



## Southwest Airlines: What Happens When the Union Calls for Succession

“I'm not going anywhere and neither is Mike [Van de Ven, COO]. We have important work to do, and important issues to address, and we are not distracted by these games.”

— Gary Kelly, Chairman and CEO of Southwest Airlines

Southwest Airlines (Southwest) is America's fourth largest airline, and the leader in market share at Milwaukee's Mitchel International Airport (MKE).<sup>1</sup> The airline singlehandedly facilitates 50% of MKE's passenger traffic,<sup>1</sup> but in July of 2016 Southwest experienced a system failure that shut down operations for over 12 hours. This led to one of the largest “no confidence” votes in the history of the airline's leadership,<sup>1</sup> and demonstrated that unions do indeed have some power in calling for succession.



## → THE PROBLEM

In July of 2016 Southwest Airlines experienced a 12-hour system failure that cost the airline an estimated \$5-10 million in flight cancellations and refunds. The airline attributed their outage to a router failure resulting in cascading IT issues. However, multiple system experts have called this explanation into question: Lev Lesokhin, Executive Vice President of Cast, a software-analysis company, said Southwest's explanation of why their system shut down "doesn't add up."<sup>1</sup> Doron Pinhas, Chief Technology Officer of Continuity Software Inc. said "[Southwest] can't blame the router. The router triggered a chain reaction that should not have happened."<sup>1</sup> The general consensus among IT experts is that there may have been a shortfall in the design and testing of Southwest's new systems. The president of the pilots' union, Jon Weaks, confirmed this suspicion, pointing out that the company focused too much on Wall Street performance, controlling costs, and buying back its own shares rather than updating "critically outdated IT infrastructure and flight operations."<sup>1</sup> Executive Vice President of Corporate Services, Robert Jordan, said it was the worst outage in his 28 years at Southwest. Not only were bookings lost while the website was down, Southwest Airlines saw unusually high cancellations and delays for several days following system recovery (12% of the airlines' schedule were cancelled over the following five days; total cancellations were estimated at over 8,000 flights).<sup>1</sup>

After this disruption, the three unions representing pilots, flight attendants, and mechanics issued a "no confidence" vote calling for Southwest Airline's Chairman and CEO, Gary Kelly, and COO, Mike Van de Ven, to be removed.<sup>1</sup> Altogether, no confidence votes came from 38,000 employees, which was 77.5% of the entire workforce at the time.<sup>2</sup> A few weeks later, the transport workers' union also approved a resolution calling for Kelly and Van de Ven's replacement.<sup>3</sup> At this point, all of Southwest Airlines' employee unions were involved. How did the leaders of one of America's largest airlines find themselves facing unanimous votes for removal? More importantly, how did they regain their employees' confidence and maintain the market share Southwest holds today? The answer lies in the relative, albeit limited, power of private unions.

## → HOW THEY GOT THERE

While the union's no confidence votes may have directly followed the outage, tensions with Southwest's corporate leadership team had been mounting for some time. According to Louie Key, leader of the mechanics' union, the outage was just the "final straw" atop longstanding contract negotiations. Because it was a publicized event, the outage became a rallying point for the unions to bring other issues to the table. Southwest Airlines' management, strategic priorities, and compensation had long been debated, and the system failure of July 2016 opened the door for unions to voice their arguments and revisit the negotiation process. Randy Babbit, Senior Vice President of Southwest's labor relations, explained their strategy saying, "[The union's] maneuvering is not about our leaders. It's not about 'IT infrastructure'. This is about [their] approach to contract discussions and [their] attempt to gain leverage in negotiations."<sup>1</sup>

## THREE DIFFERENCES BETWEEN PUBLIC AND PRIVATE UNIONS<sup>6</sup>

1. Public unions are regulated by state and law, whereas private unions in the US are regulated by the Wagner Act, which sets statutes for collective bargaining between unions and employers
2. Public unions bargain with state and local legislature (i.e., wages, employment terms), whereas private unions bargain directly with the employer
3. Historically, public union membership was lower than private union membership, at least in the US (private membership peaked in the 1940s, around 35%, while public membership stayed below 10%); today however, those numbers have reversed, with US Bureau of Labor Statistics places public union membership at around 34% in 2016, while private unions encompass only 6.4% of private sector workers



## → HOW THEY MOVED ON

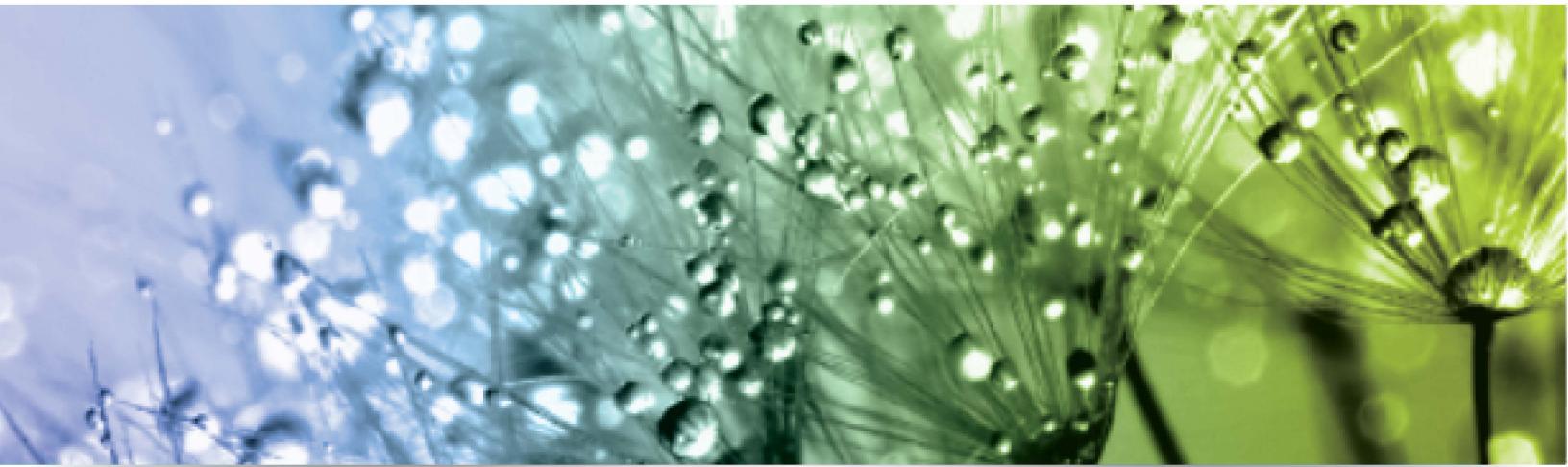
Despite pressure from the unions, Southwest decided to retain Kelly and Van de Ven in their leadership roles. In a video blog, Chairman and CEO, Gary Kelly replied to calls for his removal, saying, "I'm not going anywhere and neither is Mike. We have important work to do, and important issues to address, and we are not distracted by these games."<sup>2</sup> Kelly described the union vote as a personal attack on himself, Mike Van de Ven, the airline's culture and its company: "[The union's] actions are part of a labor negotiations playbook, and the blaming, name-calling and the finger pointing behavior — while predictable — are not the way we do things at Southwest Airlines. Worse, many of the allegations are simply uninformed or intentionally false. Labor negotiations should not be rationalized as a license for bad behavior."<sup>2</sup> A spokesman for Southwest Airlines also issued a formal statement on behalf of the company saying, "It's not uncommon for unions to band together in support of each other during difficult contract negotiations. However, these actions will not help us obtain what we hope is a mutual goal — namely, reach new agreements. We have been working to negotiate market contracts and look forward to continuing our discussions with union representatives. But those talks must take place at the negotiating table."<sup>2</sup>

Despite their strong stance in public relations, Southwest did validate and act on the union's concerns. Kelly recognized that the airline was running on an aging infrastructure and reassured the public that Southwest had begun "significant investments" to upgrade it. Following the outage, the airline also publicly stated that they expected to replace their reservations system within the next year, as well as other key systems over the next three to five years.<sup>4</sup> In this way, Southwest's management recognized the validity of the unions' concerns, and although they did not attribute it to their personal leadership, they understood that there was a need for improvement in the organization's key processes. In this way, the airline was able to focus on the underlying issues driving dissatisfaction among unions, while at the same time preventing significant turnover at the top. This demonstrates how companies can balance the needs of employees and employee bodies (unions, committees, etc.) alongside the demands of a business.

At the end of the day, companies are built upon the efforts of their people. Therefore, unions and corporate leaders may have different methods, but they work toward shared goals. Unions promote fairness in compensation, work environments, and development opportunities. Employers look to optimize operations and develop leaders for tomorrow. Both parties benefit from creating talent pipelines by identifying, selecting, and developing their leaders. This will not only help employers to ensure business continuity; it also allows them to work with unions for the collective good of the business and its people. Southwest Airlines gave an exemplary model of what this type of collaboration looks like, and how it can lead to significant organizational success.

## CANADIAN VS. AMERICAN UNIONS<sup>7</sup>

Canada's unionization rates are nearly twice as high as the US (31.8% vs. 13.8%), however the breakdown between public and private union membership is comparable. In Canada, some provinces automatically certify new unions, whereas others require a mandatory vote to become legalized. As is to be expected, unionization rates of provinces with automatic certification is slightly above that of provinces requiring mandatory voting (34.7% vs. 30.5%). Perhaps one of the greatest differences between unionization in Canada and the US is that the US does not allow mandatory union membership as a condition of employment. Canada, on the other hand, has certain industries or positions (e.g., public school teacher) that require workers to join the affiliated union.



## → LOOKING BACK

Today at Southwest, Gary Kelly remains CEO and Chairman of the board, although he did relinquish the title of President in January 2017. The airline has reported 47 consecutive years of profitability – a record unmatched in the commercial aviation industry – and Kelly takes special pride in the fact that Southwest Airlines has never had a single layoff in over 50 years of operations. The company has also been named one of Glassdoor's Best Places to work for the past 11 years. During his time at Southwest, Kelly himself pioneered major projects, including the acquisition of AirTran Airways, the repeal of the Wright Amendment, the launch of international destinations, and the installment of a new reservation system. This new reservation system replaced the one that caused the outage in 2016, and since then Southwest Airlines has ranked as the highest Low-Cost Carrier for Customer Satisfaction in the J.D. Power North American Satisfaction Study for four years in a row.<sup>5</sup> These improvements demonstrate the value of working with, rather than against unions, and highlight the long-term benefits such relations hold for employee wellbeing, operational success, and customer satisfaction.

## → KEY TAKEAWAYS

- 1. UNIONS HAVE (LIMITED) POWER** Unions are able to influence employers' decisions via votes, strikes, and public relations. This gives them a significant, though not unbounded power. At the end of the day, leaders are responsible for the management of the company, while unions advocate on behalf of employees. This gives unions limited power to directly influence the operations or strategic directions of a business, however, they are valuable partners when it comes to aligning employers and employees. For this reason, corporate leaders ought to work with rather than against unions for the collective good of the business and its people.
- 2. ACKNOWLEDGE VALID CONCERNS** After the unions voiced their concerns, Kelly recognized that the airline was running on an aging infrastructure and committed to replacing not only the reservations system, but other key systems in the following years. This not only appeased unions, it improved Southwest Airline's ability to operate as a business.
- 3. WORK TOGETHER** Unions and employers sometimes stand at odds, but when both make an effort to work together they can accomplish common goals. Most employers care deeply about the quality of work and sense of satisfaction this provides their employees. Similarly, most employees care deeply about the success of the business. Although Southwest Airlines did not concede to union's requests for Kelly and Van de Ven to step down, they did act on valid concerns about investments in company infrastructure and subsequent management of the business. As a result, both parties were somewhat reconciled, and in the subsequent years Southwest was recognized with multiple awards for customer satisfaction, best places for employees to work, and unmatched operational success.

## → HOW SIGMA CAN HELP

Unions and employers have a shared interest in maximizing people potential. Identifying, selecting, and developing strong leaders not only benefits a business, it also aligns leaders with their employees and associated unions. SIGMA can help you work with your people to this end. We can help you build a leadership pipeline that will not only satisfy executive boards and other stakeholders, but also build an internal talent pool and strong relations with employees and their unions. Check out our Lunch and Learns, which focus on developing critical leadership competencies, or take a look at our individual and group coaching services. If you're interested in learning how we can help build your company meet its goals, check out our website for more information or contact us today. We would be more than happy to speak with you!



## UNIONS AND SUCCESSION PLANNING<sup>8</sup>

While unions can put pressure on management, they cannot directly force succession. However, certain laws can be put in place to guide succession when it happens. These laws fall around the principle of seniority. Seniority refers to the length of time a person has been a member of a union, working in a union job. Seniority systems give special benefits to long-tenured members and foster job loyalty, as leaving may nullify a status that takes years to establish. Seniority benefits include pay (i.e., base pay plus a seniority-determined bonus), benefits (i.e., vacation time), and job responsibilities. Seniority may also affect promotions, as some unions require senior workers to be promoted to desirable positions first, regardless of their performance relative to those with less seniority. Ultimately, each union will operate under slightly different policies, and the type of union and nature of that union may result in very different approaches to succession planning. The key is for employers to understand the rules and regulations their unions have in place, then act within that context and in partnership with their employees to build better leaders for tomorrow.

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