

Organizational Resilience in Times of Crisis

Does the People Centered Philosophy Still Work During Crisis?

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Keywords: Organizational Resilience, Lay-offs, Research, Airline industry, Southwest Airlines

Summary - Summary - Researchers like Kim Cameron and Wayne Cascio have said for years that a strategy of laying-off people in many cases does not work and may backfire even in times of crisis. The situation in the American airline industry after the terrorist attacks of 9/11 was an almost unparalleled crisis. An excellent chance to take the test. Which companies proved to be most resilient and why?

“We are willing to suffer some damage, even to our stock price, to protect the jobs of our people.”
- Jim Parker, CEO of Southwest Airlines”, 8 OCTOBER, 2001

Crisis in the airline industry

Since 9/11 terrorist attacks, the world economy has suffered severely. The airline industry is one of the worst hit sectors. Passenger numbers fell back drastically, companies showed huge losses, and stock prizes fell. Large numbers of employees lost their jobs. These traumatic events have confronted the sector with an ultimate test and have provided organizational scientists with a unique natural experiment. What different strategies have companies followed to handle this crisis and which strategies have proven most effective? These are the questions that researchers Jody Hoffer

Gittell, Kim Cameron and Sandy Lim (2005) have formulated and answered.

What does research say on the use of downsizing?

For anyone who has followed the management literature of the last 20 years, this is an exciting study. Researchers like Kim Cameron (Cameron & Whetten, 1987; Cameron, 1994, Cameron, 1998) and Wayne Cascio (Cascio, Young & Morris, 1997; Cascio, 2002) have researched the effects of downsizing for many years. The central questions they have addressed were: does laying off personnel lead to a quick and lasting improvement of the financial position of companies? In brief, the conclusion of their research is: companies that use downsizing are not more profitable than companies who don't downsize and often hurt themselves in the long term. As a result of the negative impact on relationships downsizings usually negatively impact organizational performance. Furthermore,

starting a downsizing scenario often leads to repeated downsizings in the future.

But does this also apply in situations of crisis? Can lay-offs be avoided in these circumstances? Is that realistic? A majority of managers tend to see downsizing as a logical, useful and unavoidable tool in times of crisis. However, research by Kim Cameron (1998) shows that most of these companies are confronted with declining profits, product and service quality, and innovation and a deteriorating organization climate. Based on research findings, Cascio (2002) argues that it pays off to use lay-offs only as a last resort, even in a crisis situation. Is this statement confirmed in the airline industry crisis since 9/11?

How did Southwest Airlines stand the test?

One of the companies with an explicit no-lay-offs strategy is Southwest Airlines. This company has been described in many management books as an example of a company which has achieved extremely good financial results while advocating a very people-centered management philosophy which is very consistently implemented. Herbert Kelleher (see picture), the previous CEO of Southwest once made the following comment which summarizes the Southwest philosophy (O'Reilly & Pfeffer, 2000):

"Who comes first, the employee, customers, or shareholders? That's never been an issue to me. The employees come first. If they're happy satisfied, dedicated, and energetic, they'll take real good care of the customers. When the customers are happy, they come back. And that makes the shareholders happy."

It is wonderful to read how Southwest Airlines has flourished in the good times before 9/11¹. But how did this company perform during the extremely tough times after 9/11? Did it have to own up and start laying off personnel? How did Southwest

Airlines do compared to competitors in these challenging times? Below is a summary of the study by Gittell, Cameron, and Lim.

The research by Gittell, Cameron, and Lim

In the three years that followed 9/11, the researchers studied the ten largest U.S. airline companies: Alaska, American, American Trans Air, America West, Continental, Delta, Northwest, Southwest, United and US Airways. The most important variables they looked at were:

- 1) financial reserve: a) low debt position, b) high cash position
- 2) percentage lay-offs
- 3) recovery of stock prize

The researchers were particularly interested in finding out how relational and financial reserves could account for resilience. Based on the above described research by Cameron, Cascio and others the researchers hypothesized that a strategy of commitment to personnel, in which lay-offs would be seen as a last resort, would create relational reserves and would therefore contribute to a quick recovery. Financial reserves were defined as a low debt position and large amounts of cash on hand. The expectation was that strong financial reserves would muffle the blow of a crisis and that strong financial reserves would thus be associated with resilience. In other words, financial reserves would make it easier to realize a strategy of commitment to employees.

The results fitted the expectations perfectly. Financial reserves coupled with a strong commitment to employees turned out to be strongly associated with organizational resilience. In other words, the higher the financial reserves and the lower the percentage of lay-offs, the quicker the stock price recovered. I made the following table to illustrate the most important results. It ranks the companies on the most important variables.

Percentage lay-offs	Cash position (descending from strong to weak)	Debt position (descending from low to high)	Stock prize recovery (descending from quick to slow)
Southwest Airlines (0%)	Southwest Airlines	Southwest Airlines	Southwest Airlines
Alaska (0%)	Alaska	America West	Alaska
Delta (3%)	Northwest	Alaska	America West
American (12%)	US Airways	American	Northwest
America West (16%)	Delta	Delta	American
Continental (18%)	Continental	United	Continental
Northwest (18%)	America West	ATA	ATA
ATA (20%)	ATA	Continental	Delta
United (20%)	American	Northwest	United
US Airways (25%)	United	US Airways	US Airways

Table: summary of results

Conclusion

It is crystal clear: Southwest Airlines has stood the test brilliantly. Thanks to its excellent performance in the past it has built strong financial reserves. Isn't it ironic? Analysts had often criticized Southwest for keeping these strong reserves saying they had be used for acquiring other companies. But this crisis showed that the financial reserves played a crucial helping role. Southwest Airlines did not have to lay off any personnel. Because of this, the company could stick in word and deed to its strong commitment to personnel. Employees understood this message very well. All kinds of negative side-effects of downsizing could be avoided and the Southwest Airlines stock recovered faster than any of the competitors' stocks. Furthermore, Southwest was the only American airline company to make a profit in every single quarter of the period studied, while US Airways, which followed an almost completely opposite strategy (see table) showed a loss in every single quarter.

An airline analyst remarked the following about Southwest: "They are doing what they do best, which is to shine in the hours of trouble."

¹ In 1998 Jeffrey Pfeffer notes: "Southwest Airlines produced a stock market return of over 21,000 percent between 1972 and 1992 and has been profitable in each of the past twenty-four years, a record unmatched by any other airline in the world except Singapore Airlines." Further, he notes that Southwest has the lowest costs and the lowest fares in the American Airline industry. Pfeffer describes the people-centered management practices of Southwest as follows: "Southwest emphasizes training, selective recruiting, profit sharing and stock ownership and has never had a layoff or furlough in its history - all elements of high commitment work systems."

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