Patient age	-0.01**	-22***	0.01*	0.01*
Number ICU days	0.67***	2501***	-0.11*	-0.10**
Chi squared	0.000	0.000	0.000	0.000
R squared	.33	.55	NA	NA

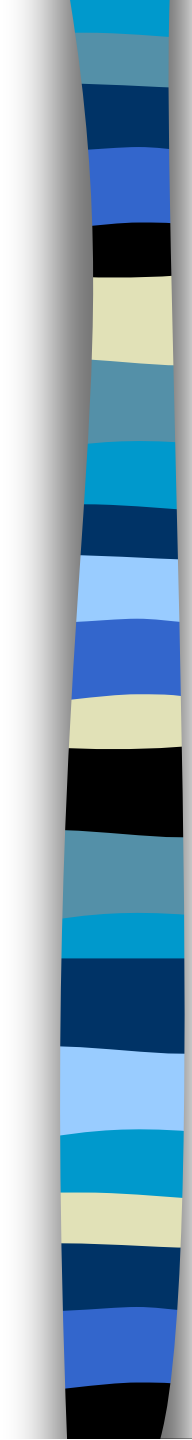


Why does relational coordination work?

It enables people from different disciplines to respond to new information in a spontaneous, integrated, holistic way. Therefore they can achieve higher quality outcomes, more efficiently.

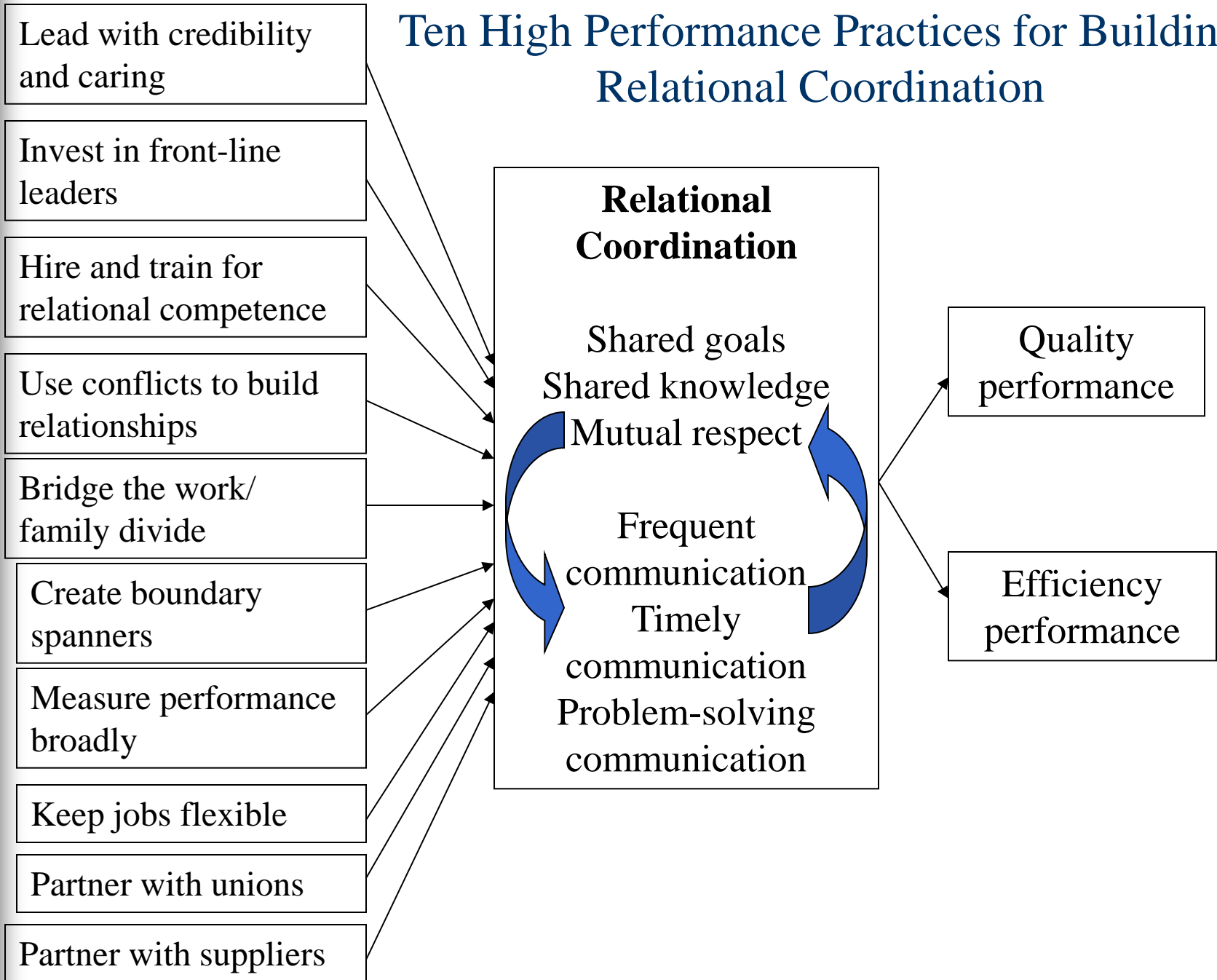
Relational coordination enables people to move beyond quality/efficiency tradeoffs and *push out* the quality/efficiency frontier

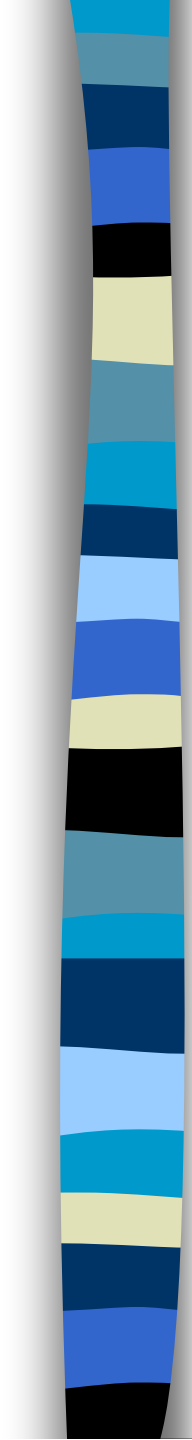




What kinds of
organizational practices
support relational
coordination?

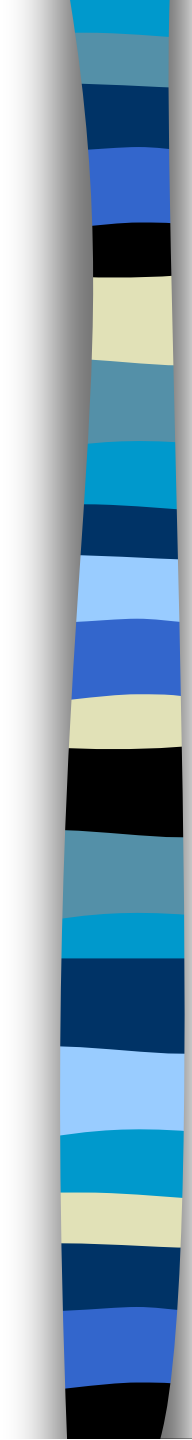
Ten High Performance Practices for Building Relational Coordination





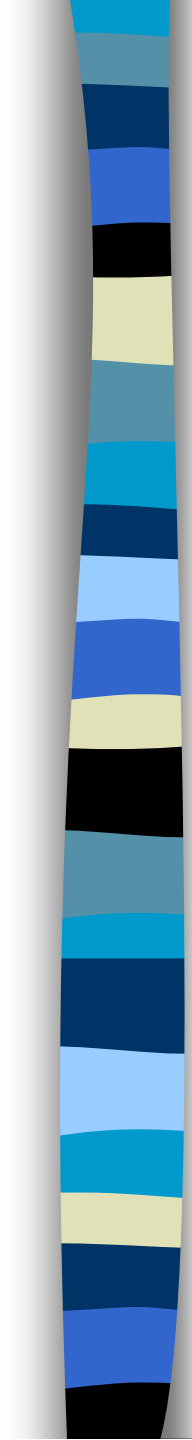
Lead with
credibility and caring

“If I didn’t work at SWA, I would not work in this industry. At the other airlines, they don’t trust the managers. The CEO says something and they don’t believe what he says.”



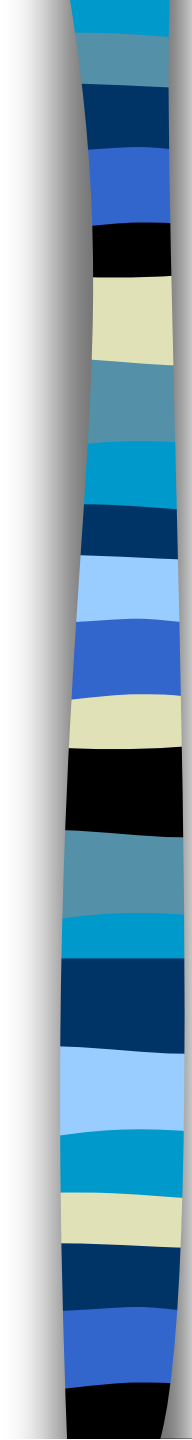
Lead with **credibility** and caring

“It helps you as a manager when Herb gives it to the employees without sugar coating. Something about Herb, if he says it, it’s law. Colleen is a very big part of this puzzle too. They’ve both got credibility. They’ve created this level of honesty with us. If it’s bad, they tell you it’s bad.”



Lead with credibility and **caring**

“Herb is not your average CEO. He really cares to let people know he cares. When he talks to you, he is really focused on what you are saying. He sets the example of respect for everyone. All are important. Treat each other with the same respect as our customers. So people are happy.”



Lead with
credibility and **caring**

“Colleen and Herb communicate with customers and employees on every little issue. Their philosophy is to take care of the small problems. When someone has a problem here, even if it might seem small, I have to take care of it. It’s a necessary element in the development of trust.”



Invest in front-line leaders

“The most influential leaders in our company ... are the front-line supervisors.”

“While other airlines are cutting supervisors, we have a large number of supervisors to encourage, guide and give structure to people.”



Invest in front-line leaders

“We’re only as strong as our supervisors. That’s where most organizations break down. Now we are putting even more time and effort into internal recruitment and training for our front-line supervisors.”



Create boundary spanners

“The operations agent’s job is important. It’s their responsibility to coordinate the flight. You need someone quarterbacking the flight departure. We are unique in that our operations agents are assigned to lead *only one departure at a time*. It’s a good investment.”



Create boundary spanners

Unlike at the other airlines, the boundary spanner role involves face-to-face interactions with every party involved in the flight departure process. It is coordination with a human face.



Hire and train for relational competence

“We spend more money to recruit and train than any of the other airlines do. We take the time to find the right people to hire, at all levels within our organization, and we spend time training them. We really believe in the notion of ‘one bad apple.’ It’s like a religion here.”



Hire and train for relational competence

“It’s mutual respect. We get it partly from the selection process. We really try to select people with the right attitude. We evaluate the impact they will have on internal and external customers.”



Hire and train for relational competence

“Something we look at is people who are very team-oriented from prior work experience. We say, take an incident from your prior work and walk us through it. Do they limit themselves to the job, or go above and beyond?”



Measure performance broadly

“We try to figure out what caused a delay, but we don’t do much finger-pointing. We find that the more you point fingers, the more problems go underground rather than getting solved.”



Measure performance broadly

“We had too many angry disagreements about whose delay it was. It was too hard to determine whose fault it was.”

“The **team delay** is used to point out problems between two or three different employee groups in working together.”



Use conflicts to *build* relationships

“What’s unique about Southwest is that we’re real proactive about conflict. We work very hard at destroying any turf battle once one crops up -- and they do. Normally they are not malicious or ill intentioned.”



Use conflicts to *build* relationships

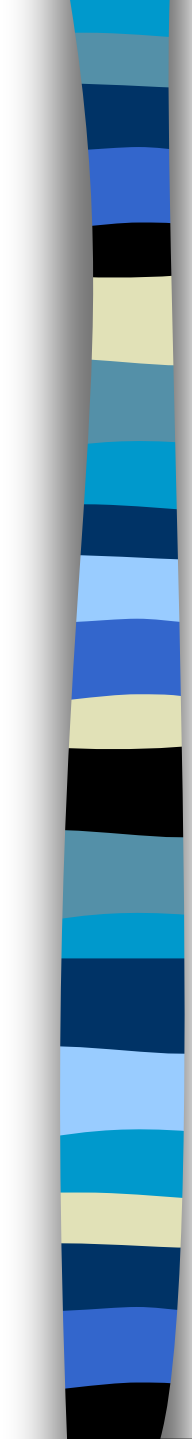
“Because we are moving at a fast pace, miscommunication and misunderstandings happen sometimes. We take great pride in squaring it away as quickly as possible. Pilots and flight attendants -- sometimes an interaction didn't go right between them. We get them together and work it out, in a teamwork approach.”



Bridge the work/family divide

“People at Southwest care about one another’s families. We recognize deaths and births. We help in times of tragedy...

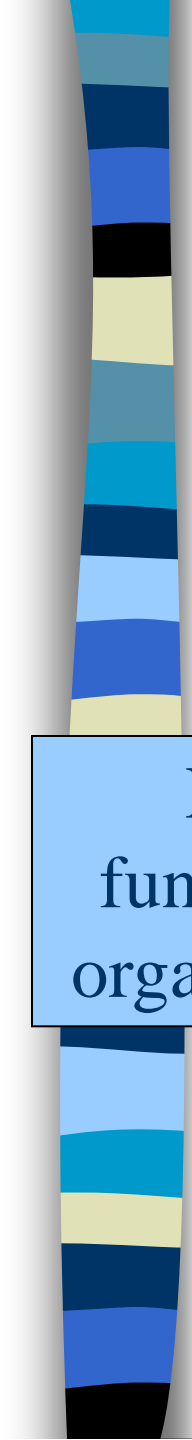
“Kids and spouses feel the same way we do when they see a Southwest airplane. When we talk at company events, family members talk about Southwest as ‘we.’”



Bridge the work/family divide

“The whole concept is to be yourself and to have fun in your job. The relaxed atmosphere around here helps to ease the tension between departments.”

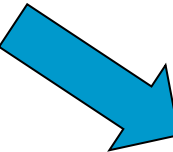
Family and work relationships as mutually supportive




High-
functioning
organizations



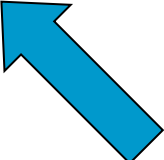
Family relationships
Friends/neighbors
Civic communities
Religious communities



High-
functioning
people



Work relationships
with colleagues
with supervisees
with customer/client





Keep jobs flexible at boundaries

“Each person has a specific job, but part of the job is to help the other person. Then it’s easier to work in a more efficient manner.”



Keep jobs flexible at boundaries

“At Southwest, anyone can do any function, even the supervisors... Our union contracts don’t have covered work. The job descriptions all say at the end *‘and whatever you need to do to enhance the overall operation.’*”



Make unions your partners

With the most highly unionized workforce in the U.S. airline industry (88%), Southwest has also achieved the most positive labor relations:

- shortest time to contract
 - fewest mediations
 - fewest arbitrations
 - fewest strikes

(Gittell, von Nordenflycht and Kochan, 2004)



Make unions your partners

“We bring them in and treat them like family, like we’re working on something together, just like we do with everyone else.”

“We try to stress with everybody that we really like partnerships.”



Make unions your partners

Also key is trusting employees to choose their own representatives and respecting the legitimacy of the union.

“We really want them to have whoever they want.”

“Unions have their constituency, their customer base. We respect that.”



Build relationships with key suppliers

“Southwest makes the airport part of their team. With Southwest you want to see what you can do for them. I think it pays huge dividends. My reaction to how I’m handled by Southwest is that it makes me want to bend over backwards.”



Build relationships with key suppliers

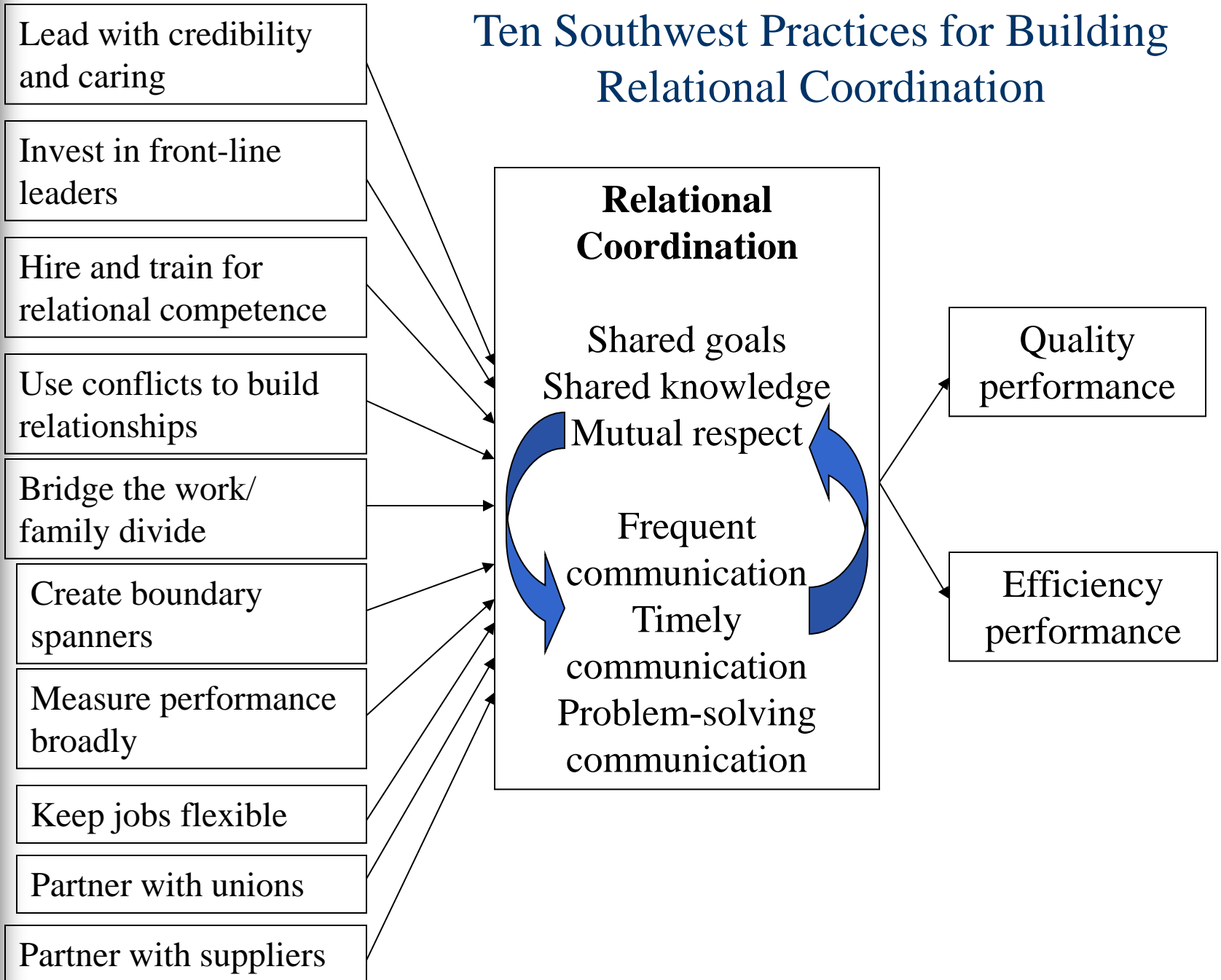
“Most pilots have strong egos. We turn pilots and air traffic control people into partners...It pays handsome dividends.”



Build relationships with key suppliers

“With Boeing, it’s like with everyone else. We try to make them understand that what’s good for us is good for them. When you’re as good a customer as we are, they listen. Boeing likes us because of our history together.”

Ten Southwest Practices for Building Relational Coordination





Sustaining relational coordination over time

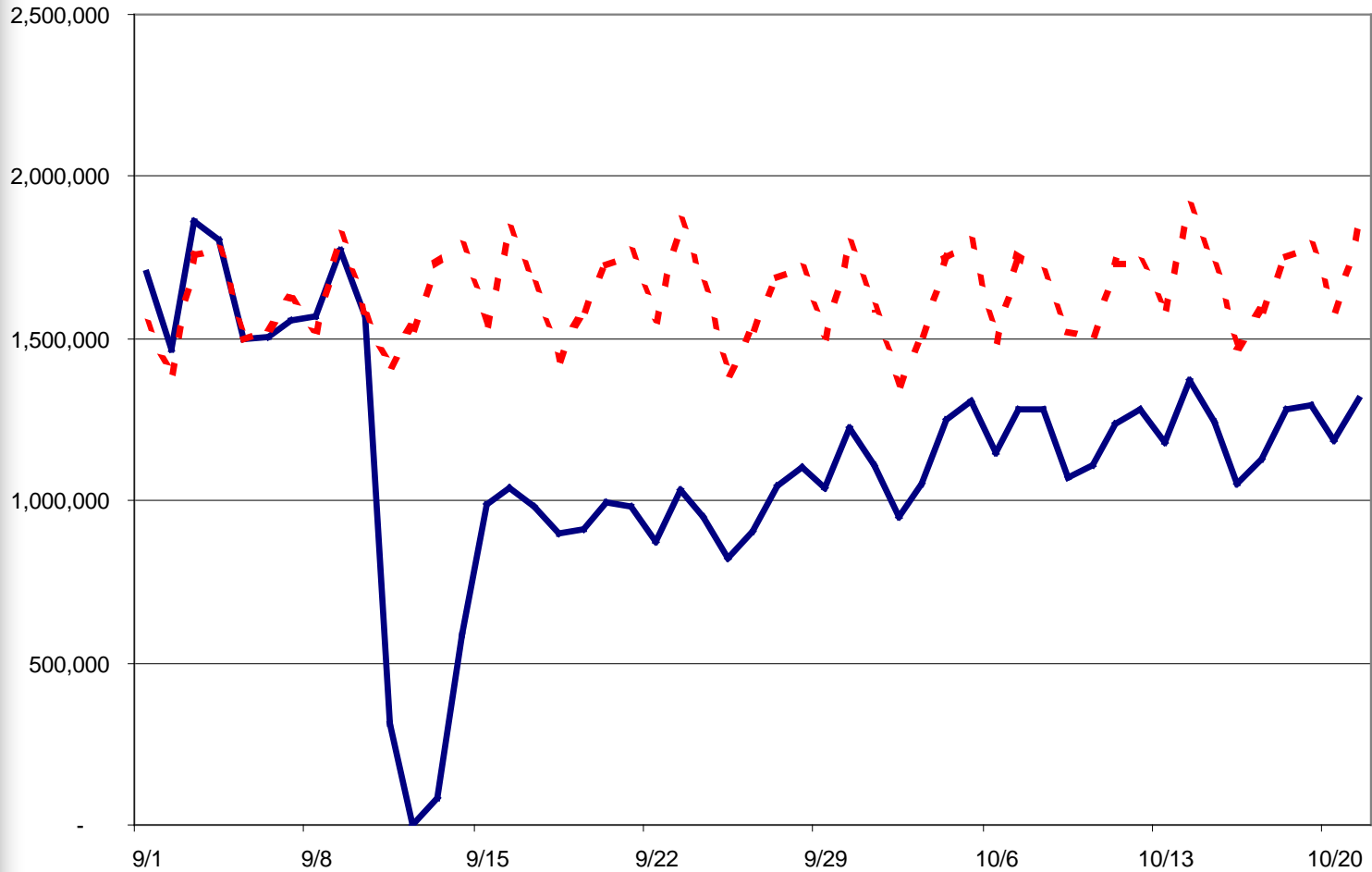
- How to protect the investments you make in relational coordination?
- How to sustain relationships through good times and bad -- even in times of crisis?



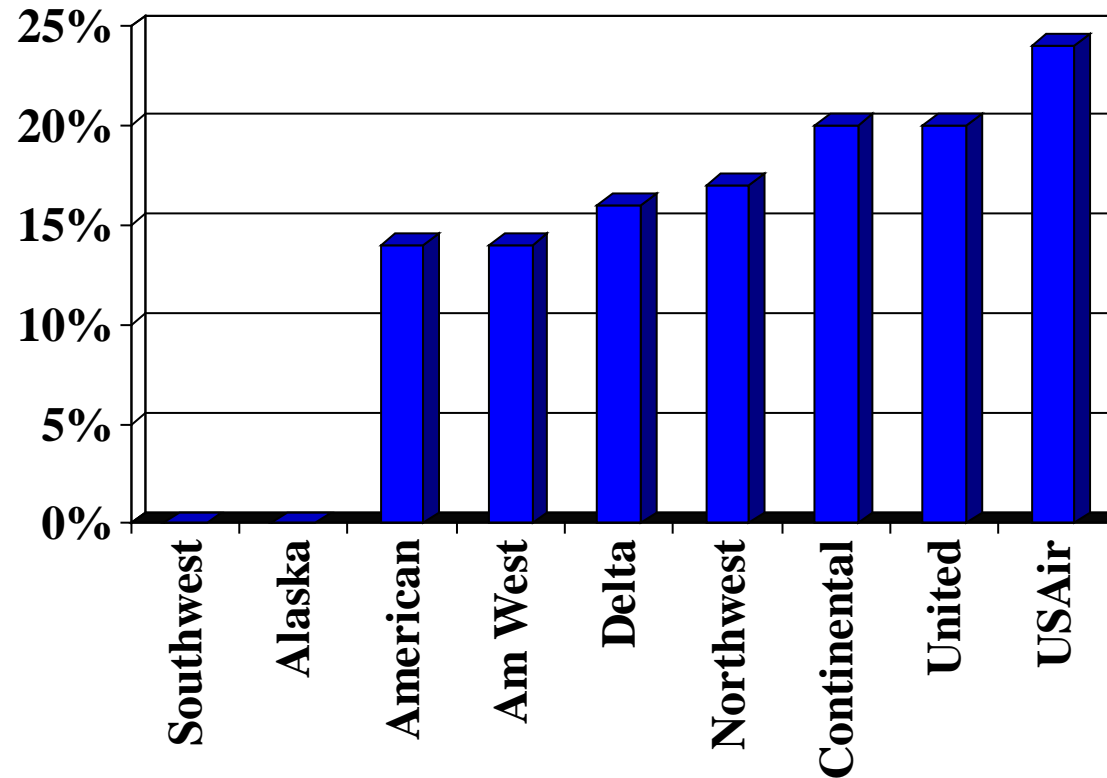
Airline responses to crisis of 9/11

- n Airline industry faced devastating losses
- n Dramatic decline in passenger traffic
- n “If there was ever a stress test for a good business, this is it.” (Kevin Murphy, analyst)
- n Major airlines cut their flights by 20%
- n Laid off 16% of their workers
- n But there were differences between airlines

Passenger traffic dropped



Layoffs varied across airlines





Southwest Airlines

- Avoided layoffs altogether, saying it was more important to “take care of our people.”
- Reportedly losing “million of dollars per day ...Clearly we can’t continue to do this indefinitely ...[but] we are willing to suffer some damage, even to our stock price, to protect the jobs of our people.” (Parker, CEO)



Southwest Airlines

“Nothing kills your culture like layoffs. Nobody has ever been furloughed at Southwest and that is unprecedented in the airline industry. It’s been a huge strength of ours. It’s certainly helped us negotiate our union contracts... It breeds a sense of security. It breeds a sense of trust.”

(Herb Kelleher, Chairman of SWA)



Why lay off?

- The decision to lay off is often necessitated by lack of financial reserves.
- To make the decision not to layoff, Southwest had to be financially **able** to sustain short-term losses.
- This ability was not due to accident or good fortune. Rather due to long-standing policy of maintaining financial reserves.



Build financial reserves to protect relationships

“Most people think of us as this flamboyant airline, but we’re really very conservative from a fiscal standpoint. We have the best balance sheet in the industry. We’ve always made sure we’ve never overreached ourselves... And that gave us a real edge during the Gulf War” (*and* post 9/11).

(Herb Kelleher, Chairman of SWA)

High debt levels increased need for layoffs when crisis hit

		Layoffs
Financial reserves	Cash on hand	-0.457 (0.184)
	Debt/equity ratios	0.801 (0.003)

Ten US major airlines included in sample. Spearman's rank correlation coefficients and p-values are shown.

And layoffs predicted slower stock price recovery

	Stock price recovery to Sept. 10, 2001 levels			
	Sept. 10, 2002	Sept. 10, 2003	Sept. 10, 2004	Sept. 10, 2005
Layoffs	-0.874 (0.000)	-0.394 (0.260)	-0.654 (0.041)	-0.825 (0.003)

Ten US major airlines included in sample. Spearman's rank correlation coefficients and p-values are shown.



Relationships and resilience

- We know relationships are a source of resilience in the face of stress
- Relationships enable people *and organizations* to bounce back from adversity
- But layoffs destroy relationships just when the organization needs them most
- Best to reduce need for layoffs by keeping financial reserves
- Use financial reserves to protect relationships in times of crisis – then respond to the new environment with your relationships intact

A Virtuous Cycle of Sustainable Performance

