

Globethics Repository

The logo for Globethics, featuring the word "Globethics" in white, sans-serif font centered within a solid blue rectangular background.

Southwest-Airlines: How good labour relations can contribute to the bottom line

This page was generated automatically upon download from the Globethics Repository. More information on Globethics see <https://www.globethics.net>. Data and content policy of Globethics Repository see <https://repository.globethics.net/pages/policy>.

Item Type	Book chapter
Authors	Rogovsky, Nikolai;Sims, Emily
Publisher	International Labour Office
Rights	With permission of the license/copyright holder
Download date	2026-07-04 15:09:41
Link to Item	http://hdl.handle.net/20.500.12424/173314

ROGOVSKY, Nikolai and Sims, Emily, *Southwest-Airlines: How good labour relations can contribute to the bottom line*, in Corporate success through people. Making international labour standards work for you, Geneva: International Labour Office, 2002, 68-70.

Case 1: Southwest Airlines – How good labour relations can contribute to the bottom line ¹

Southwest Airlines is one of the most heavily publicized corporate success stories. It has grown in 30 years from a 4-plane carrier into the fifth largest airline as of 2000 in the United States, worth \$4 billion and employing 29,000 workers. Table SA.1 provides some data on the company's performance. ² Southwest consistently has the lowest costs and the best customer service as measured by on-time performance, lost bags, and customer complaints. Condé Nast Traveller has ranked Southwest as the safest of the world's 85 major airlines. It is the only US airline to have made a profit every year for the past 26 years. Employees work hard; they are committed and do not want to leave. Southwest's people-oriented values, attitudes and behaviours resulted in Southwest being rated as the top company in Fortune magazine's 1998 list of "The 100 Best Companies to Work for in America".

Although much attention has been drawn to Southwest's intense focus on operations, customer service, charismatic leadership, strong organizational culture, and innovative management practices, the basis of its success is its philosophy of treating its workers with respect and dignity. These values have enabled Southwest to establish and maintain high quality labour-management relations.

Table SA.1. Southwest Airlines' financial summary (in million dollars)

	1998	1997	1996	1995
Total operating revenues	4,164	3,817	3,406	2,873
Operating income	684	524	351	314
Return on average total assets	9.7%	8.0%	5.9%	6.0%
Return on average stockholder equity	19.7%	17.4%	13.5%	13.7%
Size of fleet	280	261	243	224

Herb Kelleher, former CEO of Southwest describes the company's approach:

It used to be a business conundrum: Who comes first? The employees, customers, or shareholders? That's never been an issue to me. The employees come first. If they're happy, satisfied, dedicated, and energetic, they'll take real good care of the customers. When the customers are happy, they come back. And that makes the shareholders happy (Godsey, 1996).

This philosophy is reflected in Southwest Airlines' mission statement: "We are committed to provide our employees a stable work environment with equal opportunities for learning and personal growth"(http://www.iflyswa.com).

Southwest puts this belief into action by treating all its employees with equal respect and dignity. It uses very few part-timers and does not contract out as much as many other airlines. The company has never had a layoff or furlough, which is very unusual in the airline industry. Employees exercise their right to participate in recruitment. Teamwork and multifunctional teams are emphasized. The company has a policy of full disclosure of

¹ Source: O'Reilly and Pfeffer, 2000.

² Source: Southwest annual reports.

ROGOVSKY, Nikolai and Sims, Emily, *Southwest-Airlines: How good labour relations can contribute to the bottom line*, in *Corporate success through people. Making international labour standards work for you*, Geneva: International Labour Office, 2002, 68-70.

financial and operational information to all employees. And Southwest values character over competency; it is one of the very few companies that has an official policy of no punishment for honest mistakes. Its official policy states: "No employee will ever be punished for using good judgement and good old common sense when trying to accommodate a customer – no matter what our other rules are" (New York Times, 14 Mar. 1999).

Southwest's compensation practices also aim to give its employees a feeling of belonging and ownership. Heavy use is made of collective, as contrasted with individual, rewards. For example, profit sharing and stock ownership are emphasized over individual pay for performance. Executive pay is relatively low for the industry and executives are expected to share in any wage freezes the same as any other employee. But what is truly surprising is that the level of pay at Southwest is at or below the industry average. At the same time, the number of job applicants per opening is one of the highest in the industry. Libby Sartain, Southwest Vice-President for People, a title that reflects the company's approach, explains: "We want people who are not looking for a job, but rather who are looking for a cause" (Hoffer, 2001). Many people are willing to take a wage cut to join Southwest, and many have turned down more lucrative offers from competitors.

With such a strong people-oriented management style it may come as a surprise to know that Southwest is the most unionized airline in the United States – 84 per cent of its workforce is unionized. Far from being redundant, union representation makes people-oriented management possible. Unions are the most efficient vehicle for workers to convey their expectations, ideas and concerns to management. The airline industry is generally characterized by adversarial industrial relations; no doubt many readers have experienced at least one delayed flight due to a strike. Yet, in its 30 year history Southwest has had only one walkout (by the mechanics in 1980) because it takes the unions seriously and accepts that they are the voice of workers.

Southwest Airlines has long-term collective agreements. Recently the pilots' and dispatchers' unions ratified 10- and 12-year agreements respectively, which is very unusual for this industry, known for labour-management confrontation. Both agreements emphasized gains in stock rather than wage increases. Management believes in the notion of social dialogue. It helps union members and negotiators to research their pressing issues and to conduct employee surveys before each contract negotiation. Jim Parker, current CEO and Vice-Chair of the Board, believes that: "Most labour disputes are not really about money. There is something else at stake — respect" (ibid). And Southwest culture is all about respect. Says Colleen Barrett, President and Chief Operations Officer: "We are very proud of our employee relations. We treat people with respect" (ibid).

Treating people the way they deserve to be treated pays off. Southwest employees demonstrate much higher levels of productivity than employees of other airlines. For example, Southwest people routinely turn an aircraft round in 15 minutes from the time it arrives at the gate until it leaves.³ Continental and United average 35 minutes for similar activities. Southwest gates are typically staffed by a single agent and a ground crew of six, rather than the three agents and 12 ground crew of other airlines. As another example of higher productivity, in 1998 Southwest had an average of 94 employees per aircraft whereas United and American had almost 160. The industry average was over 130. Southwest served more than 2,500 passengers per employee in 1998 while the industry average was about one thousand.

³ Rapid turnaround of aircraft means that planes are in the air more, actually earning revenue.