WOMEN’S UNIVERSITY IN AFRICA

Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

MASTERS DEGREE IN BUSINESS ADMINISTRATION

MAIN PAPER

MBA221: STRATEGIC MANAGEMENT

INTAKE 22: FIRST YEAR SECOND SEMESTER

TIME: 2 HOURS AFTERNOON

INSTRUCTIONS TO CANDIDATES

Answer Question **1** and any other **two.**

Question 1 (Compulsory – 40 marks)

Singapore Airlines

There's something about Singapore Airlines *(SIA)*. Over the past four decades, it has earned a stellar reputation in the fiercely competitive commercial aviation business by providing customers with high-quality service and dominating the business-travel segments. SIA has won the World's Best Airline award from Condé Nast Traveler 21 out of the 22 times it has been awarded and Skytrax's Airline of the Year award three times over the past decade.

What's not so well known is that despite the quality of its services, SIA is also one of the industry's most cost-effective operators. From 2001 to 2009, its costs per available seat kilometer (ASK) were just 4.58 cents. According to a 2007 International Air Transport Association study, costs for full-service European airlines were 8 to 16 cents, for U.S. airlines 7 to 8 cents, and for Asian airlines 5 to 7 cents. In fact, SIA had lower costs than most European and American budget carriers, which ranged from 4 to 8 cents and 5 to 6 cents respectively.

It's intriguing that SIA has combined the supposedly incompatible strategies of differentiation—which it pursues through service excellence and continuous innovation—and cost leadership. Few enterprises have executed a dual strategy profitably; indeed, management experts such as Michael Porter argue that it's impossible to do so for a sustained period since dual strategies entail contradictory investments and organizational processes. Yet pursuing dual strategies is becoming an imperative. The demand for value-for-money products and services has shot up since the recent recession, particularly in developed countries, so even producers of premium offerings have to figure out how to grab opportunities in the middle and the low end of the market. Moreover, multinational corporations face competition from rivals—many of them from emerging markets—that use new technologies and business models to provide good-enough offerings at attractive prices. Incumbents can fight back by cutting prices or further differentiating products and services, but it's often a losing battle. Price wars typically hurt leaders more than they do challengers, and relentless differentiation is tough to sustain. Adopting a dual strategy is often the only choice.

Our research suggests that dual strategies are embraced more readily in Asian countries. Many Western executives believe that, for instance, cost leadership and differentiation, globalization and localization, and size and agility are fundamentally contradictory and can't be reconciled. But SIA and other companies such as Banyan Tree, Haier, Samsung, and Toyota operate as though the dualities are opposites that make up a whole; that is, they complement, instead of contradicting, each other. This way of thinking is embedded in Eastern thought; the concept of yin and yang in Taoist philosophy, for instance, encapsulates the idea. To be sure, pursuing two strategies will result in organizational paradoxes, but executives in Asian markets tend to realize that opposing insights present the full picture and develop policies to manage both of them.

No company executes a dual strategy better than SIA. The airline has delivered healthy financial returns since its founding, in 1972, never posting an annual loss. It has almost no debt, and except for its initial capitalization, it has funded growth through retained earnings while consistently paying dividends.

SIA has two main assets—planes and people—and it manages them so that its service is better than rivals' and its costs are lower. Unlike other airlines, SIA ensures that its fleet is always young. For instance, in 2009, its aircraft were 74 months old, on average—less than half the industry average of 160 months. This triggers a virtuous cycle: Because mechanical failures are rare, fewer takeoffs are delayed, more arrivals are on time, and fewer flights are canceled. New planes are more fuel efficient and need less repair and maintenance: In 2008, repairs accounted for 4% of SIA's total costs compared with 5.9% for United Air Lines and 4.8% for American Airlines. SIA's aircraft spend less time in hangars—which means more time in the air: 13 hours, on average, per day versus the industry average of 11.3 hours. And, of course, customers like newer planes better.

Service is mostly about people, so SIA invests heavily in training employees. It schools its fresh recruits for four months— twice as long as the industry average of eight weeks—and spends around $70 million a year to put each of its 14,500 employees through 110 hours of retraining annually. The training includes courses on deportment, etiquette, wine appreciation, and cultural sensitivity. SIA's cabin crews are trained to interact with Japanese, Chinese, and American passengers in different ways. Trainees learn to appreciate subtle issues, such as communicating at eye level rather than "talking down" to passengers. The superior service that results not only delights customers but also reduces costs by minimizing customer turnover.

SIA's training program focuses as much on the necessity of keeping costs down as on the delivery of great service. Trainers, usually former senior crew members or external experts, discuss the airline industry's fiercely competitive nature with employees every year. At town hall–style meetings and in internal communications, senior executives stress the fact that SIA must become more efficient in order to remain competitive. They emphasize both parts of the company's vision: providing air transportation services of the highest quality and maximizing returns for the benefit of shareholders and employees.

Cost considerations affect every decision made at SIA. In day-to-day operations, the aim is to reduce waste without compromising customer service. For instance, when cabin crews noticed that about a third of passengers don't eat dinner on latenight flights out of Singapore, they recommended carrying less food. Unlike other airlines, SIA offers two brands of champagne in first class, Krug Grande Cuvée and Dom Pérignon, and spends $8 million on champagne every year. But its cabin crew minimize costs by pouring from whichever bottle is open unless a passenger specifically requests the other brand. No cost is too small to reduce. SIA recently decided not to place jam jars on every breakfast tray, because many people don't eat jam. Even SIA's bonus scheme, which extends to all employees, serves as an incentive for employees to worry about expenses. SIA's plan gives them the opportunity to earn bonuses of up to 50% of their salary depending on how profitable the company is.

SIA attracts first-class university graduates, who are hardworking and ambitious. They like the idea of working for a leading local company, and they're also able to take on a lot of responsibility at a young age. Companies in other service industries are happy to hire SIA employees when they leave. SIA offers only average pay by Singaporean standards, which is low by global standards. Because of this, its 2008 labor costs were just 16.6% of total costs, whereas American Airlines' were 30.8%, British Airways' 27.5%, Lufthansa's 24.4%, and United Air Lines' 22.5%. According to a 2002 study, SIA's employees were the second most productive among airlines (measured by the available ton per kilometer for $1,000 of labor costs)—after Korean Airlines.

Anything that touches the customer must be consistent with SIA's premium positioning, whereas everything behind the scenes is subject to control. For instance, the company has outsourced ticketing and payroll processing to a low-cost Indian provider. The company's headquarters is atop an old hangar at Changi Airport—not in a swank downtown skyscraper—and the number of headquarters staff is small. What's more, you won't find espresso machines, fancy carpets, designer furniture, gyms, or swimming pools in its offices. For its training programs, SIA uses its own facilities instead of sending employees to resorts, and participants buy their lunch from company canteens. Hard-bargaining local managers negotiate hotel rates for crew members at SIA's destinations. Consequently, SIA's Other Costs (total costs less fuel, labor, depreciation, and aircraft rentals) is, at 29.1%, lower than the other large airlines' average of 38.2%. This flies in the face of the notion that companies that deliver quality service can't be cost leaders.

SIA has earned the reputation of being a serial innovator, bringing many firsts to the civil aviation industry: on-demand entertainment systems in all classes; Dolby sound systems; a book-the-cook service that allows business- and first-class customers to order their favorite meals before boarding; the widest business-class seats; and so on. It follows a 4-3-3 rule of spending: 40% on training, 30% on revising processes and procedures, and 30% on creating new products and services every year. The few airlines that worry about innovation usually have a central innovation department. SIA sustains innovation by using a structured, rigorous, and centralized process along with an emergent, distributed, and local process. The former is the skeleton, the latter the flesh and blood; together, they provide customers with a body of novel services at a low cost.

The Product Innovation Department (PID) follows a highly structured process that includes opportunity identification, concept evaluation, design and development, and launch. The PID has developed innovations such as a nonstop, all-business-class service between Singapore and New York and the induction of the Airbus A380 into the fleet in 2007. SIA engages frontline employees, customers, competitors, and the media to create multiple feedback channels. A small number of executives rotate in and out of the department every three years. Only for megaprojects like the A380 induction do managers stay through the development cycle. Most employees regard being involved in new-product development as prestigious and an opportunity to shine.

At the same time, SIA uses its distributed innovation approach for efficiency. The company fosters the idea that employees—especially those in customer-facing functions such as in-flight services, ground services, and loyalty marketing—must innovate if SIA is to stay ahead. Every function is responsible for improving its services, and department heads must implement new ideas out of their budgets. Not only is this approach cost-effective, but the process ensures that innovations are developed in accordance with operational realities, making it easy to implement them. Tensions sometimes erupt between central and local innovation, but SIA encourages both because they complement each other. Distributed innovation helps sustain service excellence, which requires that every part of a customer encounter be outstanding.

Frontline employees are particularly important in developing innovations that strengthen SIA's image—and torpedoing those that could damage it. For example, cabin crews demurred when the idea of allowing passengers to order food and drinks by using the in-flight entertainment system was floated. The crews felt they wouldn't be able to respond to requests immediately after take-off, before landing, and during planned services, harming their ability to meet customer expectations consistently. That killed the idea.

SIA doesn't try to be overwhelmingly best in class on every count. It focuses on incremental innovation in most areas because the overall experience matters most. This approach enables the airline to make a profit, without pricing itself out of the market. Being Both a Technology Leader and Follower SIA is often the first to innovate in order to enhance the customer experience. But unlike many market leaders that innovate in every aspect of their business, SIA engages in only small improvements in functions that don't touch the customer. Being a technology leader where customers can experience the benefits is essential to differentiation; being a follower in the back office contributes to cost leadership. Over the years, SIA has developed the ability to execute high-risk innovation projects. For example, it takes a lot of expertise and courage to be the launch airline for a huge aircraft like the A380. Although things did go wrong when Airbus postponed the launch by almost two years, SIA did get a boost. Introducing the A380 not only strengthened its image as a pioneer but also gained enormous publicity for the company. People bid for seats in one of eBay's biggest auctions, and some paid $100,000 for a seat on the flight from Singapore to Sydney. (SIA raised $1.3 million for charity in the auction.)

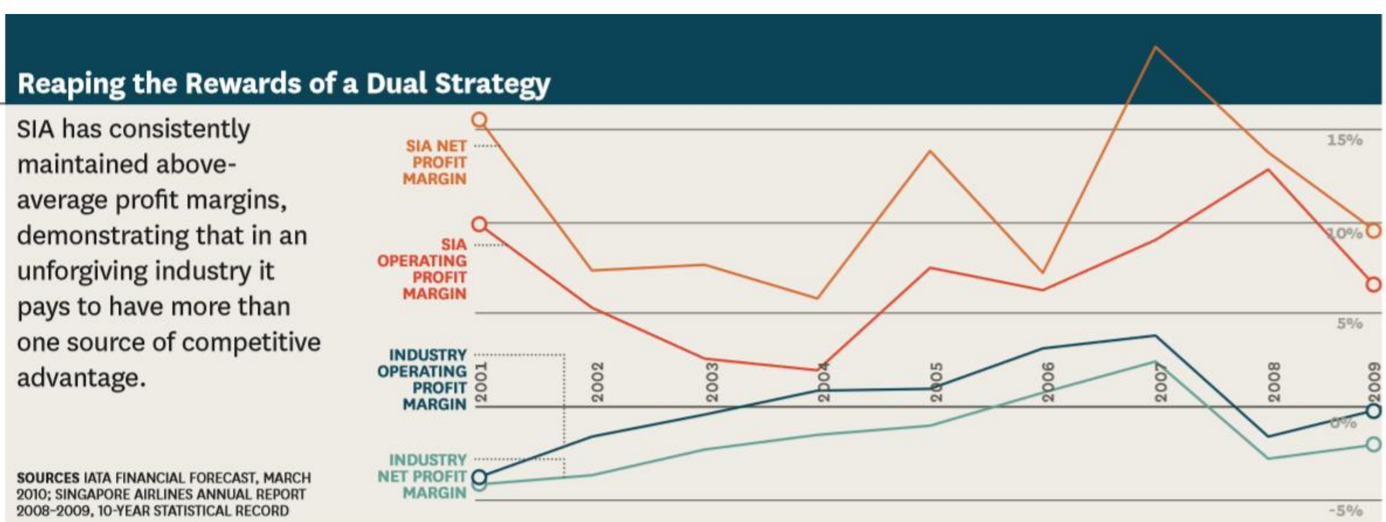
SIA's deep pockets allow it to take calculated risks. For instance, in 1976, when it introduced slumberettes in first class, competitors demanded that it either charge more or withdraw the innovation. It did neither. In 1991 it became the first to introduce telephone and fax services on board, and in 1998, SIA was one of the first airlines to set up a website where customers could book flights, choose seats, and order meals. That was a no-brainer; SIA knew it would save costs by sending would-be travelers online.

However, SIA is a pragmatic innovator, quickly stopping the use of technologies that cause problems or that customers don't like. In 1981, it introduced slot machines in the upper decks of its Boeing 747s but removed them when the queues that formed became a safety risk. In the aftermath of the SARS epidemic in the early 2000s, many airlines added time-consuming check-in procedures to screen for the contagious illness. SIA introduced a check-in system based on biometric technology, which enabled passengers to clear immigration, check in, and get their boarding passes in about 60 seconds. However, the airline discontinued the system's usage when data showed that few passengers were taking advantage of it and conventional immigration procedures had speeded up.

SIA is happy to be a back-office laggard. For instance, it wanted a revenue management system that it could deploy quickly and had a low chance of failing. It bought a largely off-the-shelf system, whereas other airlines, such as American Airlines and Lufthansa, developed expensive cutting-edge systems. In 2004, SIA outsourced many of its IT functions—such as its data center and end-user computing support—so it could focus on its core business. Many SIA executives told us that constant innovation on many fronts is risky; changing processes could spread resources and expertise thin and blur SIA's customer focus.

SIA's service processes, like those of most other airlines, are highly standardized. That's central to high-volume service operations, because it leads to predictability, safety, and lower costs. It also leads to customer satisfaction, but it can't deliver a "wow" experience, partly because once customers have experienced something, they tend to discount its value. That's why SIA combines standardization with personalization to delight customers.

Doing so is cost-effective because it doesn't add permanent costs to standard processes. The airline institutionalizes personalization by creating a service culture that, as mentioned earlier, it sustains through recruitment, training, and rewards. It instills in employees a certain pride in working for the company, and they come to identify with its reputation. SIA's crew members and managers alike say that service is in their blood.



SIA personalizes the customer experience by relaying information about birthdays and preferences from its CRM system to cabin crew members. They address frequent flyers by name and know their favorite drinks and magazines. Usually, though, personalization is spontaneous. Most opportunities arise from unexpressed needs: A passenger may look unwell; another may have no book to read; yet another may have a laptop that has run out of power. Most airlines' employees don't pay attention to these small things, but SIA's training programs such as Transforming Customer Service teach cabin crews how to anticipate customer needs and enhance employees' ability to delight customers. For example, a passenger may request a vegetarian meal without having reserved one. Even when the menu has no vegetarian option, SIA's cabin crews know how to put together a vegetarian meal from the available food. If a passenger wants to discuss the wine he is drinking, a member of the crew who has taken a wine appreciation course will quickly materialize.

Standardization actually enables personalization. Because SIA designs simple processes and trains people well, following procedures becomes second nature. Employees know their jobs so well that they have the mental space to "read" customers and respond to them in creative ways. However, it takes time and effort to go the extra mile, so SIA flights carry more crew members than competitors. That adds about 5% to costs, but these crews help the airline provide unmatched service, which allows it to charge premium prices.

Emulating SIA is not just about following its best practices; it's about implementing two seemingly contradictory strategies. This involves four broad principles. Harness the power of your people and culture. Your rivals can't easily copy your people and organizational culture, and those are the linchpins of getting a dual strategy right. Companies should select, develop, and reward employees in ways that incorporate aspects of both strategies in their everyday work. That will create an environment in which making decisions in accordance with both strategies comes naturally. For instance, SIA's human resource processes induce employees to keep costs low and boost productivity. Employees also feel that they are all members of one family, so if they don't deliver great service, they're letting down the company and their peers. Culture is deeply rooted in an organization's history. SIA has been concerned about losing money since it broke off from Malaysian Airlines, in 1972. At the time, the Singapore government could not support a loss-making airline; besides, the city-state didn't need an airline because it had no domestic routes. Employees are constantly reminded that things haven't changed much today.

Technology can transcend apparent contradictions such as cost-effective service excellence. Companies often make investment decisions on the basis of industry trends, instead of implementing technology to attain dual goals. For example, SIA chose the widest possible seats for its Airbus A380s, but it also ensured that the seats have the fewest possible parts, such as motors, cables, and switches, to keep the risk of malfunction and the cost of repairs low. This kind of thinking results in service excellence at a low cost.

Companies must create business ecosystems rather than value chains, which are linear. A business ecosystem involves networks of interconnected actors and creates virtuous circles that support dual strategies. For instance, SIA has tied up with leading hotels, restaurants, and retailers to offer discounts to frequent flyers. It selects high-end partners, such as the Ritz-Carlton and the Banyan Tree Private Collection, and uses its negotiating power to earn a commission every time a frequent flyer uses its partners' services. The discounts accentuate SIA's differentiation while the additional revenues mitigate costs.

Strategic alignment, not financial returns, must guide investment decisions. Executives should ask: What investments should we undertake to achieve both strategies? This mind-set should prevail even when rates of return are difficult to calculate or when investments are large. For instance, a person's ability to taste food declines by about 40% at an altitude of 30,000 feet because of the dry air. SIA invested $700,000 to build a facility that enables chefs to taste food under pressurized flight conditions. This ensures that SIA's cuisine tastes good in the sky and allows its chefs to get their dishes right the first time. It's often impossible to calculate the return on initiatives like this, but they are worth making because they contribute to differentiation and lower costs.

EXECUTING DUAL strategies is difficult— that's what makes the approach so valuable. By being different in ways that customers like, companies that do so rise from the pits of commoditization and make profits even in highly competitive industries

Adapted from Loizos Heracleous & Jochen Wirtz. **Singapore Airlines' Balancing Act.** Harvard Business Review · July – August 2010

You are required to;

(a) Establish what Michael Porter means when he argues that "dual strategies entail contradictory investments and organizational processes." [10]

(b) Discuss the assertion that Singapore Airlines (SIA) "executes a dual strategy by managing four paradoxes".

[10]

(c) As a consultant, you have been asked to make a presentation titled "The How-To of Dual Quality Strategies" to Air Zimbabwe executives. Drawing from the SIA case, indicate what you are going to include in the presentation and why. [10]

(d) Establish how the "4-3-3 rule of spending" enhanced the institutionalisation of total productive maintenance in SIA's operations. [10]

Question 2

Discuss, with examples, the complementarity between internal environmental analysis and external environmental analysis in the strategic (quality) management process. [20]

Question 3

Distinguish statistical quality control (SQC) from statistical process control (SPC) in the strategic management process using examples from an organisation you are familiar with. [20]

Question 4

Present a motivation for introducing the FOUR pillars of total quality management in the Strategic Quality Management course for Masters in Business Administration students at Women's University in Africa. [20]

Question 5

Discuss the impact of conformance and non-conformance to quality standards by organisational leaders in the value pipeline. [20]

Question 6

Examine the limitations of pursuing blue ocean strategies in the public sector in Zimbabwe. [20]

END