





## At C Level:

Gary Kelly  
CEO, Southwest Airlines



By Tony Bingham  
and Pat Galagan

## EMPLOYEES ARE EXPECTED TO LIVE AND WORK THE SOUTHWEST WAY.

Taking off is the easy part of flying. Get a well-designed airplane to the right speed for its weight and the weather conditions, and it will leave the ground with very little coaxing. It's the rest of flying that can be challenging. That's true with airlines too, and none is a better example than Southwest Airlines, the carrier that took off rapidly with its combination of low fares and routes that avoid big congested airports. Southwest had another advantage that provided extra lift for the airline—its culture of fun. The flight attendants told jokes, employees referred to the founder and chairman as “Herb,” and passengers entered into the relaxed spirit of doing business with Southwest.

# FLIGHT PLAN

For more than 30 years, that formula took Southwest to great heights, but new realities in the airline industry may threaten to stall its growth. We talked with CEO Gary Kelly about how the airline is coping with change.

**Q Southwest is experiencing pressures—rising fuel costs, attacks from other carriers, and union-driven salary increases—that must be influencing strategy. When deciding where to put resources and where to invest, how does employee learning come into play? Is it a candidate for cutting?**

**A** Oh, no, we're not going to cut. The kinds of challenges we face have necessitated change and that as much as anything has revealed a very dramatic need for learning. I think that learning is, in essence, allowing people to think differently and clearly about what confronts us at Southwest Airlines.

We've seen fuel prices triple, and as a transportation company, of course, we are very dependent upon energy prices. To give you a little perspective on that, even though we are paying below-market prices, we're still paying higher prices than three years ago. Energy prices have affected our cost structure by almost 20 percent.

And that's coupled with very intense competition. One would think that in an industry that is reeling from financial pressures, you would see competitors drop out. In fact, the opposite is true: The industry is becoming more competitive. It is dominated by so-called legacy carriers, but you

also have people who believe they've got a better idea about how to serve the air-travel market and that has spawned a whole new generation of airlines, many of which are modeled after us. In one sense, we're flattered by that. In another, we wish they weren't trying to imitate us.

We've had very successful technical training within our company for decades. We arguably have the finest pilots and flight attendants in the world. Except for pilots, most employees can come into the company with no prior airline experience and work at the airport, in reservations, or as a flight attendant. We put them through a technical training program that has been very successful for us.

What I think is more challenging in many ways is to teach leadership skills and what I would call "key work skills" or customer service skills. Elizabeth Bryant, our director of leadership development, is doing a great job leading that effort. And Jeff Lamb, who is vice president of the people and leadership development department, is also a very unique talent. I give both of them a lot of the credit for the advances we've made over the last couple of years. We've really needed them because as we've tried to change Southwest Airlines to react to new realities, it has revealed deficiencies in ourselves that we needed to address. It also revealed that the company needed to make some strategic changes and that was very clearly linked to a need for education and leadership development.

We've gotten a lot better at managing change, and we have some very large change-management efforts underway right now that I'm very proud of. They're being conducted by rank-and-file Southwest Airlines employees who are doing very fine work. Customers will soon see some of our new service features, which are directly linked to some of our expected results and our leadership education.

One of the things that concerned me in the past was that our leadership-

development function would teach a concept but not integrate it into the way our leaders were managing, much less into more structured performance management. Now, it's almost seamless. We started out, with Elizabeth's leadership, in the right way by setting expectations for leaders, then developing our performance-management system, and then developing our leadership training. So it is very integrated. Just about any of our top leaders can recite the leadership expectations.

Like any company, we're trying to perfect our performance management, so I wouldn't say we are necessarily expert at it, but I am proud of the fact that it's very integrated.

Let me talk about our strategy for a second. Our vision is to be a great place to work. We want to have the safest, most efficient, and most reliable airline operation in the world. We want to offer the best personal customer service in the airline industry. We want to have the preferred flight schedule, meaning that customers have lots of flight options to lots of destinations. Southwest Airlines now has more seats carrying more passengers than any other airline in the world. That's a very powerful customer offering. And finally, we want to be financially successful. So we try to filter pretty much everything that we do through those strategic objectives, and we try to integrate our leadership development into those strategies.

**Q Earlier, you mentioned leadership expectations. Can you tell us more about what those are?**

**A** For years we've had this notion that attitude is very important at Southwest Airlines. Our president, Colleen Barrett, says that we hire for attitude and train for skill. That attitude has been described as

the Southwest Spirit. And for years we resisted trying to define what that was. As we grew larger and our workforce changed, we decided to articulate the Southwest Spirit so that people had an image of the kind of attitudes and behaviors we expect.

Our first expectation is that employees will live the Southwest Way. For us that means having a warrior spirit, a servant's heart, and a "fun-loving" attitude. You could interpret that and say we expect people to work hard, respect others, and have fun.

We expect our leaders to develop people. If they aren't doing that, then no one else can. In addition to developing people individually, we expect our leaders to build great teams. Fourth, we expect them to think strategically because we operate in a rapidly changing environment with a lot of competition. And finally, we expect them to get excellent results.

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then I think you have to be patient and nurturing and provide a lot of communication to develop people.

One of the things we are striving to improve—and I know Elizabeth would agree—relates to the nurturing culture here. It's a family-like atmosphere, which I think has led people to conclude that they shouldn't be critical or negative. Therefore, a lot of very valuable feedback has been missing. One telltale sign is that candidates would come up for promotion only to find that they weren't suitable for reasons of which they were not aware. We're working hard on constructive feedback.

The other thing that we are really focused on right now is expanding people's opportunities. The fact that we have a lot of challenges is tremendously exciting, and we are able to have people participate in initiatives that they weren't involved in previously. It has provided a tremendous opportunity for people to expand their thinking and gain new experience. A lot of our current officers emerged through this process. It allows people to live up to their potential, which is tremendously rewarding for a leader to see.

We're very blessed at Southwest Airlines because we've got an environment where you actually have a chance to do those kinds of things. So frankly, while it's true that our business

**Q** Would you give us some examples of behaviors that would show that a manager is competent at developing other people?

**A** It's hard to take that one in isolation. It's not one-dimensional. To develop people individually you also have to be good at living the Southwest Way—building great teams, getting results, and thinking strategically. I think a manager needs to be clear in his mind and with his people about what the expectations are and then skilled at understanding whether a person is a good match for those expectations.

Like every company, we did not have all the right people in the right seats on the right bus. But once you have a reasonable match and a good understanding of the expectations,



**Q** Your background is finance. Are there any key metrics that you look at to determine if learning is really working?

**A** We are looking for results. So, for example, we know that we need to identify problems and solve them successfully. In the past, we would recognize a problem but not be thorough enough in thinking through the possible solutions. So some of the changes that we tried would fail. I think that's a score. There was a lack of understanding at the leadership level about what it took to manage that kind of change process.

If you fast-forward to 2007, the change initiatives that we have underway are very successful. The problems are very well thought out, and the solutions are well developed. That is one of the things I look for in terms of keeping score.

From my perspective looking at the overall company scorecard, training and leadership development are making a contribution if we're hitting our earnings targets, if we are living up to our aspirations to be a great place to work, and if we are developing teams.

is challenging, that's a lot more fun than being in one that's not.

We're also working hard to encourage our leaders to delegate properly. That's very consistent with the need to build great teams. With the number of challenges we have, you can imagine that some of our leaders would be overwhelmed if they tried to do everything themselves. So I've underscored the need for leaders to let go of some things.

We want everybody at the table to feel like they have a voice in making choices for Southwest Airlines. It's not a vote, but we want their input, and we want to encourage teamwork.

**Q** How do you decide what the appropriate investment in learning is?

**A** I don't know that anybody has the right answer to that question. I am very passionate about leadership development, and it's one of those things for which I think you just have to manage incremental progress.

I know that Jeff and Elizabeth would agree that we want to have more education hours per employee than we do today. Now whether that should be 40 hours a year or eight, I

don't have a strong view about that, but from a trends perspective, we don't think we're over-invested. In no way are we thinking we want to cut the spending. I think that would be an enormous mistake.

One of our biggest challenges, quite frankly, is communication—to the investment community, the media, our customers, and our employees. Education forums provide one of the better opportunities to communicate. So if for no other reason than to get people together and develop relationships, it's a worthwhile investment. When you layer new learning on top of that and the communication of the company's goals and strategies, it is very, very powerful. We've got 33,000 employees spread all over the country, so I think it's a very worthwhile investment on that basis.

**Q** Many companies are concerned about employee engagement because of the belief that it helps improve performance and increase retention. How would you rate employee engagement at Southwest Airlines?

**A** We have so many strengths at Southwest Airlines that we can draw upon. Our number 1 strength is our people, and our people are very engaged. While a lot of companies struggle to get people to be engaged, we fortunately don't have that problem. There is a real passion within the company for our mission, which in simple terms is to give Americans the freedom to fly. I think our people are very proud of that.

We get very heartwarming letters from customers that we share with our employees. They feel really good about

what we're doing and that translates into a real interest in what's going on in our business and with our customers, and how we're going to compete with other airlines and overcome fuel cost challenges.

**Q** You've talked about the nurturing culture and the culture of fun at Southwest Airlines. Would it be accurate to say that even though the company faces some serious new challenges, it will not back away from its culture?

**A** I think that's very accurate. Fun is a funny thing. It doesn't mean that you party all day long at work but it does mean celebrating successes. It also means enjoying your work and your customers. It means not being afraid to laugh, and it certainly means enjoying your co-workers as if they're friends or family.

We did find that as we got larger, people misunderstood that word "fun" and that's why we coupled it with a reminder that you're going to work really hard here. If you want to do that and you enjoy working with people, and you have a sense of humor, then you're really going to love working at Southwest Airlines.

We don't want to give up on the fun because I think that would dramatically impact engagement. I don't think you can be successful in business unless you're good at it. This is right out of Jim Collins' book, *Good to Great*. You can't be good at it unless you're passionate about it. And the only thing I'd add to that is the only way you can be passionate about it is to enjoy it. And I think that fun clearly leads into that.

A sense of humor is part of the attitude that we look for when we recruit

people because we think that kind of person will be the most engaged. And besides, who wants to work around people they don't enjoy? They've also got to be a good match skill wise and be able to work hard. None of this can be viewed through just one dimension.

**Q** When the unions were pushing hard for concessions, did you feel that had an impact on your culture, and if so, how did you deal with that?

**A** Disagreements are not unique to the last couple of years. We've had stresses and strains all 36 years of our existence. Dealing with them certainly becomes part of the fabric of the culture but remember that this is a human endeavor—our Southwest Airlines journey. It's not utopia. It's not perfect. It's human and therefore there will be conflicts, disagreements, disappointments, and all the things that are just part of the human experience. I would argue that it is the strength of the culture that helps overcome those kinds of challenges. When you have a disagreement and you kiss and make up, you have a stronger relationship as a consequence. You demonstrate that the relationship can survive challenges.

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**WHAT DO YOU THINK?**

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