Mini Case Study: Malaysia Airlines

Shahnaz Ashrafia
Faculty of Science
University of Amsterdam

Abstract. For the past years, Malaysia Airlines experienced fluctuations in the finances and company image due to several market challenges and tragedies. This case study aims to evaluate the situation of Malaysia Airlines by applying the concept of adaptive cycle of resilience.

Keywords. mini case study, Malaysia Airlines, adaptive cycle of resilience

Introduction

The airlines industry could be one of the most profitable industries as well as the most challenging one. International Air Transport Association (IATA) mentioned 3 major challenges in aviation; which are safety, convenience and sustainability [4].

In the perspective of Adaptive Cycle [2], it can be understood that changes and crisis in ecosystems are inevitable. Airlines industry along with the government understands that efforts are required to compete in the airlines industry through their services and to ensure that flying is safe with the implementation of technology [4]. However, accidents do happen. Malaysia Airlines is one of the airlines experiencing financial and image crisis in 2014. The shifts in the airlines and its relation to adaptive cycle will be further discussed.

1. Company Background

Founded in 1947, Malaysia Airlines is the major airline of Malaysia. Currently, Malaysia Airlines or known as MAS (Malaysian Airlines Systems) fly to more than 100 destinations worldwide and 35 domestic destinations. Moreover, MAS also provides other transportation related services such as cargo and mail transport services [12]. In the past decade, they have received some notable awards in the aviation industry such as 5-star Airline from Skytrax (2005-7, 2009, 2012–13) and World’s Leading Airline in Asia and to Asia (2010–11, 2013) [9].

2. Challenges

Throughout the years, Malaysia Airlines has experienced rises and falls. In the early years of 1950s to late 1990s, the airline expanded rapidly by receiving technical assistance from British Commonwealth Airlines, joining IATA and extending their routes domestically and internationally.

However, Malaysia Airlines had to face their first fall in early 2000 due to financial crisis. The loss reached approximately RM 800 million making them to cut out several unprofitable routes. The company managed to recover in 2004 but faced another crisis in 2005 due to escalating fuel costs and poor management. A new CEO was appointed develop changes in operations and corporate culture and a Business Turnaround Plan and Business Transformation Plan was launched [10].
Nevertheless, MAS had to struggle again in 2011 because of rising fuel costs and mismanagement issues. They chose another CEO as well as launched the second Business Turnaround Plan. MAS then improved their performance in 2013 by executing a route rationalization programme and investing in search engine marketing strategy [13]. MAS’s commercial director also expected that Malaysia Airlines would be profitable by the end of 2014 with the new plan [6].

Unfortunately, Malaysia Airlines encountered another crisis situation with the loss of 2 flights in March and July 2014. The company which have not recovered from its financial loss had to gain more losses due to the impact of the plane tragedies [4][11]. The state of Malaysia Airlines instability from 2005 to November 2014 can be seen in the stock review displayed in Figure 1.

![Figure 1. MAS Stock Chart 2005-2014. Retrieved from Yahoo! Finance, 15 November 2014](image)

3. Discussion

The adaptive cycle of resilience shown in Figure 2 represents a flow within four quadrants or phases, namely: entrepreneurship, crisis, new combinations and equilibrium. It is developed from the adaptive cycle pictured in Figure 3. The discussion on the adaptive cycle of resilience will focus on MAS’s crisis in 2005.

![Figure 2. Adaptive cycle of resilience](image)
3.1. Mapping MAS’s 2005 Crisis in Adaptive Cycle of Resilience

3.1.1. Equilibrium
In 2004, Malaysia Airlines was in the equilibrium phase after recovering from their first crisis. The company had potentials for future development to extend their services. However, in the following year, a financial and management issues occurred, leading to Malaysia Airlines’s second crisis.

3.1.2. Crisis
In this crisis situation, the company had to replace the CEO and deal with plummeting stocks. The reality of the situation was exactly as mentioned by Holling & Gunderson (2002) in the adaptive cycle (Figure 3) when explaining the shift of conservation to release, quoting “Workers are fired in efforts to reduce costs, and CEOs are fired to set the stage for restructuring.”

3.1.3. New Combinations
According to the adaptive cycle, a crisis can be explained as a trigger for a change even though it is uncertain on what will happen to the company’s future [1]. In hope to solve the crisis, Malaysia Airlines proposed a Business Transformation Plan which implemented a new revenue management, cost reduction, network route improvements and productivity improvements (reducing some man power) [3].

3.1.4. Entrepreneurship
In early 2008, Malaysia Airlines was in their entrepreneurship phase. It is reported that they managed to cover the financial losses in 2005 and achieved profits which exceeded their target [10]. In addition, the company purchased new aircrafts to expand their service to new destinations.

3.2. Dealing with Present Crisis
Currently, with the financial and image impact from the tragedies, Malaysia Airlines is still on their way to achieve sustainability. Referring to the adaptive cycle, the current state of MAS is in the release phase; dealing with change and executing a Business Recovery Plan which intends to rebrand, restructure the business model, reducing the workforce and improve communication with stakeholders [8].
Conclusion

Changes and crisis happen can happen unexpectedly. The adaptive cycle is used to define the situation of Malaysia Airlines going through the series of challenges.

References