

Case 4

Singapore Airlines: Aligning Strategy and Organization

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The airline industry has been plagued by several factors such as overcapacity, commoditization of offerings, cutthroat rivalry exacerbated by the entry of low cost carriers, and intermittent periods of disastrous underperformance.¹ Several macrolevel socioeconomic factors such as rising oil prices, global crises such as severe acute respiratory syndrome, and concerns about the eruption of bird flu, the Asian tsunami, and rising terrorism concerns have further impacted profitability adversely. According to IATA, the global aviation industry suffered \$31.7 billion cumulative losses during the period 2001–10.²

The outlook for the industry remains bleak; not surprisingly, it is regularly rated as one of the worst performing industries in terms of financial performance.³ In this challenging industry environment, Singapore Airlines has never posted a loss on an annual basis, has achieved substantial and superior returns compared to the industry average, and has received hundreds of industry awards for its service quality (for financial and operating statistics of SIA, see Appendices A and B). In this case, we examine the elements of SIA's strategy and organization, which have enabled the company to achieve this level of performance.

SINGAPORE AIRLINES' STRATEGY

Singapore Airlines is positioned as a premium carrier with high levels of innovation and excellent levels of service, and has made a strategic choice of giving priority to profitability over size. The internal organizational practices outlined in this case, such as continuous people development and rigorous

service design, are key aspects of operationalizing and sustaining this positioning and strategic choice.

At the corporate level, SIA follows a strategy of related diversification. The Singapore Airlines Group has 14 primary subsidiaries and a number of associated companies. Its key subsidiaries include including Silk Air, SIA Engineering Company, and SIA Cargo.⁴ Its airline subsidiaries—which comprise ownership of regional carrier Silk Air (100%), budget carriers Scoot (100%) and Tiger Airways (32.7%), and Virgin Atlantic (49%)—cover the key customer segments within the industry. Presence in all market segments has been a long-standing strategy. According to chief executive officer (CEO) Chew Choon Seng, “We intend to play in all the segments: SIA at the high end, Silk Air on middle ground and Tiger Airways at the low end.”⁵ The shareholders in Tiger Airways include Temasek (the Singapore government's investment arm, which is also SIA's majority owner) and Irelandia Investments, the private family investment vehicle of Anthony Ryan who is the founder of Ryanair, one of the world's leading budget carriers. Temasek owns 56% of Singapore Airlines,⁶ making SIA one of a rare breed of companies which despite being state-owned, act as market-oriented, competitive entities and achieve the status of industry leaders.

As part of its international strategy, in April 2000, SIA joined the Star Alliance, one of the three major airline alliances (the other two being Oneworld and Skyteam). In the meantime various divisions of the SIA Group have been investing in China and India through strategic alliances with local organizations (cargo division, airport services, engineering services, and catering).

Use of information technology is an essential feature of SIA's strategy both in enhancing customer service and increasing efficiency. SIA's website is one of the most advanced and user friendly in the industry; there, customers can check schedules, buy

This case is based on Heracleous, L. and J. Wirtz, “Strategy and Organization at Singapore Airlines,” *Journal of Air Transport Management* 15 (2009): 274–279; and on Heracleous, L. and J. Wirtz, “Strategy and Organization at Singapore Airlines,” in *Energy, Transport and the Environment*, eds. O. Inderwildi and D. King (Springer Science and Business Media, 2012).

tickets, check into a flight, manage their Krisflyer (frequent flyer) account, find out about promotions, and even choose their meal for their next flight (using Singapore Airlines' "book the cook" service). Given that agents' commissions can be up to 7.5% of total operating costs (and reservations/ticketing a further 5.4%),⁷ and that 60% of air tickets are sold through travel agents,⁸ effective use of information technology (IT) can significantly reduce costs and also enhance service levels since transaction costs for the customer are lower for online transactions. Further, a user-friendly website where customers can buy tickets directly can help airlines reduce fees paid for Global Distribution Systems (firms such as Amadeus, Sabre, and Galileo), which, at 2% of revenues⁹, can significantly dent performance.

When Chew Choon Seng took over as CEO in mid-2003 (he remained at the helm until Goh Choon Phong's appointment as CEO from January 1, 2011), cost cutting was on the top of his agenda with particular emphasis on cutting nonfuel costs by 20% within three years and outsourcing IT functions to IBM. This focus on efficiency gains while sustaining service quality enabled SIA to increase the spread between breakeven load factor and actual load factor to 6.7% by 2006.¹⁰ However, the spread had narrowed to 3.7% in 2010–11, when the actual load factor was 78.5% and breakeven load factor was 74.8%. In 2011–12, however, the breakeven load factor rose to 78% while the actual load factor dropped to 77.4%.¹¹

The strategic planning process at SIA involves a structured annual rhythm, complemented by frequent management meetings. The process takes place at three levels: the board of directors, the management committee, and the operating divisions. According to Mr. Lee Lik Hsin, vice president of company planning and fuel:

We have certain stages throughout the year where we engage in strategy planning sessions . . . At the beginning of the year, we have a session with the board which we call the strategic agenda setting session. At this session, the board will discuss what they feel may be key strategic shifts that they see upcoming in the next one year or longer horizon . . . The management committee would take in the inputs from the board as well as have inputs of their own . . . At this point, things are fleshed out in a bit more detail. Typically, most of the operating divisions will have participation in putting up proposal papers or discussion papers . . . Then, we go back to the board again . . . around the middle of the year . . . Basically it's like a report on what management has done in terms of

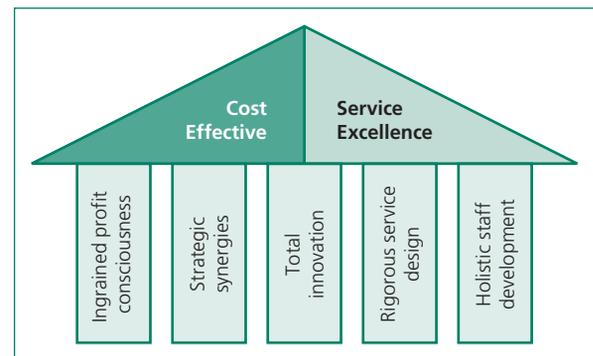
planning for the subjects that the board has raised as well as further thoughts that management may have had on other strategic issues that the board may not have raised but management feels that the board should also consider. So, this session is really to seek the board's endorsement on the entire set of issues and plans and ways to move forward . . . And then, finally, the fourth aspect then is really drilling down into the operating divisions and departments. So on the basis of all the content that has gone through before, each operating division would then present to management its own strategic and operating plans taking into account all those areas, subjects, topics and issues that have been raised earlier.¹²

The strategic planning process helps SIA anticipate and deal with industry trends and competitor actions, as well as to develop scenarios and contingency plans for unexpected events. Planning at the different levels is integrated, which enables the seamless operationalization of strategic vision. As is the case with most industry leaders, the SIA management takes strategic planning seriously, spending significant time and energy on it.

SIA'S ORGANIZATIONAL ACTIVITY SYSTEM: FIVE PILLARS OF COST-EFFECTIVE SERVICE EXCELLENCE

How does Singapore Airlines organize to achieve high performance? The five pillars of SIA's organizational activity system are rigorous service design and development, total innovation, ingraining profit consciousness in all employees, achieving strategic synergies, and developing staff holistically (Exhibit 1):

Exhibit 1 The five pillars of Singapore Airlines' organizational activity system



Source: Heracleous, L., J. Wirtz, and N. Pangarkar, N. *Flying High in a Competitive Industry: Secrets of the World's Leading Airline* (Singapore: McGraw-Hill, 2009).

RIGOROUS SERVICE DESIGN AND DEVELOPMENT

Almost three decades ago, services marketing professor Lyn Shostack noted that service design and development was characterised by trial and error rather than by a structured process as was the case in manufacturing.¹³ Things appear to have changed little since then for many service organizations. SIA, however, views product design and development as a crucial, structured effort. SIA's initial commitment to exceptional levels of service and innovation begun in 1972 when, after its separation from Malaysian Airlines, it chose not to be a member of IATA, finding its rules at the time dictating aspects of on-board service to be too constraining.

SIA has a service development department that hones and thoroughly tests any change before it is introduced. This department undertakes research, trials, time and motion studies, mock ups, assessing customer reaction to ensure that a service innovation can be effectively operationalized and is supported by the appropriate procedures. Underpinning the continuous innovation is a corporate culture that accepts change and development as not just inevitable, but as a way of life. A trial that fails at SIA or an implemented innovation that is removed after a few months is acceptable, and damages no-one's reputation. Innovation and continuous improvement are cultural elements that are also inculcated at the national level by Singapore's government. Singapore is a tiny nation without natural resources; its claim to economic viability lies in its ability to add value to the global economy and corporations through service offerings and a gradual migration and upgrading to higher-value-added processes.

At SIA, it is expected that any innovation may have a limited shelf life. SIA recognises that to sustain its differentiation, it must maintain continuous improvement and be able to dispose of programs or services that no longer provide competitive differentiation or that could be offered in a different way. According to Yap Kim Wah, the senior vice president of product and services,

It is getting more and more difficult to differentiate ourselves because every airline is doing the same thing . . . the crucial fact is that we continue to say that we want to improve. That we have the will to do so. And that every time we reach a goal, we always say that we got to find a new mountain or hill to climb . . . you must be able to give up what you love.¹⁴

The stakes are raised for SIA, not only by its competitors but also by its customers who have sky-high expectations:

Customers adjust their expectations according to the brand image. When you fly on a good brand, like SIA, your expectations are already sky high. And if SIA gives anything that is just okay, it is just not good enough (Sim Kay Wee, former senior vice president, cabin crew).

—Sim Kay Wee, Former Senior Vice President,
Cabin Crew

Combined with its extensive customer feedback mechanisms, SIA treats its customers' high expectations as a fundamental resource for innovation ideas. Weak signals are amplified; every customer letter, be it complaint or compliment, creates a reaction within the airline. SIA initiated a program called "SIA," short for "staff idea in action," where staff can propose any idea they have that would improve service or cut costs. Additional sources of intelligence are the IATA Global Airline Performance survey, and SIA's "spy flights," where individuals travel with competitors and report detailed intelligence on competitive offerings.

Lastly, SIA recognises that its competition does not just come from within the industry. Instead of aiming to be the best airline, its intention is to be the best service organization. To achieve that, SIA employs broad benchmarking not just against its main competitors, but against the best-in-class service companies.

TOTAL INNOVATION: INTEGRATING INCREMENTAL DEVELOPMENT WITH UNANTICIPATED, DISCONTINUOUS INNOVATIONS

SIA does not aim to be a lot better but just a bit better than its competitors in every one of its functions and offerings. This not only means constant innovation but also total innovation—innovation in everything, all the time. Importantly, this also supports the notion of cost effectiveness. Continuous incremental development comes at a lower cost than radical innovation but delivers that necessary value at margin to the customer:

It is the totality that counts. This also means that it does not need to be too expensive. If you want to provide the best food, you might decide to serve lobster on short-haul

flights between Singapore and Bangkok, for example; however, you might go bankrupt. The point is that on that route, we just have to be better than our competitors in everything we do. Just a little bit better in everything. This allows us to make a small profit from the flight to enable us to innovate without pricing ourselves out of the market.

—Yap Kim Wah, Senior Vice President,
Product and Services¹⁵

In addition to incremental improvements, SIA also implements frequent major initiatives aiming to sustain service excellence. Organizational initiatives include SIA's "Outstanding Service On The Ground" program, "Transforming Customer Service," and "Soar," which stands for "Service above all the rest." Below are examples of internal posters that SIA uses to communicate such initiatives to staff and gain their commitment (Exhibits 2 and 3).

Exhibit 2 SIA Internal Poster



Exhibit 3 SIA Internal Poster



Innovation is part of the company culture, and ingrained in employee mindsets. According to Nick Ionides, vice president of public affairs:

Everyone in this company really understands the value of innovation. More than just it being valuable, it is actually a requirement at this company being in the business where your competitors, with many of them with very deep pockets, are able to catch up to you by spending money to match your product for example. You always have to stay a step ahead. Everyone in the company understands that.¹⁶

As a way of inspiring discontinuous service innovations, SIA strives to gain a deep understanding of trends in customer lifestyles, and debates their implications for the future of better service in the air. According to the senior vice president of product and services:

Most new changes that really secure the "wow" effect are those things that customers never expected . . . we have our product innovation department that continuously looks at trends and why people behave in a certain manner, why they do certain things. And then we do a projection of three to five years of what is going to happen . . . for the airline, it's not just about having a smoother flight from A to B. That will be taken for granted. It is really about what are the customers' lifestyle needs. Can you meet these lifestyle needs?¹⁷

Earlier examples of such innovations include the Krisworld on-demand entertainment system for all classes, Internet and phone check in for all classes, and the full-size space bed. SIA was the first airline to fly the A380 jet (when it was finally delivered after long delays). The offerings on this aircraft include suites, or "a class beyond first" in SIA's words, as well as the widest seats in the sky, which have helped to perpetuate its differentiated positioning. Another investment in innovation included a US\$1 million simulator that mimics the air pressure and humidity in the air so that food can be tasted under these conditions, which affect taste buds. Based on the food tasting under simulated conditions, a decision was made to reduce spices in its food.

SIA made a clear strategic choice of being a leader and follower at the same time. It is a pioneer on innovations that have high impact on customer service (for example, in-flight entertainment, gourmet cuisine that includes fine wines, the ability

to order one's choice of dishes in advance by Internet, and "beds" in the air). However, it is at the same time a fast follower in areas that are less visible from the customer's point of view, such as revenue management or customer relationship management systems. In doing so, SIA relies on proven technology that can be implemented swiftly and cost effectively; this reduces the implementation risk while delivering the necessary functionality.

"PROFIT-CONSCIOUSNESS" INGRAINED IN ALL EMPLOYEES

Despite SIA's focus on service excellence and innovation, managers and staff are simultaneously aware of the need for profit and cost-effectiveness. This derives from the company culture:

*It's drilled into us from the day we start working for SIA that if we don't make money, we'll be closed down—Singapore doesn't need a national airline. Second, the company has made a very important visionary statement that "we don't want to be the largest company. We want to be the most profitable." That's very powerful.*¹⁸

It is due to this policy of pursuing profitability, rather than size, that SIA has one of the highest market capitalizations in the airline industry globally, even though its revenues are relatively modest compared to competitors such as the Air France-KLM Group, British Airways, or the Lufthansa Group.

Any proposed innovation is analyzed carefully on the balance of expected customer benefits versus costs. A solid business case needs to be made to support all proposed innovations and new service offerings. Station managers and frontline staff know that they should balance passenger satisfaction and cost effectiveness in their decisions. According to Mr. Sim Kim Chui, vice president of product development, who led the A380 project focusing on how the plane should be configured, the ideas arising from focus groups with frequent flyers were prioritized and the top ones chosen for inclusion; but their implementation was carried out with profitability in mind:

So, it's important to look at all these ideas, and we short listed the better ones . . . That's important. The next thing is of course at the end of the day the aircraft must make money. I was reminded time and again that this aircraft is not to win awards per se . . . Don't go win the best

*design award and at the end of the day we don't make any money.*¹⁹

Wastage reduction is part of SIA employees' mindset. According to Mr. Sim, it is crucial to "really reduce wastage. Wastage in the sense that what I take away, will not affect the customers in any way. So in SIA, prudent wastage reduction is what we do day in day out. And you'll be surprised how much we can reduce wastage. Keep your costs down without affecting your service in any way." The importance of efficiency in the company culture is reinforced by SIA's physical spaces. In contrast to the company's world-class fleet, there are no grand or expensive decorations and furnishings at the company's headquarters for example. The headquarters are characterised by a simple, functional design that epitomises the drive for internal efficiency.

Further, SIA has a rewards system that pays bonuses according to the profitability of the company; the same percentage for everyone—the same formula is used throughout the SIA Group. According to Nick Ionides, vice president for public affairs, employees are encouraged to be efficient:

*Because of the reward scheme that is in place in this company, which is basically everybody gets the same type of bonus, which is a multiple of your monthly salary. And that is based on the performance of the company. There is a culture for everybody here to be as fiscally responsible as possible. Because if you are spending money unnecessarily, it impacts everybody in the long run because the goal of the company is to be as profitable as possible.*²⁰

As a result, there is a lot of informal peer pressure from individuals within the organisation, and staff and managers can challenge decisions and actions if they see resources being wasted. In 2006, the profit-sharing bonus formula was shifted to place more weight on the performance of individual companies (subsidiaries) in the SIA Group in order to increase cost and profit consciousness in these companies and motivate them to increase their business with third parties so that they will be less dependent on the airline.²¹

The productivity of SIA employees is one of the highest in the global airlines industry. According to figures cited in Doganis (2006), productivity at SIA was 1,028 thousand available tonne-km per employee.²² For comparison, the figure for budget airlines such as easyJet was 494 thousand, Jetblue

was 522 thousand, and Southwest was 410 thousand. Calculated per \$1,000 of labor cost, productivity at SIA was at 20,768 available tonne-km as compared to easyJet at 14,629, Jetblue at 12,799 and Southwest at 9,348. Current productivity data (calculated at staff strength of 13,992 during 2011–12) is given in Exhibit 4.

ACHIEVING STRATEGIC SYNERGIES THROUGH RELATED DIVERSIFICATION AND WORLD-CLASS INFRASTRUCTURE

SIA utilizes related diversification to reap cost synergies and at the same time control quality and enable transfer of learning. Subsidiaries serve not only as the development ground for well-rounded management skills and a corporate, rather than a divisional, outlook through job rotation, but also as sources of learning. Related operations (such as catering and aircraft maintenance) have healthier profit margins than the airline business itself because the industry structure is more favorable in those sectors.

Singapore's Changi Airport is regularly voted as among the best airports in the world. This excellent airport management and infrastructure entices passengers who are traveling on to Australia, New Zealand, or other countries in the region, to pass through Changi and to choose SIA as their carrier. Changi Airport is also one of the most cost-efficient major airports, with lower landing charges compared to Hong Kong or Narita airports, for example.²³

SIA's subsidiaries operate under the same management philosophy and culture that emphasizes cost-effective service excellence. Even though they are part of the group, they are quoted separately and are

subject to market discipline with very clear profit and loss expectations. In SIA, the conventional wisdom of outsourcing (outsource “peripheral” activities and focus on what you do best) does not readily apply. External suppliers might find it difficult to match the value offered by SIA's own subsidiaries. SIA's related diversification leads to strategic synergy benefits in terms of reliability of key inputs, high quality, transfer of learning, and, at the same time, cost effectiveness.

It is worth noting that SIA has one of the youngest fleets in the world: 100 aircraft (60 Boeing and 40 Airbus, 65 owned and 35 on lease) with an average age of 74 months, less than half the industry average of 151 months.²⁴ This was a conscious strategic choice that contributes both to efficiency and service excellence. From a service perspective, younger planes are more comfortable and quieter than older ones. From an efficiency perspective, a younger fleet has added benefits of lower repair and maintenance costs and lower fuel consumption. Fewer problems during service and maintenance, for example, meant lower costs in terms of compensating passengers for flight delays or cancellations, and aircraft replacement costs. Further, a key benefit of a younger fleet is a higher utilization rate as planes spend less time in the hangar for repairs, checks and maintenance; at SIA, utilization was 13 hours per day, versus an industry average of 11.3 hours per day.²⁵

A usual metric of airline costs is cents per available seat kilometer (ASK).²⁶ An IATA study²⁷ found that full service airlines had ASK costs of between US\$0.08 and US\$0.16 cents in Europe, 7 to 8 cents in the United States, and 5 to 7 cents in Asia. Budget carriers had costs of between 4 to 8 cents in Europe, 5 to 6 cents in the United States and 2 to 3 cents in Asia. SIA's average cost during the period 2001–2009 was

Exhibit 4 Productivity of Singapore Airlines' Employees

	2011–12	2010–11	%	Change
Seat capacity per employee (seat-km)	8,163,082	7,952,620	+	2.6
Passenger load carried per employee (tonne-km)	594,663	588,714	+	1.0
Revenue per employee (\$)	868,790	863,931	+	0.6
Value added per employee (\$)	237,472	310,480	–	23.5

Source: Singapore Airlines, *Annual Report 2011/2012*, <http://www.singaporeair.com/pdf/Investor-Relations/Annual-Report/annualreport1112.pdf>.

US cents 4.57 (Singapore cents 7.47), converted using average exchange rates for this period), which means that SIA has the highest efficiency levels of any full service airline anywhere in the world. SIA's operating costs are given in Exhibit 5.

DEVELOPING STAFF HOLISTICALLY²⁹

Senior managers at SIA believe that “training in SIA is almost next to Godliness.” Everyone, no matter how senior, has a training and development plan with clear goals. The famous “Singapore Girl” undergoes training for 15 weeks, longer than any other airline and almost twice as long as the industry average of two months. This training includes not only functional skills such as food and beverage serving and safety training, but also soft skills of personal interaction, personal poise, grooming and deportment, and

emotional skills of dealing with the consequences of serving very demanding passengers. SIA's training of the Singapore Girl is likened to a “finishing school”: “The girls are transformed from coming in and by the time they come out, they look totally different. Their deportment, the way they carry themselves ... There's a great transformation there” (Sim Kay Wee, former senior vice president, cabin crew).

In addition to such training, SIA also encourages and supports activities that might, on the surface, be seen as having nothing to do with service in the air. The crew have created groups such as the “Performing Arts Circle,” staging full-length plays and musicals, the “Wine Appreciation Group,” and the “Gourmet Circle.” These activities help to develop camaraderie and team spirit. During their initial training and subsequent career, crew employees also spend time at welfare homes to get a close-up engagement with the less fortunate who have to depend on others for

Exhibit 5 Singapore Airlines' Operating Costs

	2011–12 S\$ million		2010–11 S\$ million		% Change
Fuel costs	4,868.8	40.9%	3,805.1	35.0%	+ 28.0
Staff costs	1,495.4	12.6	1,549.5	14.2	– 3.5
Depreciation	1,324.6	11.1	1,416.0	13.0	– 6.5
Handling charges	831.2	7.0	802.9	7.4	+ 3.5
Inflight meals and other passenger costs	595.1	5.0	560.3	5.2	+ 6.2
Airport and overflying charges	559.7	4.7	514.9	4.7	+ 8.7
Aircraft maintenance and overhaul costs	553.7	4.7	504.9	4.6	+ 9.7
Rentals on leased aircraft	510.2	4.3	525.6	4.8	– 2.9
Sales costs	497.8	4.2	556.3	5.1	– 10.5
Communication and information technology costs	91.1	0.8	86.5	0.8	+ 5.3
Other costs	561.9	4.7	565.8	5.2	– 0.7
Total	11,889.5	100.0	10,887.8	100.0	+ 9.2

Source: Singapore Airlines, *Annual Report 2011/2012*, <http://www.singaporeair.com/pdf/Investor-Relations/Annual-Report/annualreport1112.pdf>.

Notes: Depreciation included impairment of property, plant and equipment and amortisation of computer software; sales costs included commission and incentives, frequent flyer programme cost, computer reservation system booking fees, advertising expenses and other sales costs; communication and information technology costs were for data transmission and contract service fees, hire of computer equipment, maintenance/rental of software, and information technology contract and professional fees; and other costs mainly comprised crew expenses, company accommodation cost, foreign exchange revaluation and hedging loss, comprehensive aviation insurance cost, airport lounge expenses, non-information technology contract and professional fees, expenses incurred to mount nonscheduled services, aircraft licence fees and recoveries.

their survival. This is aimed to help them develop empathy for others and put themselves in the shoes of the passengers. The contents of the training change to reflect customer expectations. “While our Singapore Girl is our icon and we’re very proud of her and her achievements, we continue to improve her skills; we continue to improve her ability to understand appreciation of wines and cheeses for example, or our Asian heritage . . . the enhancement must be continuous” (Yap Kim Wah, senior vice president, product and service).

Cabin crew can select refresher courses and, on average, attend three to four days of such courses a year. Popular courses include “transactional analysis” (a counseling-type course), leadership courses, and European languages. The company is moving from a system of directing which courses cabin crew should attend to one of “self-directed learning,” where staff take responsibility for their own development.

Even before development starts, there is substantial effort to ensure that the company hires the right staff. For example, entry qualifications for cabin crew applicants are both academic (at least polytechnic diploma, meaning that they have spent 13 years in school), as well as physical attributes. The recruitment process is extensive, involving three rounds of interviews, a “uniform test”, a “water confidence” test, psychometric tests, and a tea party. Over 16,000 applications are received every year and the company hires around 500 to 600 new cabin crew to cover attrition rates of around 10% (this includes both voluntary and directed attrition). After the Singapore Girls start flying, they are carefully monitored for the first six months through a monthly report by the in-flight supervisor. At the end of the probationary period, 75% get confirmed, around 20% get an extension of probation, and 5% leave.

TURBULENCE ON THE HORIZON?

Competitive conditions in the airline industry are becoming more challenging. Fuel prices continue to fluctuate and are almost impossible to predict. With 41% of Singapore Airlines’ cost being attributed to fuel, performance can be significantly affected by this uncontrollable factor. Security concerns continue, leading to airport procedures that cause passenger annoyance and affect industry service levels. Another wildcard for many airlines is the risk of long range

aircraft by-passing their hubs. The Boeing 777-200LR launched in 2005, for example, which has a range of 17,500 km, can fly almost half way around the earth (which has a circumference of around 40,000 km). These planes can allow airlines to bypass hubs like Singapore on flights from Europe to Australia, for example. SIA has been seeking rights for several years (unsuccessfully to date) to fly directly from Australia to Europe, and from Australia to the United States as a way of mitigating this risk.

Competitors are hot on SIA’s heels, trying to close the gap in both service excellence and efficiency. This is not always easy to do; Malaysian Airlines’ service quality is high, for example, but its efficiency is significantly lower than SIA’s when viewed, for example, on an employee productivity basis. Other competitors, such as Emirates and Qatar, have added aggressive capacity and price tickets at levels generally lower than Singapore Airlines. From a human resources perspective, higher-paying jobs elsewhere regularly tempt SIA employees who are sought after in other service organizations; many of them decide to take up new challenges.

Meanwhile, critics and competitors complain that much of SIA’s success is due to environmental factors and the role of government rather than its own capabilities. Analysts note that one benefit of Temasek’s 56% stake is lower perceived debt risk by lenders and, therefore, lower cost of borrowing (even though SIA’s financial strength means that it does not need to borrow significantly). The industrial relations climate in Singapore is deemed to be less adversarial than elsewhere, enabling SIA to implement policies that would have caused significantly more friction in many other airlines. Critics also suggest that SIA’s acquisitions have not fared that well. In 1999, SIA bought 49% of Virgin Atlantic and wrote off 95% of the investment soon after September 11. In 2000, it acquired a 25% stake in Air New Zealand, which was seriously impacted by the collapse of its debt-laden Australian arm, Ansett Airlines; this investment was also written off.

Many, on the other hand, disagree with the suggestion that SIA’s success is due to the state. Indeed, high levels of state aid to airlines that have supported many of SIA’s competitors²⁹ have never been awarded in Singapore, where deregulation and encouragement of competition has been the norm. According to SIA’s chairman, “We are unlike many of our competitors: We have never had government protection or

underwriting of our business in difficult times. We operate on a commercial basis and our people know that our customers have a choice of airlines.”³⁰

SIA continues its dual focus on the customer experience though service excellence and innovation,

as well as continuously striving for efficiency.³¹ According to former CEO Chew Choon Seng, “The day we stop having visions or objectives to work to, then that is the day we atrophy. I can assure you we have no intention of doing that.”³²

Notes

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26. Available seats multiplied by distance flown.
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28. In addition to the named quotations, this section draws on in-depth interviews with Choo Poh Leong, senior manager crew services, and Toh Giam Ming, senior manager crew performance.
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31. Heracleous, L. and J. Wirtz, “Singapore Airlines’ Balancing Act,” *Harvard Business Review* (July–August 2010): 145–149.
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APPENDIX A—FINANCIAL STATISTICS

The Group	2011–12	2010–11	% Change
Financial Results (\$ million)			
Total revenue	14,857.8	14,524.8	+ 2.3
Total expenditure	14,571.9	13,253.5	+ 9.9
Operating profit	285.9	1,271.3	– 77.5
Profit before taxation	448.2	1,419.0	– 68.4
Profit attributable to owners of the Parent	335.9	1,092.0	– 69.2
Financial Position (\$ million)			
Share capital	1,856.1	1,832.4	+ 1.3
Treasury shares	(258.4)	(43.0)	n.a.
Capital reserve	99.1	91.8	+ 8.0
Foreign currency translation reserve	(186.3)	(186.1)	– 0.1
Share-based compensation reserve	165.9	172.6	– 3.9
Fair value reserve	(47.6)	(138.0)	+ 65.5
General reserve	11,264.6	12,474.7	– 9.7
Equity Attributable to Owners of the Parent	12,893.4	14,204.4	– 9.2
Return on equity holders' funds (%)	2.5	7.9	– 5.4 points
Total assets	22,043.0	24,544.5	– 10.2
Total debt	1,077.8	2,038.9	– 47.1
Total debt equity ratio (times)	0.08	0.14	– 0.06 times
Value added	4,344.3	5,419.2	– 19.8
Per Share Data			
Earnings - basic (cents)	28.3	91.4	– 69.0
Earnings - diluted (cents)	27.9	90.2	– 69.1
Net asset value (\$)	10.96	11.89	– 7.8
Dividends			
Interim dividend (cents per share)	10.0	20.0	– 10.0 cents
Final dividend (cents per share)	10.0	40.0	– 30.0 cents
Special dividend (cents per share)	–	80.0	– 80.0 cents
Dividend cover (times)	1.4	0.7	+ 0.7 times
The Company			
Financial Results (\$ million)			
Total revenue	12,070.1	11,739.1	+ 2.8
Total expenditure	11,889.5	10,887.8	+ 9.2
Operating profit	180.6	851.3	– 78.8
Profit before taxation	413.3	1,194.0	– 65.4
Profit after taxation	390.2	1,011.2	– 61.4
Value added	3,299.2	4,218.8	– 21.8

Source: Singapore Airlines, *Annual Report 2010/2011*, <http://www.singaporeair.com/pdf/Investor-Relations/Annual-Report/annualreport1011.pdf>, 3–4.

APPENDIX B—OPERATING STATISTICS

	2011–12	2010–11
Singapore Airlines		
Passengers carried (thousand)	17,155	16,647
Revenue passenger-km (million)	87,824.0	84,801.3
Available seat-km (million)	113,409.7	108,060.2
Passenger load factor (%)	77.4	78.5
Passenger yield (cents/pkm)	11.8	11.9
Passenger unit cost (cents/ask)	9.2	8.9
Passenger breakeven load factor (%)	78.0	74.8
SilkAir		
Passengers carried (thousand)	3,032	2,764
Revenue passenger-km (million)	4,469.4	4,039.6
Available seat-km (million)	5,904.8	5,285.1
Passenger load factor (%)	75.7	76.4
Passenger yield (cents/ltk)	153.3	147.4
Overall yield (cents/ltk)	91.5	84.3
Overall unit cost (cents/ctk)	59.7	57.2
Overall breakeven load factor (%)		
SIA Cargo		
Cargo and mail carried (million kg)	1,205.8	1,156.4
Cargo load (million tonne-km)	7,198.2	7,174.0
Gross capacity (million tonne-km)	11,286.5	11,208.5
Cargo load factor (%)	63.8	64.0
Cargo yield (cents/ltk)	34.9	36.2
Cargo unit cost (cents/ctk)	23.5	22.3
Cargo breakeven load factor (%)	67.3	61.6
Singapore Airlines, SilkAir and SIA Cargo		
Revenue per employee (\$)	868,790	863,931
Value added per employee (\$)	237,472	310,480
Employee Productivity (Average)—The Group		
Average number of employees	22,514	21,997
Revenue per employee (\$)	659,936	660,308
Value added per employee (\$)	192,960	246,361

Source: Singapore Airlines, *Annual Report 2011/2012*, <http://www.singaporeair.com/pdf/Investor-Relations/Annual-Report/annualreport1112.pdf>.

Note: Passenger load includes excess baggage carried.

GLOSSARY

Singapore Airlines

Revenue passenger-km = Number of passengers carried x distance flown (in km)

Available seat-km = Number of available seats x distance flown (in km)

Passenger load factor = Revenue passenger-km expressed as a percentage of available seat-km

Passenger yield = Passenger revenue from scheduled services divided by revenue passenger-km

Passenger unit cost = Operating expenditure (less bellyhold revenue from SIA Cargo) divided by available seat-km

Passenger breakeven load factor = Passenger unit cost expressed as a percentage of passenger yield. This is the theoretical load factor at which passenger revenue equates to the operating expenditure (less bellyhold revenue from SIA Cargo)

Overall yield = Passenger, cargo and mail revenue from scheduled services divided by capacity (in tonne-km)

Total Passenger and Cargo Load (in tonne-km)

Overall unit cost = Operating expenditure divided by gross capacity (in tonne-km)

Overall breakeven load factor = Overall unit cost expressed as a percentage of overall yield. This is the theoretical load factor at which passenger, cargo and mail revenue equate to the operating expenditure

SIA Cargo

Cargo load = Cargo and mail load carried (in tonnes) x distance flown (in km)

Gross capacity = Cargo capacity production (in tonnes) x distance flown (in km)

Cargo load factor = Cargo and mail load (in tonne-km) expressed as a percentage of gross capacity (in tonne-km)

Cargo yield = Cargo and mail revenue from scheduled services divided by cargo load (in tonne-km)

Cargo unit cost = Operating expenditure (including bellyhold expenditure to Singapore Airlines) divided by gross capacity (in tonne-km)

Cargo breakeven load factor = Cargo unit cost expressed as a percentage of cargo yield. This is the theoretical load factor at which cargo revenue equates to the operating expenditure (including bellyhold expenditure to Singapore Airlines)

