Malaysian airline system

Business, Industries

From a small air service that began with a 5-seater twin engined Airspeed Consul in 1947, Malaysia Airlines has grown into an award-winning airline with a fleet of more than 100 aircraft, servicing more than 110 destinations across six continents. Today, Malaysian Airlines System Berhad is a corporation with a vision of global expansion. The airline's network will grow extensively in response to consumer demand for worldwide coverage. The airline's enhanced in-flight services, reliable ground support and excellent infrastructure will set new world standards.

Company History: Malaysian Airlines System Berhad is the holding company for Malaysia's national airline carrier, one of Asia's fastest growing airlines. Through several other subsidiaries, the company manufactures aircraft parts, offers trucking and cargo transportation services, catersfood, provides laundry and dry-cleaning services for airlines and other industrial institutions, and oversees a travel agency.

Company Chairman Tajudin Ramli owns a significant share in Malaysian Airlines System (MAS), and the Malaysian government retains a strong voice in MAS affairs. 930s Origins The history of Malaysian Airlines dates back to 1937, when the Straits Steamship Co. of Singapore joined forces with two British companies--Ocean Steamship Co. and Imperial Airways--and won approval from Singapore's government to operate an airline in the region. Malayan Airways Limited was registered on October 21, 1937. Getting clearance and getting planes in the air, however, proved to be two different things for Malayan Airways Ltd.

Operations did not begin until 1947, well after the Japanese occupation had come to an end, when a twin-engined Airspeed Consul lifted off from Subang International Airport in Kuala Lumpur, linking that city with Singapore, Ipoh, and Penang in the north of the country. In 1947 the fledgling airline added a 21-seater DC-3 to its fleet of three Airspeed Consuls. By the end of the year the airline was flying to Jakarta (then called Batavia), Palembang, Bangkok, Medan, and Saigon (later called Ho Chi Minh City).

Jointly controlled by the intercontinental carriers BOAC and Qantas, Malayan Airways as for a time run by Keith Hamilton, who would later become head of Qantas. 1960s Independence Following Malaysia's political establishment in September 1963--the new country comprised the former states of Malaya and Singapore, and the one-time colonies of North Borneo, Sabah, and Sarawak--Malayan Airways became Malaysian Airways and was reorganized to focus on connecting the new country's disparate regions. Expansion brought more aircraft into the fleet after Borneo Airways was purchased and folded into Malaysian Airways in 1965.

This brought four Dakota jets and two Scottish Aviation Twin Pioneer aircraft to the carrier's stable of aircraft. More organizational changes for the airline occurred in 1966, a year after Singapore seceded from Malaysia to become a sovereign state on its own. That year, the governments of Singapore and Malaysia jointly bought a controlling stake in the airline and renamed it Malaysia-Singapore Airlines Ltd. (MSA). Powerful Boeing jets then entered the fleet and enabled flights to reach a number of far-flung Asian destinations.

However, differences between Kuala Lumpur and Singapore over the future direction of MSA prompted a split in 1972.

Lee Kuan Yew, prime minister of Singapore, desired a truly national carrier for his country, the aim being to fly a small fleet of Boeing 707s displaying the yellow and blue colors of Singapore Airlines. Malaysia likewise chose to go its own way. In October 1972, Malaysian Airline Systems (MAS) was established. (The acronym MAS means gold in the Malaysian language.) Each of its aircraft would henceforth sport a winged tiger logo, a stylized form of the traditional Kelantan " wau" or Malaysian kite. The split was crucial to the future fortunes of MAS.

From 1972, the airline continued to see itself as a regional carrier, connecting a myriad of remote destinations in Peninsular Malaysia, including Sabah and Sarawak. Singapore Airlines, on the other hand, was committed from its inception to becoming an international success. By 1975, Singapore Airlines was flying to Seoul, Hong Kong, and Taipei. A year later, that airline was carrying passengers to Paris, Dubai, and New Zealand. Unlike Singapore, Malaysia looked to focus on exploiting its vast reserves of natural resources--petroleum and petroleum products, natural gas, timber products, and rubber.

The country's government would choose much later than Singapore had to attempt competing with Western companies in manufacturing and high-tech markets. Thus, maintaining a successful regional airline carrier was judged the best strategy for Malaysia during the 1970s. The company slowly built up its regional services to Jakarta and Medan in Indonesia. Later the destinations of Bangkok, Hong Kong, Manila, and Singapore were added. " Malaysia felt that MAS was not serving the needs of Malaysians," explained Abdullah Mat Zaid, director of corporate planning at MAS.

Expanding as a regional airline was not without incident for MAS. In 1978, the company's low-wage policy met with a setback. Kuala Lumpur had set out rules limiting union activity at the national air carrier as a means of keeping wages and costs down, and a bitter and disruptive labor dispute occurred in 1978. Events surrounding a strike at the national airline prompted the government to intervene and cite MAS workers as being engaged in illegal activity. Several union officials were subsequently arrested.

Growth in the 1980s--90s An economic boom in Malaysia during the 1980s helped spur growth at Malaysian Airlines. By the end of the decade, MAS was flying to 47 overseas destinations. These included eight European cities: London, Zurich, Paris, Frankfurt, Istanbul, Vienna, Amsterdam, and Brussels. MAS also flew at this time to six Australian cities--Brisbane, Adelaide, Darwin, Perth, Melbourne, and Sydney— well as to Auckland, New Zealand. Besides flights to such Asian hubs as Hong Kong, Tokyo, and Peking, MAS also connected with Los Angeles and Honolulu.

By 1992, MAS had added scheduled flights to Athens, Madrid, and Rome, and plans were in motion to reach at least one destination in Eastern Europe. Moreover, a new service to South Africa and Brazil was scheduled for 1993. The airline would also look to reach one city on the eastern seaboard of the United States. MAS also chose during the early 1990s to expand by teaming up with other airlines to make additional destinations available for its customers. For example, Iran Air connected Kuala Lumpur with Tehran, and Royal Jordanian connected MAS flights with Amman.

In addition, joint services to Chile and Argentina were discussed in late 1991. The impetus for this expansion came from Malaysia's burgeoning economy. Between 1986 and 1991, the country's export-oriented economy posted an average real growth of nine percent. Changes to Malaysia's foreign investment rules during the mid-1980s were designed to help speed a shift from an economy previously dependent on natural resources to a finely tuned industrialized economy. At the same time, a number of large Asian and Western corporations such as Sanyo, NEC, Toshiba, and Philips established branch plants in Malaysia.

The extra traffic of company officials flying back and forth from their headquarters to Malaysia, and the transportation of their high-tech goods, spurred on ticket sales for the airline. The number of business passengers MAS accommodated was underscored by gross foreign investments in Malaysia that rose 30 percent in 1991 to M$10. 7 billion ($5 billion). The 1980s--90s Tourist Trade As the country's export trade thundered ahead in the late 1980s, so did the domestic passenger traffic in and out of Malaysia, and naturally tourism also provided a springboard to expansion for MAS.

By the late 1980s Malaysia began to go after the prized Western tourist, a market already well exploited by neighboring Thailand and the Philippines. Nearly 5. 5 million travelers visited Malaysia in 1991. Although the country, and its airline, were hit by the effects of the Gulf War and global recessionary conditions, tourism contributed M$5 billion--or $2. 4 billion—o the country's trade balance in 1991. The bulk of these tourists came from neighboring Brunei, Indonesia, the Philippines, Singapore, and Thailand.

Kuala Lumpur's plans to build a number of luxury golf courses in the country were expected to help secure growing numbers of Japanese tourists. Getting into the package tour business also helped MAS encourage increased passenger traffic. Malaysia Airlines Golden Holiday packages and Malaysia Stopover packages were established in1984. These encouraged European and Australian travelers in transit between the two continents to take a rest break in Malaysia before carrying on to their final destination. To further stimulate tourism, a joint campaign was run by the Malaysian government and MAS to declare 1990 Visit Malaysia Year.

During the year, some 7. 4 million tourists flew into and out of the country, as compared with the 4. 8 million tourists who visited Malaysia in the previous year. Another source of new traffic for the airline was the growing number of foreign students attending educational institutions in Malaysia. In September 1989 the International School of Kuala Lumpur registered 700 students; a year later, the school had doubled its enrollment. By the same token, young Malaysians were studying in Europe and North America.

In Canada, where many Malaysian students attended universities, it was felt in early 1992 that this new traffic source might warrant regular service between the two countries. Canada's own national airline, Air Canada, which was suffering from economic recession and increasing global competition, was slow to grant Malaysian Airlines landing rights. The Canadian government felt that allowing MAS to land in Vancouver would encroach on territory commanded by Canadian Airlines International Ltd. , while Toronto International Airport was considered the preserve of Air Canada.

Malaysia's case at the time was not helped by Ottawa having a year earlier announced the cancellation of Singapore Airline's landing rights in Toronto. Even so, Kuala Lumpur officials reasoned that Canada was out-of-step in trying to protect its national airline carriers. The global airline industry as a whole was going the opposite way, towards increased deregulation and competitiveness. Malaysia was prepared to wait for Canada to accept its growing economic might and grant reciprocal landing rights. Intercontinental traffic for the airline was encouraged by the purchase of Boeing 747 wide-body jets.

By 1991, the airline had four of them, and three more were added a year later with an average of two more due for delivery each year until 1995. In 1992, a tightening labor supply in Malaysia, in part the result of its increasingly prosperous economy, was cited by international corporations as the prime obstacle standing in the way of future expansion plans. Manpower shortages were especially acute at the middle management and technical levels. All of these circumstances would impact on MAS's passenger and cargo traffic figures as the country's economy moved from the farm to the factory and beyond.

Amid this backdrop, the Malaysian government in 1992 forecast that passenger traffic on the country's combined airways--international and regional--would grow by ten percent annually in the five years before 1997.

International freight volume in the same period was expected to rise by 13 percent annually. Officials in Kuala Lumpur announced in 1992 that they had plans to build a new international airport in Sapang, adding that all other airports in the country were expected to cope with the increased passenger demand of the 1990s without the need for expansion.

Government forecasts in 1992 pointed to 9. 5 million passengers to be carried by MAS that year, a figure expected to jump to approximately 15 million by 1995. Cargo was also identified as an expanding source of revenue for the airline in the 1990s. In recognition of this potential, MAS in 1992 introduced MASkargo in order to begin providing a full cargo service to the United States and Europe. A DC-10-30 jet was fitted to carry up to 60 tons of cargo per flight. Further plans were announced to purchase an additional Boeing 747-400 freighter to carry 45 tons of extra cargo per flight.

In 1992 MASkargo also opened a fully automated cargo handling center in Penang. The new facility complemented the expanded MAS Cargo Center at Subang Airport, which provided semi-automated and computerized facilities including elevating transfer vehicles and electronic scissor lifts fitted with computerized scales. Expansion at the cargo center brought MASkargo's total warehouse storage space to 150, 000 square meters.

The ambitious expansion plans taxed the carrier's profits, which were nearly halved, from M$206 to M$120, between 1991 and 1992. Turnover increased 23 percent in 1992, however, reaching M$3. billion. Correspondingly, employment at MAS rose from 17, 575 workers in 1992 to 20, 370 in 1993. Demand for flight crews was so great that the carrier contracted for 35 percent of these positions with overseas personnel, mostly Australian. Fifteen hundred of the employees worked in the airline's unique flight kitchen, which served 22 airlines. All 17, 000 meals a day were hallal, that is, observing Muslim dietary restrictions that prohibited pork. During this time, MAS hired Star Wars producer George Lucas's special effects unit to create a stunning sci-fi television commercial.

The spot, which aired around the world, was commissioned to present MAS as a modern, world-class airline and featured a huge kite-shaped space station. The cost was estimated at between $2 and $4 million dollars. In 1993, MAS bought a 24. 9 percent interest in U. S. charter operator World Airways. The company also leased five of its MD-11 aircraft. Operations personnel, in high demand at MAS, were also made available. 1994: Ramli Buys a Stake in the Airline In 1994 Malaysian entrepreneur Tajudin Ramli bought a 32 percent controlling interest for M$2 billion ($745 million) worth of stock.

The government retained an 11 percent interest. Tajudin, who had earlier put together a mini-aviation empire in preparation of competing with MAS, was saddled with an overlarge fleet and diminishing profits. Although sales rose to $M4. 1 billion ($1. 6 billion) in the fiscal year ending March 3, 1994, profits fell from M$145. 4 million ($56. 4 million) to M$7. 7 million ($2. 9 million). The carrier was still receiving large shipments of new aircraft, including Boeing 747s, and sales of its used aircraft were slow. Some of MAS's new A330 aircraft were delivered late, resulting in penalty payments from Airbus.)

Tajudin immediately set out to trim the fat. He introduced a more businesslike attitude and required better reporting from the company's managers. Aircraft utilization was increased. The carrier signed code-share agreements on transpacific routes and promoted its Kuala-Lumpur-Los Angeles route to attract more business passengers. Virgin Atlantic Airways teamed with MAS in 1995 to operate joint London-Kuala Lumpur flights. The service proved convenient for Virgin's Australia-bound passengers.

Planes stayed just as full after the number of flights was increased from eight to 14 a week, although the two carriers faced very formidable competition from the British Airways/Qantas alliance, which operated the only single-plane service between London and Australia. MAS recorded its highest ever pretax profit in 1996--97 of M$349. 4 million ($120 million). The company continued to buy new planes and relocated to Kuala Lumpur's new Sepang International Airport, a move expected to further enhance its reputation. However, the new airport's opening was plagued with lost baggage, computer malfunctions, and other annoyances.

Depreciating Malaysian currency brought MAS debt up to M$12 billion by 1998. Debt servicing helped MAS lose M$260 million ($62 million) in 1997--98. In response, the carrier deferred new aircraft purchases, sold old planes, and slashed underperforming routes. A new restructuring plan put forth by Tajudin, whose hands were tied by the government when it came to cutting jobs, was rejected on the grounds it would rescue Tajudin at the expense of minority shareholders. Foreign airlines with an eye towards global expansion (such as Thai Airways and British Airways) seemed interested in investing in the troubled carrier, however.