

CASE STUDY: A GREAT RECOVERY OF MALAYSIA AIRLINES

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Abstract--*The aim about this study is to explore the causes of airline recovery in Malaysia. Airline industry is one of the most competitive and strongest industries in the world. The speed of air traveling and the fall of real prices have made the air traveling increased in market share of passenger transport. Furthermore, the fatalities and the long term safety record of air traveling are way better than any other modes of transportation. One of the most controversial airlines in Asia, Malaysian Airline System (MAS), has been praised and criticized in equal measures. Malaysia Airlines' humble origins began in the golden age of travel in 1937. By the end of 1947, once known as Malayan Airways had engaged in an expansion exercise to cater to the growing needs of a growing nation. Within three months, the company broke the borders of domestic service to offer flights to neighborhood countries. A year after the Independence of Malaya in 1957, Malayan Airways took the next step in becoming part of the new corporate scene in Malaysia and was launched as a public limited company. The advancement continues to the acquisition of an 82-seater Bristol Britannia in 1960 made mass transport by air a reality. This led to the first international non-stop service for MAL, which operated directly between Kuala Lumpur and Hong Kong (Wong & Musa, 2011; De Silva et al., 2018a; De Silva et al., 2018b; Nikhashemi et al., 2013).*

Keywords: *service performance, Malaysia airline system, performance linked compensation, airline industry*

I. Introduction

Malaysia Airlines System Berhad first took off in 1947 using the Airspeed Consulaircraft. Starting its operations with only one five seater twin-engine air speed consul, Malaysia Airlines has now become one of the most-favorite airlines in the world and won nearly forty world-class carrier awards. They now have more than 100 fleets of airplanes in their stable, although still considered as a young entity in aviation industry, Malaysia Airlines are proud to give five-star service to all first-class, business-class, and economy class passengers. No wonder then that they won the “world best cabin staff award” for 6 years in a row. To accomplish the mission in providing the best in safety, comfort, punctuality, Malaysia Airlines wants to put themselves in the same rank as the other world-class airlines that have been trusted by many passengers world-wide through their enhanced in-flight services, excellent infrastructure, reliable ground support, as well as responding to worldwide demand from customers will set new world standards.

To enhance the services offered by Malaysia Airlines to their precious customers, Malaysia Airlines (MAS) is purchasing six A380 from Airbus, firming up an earlier commitment that was signed by Penerbangan Malaysia Berhad (PMB), the parent company of the airlines. The introduction of Airbus A380 to the world has captured many attentions, including MAS. The gigantic, double-deck A380 was inaugurated recently here dedicated to the solution for today and tomorrow’s modest

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requirements to satisfy airlines operating the world's major long-haul routes. Through the transaction, Malaysia Airlines believed it will benefit them in the long term. The purchase also represents continuation of two-decade-long relationship between Malaysia and Airbus. The air services between the two states were then expanded throughout the country as to cater to the increasing demand of domestic flights and later on embarking the era of international travel as it began in Asia. MAL has been a pioneer in providing regional flight services concerning to the growing needs of these growing nations (Rosnan & Mahmud, 2012; Dewi et al., 2019; Pambreni et al., 2019; Tarofder et al., 2017).

When the federation of Malaysia took place in 1963, Malayan Airways has been renamed to Malaysian Airlines Limited. Malaysia Airlines Limited was jointly owned by Queensland and Northern Territory Aerial Services (QANTAS) and British Overseas Airways Corporation (BOAC – now known as British Airways). After the separation of Malaysia and Singapore, to reflect the identity of Singapore new independent status, the airline has again been renamed to Malaysia – Singapore Airlines (MSA) during 1966. MSA quickly expanded to reach for more international destinations as well as to acquire some new fleets to service the new international routes.

When Malayan Airways first started to spread its wing, the first aircraft was a twin-engine airspeed consul that has only five-seater. This is the aircraft that the airline has been using for the flights between Penang and Singapore. Since the demand of domestic flights has increased, the aircraft were further enhanced by the purchase of a 21 seater DC3 to cater to all domestic routes. After Malayan Airways Limited (MAL) was listed, the resources for the airline increased and this has allowed the airline to acquire five more Beaver aircraft and a new Douglas DC4 Skymaster. The Douglas DC4 Skymaster then became the official flight carrier and also the pioneer to the route to Hong Kong. This was MAL's first flight beyond South East Asia. When the airline entered the "jet age" in 1959, the era had brought them to a new speed and comfort level after their purchase of Vickers Viscount aircraft (Mohd-Any, Mutum, Ghazali, & Mohamed-Zulkifli, 2019; Doa et al., 2019; Maghfuriyah et al., 2019; Nguyen et al., 2019).

When MAL acquired the 82-seater Bristol Britannia in 1960, they made the mass transport by air became reality. Their first non-stop international service was from Kuala Lumpur to Hong Kong. Borneo Airways and MAL saw the need to expand the fleet, where they have again acquired five F27 aircraft. Earlier MSA had fleets that both organizations shared even after the split up. The fleets shared were Boeing 707 and Boeing 737-200 jets. After the separation, MAS began a new life using the Boeing 707s for the international services such as London, Amsterdam, Frankfurt and Zurich. As for domestic flights, they were served with Fokker F-27 and Britten-Norman Islander aircrafts. Boeing 707s had been replaced to DC10-30s for international services to Europe. Few years later, MAS expanded its destination to United States of America when those fleets were replaced by new Boeing 747-300 jets.

A further fleet expansion was seen as the next best step. The 20 years of Malaysia Airlines involvement in the airlines industry has been seen as a major success for the airline, from a single aircraft operator into a company that have thousands of employees and with the latest jet-crafts. As Malaysia Airlines spread its wing "wider and further" with the fleet modernization program and expanding new international routes, the airline has a group of companies with a majority of them wholly owned by Malaysia Airlines. Referring to the Exhibit 2, companies like MASkargo, MAS Golden Holidays, MAS Academy are part of other 15 companies wholly owned by Malaysia Airlines Sdn Bhd. Malaysia Airlines has also invested to some other companies from their own associates. Human resource division continues to be a critical point in organization worldwide. Employee satisfactions were directly translated in the quality of products or services produced. Therefore, employee's welfare is something that any organization must look wt solemnly and carefully. Malaysia Airlines is one of the organizations that really focus is on its human resources. With the believe that its employees are its most valuable resources,

Malaysia Airlines maintain all the skilled, productive, motivated workforces by rewarding them appropriate remuneration packages according to their positions (K. F. See & Rashid, 2016).

In order for Malaysia Airlines to serve its customers better, customer oriented workforce was formed with a purpose to achieve the company's long and short term goal. An introduction of Job Rotation Programmed was believed to let staff to get exposure and experiences from the many facets of the airline business, and Malaysia Airlines Academy (MAA) has been responsible for delivering that objective. MAA is a training and development center aiming to prepare and further develop the employees' competencies in the various area of the business, e.g. from flight attendants to managerial staff. MAA is also responsible to drive and improve the airline's workforce capabilities and to maximize the potential of the employees. Internal and external teaching resources were provided to cater the learning needs of employees. MAA were actively involved in collaborating with other higher learning institutions for free exchange of management knowledge and experiences in order for them to understand the worldwide customers better. Many programmes have been introduced by MAA as to cater to the increasing complexities in the ever-changing environment especially in airlines industry, where the policy keeps on changing, and resulting in business leaders being put under constant pressure

Malaysia Airlines has been under PMB (Penerbangan Malaysia Berhad) for the past 3 years. PMB acts as a parent company of Malaysia Airlines, and is actually one of the Government Linked Companies (GLC). Malaysia Airlines has taken a step forward by introducing a Performance Linked Compensation (PLC). PLC assesses the performance of every staff in Malaysia Airlines. The key effective and cost efficient method that Malaysia Airlines used to streamline its business processes in an effective manner is by the use of Information Technology tools. They believe in strategically outsourcing their IT function since it is an area that is not of their core competency. The huge interest in outsourcing IT is because the conviction that an organization with access to a reliable Information Communication Technology (ICT) infrastructure. Malaysia Airlines signed an IT partnership with IBM in September 2003 and under a ten-year IT deal worth more than RM 115 million, IBM will operate and manage the airline's IT infrastructure, including application maintenance and development. To support its ongoing technology requirements, IBM will provide development opportunities for the organization's IT staff who will join IBM to ensure the Airline's IT operations are strictly maintained. Part of the strategic business units that went on to be a successful includes the Internet Booking Facilities (Phase 1) (Nasir, Ahmed, & Barkat, 2017).

In five years to come, Malaysia Airlines expects forty-percent (40%) of its ticket sales to come through 'Online Booking'. When Malaysia Airlines launched their new online services, enhanced version website in August 2003⁶, the new improved website quickly became one of the convenient ways to market its full range of services and travel destinations. Malaysia Airlines planned to invest another RM 20 million over the next few years to upgrade its online services. Under the online booking services, local and foreign travelers can book to any Malaysia Airlines destinations in one single website, whereas, previously Malaysia Airlines allowed travelers to book for domestic flights only.

II. Literature Review

The robustness of economic recovery has gained enough strength to continue the momentum into the year 2005. After 18 months of leadership succession, a new direction of economy policy started to take place. With the intention to overhaul some elements in the economic system, the new prime minister, Dato' Seri Abdullah Badawi started to reinvigorate the nation's economy policy with an aim to achieve a developed country status by 2020. The growth is expected to yield at least another few percent in 2005 due to some positive look at the external environment coupled with the domestic-led activities. The government has taken several initiatives to further develop the private sectors by working closely as partnerships

between the private and the public sectors. This has been an important step and has proved to the nation that the government has taken a step further to create a dynamic corporate culture in the private sector. Although it has been said that the vigorous economic recovery would strengthen the momentum through 2005, the real GDP growth is expected to taper off. The persistent of the high oil prices is another external factor that could lead to the weakness of real GDP in 2005. The concern on the oil factor is likely to slow down businesses as consumers in Malaysia and its trading partners would slowly reduce the spending on oil and energy related purchases (Nikbin, Iranmanesh, Hyun, Baharun, & Kim, 2015; Pathiratne et al., 2018; Rachmawati et al., 2019; Seneviratne et al., 2019; Sudari et al., 2019; Tarofder et al., 2019).

The government is planning to attract foreign investors to invest in any of the GLCs as to strengthen the sustainability of the GLCs. Taking Malaysia Airlines as an example of a successful restructuring; the government is looking forward to restructure other linked companies to emulate the result they had with the national carrier. Strong partners, especially with experienced foreign investors is believed to help the GLCs accomplished their objectives of restructuring. During the economic downturn in 1997, many companies in Asia region has been struggling to survive, especially the airline companies. Malaysia Airlines is not, spared either. During the particular period, the chairman of MAS was Tan Sri Tajuddin Ramli. Malaysia Airlines reported losses due to the foreign exchange losses and the weak Ringgit that hit the region during the period. Not only that, the demand for air travel within Asia were weak, the outbound traffic from Malaysia and domestic travel dropped tremendously, the crude oil prices increased and contributed to the spiralling costs that MAS painfully had to bear. Drastic actions were taken. MAS had to sell some of its aircrafts and following the heavy losses under Tan Sri Tajuddin Ramli management, the Malaysian government bought nearly 30% of his stake in MAS estimated to cost around US\$471 million. The irony of this situation is that the government had to pay at one and a half times more than the current, market price for Malaysia Airlines at that time in order to save the business; a classic bail out.

The attacks created fear for most people to fly anywhere around the globe. Although the incident happened in United States, the Asian airlines faced the same phenomenon. Asian giant carriers such as Malaysia Airlines, Philippines Airlines, Garuda Indonesia were then had to restructure and some had to announced route cutbacks. Few hundreds laid off emerged in most of the carriers due to the tragic episode. The pre-September 11 incident type of market is unlikely to happen soon as full global recovery may take some time. This is due to the fact that most of the fixed and variable costs are extremely hard to cut and the oil prices are likely to increase again due to some other external factors. The Iraq war has impacted the airline industry in several ways. Firstly, the traffic to and from Middle East destinations suffered. The passengers were afraid to travel around the area due to security issues. Secondly, even the non-Middle Eastern passengers are sensitive with the security issues each time they travel by plane due to the increase of terrorist attacks in many part of the world. The war in Iraq had reduced the source of global oil reserve and this tends to increase the oil price per drum to more than 40%. Since Iraq possessed the second largest substantial oil reserves, the global prices went up and down in a fluctuating manner. The airline sector faced the most turbulent period in its history – racking up accumulated losses of billions of dollars. The slump begin with a steep fall in passengers numbers in respond to the 9/11 attacks and has been prolonged by the Iraq war and also the outbreak of the deadly SARS (Nikbin, Ismail, Marimuthu, & Salarzahi, 2012; Nikhashemi et al., 2017; Tarofder et al., 2019; Ulfah et al., 2019; Tarofder et al., 2016; Udriyah et al., 2019).

Suddenly had to face the SARS outbreak which then brought critical constraint to their businesses. The external environment could change very rapidly and the major trends also have an effect over the airline industry. Malaysia Airlines must be prepared for all these factors to develop appropriate plans to exploit the abundant opportunities. Travelers may choose to travel by air or other means, or not to travel at all. Declining numbers of passengers in few years back were mostly because of the effects of the September 11 attacks that led to an increased fear of terrorist attacks and the threat of SARS

disease. Major carriers have restored hundreds of flights and thus, resulting in more employees needed. United Airlines for example recalled thousands of employees that they laid off during the crisis period. Calling the previous staff seems to be the right decision since they have experience, and can start readily without any time lost for training compared to new employees.

The recession had resulted in more business travelers preferring to fly economically. The airlines industry was shaken up with the rapid growth of small carriers that provide cheaper traveling prices. The giants are struggling while the smaller carriers are growing and prospering. In the process, travelers are the winners and enjoying the robust benefits from this competition by flying with the low-fare carriers that are now flying to more cities than ever and the convenience ingenious marketing effect done by these Low Cost Carriers (LCC). America Airlines has even try go as far as they can by trying to boost business class fare. Referring to the exhibit 3 below, the table shows the passenger services results by class of service in year 2002. It is important to know that the airlines' profits were generated mainly from business class, which were 29% compared to economy class, only 5%. Airlines didn't generate many profits from the sales of first class' seats. That's explained why many airlines moved from three-class-cabin to two-class-cabin recently.

Table 1: Passenger Services Results (by class of service 2002)

Class of Service	Capacity ASK %	Load Factor %	Yield per RPK USc	Revenue US\$ %	Operating Ratio Revenue as % of Total Costs
First	2.4	36	23.5	3.8	73
Business	14.8	52	18.8	28.1	129
Economy	82.8	77	5.5	68.1	105
Total	100.0			100.0	

It is risky to gamble on the idea of business traveling is back on the track. Fortunately there is another group of customers. There are a group of people will take vacations after a year of hard work. The increase of disposable income of this group would be one of the factors why the group doesn't mind paying a lot of money to have their dream vacations. Increases of ticket prices don't deter this group from enjoying their dream vacation. Many airlines are taking advantage from this type of group, and that explains why some major airlines are imposing extra fees on the normal ticket sales whereby passengers have to foot the price while the airlines try as hard as possible to cut their distribution costs. On the other hand, airlines are no known to be a luxury factor for those whose objectives are to travel from point to point. Because of the time constraint, traveling by plane could cost much lesser than traveling by on the road transportations, such as car, and bus. Traveling on the road could cost more because the high prices of oil, increment of toll-charges, and the time that involves from point A to B. Traveling by planes are considered to be a necessity especially to all business travelers.

The rise of discount carriers (also known as low cost carries) have grown in number and size far more than anyone would imagine. By having such carriers, everyone from the lowest income to the medium income segment could enjoy the advantages of traveling by planes. This scenario has encouraged a lot of people to travel by plane, especially when the low cost carriers gave them terrific discount. Active travelers would always be attracted to promotional discounted flights such as "RM 0.99 only". Malaysia Airlines was privatized in 1994 when Tajudin Ramli, the former owner of Malaysia Airlines

who is also a former banker whose business mainly focuses on telecommunications. After the seeming 'privatization', the financial performance of the airline took a turn for the worse by having to suffer years of losses. In 1997, the Asian financial crisis had worsened the financial position of Malaysia Airlines. In the name of national interest, it forced Malaysian government to buy back all the stakes from Tajudin.

Nevertheless, the steps that the government took to save Malaysia Airlines had been greeted with criticism. The critics had been arguing on why the government should buy-back the stakes with the same price when Tajudin first bought the stake. Since MAS' shares has been fallen significantly since the first transaction, and it was impossible for the government to purchase the shares back at twice from the premium market price at that time. Among the factors that driven to Malaysia Airlines' loss were the fact that it didn't had the policy of locking up the future oil prices. The mistake had spelled troubled for them because the airline's competitors such as SIA, Cathay Pacific and Qantas Airways had already hedging the policies earlier on. Loss in year 2000 was because the amortization of the foreign exchanges losses and the abnormal hike in fuel prices.

Another factor that led Malaysia Airlines to a huge of loss was because the fact that at that time they didn't join into any international alliances, such as Star Alliances, SkyTeam, Qualifyer, Wings, and Oneworld. Having an alliance is very crucial for airlines business as it would improve the passengers load. Following the event of the government bailout, the recorded total of a pretax loss was RM1.303 billion for the financial year ended on March 31, 2001. After the government renationalized Malaysia Airlines through the controversial buy back of a 29.9% stake for RM1.8 billion, the government appointed a whole new management, starting from the chairman – Y. Bhg. Tan Sri Dato' Seri Azizan Bin Zainul Abidin, and Y. Bhg. Dato' Mohammed Nor Yusof as the carrier's new managing director. Under the new management, major changes had been made such as to double the services in the region, as they believed that at present time Malaysia Airlines had what it needs in terms of the coverage but were lacking in terms of frequency. In domestic sales, Malaysia Airlines was reported to lose around RM320 million a year.

Under the new management, Dato' Nor had implemented some totally new strategies. The managing director had also ensured each department is operating according to the expectation levels that were given to them. Dato' Nor had also wanted to ensure Malaysia Airlines formed alliances with the other world airlines as it was important to strengthen the airline's position. Within only few months after the renationalizing of Malaysia Airlines, finally a welcome change from the recurring losses for the past five years before had started to change the look of Malaysia Airlines. Although it was just a modest profit, it was still an achievement considering the global environment at the time, which includes the terrorists attack, economical factors and the political instability. Malaysia Airlines had started the year in a grave position. Following the troubled cost by the terrorist attack, it was not the crisis that affected to the airline, but their response to it. The aftermath of September 11 had the most impact towards the airline industry particularly and Malaysia Airlines was affected badly since the confidence toward air travel had completely sapped. The airline had to suspend 12 destinations, cutting the overtime pays, and reviewing the outsourcing contracts.

Malaysian government had unveiled a plan to restructure Malaysia Airlines ensuring the airline achieving a realistic prospect within a reasonably short time. The government had created a holding company Penerbangan Malaysia Berhad also known as PMB. PMB took control of the airline's fleet of nearly 100 aircraft and assume its liabilities.

Online booking makes travel easy because travelers can plan their trip properly. Through online booking, travelers may check the flights schedule themselves and allows them to make their reservations by taking on their own time. In August 16,

2004, Malaysia Airlines has launched its online booking service. Under this new service, local and foreign travelers can make bookings online to any Malaysia Airlines travel destinations while enjoying 'supersavers' advantages. Previously, the online booking was only meant for domestic destinations. The continuous updated exclusive online offers by Malaysia Airlines like ASEAN Supersavers, DOMESTIC Supersavers, and other great holiday packages come with certain terms and conditions. Usually, tickets purchases under the online offers are round trip tickets that have specific departure dates and the booking class is restricted to only Economy Class. However, travelers who don't want to take the online offers may directly book the normal ticket flights through the internet booking facility provided in the Malaysia Airlines webpage (Changsong, Yiming, & Ahmad, 2017).

"Grads" is Malaysia Airlines student membership program for students traveling within Malaysia or even outside Malaysia to study. This membership not only makes the students travel to their destination easily and also give students access and discounts to great holiday packages. This student card can be applied from the 12 years old student attending government recognized and accredited schools or universities. By using Grads card, students may enjoy 50% discounts for domestic flights, special rate for international flights, and 5% discount of Golden Holidays by Malaysia Airlines MASKargo is Malaysia's premier air cargo transportation that caters to the need of customer demand for imported goods and services. Air cargo depends totally on the import and export businesses. With the goal to help customer deliver the cargo in a timely manner at a lower cost, MASKargo strives to be the world class cargo handling services and work to help customers manage their logistic requirements.

Back in 1974, Malaysia Airlines was the pioneer in Haj operating services. In the year of 2003, Malaysia Airlines won back the contract to operate charter flights for the Haj 2004 sessions when Lembaga Tabung Haji signed the agreement which contracts Malaysia Airlines to operate 126 flights for three Haj sessions. This agreement had helped Malaysia Airlines to achieve RM44 million per year. Other than helping thousands of Muslim pilgrims in fulfilling their sacred obligations, Malaysia Airlines does provides charter services to other places including Chengdu, and Shenzen. Temptations' is the in-flight shopping that Malaysia Airlines created to reflect Malaysia Airlines' innovation and excellence in retailing through merchandise selections. The fresh marketing initiatives have carried amazing results and Temptations has been awarded as the "2004 Frontier Highly Commended In-flight Retailer of the Year Award at the 20th Frontier Awards" in Cannes (de Sausmarez, 2007).

The airline company offers online-booking system where travelers may purchase the ticket or book the ticket through online. Through online-booking system too, travelers may check all the available flights that Malaysia Airlines have and check the price of the ticket according to where they want to go. The Malaysia Airlines website is not only limited to the booking service system – there is also promotional packages from global to local destinations, with reasonable prices. There are other products from and Malaysia Airlines took this advantage by promoting the other product lines that they have. Following the success of the first travel fair in 2004, Malaysia Airlines conducted another travel fair last February in Mines Exhibition Centre. Different from the first Malaysia Airlines Travel Fair (MATF) where it only been held in one place, this year Malaysia Airlines hold the travel fair in four key locations, including Kuala Lumpur, Penang, Kota Kinabalu, and Kuching. This kind of fair offered visitors with the best travel deals. It is part of Malaysia Airlines marketing strategy in a mutually rewarding program for the customers. As a reward for the longtime supporters, Malaysia Airlines had offered the best prices and valued deals from discounted airfares to cheap packages through MATF.

As part of the mean to strategy the profile of KLIA as both regional and international destinations, Malaysia Airlines tried to encourage the traffic movement to and from Malaysia by the development of commercial arrangement through code-share

agreement. Malaysia Airlines has formed various alliances for code sharing with major international carriers in order to achieve high passenger load and commercial yield. Among the airlines that participate in the code-share agreement with Malaysia Airlines is Garuda Airlines. Garuda Airlines, the Indonesian airline had signed agreement that covers several aspects – from joint co operations, providing platforms for both airlines,

Malaysia Airlines started made loss in the fiscal 1998 with a pre-tax loss of RM 224.4 million. The performance was blamed on the crisis that troubled the whole Asian region – the foreign exchange losses. In the next fiscal year, 1999, it had been reported that the demand for air travel was very weak. The economic problems in Asian region had a total impact in intra-Asian travel. Based on the profit and loss account in published annual report for the respective fiscal year, the airline had made a turnover loss about RM 1.1 billion. The loss was higher than the previous year. The impact of the losses has affected directly towards the shareholders' value who had to bear the decline per share to 90.9 sen per share. The loss after taxation before minority interest was only RM255.7 million compared to the year before RM696.7 million. The profits from sales of aircrafts and spare engines saw a net profit of RM949 million compared to RM395 million from the previous year (K. L. See, Hafizam, Aziz, Azaini, & Shah, 2016).

Moving on to the year 2001, the performance of this airline worsened. Government bought 29% stake from the previous chairman, and took control from there. The loss was more than 5 times from the previous year's loss. Reported net loss was RM1.3 billion on the back of RM8.9 billion revenue. Obviously Malaysia Airlines operation costs were higher than those of the same industry and its competitors. The domestic routes flights made a loss of RM 320 million and their profits from selling air crafts and spare engines dropped from RM 949 to RM 235 million. It was obvious that the balance sheet was fragile because the new management team had to carry the disproportionate large debt and incurring disproportionately high financial charges against its cash flow.

Malaysia Airlines had to struggle to survive despite the entire negative developments around them. Started from the September 11 attacks, and then the tragedy of Bali Bombing have made the travelers felt insecure to travel anywhere within the region and period. The feelings of insecurity had made a total impact especially on aviation industry. Shareholders have to bear the consequences when their loss per share was 108.5 sen from the previous year of 54.2 sen. The reduction of revenue can also be seen from this year's annual report where this year, the revenue decreased to RM 8.3 billion compared to last year's RM 8.9 billion (Mekki, Derigent, Rondeau, & Thomas, 2017).

Recently, though, after years of losses, Malaysia Airlines was finally back in the game. The financial statements went back to the black and they are now moving on with their long term business plan. Malaysia Airlines had posted their first net profit after 5 years of losses in the year 2003. The Airline's net profit which amounted to RM 339.1 million had ended the five years of being in red. However, like other regional carriers, Malaysia Airlines was no exception from escaping the containment of SARS, where, during the first quarter of the fiscal year they incurred a net loss. As traffic rebounded when the SARS issue was over, Malaysia Airlines rebounded and reported sharply higher profits. Although they have to cut down more than 700 flights to SARS affected areas, but the demand for other destinations were back to pre-SARS levels. During this fiscal year, the basic earning per share was 38.9, and it was certainly good news to all the shareholders.

Profit from selling the aircrafts to the PMB and spared engine saw a decrease from last year when Malaysia Airlines sold of their assets to PMB, with a profit of RM128 million. For this year the profit decreased to RM56 million. The basic earning per share has also seen a slight decrease from 38.9 sen to 36.8 sen. The fixed assets continued to drop whereby the previous year fixed asset was RM 1.8 billion and this current year fixed asset is RM 1.6 billion. This year has seen a slight change of management position since the demise of Tan Sri Dato' Seri Azizan bin Zainul Abidin, the chairman of Malaysia Airlines.

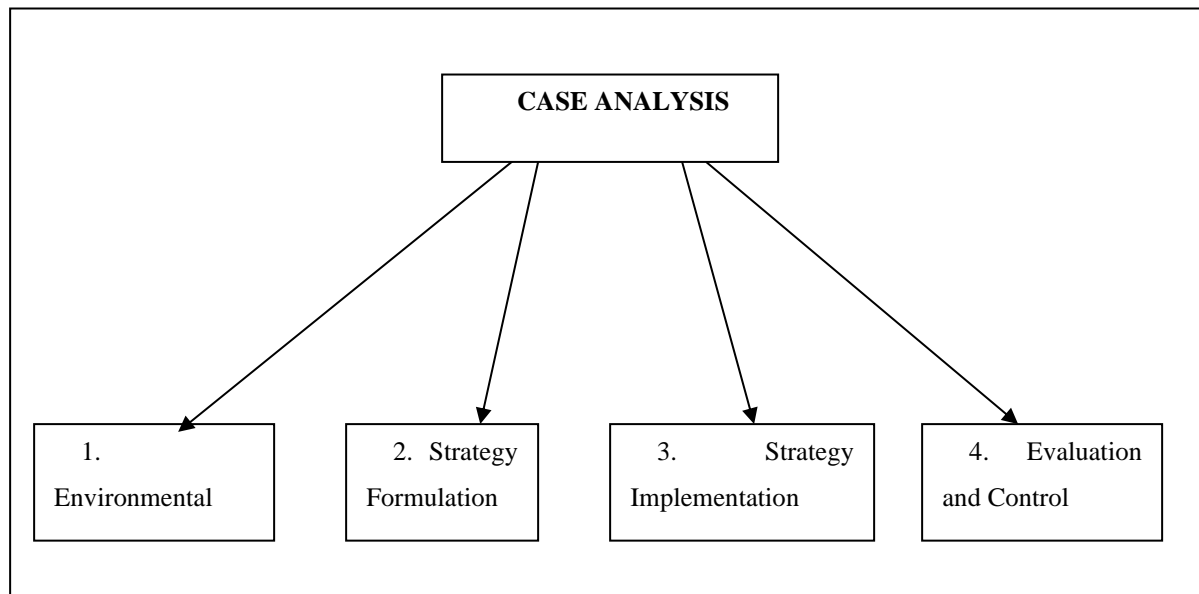
The late chairman was then replaced by Dato' Dr Munir Majid was selected as Malaysia Airline Non-Executive chairman on 1st August 2004, for 2 years.

From the cash flow statement of ending in 31 March 2004, Malaysia Airlines didn't see neither gain nor loss from the Execution of Widespread Assets Unbundling (WAU) that has been commenced on 2 years before, when Malaysia Airlines started to restructure. The current year result is nil, compared to last year's loss from WAU was about RM 229,504. The traffic revenue was impressive where the scheduled services of passengers and baggage are RM 7.3 billion compared to RM 7.0 billion in 2003. As one of the agreement in WAU between Malaysia Airlines and PMB, all the domestic operations revenue goes to PMB since the carrier only operated on behalf of the PMB. Malaysia Airlines only garnered the profit from international flights, and from the annual report, the national carrier had to give up the traffic revenue related to domestic operations of RM1.3 billion, and channel them down to PMB (Carlsen & Hughes, 2008).

Analysis

On another note, Malaysia Airlines expenditure grew up. This happened in tandem to the increase of oil prices. But as the managing director of Malaysia Airlines said that they are being realistic about the impact from rising fuel price and they have taken a proactive measure to ensure the prices that the airline has to bear will not burden the airline as well as the passengers. In 2004, the fuel and oil price was RM2.29 billion, an increase compared to RM1.98 billion in 2003.

In the second part of this case study of Malaysia Airlines, the written case will be analyzed and this section will be segregated into four major areas, which are (please refer to figure 1) :



Malaysia Airlines has its main business in providing the best service to their customers. In order for Malaysia Airlines to improve its efficiency, they have to improve continuously and never be comfortable with what they had achieved. In the Operational Analysis section, we will analyze on how well Malaysia Airlines managing its business from Human Resource, Sales and Marketing and Flight Operations and safety (Al-Jader & Sentosa, 2015).

Another way in keeping the spirits of its associates, Malaysia Airlines motivates the employees by giving perks and benefits. Among the staff benefits are: once a year free return ticket to any Malaysia Airlines' destination (also, discounted tickets for the immediate family members), and extensive medical coverage including dental plans with a comprehensive insurance policy. In return, Malaysia Airlines would get a long term benefits – especially in the productivity areas, that could lead to increase in profitability. Hence, there is no wonder why other airlines keep on pinching Malaysia Airlines' well-

trained employees to work for them. However, by only giving the employees a sufficient and proper training is simply not enough. Although the on-job training provided by Malaysia Airlines to its associates is perceived as a fruitful step taken in order to increase its employees' capability, a good compensation package compensation will do better. Other airlines offer higher salary and a better compensation package than Malaysia Airlines; thus, it is no wonder why Malaysia Airlines' staff is attracted to move to another airline.

Malaysia Airlines should review its human resource policy to ensure women in the company are not being discriminated. Currently, the Airline policy requires the stewardess to retire at the age of 40. "Such requirement which requires women to retire earlier than men is considered as discriminatory and against government policy", Women, Family and Community Development Minister quoted recently. Malaysia Airlines also, should consider giving its employees high level of empowerment in decision making. This is in response to the complaints made by the customers who have to deal with Malaysia Airlines management staff who have difficulties in answering some of their questions because of authorization was given to them. Unfortunately, this is the same problems of Government-Linked Companies. By giving empowerment to the employees, indirectly, the employees will feel trusted by Malaysia Airlines and they would take their job more seriously. Malaysia Airlines relies heavily on advertising. They have allocated a high percentage of its sales resources on advertising. The types of advertising that are used by Malaysia Airlines are television, billboards, magazines, and weekly newspaper advertisements. The high dependence on advertising might have a disadvantage on Malaysia Airlines' financial performance as this will hurt its financial bottom line. When online booking for international flights was launched in August 2004, Malaysia Airlines gave a lot of great offers for popular destinations and for those who booked through their online system. However, despite the great hype of the online booking facility, their back end system was unstable. This has caused many customers to lose their faith in the system (Case, 2005).

As part of the new security implementation, Malaysia Airlines has introduced an identification check on all passengers above 12 years traveling on its Malaysia domestic flights. This is to ensure proof of identify matching names stated in their boarding passes. Identity cards, restricted/international passports or driving license will be used for Malaysians, and for non-Malaysians they have to produce their valid passports or government issued photo IDs. If the names on the boarding pass were mismatch from the identity cards, Malaysia Airlines will refer the passenger to the appropriate enforcement authority in the airport.

Value Added Analysis

The value added services provided by Malaysia Airlines is claimed to be one of the best. Malaysia Airlines believes by offering the customers better products, they will increase their profits. Thus, Malaysia Airlines has done a lot of improvement to ensure the passengers only received the best. They are focused in ensuring the continuity in innovating and introducing new services for the benefits of their customers. The investment in the latest technology, futuristic style, and innovative design in cabin comfort is to prove that customer is their number one priority. They want customers to continue to experience an exciting new level of comfort, luxury and convenience that keeps Malaysia Airlines 'Going beyond Expectations'. Malaysia Airlines is positive that this costly investment would promise higher return in revenues, as the initiative will boost the appeal to the business travelers. Malaysia Airlines also has a feature to their seat maps that allow the passengers to drag a virtual magnifying glass over the plane to get a 'close-up' of the features of the air-craft (Monks, 2014).

Currently, "Going beyond Expectations" are targeting on the business travelers, whilst highlighting the benefits of Airline's global network and new in-flight experience that will include new seats, cabin upgrades, services and food delivery. In line with the aim, the Airline has prepared a new level of comfort, luxury and convenience in global travel when the newly

reconfigured Boeing 777-200 and the retrofitted 747-400 aircraft begin operations. The company is one of the pioneers in gaining the third generation emerging innovative In-Flight Entertainment (IFE). The installation of Matsushita System 3000 – all digital system that provides movies, music and interactive games on-demand, is currently being installed in all three classes including Economy, Business and First Class. The IFE upgrades specially dedicated to the IT savvy and young passengers between 20-35 year age group who will be Malaysia Airlines potential premium class passengers in the near future. Passengers of all classes – including Economy, will enjoy the new IFE that has more than 350 entertainment options, including 40 movies, 60 short features, and 200 CD titles on demand and all accessible via digital touch screens.

Malaysia Airlines takes pride not only in redefining air travel luxury and benchmarking air travel comfort but also in redeveloping in-flight menu. As explained earlier, now, the children who travel with Malaysia Airlines will be able to indulge in the newly improved in-flight meals that appeal to their taste buds. This is another enhanced service specially brought to Malaysia Airlines customers. Malaysia Airlines was ranked top on the quality of meals served in terms of the meal being served in the best condition – fresh, retailing, good flavor and good appearance. The Airline gives great attention to the finest details of the meal quality and presentation. For example, the selection of internationally known liquors, wines and champagnes served by the experienced and capable cabin staff, and the glasses, plates bowls, and cutlery provides by Malaysia Airlines are of high quality and normally are branded goods. The first delivery of the A380 aircraft will be taking place in early 2007, and by 2008, all six aircraft ordered will be inducted into the system. Work on the cabin development and operational requirement for the aircraft has begun, with work revolving around customer interface products and cabin configuration, including seats, in-flight entertainment (Nikbin, Marimuthu, Hyun, & Ismail, 2015).

Robustness Analysis

In all the initiatives that were taken by Malaysia Airlines, to strengthen its company's values, it is important for Malaysia Airlines to constantly apply and uphold its branding. Maintaining image of a good passenger service is a smart way, as this will always increase the load factors of the airline, and will continually be the airline of choice among the passengers.

Financial Ratio Analysis

The objective of this analysis is to see the strength and the weaknesses of Malaysia Airlines' financial strength and also to re-arrange information from financial statements that could provide information about five years of financial performance. The best way to analyze the financial statement is through the use of ratio. Using the ratio as the method of analysis could give Malaysia Airlines more than just comparing different numbers from the balance sheet and income statement, but ratio could even help the company to compare the numbers against the previous years, other airlines performance, and the industry.

Fiscal Year	2003	2002	2001	2000
ROE (%)	17.71	(53.84)	(52.2)	(7.7)

- As shown in ROE table above, in fiscal year 2000, the Return on Equity (ROE) was -7.7%, this has followed by a declined in fiscal year 2001 when the ROE has dropped down to -52.2%. As a year passed, the ROE still showed a very weak progress where it has again dropped to -53.84% in the fiscal year 2002.
- The consistent drop since fiscal year 2000 that Malaysia Airlines had to face was because of the as losses in foreign exchange, the high mounted of debts, increase in oil prices, and the Asia financial crisis

- In fiscal year 2003, the Return on Equity was 17.71 percent, the best Return on Equity that they ever had in years. Malaysia Airlines has been dripping in the red ink for the past 5 years – since 1999. The losses became worsen year after year. Malaysia Airlines should be proud in earning a very respectable 17.71 percent on the equity. The restructuring program had successfully saved the airline.

i. Profit Margin

❖ **Profit Margin = (Net Income ÷ Sales) × 100**

In order for Malaysia Airlines to indicate the high profits that they make is good or not, the use of Profit Margin is important. This is to determine the percentage profit that Malaysia Airlines is making on its sales.

Fiscal Year	2004	2003	2002	2001	2000
Profit Margin (%)	5.37	3.91	(9.97)	(14.89)	(3.17)

III. Conclusion

In order to strengthen existing goodwill, Malaysia Airlines should start to think of its own icon while Singapore Airlines is famous for its ‘Singapore Girl’. Singapore Girl is a very powerful idea created by Singapore Airlines and has become a successful brand icon in the airline industry. They are described as gentle, caring, warm and elegant. In a short sentence, the ‘Singapore Girls’ encapsulates Asian values. The concept can be considered simple yet attractive to create a potential customer retention mechanism (Howell, 2015).

Furthermore, Malaysia Airlines should realize that most of the Singapore Airlines stewardess or Singapore Girls are from Malaysia, but none of Malaysia Airlines stewardesses is Singaporean. Therefore, Malaysia Airlines should take advantage of the valuable resources that are locally available for them which has been an asset to its competitors. Although they did not perform well for the past few years, obviously, Malaysia Airlines can do better in the future with the crew they are having now. They could simply take advantage on this area.

In order to move forward, the shackles that had been holding Malaysia Airlines back in the past must be left behind. Now Malaysia Airlines is aiming for endless success. Year after year, the Airline tries very hard to improve in terms of fleets, financial and services provided. The profits have been up and this is a good opportunity for Malaysia Airlines to clean its operation and carved back its name (Azmi, Rahman, Halim, & Hamid, 2016).

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