

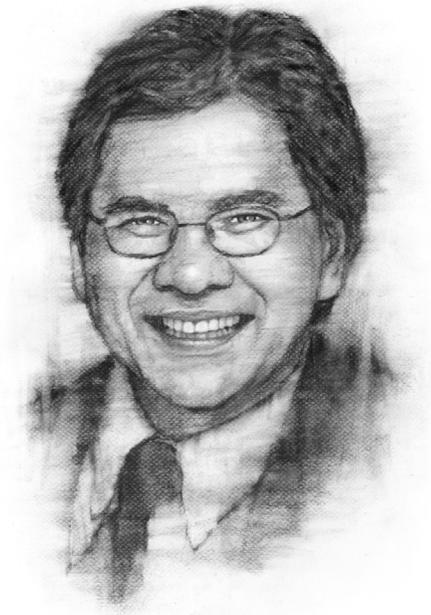
GOVERNANCE

NOVEMBER 2008

Turning around a struggling airline: An interview with the CEO of Malaysia Airlines

Idris Jala led the state-controlled carrier from the brink of bankruptcy to record-breaking profits. Now he wants it to become what he calls a “five-star value carrier.”

Alex Dichter, Fredrik Lind, and Seelan Singham



When Idris Jala became CEO at Malaysia Airlines, his goal was to keep the carrier flying. Now he wants to create a new breed of air service. Much has happened in the intervening three years.

Malaysia Airlines, the Southeast Asian country's national carrier, was less than four months away from running out of cash when Jala took charge, in December 2005. The state-controlled airline had been struggling for some time, but inadequate yield management, an inefficient network, and poor cost control finally brought it to its knees that year, when it posted a 1.7 billion ringgit (\$500 million) loss.

Yet in 2007, the airline earned record annual profits of 851 million ringgit. Such a swing would be remarkable for any company, much less one facing the hurdles common with state ownership: a large number of stakeholders, intense public scrutiny, competing priorities, insufficient freedom to operate commercially, and a host of legacy personnel challenges. Now Jala aspires to turn Malaysia Airlines into a "five-star value carrier."

Jala came to Malaysia Airlines with no experience in the aviation industry or state-run companies. But he had won a reputation for engineering business turnarounds during his 23 years at the oil giant Shell, whose Sri Lankan and Malaysian units he rescued from years of chronic losses. In Sri Lanka, he says, "The Shell leadership told me if I couldn't fix it in two years, just tell them and they would shut it down. I'd be the last person to switch off the lights."

In this interview at his office, at Sultan Abdul Aziz Shah Airport, near Kuala Lumpur, Jala discussed the lessons he brought from Shell and how he met the urgent need for change when he arrived at Malaysia Airlines.

The Quarterly. What were your first impressions when you took over Malaysia Airlines, in 2005?

Idris Jala: The company was in a financial crisis—the worst in its entire 50-year history. At the time, we just had enough cash to last three-and-a-half months.

Before I joined, I looked at ten years of financial data. When you're brought into a problem, you should first ask what's wrong with the profit-and-loss statement. It's crucially important to frame the problem in the context of the P&L rather than something nebulous, like the culture, the structure, the processes, and all these other things. You must anchor everything on the profit and loss. I'm boringly consistent on that point.



Idris Jala

Vital Statistics

Born August 21, 1958, in Sarawak, Malaysia

Married, with 2 children

Education

Graduated with bachelor's degree in development studies and management in 1982 from Universiti Sains Malaysia

Earned MA in industrial relations in 1986 from Warwick University, UK

Career highlights

Malaysia Airlines (2005–present)

- Managing director and CEO

Royal Dutch Shell (1982–2005)

- Managing director, Shell MDS, Malaysia (2002–05)
- Vice president, retail marketing, Shell International (2000–02)
- Managing director, Shell Sri Lanka (1998–2000)

Fast Facts

- Member of Malaysia Board of Tourism and Board of Governors for IATA (International Air Transport Association)
- Appointed as adjunct professor, University of Technology Malaysia (UTM), in 2007

Here, it was clear that there were three problems with the P&L statement. The first was a very low yield. Average fares were unable to cover the cost of running the airline. The second problem was a very inefficient network. For a long time, we were asked to fly routes that didn't make any commercial sense. The government wanted those routes, and we flew them. The third problem was high costs linked to low productivity—too many people. In the year when I joined, costs went up by more than 50 percent.

But I didn't need to tell anyone that there were these three problems. Every analyst report about Malaysia Airlines talked about the same problems. The question was what would we do about them.

The *Quarterly*. How did you begin?

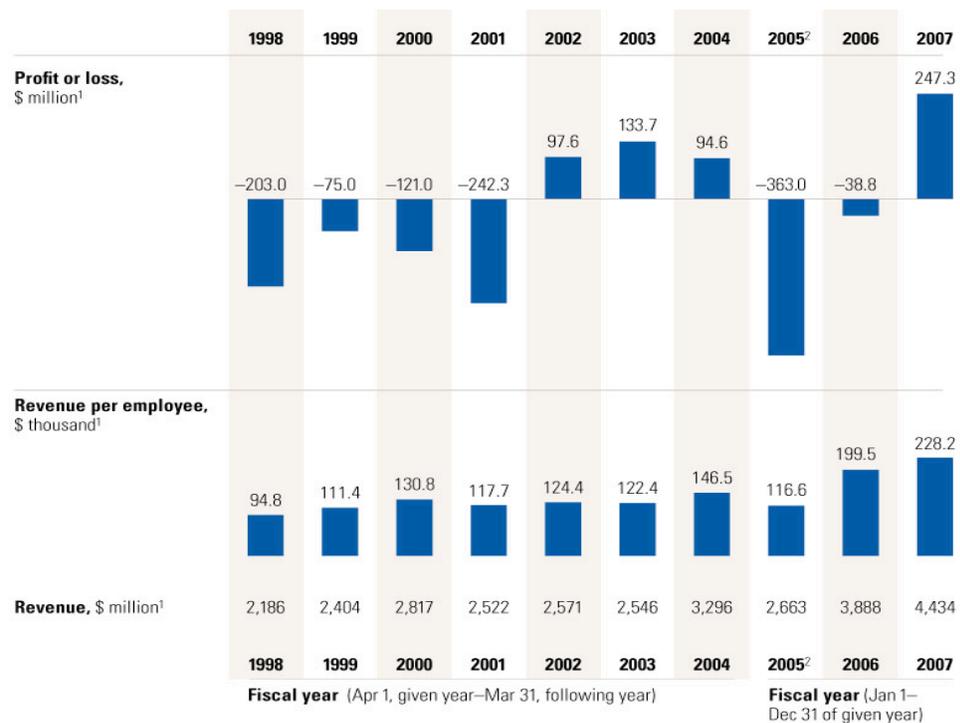
Idris Jala: When most CEOs try to turn around a business, they will say let's change the organization or the structure. Or they'll say let's change the culture. Or let's change the systems and processes. They do business-process mapping or make organizational changes that take a few years to finish.

But we had three-and-a-half months to fix the problem, and if we didn't fix it by then we'd be bankrupt—we'd have no money for salaries, no money for fuel. So I told everyone we had no time to reorganize, to rearrange the deck chairs on the Titanic.

At a board meeting on my first day, I announced our business-turnaround blueprint. I'd never worked a single day at an airline before, but looking at the P&L it didn't take more than an hour to figure out the solution. If you have to control costs, you just go and cut the costs. If your network's inefficient, get rid of the routes that are bleeding cash. And if you have a problem with low yield, fix the yield. What else are you going to say?

EXHIBIT 1

Beginning to soar



¹\$1 in 2007 = 3.4 Malaysian ringgit.

²For 9 months ending Dec 31, 2005, because of change in FY end to 31 December.

Source: Malaysia Airlines annual reports

The Quarterly: Were you given free rein to tackle these problems?

Idris Jala: When the government approached me about this job, I said I would need freedom to act. Of course, they promised I would have it, but I discounted 50 percent of what they said. I wouldn't say I have 100 percent freedom to act, but I have more than 50 percent. And, more importantly, the freedom was granted in areas really relevant to fixing the business.

For example, nobody disturbed us as we improved the yield, which often meant increasing fares. We could change flight frequencies, get rid of routes, cut costs. These were things that were virtually impossible for my predecessors to do, because they didn't have such freedom. When I started, our headquarters was in downtown Kuala Lumpur. We sold it for 130 million ringgit, which gave us enough cash to operate for 20 more days. A lot of people, especially a few politicians and long serving Malaysia Airlines employees, said the building's an icon—it's our brand in the city—but we were given the freedom to act.

The Quarterly: Were there other factors that helped you push your plans forward?

Idris Jala: Once the government agreed on what needed to be done, we made our business turnaround plan available publicly. At Shell, I never needed to do that. But Malaysia Airlines is a government-linked company and the national flagship. Publishing helped us build a winning coalition not only with the government but also with other stakeholders, like the unions, the staff, and the public. Being upfront about the P&L and making it all transparent were very important to bringing the coalition together.

The Quarterly: How did this translate into action?

Idris Jala: In a business turnaround plan, you need to identify the key business activities that impact the P&L. These activities are candidates for transitional vehicles that I call laboratories. Essentially, we'd create groups of 10 to 15 people from various functions and backgrounds—all people who had a direct stake in a given activity—and tell them they had to tell us how to fix the problem or else. The people inside the labs were fully accountable. The motto behind the labs is "big results fast." We had no interest in slow and incremental results. We focused these laboratories on routes and many other parts of the business but never, never on minor activities. If you run a lab on something that has nothing to do with key business activities, don't be surprised when there are no results. And when you put people in labs, you had better put the best and the brightest.

It is also important to think of the laboratories as a nursery for ideas. We grow the seedlings of innovation in the nursery, and once they are big enough they are implemented. But we really keep control over them—and the CEO has to protect them—so that nobody can kill them when they are transplanted into the operating jungle of the organization.

The one item with the biggest P&L impact was yield, so we set up laboratories to examine the profitability of various routes, with a focus on yield. The members of these labs knew that if they didn't fix a route, we'd close it and they'd have no jobs. It was as simple as that. We had a team looking at the Kuala Lumpur–Manchester route. The team couldn't fix it. To be profitable, we needed 40 percent more passengers than we had capacity for. What would we do? Tie the passengers on the wings? After we went through a full analysis, everyone on the team knew that the route couldn't be fixed. They all knew that they were out of a job.

In the first three months, we got rid of a lot of routes that were bleeding cash and not contributing to the P&L. Within another six months or so, we got rid of most of the ones that were unsalvageable. But we rescued a lot of routes, too. The thing that really catalyzed the new way we did these things was that there was real accountability.

Today, we have individual P&Ls for each route—by day, by month, and by flight number. Altogether 160,000 P&Ls. These are grouped into regional P&Ls, and every day at 5 pm sharp I get all these on my Blackberry. So do all the route managers.

The Quarterly: Did transplanting and protecting these innovations require organizational changes?

Idris Jala: I prefer to keep the current setup and change the responsibilities. For instance, our laboratories developed a new job—route profitability manager—that didn't exist in our structure. Instead of adding a new player, we told people to double up on their responsibilities. The person taking on the responsibility might not be a regional manager; it could be a subordinate. But someone was now responsible for profitability on that route. The structure remained the same, but we gave people a new vocabulary, new responsibilities. Once we were sure that the new thinking works, we got rid of the transitional role. With route profitability managers, we did that after one year.

The Quarterly: Looking back, you make your effort sound very straightforward. How confident were you when you started?

Idris Jala: I gave myself a 50/50 chance of success. First, I had never worked in an airline before, and, second, I had never worked in a company that's government linked. So there was a tremendous chance of failure, and it was very important for me to conquer that fear. My wife and I had a lot of discussions about that. If I hadn't conquered the fear of failure, I would never have stepped out of Shell to take this job.

To conquer that kind of fear, it is important to have serious conversations with the people who matter. First of all, I'd share with them targets that are seemingly impossible, such as turning around the company within a year and making huge profits within three. Everyone said it couldn't be done. The conversation must end with the stakeholders saying, "It's OK to fail." That takes out a lot of the fear before the journey begins.

But the key word is seemingly impossible. You must believe deep inside that it can be done. If the leader doesn't believe in the journey, then it cannot begin. The leader is like someone who cuts a clearing in a very dense tropical jungle. Everyone else is under the canopy, where they can't see the sky and it's very depressing. The leader has to bring people over to that clearing, into the space where innovation begins. The single biggest thing a leader brings to a turnaround is hope.

The Quarterly. With the initial turnaround complete, you've begun a transformation program. What does that entail?

Idris Jala: We originally wanted to do the business turnaround in three years, but we completed it in two. We targeted profits of 500 million ringgit in 2008, but in 2007 our profits had already reached a record 851 million ringgit.

We've already talked about some of the principles embedded in any change program: the game of the impossible, anchoring everything on the P&L, and building a winning coalition. Two others that I brought from my time with Shell are discipline of action—which means that when we commit to doing something, we monitor results relentlessly and make sure it's done—and situational leadership. At the start of a turnaround journey, a company is not a democracy. You can't empower people or ask everybody what they think. You have to be directive, brave enough to set the course. How many generals do you need to win a battle? One. But once results begin to appear and new leaders begin to learn, you must be ready to let go and empower them.

The corporate graveyard is full of people who thought they were indispensable. After every turnaround I've done, my successors have gone on to earn even higher profits and greater achievements. These leaders have been developed by putting individuals in the right situations when they're ready to take control.

The final principle is a subject people don't talk about in the corporate world: divine intervention. More than 50 percent of what happens to you in life, and in my case probably more than 60 percent, is outside your control. It is important for everyone in an organization, particularly the top leaders, to understand that. I can't, for example, control oil prices—the single largest thing that impacts our industry—or SARS,¹ or other things like that.

If you are a spiritual person, you'd better pray. If you believe in feng shui, go consult a feng shui master. Everyone must come to realize that we only control a small component, so you do the best you can with that and relax about the rest. It gives you peace of mind. You know, when you run a really hard race, like what we did here, you put yourself under tremendous pressure—and others around you, too. You want to go home every single day knowing you've done your best, and if you fail it's OK because we all recognize that you can fail. It has a calming effect on the organization.

The Quarterly: Does talking about divine intervention give people a handy excuse to fail?

Idris Jala: No, because the other five principles provide balance. When you look at our plans, there are reams and reams of detailed activities that must be completed. For example, we have a service campaign called Malaysian Hospitality—MH—which is also our airline code. We have 500 initiatives underpinning it. These are spread throughout the organization, and you can't run away from them, because of the principle of discipline of action. If you follow all six principles, there's no way you can run away.

The Quarterly: Have you set new impossible goals for the current phase of your transformation?

Idris Jala: Our new target is to reach profits of 2 billion to 3 billion ringgit within three years, but the more exciting aspiration is that we want to become the world's five-star value carrier. Such a thing doesn't exist in today's vocabulary; what we mean is an airline that provides top-quality products and services at the most affordable prices. We want to be the Toyota of the airline industry.

Is it impossible? Yes. Can it be done? It can. The key is to find the sweet spots. There will always be trade-offs between the quality of products and services and their costs, but there are many, many sweet spots.

One example: for a time, we were serving lamb biryani on our flights to China. But customers didn't really like it, and it was very expensive. We looked at different meals. When we starting serving fried rice with some satay chicken, which is half the cost, the customers loved it. Why were we giving them something that was expensive and that they didn't like? But customers flying to Delhi would love lamb biryani.

You have to customize to find the sweet spot, and this is painful. The mantra for bringing down costs says you have to standardize, but standardization really requires you to migrate to the highest common cost denominator, and that's expensive. Instead, by finding these sweet spots, we can continue playing the game of the impossible and reach our goal.

The Quarterly: In the initial transformation and this ongoing effort, how have you handled talent?

Idris Jala: I believe that everybody can contribute more than they are currently. In my old job at Shell, we turned around Shell MDS, a gas-to-liquids plant in Malaysia, and not a single person was employed from the outside. The people in the company were the same guys who had been losing money for ten years. Help is abundantly available from within, but you must channel the energy to the right business activities.

How do you do that? You make sure people have the right priorities. You say, "I know you like to do this or that, but that's not what we are going to do now." When you reward people for doing things differently, like linking pay increases and bonuses to their performance and contribution to the P&L, you find that they deliver results that impact the P&L. They get out from the complacency of not delivering. They discover that they can do a lot more than they ever dreamed possible.

The Quarterly: Beyond the financials, what changes have you noticed at Malaysia Airlines since your program began?

Idris Jala: Number one, this organization is now very good at rigorous analysis. When I joined, that was sadly missing. People did cursory analysis, and I mean cursory. Today, people really get into the analysis and bring back fact-based work.

Second, a cultural change has taken place. This is no longer a culture where if you don't agree with someone, you keep quiet about it. We now have a culture where people will speak up and disagree.

Also, people are more prepared to step up. Recently, one of my general managers who is in charge of strategic procurement held a session with the top management team to generate cost-cutting ideas for next year. I didn't even know about it. He asked me at the last minute to speak briefly at the meeting. He gave me five minutes.

The Quarterly: What would you like your legacy to be at Malaysia Airlines?

Idris Jala: I would like to see us achieve our vision of becoming a five-star value carrier. I'm inspired by creating a kind of airline that doesn't exist today. If we can do it, it will be fascinating. This will be one of the most attractive places to work in Malaysia. In fact, we have the chance to make this one of the best places to work not just in Malaysia but in the world. That's the legacy I hope for. 

About the Authors

Alex Dichter is a principal in McKinsey's Atlanta office, Fredrik Lind is a principal in the Singapore office, and Seelan Singham is a director in the Kuala Lumpur office.

Notes

¹ Severe acute respiratory syndrome. An outbreak in 2002–03 triggered a sharp drop in travel to Southeast Asia.

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