

# ERM Success Case Study: Southwest Airlines



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The **mission of Southwest Airlines** is “dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.” As you can imagine, fulfilling this mission requires a focus on people, whether inward or outward facing. It is with this mindset that Southwest uses its **corporate culture** to highlight some of the best features of enterprise risk management (ERM).

You are likely asking, “How do they do ERM?”

Southwest had an early start to proactive risk management when they started hedging jet fuel almost 20 years ago. Now ERM at Southwest focuses on people using three complementary methods.

## **#1: Understanding that risk maturity is not linear.**

Southwest recognizes that an organization’s level of maturity, culture, and unique risks have to be taken into account before determining the best way to approach ERM *and* the organization’s ability to manage its risks. With this recognition, Southwest assesses and prioritizes its risks in comparison to current management efforts and then shifts its resources towards the most efficient opportunities.

## **#2: Using forums for people to discuss and take action on risks.**

This type of engagement of people in different roles at various levels enhances the enthusiasm for ERM and improves the value that ERM can bring to the company.

The use of board-level committee, executives, and subject matter experts bring a wealth of knowledge, perspective, and decision-making authority to the table. The four types of forums that Southwest uses are:

- 1) Board of Directors
- 2) Executive Risk Committee
- 3) Risk Executive Steering Group
- 4) Risk Working Team



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## FOUR ERM FORUMS

at Southwest Airlines

### 1. BOARD OF DIRECTORS

#### Oversight of Management

Oversees management's ERM efforts, understands the company's risk appetite, the company risks and how the most significant risks are being addressed.

### 2. EXECUTIVE RISK COMMITTEE

#### Resource Allocation

Includes all top level executives; provides oversight of top risks to ensure proper management; reviews risk management activities.

### 3. RISK EXECUTIVE STEERING GROUP

#### The Risk Rudder

Consists of 8 executives with specific roles; reviews risk scores and rankings; identifies top risks and sets agenda for the Risk Committee; oversees and provides direction to the Risk Working Team.

### 4. RISK WORKING TEAM

#### Subject Matter Expertise

Leaders, managers, and subject matter experts throughout the enterprise who participate in risk reviews, risk identification and scoring and are knowledgeable of the corresponding risk management activities.

## #3: Recognizing that people achieve objectives.

Embedding risk into decision-making on all fronts, whether financial, strategic, compliance, or operational, puts ERM front and center throughout Southwest. And once risks are identified, the Risk Working Team gets a solid understanding of "how bad could it be?" for each risk by looking at impact, likelihood, velocity, and vulnerability. This understanding supports the prioritizing and filtering of risks to take action on how to address those risks.

After all, information is only as good as the people who use it to take action. Therefore, Southwest uses its people to turn risk information into insights, which are best used for decision-making.

## At the end of the day...

Southwest has demonstrated the value of using the culture of the company to drive ERM instead of ERM driving the culture. By harnessing the knowledge, skills, and desire to work together, ERM at Southwest has taken huge leaps forward to ensuring it can continue to fulfill its mission.