

COMPLETION REPORT

Total factor productivity analysis of Japan Airlines: Experiences and lessons learned for Malaysia Airlines

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The rapid growth of airline industry has posed an increasing threat to the long term sustainability of legacy airlines such as Japan Airlines and Malaysia Airlines. Legacy airlines around the world are facing significant pressure from the low-cost carriers which have changed the competitive landscape. Despite increased operating costs most legacy airlines are forced to match lower fares in order to remain competitive. Japan Airlines previously owned and managed the largest Boeing 747 fleet in the world, but become inflated and loss-making, and had to be rescued by the Japanese government on three occasions between 2001 and 2009. To save the ailing flagship carrier, Japan Airlines laid off 15,700 staff, about a third of the total workforce, cut 49 unprofitable international routes and removed its entire fuel-consuming Boeing 747 fleet. Japan Airlines became the world's most profitable airlines in 2011 with a US\$1.84 billion net profit merely a year after it went into a bankruptcy protection in 2010, and was re-listed on the Tokyo Stock Exchange in 2012 with stocks worth US\$8.5 billion. With a solid foundation, Japan Airlines aspires to grow using a three-part strategy i.e. brand enhancement, network expansion and sustained profitability via cost and productivity improvements. A unique feature of Japan Airlines turnaround was the airline focuses its strategy by going up-market instead of going down more the low-cost route or just strip back on service. With a remarkable turnaround story, it is clear the reason why Malaysia Airlines should consider emulating the Japan Airlines philosophy to turn itself around in achieving its vision of being the preferred premium carrier.

As the national flagship carrier, Malaysia Airlines must strike a balance between its commercial, political and social obligations and will always be under close scrutiny. The continuing evolution of a highly competitive airline industry has raised dominant issues such as cost efficiency, operating profitability and competitive behaviour, which has led MAS to financial crises. In 2013, Malaysia Airlines reported a loss of MYR1.17 billion. The Malaysian government has injected about MYR16.7 billion into the airline since 1998 to ensure its survival. Despite the notion that MAS is owned 69 percent by Malaysia's state investment fund Khazanah, its image as Government Link Companies should no longer exist but has to achieve a sustainable performance. After the loss of MH370 and MH17, Malaysia Airlines has been renationalised. Malaysia Airlines is a fully state-owned company after the company was delisted from Bursa Malaysia at the end of 2015. The primary goal of our study is to measure the total factor productivity growth of MAS over a 34-year period from 1980 to 2013. Using Japan Airlines successful turnaround strategy as a benchmark, our study has recommended the following strategies to ensure continued profitability and revitalise Malaysia Airlines:

- Re-analyse route decisions and rationalise the network. This endeavour will enable Malaysia Airlines to fly only the high demand routes while securing global connectivity through airline alliance, which in turn increases operational efficiency and network connectivity.
- Aircraft savings initiatives, such as efficient aircraft deployment, reduced turnaround time at airports and reduced maintenance provision, must continuously be performed to improve aircraft utilisation rate.
- A long-term fleet replacement should be thoroughly planned to meet Malaysia Airlines network and markets, as well as reducing maintenance cost.
- Right-sizing the workforce to ensure Malaysia Airlines begins on a right footing in terms of its staff size and work practices.

Publication of the Results of Research Project:

Verbal Presentation (Date, Venue, Name of Conference, Title of Presentation, Presenter, etc.)
Thesis (Name of Journal and its Date, Title and Author of Thesis, etc.) See, K.F., & Abdul Rashid, A. (2016). Total factor productivity analysis of Malaysia Airlines: Lessons from the past and directions for the future. <i>Research in Transportation Economics</i> , 56, 42-49. [Elsevier]
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