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Studying Management Issue Faced by Malaysian Airlines System Sdn. Bhd.

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ABSTRACT

In facing the challenging business world, including in the aviation industry, Malaysian Airlines System Sdn. Bhd. had come through the ups and downs of the turbulence economy, since 1st May 1947. For the last few years, Malaysian Airlines System Sdn. Bhd. had faced a lot of challenges in managements, operations and financial problems.

Our research findings will be focused on the management issue faced by Malaysian Airlines System Sdn. Bhd. and suggesting the best solution academically for this company. Moreover, our research reflects that even the management problem had been solved, there are still several uncontrollable external issues that will haunt the company such as the financial uncertainties. Not to mention that the performance will be greatly affected by the foreign exchange and laws implementation by foreign countries because Malaysia Airlines operates in other countries too.

Lastly, our research reflects that if the management problems had been solved, their performance should be better in terms of daily operation management and financial management.

CHAPTER 1: INTRODUCTION OF THE COMPANY

Malaysia Airline Berhad, formerly known as Malaysia Airline System (MAS) is the national carrier of Malaysia and a member of the Oneworld Airline Alliance. It offers the best way to fly to, from and around Malaysia. According to Malaysia Airline official website, the airline flies 40,000 guests daily on memorable journeys inspired by Malaysia's diverse richness. The company headquarters are located at Kuala Lumpur International Airport, which is also the main hub for operating flight, accompany with the second hubs, Kota Kinabalu International Airport and Kuching International Airport.

In August 2014, Khazanah National pay RM 1.38 billion to renationalise the airline and inject investments amounting RM 6 billion to support the national airline's five-year turnaround plan launched in 2014. However, it's now the final year of the plan (2019) but the airline appears some distance still from profitability. According to Abdul Aziz, ex-chief executive managing director of MAS, rather than making profit, the airline recorded losses for three consecutive years with RM 1 billion financial loss in the first year of the restructuring plan. In details, Companies Commission of Malaysia (SSM) shows that Malaysia Airlines' net loss increased by 85% year on year to RM 812.11 million for the financial year ended Dec 31, 2017, which resulting in a total loss of RM 2.35 billion between 2015 and 2017.

While Malaysia Airlines has yet to file its financial statements for FY 2018 with SSM, it blamed financial year 2018's poor performance on crew shortage, intense competition, oversupply of capacity and volatility in fuel prices and foreign exchange.

In fact, we think that multiple factors indeed have contributed to Malaysia Airlines' financial woes, but the most important factor among them is the management issue in operating and running the business. In the following chapters, we will explain and justify our idea by providing facts on the reason we think that management issue is the biggest problem leading to weak financial performance of Malaysia Airlines. Besides, we will discuss the ways that could possibly be implemented in order to improve the performance and help our national carrier to turn into a world-class airline. After all, we still believe that there are plenty of areas for potential improvement in this company, though there are no obvious and easy solutions as there are so many different factors affecting and impacting Malaysia Airlines' future financials.

CHAPTER 2: BACKGROUND OF IDEA

In this chapter, we will discuss and analyze the main issue faced by Malaysia Airlines, which we believe are related to the management issue. We analyze the issue by examining the financial information of the company and the operation management of the company and conclude that the management issue in Malaysia Airlines can be reflected in two perspectives, which are financial related issue and operation related issue.

First, the operation management of Malaysia Airlines is inefficient. In 2014, the airline still has over 19,500 employees operating a fleet of 108 aircrafts, while Singapore Airlines, and

operates 103 aircrafts with 5000 fewer staffs. Under a collective agreement with unions, the airline only allows its pilots to fly a maximum of around 800 hours a year, even though the ministry of transport allows up to 1,000 hours in certain circumstances. This results in the airline needs to employ more pilots than it actual needs, which is the reasons more employees are needed to operate a nearly similar amount of aircrafts. In short, this concludes that Singapore Airlines has a better operational efficiency because fewer employees are needed to perform the same tasks. Using more economic resources indicate the operational cost of Malaysia Airlines is higher.

Besides, according to Malaysia Airlines SWOT Analysis/Ethical Issues published by *Sathiah Seelan Karappiah* from Asia E University, even the previous management team was able to determine and set the objectives clearly, a portion of employees didn't know exactly how to implement the strategies effectively. In this case, the inefficient of information transfer and the lack of knowledge and skill of employees lead to the failure in achieving high operation performance.

Another significant operation management issue is the inefficient planning and decision making. For example, the management team had signed a 25 years contract with Brahim's Airline catering which provides catering on flight. Even if Malaysia Airlines is losing money, they are unable to reduce the expenditure by finding cheaper alternatives as termination will lead to breach of contract. Not to mention that poor cost management in other areas such as maintenance, repair and air route planning also lead to poor performance of Malaysia Airlines.

On the other hand, the financial management problems also indicate the management issue of Malaysia Airlines. Other than the unnecessary operational expenditures mentioned above which lead to financial loss every year, Abdul Aziz said that high salaries paid to foreign top management, including the CEOs, chief operating officer, and commercial officers which amounted to hundred thousand ringgit per month is also a reason the airline bled. Typically, airline management tends to propose pay-cuts and shrink allowances, but as MAS is one of Malaysia's largest state-backed employers, it is difficult to reduce the excessive allowance and extravagant employee benefit.

Besides, the inefficient planning in pricing and revenue management results in financial loss for 5 consecutive years even after injection of funds by Khazanah in an effort to help the airline in year 2014. For example, Abdul Aziz considers the purchase of Airbus 380 aircraft as a bad investment, resulting in adverse cash outflow. This is because the production of that particular aircraft is still at the experimental stage and makes the company saddles with lots of problem.

In addition, weak pricing strategies of Malaysia Airlines are also one of the factors of financial management problems. In fact, Malaysia Airlines is having strong competitors in both domestic and international flight. Malaysia Airlines is weaker when competing with Air Asia in domestic routes because Air Asia often offers lower fares compared to Malaysia Airlines, resulting in losing customers. In fact, majority of the customers of Malaysia Airlines are international flight customers. However, competitors such as Thai Airways and Singapore

Airlines also provide good quality and often lower fares. In this case, customers tend to choose flight with lower fare but same service quality.

CHAPTER 3: JUSTIFICATION IDEA

In this chapter, we will discuss the solutions that are practical enough to be implemented in order to solve the management issues and increase the financial performance. We believe there is always a chance of turning around, just like those once-troubled national carriers such as British Airways, Japan Airlines, Garuda Indonesia and Qantas Airways. We will view the issues in different perspectives, and each types of solutions discussed will be reasoned with explanations and reliable sources for justification.

To resolve operation inefficiency issue, we think the management team should lay off employees that doesn't have enough skill and knowledge to perform daily operation well. In fact, Malaysia Airlines had lay off around 6000 employees in 2014 during the restructuring process, however it didn't go deep enough and address all the legacy issues. Besides, employee should be provided with training and development so that the quality of services provided is ensured. Good training and development programme should be launched and conducted in order to remain competitive in the market.

Besides, a systematic management system should be implemented so that every employee is clear with their targets and strategies. This is because effective information transfer is very important in keeping all the employees updated with the latest policy and priority in performing their daily tasks. A whistleblower policy should also be introduced by providing confidential ways to report any behavioural problems such as corruption, abuses of power, security risk and other bad practices in order to ensure a high quality in management team.

Meanwhile, Khazanah Nasional Berhad should also ensure that Malaysia Airlines has the right people on its board of directors to steer the airline. In fact, the board of directors had many of the same members for several years despite consecutive financial losses. We think that new people with fresh ideas and knowledgable skills should be engaged to lead and guide the airline moving forward. It is good if the management team has a combination of some experienced leaders in airline industry and professionals in finance, accounting and law.

On the other hand, in order to solve the financial management issue, we think that different approaches should be carried out to reduce the expenditure and increase the sales. First, the salaries of entire board, management team and employees should be recalculated in order to fix the extravagant salaries. The operation expenditure should also be reevaluated to decrease the allocation of cash flow on those categories in order to reduce waste and ensure a positive cash outflow.

Efficient planning and revenue management should also be implemented so that allocation of resources will be more reasonable and acceptable. For example, the purchase of aircraft should be fuel-efficient and have mature technology so that the aircraft will not be

problematic. Besides, the acquisition of new long-term asset should undergo a specific and detailed planning process in order to reduce error and mistake.

In order to solve weak pricing strategies, Malaysia Airlines should expand passenger traffic. Since low fare strategies is very competitive in Malaysia, where Air Asia always has the lowest fare, Malaysia Airlines should try to explore new air flight route to different destinations. For example, China, Japan, India and the Middle East have a high travel demand in Malaysia. By covering several regional destinations that exclusively provided by Malaysia Airlines, coupled with an excellent in-flight service, customers should prefer to choose Malaysia Airlines other than other international carriers.

Besides, Malaysia Airlines should also propose for additional funding from Khazanah National Bhd. By having extra fund, Malaysia Airlines has a better cash flow for operation, financing and investment purpose, thus is able to strengthen the existing business strategy. The additional fund can also be used for providing further employee training and development so that the services provided remain a high quality and competitive in the market.

CHAPTER 4: IDEA APPLICATION

In this chapter, we will discuss about how the solutions can be implemented and the potential risk that might happen if the solutions are not planned properly.

In order to improve operation efficiency, we will lay off employees by using two criteria, position specific layoff and performance layoff in order to determine which employees will lose their jobs. Position specific layoff means that the layoff is based on the elimination of certain specific job position. In this case, we will try to combine the similar job positions and eliminate duplicated jobs. For example, maintenance department will be merged with the operation department and job position with similar job scope will be eliminated. On the other hand, performance layoff means that layoff of employees will be determined by their performance in previous years. Note that the reevaluation of job positions does not only include the employees, but also the management team and the board of directors. In the case, the potential risk of doing so is that there might be a breach of contract between employer and employee. Besides, the new directors might also unable to turn the airline into financially positive condition.

Besides, in order to ensure a good operation management and effective information transfer, advanced project management system such as Gantt Chart, PERT and CPM method should be implemented for scheduling and managing the projects. Different employee training and development programme should be carried out too. For example, motivation such as goal-setting theory and Herzberg's two factor theory should be applied on the employee so that they are motivated to perform their task better. However, the potential risk associated with employee training and development programme is there might be a huge amount of cash outflow because those programmes are usually expensive. Thus, reasonable allocation of resources should be calculated to carry out the solution.

On the other hand, experienced professionals in management field which major in management accounting and finance should be engaged so that resources can be planned to be used on the right place and in the right time. For example, present value of the future cash flow of purchasing new aircraft should be calculated to determine whether the net present value is positive or negative, thus help in making a good decision. Besides, experienced professionals in airline industry should also be engaged so that they can analyse which routes are popular and more demanded so that the airline can increase passenger traffic on that particular route. In this case, the potential risk is that high salaries might be needed to engage those professionals and there are still risk in calculation error that will lead to a wrong decision which will deteriorate the financial position of the company.

In order to request for additional fund, top management team of Malaysia Airlines should prepare a proposal that clearly identify the elements that work and do not work, and how the additional fund will be used to enhance the elements that work to increase the performance of the company's financial position. According to Khazanah managing director, Datuk Seri Shahril Ridza Ridzuan, any additional fund will be considered if the airline come out with a good strategy plan that can compete in the aviation industry and deliver better profits. Besides, the company can earn additional fund from return to a public-listed company. However, the risk is that Malaysia Airline's financial performance still haven't need Bursa Malaysia Securities' requirements which prohibited loss-making companies from listing. Confidence level of shareholders towards the performance of the airline also play an important role in deciding how much funds are able to be earned.

CHAPTER 5: RECOMMENDATION

In this chapter, we will discuss about some useful recommendations and strategies to prevent the management issues from happening. We can start by analyzing the economy in the macro perspective.

As refer to the above outlook, we summary that Malaysia Airline System (MAS), a five-star value carrier (FSVC) has a great opportunity to forge an alternative path towards a totally different outcome. Due to its unique intrinsic strengths like a strong reputation for excellent products and services, world-class cabin crew, unit labor costs that are amongst the lowest in the region, widely acknowledged technical skills, and located in a region that enjoys robust traffic growth. These strengths are believed able to align with the MAS mission which is 'To be consistently profitable airline'.

a) Segmentation

The segmentation strategy is focusing on the premium service sector or full-service flights. This segment includes all domestic and international flights, short haul and long haul. MAS should target a specific segment that prefers a premium service airline with the highest level of safety, highest level of customer satisfaction, and with a competitive cost in the market. It can be achieved by providing commercial excellence which includes best-in-class flight operations and safety, as well as cost optimization.

For example, five-star value carrier (FSVC). MAS provide their customers with significant and worth value services and products compared to their competitors. MAS maintain the high-quality services offered and have to constantly match to the specific needs of customers.

b) Targeting

The primary target is corporate, businesses or business travelers. The age is between 30-49 years old. Most of FSVCs rely on business travelers as they are the most frequent buyers, most loyal and are willing to pay the extra money than the average traveller.

For example, joint venture with luxuries hotel. MAS which provides the comfortable accommodation will not only earn the profit, but also able to raise the company value and reputation. It will make the customers felt more convenience and secure due to the ease hotel searching before went abroad.

c) Positioning

MAS should position its brand as a safest premier and luxury full-service airline to the business travelers flying short haul and long-haul destinations. Safety has become the top priority of the airline as to regain the customer's confidence after the 2014 twin air disasters.

For example, implement a safety improvement system. MAS can realize it by providing state-of-the-art ground handling service, cabin amenities, signature cuisines, and a variety of in-flight entertainment program, highest safety measurement and offering competitive airfare that match market norm.

In conclusion, like other national carriers, MAS had undergone a severe financial turmoil due to various reasons especially economic recession. Hence, MAS should formulate a marketing plan to ensure MAS is still flying high.

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