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Norway

Comparing Internally Consistent HRM at the Airport Express Train (AET), Oslo, Norway and Southwest Airlines (SA), Dallas, USA

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This case study uses the backdrop of a very large, well-established, US-listed company that focuses on cost-leadership and customer service to highlight the perhaps surprisingly similar HRM characteristics of a small, relatively young, independent Norwegian company that reports to the Ministry of Trade, Industry and Fisheries, and that competes based on differentiation and customer service. The purpose of comparing the US company, Southwest Airlines (SA), with the Norwegian company, Airport Express Train (AET), is to show how companies that have very different characteristics, and operate in very different national and HRM contexts, can still both aim to achieve competitive advantage through people by implementing internally consistent HRM. Internally consistent HRM is the degree to which the various HRM practices support, complement, and reinforce each other.

Brief Historical Background of Southwest Airlines and the Airport Express Train

2014 marked SA's forty-second consecutive year of profitability. The company was established in 1971, with three Boeing 737 aircraft, and became a major airline in 1989 when it exceeded the billion-dollar revenue mark. SA is currently the USA's most successful low-fare, high frequency, point-to-point carrier, and has more than 47,000 employees, operating more than 3,600 flights a day. The CEO of SA, Gary C. Kelly, concluded the 2014 Annual Report to Shareholders by stating:

> I am enormously proud of our People. These are truly remarkable 2014 results, and they would not have been possible without the Warrior Spirits of our People. It has been a long, decade-plus period of challenges and change. They not only survived it without resorting to bankruptcy, they also delivered Shareholder returns and built a better airline. Now, through their hard work, they have positioned Southwest stronger than ever, and with future opportunities that we believe are brighter than ever.

Clearly, the CEO of SA believes that their remarkable success stems from their employees, and how they are selected, trained, managed, and taken care of, as we will explain in this case study. SA is a widely debated and cited success story.

When first we approached the comparator case, AET, we thought it was just another company trying to benchmark 'the SA way'. Trying to imitate a successful company can be risky, as evidenced by the problems Delta experienced when implementing 'Leadership 7.5' in 1994 – an effort to reduce Delta's costs per available seat mile to match SA's 7.5 cents (Wright & Snell, 2005). However, after having interviewed Kari Skybak, the Director of HRM at AET, we learned that they knew little about SA. Instead, her inspiration with respect to HRM at AET derives from Janne Carlsson, the former CEO of Scandinavian Airlines (SAS), who transformed the company in the early 1980s by creating a business airline with exceptional customer service and punctuality. In 1982, SAS was the most punctual airline in Europe and in 1983, SAS was awarded the title 'Airline of the Year' by Air Transport World. Another inspiration, in particular with respect to the importance of nice and clean trains, is from Walt Disney's emphasis on quality and keeping their facilities clean and customer-friendly as much as possible.

AET (Flytoget, 2015) is a member of an international niche of Air Rail Links who have the dedicated task of transporting flight passengers to and from major airports. The major airport served by AET is Oslo Airport – Gardermoen, carrying more than 24.2 million passengers in 2014. In 2014, AET had approximately 330 employees (approximately 110 conductors, 160 train attendants, and 30 customer consultants). It currently has 16 trains and 218 departures every 24 hours. AET has 10-minute departures between the airport and Central Oslo, a distance of 47 kilometres, and 20-minute departures through the city into the heavily populated suburbs close to the airport. Recently, AET extended its line by another 20 kilometres westwards to the city of Drammen.

AET is a young company established in 1998 with the goal of achieving a total public transportation share for airline passengers of more than 50 percent. Encouraging people to leave their cars behind and change their travel habits drastically required a solution that was better than anything else available with respect to short travel times and comfort, reliability, and punctuality. Trains were also considered to be the best environmental solution. From the outset, the philosophy of AET has been to deliver an exceptional product down to the smallest detail. For instance, while you will often see other trains covered in graffiti, AET trains are always cleaned before they are used. The customer is the centre of attention and the train journey should be highly comfortable and easy. Accordingly, AET prides itself on effective ticketless payment solutions, good travel warranties, and effective procedures to manage disruptions, but for a price. For comparison purposes, the fare for travelling from downtown Oslo to the airport is NOK 180 (approximately USD 22) and from Drammen to the airport NOK 260. In contrast, the fares for travelling with the alternative Norwegian State Railways are NOK 90 and 210 respectively. Accordingly, AET attracts customers who are willing to pay more for a more pleasant journey.

AET's market share is currently 33.2 percent, which is among the world's highest market shares for an Air Rail Link service. AET has a 97.3 percent punctuality rate within 3 minutes and a regularity rate in comparison to planned journeys of 99.4 percent. These numbers are especially impressive when compared to trains operated by the Norwegian State Railways, which score markedly lower on the same effectiveness measures. AET has also experienced a remarkable increase in customer satisfaction ratings from 92 percent in 2001 and 2003 to 97 percent in 2014, and received several customer satisfaction and brand awards. In 2015, they were ranked third on the Norwegian Customer Satisfaction Barometer, while the Norwegian State Railways came out among the last on the list (ranked as number 161 among 186 companies). Earnings before interest, taxes, depreciation and amortisation (EBITDA) have risen from NOK 87 million in 2000 to NOK 253 million in 2014.

With respect to HRM and employees, AET was ranked top in the Great Place to Work survey in Norway in 2008, and has remained in the top ten. AET's business concept is to offer the best means of transportation to and from Oslo Airport by emphasising security, punctuality, and service. AET achieves this 'through a unique identity, the most effective solutions, and an enthusiastic staff', according to Kari Skybak. Similar to SA, AET emphasises its people, security, profitability, and the environment.

The Context for HRM in Norway

Compared to other countries, a high proportion (71.6 percent) of the adult population in Norway (5.19 million as of May 2015) is in employment (Statistics-Norway, 2015). This is mainly due to the majority of Norwegian women being in employment (68.7 percent of women and 74.4 percent of men) and the low unemployment rate. For the last eight to ten years, the unemployment rate has been around 3.5 percent, but due to declining oil prices since July 2014 and lower investments in the oil and gas industry, the unemployment rate has more recently increased to 4.3 percent (as of May 2015).

In Norway, approximately 70 percent are employed in the private sector and 30 percent in the public sector. Forty percent of employees in the private sector are members of trade unions, compared with 81 percent of employees in the public sector (Olberg, 2008). The Norwegian welfare state represents a cornerstone of Norwegian society and thus exerts considerable influence on working conditions in Norway. The fundamental principle for the Norwegian welfare state is that its citizens should contribute based on their assets, and receive according to their needs. Norwegian citizens enjoy considerable benefits 'from the cradle to the grave'. Examples of benefits provided are free health care for all, free education up to Master's level for those eligible, unemployment benefits and sickness benefits from the first day of unemployment or sickness for all, retirement pensions from the age of 67 for all, and 5 weeks of paid vacation annually for all members of the working population (Hatland, Kuhnle, & Romøren, 2001). In addition, when having children, parents are given 46 weeks of leave of absence with 100 percent pay or 56 weeks of leave of absence with 80 percent pay, and nearly all children are offered a place in a kindergarten from the age of one year. The welfare system is funded largely by taxes, and the average tax rate of Norwegian employees was 28 percent in 2013 (Statistics-Norway, 2015). These selected benefits, along with a range of others, illustrate why Norway was ranked number one on the United Nation's Human Development Index for both 2013 and 2014 (UNDP, 2015) and number one on the Trust Index in 2014 (ASEPJDS, 2015).

For the last twenty-five years, there has been a large increase in the number of people working in the service industry (currently approximately 70 percent) and in jobs with higher demands for formal education (approximately one third of all employed people in Norway have attained higher level education), whereas the number of employees working in traditional production industry has declined.

With respect to the work context in particular, the working conditions in Norway are regulated by the Working Environment Act issued by the Ministry of Labour in 1977. In section 12 of this Act, it is emphasised that jobs should provide workers with a reasonable degree of freedom, opportunities for learning and career development, variation and meaningful content, recognition and social support, and they should be able to relate their work to the wider societal context. These requirements were introduced in a joint agreement between the main labour organisations in Norway representing both employers and employees (Gustavsen, 1977), and were actually based on research on Norwegian organisations emphasising the role of employee involvement at work (Thorsrud & Emery, 1976).

Despite labour-friendly law not guaranteeing good working conditions, Norwegian employees experience among the highest levels of satisfaction with their working conditions among European countries (Parent-Thirion *et al.*, 2007). These conditions, as perceived by employees, include job security, having good friends as colleagues at work, feeling 'at home' in their place of work, being provided with opportunities for personal development, being well paid for doing their job, and having good opportunities for career advancement. With respect to wages, the differences between hourly wages for employees in Norway are among the lowest across the 30 countries included in the Organisation for Economic Co-operation and Development (OECD). Norway has a GINI index of 0.25 compared to 0.40 in the USA (where 0 represents perfect equality and 1 implies perfect inequality) (OECD, 2015). Norway also has a relatively low income poverty score of 8.1 percent compared to 17.6 percent in the USA (OECD, 2015).

The Operational and HRM Contexts in SA and AET

Jeffrey Pfeffer (1998a) summarised high involvement, high commitment, high performance and soft HRM in a set of seven practices that characterise most organisations producing profits through people. In the following sections, AET and SA are briefly compared across these practices.

Employment Security

SA provide job security for their employees because they do not want to put their best assets, their people, in the hands of the competition. Besides, it is much easier to achieve flexibility and cooperation to become more efficient and productive when promising employment security. As former CEO Herb Kelleher wrote:

> Our most important tools for building employee partnership are job security and a stimulating work environment . . . Certainly there were times when we could have made substantially more profits in the short term if we had furloughed people, but we didn't. We were looking at our employees' and our company's longer term interests . . . [A]s it turns out, providing job security imposes additional discipline, because if your goal is to avoid layoffs, then you hire very sparingly. So our commitment to job security has actually helped us keep our labour force smaller and more productive than our competitors.
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> (Pfeffer, 1998b)

Even following the aftermath of 9/11, SA did not lay off a single employee despite the average reduction in flights by 20 percent and average lay-off of employees of 16 percent in the airline industry in the USA in the weeks that followed after the attack. Instead, SA used the crisis as an opportunity to show that they were serious when they talked about 'taking care of our people'. According to Jim Parker at SA (Gittell, Cameron, Lim, & Rivas, 2006): 'We are willing to suffer some damage, even to our stock price, to protect the jobs of our people.'

According to the Director of HRM at AET, Kari Skybak, they do not have an official policy that promises job security. They have, however, never been confronted with situations where downsizing would be an option. After all, the company has grown continuously since it was established in 1998.

Selective Hiring

Organisations that promise job security and want to achieve profit through people need to ensure that they recruit the right people in the first place. This includes being an attractive employer and having a large applicant pool from which to select. In 2009, SA received 90,043 resumés and hired 831 new employees. The company spends a lot of time screening, and hires primarily for attitudinal fit with the SA values and culture (i.e. they want happy people and team workers), since skills can be learned.

Kari Skybak at AET explains that they also recruit based on attitudes that fit with the company values, which are effectiveness, innovation, and enthusiasm. In practice, they try to ensure that their employees act as ambassadors of the company. In the last round of recruitment in 2009, they received 400 resumés for twelve train attendant positions. In 2010, the company also introduced recruitment cards that their employees could distribute to former colleagues or to friends.

Self-managed Teams and Decentralisation as Basic Elements of Organisational Design

Part of SA's cost advantage comes from having people who will do what is required to achieve extremely short turnaround time (the time from when an aircraft arrives at the gate until it leaves again). Short turnaround times and being on time require teamwork among those responsible for different operations (e.g. check in, boarding, mechanical operations, cleaning the aircraft, baggage handling, and so on), and for every employee to feel responsible for almost everything. Accordingly, at SA, they typically use team goals rather than functional metrics. A Boston Consulting Group consultant noted: 'Southwest works because people pull together to do what they need to do to get a plane turned around. That is part of the Southwest culture. And if it means the pilots need to load bags, they'll do it' (O'Reilly & Pfeffer, 2000).

Also at AET, they place heavy emphasis on decentralised decision-making, as employees on the trains have the authority to solve any problem that may arise on the spot and immediately.

High Compensation Contingent on Organisational Performance

SA's compensation practices include comparatively high use of collective pay for performance (as opposed to individual), compressed pay levels, and consistent treatment, i.e. not giving executives large raises when employees are being asked to accept pay freezes. The company adopted the first profit-sharing plan in the US airline industry in 1973. Through this plan and others, employees own about 8 percent of the company stock.

In comparison, at AET, the conductors are better paid than their largest competitor, the Norwegian State Railways. Train attendants, however, have slightly lower pay levels than in the Norwegian State Railways, but higher than comparable positions in the service industry. According to the number of applicants per available position and the 'Great Place to Work' ratings, this does not seem to negatively affect the attractiveness of the company. AET does not have a collective pay-for-performance plan.

Training

Given SA's emphasis on selecting for attitude and fit and employment security, heavy investment in training becomes an important part of the package of internally consistent HRM. At SA's University for People, approximately 25,000 employees are trained each year (O'Reilly & Pfeffer, 2000). Several different training programmes are conducted, with an emphasis on content such as doing things better, faster, and cheaper, customer service, understanding other employees' work, and how to keep the culture alive and well.

As in SA, all newcomers in AET begin by attending an introduction programme. This three-day training programme includes general information about the company and its different functions and operations, training in customer service and communication, on-the-job training where newcomers follow the operations of a regular train, and visits to every train station, the head office, and the maintenance department. On the first day of the programme, the top management team, including the CEO, welcomes the newcomers. After the programme, a top management representative makes a brief speech and hands out a certificate stating that they have completed the training programme.

After the introduction programme, conductors and train attendants complete five-week programmes dedicated to their different functions, where they are trained in, for instance, security, communication, and the specific AET culture. In addition, e-learning programmes are offered that make it easier for shift workers to conduct training. Newly hired administrative employees engage in a four-week programme, during which most of the time is spent on trains and train stations in order to learn and understand the daily operations of AET. This training is also useful because the administrative staff are mobilised when incidents happen (e.g. delays and cancellations), i.e. administrative employees travel to the stations to assist customers and operational employees.

In 2009, a new training programme that educates hosts for Norway's capital, Oslo, was introduced. The programme is offered in order to provide additional developmental opportunities for the employees and at the same time increase customer service by providing employees with in depth information about Oslo. The programme is mandatory for newcomers, but optional for current employees.

Reduction of Status Differences

A fundamental premise of achieving competitive advantage through people is that companies are able to get the most and best out of all of their people. At SA, the atmosphere is extremely informal and egalitarian, and everything is done in order to highlight that every single employee is important. Compressed pay and benefits are parts of this, but the value statement from the early 1980s, the Golden Rule, sums up SA's approach: 'Above, all, employees will be provided the same concern, respect, and caring attitude within the organisation they are expected to share externally with every Southwest customer.'

AET also emphasises minimising hierarchical levels and encourages informal communication between all employees. In addition, top management is not only called upon in cases of incidents on the train or the stations, they regularly have to spend time on the trains at least once a month.

Sharing Information

Widespread sharing of information about strategy, financial performance, and operational metrics ensures that employees have the necessary information to be involved and able to contribute to doing things better, and it signals that they are trusted that they will not misuse the information. At SA, information on costs, operations, and financial data, including how SA is doing compared to its competitors, is shared among all employees.

Since AET operates almost around-the-clock, several steps have been taken to ensure sharing of information throughout the company. The main information channel is the intranet, but SMS, internal leaflets, and notice boards are also used. The intranet is used to publish information on the news of the day at AET, facts and figures, strategy and business plans, financial and operational results, work processes and regulations, employee manuals, who does what at AET (including pictures of every employee), and a calendar with important meetings, training activities and social arrangements.

Summary and Case Questions

This chapter has applied learning from the SA case, as well as the principles of high commitment HRM systems to demonstrate how AET is also able to focus on its people to achieve competitive advantage. Both SA and AET are successful companies, but learning from such success stories can be risky (Pfeffer & Sutton, 2006). As a final note, we therefore need to mention that the value of implementing this type of high commitment HRM system is also supported by research evidence. First, a meta-analysis (Combs, Liu, Hall, & Ketchen, 2006) of the relationship between HRM and organisational performance including a total of 19,319 organisations and 92 individual studies showed positive relationships for organisational performance for HRM practices such as having a strong focus on training, high compensation, widespread participation, selectivity in hiring, internal promotion, flexitime, the existence of grievance procedures, and employment security. Even more importantly, a significantly stronger relationship was found for systems of internally consistent or aligned HRM practices than for individual practices. Moreover, a meta-analysis of 35,767 firms and establishments showed a positive relationship between commitment-based HRM and performance across 29 countries (Rabl, Jayasinghe, Gerhart, & Kuhlmann, 2014), suggesting that such HRM systems may be effective across national and cultural contexts.

In addition, and at the micro level, meta-analyses suggest that important work outcomes (e.g., in-role and contextual work performance) arise from employees being empowered and provided with job autonomy (Humphrey, Nahrgang, & Morgeson, 2007), job security (Cheng & Chan, 2008; Sverke, Hellgren, & Näswall, 2002), fair treatment (Cohen-Charash & Spector, 2001), receiving support from the company (Rhoades & Eisenberger, 2002), and demonstrating effective commitment to the company (Meyer, Stanley, Herscovitch, & Topolnytsky, 2002; Riketta, 2002).

Questions

1. What are the main similarities and differences between SA and AET with respect to HRM issues?
2. SA and AET have completely different strategies, but a similar set of HRM practices. How does this observation fit with the proposed importance of establishing a match between strategy and HRM?
3. Given the different nations, their culture and labour laws, do you think it is easier or more difficult to gain competitive advantage through people in the USA than in Norway and similar countries (e.g. Sweden and Denmark)? Why?
4. AET is currently planning to expand its services from being an airport train company exclusively, to competing on other routes in the area surrounding Oslo. Will it succeed by using the same HRM strategy or should the HRM strategy be changed in order to fit with a different market segment?

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