

### Malaysia Airlines Berhad

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### ABSTRACT

MAS Airlines was branded as Malaysia Airlines and known as the second big airlines' company in Malaysia. We choose MAS Airlines as our targeted company in this project due to the huge information can be accessed on the Internet and the issues that go through by MAS Airlines in this few years.

We have accessed the current issue faced by our targeted company, MAS Airlines. According to our research, we found out that the company is having difficulties in competing with the competitors, facing unprofitability and failed to turnover and managing its technical capacity. Problems identified were flight MH001, an Airbus from London to Malaysia which forced to turn back more than an hour, MH134 which returned to Brisbane due to misplacement of plastic covers and the emergency landing of MH122.

We followed our findings by investigating the reasons for those tragedies from happening. Since the airline had undergone top management handover, the company is obviously struggling with staff engagement. From a factual perspective, the airline is currently experiencing losses continuously for 3 years which ended up with dramatic RM1 billion losses when implementing a restructuring plan. High operation expenditure such as excessive high salary paid to top management is believed to be the dominating cause. Besides, extreme cash outflow due to the purchase of an aircraft was also regarded as a bad investment.

MAS Airlines should be reconstructed and rebuilt after going through some critical issues in order to back to the top status as before by conducting the effective policies.

### INTRODUCTION

Malaysia Airlines Berhad (MAB) also known as Malaysian Airline System (MAS) is an airline operating flights from Kuala Lumpur International Airport (KLIA) to destinations around Malaysia, throughout Asia, Oceania and Europe. The airline flies more than 1,000 destinations in 150 countries ("Malaysia Airlines", 2018)[1]. It was founded from 1st May 1947 as Malayan Airways Limited ("Malaysia Airlines", 2019)[2]. After the formation of the Federation of Malaysia in 1963, Malayan Airways Limited was renamed as Malaysian Airways. The airline splits to two new airlines which are Malaysia Airline System (MAS) and Singapore Airlines due to the different needs of the two shareholders in the company in year 1972. The airlines faced unprofitable and aircraft losses after a few years. Therefore, in 2015, Malaysia Airline Systems was announced to be dissolved and commenced operations as Malaysia Airlines Berhad (MAB) by 1 September 2015 for rationalisation, restructuring and rebranding. The new CEO of the company, Christoph Mueller heavily reduced their workforce and adjusted route network with a focus on Asia. Moreover, Malaysia Airlines owns another two subsidiary airlines which are Firefly and MASwings. Firefly operates flights from Penang International Airport and Subang International Airport. It is focusing on tertiary cities. MASwings focuses on inter-Borneo flights. Malaysia Airlines embodies the incredible

diversity of Malaysia. It captures its rich traditions, cultures, cuisines and warm hospitality on board ("Malaysia Airlines", 2018).

### BACKGROUND

MH370 went missing 5 years ago, yet its fate remains a mystery. However, it has spawned countless controversies to Malaysia Airlines. The unrevealed issues behind this company had finally let out bit by bit. The beleaguered airline was sold for RM 1.38 billion to Khazanah Nasional Berhad in August 2014. The company was taken private at an extremely low stock price which almost turned shareholders down. Khazanah Nasional Berhad had set a turnaround goal for the company to reboot and restructure its operations and management by spending RM 1.6 billion to delist the company and another RM 1.6 billion on retrenchments and restructuring the airline company. It still remains a question mark of whether the company restructuring had gone successful or not.

According to Business Insider Malaysia, Bernama reported previously on Mar 1 that MAS had had a "challenging 2018" and suffered losses due to crew shortages, "intense" competition, and volatile fuel and forex prices. In this research, our primary aim is to discover the issues associated with this airline which rendered the company failure in recovering its losses. As cited by Khazanah managing director Shahril Ridza Ridzuan "overcapacity and oversupply in the aviation industry", and Malaysians' preference for low-cost carriers, as the primary reasons MAS failed to take off. He even considered the continuous investment MAS Airline as a very careful one. In fact, there are many reasons yet to be discovered after the failure of MAS Airline in recovering its losses and resuming its reputation in the aviation industry.

The most unflavored outcome is yet to come, as mentioned earlier by Prime Minister Tun Dr. Mahathir Mohamad, he remarked that shutting it down was one option being considered by the government. His statement was strengthened by the timing of Khazanah's RM3.7 billion impairment charge on Malaysia Airlines in 2018. Some analysis mentioned that the above action indicates that its parent company may be ready to end or sell its loss-making unit.

The company incapability in recovering the losses had been a popular issue across the years even the company had been delisted in 2014. This assignment is solely prepared to find out the grounds behind the weakness of MAS Airline in maintaining its position in the industry.

### METHODOLOGY

In this assignment, a set of question related to the title of research was being prepared. The questionnaires were sent online in the format of Google forms. The related link was being spread through various platforms such as social media, friends and family members. Necessary briefings, instructions, and indicators were embedded inside the Google forms to enhance the accuracy of respondents in answering the surveys. All the while, the Google forms was successfully communicated to various parties especially those who are active in Social Media interactions. 35 responses were successfully collected eventually. The data collected was further being analysed and interpreted.

Besides, online research or internet research method was being applied in this research. Data related to the topic are collected via the internet. The data are originated from different sources such as news, journals, company's websites, magazines, and articles. Nowadays, all sources are already available online.

The methods above are used in this research as a solid base for further data processing. By using these methods, issues related to MAS Airline which rendered the company's operations unsuccessful were being identified and making further analysis possible.

### ANALYSIS

Throughout the research, we found out some current issues faced by Malaysia Airlines. One of the issues faced by the company is strong competitors in the field. For example, AirAsia Berhad, a low-cost airline headquartered near Kuala Lumpur, Malaysia which is the largest airline in Malaysia by fleet size and destinations. AirAsia is having a tag-line "Now Everyone Can Fly" while Malaysia Airlines's tagline is "Journeys Are Made by The People You Travel". They are using different marketing strategies to gain competitive advantages in the market (Betty Yong & Wong, 2018) [3]. AirAsia uses market segmentation by separating the market into different income groups. They are more focusing on serving the low-income group while MAB is focusing on higher income group. After the emerging of AirAsia, the company also moves to serve the lower income customers. Besides, AirAsia is using price or quality positioning strategy as its market positioning strategy. However, MAB is using product class positioning as their strategy at first, then they tend to change it to a mix positioning strategy of price or quality and product class. Therefore, it showed that the marketing strategies of MAB are not good enough as AirAsia, so it had to keep on changing its marketing strategies towards AirAsia's marketing strategies plan in order to compete with AirAsia.

Other than that, MAB is having difficulties in financial management. In the year 2014, Khazanah Nasional Bhd, the MAB's sole shareholder had invested RM6 billion to the company in order to support the airline's five-year turnaround plan (The Stars Online, 2018) [4]. But, unfortunately, MAB recorded RM1 billion financial losses in the first year. The following year from 2015 until 2017 they also failed. Abdul Aziz said that MAB failed to make a turnover due to the high amount of operating expenditure with high salaries which hundred thousand-ringgit Malaysia per month is paid to the foreign top management. Moreover, they investigated that the airlines did a bad investment by purchasing the Airbus 380 aircraft. Meanwhile, MAS (MAB) was delisted from Bursa Malaysia Securities as they did not fulfil the requirement of Bursa Malaysia.

On the other hand, Malaysia Airline Berhad experienced some cases of technical faults concerning the airline's safety and aircraft maintenance within nine months. MH001, Malaysia Airlines flight, an Airbus from London's Heathrow Airport to Kuala Lumpur was forced to return more than an hour after taking off due to its technical problems in 2018. At the same year, a Kuala Lumpur-bound Airbus A330, flight MH134 turn-back to Brisbane after four plastic covers placed on vital gauges were mistakenly left in place. An Airbus A330 from Sydney to Kuala Lumpur which is MH122 forced to make an emergency landing in Alice Springs due to the technical fault reportedly shut down the engine. The passengers were informed by the crew as the plane is preparing to crash (Suzan Delibasic, 2018) [5]. After these incidents, MAB did not respond to any bodies by the deadline for comment. It showed that the operating management did not take emergency responding to the incidents happen. According to Free Malaysia Today (2018) [6], there are a quite number of politicians involves in the MAB's management. The politicians involved in managing the operating the company but it reflected that amount of losses recorded over the years was RM15 billion. They used the investment to restructure the airline but the result was no improvement for the company. Therefore, it is not suitable to have the same people in managing the airline when there is making losses and non-improvement.

Furthermore, MAB was complained by a customer who works as a YouTuber (Viieslim, 2018)[7]. He shared his experience of taking an Airbus from Kuala Lumpur to London with flight MH004. He received a meal which is unhygienic, the food is not tasty and the small television provided did not function. After that, he asked for help from the crews but they did not respond to his problems. So, he posted his experience to the social media and tagged 'Malaysiaairlines'. The captain came and shouted to him "Who did you message!". The crews are having a bad attitude and not sorry to him and make him feels suffering within the 14 hours. Although the management replied the message to the customer about the uncomfortable it had to make a bad impression to the customer. Thus, the management did not settle the problems effectively affect that the consumers tend to travel by the other airline companies.

## **FINDINGS**

### **1. The competitors in the same field**

From the result of the survey that we have conducted, AirAsia is more prefer by Malaysian among other airlines companies. The reasons are good service provided by AirAsia, good reputation of the company, reasonable ticket price and so on.

#### **a. Reasonable ticket price**

From the official website of 2 companies, we can know that the price of the flight ticket respectively. A flight ticket of AirAsia which depart from Penang to Kuala Lumpur cost a passenger RM 74.30 while he or she need to pay RM 199.62 for the flight ticket of MAS. The huge difference between the ticket price of both companies will impact MAS in gaining profit because most of the passengers will choose the flight of AirAsia instead of MAS after they have made the comparison on the flight ticket price.

The higher price does not signify gorgeously and will not help MAS to gain much profit for recovering the loss too. Instead, overpricing of flight ticket will cause fewer customers to choose MAS especially during the deflation. Therefore, MAS should adjust the ticket price by decrease the price. The price not necessary must be as low as the ticket price of AirAsia but is affordable and acceptable by the public to retain the current customers and attract potential customers.

#### **b. Good service**

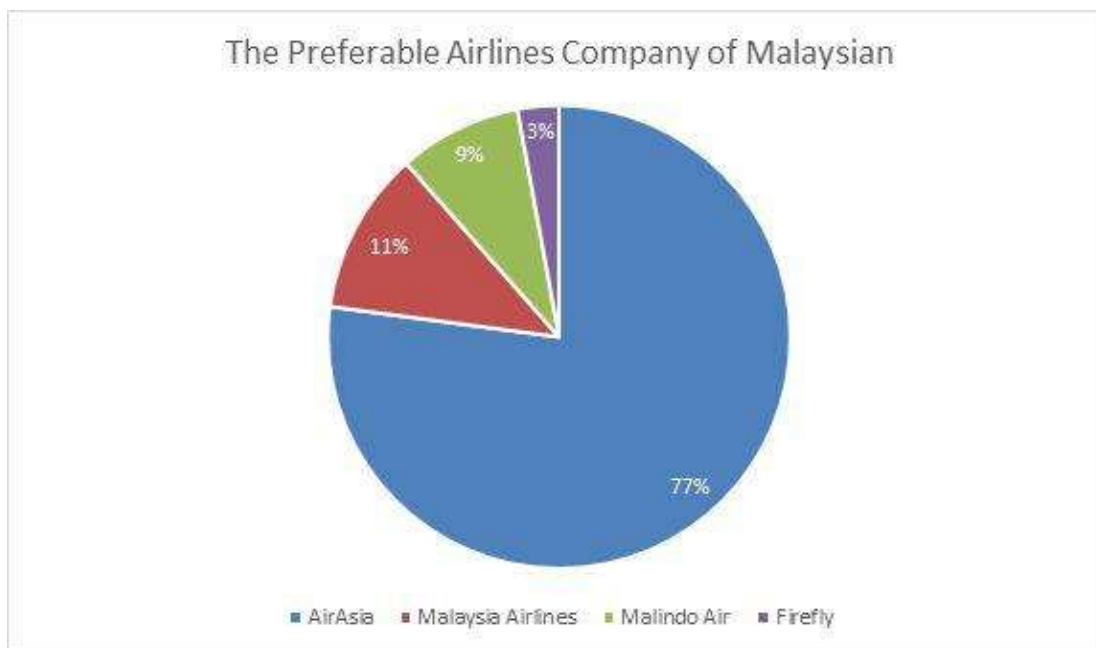
AirAsia has provided various type of services to their customers. One of them is BIG Loyalty Programme. The members under this programme will be given the opportunity to enjoy the lowest flight fares through redemption by utilising their BIG Points. this will give a great advantage to those flies frequently and attract potential customers to prioritize AirAsia as their airlines' company. Also, AirAsia will gain loyalty from customers and achieve sustainability. Well-trained flight attendants of AirAsia always show the best attitude and provide excellent services to the passengers will build a good image for the company. On the contrary, FMT News reported that MAS was received the greatest number of complaints among all the airlines' companies in the year of 2018. Most of the complaints were made up of flight delays, mishandled baggage, and processing of refunds. As compare to AirAsia, MAS did not do well in providing the service to its customers. This problem will cause MAS to gradually losses their customers if the management team of MAS does not concern about it.

Employees represent the brand and image of the company especially for those who contact customers directly such as sales agent at the ticket counter and the flight attendant. Frequent training programmes should be carried out for the attendants and employees of MAS to improve the quality of service and give them an opportunity to update themselves from time to time. So, the probability of MAS to be considered by customers in choosing the airlines will be increased due to the excellent service. Other than that, MAS can form a team which specialises in dealing the customer complaints and problem. The effective of handling complaints of customers will show concern and esteem of MAS towards customers and give them a good impression.

### c. Good reputation

From the perspective of customers, reputation of the company does carry great weight in choosing the airlines company. AirAsia has received the awards – the World's Best Low-Cost Airline for 10 years continuously. It will impress the customers by creating a good image towards AirAsia. This is the reason why AirAsia will be the first consideration of customers among all the companies. Although MAS has received several awards in the past few years, the incidents of MH370 and MH17 have caused a big impact on the reputation of MAS and lead customers not to choose MAS due to depression and panic caused by the horrifying incidents happen in the year of 2014.

To recover the good reputation of MAS, several alternatives can be carried out. Firstly, MAS should decrease the chance of accident as low as possible by going through all the pre-flight check and maintenance of aircraft. This is because the reputation and trust of customers towards MAS have dropped due to the frequent incidents happen recently. By having all the necessary checking process and constant maintenance, it can increase the safety and rebuild the trust of customers.



### 2. The failure of financial management

In the year of 2014, MAS had faced a great loss because of the decline in ticket sales and compensation expense to the shareholders and the victims of MH370 and MH17. Due to several incidents happened, the sole shareholder of MAB, Khazanah Nasional Bhd had invested RM 6 billion for restructuring purpose in order to recover the image and brand of MAB.



As what have reported by the Star, ex-Chief Executive Officer of Malaysian Airline Systems Bhd (MAS) Tan Sri Dr. Abdul Aziz Abdul Rahman said that the restructuring plan was a failure to MAS as the company still facing losses of RM 1 billion for 3 consecutive years started from the 1<sup>st</sup> year of the particular plan. There was various type of factors lead the plan to failures such as the high salary paid to directors and bad investments in purchasing aircraft. From the audited financial annual report of MAS in the year of 2013, the remuneration of an executive director cost between RM 1,500,001 to RM 2,000,000 while non-executive directors will cost below RM50,000 to RM 200,000. Although the salary of MAS's directors was less than other companies such as AirAsia, it might be a huge burden to MAS which was facing difficulty in financial during that time. Moreover, the purchase of Airbus 380 aircraft caused an extreme cash outflow rather than making the profit. Those problems have shown that MAS has poor financial management by making the inefficient and unwise decision in investment and spending.

To solve this issue, MAS should employ a financial consultant to control the cash flow of the company. The extreme cash outflow in unnecessary expenses and bad investment mislead MAS to failure in restructuring. MAS should seek advice from the financial consultant before making any decision of investment and expense. It can ensure every particular expense and investment will give a great return to MAS and make full use of cash that possesses by MAS.



(source: <https://endauanalytics.wordpress.com/2018/09/10/massive-losses-at-malaysia-airlines-again/>)

### 3. The operation management

From the view of the public, the involvement of politicians in top management of MAS might not suitable in the stand of the company. The politicians might lack understanding in the related field and not clear about the operation of MAS. The decision made by them will affect the company operates as the perspective of a politician is not the same as the executive officer in MAS. This will create conflict and obstacle to achieve the objective of MAS.

MAS is advised to hire a director who has enough knowledge and experience in this field. Every decision makes by top management must be considered from the view of the company instead of the personal benefit. Also, all the directors must have a good ethics in working and always bear the company benefit in mind.

### RECOMMENDATIONS

To overcome the problems faced by MAB, they should adopt the following measures:

1. In order to compete with its competitors (Air Asia), MAB should identify consumer need. Based on the survey, the result showed that majority of the respondent who chose Air Asia as the airline company they would fly with is because of the reasonable ticket price. While comparing to MAB, 4 out of 35 respondent who chose MAB are because of the comfortable seat, which is a minority. MAB should change its marketing strategy or pricing strategy in order to penetrate the market in Malaysia, while remaining company reputation.
2. As the foreign top management are overpaid over the years, MAB should offer re-employment to top management with lower salaries. Besides, MAB should avoid making any big investment in the future of a couple of years. They should focus on the investment they had and make well use of its new Airbus 380 aircraft.
3. MAB should terminate unprofitable routes and selling old aircraft. They should also work on improving risk management practices, such as fuel and forex hedging strategies. Investment on new aircraft such as Airbus 380 aircraft can be used to improve MAB's cost efficiency as the newer generation of aircraft are more fuel efficient. Government intervention should be reduced as well.
4. Customer's feedback is important. Take the critique as positive feedback for MAB. MAB should review crew performance constantly and facility checking should carry out regularly to improve the performance of the airline in gaining the company's reputation.

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### APPENDIX

#### NUSANTARA PROJECT - TEAM 51

Greetings, we are Team 51 from Nusantara Project. Currently we are doing research on Malaysia Airlines Berhad (MAB).

Do you agree that MAB's extreme cash outflow are due to high salaries paid to its top management and bad investment ?

	1	2	3	4	5	
Disagree	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Agree

Do you agree that political involvement in MAB has brought privilege to the company ?

	1	2	3	4	5	
Disagree	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Agree

☐ Good service

☐ Good reputation of company

#### Malaysia Airline Berhad (MAB)

February 27, 2018, Malaysia Airlines continues to face challenges such as over-saturated market, overcapacity in the market and declining yields. Those factors continue to challenge the new Malaysia Airlines Bhd management.

Furthermore, in September 25, 2018, ex-Chief Executive Officers/Managing Director of Malaysian Airline Systems Bhd (MAS) Tan Sri Dr Abdul Aziz Abdul Rahman said MAB is having extreme cash outflow is mainly due to high salaries being paid to the top management of the company and purchase of Airbus 380 aircraft, which he regarded as a bad investment.

Moreover, in July 6, 2018, former Malaysia Airlines CEO Abdul Aziz Rahman has agreed with the call by the National Union of Flight Attendants (Nufam) for a review of the airline's management, saying it has "slipped away" from its purpose since he left 20 years ago. He said there were "quite a number" of political appointees on the board of management.

Please answer the question based on your knowledge and opinion towards Malaysian Airline Berhad (MAS).

In Malaysia, do you think MAB has done its marketing for its company well compared to its competitors ?

- ☐ Yes
- ☐ No
- ☐ Maybe