

Hyper-efficiency is bad business

1 Warmer

efficiency: the ability to work well and produce good results by using the available time, money, supplies etc in the most effective way

a. Discuss the questions.

1. Have you ever flown with a cheap airline?
2. How do these airlines lower their costs?
3. What recent customer experience have you had where you saw the company was trying to save money?

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

1. There will be more customer accidents if airlines cut costs.
2. The efficiency model is bad for employees and customers.
3. Some ways airlines are keeping customers happy after the pandemic.

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 of the words by using them 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. cheap _____ (paragraph 1)

Paris is an expensive city, but you can find some _____ hotels if you know where to look.

2. a sudden and complete failure of a company, organisation, or system _____ (paragraph 2)

If you don't plan and make sure all your technology is working, your organisation can suffer an unexpected technical _____.

3. people or things that change the way things are usually done in a business or industry _____ (paragraph 3)

Uber was one of the earliest _____ to the taxi industry.

4. the invention or use of new ideas, methods, equipment, etc. _____ (paragraph 3)
They invest a lot in research and development, and _____ is at the core of what they do.
5. making a company or organisation smaller by reducing the number of workers
_____ (paragraph 4)
Sales have been low and workers are worried that management is thinking about _____ people to cut costs.
6. money that people regularly receive after they have stopped working because of their age, paid either by their company or by the government _____ (paragraph 5)
Even though he retired at 60, he will only start to collect his _____ when he turns 65.
7. say officially that people must not do, sell, or use something _____
(paragraph 6)
The government _____ lead paint over forty years ago.
8. someone's ability to become healthy, happy, or strong again after an illness or other problem
_____ (paragraph 7)
For long-term success, companies need to build _____ by being flexible and having a clear purpose.
9. the amount of work that a person or organisation has to do _____
(paragraph 8)
After two of their colleagues resigned, Anna and John's _____ doubled.
10. the set of systems within a place or organisation that affect how well it operates, for example the telephone and transport systems in a country _____ (paragraph 9)
Although it sounds like a great opportunity, we simply don't have the _____ to host an event for 200 people.

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

_____ (paragraph 10)

It is illegal for businesses to raise their prices too much during an emergency situation. It is considered price _____.

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

_____ (paragraph 11)

Some people think that the herb can make you lose weight, but the evidence is only

_____.

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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, 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. Choose the best way to complete each statement.

1. The writer thinks that Southwest Airlines and many other American businesses have problems because of ...
 - a. their management style.
 - b. extreme weather.
2. When Herb Kelleher was leading Southwest, it was known as a good company to ...
 - a. work for.
 - b. invest in.
3. Gary Kelly focused more on what ... wanted.
 - a. customers.
 - b. investors.
4. ... was banned during the pandemic.
 - a. Buying back shares
 - b. Paying workers' pensions
5. The president of the Southwest Airlines Pilots Association felt ... about the company's future.
 - a. excited
 - b. worried
6. Boeing, Pacific Gas & Electric, and General Motors are examples of companies with ... management styles.
 - a. efficiency-focused
 - b. human-focused
7. One benefit of the efficiency management model is ...
 - a. exporting repair jobs.
 - b. low-cost competitors.
8. Buttigieg has promised to help customers of cancelled flights ...
 - a. get a discount.
 - b. get their money back.
9. The author thinks that some people in the US don't want to go back to their jobs post-pandemic because ...
 - a. of the efficiency management model.
 - b. they don't get paid sick leave.

4 Business language – finance

a. Match the phrases and their definitions. Then find and circle each phrase in the article to check your answers.

- | | |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. capital | a. an arrangement in which someone agrees to buy back shares or goods that they previously sold to someone |
| 2. return (on) | b. a profit on money that you have invested |
| 3. invest | c. a share of the profits of a company, paid once or twice a year to the people who own the company's shares |
| 4. profit | d. money or property that you use to start a business or invest to earn more money; valuable resources that are not money; a profit on money that you have invested |
| 5. buyback | e. money that you make by selling something or from your business, especially the money that remains after you have paid all your business costs |
| 6. dividend | f. use your money with the aim of making a profit from it, for example by buying property or buying shares in a company |

b. Complete the text with words from the last task.

Shutterstock was founded by Jon Oringer, programmer and photographer, in 2004. His

(1) _____ included 30,000 of his own stock photos and his programming experience.

In 2012, the company went public at \$22 per share. If you'd got in early, you would now have a great (2) _____ on your investment.

The company (3) _____ \$15 million into China-based ZCool in 2018.

Sales rose to \$666 million in the pandemic, on which \$72 million were annual net (4) _____.

There have been some (5) _____, which have decreased the share count to 36 million shares.

Directors declared a cash (6) _____ of \$0.27 per share in January, 2023.

5 Discussion

a. Discuss these questions.

- The article mentions companies “treating human beings as metrics to be squeezed” and calling employees “cost units”. How does this make employees feel, do you think? What is the effect on customer service?
- How do you think customers would feel if they knew about unethical measures? Would they still want to purchase the product or service?
- Do you agree with the “efficiency” model of corporate management? Why?
- Do you think a business can have a more ethical management style and still be successful?

6 Wider business theme – the impact of cost-cutting

a. A local small business has the following cost-cutting strategies. The owner has hired you to complete a business analysis so that they can choose the most ethical measure. Complete the chart and analyse the impact on employees, managers and customers. Then present the case and the final proposal.

Include the following information in your analysis and presentation.

- Name
- Sector
- Products/Services
- Operations/Processes
- Employees
- Customer complaints
- Recommended strategy
- Expected outcome

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 ...

Strategy	Impact on workers and managers	Impact on customers
a. using material/financial resources more effectively and eliminate unnecessary costs (e.g., cut marketing budget)		
b. optimising or automating processes / investing in technology		
c. investing in training / hiring people with the right skills / engaging employees		
d. using human resources more effectively		