

Laura DIACONU (MAXIM)

Andrei MAXIM

Faculty of Economics and Business Administration,
“Alexandru Ioan Cuza” University of Iasi, Romania

THE IMPORTANCE OF ORGANIZATIONAL CULTURE FOR THE SUCCESS OF USA LOW-COST AIRLINES

Case study

Keywords

Organizational culture
Low-cost airlines
Attention to clients
Attention to employees
Code of Best Practices

JEL Classification

M14

Abstract

The aim of the present paper is to investigate the role played by the organizational culture to the success of the USA low-cost airlines, taking as example two major operators: Southwest Airlines and JetBlue. This exploratory research was conducted using two methods. An analysis of the secondary data offered by the specialized literature was followed by primary data collection, through structured interviews with the representatives of Southwest Airlines and JetBlue. The results show that the success of the two low-cost airlines was based not only on their cutting costs strategies, but also on the organizational culture they have promoted during time. This organizational culture is based on closed relationships between the employees, clients and suppliers, among which the communication is simplified and transparent. These particularities of the two operators have made huge differences between them and other low-cost airlines in terms of resilience to the economic downturns, increased number of transported passengers, of revenues and profits.

1. Introduction

The "revolution" generated by the low-cost airlines started in United States, the concept being developed by Pacific Southwest company, but implemented for the first time by Southwest Airlines, in 1971. Subsequently, the low-cost airline industry has gradually developed, these companies having, in 2003, approximately 25% of the U.S. domestic market, considering the number of transported passengers. Although the remaining 75% was held by traditional companies, various studies show that three quarters of the passengers transported by these operators were not satisfied with the price-quality ratio (Francis et al., 2006; Morrell, 2005).

As the number of low-cost airlines has increased dramatically during the last decade, the price is no longer a dominating element of differentiation. In order to survive on the market, many of these operators have tried to find other ways to distinguish themselves from their competitors. Thus, the largest U.S. operators, who have already announced the intentions of expanding their networks by providing new services for the business market segment, pay special attention to the organizational culture based on strong relations both between managers and employees and between employees and customers (Sarker and Pillai, 2012). For this reason, companies have developed and published Codes of Best Practices, with strict supervision of implementation.

The specialized literature offers many definitions of the organizational culture concept, most of them referring to a complex set of values, beliefs, assumptions and symbols that define the way in which a firm conducts its businesses (Alvesson, 2012; McFarlin and Sweeney, 2012). In this sense, culture plays a great role inside a firm because it defines how the company will interact with its key actors: the employees, customers, suppliers and competitors.

In the attempts to explain the superior financial performances of the firms, many analysts have focused on the managerial values and beliefs included in the companies' organizational cultures (Schein, 2010; Kotter and Heskett, 2011). The ideas underlined in these studies suggest that firms with superior financial performances also have a set of managerial values that define the way they conduct businesses, indirectly contributing to a better understanding of the firm and to improved results.

Another study conducted by Watson Wyatt Worldwide on 51 "Fortune 750" companies revealed that over 47% of their market value increase was due to their organizational culture. The human resources value system was the most important component.

It was considered that the culture of a company can provide a competitive advantage that could bring

superior financial performances only if there are fulfilled three conditions (Barney, 1986). First of all, the culture has to be valuable: it should enable the firm to behave in ways that add financial value to the company, which lead to higher sales, lower costs and higher margins. Secondly, the culture must be rare, in the sense in which it should have attributes and characteristics different from other firms. Thirdly, a culture must be imperfectly imitable, meaning that firms should not try to imitate other companies' cultures; they have to "build" their own set of values and beliefs.

A number of studies conducted on U.S. airlines' customers revealed that Americans were most attracted by those low-cost companies that offered services with relatively high quality standards and with very reasonable prices (Gimenez, 2013). Thus, operators such as Southwest and JetBlue have become not only pillars of U.S. air transport but also models of the best implemented practices, worthy to be followed by other traditional companies (Cento, 2009).

2. Research Objective and Methodology

The aim of the paper is to identify the role played by the organizational culture in the success of the two major American low-cost airlines - Southwest and JetBlue, by analyzing the values shared and implemented by these firms. The two companies were selected based on their expertise and on their economic and financial performances obtained over time as low-cost companies. Moreover, as mentioned before, Southwest Airlines was the first operator that has implemented the low-cost carrier model.

This research is exploratory in nature and two methods were used in order to achieve the established objective.

The first step was to collect and analyze secondary data in order to obtain information regarding the history of the two airlines as well as statistics related to the evolution of their customers' satisfaction. Data sources included various international air transport journals, Official Airline Guide (OAG) databases, and operators' publications.

The second step was to conduct two structured interviews with representatives of Southwest Airlines and JetBlue. These interviews were based on a questionnaire that delivered by email to the Customer Service Departments of the two companies. The goal was to find out more about the practices of these organizations regarding the relationships developed inside and outside the company, procedures applied in case of delayed departures, flight cancellations or overbookings, procedures to ensure passengers' safety, and also information referring to pricing and luggage checking procedures. Answers were received for most of the questions, except those which were

considered confidential. The information obtained was processed, analyzed and interpreted, the results being summarized in the next two parts of the paper.

3. Particular aspects of Southwest Airlines

In 1971 Southwest Airlines entered the air transport market as a small low-cost operator and is now one of the largest carriers in the United States. In order to transport about 104 million passengers per year to 64 worldwide destinations, the company makes over 3,400 flights each day (OAG, 2011). Currently, Southwest has the largest market capitalization of all operators in the world, surpassing even the six traditional airlines from U.S. considered together. As the Executive Director of Ryanair (the largest low-cost airline in Europe) said, Southwest "is Thomas Edison of the low fare airlines" (Calder, 2003).

The success of Southwest Airlines is mainly due to increased demand for the service it provides: safe air transport at low tariffs. This became particularly important in the context of the economic downturn of the early 1990s as the price sensitivity of U.S. consumers increased (Gittel, 2003).

The Southwest's representative that completed our interview mentioned organizational culture as one of the key factors in pursuing and achieving the business objectives of the company. He also considered that, compared to other major U.S. airlines, the values system of Southwest's culture is more focused on creating and maintaining strong internal and external relationships, between managers, employees, unions, customers, suppliers and other stakeholders. These relationships are characterized by mutual respect and allow sharing the company's objectives and knowledge and carrying out better customer service.

Over the time, Southwest has developed and implemented 10 organizational practices to facilitate coordination between the different types of activities within the firm. These practices are: managing the organization with responsibility and accountability; strengthening leadership quality of the front line employees; employment made on competence criterion; use of conflicts to create relationships; connecting family and work; opening towards new opportunities; periodical evaluation of overall performances; job flexibility; transforming unions into partners; creating relationships with suppliers (Gittel, 2003).

Southwest's success also lies in the high degree of coordination especially among first line employees, which have direct contact with the customers. Better coordination of activities within a company is a competitive advantage as it gives the opportunity to obtain high quality customer service with lower costs, to have shorter production cycles and a consistent interface with customers. Such organizations may change the nature of competition

within an industry as they do not compromise quality over efficiency, but manage to improve the efficiency-quality relationship (Hammond, 1992). In the case of Southwest, coordination is a source of competitive advantage because it enables offering in-time cheap services. Thus, having a short time between landing and departure of an aircraft would not be possible without the existence of a very close coordination between the activities of 12 different categories of employees.

An important instrument for the implementation of the company's values system is the Code of Best Practices, completed in 1990. It covers issues related to the passengers' safety, to the procedures applied in case of a delayed departure, a flight cancellation or an overbooking, and also provides information related to pricing and luggage checking procedures.

Southwest company is recognized for the efforts to strictly respect the established schedules and it is considered one of the most punctual airlines not only in the U.S. but also among all the low-cost carriers in the world (Diaconu, 2009). However, in case of unforeseen circumstances in which the company must cancel a flight, it undertakes the responsibility to transfer these passengers on the next flight with free seats, to that destination. If, however, there are no vacancies on any of the company's flights to the destination concerned or the canceled flight was the last one on that day, then the Customer Service Department employees are required to deal with the overnight accommodation of the passengers, without additional costs. This makes a significant difference between Southwest and the great majority of the low-cost operators, which do not take such responsibilities for similar circumstances. The overbooking situation - when a ticket is sold twice - is generated by the precautions taken by the low-cost carriers in order to avoid cases where different passengers do not cancel their reserved tickets although they no longer intend to use them. In general, a company apply this method considering the previous demand registered for a similar flight, to ensure full occupancy of the aircraft and, thus, to practice low rates. In the rare situation of overbooking, when a client of Southwest remains without seat, the company offers a voucher of 100 USD to that person who voluntarily offers to board the next flight from the same day, to the same destination. Previous experience has shown that the voucher's incentive is enough to empty the necessary places. It should also be noted that this compensation method implemented by Southwest is rare in the case of low-cost operators, which, often, do not take any measure to solve the problem of overbooking.

All these aspects mentioned above underline the importance of the organizational culture of Southwest Airlines, which helps the company

better manage all the unforeseen problems that may occur and might negatively influence its image, reputation and revenues.

The customer satisfaction surveys conducted by the company reflects the fact that, during the past few years, Southwest ranked as one of the top operators that respond to the clients' expectations in terms of quality. Its main competitor is JetBlue. These statistics explain why from the beginning until now, Southwest Airlines recorded an increase in the annual turnover of 10-15% and in 2012 the company registered the 40th consecutive year of profitability, a record for the airline industry (IATA, 2013).

4. Overview of JetBlue particularities

JetBlue, founded in 1999 by David Neeleman, is one of the largest U.S. airlines, with flights to more than 65 destinations. The company is one of the few operators in the United States that has made profits during the two main downturns from the beginning of the XXIst century: after the September 11 2001 attacks and in the context of the nowadays crisis. In 2011, the operator has reported a net income of 86 million dollars, registering a profit for the third consecutive year.

As it resulted from our interview, one of the key success factors that helped JetBlue being resilient during time is the organizational culture which is based on a set of values meant to promote not only low tariffs but also high quality services. This is reflected by various elements such as the lean check-in process, the possibility to watch, free of charge, over 24 TV channels during flight, the comfortable seats, upholstered in leather or the that most of the aircrafts are new and modern. These aspects allow us to say that JetBlue has revolutionized the classical model of low-cost companies, which was mainly driven by price. Thus, consumers choose the JetBlue's services not only because they are cheap, but because they are better than those of other companies.

It can be considered that the model promoted by JetBlue is a consequence of the increased global competition, determined by two factors: the emergence of a growing number of low-cost airlines and the tendency of several traditional operators to reduce the tariffs for certain destinations. However, while the latter ones promote lower rates, eliminating some of the services they previously offered and thereby sacrificing the quality, JetBlue, like some other low-cost airlines, competes not only on price but also on value (Taneja, 2005).

Aiming at ensuring greater safety, JetBlue opened in 2005 new centers for aircrafts' repair and maintenance, implemented new training programs for employees and created a service center near Orlando International Airport.

JetBlue also focuses on establishing relationships with various stakeholders. The company entered into an agreement with American Express to launch cobranded credit cards. The scope was to facilitate consumers' access to the air services and to create a database that could be used for promotional purposes.

JetBlue's Code of Good Practices helps implement the company's value system and it is focused on the obligations assumed by the company towards its customers. Similarly to Southwest's case, the Code includes information about passengers' rights under the circumstances in which a flight is canceled or delayed, in an overbooking situation, as well as data related to the terms and conditions for the withdrawal or change of a bought ticket. The latter aspect is a novelty for the low-cost airlines, since the vast majority of operators do not allow changing or waiving the purchased ticket.

Another aspect which differentiates the company from other low-cost operators, as mentioned by the JetBlue's respondent in our interview, is related to the rights of the passengers when the company's flight is canceled or delayed. Besides informing the customers about the situation, the company obliges to compensate this shortcoming through a voucher, through the possibility of offering the money for the purchased ticket or providing the transport of the passenger, as soon as possible, to that destination with another aircraft. Thus, in case of cancellation of a flight, the company gives passengers the possibility to choose between full monetary compensation and transport to the target destination with the following aircraft where there are available seats. In addition, if this cancellation occurs with less than 4 hours before the scheduled departure time, than JetBlue gives passengers, in addition to the above mentioned solutions, a 50 USD voucher that can be used later to purchase another service offered by the company.

Regarding the delays, there are two possible circumstances: delays that are announced before boarding and the situations when the already boarded passengers are informed about the delay. In the first case, in addition to the two alternatives mentioned before, JetBlue undertakes to compensate customers with a voucher whose value varies, depending on the length of the delay, from 25 USD to the full value of a future return trip to any destination. If the already boarded passengers are informed about the delay, the company will give everyone a voucher whose value will be double compared to that mentioned in the previous scenario.

In the rare situation of overbooking, affected passengers receive, in cash, the sum of 1300 USD. Considering all these aspects it is well understood why, in a passenger satisfaction survey, conducted by J.D. Power on 14.000 airlines' customers, in

2012, JetBlue was ranked on the highest position in the top of the low-cost and network operators.

The response of the JetBlue's representative in our interview regarding the particularities in terms of availability and security of the aircrafts, the efficiency in using the resources, as well as of the organizational and financial efficiency are presented in Table 1. The importance of each feature is evaluated on a scale from 1 to 5, where 1 indicates a very low importance and 5 the utmost importance.

As it can be seen in Table 1, the company considered most of the aspects as very important. There are also two characteristics that JetBlue did not appreciate as being crucial in achieving the company's objectives. These aspects consist in reducing the need for external financing - which would lead to a minimization of capital costs and achieving financial freedom - and the possibility of downsizing the number of the employees, with the purpose of minimizing the personnel costs, objective stated as important but not essential.

All these aspects mentioned above allow us to support the claim that JetBlue is significantly different from other low-cost operators, by promoting not only low prices but also comfort and a better quality for the air transport services.

Conclusions

The main conclusion of the present paper is that the success of the two analyzed operators on the airlines' market can be attributed, to a large extent, to other factors in addition to the low tariffs they promote. These key aspects could be found among the elements of the organizational culture of the companies that helped them attract more clients, expand their operations, increase the revenues and, last but not least, survive the global economic downturns.

In the case of Southwest, its organizational culture is different from the others major U.S. airlines from point of view of the attention given to creating and maintaining strong relationships between managers, employees, unions and suppliers. Moreover, the company's Code of Best Practices shows the attention paid to customers, since it is mainly focused on the safety and comfort of the clients.

In the case of JetBlue, a number of elements specific to its organizational culture and behavior, also related to the passengers' comfort and safety, allow us to say that the company has revolutionized the classical model of low-cost airlines, mainly driven by price. Thus, consumers choose the JetBlue's services not only because they are cheap, but because they are better.

Reference list

- [1] Alvesson, M. (2012). *Understanding organizational culture* (2nd edition). Sage Publication.
- [2] Barney, J. B. (1986). Organizational Culture: Can It Be a Source of Sustained Competitive Advantage?. *Academy of Management Review*. 656-665.
- [3] Calder, S. (2003). *No Frills. The Truth behind the Low-Cost Revolution in the Skies*. Virgin Books Ltd.
- [4] Cento, A. (2009) *The Airline Industry: Challenges in the 21st Century*. Physica Publisher.
- [5] Diaconu, L. (2009). *Strategiile low-cost în contextul dinamicii pieței mondiale* [The low-cost strategies in the context of global market dynamics]. Iasi: Al. I. Cuza University Press.
- [6] Francis, G., Humpheys, I., Ison, S., & Aicken, M. (2006). Where next for the low cost airlines? A spatial and temporal comparative study. *Journal of Transport Geography*. 14(2). 83 – 94.
- [7] Gimenez, J. F. V. (2013). *Beyond the Low Cost Business: Rethinking the Business Model*. Palgrave Macmillan.
- [8] Gittell, J.H. (2003). *The Southwest Airlines Way: Using the power of relationships to achieve high performance*. New York: McGraw-Hill.
- [9] Hammond, J. (1992). Coordination as the Basis for Quick Response: A Case for 'Virtual' Integration in Supply Networks. *Harvard Business School Working Paper No. 92-007*. 23-27.
- [10] Heskett, J. (2011). *The Culture Cycle: How to Shape the Unseen Force that Transforms Performance*. FT Press.
- [11] IATA (2013). World Air Transport Statistics. *IATA Reports*. 58.
- [12] Kotter, J. P., & Heskett, J. L. (2011). *Corporate Culture and Performance*. Free Press.
- [13] McFarlin, D., & Sweeney, P. (2012). *International Organizational Behavior: Transcending Borders and Cultures*. Routledge.
- [14] Morrell, P. (2005). Airlines within airlines: An analysis of US network airline responses to Low Cost Carriers. *Journal of Air Transport Management*. 12(4). 303-312.
- [15] OAG (2011). Low-Cost Airlines – Southwest. *Air Guide Online*.
- [16] Pfau, B., & Kay, I. (2002). The Hidden Human Resource: Shareholder Value. *Optimize*, 8.
- [17] Power, J.D. (2012). North America Airline Satisfaction Study. *Working Paper*. Retrieved from <http://www.jdpower.com/consumer-ratings/travel/ratings/909201299/2012-North+America+Airline+Satisfaction+Study/index.htm>.

- [18] Sarker, A. R., & Pillai, V. L. (2012). *Sustainability and Growth of Low Cost Airlines: A Global Perspective*. LAP LAMBERT Academic Publishing.
- [19] Schein, E. H. (2010). *Organizational Culture and Leadership* (4th edition). Jossey-Bass.
- [20] Taneja, N. (2005). To Frill or Not to Frill. *Air Transport World*. 42(10). 34-37.

Table:

Table No. 1 *Values promoted inside JetBlue company*

Requirements	Importance of requirements	Purpose	Final objective	Degree of importance
<i>Availability and reliability of the aircrafts</i>	To avoid delays or flight cancellations	Punctuality in performing services	Ensure medium and long term revenues and avoid additional costs	5
	For flexible operations	Rapid adaptation to changes required by demand	Ensuring profitability and increased revenues	5
<i>Efficient usage of resources</i>	For optimizing the usage of the aircrafts	Obtaining the maximum number of hours/cycles for each aircraft	Minimizing the maintenance costs	5
	For achieving effective inventory	Reducing the inventory time	Minimizing the storage and personnel costs	5
<i>Organizational efficiency</i>	For creating a "smaller" organization	Reducing the number of employees	Minimizing the personnel costs	4
	For flexible human resource planning process	Rapid adaptation to the changes required by demand	Ensuring profitability and increased revenues	5
	For achieving the desired level of competence	Using the same human resources to multiple tasks	Minimizing the personnel costs	5
<i>Financial efficiency</i>	For controlling the risk	Ensuring budgetary security	Reducing the unforeseen spending	5
	For correlating, on long term, the revenues and expenses	Reducing the need for external financing	Minimizing the capital costs and achieving financial freedom	3

Note. These characteristics of JetBlue, systematized in the above table, were offered by the firm in the response to the questionnaire sent by us.

