

# Wheels Up

Herb Kelleher is the co-founder of Southwest Airlines and the most influential figure in its 35-year history. He knows everything there is to know about the company, its unique culture, its intense devotion to customer service, and its deceptively clever business strategies. And he'd be happy to talk about all of that. He'd be happy to talk about it a lot.

BY JOSEPH GUINTO

**H**erb Kelleher is going to tell three stories. They are all going to involve rope. You are going to think he is obsessed with rope. You are going to be tempted to suggest that he has a hang-up with rope. But that would be a silly thing to say. So you will resist.

But this rope that he's going on about, it's important. It's instructive about the life and career of the Wild Turkey-imbibing, chain-smoking chairman of the board at Southwest Airlines.

First rope story first. It's not so much a story as a quick lesson.

Herb had a big lesson early in life. He was born in Haddon Heights, New Jersey, 1931. He was just 10 when the United States entered World War II. Both his brothers went to war. A year later, one was killed in combat. A year after that, his father died suddenly. His sister had moved to New York. So it was just Herb and his mother, Ruth, at home. She taught him something: Individuals matter. One person can make a difference. Sometimes, in small ways, but a difference, still. Small gestures matter. Specifically, pitching in for the war effort by, say, saving tinfoil

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for the armed forces. Or, collecting twine. “The fact that you saved twine didn’t produce anything for you,” Herb says, “but hopefully it produced things for the nation. And that’s what made it worth doing.”

Second rope story.

As noted, Herb grew up in Jersey. His family was middle class. That meant everyone worked. As soon as possible. When he was 12, and legal to work, Herb got his first job. He was branch manager for the *Philadelphia Bulletin*. Primary responsibility: Make sure the paperboys delivered the papers. Once, they did not get delivered. It was August 15, 1945. It was VJ Day. “So I was summoned down to Philadelphia,” Herb says. “I was nervous as heck. And they brought me in there and said, ‘Why didn’t the papers get delivered?’ And I said, ‘Because it was VJ Day.’ And they said, ‘OK.’ That was it.”

After the newspaper job, he spent several summers cutting lawns with a friend. Two dozen a week, usually. Then, throughout his college years, he worked at Campbell Soup doing, well, just about everything. His father, Harry, who had been general manager there, had already passed on. But Herb knew the people, and they let him learn the business. “I had a heck of an informal education there,” Herb says. The lesson plan included time-and-motion studies intended to increase the factory’s efficiency. For instance, he studied which was the fastest way to put chicken into a can of soup. He also studied what to do with all the twine the company’s soup cartons were delivered in.

Whoa! Herb jumps up off the couch to tell the story. He’s in his office, the office of the chairman of the board at Southwest Airlines. It’s smaller and squarer than you’d think the chairman of a \$7.6 billion company would occupy. But that’s fine by Herb. He was never one for the trappings of power. Take the time, back during his two decades as Southwest CEO, when he was called to an emergency meeting of a business partner. He showed up in orange jams and a T-shirt. “Everyone was looking around, wondering who this crazy person was,” Herb says. “They almost called security.” You can understand why. Right now, he’s hopping up and down, waving an ever-present cigarette in the air. He is prancing — literally prancing — in front of his desk. He *loves* this rope story.

“You can just imagine,” Herb says. “Here I am 18 years of age and I’m thinking,

‘Come on, who cares about the twine? Are they nuts? Have they lost it? For crying out loud are these people out of their minds?’

“Well, it turned out that throwing the twine away was a big operation. So they wanted to collect the twine and resell it. They ended up making about \$500,000 a year selling this used twine. That’s when I realized how little things aggregate and become very big things, which is why, in business, you have to pay attention to the little things. They are important.”

Important. Like the tinfoil from during the war. Like the other twine he collected. Or, like the third rope.

“Sometimes it’s the little things that are wrong that aggregate into big problems,” Herb says. “That can start grating on you. I’ve been through untold experiences that I could rattle on for hours about, situations at Southwest Airlines where I’ve intervened because all of a sudden people seem to be very disaffected, and it turns out to be over something fairly easily fixed, like not having enough calculators so everyone can check out simultaneously at the end of the day from their ticket counter.”

Seriously. He could go on for hours about this. He could go on for hours about anything, really. Herb is like that. “Herb can’t say hello in 15 minutes,” says Southwest President Colleen Barrett, who has worked with Herb for four decades. But, about the little things that bug people, he could tell you about light bulbs not being replaced and how people start distrusting the company over such a small thing. He could tell you about mats not being purchased for customer service agents to stand on for eight hours a day. He could go on. And on. But, we’ll leave it at just this one story. “The funniest one ever was over to the docks,” Herb says. “I hopped myself over there in the evening and talked to the dockworkers. For an hour and a half it’s, ‘Southwest Airlines really sucks; it’s a terrible company.’ So, I finally said, ‘Well, tell me what I can do.’

“It boiled down to the fact that they had a rope that they used to wrestle drums, to get shipments off the trucks. Well, they couldn’t find the rope and nobody had replaced it. That’s what they were upset about. They weren’t asking for a new dock or new lifts for the trucks. It was just their rope. So I said to the manager there, ‘Will you just go buy them a rope? Are you crazy?’

“At that point, the oldest dockworker comes up ...” It is important to interrupt, because Herb has leapt to his feet again. He hitches up his pants, more than navel high, stoops over, and starts acting like an elder curmudgeon. “He says, ‘What’s going on here?’ And someone tells him, ‘Well, we’re telling Herb we’re upset because they wouldn’t replace our rope. And the guy says, ‘The rope is over there behind that barrel.’ And it was. Here I’d spent an hour and a half with 20 people who were very disgruntled with Southwest Airlines over a rope, and there it was. If that doesn’t send you a message about the little things being important, nothing will.”

Herb reaches for a new cigarette and lights it. That’s how you know one story is over and another is about to begin.

### Is Herb a Hero? Ask a Customer in Providence.

For Southwest Airlines, a lot of stories are over. Thirty-five years of them. But a lot of stories are just beginning, too. The company is almost unrecognizable today, compared with what it was just after Rollin King first brought the idea of a Texas-only airline to Herb Kelleher in 1967, and even compared with what it was on June 18, 1971, when Captain Emilio Salazar pushed in the throttle on the inaugural flight of Southwest’s first 737-200 aircraft, bound for Houston. Even the colors on most of the planes are different. Canyon Blue is now more prevalent than Desert Gold.

Some things haven’t changed. For one, Herb is still here. He was the attorney back in the beginning. Working on contract. Not getting paid for a lot of his work. Fifty-one months of constant litigation before the first plane took off. Rulings by the Supreme Court of Texas and the U.S. Supreme Court, all involved.

Those early days inform the present. There were a few dozen employees in 1971. But their struggles are part of the corporate personality now, part of what all 32,000 employees of Southwest represent today. The mission, even with tens of thousands more workers, hasn’t changed either. For Herb, for current CEO Gary Kelly, for Colleen Barrett, for all the executives at headquarters, the job is to serve the needs of the employees, who will, in turn, take excellent care of the customers, which will, in turn, provide a good return for shareholders. That’s how it has

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always been at Southwest Airlines, even if few other Fortune 500 companies operate with the same order of priorities.

It's an impressive story. And Herb loves to tell it. What he does not like to do is tell his own story. Seems odd for such a talkative guy, and for one who is so revered. Consider: When CNN turned 25 last year, the network did some anniversary specials. (Good idea, that.) In one, they ranked the top 25 business leaders of the past 25 years. Herb's own business idol, Sam Walton, ranked second, right behind Bill Gates. Herb was on there, too. Seventh place. Two spots ahead of Alan Greenspan. Interesting, given that Herb gives a whole new meaning to "irrational exuberance."

So, is Herb a hero of American business? Do people think of him that way? He's not sure: "I don't know if they do or not. I never have asked them that because I'm afraid I'll get a negative answer." But he does have a quick story on the subject.

"We were on a boat trip on the Snake River up in Jackson Hole," Herb says. "I was walking through the weeds along the riverbank. I'm there with the guys who are handling the boats, and I said to

them, 'Which one is the Kelleher boat?' They weren't paying a whole lot of attention at the time. But all of a sudden, one guy looked up at me and he said, 'You're our hero.' They were business graduate students and had been studying the company.

"It really surprised me. And this was the only time that's ever happened to me, which is why it stands out so much in my memory."

Just once? Seems hard to believe, especially for a man who is sought out by business schools across the country, by a man that *Texas Monthly* named CEO of the Century. But Herb says maybe too much is made about his role. "I think Southwest Airlines, and not Herb Kelleher, should stand as an exemplar of what free enterprise should be all about."

He's careful on this point, too. He doesn't want Southwest Airlines to seem, as he puts it, "messianic." Yes, he's proud of Southwest. And, yes, he thinks there is much worth studying how the company has done business. But is Southwest, with its employee-first, customer-friendly approach, the savior of American business? Not to Herb's way

of thinking. Still, he thinks there's value in talking about how the company has done well by doing good.

"I gave a speech in Sacramento once at a convention there," Herb recalls. "And the thrust of my speech, which really surprised them, was that you can do a lot of good for the American people just by the way you do business. Look at Southwest Airlines. If you don't think that going into Providence and increasing the air traffic in Providence, Rhode Island, 91 percent within a period of two months is helping the American people, then you're wrong, because you're not only enabling people to conduct their businesses better and more efficiently and economically, but you're also giving them a host of personal opportunities that they would not otherwise have had and that are very important to them.

"Just by the way you do business, you can make a successful contribution to the good of the American people, and that's what I think Southwest has done. That's one of the things that our advertising slogan was intended to manifest: 'A symbol of freedom.' We give you freedom. The freedom to fly and to carry out the

# Story Time

Random thoughts from the man everyone calls Herb

**NAME:** Herbert D. Kelleher

**PERSONAL HISTORY:** Born 1931, Haddon Heights, New Jersey. Married 51 years. With wife Joan has four children and nine grandchildren.

**EDUCATION:** BA, English Wesleyan University. JD, NYU.

**WORK HISTORY:** Clerked for New Jersey Supreme Court from 1956 to 1959. Served as an associate at Lum, Biunno & Tompkins in New Jersey from 1959 to 1961 and at Matthews, Nowlin, Macfarlane & Barrett in San Antonio from 1961 to 1969. Helped found Oppenheimer, Rosenberg, Kelleher & Wheatley, serving as senior partner from 1969 to 1981. Was first legal counsel for Southwest Airlines and its predecessor, Air Southwest Co., from 1969 to 1982. Served as chairman, CEO, and president of Southwest from 1982 to 2001. Relinquished duties of president and CEO in 2001. Has continued serving as chairman.

**YOU HAVE TO UNDERSTAND, THIS WAS AN ODD PAIRING FOR THE EARLY 20TH CENTURY:** Herb's mother, Ruth, was Irish

and Catholic. His father, Harry, was Irish and Presbyterian. The kids — there were four — got to choose their own denomination. Herb chose Presbyterianism and attended a nearby church filled with German immigrants. "I was the only Irishman in the whole place," he says. "And I tell ya, I could say the Lord's Prayer faster than anybody else in church. They were all slowed down by their accents."

**THE KIDS TODAY, THEY'RE ALL ABOUT**

**LEARNING:** "I was speaking to a business school once," Herb says. "They asked me how we've become so successful. I told them, 'OK, I'll tell you what it is — exactly.' Well, the notebooks opened, and the pens came out, and everybody was paying really close attention. And I said, 'Sometimes it's better to be Irish than smart.'"

**MONEY MAN:** "I was in New York some years ago. We were having a public offering, and I was making the pitch. So, a guy in the back of the room raises his hand and says, 'Well, how about your new maintenance program?' And I said, 'Wow,

you're one of those nerds who actually reads the prospectus, huh? You're not supposed to read it. You're supposed to use it as a basis for suing us if our stock goes down.'

"Then I said, 'In response to your question, our new maintenance program is just a tiny piece in a very large mosaic.' And everyone is sitting there laughing because they know that I don't know what the maintenance program is. So, now, every time we get into a discussion where they think I'm not quite giving the detail I should, they say, 'Well, Herb, I guess it's just like a big mosaic. We'll just put the little piece in place and you'll see the picture.'"

**WHY IS THIS MAN SMILING?** "I was asked to speak to a stress class at Southwest Airlines some years ago," Herb says. "When I walked in, the fella that was giving the class said, 'Herb, you endure a lot of stress. Give us some tips on how to deal with it.'

"So I said, 'Well, I actually like it.' And that was the last time I was invited to talk to the stress class."

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things that are important to you in your business as well as your personal life.”

He burns a new one.

### How a Writ of Mandamus Gave Southwest Wings

He believes it, that “freedom” stuff. It’s important to him. Important to the whole company. Still today, Southwest asks that all of its workers have a “warrior spirit.” That’s because of Herb’s personal slant, that his heroes, to paraphrase Willie, have always been warriors. Patton. Churchill. The kind of heroes “who didn’t need \$42 million a year” to sacrifice of themselves, he says.

Southwest also promotes the warrior spirit now because of how the company got started more than 35 years ago. The spirit, Herb will tell you, “was forged in the fires of litigation.”

Ah, the litigation. Herb loves to talk about the litigation. There was so much of it. Thirty different legal actions launched by competitors between 1967 and 1971, all aimed at never letting upstart Southwest, um, start up. Injunctions. Lawsuits. All that. Two decisions were particularly crucial. One, in late 1970, came from the U.S. Supreme Court. It refused to overturn a decision of the Texas Supreme Court, which had ruled that Southwest could fly. The other big ruling came on June 17, 1971. It was one day before the inaugural flight was set to depart Dallas’ Love Field. But Southwest’s competitors had filed for one more injunction to keep the newbie airline grounded. And they got it. So Herb went to Austin and prevailed on the state’s Supremes to issue a writ of mandamus, an order that would prevent any and all lower courts from issuing any new injunctions against Southwest. It was an unheard of decision. Getting a writ of mandamus from a state Supreme Court is like finding Bigfoot. People think you’re nuts if you claim to have accomplished it.

But Southwest got the writ. Before you knew it, the airline was back in court. This time the fight was over the right to remain at Love Field. It had set up not just flights to Houston and San Antonio from Love, but also its corporate headquarters. “I guess for 10 years you might say the most successful business of Southwest Airlines was litigation,” Herb says.

The litigator was, of course, Herb. He worked day and night and day on the airline’s behalf. At first, he wasn’t doing so well. The initial cases went against him. The company’s board was ready to give up. But Herb made a deal. He’d work for free, pay the legal costs himself. But they had to let him keep trying, as long as it took. He was too angry to quit. Too idealistic. You’d be tempted to say he was also too naïve.

Except he won.

“It would have been easy at any point in time, as our investors disappeared, as the board said, well, we think they’re going to bleed us to death, we think we ought to shut this thing down and just quit,” Herb says. “But I was enraged by the anti-competitive activities that the other carriers conducted against Southwest Airlines, and, in a sense, it was a fairly high-flown thing. I wanted to vindicate the system so that the system could produce the right results.

“All we wanted to provide was better service at lower fares. That’s in the interest of the American people. It’s just not in the interest of your competitors. That’s why I was so enraged. They were manipulating the system — our adversaries — to prevent that from happening.”

### Wherein Herb “Explains” Psychic Satisfaction and Crusaders

Three and a half decades is a long time. Long enough for hot pants to come in style, go out of style, and come back again. Long enough to change an industry completely. When Southwest first took off in 1971, just 15 percent of the adults in the United States had ever flown on a commercial flight. Fifteen percent. Today, about 80 percent of adults have flown commercially. Herb thinks about this a lot. He’s still amazed at the mind-set of his competitors in 1971 on this issue.

“For 40 years they had been in the same mode, with regulation by the federal government telling them what they could charge, how many seats they could have on their airplane, where they could fly,” he says. “So they really thought that only about 15 percent of the people in the United States wanted to fly and would fly and that the other 85 percent were saying, ‘Well, we really don’t want to.’ In other words, they said that there

really was no price elasticity in the airline business.”

Oh, price elasticity. Right. Econ 101: When price goes down, demand goes up. Airlines in 1971 had prices fixed by the federal government. Everyone paid about the same fare. So, if they assumed there was no price elasticity, that meant they figured if you dropped prices, people would not fly more. They figured wrong, as evidenced by the 80 percent of adults who have flown today in a deregulated, price-sensitive market.

“Southwest Airlines has had an enormous amount to do with that coming to pass,” Herb says. “It’s a tremendous tribute to our people.”

OK, fine. But why did so many more people start flying on Southwest? The hot pants didn’t last that long, after all. Was it just the cheaper flights? It couldn’t have been the peanuts. Come on, Herb. Clear this up.

“It’s more than just providing the customer with value; it’s giving them an experience, giving people something they’re seeking psychically,” he says. Wait, psychically? Like ESP? What’s he talking about?

“I don’t want people to get on a plane and fly somewhere and get off and say, ‘Well, there was that one.’ I want them to get off and say, ‘Well, that was pleasant; that was really memorable. That was different than a lot of other flights I’ve taken.’ I want them to leave with a smile on their face and communicate that smile to a lot of other people that they talk to. We emphasize that because it’s good for our people, and it’s the hardest thing for competitors to imitate. They can get all the hardware. I mean, Boeing will sell them the planes. But it’s the software, so to speak, that’s hard to imitate.”

Psychic satisfaction works both ways, Herb says. Employees need it, too. That’s why he tells them they’re warriors in a crusade. Customers are getting their psychic satisfaction, their “freedom to move about the country,” and employees are getting their psychic satisfaction, too, by being defenders of that freedom. “It’s important to provide psychic satisfaction for your employees,” Herb says. “I think there are very many people in the world who are looking for that. They want to feel welcome, participative. They

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want to feel that what they are doing is worthwhile, that it gives them a reach beyond themselves.”

### The Boys, They Say That I Am Buena. Hey, Macarena!

There used to be something called Southwest Airlines Days. Executives from other firms, about 300 a year, would pay \$100 each to come to Southwest and learn how the airline managed its people and provided customer service. They don't do it anymore. Colleen Barrett finally decided that enough was enough. People ought to know the story by now, she figured. And, besides, there were so many people working on putting Southwest Days together that they were distracted from running the airline. Distractions from the core mission — even distractions that cost \$100 a head — are bad things in the land of Southwest.

Still, Herb remembers many of those sessions fondly. Mostly that's because the message was simple: Be nice. Maybe not that simple. As noted, sometimes it's hard to grasp what it is that makes Southwest Airlines so, ah, Southwest Airlinesy. Maybe that's why many people came in confused and left dazed.

“There was one guy from Switzerland who came in, and they started off the session with the Macarena,” Herb says, again leaping to his feet, cigarette dangling from his mouth. “So, when the session was over, they asked the guy what he was going to do when he got back to his company — how he was going to change it. And he said, in his accent, ‘Ve are going to tell everybody zey have to do za Macarena.’ That wasn't exactly the lesson that we were trying to get across.”

OK. So you want to know what the lesson really is? Well, too bad. Herb will tell you, as best he can. He really will. But you won't understand. The things that have made Southwest successful, kept it successful, are so easy, but so not easy. Figuring out the secret can seem like trying to figure out the origins of the universe. What came before the Big Bang? And, what came before that? Makes your head hurt. Maybe that's because there's no secret to be found.

“Everyone is looking for a formula in business like  $E=MC^2$ ,” Herb says. “But it's not a formula. It's got to be emotional, spontaneous, and from the heart. And a lot of people's reaction to that, and I'm not criticizing, is, ‘Well, that's not precise

enough, that's not quantitative enough to be of value to us.’

“But, basically, we've said there are some things that you can't quantify — intangible things that are exceedingly valuable and that are, in some cases, more valuable than the tangibles. The difference being you can't buy the intangibles.”

### Herb Is Southwest

Successful companies often mirror their top executives. If Apple Computer were a person, it'd be a lot like Steve Jobs. Same with Microsoft and Bill Gates, or maybe GE when Jack Welch ran it. Certainly Sam Walton and Wal-Mart. And, in the same way, Southwest Airlines is Herb Kelleher. But Herb doesn't want you to say that. Really. He doesn't want you to say that so much that you'll be lucky if you're even reading this now.

So, we'll be clear. Southwest Airlines comprises 32,000 employees. Most have never inhaled Herb's secondary smoke. Yet, Southwest Airlines soldiers on just fine. Still growing, still profitable, still adding new 737s, all under the guidance of CEO Gary Kelly. So, yes, Southwest Airlines is *more* than Herb Kelleher. Sure. Right. But, if you made a list of a dozen adjectives that described Southwest, the same words would also describe Herb. And vice versa. Because Herb, simply put, is the personification of everything Southwest Airlines is about.

So what does Southwest do if someone does, as Herb often jokes, accidentally inject him with formaldehyde while he's at his desk? Herb says not to worry — Southwest will keep right on going. He says the last five years, when he's not been CEO, are proof of that.

For more proof, you can turn to an essay about Southwest Airlines Herb wrote for a business-to-business publication. Like a lot of what you learn when you visit with Herb, this one paragraph, if maybe a little dated, is also instructive: “In an organization like ours, you're likely to be a step behind the employees. The fact that I cannot possibly know everything that goes on in our operation — and don't pretend to — is a source of competitive advantage. The freedom, informality, and interplay that people enjoy allows them to act in the best interests of the company. For instance, when our competitors began demanding tens of millions of dollars a year for us

to use their travel agents' reservations systems, I said, forget it; we'll develop an electronic, ticketless system so travel agents won't have to hand-write Southwest tickets — and we won't be held hostage to our competitors' distribution systems. It turned out that people from several departments had already gotten together, anticipated such a contingency, and begun work on a system, unbeknownst to me or the rest of our officers. That kind of initiative is possible only when people know that our company's success rests with them, not with me.” ☺