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Ex-CEO Jim Parker explains how Southwest Airlines thrived even in the wake of 9/11.

Flying the (Occasionally) Friendly Skies

Soft-spoken and self-deprecating, with a gentle drawl, James F. Parker doesn't fit the model of the hard-charging American CEO. And that role isn't one he ever intended to play: He served as Southwest Airlines' general counsel for fifteen years before flamboyant co-founder Herb Kelleher tapped him as his successor. A few months after taking the reins, Parker found himself facing the worst crisis in memory, as the September 11 attacks threw the airline industry into total disarray. He got Southwest through it, keeping the company in the black the whole time, and served another three years.

Then, at 57, with the company in fine working order, Parker surprised observers by leaving Southwest abruptly. Since 2004, he's kept quiet, living in Dallas, serving on one corporate board and the MIT Leadership Center's advisory council, and declining reporters' requests for comment on his former employer. He is usually careful to speak in past tense about what his company *did*. When Parker retired from the airline industry, he really did retire.

Southwest's emphasis on low prices and employee engagement has always been "an open secret," Parker says, but he offers an inside view in a new book, *Do the Right Thing: How Dedicated Employees Create Loyal Customers and Large Profits* (Wharton), which draws lessons from his quarter-century in the industry—and argues that Southwest owes its enviable bottom-line record to its workplace culture. Parker, who turns 61 on January 1, spoke with *TCB Review* managing editor Matthew Budman during a visit to The Conference Board's New York offices.

In the summer of 2001, when you took charge at Southwest, CEOs were, as you say, "the rock stars of the day." Did the Enron collapse change how you felt about being a CEO?

It didn't change my perception of what my job was, but it clearly changed the public's perception of CEOs. Enron and the ensuing corporate scandals did a lot of damage to public views of American business and certainly of the highest levels of leadership of those companies.

CEOs really had been like rock stars. It was the entrepreneurial movement of the '90s—people like Sam Walton—that was changing the world: Bill Gates changed the way America did business; Herb Kelleher led the deregulation movement. During the Renaissance, it was artists and thinkers making an impact; during the New Deal, the best and brightest people went into government; and in the '90s, it was the private sector that was making things happen.

Did you feel pressure to be as colorful as Herb Kelleher? *The New York Times* described your personality as "plain yogurt to Mr. Kelleher's Tabasco sauce."

I *couldn't* be as colorful as Herb. People would ask me, "What's it like to follow a leader like Herb Kelleher?" and I would just say that all I can do is be what I am and do the best I can. Finally, one reporter asked me, "How would you compare your charisma to that of Herb

Kelleher?" I thought for a second and said, "It's like comparing a 60-watt bulb to the light and energy put out by the sun." I told Herb that, and he said, "What makes you think you're 60 watts?" I always tried to just be myself.

You write about how you never meant to join "the stifling world of corporate America," but you couldn't have been all that bad a fit for it.

I got lucky. The whole story of my life is being in the right place at the right time.

Not always the right time—you were named to the top job just three months before the September 11 hijackings. What was it like on the ground that day?

Well, nobody was given to panic—we all knew we had very important jobs to do and decisions to make. But everybody was certainly tense. All that we knew at that point was that two airplanes had flown into the twin towers and there was another airplane flying around Pennsylvania. The FAA ordered every plane in the sky to get on the ground, so we told our planes to land wherever they were, at airports all over America, even ones we didn't serve: Peoria, Illinois, Colorado Springs—the nearest piece of concrete available.

Did you find out right away that no Southwest planes were involved?

Airplanes normally fly through airspace where you don't have continuous contact, so we didn't know for sure that all of our airplanes were safe. We didn't know what airplanes had flown into the twin towers, or what airplanes were missing elsewhere. So once we established contact with all our airplanes, it was a real relief. And then when we got word that all our airplanes had landed safely, it was an even greater relief, because we didn't know how many more terrorists there might have been out there. There were planes that landed in Halifax and all over that were held out of U.S. airspace.

You write that on that day, you activated the company's "crisis center." Is that an actual, physical office?

We quickly converted our boardroom into a crisis center—installing telephones and bringing in TV sets so we could watch CNN, which is where we got most of our news.

Was it your first real emergency situation?

In the airline business, you always have to be prepared for a crisis. But Southwest has been very fortunate—it's never had a fatal accident—so we'd never had anything but drills.

Like the other airlines, you had to make a series of snap decisions, not knowing when flights might resume or whether customers would return.

You write: "In the absence of this knowledge, we simply did what we thought was the right thing to do." Was there disagreement about the steps you took?

Obviously, in a situation like that, you have to quickly run through a range of options. Our employee profit-sharing contribution was due in three days, and that was a big chunk of money—\$180 million. At that time, we didn't keep the kind of huge cash balance that Southwest does today; all the airlines carry much larger cash balances now, because they know they might need it. But we decided to pay it on time. With respect to refunding our customers' ticket money—which other airlines did not generally do, by the way—that was an instantaneous decision, going with our gut. The company had spent thirty years building a relationship with customers, and we weren't about to risk rupturing that relationship.

Did you promise to not lay off employees?

We never actually made a pledge, but we managed to keep everybody aboard.

I was startled by your account of Southwest customers writing to offer

money to keep the airline afloat. It's hard to envision people opening their wallets for AirTran or Delta or Northwest.

I couldn't begin to imagine it happening to almost any other company in any business in America. I was shocked and very moved by people actually offering to send us money, saying, "You need the money more than we do"; "We want Southwest to stay in business"; "I met my spouse on a Southwest flight." It really brought home to me how much Southwest had touched the lives of our customers.

Most of *Do the Right Thing* is about Southwest, of course, but a third of the way through the book, you shift your attention to World War II and D-Day. Why do you find that such a relevant story of leadership?

I've always been interested in lessons on leadership. I didn't go to business school; I didn't study any of this. So I was always trying to learn from the world around me, from things I saw and things I read. And I was struck, when I read Stephen Ambrose's book *D-Day*, by the unbelievable organization and discipline that had to go into bringing hundreds of thousands of men and women together in this secret operation, and somehow the other side never learned where we were going to land. When it comes to Dwight Eisenhower's role as a leader, the relationship he had with his men was special—they obviously trusted him and respected him, even though he was not a charismatic or flamboyant figure. And then, when he gave the order for the troops to go, his job was basically done. That was what made it so interesting to me: that it wasn't the supreme Allied commander who was on the beaches—it was all of these other leaders at different levels of the organized troops, who had been trained in their mission, who understood their mission, who were prepared to make decisions and deal with the exigencies that surrounded them.

I thought that was a great lesson for

business, because anytime you have a large organization with people distributed all over the country, and those people are dealing with new situations—like when you're trying to put 90 million people a year on airplanes—you're going to have all kinds of situations come up, and people have to be out there prepared to make decisions. You've got to give them the tools, training, education; they have to understand what the mission is they're trying to accomplish and how they can best go about that. And you have to empower them to do that. It's not just a code word that management gurus use—you really have to be prepared to trust people to make decisions.

Southwest has always had decentralized leadership; you note that, "Leaders are actually everywhere ... just not always in the most obvious places." What do you think about today's "leadership crisis"?

We continue to see isolated, atypical examples of abuses of power in the corporate world, and it causes people to distrust leadership. I think the real answer is that we're all leaders in some way, and real leadership in any organization has to be distributed throughout the organization; it can't just come from the top. The CEO sets the tone; he helps define the culture of the organization along with its mission and business strategy. But any great leader would tell you that the ultimate success of the organization depends on the performance of a lot of other great leaders throughout the organization. That's really the message of *Do the Right Thing*—that leaders and leadership are everywhere, and people in a great organization are the secret sauce that makes it special.

You advocate opening up the org chart, eliminating rigid boxes and bureaucracy. But doesn't an airline—even more so than most businesses—require specialized workers tightly synchronized? Is there room to do things differently?

At Southwest, contrary to people's

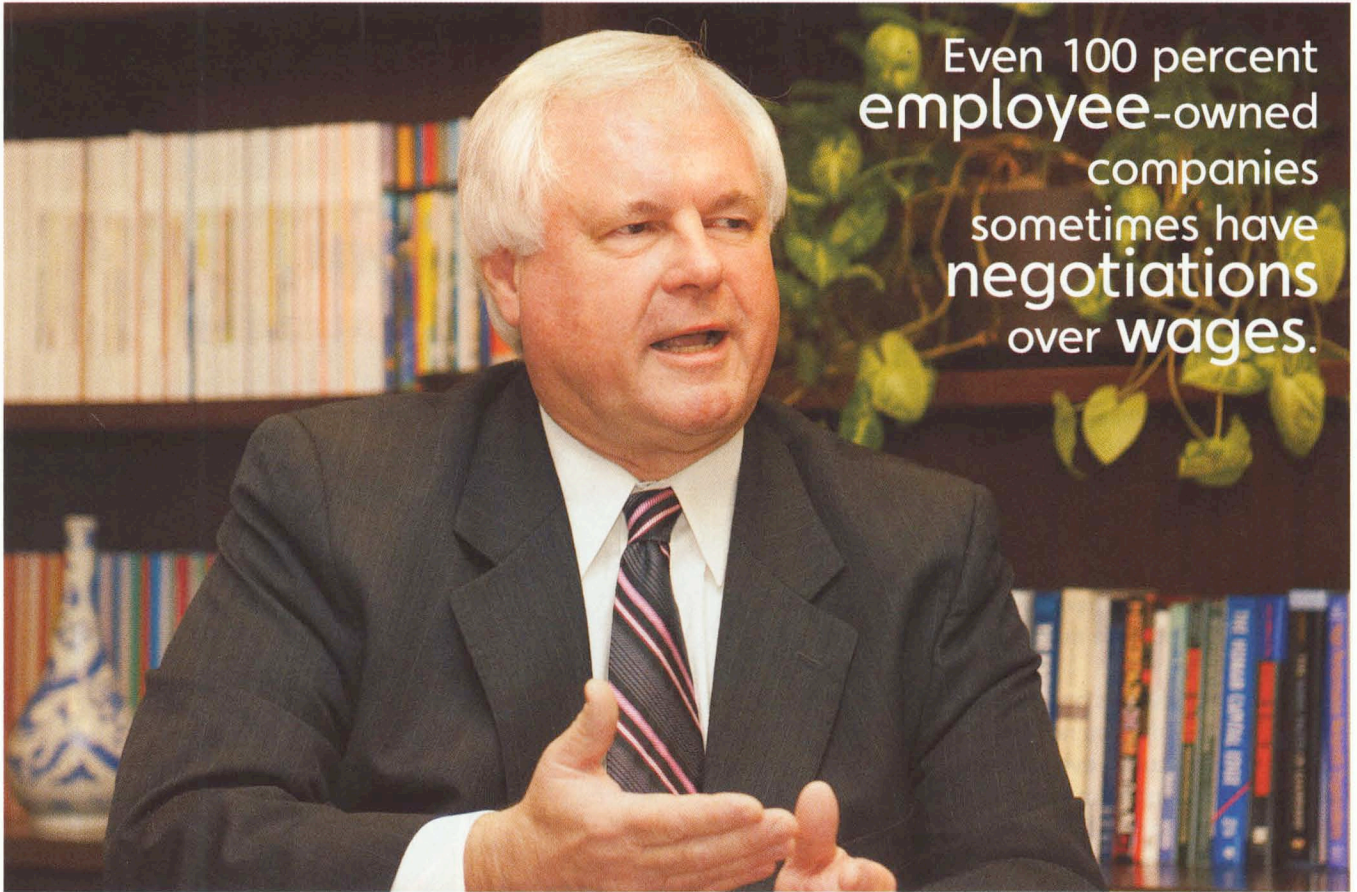


perceptions, we really didn't cross-utilize people. People were trained in a specific job. Reservation agents did their job; customer-service agents did their job; ramp agents did their job. The point I'm trying to make is not that people should be doing other people's jobs but that they need to *understand* all of those other jobs; they need to understand how their job fits into the overall performance of the mission, and how the other jobs do as well. There are fringes of these specialized jobs that affect other people's jobs, and it's a coordinated performance of all these duties that brings about efficient operation.

How do you encourage entrepreneurial thinking when you're a) operating

on a shoestring and b) have a tight checklist of things that *must* get done?

You have to encourage people to come forward with their ideas and thoughts, and you have to respect the ideas you receive. The reality is that most of the ideas you get from people are not going to be ideas that you adopt—either the idea has been thought of and rejected, or it's been tried before, or it just wouldn't work. We had a couple of ideas presented to us probably a thousand times: Why don't we sell advertising on our tray tops, like US Air does, or put advertising in the bathroom? And we just didn't feel like it was consistent with the image we wanted to convey or the service we wanted to provide our customers. But every once in a



Even 100 percent
employee-owned
companies
sometimes have
negotiations
over wages.

while, you get a jewel, and it's those jewels that can make a difference.

Speaking of employee engagement, how important is Southwest's profit-sharing plan to creating a sense of ownership?

The main thing is that Southwest has gone beyond making employees actual owners—owning shares of stock—and giving them a *feeling* of ownership. In the book, I use the example of another airline that gave ownership to its employees, but they never really felt like owners. It's that feeling that creates the enthusiasm and the sense of relationship between employees and the company.

United Airlines—the “another airline” you mention—is the most obvious example of employee ownership. What went wrong there?

It was an attempt by the company to quell the conflict that had historically existed between management and labor. But it didn't work very well, because, again, the employees never felt like owners. For example, they didn't really con-

trol the disposition of their stock—it was put in a trust, so if the stock price went up, the only way they could benefit was to leave the company. And throughout the company, there was this command-and-control structure, so you had front-line and even top managers who couldn't adjust to their new employee owners. There was a sense of resentment. On the other hand, the employees thought, “We're owners—we ought to be running the show now,” and there was no recognition of the fact that in successful employee-owned companies—even those that are 100 percent employee-owned—there's a role for management to play. Even 100 percent employee-owned companies sometimes have negotiations over wages, for example. At United, neither side recognized the role that the other needed to play. Consequently, there was never any real shared vision or commitment, or any sense of ownership on the part of the employees: “This is my airline.” The pilots continued to think like pilots; the flight attendants were never involved; mechanics continued to think like mechanics. And

there were rivalries within the ownership group that were very parochial.

Did you know what was going on behind the scenes at your competitors?

You pick it up anecdotally. I was going into Baltimore, a Southwest flight, and the fellow sitting across from me in the lounge was a retired United pilot—

Flying Southwest?

Flying Southwest. And we had a nice chat, and I finally said, “I've gotta ask you—you have to make three stops to get to Baltimore. Why aren't you flying United, where you can go nonstop?” And he said, “I'll tell you the truth: I get treated better by your people than I do at my own airline.” We had any number of letters after 9/11 from employees of other airlines—flight attendants, pilots, people who had been stranded all over the country—who told us how our employees went out of their way to help them get home, more so even than the people at their own airlines. So you pick up little pieces of information. It's kind of a small world.

As you note, everyone has studied Southwest to figure out what it does differently and better. Why do so few other companies resemble it?

I don't think they really believe what they see. Everything is out in the open: that we fly one aircraft type, that we turn planes around quickly, and all those other things. We talked openly about what we considered to be the secret ingredient—our employees—and other people either don't believe that or they can't reproduce it. A few years ago, I met a guy in a bar who was working for somebody who was trying to start a new airline. After a couple of drinks, this fellow told me that they'd been all over Southwest's system—they'd talked to our people, studied our operations—and he said, "Your people understand your mission better than any company I have ever seen." He got that. But by and large, people who are trained at measuring things only believe in things they can measure, and you can't count the spirit or the culture or the soul of a company.

Of course, Southwest is seen as such a desirable place to work—you say it gets 100,000 résumés a year—that it can afford to be incredibly selective. You can't expect other companies to develop the same kind of workforce.

No doubt we were careful in who we selected, but we interviewed a lot of people who would have been great hires whom we just didn't have space for. There are good people working at companies all through America.

They're just not working the US Air counter at the Philadelphia airport, at least in my experience.

Well, people tend to be creatures of their culture. And if they come into a culture where virtuous behavior is expected and practiced by others, that's what they will naturally fall into. If they come into a culture where sloth or dishonesty is the practice, that's what they'll think are the virtues in that culture, and that's the behavior they will

adopt. So I think your Philadelphia counter experience may have a lot to do with culture as well as the predispositions of the people working there.

Do you see any companies out there that are getting it right? Besides Texas Roadhouse, the chain restaurant and the one company of which you're a board member.

Texas Roadhouse is a great example. But there are businesses all over America that understand the principle of treating people with respect and giving them the opportunity to be all that they can be. I wish more people had the opportunity to work in that environment—as opposed to being behind the ticket counter at Philadelphia.

I shouldn't have singled out US Air.

It's a great example. It's a *notorious* example.

When Southwest came to Philadelphia in 2004, it had a real impact on pricing: US Air was forced to lower fares immediately. But I've always thought of Southwest first for its humor—such as for the famous hold message: "Press 1 if you're in a hurry. It won't do anything, but it may make you feel better." Why do you think no other domestic airline is any, well, fun?

Have you been on another airline where they've tried?

I don't recall smiling once on my last Continental flight.

I've flown other airlines where the flight crews tried, and they just can't pull it off. It's not in their DNA. Of course, when our flight attendants give a lighthearted safety announcement—

The one about the disco lights?

—we're not showing any disrespect for the importance of the safety function; the FAA, in fact, loves it, because it helps people pay attention. But we try to hire people who want to have fun, and the culture lends itself to having fun and enjoying your work.

A lot of what you say about Southwest's success, and about customer service in general, has to do with attitude and doing the right thing. But is it that straightforward? Isn't "the right thing" different for customers and employees and shareholders?

I don't think it has to be overly complicated. Take the potential conflict between shareholders and employees. We were often asked, "Who do you respond to first? Where do you think your first duty is: shareholders, customers, or employees?" We would always say that our first duty is to our employees, because the way you treat your employees is going to determine the way they treat customers. And if you have happy employees who are making customers happy, then usually the shareholders are going to be happy. You're looking to build a sustainable competitive advantage, not just to make a profit in one quarter, and in the customer-service business, it is the employees who build long-term shareholder value.

It seems unusual to explicitly make employees your top priority. I would think customers would be the stock answer.

Or shareholders.

Would a company actually say shareholders?

I've read a number of CEOs who have said exactly that—that shareholders are where their first duty lies. That doesn't enhance the feeling that people are really important to the organization, that the jobs they do are important to the performance of the overall mission.

Now, you end *Do the Right Thing* without discussing—or even mentioning—your surprise resignation from Southwest in 2004. Was it a quick or easy decision for you to make?

At that point, I'd been in the airline business—as outside counsel, general counsel, and CEO—for twenty-five years, and I felt like I had done my tour of duty during three very stressful years as CEO. I was just exhausted and

needed a break. I felt like the best service I could do for the company at that point was to step aside and let somebody else have a turn at that.

You had just concluded a difficult round of talks with the flight attendants' union. Was that a factor?

It was exhausting and draining, I'll say that. I was personally involved in negotiating contracts with all our workers, and contract negotiations are always intense. People think that because we have this great culture at Southwest, we must just walk into the room and say, "What do you want? Here it is!" It doesn't work that way. Negotiations were usually respectful and cordial but always took a lot of focus, a lot of effort.

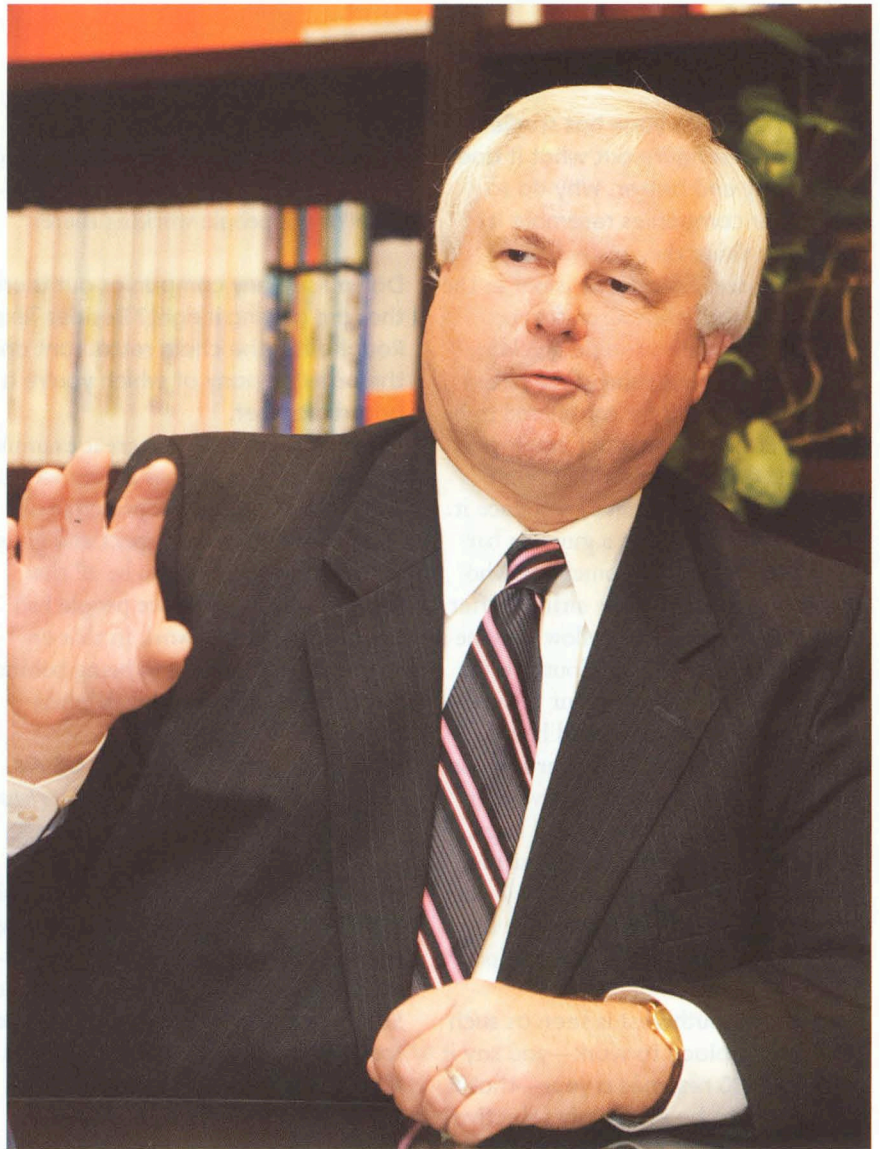
So we had new contracts with every group on the property, and the company was in the best shape of any airline in the world—we had the strongest cash position, the lowest cost structure, the best people. I could never leave the company in a better position than I did. It was a good time to move on.

You've kept a remarkably low profile since you handed the reins to Gary Kelly. Has that been intentional?

Well, again, I was never as flamboyant or colorful as Herb Kelleher, so it was pretty easy. I really was exhausted when I left; I was ready for a break. And I didn't want to be a person who reporters would call for a comment on everything Southwest did; that wouldn't be fair or right. I just tell reporters I don't have anything to say about the new Love Field battle or anything else.

How was the transition from CEO to private citizen?

It was pretty easy; it has been great to have the ability to make choices about what you want to do and to do things you haven't had the time to do for thirty years, whether it's yard work or spending time with the family. I fired the people who were poisoning our lawn and took over the fertilization



job myself, and my grass is much greener. And laundry is my new passion. There are very few occasions in the business world where you can have an immediate impact on results, and with laundry you can take something as clear-cut as dirty clothes and, in the course of about an hour and a half, turn them into clean clothes. I'm not the only one: I was at a cocktail party one time, and I started talking with a guy who was also a former CEO, and pretty soon we were talking about the intricacies of Woolite for dark clothes.

I wrote the book, and every once in a while people are silly enough to ask me to give a speech. I work with Texas Roadhouse. And I still speak with Southwest people—I go to a lot of retirement parties and, unfortunately,

funerals. A couple of weeks ago, the Southwest Airlines Retired Pilots inducted me as an honorary retired pilot.

Does that mean they let you fly the planes?

No, they're all over age 60, so they don't get to fly either anymore.

If you had stayed as general counsel—had never made the move to CEO—do you think you would still be at the airline today?

I don't know. It would have still been a very exhausting time. I told Gary Kelly the other day that the airline industry is a great business to read about, but I don't miss being in it. My ego doesn't demand it; my drive doesn't demand it. I'm ready to do other things. ☺