Behind People Express's Fall: An Offbeat Managerial Style

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From day one, People Express, Inc. was a highly unorthodox outfit. Every new employee had to buy its stock. Every worker was dubbed a "manager" and everyone performed a variety of tasks. Even senior executives took their turn as flight attendants.

And the result, at least initially, was an airline where enthusiasm and productivity surged so high that People Express sometimes seemed more cult than company. Donald C. Burr, chairman and co-founder, was spiritual leader. The thousands of travelers who crowded its planes at unthinkably low fares were its flock.

But now People's financial woes have forced Mr. Burr to agree to sell the airline to an arch rival, the Texas Air Corporation, and an important question remains: Did People ultimately fail because of its unorthodox nature, or in spite of it?

Strategic Mistakes

To be sure, Mr. Burr's strategic blunders – too rapid expansion in general and last year's purchase of money-losing Frontier Airlines in particular – finally brought People to its knees, airline industry people agree. But many People employees, former executives, analysts and other experts also say that the same unbureaucratic, "democratic" management that enchanted Harvard Business School professors and management theorists in People's headier days also brought about the airline's fall.

As they see it, the offbeat system once worked and might have worked again, but not in its original, undiluted form. They say People desperately needed sweeping changes to cope with its headlong growth and the brutal competition it met as it invaded major markets. But Mr. Burr began to make changes only after it was too late.

"Don Burr is a motivational genius," said Michael E. Levine, chief of staff at the Civil Aeronautics Board in the late 1970's and the former head of Texas Air's New York Air subsidiary. "Whether he is an organizational genius is probably open to question."

"The System didn't really evolve," said David G. Sylvester, an analyst at Montgomery Securities. "Astute managers could have taken Burr's employment strategy and developed an infrastructure that would have worked."

Indeed, experts note, such airlines as Texas Air and Presidential Airways used more temperate approaches – including profit sharing and employee stock ownership as well as the use of employees in multiple tasks – with apparent success.

By most accounts, People's system served it superbly in its first few years, when the carrier was small and relatively uncomplicated.

But later, as People grew into what became the nation's fifth-largest carrier, employee dedication and the lowest operating costs of any major airline were no longer enough. According to insiders and outside experts, People failed to develop the management depth and discipline needed to run as logistically complex a business as a major airline.

Moreover, a pay system that relied on profit sharing and a rising stock price undercut employee morale and fed staff turnover when profits and the stock price fell. These factors helped to produce the poor service, strategic mistakes and mounting losses that ultimately sealed People's fate, critics say.

The picture painted by employees in interviews last week at the Newark International Airport is of a company overwhelmed by its volatile environment.

"There was a lot of confusion," said one three-year customer-service veteran, who asked not to be identified. "As the airline grew, we weren't able to keep in touch with the changes that were taking place on a daily basis."

"People Express was in a business in which coordination, staying power and coolness under unusual or difficult operating situations were crucial; and they were relying on spirit," said Mr. Levine, who is now a professor at the University of Southern California.

Giving Employees A Say in Decisions

When People began operations in the spring of 1981 with 20 employees, flying three used 737's to small markets neglected by the major airlines, it attracted a great deal of public attention – and not just because of its breathtakingly low fares.

The Newark-based carrier found itself in the limelight because it seemed to be one of the most radical experiments ever attempted in participative management – those approaches that give workers a say in decisions and allow them to share in the company's financial success.

All workers were required to buy at least 100 shares of People's stock (albeit at a steep discount). And employees were paid modest salaries relative to other airlines and depended on profit sharing for an important part of their compensation.

But even more unusual, the company had surprisingly little hierarchy. (Even though more have been added, even now only a few management layers separate the company's top managers, who include Mr. Burr, from the lowest level employees).

Nobody – not even Mr. Burr – had a secretary. And all employees, including managing officers, performed a variety of functions – or were "cross-utilized." Pilots (flight managers) or flight attendants (customer service managers) might spend as much as half of their time working in such jobs as accounting, recruiting or scheduling aircraft.

'A Better World' Was Management Goal

Mr. Burr frequently said his goal was to 'make a better world' – and that meant giving employees opportunities for personal development not found at most other companies. Maximizing profits ranked last among People's six guiding principles. "Service, growth and commitment to the individual" was first.

In retrospect, though, People was never the utopian work democracy that outsiders believed. Some people now cynically wonder whether the system was just a way to get the most out of workers for the least pay – something it certainly accomplished.

A two-class system among People's workers has been in effect since its early days. The company once used part-time employees, including college students, to take telephone reservations, a system it abandoned when it contracted the work out in 1984.

Beginning in the spring of 1985, the airline hired, at lower rates, "interns" who now number nearly 2,000. It allowed full-time employees to fall from a peak of 4,000 to about 3,400. The intern program was cloaked in lofty purpose, but some analysts saw it merely as a way to obtain cheap labor. Because many interns lacked training and motivation, the result was often poor service, People employees said.

The Pilots' Rebellion Over Wings and Stripes

People's pilots also seemed to feel democracy was fine as long as they were first among equals. A few years ago, they successfully rebelled when the company – in the name of equality – left off from the pilot uniforms the wings and stripes that have distinguished pilots from other airline employees. And while at first the pilots accepted much lower salaries than other carriers paid, when the job market tightened, turnover soared and People had to give its pilots a large raise.

Even though the Airline Pilots Association did not succeed in organizing People's pilots, some support for unionization at the carrier took root.

Nor did very many employees really have much say in determining strategy or policy. Former executives and other sources close to the company say that Mr. Burr (who declined to be interviewed in time for this article) increasingly assumed more power at the expense of other senior executives. Of People's seven original managing officers, four quit or were dismissed.

One big loss was Harold J. Pareti, People's former president and a talented route strategist. Unhappy with Mr. Burr's autocratic rule, Mr. Pareti left People's in January 1985 to found Presidential Airways.

Another who left, Gerald L. Gitner, People's cofounder and first president, said the carrier also suffered because Mr. Burr failed to recruit talented executives.

"The guy doesn't know details; he doesn't understand which of his routes are profitable or not," said Mr. Gitner, who after leaving People's, became Pan AM's vice chairman and then served Texas Air's president before leaving last May. "But he didn't bring in anyone who could be a competitor."

Most former People officials or airline industry experts interviewed said that Mr. Burr must bear the chief blame for not putting organizational changes into effect.

"The failure of People Express rests on the shoulders of top management," said Edward R. Beauvais, chairman of the three year old American West Airlines. "People's system had a lot of features that appeared to be working."

One key reason for People's demise as an independent airline, many say, was its failure, until it was too late, to overhaul its practice of rotating employees – especially managers and others with special expertise. This meant that the airline lacked the staff support in finance, marketing and planning needed to compete with the other big airlines, which became increasingly adept at competing with People's low fares.

Even employees were sometimes amazed when inexperienced peers were allowed to take part in such moves as working out the details of People's recent acquisition of Britt Airways, a commuter airline. Sources close to People's say its leaders increasingly shot from the hip in such critical decisions as choosing routes, deploying aircraft and making acquisitions.

Frontier's Purchase 'A Pretty Bad Mistake'

"When the opportunity came to buy Frontier, they did it rather quickly, and it was a pretty bad mistake," said D. Quinn Mills, a Harvard Business School professor with close associations at the company. "There were too many ad hoc fire putter-outers," said Mr. Sylvester of Montgomery Securities, who says People's even lacked the basic computer models that other major airlines used to pick routes and set prices.

Only in recent months did the company alter its cross-utilization program. Accounting personnel are now rarely rotated to other jobs, insiders say. The specialists who coordinate People's aircraft now spend three-quarters of their time doing that job.

Clearly, People's organization – which originally consisted of two management layers –required more structure and guidance as it grew. Even Mr. Burr seemed to acknowledge this.

Three or four years ago, he added two more management layers: team managers and, below them team leaders, whose role was to "lend guidance and support and foster communication among employees," a company spokesperson explained. In early 1985, People's created 11 operating groups of 200 to 300 employees based on the type of aircraft they served. Those groups were broken into units of about 20 people.

Morale Problems Affected Service

But these moves do not appear to have sufficed. The company still suffered from lack of leadership, employees said. People's finally appointed more managers at all levels last spring. Even so, employees still complained about lack of direction, procedures and accountability, which resulted in morale problems that quickly hurt service.

With its record of delayed or canceled flights, lost baggage and overbooking, People Express earned the nickname of "People Distress."

People employees have always been paid below the industry average: early this year, they averaged $28,200, compared with an industry average of $43,200. But morale was high as long as the stock price (which peaked at $25,875 in 1983 when People's earned $10.4 million) was high and profit sharing was generous.

Many employees had life savings tied up in People's stock. So morale took a nose dive when the company's stock price plummeted. The stock closed yesterday at a low of $3 a bid, down 25 cents, over the counter.

Ultimately, People's biggest failing, according to Mr. Gitner, its former president, was that its system became an end unto itself rather than a means to execute strategy and make money. "Participative management was supposed to be a means to an end: a profitable company," he said. "Burr forgot about the end. He thought management was his strong suit, but the results speak for themselves."

End of N.Y. Times Article

Company Background

People Express (PE or People) was incorporated on April 7, 1980. In July of that year it applied to the Civil Aeronautics Board (CAB) for permission to form a new airline based in the New York-Newark metropolitan area and dedicated to providing low-cost service in the eastern United States. Organized specifically to take advantage of provisions of the 1978 Airline Deregulation Act, PE was the first airline to apply for certification since its passage. (The act, which was designed to stimulate competition, allowed greater flexibility in scheduling and pricing and lowered the barriers to new entrants.) In applying to the CAB for a "determination of fitness and certification of public convenience and necessity," People committed itself to the following points:

1. Provide "a broad new choice of flights" with high-frequency service.
2. Keep costs low by "extremely productive use of assets."
3. Offer "unrestricted deep discount price savings" through productivity gains.
4. Focus on several high-density eastern U.S. markets that had yet to reap the pricing benefits of deregulation.
5. Center operations in the densely populated New York-Newark metropolitan area with service at the underutilized, uncongested, highly accessible Newark International Airport.

The Civil Aeronautics Board was sufficiently impressed with this statement that it approved the application in three months (compared with the usual year or more). On October 24, 1980, People had its certificate to offer air passenger service between the New York-New Jersey area and 27 major cities in the eastern United States. People's managing officers proceeded to work around the clock for the next six months to turn their plans and ideas into a certificated operating airline. They raised money, leased a terminal, bought aircraft, recruited, trained, established routes and schedules, and prepared manuals to meet the FAA's fitness and safety standards. "We were here every night . . .from November until April when they [Federal Aviation Administration] gave us our certificate," said Burr, "It was hell." People's operating certificate was granted on April 24, 1981.

Making the People Express Concept Operational

The company's business concept was broken down and made operational through three sets of strategies: marketing, cost, and people. According to People's management consultant, the "path" theory was the modus operandi—management would see what route people took to get somewhere, then pave the paths that had been worn naturally to make them more visible. By 1982 a set of strategies that had become “the concept,” the way things were done at People Express, became clear. (Over Burr’s objections, the presentation prepared by investment company Morgan Stanley for PE investors began with the marketing and cost strategies rather than the people strategies.)

Marketing Strategy

Fundamental to People’s initial marketing strategy was its view of air travel as a commodity product for which consumers had little or no brand loyalty. People defined its own version of that product as a basic, cut-rate, no-nonsense air trip. A PE ticket entitled a passenger to a seat on a safe flight between two airports, period. The marketing strategy was to build and maintain passenger volume by offering extremely low fares and frequent, dependable service on previously overpriced and under-serviced routes. In keeping with this strategy, the following tactics were adopted.

Very low fares. On any given route, People’s fares were substantially below the standard fares prevailing prior to PE’s announcement of service on that route. For instance, it entered the Newark-to-Pittsburgh market with a $19 fare in April 1982, when U.S. Air was charging $123 on that route. Typically, peak fares ran from 40% to 55% below the competition’s standard fares and 65% to 75% below, during off-peak hours (after 6 P.M. and weekends).

Convenient flight schedules. For any route that its planes flew, People tried to offer the most frequent flight schedule. With low fares and frequent flights, People could broaden its market segment beyond those of established airlines to include passengers who would ordinarily have used other forms of transportation. In an effort to expand the size of the air travel market, People’s ads announcing service in new cities were pitched to automobile drivers, bus riders, and even those who tended not to travel at all. People hoped to capture most of the increase as well as some share of the preexisting market for each route.

Regionwide identity. People set out to establish a formidable image in its first year as a major airline servicing the entire eastern United States. Large established airlines could easily wage price wars and successfully compete with a new airline in any one city, but they would probably have to absorb some losses and would be hard pressed to mount such a campaign on several fronts at once.

Pitch to “smart” air travelers. In keeping with its product definition, People’s ads sought to identify PE not as exotic, delicious, or entertaining, but as the smart travel choice for smart, thrifty, busy travelers. The ads were filled with consumer information, as well as information about PE’s smart people and policies. Unlike most airlines, for instance, every PE aircraft had roomy overhead compartments for passengers’ baggage, thereby saving them money, time, and the potential inconvenience of loss.

Memorable positive atmosphere. Burr’s long-term marketing strategy, once the airline was off the ground financially, was to make flying with People the most pleasant and memorable travel experience possible. The goal was for passengers to arrive at their destination feeling very well served. Thus PE’s ultimate marketing strategy was to staff every position with competent, sensitive, respectful, up-beat, high-energy people who would create a contagious positive atmosphere. The message to staff and customers alike was: “at People Express, attitude is as important as altitude.”

Cost Structure.

People’s cost structure was not based on a clear-cut formula so much as on an attitude that encouraged the constant, critical examination of every aspect of the business. According to Bob McAdoo, the management team “literally looked for every possible way to do things more simply and efficiently.” McAdoo could point to at least 15 or 20 factors he felt were important in keeping costs down while preserving safety and quality. “If you look for one or two key factors, you miss the point.” Cost savings measures affecting every aspect of the business included the following points.

Aircraft. Since fuel was the biggest single cost for an airline, People chose, redesigned, and deployed its aircraft with fuel efficiency in mind. Its twin engine Boeing 737-IOOs were thought to be the most fuel-efficient for their mission in the industry. By eliminating first class and galley sections, interior redesign increased the number of all coach-class seats from 90 to 118 per aircraft. Overhead racks were expanded to accommodate more carry-on baggage, and the aircraft were redecorated to convey a modern image and reassure potential passengers that low fares did not mean sacrificing quality or safety. People scheduled its aircraft to squeeze the most possible flying time out of them, 10.36 hours per aircraft per day, compared with the industry average of 7.08 hours. Finally, aircraft maintenance work was done by other airlines on a contract basis, a practice seen as less expensive than hiring a maintenance staff.

Low labor costs. Labor is an airline's second biggest expense. Though salaries were generally competitive, and in some cases above industry norms, People's labor costs were relatively small. The belief was that if every employee were intelligent, well trained, flexible, and motivated to work hard, fewer people (as many as one-third fewer) would be needed than most other airlines employed. People kept its work force deliberately lean and expected it to work hard. Each employee, carefully selected after an extensive screening process, received training in multiple functions (ticketing, reservations, ground operations, and so on) and was extensively cross-utilized, depending on where the company's needs were at any given time. If a bag needed to be carried on board, whoever was heading that way would carry the bag. Thus, peaks and valleys could be handled efficiently. This was in sharp contrast with other airlines which hired people into one of a variety of distinct "classes in craft," (such as flight attendants, reservations, baggage), each of which had a fairly rigid job description, was represented by a different union, and therefore was precluded from being cross-utilized.

In-house expertise and problem-solving. In addition to keeping the work force small and challenged, cross-utilization and rotation were expected to add the benefits of an ongoing quality and efficiency review. Problems could be identified and solutions and new efficiency measures could be continually invented if people were familiar with all aspects of the business and motivated to take management-like responsibility for improving their company. The Paxtrac ticketing computer was commonly cited as a successful example of how PE tapped its reservoir of internal brainpower rather than calling in outside consultants to solve a company problem. Many of PE's longer routes were combinations of short-haul flights into and out of Newark. The existing ticketing system required a separate ticket for each leg of the trip, resulting in higher fares than PE wanted. Burr spotted the problem when he was flying one day (he tried to spend some time each month on board or in the ground operations area). An ad hoc team of managers was sent off to a hotel in Florida for a week to solve the problem. They came up with a specially designed microprocessor ticketing machine with the flexibility to accommodate the company's marketing plans and fast enough (7 seconds per ticket versus 20 seconds) to enable onboard ticketing of larger passenger loads.

Facilities. Like its aircraft, PE's work space was low cost and strictly functional. The main Newark terminal was located in the old North Terminal building, significantly cheaper to rent than space at the West and South Terminals a mile away. People had no ticket counters; all ticketing was done either by travel agents in advance, or by customer service managers on board once they were airbound. Corporate headquarters, located upstairs over the main terminal, had none of the luxurious trappings associated with a major airline. Offices were shared, few had carpeting, and decoration consisted primarily of PE's ads, sometimes blown up poster size, and an occasional framed print of an aircraft.

Reservations. The reservations system was kept extremely simple, fast, and therefore inexpensive. There were no interline arrangements with other airlines for ticketing or baggage transfer; no assistance was offered with hotel or auto reservations in spite of the potential revenue leverage to be derived from such customer service. Thus, calls could be handled quickly by hundreds of easily trained temporary workers in several of the cities People served, using local lines (a WATS line would cost $8,000 per month) and simple equipment ($900 vs. the standard $3,000 computer terminals).

No "freebies." Costs of convenience services were unbundled from basic transportation costs. People offered none of the usual airline "freebies." Neither snacks nor baggage handling, for example, were included in the price of a ticket, though such extras were available and could be purchased for an additional fee. People (Human Resource Strategies) Burr repeatedly told his managers that it was PE's people and its people policies that made the company unique and successful. "The people dimension is the value added to the commodity," he said. "Many investors still don't fully appreciate this point, but high commitment and participation, and maximum flexibility and massive creative productivity are the most important strategies in People Express."

Structure and Policies As People moved from a set of ideas to an operating business, company managers took pains to design structures and develop polices consistent with the company's stated precepts and strategies. This resulted in an organization characterized by minimal hierarchy, rotation and cross-utilization, work teams, ownership, self-management, participation, compensation, selective hiring and recruitment, multipurpose training, and team building.

Minimal hierarchy. People's initial organizational structure consisted of only three formal levels of authority. At the top of the organization was the president-CEO and six managing officers, each of whom provided line as well as staff leadership for more than one of the 13 functional areas.

Reporting to and working closely with the managing officers were eight general managers, each of who provided day-to-day implementation and leadership in at least one functional area, as well as planning for and coordinating with other areas. People's managing officers and general managers worked hard at exemplifying the company's philosophy. They worked in teams, rotated out of their specialties as much as possible to take on line work, filling in at a gate or on a flight. Several had gone through the full in-flight training required of customer service managers. They shared office furniture and phones. Burr's office doubled as the all purpose executive meeting room; if others were using it when he had an appointment, he would move down the hall and borrow someone else's empty space.

There were no executive assistants, secretaries, or support staff of any kind. The managers themselves assumed the activities that such staff would ordinarily perform. Individuals, teams, and committees did their own typing, which kept written communications to a minimum. Everyone answered his or her own phone. (Both practices were seen as promoting direct communication as well as saving money.)

Beyond the top 15 officers, all remaining fulltime employees were either flight managers, maintenance managers, or customer service managers. The titles indicated distinctions in qualifications and functional emphasis rather than organizational authority. Flight managers were pilots. Their primary responsibility was flying, but they also performed various other tasks such as dispatching, scheduling, and safety checks, on a rotating basis or as needed. Maintenance managers were technicians who oversaw and facilitated maintenance of PE's aircraft, equipment, and facilities by contract with other airlines' maintenance crews. In addition to monitoring and assuring the quality of the contracted work, maintenance managers were utilized to perform various staff jobs.

The vast majority of its managers were customer service managers (CSMs), generalists trained to perform all passenger-related tasks, such as security clearance, boarding, flight attending, ticketing, and food service, as well as some staff function activities.

By and large, what few authority distinctions did exist were obscure and informal. Managing officers, general managers, and others with seniority (over one year) had more responsibility for giving direction, motivating, teaching, and perhaps coordinating, but not for supervising or managing in the traditional sense.

Ownership, lifelong job security.

Everyone in a permanent position at PE was a shareholder, required as a condition of employment to buy, at a greatly discounted price, a number of shares of common stock, determined on the basis of his or her salary level. It was expected that each employee, in keeping with being a manager/owner, would demonstrate a positive attitude toward work and participate in the governance of the company. As Managing Officer Lori Dubose pointed out, "We'll fire someone only if it is (absolutely) necessary. For instance, we won't tolerate dishonesty or willful disregard for the company's policies, but we don't punish people for making mistakes." In exchange, PE promised the security of lifetime employment and opportunities for personal and professional growth through continuing education, cross-utilization, promotion from within the company, and compensation higher than other companies paid for similar skills and experience.

Cross-utilization and rotation. No one, regardless of work history, qualifications, or responsibility was assigned to do the same job all the time. Everyone, including managing officers, was expected to be cross-utilized as needed and to rotate monthly between in-flight and ground operations and/or between line and staff functions. (The terms line and staff at PE differentiated flight-related tasks from those related to the business of operating the company.)

Seen by some as unnecessarily complicated and troublesome, cross-utilization and rotation was justified by PE in several ways. According to Burr, they were conceived primarily as methods of continuing education, aimed at keeping everyone interested, challenged, and growing. McAdoo appreciated the flexible staff utilization capability that eventually would result from everyone having broad exposure to the company's functions. Rotation did create some difficulties; according to McAdoo: "It takes people a while to master each job. It might seem better to have an expert doing a given job. Cross-utilization also means you need high-quality people who are capable of doing several jobs. This in turn limits how fast you can recruit and how fast you can grow." Even McAdoo, the efficiency expert saw these, as short-term inconveniences well worth the long-term payoff. He said: "When you rotate people often they don't develop procedures that are too complicated for newcomers to learn and master fast. This forces the work to be broken down into short simple packets, easily taught and easily learned."

Self-management. Employees were expected to manage themselves and their own work in collaboration with their teams and co-workers. According to Jim Miller, coordinator of training, "We don't want to teach behaviors—we want to teach what the end result should look like and allow each individual to arrive at those results his or her own way. When desired results aren't achieved, we try to guide people and assist them in improving the outcome of their efforts."

The written, though never formalized, guidelines on self-management made the following points: Within the context of our precepts and corporate objectives, and with leadership direction but no supervision, individuals and/or teams have the opportunity (and the obligation) to self-manage, which encompasses the following:

- Setting specific, challenging, but realistic objectives within the organizational context.
- Monitoring and assessing the quantity/quality/timeliness of one's own *performance ("how am I doing?")* by gathering data and seeking input from other people.
- Inventing and executing activities to remedy performance problems that appear, and exploiting opportunities for improved performance.
- Actively seeking the information, resources and/or assistance needed to achieve the performance objectives.

When it came time for performance reviews, each individual distributed forms to those six co-workers from whom feedback would be useful. Again, growth rather than policing was the objective.

Work teams. Dubose observed that "even with smart, self-managed people, one person can't have all the components to be the answer to every situation." PE therefore had decided to organize its work force into small (3 to 4 person) work groups as an alternative to larger groups with supervisors. "If you don't want a hierarchical structure with 40 levels," Dubose said, "you have to have some way to manage the numbers of people we were anticipating." Teams were seen as promoting better problem solving and decision making as well as personal growth and learning.

Every customer service manager belonged to a self-chosen, ongoing team with which he or she was assigned work by a lottery system on a monthly basis. Though monthly staff assignments were made individually (according to interests, skills, and needs), staff work was expected to be performed in teams. This applied to flight managers and maintenance managers as well as customer service managers. Each team was to elect a liaison to communicate with other teams. Each staff function was managed by a team of coordinators, most of whom were members of the start-up team recruited from Texas International. Managing officers also worked in teams and rotated certain responsibilities to share the burden and the growth benefits of primary leadership.

Governance, broad-based participation. People's governance structure was designed with several objectives: policy development, problem solving, participation, and communication. While Burr was the ultimate decision maker, top management decisions, including plans and policies, were to be made by management teams with the assistance of advisory councils. Each of the 8 managing officers and 8 general managers was responsible for at least one of the 13 functional areas (see Figure B) and served on a management team for at least one other function. The 13 function-specific management teams were grouped into 4 umbrella staff committees: operations, people, marketing, and finance and administration. For each staff committee, composed of managing officers and general managers from the relevant functional areas, there was an advisory council made up of selected customer service managers, flight managers, and maintenance managers serving on relevant line and staff teams. The councils were intended to generate and review policy recommendations, but until August 1982 they followed no written guidelines. A study done by Yale University students under the direction of Professor Richard Hackman showed considerable confusion as to their purposes (influencing, learning, solving, communicating issues) and roles (advising compared with making decisions).

To minimize duplication and maximize communication, each advisory council elected a member to sit on an overarching coordinating council that was to meet regularly with Burr (to transmit information to and from him and among the councils). These ongoing teams and councils were supplemented periodically by ad hoc committees and task forces that could be created at anyone's suggestion to solve a particular problem, conduct a study, and/or develop proposals. In addition to maximizing productivity, all of the above practices, teams, and committees were seen as essential to promoting personal growth and keeping people interested in and challenged by their work.

Compensation—high reward for expected high performance. People's four-part compensation package was aimed at reinforcing its human resource strategy. Base salaries were determined strictly by job category on a relatively flat scale, ranging in 1981 from $17,000 for customer service managers to $48,000 for the managing officers and CEO. (Competitor airlines averaged only $17,600 for flight attendants after several years of service, but paid nearly double for managing officers and more than four times as much for their chief executives.)

Whereas most companies shared medical expenses with employees, People paid 100% of all medical and dental expenses. Life insurance, rather than being pegged to salary level, was $50,000 for everyone. After one year with PE, all managers' base salaries and benefits were augmented by three forms of potential earnings tied to the company's fortunes. There were two profit-sharing plans: (1) a dollar-for-dollar plan, based on quarterly profits and paid quarterly to full-time employees who had been with PE over one year, and (2) a plan based on annual profitability. The former was allocated proportionally, according to salary level and distributed incrementally. If profits were large, those at higher salary levels stood to receive larger bonuses, but only after all eligible managers had received some reward. The sustained profits were distributed annually and in equal amounts to people in all categories. Together, earnings from these plans could total up to 50% or more of base salary. The aggregate amount of PE's profit-sharing contributions after the second quarter of 1982 was $311,000.

Finally, PE awarded several stock option bonuses, one nearly every quarter, making it possible for managers who had worked at least half a year to purchase limited quantities of common stock at discounts ranging from 25% to 40% of market value. The company offered five-year, interest-free promissory notes for the full amount of the stock purchase required of new employees and for two-thirds the amount of any optional purchase. As of July 1982, 651 employees, including the managing officers, held an aggregate 513,000 shares of common stock under a restricted stock purchase plan. Approximately 85% of shares were held by employees other than managing officers and general managers. The total number of shares reserved under this plan was, at that time, 900,000.

Selective hiring of the People Express type. Given the extent and diversity of responsibilities People required of its employees, Lori Dubose, managing officer in charge of the company's people as well as in-flight functions, believed firmly that it took a certain type of person to do well at PE. Her recruiters, experienced customer service managers (CSMs) themselves, looked for people who were bright, educated, well groomed, mature, articulate, assertive, creative, energetic, conscientious, and hard working. While they had to be capable of functioning independently and taking initiative—and it was desirable for them to be ambitious in terms of personal development, achievements, and wealth—it was also essential that they be flexible, collaborative rather than competitive with co-workers, excellent team players, and comfortable with PE's horizontal structure. "If someone needed to be a vice president in order to be happy," Miller said, "we'd be concerned and might not hire them."

Recruiting efforts for CSMs were pitched deliberately to service professionals—nurses, social workers, teachers—with an interest in innovative management. No attempt was made to attract those with airline experience or interest per se. Applicants who came from traditional airlines where "everyone memorized the union contract and knew you were only supposed to work X number of minutes and hours," were often ill-suited to People's style. They were not comfortable with its loose structure and broadly defined, constantly changing job assignments. They were not as flexible as PE types.

The flight manager (FM) positions were somewhat easier to fill. Many pilots had been laid off by other airlines due to economic problems, thus People had an abundant pool of applicants. All licensed pilots had already met certain intelligence and technical skill criteria, but not every qualified pilot was suited or even willing to be a People flight manager. Though flying time was strictly limited to the FAA's standard 30 hours per week (100 per month, 1,000 per year), and rules regarding pilot rest before flying were carefully followed, additional staff and management responsibilities could bring a flight manager's work week to anywhere from 50 to 70 hours.

Furthermore, FMs were expected to collaborate and share status with others, even those who were not pilots. In return for being flexible and egalitarian—traits typically in conflict with their previous training and job demands—pilots at PE were offered the opportunity to learn the business, diversify their skills and interests, and benefit from profit sharing and stock ownership, if and when the company succeeded.

Recruitment process. As many as 1,600 would-be CSMs had shown up in response to a recruitment ad. To cull out "good PE types" from such masses, Dubose and her start-up team, 8 CSMs whom she had recruited directly from Texas International, designed a multistep screening process. Applicants who qualified after two levels of tests and interviews with recruiters were granted a "board interview" with at least one general manager and two other senior people who reviewed psychological profiles and character data. In a final review after a day-long orientation, selected candidates were invited to become trainees. Only one out of 100 CSM applicants was hired (see Exhibit 1 for a CSM profile).

In screening pilots, the interview process was very stringent. Many people who were highly qualified were eliminated. Only one out of three flight manager applicants was hired.

Training and team building. The training program for CSMs lasts for five weeks, six days a week, without pay. At the end, candidates went through an in-flight emergency evacuation role-play and took exams for oral competency as well as written procedures. Those who tested at 90 or above were offered a position.

The training was designed to enable CSMs, many without airline experience, to perform multiple tasks and be knowledgeable about all aspects of an airline. Three full days were devoted to team building, aimed at developing trainees' self-awareness, communication skills, and sense of community. "We try to teach people to respect differences," Miller said, "to work effectively with others, to build synergy."

On the last team-building day, everybody chose two or three others to start work with. These groups became work teams, People's basic organizational unit. According to Miller, these decisions initially tended to be based on personalities and many trainees were reluctant to choose their own work teams. They were afraid of hurting people's feelings or being hurt. Trainers would remind them that PE gave them more freedom than they would get in most companies and more than they were used to. "Freedom has its price," said Kramer, "it means you've got to be direct and you've got to take responsibility."

Over time, trainers learned to emphasize skills over personalities as the basis of team composition and to distinguish work teams from friendship groups. Choosing a work team was a business decision.

Bottom-Line Business Indicators

As of the second quarter 1982 People was showing a $3 million net profit, one of only five airlines in the industry to show any profit at that time. In addition to short-term profitability, Burr and his people enjoyed pointing out that by several other concrete indicators typically used to judge the health and competitive strength of an airline, their strategies were paying off and their innovative company was succeeding.

Marketing payoff. Over 3 million passengers had chosen to fly with People Express. The size of air passenger markets in cities serviced by People had increased since its entrance. In some instances the increase had been immediate and dramatic, over 100%. Annual revenue rates were approaching $200 million.

Cost containment. Total costs per available seat-mile were the lowest of any major airline (5.2¢ compared to a 9.4¢ industry average). Fuel costs were ½-¼¢ per-seat-mile lower than other airlines.

Productivity. Aircraft productivity surpassed the industry average by 50% (10.36 hours/day/plane compared with 7.06). Employee productivity was 145% above the 1981 industry average (1.52 compared to .62 revenue passenger miles per employee) for a 600-mile average trip. Return on revenue was 15.3%, second only to, and a mere .9% below, Southwest—the country's most successful airline.

Explaining Success

"How could a new little airline with a funny name like People Express become such a formidable force so fast in such difficult times?" Burr was fond of posing this question with a semipuzzled expression on his face and answering with a twinkle in his eye! The precepts and policies represented by that "funny" name—People—had made the difference. To back up this assertion, Burr and the other managing officers gave examples of how the people factor was directly affecting the company's bottom line.

Consumer research showed that, notwithstanding heavy investments in award-winning advertisements, the biggest source of People's success was word of mouth; average customer ratings of passenger courtesy and personal treatment on ground and on board were 4.7 on a scale of 5.

Several journalists had passed on to readers their favorable impressions of People's service; one said, *"I have never flown on an airline whose help is so cheerful and interested in their work. This is an airline with verve and an upbeat spirit which rubs off on passengers."* Others credited the commitment, creativity, and flexibility of PE's people with the company's very survival through its several start-up hurdles and first-year crises.

Perhaps the biggest crisis was the PATCO strike that occurred just months after PE began flying. While the air traffic controllers were on strike, the number of landing slots at major airports, including Newark, were drastically reduced. This made People's original hub-and-spoke, short-haul route design unworkable. To overfly Newark and have planes land less frequently without reducing aircraft utilization, People Express took a chance on establishing some new, previously unserviced, longer routes between smaller, uncontrolled airports, such as Buffalo, New York to Jacksonville, Florida. This solution was tantamount to starting a new airline, with several new Florida stations, new advertising, and new route scheduling arrangement. The costs were enormous; according to Hap Paretti:

> *We could have run out of $25 million very quickly and there wouldn't be any People Express. The effort people made was astronomical, and it was certainly in their best interest to make that effort. Everybody recognized truly and sincerely that the air traffic controllers strike was a threat to their very existence. They rearranged their own schedules, worked extra days, really put the extra flying hours in, came in on their off days to do the staff functions, all things of that nature, people just really chipped in and did it and did a damned good job. So when we went into these markets from Buffalo to Florida, we could go in at $69. If we went in at $199 like everybody else we wouldn't have attracted one person. We could go in very low like that because we had a cost structure that allowed us to do that. That's where the people strategy, from a cost standpoint, resulted in our survival. If it wasn't there we'd be in the same situation many other carriers are today, hanging on by a toenail.*

By way of comparison, New York Air, a non-union airline started by others from Texas International around the same time as People with plenty of financial backing, economical planes and a similar concept of low-cost, high-frequency service, but different people policies, was losing money.

Human Dimensions: Positive Climate and Personal Growth

In addition to becoming a financially viable business. People had shown positive results in the sphere of personal growth, the number one objective of its people strategy. High levels of employee satisfaction showed up in first-year surveys done by the University of Michigan. Less tangible but nevertheless striking were the nonverbal and anecdotal data. A cheerful, friendly, energetic atmosphere permeated the planes and passenger terminals as well as the private crew lounge and hallways of corporate headquarters. Questions about the company were almost invariably answered articulately, confidently, and enthusiastically.

Ted E., customer service manager: *"I was a special education teacher making $12,000 a year, receiving little recognition, getting tired, looking for something else. I started here at $17,000, already have received $600 in profit sharing, and will soon own about 800 shares of stock worth $12 on the open market, all bought at very reduced rates."* (Two months after this statement the stock was worth $26 a share.)

Glenn G., customer service manager: *"I was running a hotline and crisis program, then was assistant manager of a health food store before seeing the People Express recruitment ad in the newspaper and coming to check it out. I'm about to sell my car in order to take advantage of the current stock offer to employees."* Both Glenn and Ted had worked primarily in training, but they had also done in-flight and ground-ops. jobs. They wanted more responsibilities and hoped to get them; but even if they didn't get promoted, they expected to continue learning from and enjoying their work.

Michael P., a flight captain:

I'm making $36,000. With my profit-sharing checks so far I've got $43,000 and on top of that I'll get sustained profit-sharing deals . . . I'm doing O.K. . . . Granted, at [another *company] a captain might be making $110,000 working 10 days a month [but] they're not really worth it. [In other companies] the top people might make over $100,000 but they throw out 200 guys at the bottom so they can continue to make their salary. Is that fair? [Also, the seniority system would have kept Michael from being a captain at most other airlines.] We're radically different and I believe radically better. Most pilots know very little about what's going on in their company. In a People flight manager position, the knowledge people gain in this ratty old building is incredible. It's a phenomenal opportunity. It's very stimulating and exciting. I never thought I would have this much fun.*

The stories of People's start-up team members and officers were even more dramatic. Each had profited and diversified substantially in their two years with the company.

Melrose Dawsey, Burr's secretary at Texas International, was a managing officer at People responsible for administration. She owned 40,000 shares of stock, purchased at $.50 a share and worth, as of November 1982, over $20 a share. For her own career development, she had also begun to assume some line management responsibilities in the in-flight area. In her spare time, she had earned her in-flight certification and run the New York marathon (as had Burr).

Lori Dubose, the youngest officer, came to People to head the personnel function. She had also taken on primary responsibility for the in-flight function as well as assuming the de facto role of key translator and guide vis-a-vis the company's precepts. As others came to see the value and purpose of People's precepts and human resource policies, Dubose's status among the officers had also risen.

Jim Miller had been a flight attendant for a year and base manager of in-flight services for four years at Texas International. As part of Dubose's start-up team, he had been coordinator of training, played a key role in recruitment, and then took on added responsibility for management and organizational development as well. Hap Paretti, who began as legal counsel and head of government relations, quickly became involved in all aspects of the marketing function. He then went on to head flight operations, a move he acknowledged was a little out of the ordinary since he didn't have a technical background as a pilot. He spoke for all of the officers: "As a managing officer, you're expected to think about virtually every major decision that comes up for review." Many spoke of the more subtle aspects of their personal development. Paretti enjoyed the challenge of motivating other people and managing by example to enhance the growth of others. Geoff Crowley, general manager in charge of ground operations and manpower scheduling, talked of becoming less competitive and less uptight about winning alone and more interested in working together with others to accomplish group and company goals.

The Downside of People's Growth and Strategies

People Express's growth rate and strategies were not without significant organizational, financial, and human costs. By Burr's own observation, "I would say at best, we're operating at 50% of what we'd like to be operating at in terms of the environment for people to do the best in. So we're nowhere near accomplishing what we would really like to accomplish in that regard. [But] I think we're better off today than we ever have been. And I think we're gaining on the problem."

Chronic understaffing. Lori Dubose saw the hiring rate as the most difficult aspect of the company's growth process, causing many other problems: *"If we could get enough people to staff adequately in all three areas of the company so that people got some staff and some line responsibility and would have some time for management development. [But] I think things would be a lot different. [There's been] constant pressure to hire, hire, hire, and we just haven't gotten enough."* She was adamant, however, about not relaxing People's requirements.

When Dubose came to PE she expected to staff a company flying three aircraft which would have required the rapid hiring of perhaps 200-300 people. The purchase of the Lufthansa fleet meant five to six times as many staff were needed. Given the time consumed by the selective recruiting process, and the low percentage of hires, the staffing demands for supporting and launching 17 planes -stretched PE's people to the limit. The result was chronic understaffing even by People's own lean staffing standards.

As of November 1982, the 800 permanent managers were supplemented with over 400 temporaries, hired to handle telephone reservations, a function trained CSMs were originally expected to cover. Some of these reservation workers had been there a year or more but still were not considered full-fledged People people, though many would have liked to be. They received little training, did not work in teams, own stock, receive profit-sharing bonuses, or participate in advisory councils. They were just starting to be invited to social activities. For a while those wishing to be considered for permanent CSM positions were required to leave their temporary jobs first on the theory that any bad feelings from being rejected could be contagious and have a bad effect on morale. That policy was eventually seen as unfair and dropped. Indeed, some managers saw this area as a training ground for CSM applicants.

In August 1982 several managing officers estimated that aside from reservation workers they were short by about 200 people, though the recruiting staff was working 10 to 12 hours daily, often 6 days a week, as they had since January 1981. This understaffing in turn created other difficulties, limiting profits, policy implementation, and development of the organization's infrastructure. McAdoo said: *"If we had another 100 to 150 CSMs without adding an additional airplane we could just go out and add probably another half a million to a million dollars a month to the bottom line of the company. . . . There is additional flying out there that we could do with these airplanes . . . we could generate a lot more money. . . almost double the profits of the company."*

Job rotation. The policy of job rotation, critical to keeping everyone challenged and motivated, had been only partially implemented. Initial plans called for universal monthly rotations, with 50% of almost everyone's time spent flying, 25% on ground line work, and another 25% in staff functions. Due to staffing shortages, however, many people had been frozen in either line jobs without staff functions or vice versa. Some had become almost full-time coordinators or staff to a given function like recruiting and training, while others had done mostly line work and had little or no opportunity to do what they expected when they were hired as managers. Since neither performance appraisal nor governance plans had been fully carried out, many felt inadequately recognized, guided, or involved.

Other human costs. There were also certain inherent human costs of People's people strategies. Rotating generalists were less knowledgeable and sometimes performed less efficiently than specialists on specific tasks. High commitment to the company plus expectations of flexibility in work hours could be costly to individuals' personal and family lives. For many who were single and had moved to Newark to join People Express, there was no outside life. As one customer service manager described it, *"People Express is it . . . you kind of become socially retarded . . . and when you do find yourself in another social atmosphere it's kind of awkward."*

For those who were married, the intense involvement and closeness with co-workers and with the company was sometimes threatening to family members who felt left out. Of the initial 15 officers, 3 had been divorced within a year and a half. The very fact of People's difference, in spite of the benefits, was seen by some as a source of stress; keeping the hierarchy to a minimum meant few titles and few promotions in the conventional sense.

Magel spoke: *"You might know personally that you're growing more than you would ever have an opportunity to grow anywhere else but your title doesn't change, [which] doesn't mean that much to you but how does your family react?"* Even People's biggest strengths, the upbeat culture, the high-caliber performance, and positive attitude of the work force could be stressful. *"It's not a competitive environment, it's highly challenging. Everybody's a star . . . but, you know,"* said one customer service manager, *"maintaining high positive attitude is enough to give you a heart attack."*

High commitment and high ambition, together with rapid growth and understaffing, meant that most of People's managers were working long, hard hours and were under considerable stress. Said one CSM, *"Nobody is ever scheduled for over 40 hours (a week), but I don't know anybody who works just 40 hours.*"

Dubose recognized that the situation had taken a toll on everybody's health. *"I was never sick a day in my life until I worked for People Express and in the last two years I've been sick constantly."* Other managing officers, including Burr, had also been sick a lot, as had general managers*. "And start-up team members—oh my God, they've got ulcers, high blood pressure, allergies, a divorce . . . it's one thing after another. . . we've all been physically run down."* DuBose added, however*, "it's not required that we kill ourselves,"* asserting that personality traits and an emotionally rewarding workplace accounted for the long hours many worked.

Burr's stance on this issue was that there were no emotional or human costs of hard work*, "Work is a very misunderstood, underrated idea. In fact human beings are prepared and can operate at levels far in excess of what they think they can do. If you let them think they're tired and ought to go on vacation for two years or so, they will."*

New climate survey. By fall 1982, though people were still generally satisfied with their jobs and motivated by their stock ownership to make the company work, many of People's managers below the top level were not as satisfied or optimistic as they once were. A University of Michigan 18-month climate survey taken in September 1982 showed signs of declining morale since December 1981. *"People are feeling frustrated in their work (and feel they can't raise questions), cross-utilization is not being well-received, management is viewed as less supportive and consultative, the total compensation package (including pay) is viewed less favorably. Clearly there is work to be done in several areas."* (Exhibit 2 contains excerpts from the 1982 survey.) The report found significant differences in the perceptions of FMs and CSMs: flight managers were more skeptical of cross-utilization and more uncertain of what self-management meant; they felt most strongly that management was non-consultative. When questioned about such problems, those in leadership positions were adamant that business and personal difficulties were short-term and the costs were well worth the long-term benefits. They felt that virtually every problem was soluble over time with better self-management skills—including time management and stress management, which everyone was being helped to develop—and with evolving improvements in organizational structure. Even those responsible for recruitment insisted*, "The challenge is that it seems impossible and there's a way to do it,"* Robinson said.

Dubose continued:

> *I don't think the long-term effects on the individual are going to be disastrous because we are learning how to cope with it. And I think the short-term effects on the organization will not be real bad because I think we're trying to put in place all the structure modifications at the same time that we're continuing the growth. That makes it take longer to get the structure modifications on the road. Which isn't real good. But they'll get there. Long term I think they will have a positive effect. I think. I wish I knew, for sure.*

Within two months of the climate survey report, Dubose and others from the People advisory council made a video presentation to address many of the items raised in the report. A solution had been formulated for *almost* every major item.

In spite of all the new initiatives, each of which would entail considerable time and energy to implement, People's officers did not believe they should slow down the company's rate of growth while attending to internal problems. Dubose offered the company's standard explanation:

> *If you don't keep growing then the individual growth won't happen. People here have a very high level of expectation, anyway. I mean unrealistic. I mean there's no way it's going to*

> *happen. They're not going to be general managers tomorrow, they're not going to learn each area of the airline by next month. But they all want to. And even a reasonable rate of growth isn't going to be attainable for the individual if we don't continue to grow as a company. And the momentum is with us now that we're on a roll. If we lose the momentum now we might never be able to pick it up again.*

Burr put it even more strongly: *"Now there are a lot of people who argue that you ought to slow down and take stock and that everything would be a whole lot nicer and easier and all that; I don't believe that. People get more fatigued and stressed when they don't have a lot to do. I really believe that, and I think I have tested it. I think it's obvious as hell and I feel pretty strongly about it."*

Burr was convinced that the decrease in energy and decline in morale evident even among the officers were not reasons to slow down but to speed up. For himself, he had taken a lot of time to think about things in his early years and had only really begun to know what was important to him between his thirty-fifth and fortieth years. Then he had entered what he hoped would be an enormous growth period accelerating, he said, *"between now and when I get senile. It's sensational what direction does. The beauty of the human condition is the magic people are capable of when there's direction. When there's no direction, you're not capable of much."* Approaching 1983, the big issue ahead for People Express, as Burr saw it, was not the speed or costs of growth. Rather, it was how he and People's other leaders *would "keep in touch with what's important" and "not lose sight of their humanity."*

Exhibit 1 Profile of a Customer Service Manager

Look for Candidates Who:

1. Appear to pay spedal attention to personal grooming.
1. Are composed and free of tension.
2. Show self-confidence and self-assurance.
3. Express logically developed thoughts.
4. Ask intelligent questions; show good judgment.
5. Have goals; want to succeed and grow.
6. Have strong educational backgrounds, have substantial work experience, preferably
7. in public contact.
8. Are very mature, self-starters with outgoing personality.
9. Appear to have self-discipline, good planners.
10. Are warm, but assertive personalities, enthusiastic, good listeners.

Appearance Guidelines

Well-groomed, attractive appearance.
Clean, tastefully worn, appropriate clothing.
Manicured, clean nails
Reasonably clear complexion.
Hair neatly styled and clean.
Weight strictly in proportion to height.
No offensive body odor.
Good posture.
For women, makeup should be applied attractively and neatly.
Good teeth.

Note: These guidelines applied to everyone regardless of ethnic background, race, religion, sex, or age.

Exhibit 2 Excerpts from the 1982 Survey

In comparing the responses from the December 1981 and September 1982 surveys, the following significant changes have apparently taken place:

- Getting help or advice about a work-related problem is not as easy.
- What is expected of people is not as clear.
- People are not being kept as well informed about the performance and plans of the airline.
- Satisfaction with work schedules has decreased.
- The number of perceived opportunities to exercise self-management is lower.
- The process used to create initial work teams is viewed less favorably.
- The work is generally perceived to be less challenging and involving.
- The overall quality of upper management is being questioned more.
- Fewer opportunities for personal growth and career development are apparent.
- People are not very comfortable about using the "open door" policy at People Express.
- People feel that their efforts have less of an influence on the price of People Express stock.
- The buying of discounted company stock is being perceived as less of a part of the pay program.
- The compensation package is thought to be less equitable considering the work people do.
- People feel they have to work too hard to accomplish what is expected of them.
- The team concept at People Express is being questioned more.
- Officers and general mangers are thought to be non-consultative on important decisions.
- People Express is thought to be growing and expanding too fast.
- There is a stronger perception that asking questions about how the airline is managed may lead to trouble.

All of these changes are in a negative direction. Clearly, people are frustrated with the “climate” at People Express: morale and satisfaction are on the decline.

On the positive side, people's expectations of profiting financially were somewhat greater.