

## Southwest Airlines<sup>1</sup>

Southwest Airlines was formed in 1971 to serve inter-city routes in three Texas cities. By 1998, it had grown to approximately 24,000 employees serving 25 states with approximately 2,500 flights per day. Southwest operates as a low-cost, no-frills but high customer service airline flying point-to-point, rather than establishing the hub-and-spoke system common to its larger competitors. A key to its success is the achievement of low turnaround time—the time required for a plane to land and take off again—which requires a high level of teamwork, coordination, and flexibility among different employees and occupational groups. To accomplish this advantage, the company works hard at maintaining a culture that emphasizes flexibility, family orientation, and fun. It has been highly successful, generating profits each year since it was founded and realizing significant appreciation in the value of its stock over the life of the company. Southwest's quality and productivity serve as benchmarks for the industry. It consistently ranks at the top of the various quality measures—including on-time performance, baggage handling, and customer complaints.

### Employee Relations

Nearly 90 percent of Southwest's workforce is organized into nine unions. Four—the pilots and three small technician unions—are independent organizations. The flight attendants and ramp workers are represented by the Transportation Workers Unions (TWU), the customer service and the reservation agents are represented by the International Association of Machinists (IAM), and the mechanics and cleaners are represented by the Teamsters (IBT). The company has enjoyed highly cooperative and peaceful labor relations since its founding. Its founders were not opposed to unions and essentially invited them into the organization. However, management has also worked hard to ensure that the unions maintain the same objectives as the company, avoiding highly adversarial relations.

There are no formal union-management structures or processes for consultation and representation beyond negotiations and grievance procedures. However, management keeps the union representatives informed of new developments. One example is when the company decided to implement a flexible benefit plan; it met with union leaders and indicated the plan would be an add-on to the existing contractual provisions and therefore did not require negotiations. Union leaders also initiate dialogue, as they did when raising questions over how the company was implementing the Family and Medical Leave Act. Several union leaders questioned the procedures, and briefings were held to clarify how the company was complying with the Act. Other issues around which informal consultations have occurred include workers' compensation administration policies.

The primary channel for employee input is the company's open-door policy, in which employees with questions are encouraged to write to Herb Kelleher with their concerns, suggestions, or questions. These letters forwarded on a daily basis to appropriate managers to prepare a response. All letters receive a response—in fact, sometimes middle managers are concerned with being bypassed by these inquiries or

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<sup>1</sup> This case is contained in, "Rebuilding the Social Contract at Work: Lessons from Leading Cases," Thomas A. Kochan, Institute for Work and Employment Research, MIT Sloan School of Management, Task Force Working Paper #WP09, May 1, 1999. The longer article, including bibliographic references and footnotes omitted from this version of the case, can be found in the CasePlace.org References section.

complaints. However, this avenue is widely used, because management does follow up on them. "It's part of the culture," said one manager.

Top managers also visit four or five stations each year to meet with employees. With no pre-arranged agenda, these meetings serve as another opportunity for management to learn about employee concerns and for employees to bring problems to management's attention. These visits also introduce new managers to the airline's cultural norms.

Southwest also maintains a "culture committee," comprised of 127 members from different parts of the company. Each year, the Executive Vice President meets with groups of employees to elicit issues and problems of greatest concern. From these meetings, priority issues are identified, and small teams are formed to work on them. Examples include: problems of employee burnout among individuals in a job for a long period of time; a "New City" committee that goes to each new city Southwest serves to educate new employees about the values of the company; and the "Back to Basics" team, which sponsored an essay contest to describe what makes Southwest work. The team chose a series of essays that were integrated into a book with an accompanying video that is now given to every new employee. These committees are all staffed by volunteers working on their own time.

In short, the values of the company and its practices are implemented by developing the culture of empowerment and family values, not through any formal representative forums or structures.

## **Summary and Implications**

Southwest has used its human resources as assets for achieving and sustaining a competitive advantage. Moreover, it has communicated this intention to its internal workforce, to its customers who expect a highly motivated and friendly workforce and high levels of service, and to an external investment community that continues to value the company highly, as indicated by its favorable price/earnings ratios. Southwest accomplishes this success largely through the leadership and culture established by Kelleher and the managers he has hired and promoted. It also does so with unions that embrace the company's culture and have not pursued demands for a role in the management or governance process or jointly-run programs at the workplace.