

## Hyper-efficiency is bad business

### 1 Warmer

**a. Discuss the questions.**

1. Have you ever flown on a budget airline?
2. How do you think budget airlines cut costs?
3. What recent customer experience have you had where you sensed the company was trying to save money?
4. What different strategies can companies use to improve efficiency?

**b. Skim the article and choose the main idea, a, b or c.**

- a. The risk of customer accidents is dangerously increased by cost-cutting.
- b. The efficiency model is afflicting both employees and customers.
- c. The best ways to cut costs and improve the customer experience

### 2 Key words

**a. Read the definitions and find key words in the article that match them. The paragraph numbers are given to help you.**

**Check your understanding by using the words to complete the example sentences. You may have to change the form of the word.**

**Then read the complete article to see how each of the key words is used in context.**

1. left somewhere with no way of going anywhere else \_\_\_\_\_ (paragraph 1)

*Several drivers remained \_\_\_\_\_ on the highway after the snowstorm.*

2. to achieve or accumulate something \_\_\_\_\_ (paragraph 1)

*Even though they are a relatively new company, they have already \_\_\_\_\_ hundreds of return customers.*

3. a sudden and complete failure of a company, organisation, or system \_\_\_\_\_

(paragraph 2)

*Even the most seasoned experts were unable to forecast the global financial*

\_\_\_\_\_.

4. to find a way of avoiding a rule or law that limits you, especially using a clever trick that does not break the law \_\_\_\_\_ (paragraph 3)

*They found a way to \_\_\_\_\_ the usual building approval process and will start construction in two months.*

5. made so that it benefits financial markets, institutions, and elites \_\_\_\_\_ (paragraph 4)

*Healthcare has been \_\_\_\_\_ in such a way that treatment is not available to many who actually need it.*

6. to make a company or organisation smaller by reducing the number of workers \_\_\_\_\_ (paragraph 4)

*Workers remain concerned after the announcement of plans to \_\_\_\_\_ the New York office.*

7. money that someone gives or lends to a person or organisation with financial problems \_\_\_\_\_ (paragraph 5)

*The national electricity company will only avoid bankruptcy if it receives a \$3 million \_\_\_\_\_*

8. give someone a reason for wanting to work hard \_\_\_\_\_ (paragraph 6)

*Some countries are providing subsidies to \_\_\_\_\_ renewable energy.*

9. make something stronger or more effective \_\_\_\_\_ (paragraph 7)

*They are investing in a PR campaign to \_\_\_\_\_ the candidate's image before the next election.*

10. something or someone that is boring or causes small annoying problems \_\_\_\_\_ (paragraph 8)

*I know it's important to schmooze with senior management, but going to office parties is such a \_\_\_\_\_!*

11. making someone pay more money than they should in a dishonest way

\_\_\_\_\_ (paragraph 10)

*The government is stepping in and capping prices after internet providers were accused of price*

\_\_\_\_\_

12. based on someone's personal experience or information rather than on facts that can be checked

\_\_\_\_\_ (paragraph 11)

*Doctors warn that the general population should not base their dietary decisions purely on*

\_\_\_\_\_ *evidence.*

## Hyper-efficiency is bad business

**SOUTHWEST SHOWS MANAGEMENT BY NUMBERS HAS GONE TOO FAR**

**RANA FOROOHAR**

- 1 Did you have a happy holiday season? Probably not if you travelled on Southwest Airlines. The budget carrier stranded thousands of passengers for the 10 days between December 21 to 31 2022, chalking up the vast majority of flight cancellations during the busiest travel period of the year.
- 2 While severe weather and out-of-date crew scheduling software were cited as reasons for the meltdown, the problem is reflective of a much larger issue for Southwest in particular, the airline industry in general, and even the American business landscape as a whole. The “efficiency” model of corporate management of the past 40 years is tapped out.
- 3 Southwest is at the sharp end of this spear. The company came to fame as one of the first airline industry disrupters in the US, offering cheap, no frills flights, and circumventing the usual hub and spoke model. Instead of flying through major airports to get to smaller cities, travellers could go directly from place to place. For years, under chief executive and co-founder Herb Kelleher, the airline was a poster child for innovation, delighting customers and workers alike.
- 4 But in 2004, when Gary Kelly took the helm, employees (who were subsequently called “cost units”) took a back seat to capital management. Kelly financialised operations with a fuel-hedging programme, and focused everyone’s attention on increasing return on invested capital. Why pour money into updating technology systems, when you could do more share buybacks instead? Wall Street rewards companies far more for downsizing people and distributing profits to investors than it does for capital expenditures that may not pay off fully for years.
- 5 Southwest wasn’t alone in handing back as much money as possible to investors rather than spending more in the business. Indeed, when airlines got a Covid-related bailout at the beginning of the pandemic, it was done with a ban on buybacks and dividend payments, as well as staff lay-offs. Both these had increased in recent decades, as airlines attempted to do ever more with less, hiring cheaper staff and pushing older workers with fatter pensions aside.
- 6 Even amid the buyback and firing ban, Southwest continued a voluntary retirement plan (which incentivised higher-paid staff to leave), and was quick to resume dividend payouts, once the federal ban on them was lifted in September. This was despite the pilot union demanding pay rises and better working conditions. Captain Casey Murray, the president of the Southwest Airlines Pilots Association, did a podcast weeks before the holiday disaster, saying: “I fear that we are one thunderstorm, one [air traffic control] event, one IT router failure away from a complete meltdown.”
- 7 The same could be said for any number of US companies that have worked over the past half century to bolster “efficiency” rather than resilience. Consider the rise and fall of Jack Welch, the former chief executive of General Electric who turned the manufacturing company into a too-big-to-fail financial institution. Or the cost-cutting that led to crises such as the Boeing 737 Max crash, Pacific Gas & Electric equipment which caused wildfires in California, and the General Motors ignition switch recall. All of which had some link to the balance sheet-focused form of management: being lean and mean, cutting all excess costs and treating human beings as metrics to be squeezed.
- 8 Certainly, this type of management brought prices down after airlines were deregulated in the late 1970s, and introduced new, low-cost competitors. But it also increased concentration (just four airlines own 80 per cent of the US business), exported repair jobs to less well-regulated countries like El Salvador, Mexico and China, and led to lower salaries and higher workloads for airline employees. This is one of the main reasons that flying these days (especially in the US) is such a drag.

*Continued on next page*

- 9 The financialisation of airlines in general and Southwest in particular may have reached a peak. It's hard to imagine efficiency going much further when seats are hardly big enough for human bodies, companies are charging for snacks and even drinks, selling more tickets than they have aircraft to service (another financial engineering tactic that often backfires) and dealing with failing technological infrastructure.
- 10 I expect that transport secretary Pete Buttigieg, who has already said he will mount "an extraordinary effort" to get consumers reimbursed for cancelled flights, will also be under more pressure to investigate things like technological capacity and price gouging in the sector. But airlines are hardly alone when it comes to pushing the efficiency model too hard. President Joe Biden had to block a railway workers strike in the US last month following complaints about no paid sick leave. There's also been a backlash against productivity software that tracks workers' every movement.
- 11 There's some anecdotal evidence to show that American workers are less likely to want to come back to their jobs, post-pandemic, than Europeans are, because they crave a better work-life balance. I've heard this myself from several multinational chief executives. I can't help but wonder if some of the reluctance is down to management styles that are pushing people, customers and companies to the brink.

FT

Rana Foroohar, 08 January, 2023.

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## 3 Understanding the article

### a. Complete the statements about the article.

1. The author believes the flight cancellations in December, 2022 were caused mainly by ...
2. When Herb Kelleher led Southwest, the company was known as a good ...
3. Gary Kelly focused more on pleasing ...
4. ... were banned when airlines received a Covid-related bailout.
5. The head of the Southwest Airlines Pilots Association expressed ... over the company's resilience.
6. Boeing, Pacific Gas & Electric, and General Motors are warnings of failures led by ... management.
7. One benefit mentioned of the balance sheet-focused form of management is the ...
8. The author thinks that airlines, especially Southwest, ... become more efficient.
9. Buttigieg has promised to help customers of cancelled flights ...
10. The author speculates that some people in the US are reluctant to return to their jobs post-pandemic because of the ...

## 4 Business language – word pairs and phrases

### a. Find a phrase from the article for each definition below.

1. be involved in the most difficult or dangerous part of something \_\_\_\_\_
2. used for referring to something that is good enough but has no unnecessary extra features  
\_\_\_\_\_
3. used for describing a system in which goods or people are transported from various local places to a central point from which they travel or are sent long distances \_\_\_\_\_
4. someone or something that represents a particular quality, idea, or activity  
\_\_\_\_\_
5. take charge or come to be in the position of a leader \_\_\_\_\_
6. ready and able to do hard work using only what is necessary \_\_\_\_\_
7. push to the point where something very bad or very good is about to happen  
\_\_\_\_\_

b. Write a personalised question for each phrase in task A. Then take turns to ask and answer your questions with a partner.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_

## 5 Discussion

a. Discuss these questions.

- The article mentions companies “treating human beings as metrics to be squeezed” and calling employees “cost units”. What is the impact of this on employees’ performance?
- Do you agree that there’s something wrong with the “efficiency” model of corporate management? Why?
- What alternatives are there to the efficiency model?
- How do you think companies can bolster resilience rather than efficiency?

## 6 Wider business theme – the human impact of cost-cutting

a. Look at the different ways to cut costs below. For each strategy, discuss the impact on employees, managers, customers and investors.

- Eliminate unnecessary costs (e.g., marketing budget)
- Optimise processes
- Manage the inventory
- Increase overall capacity by using human, material, technological, and financial resources more effectively
- Employ people with the right skills / invest in training
- Engage employees
- Invest in technology / automate operations

b. Choose a local small business that is struggling with its profits. Prepare a presentation with a business proposal with the best and most ethical way to improve the company's balance sheet. Include the information below.

- Name
- Sector
- Products/Services
- Operations/Processes
- Employees
- Customer complaints

### Useful language

*We'd like to highlight ... problematic areas.*

*The first is ... The second is ...*

*This has been an issue since ...*

*There are strategies we'd like to propose to improve ...*

*One advantage of this is that ...*

*It will also lead to ...*

*We hope that ... will ...*

*To sum up, we believe that by ..., we will ...*