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Abstract	<p>Singapore Airlines has consistently outperformed its competitors throughout its four-decade-long history, in the context of an unforgiving industry environment. We examine how Singapore Airlines has achieved its outstanding performance and sustained its competitive advantage, through effectively implementing a dual strategy: differentiation through service excellence and innovation, together with simultaneous cost leadership in its peer group. We examine the organisational elements that have allowed the company to do so, illustrate its strategic alignment using a vertical alignment framework and conclude by highlighting the significant challenges ahead.</p>	
Keywords (separated by '-')	Sustainable advantage - Strategic alignment - Dual strategy	



1 **Strategy and Organisation at Singapore** 2 **Airlines: Achieving Sustainable** 3 **Advantage Through Dual Strategy**

4 **Loizos Heracleous and Jochen Wirtz**

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15
16

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17 **1 Strategy and Organisation at Singapore Airlines:** 18 **Creating a Global Champion**

19 The airline industry has been plagued by several factors such as overcapacity,
20 commoditization of offerings, cutthroat rivalry exacerbated by the entry of low cost
21 carriers, and intermittent periods of disastrous under-performance [2, pp. 89–100, 7].
22 Several macro-level socio-economic factors such as rising oil prices, the SARS
23 crisis, frequent concerns about the eruption of bird flu, the Asian tsunami and
24 rising terrorism concerns have further impacted profitability adversely. According to
25 IATA, the global aviation industry suffered \$31.7bn cumulative losses during
26 the period 2001–2010.¹ The outlook for the industry onwards remains bleak; not
27 surprisingly, it is regularly rated as one of the worst performing industries in the
28 Fortune Global 500 rankings.

29 In this challenging industry environment, Singapore Airlines has consistently
30 outperformed its competitors. It has never posted a loss on an annual basis, has
31 achieved substantial and superior returns compared to its industry and has received
32 hundreds of industry awards for its service quality. We suggest that SIA has
33 achieved this outstanding performance by implementing a dual strategy: differentia-
34 tion through service excellence and innovation, together with simultaneous cost
35 leadership in its peer group (Heracleous and Wirtz 2010).² Such a strategy has been
36 deemed unachievable by Michael Porter, who held that differentiation and cost
37 leadership must be mutually exclusive since they require different kinds of invest-
38 ments across the value chain [11]. We examine the elements of this dual strategy,
39 outline SIA's strategic alignment using a vertical alignment framework (alignment
40 among environment, strategy, core competencies and organisation); and conclude
41 by highlighting the significant challenges ahead for Singapore Airlines.

42 **1.1 Case Study Research**

43 Our in-depth case research on Singapore Airlines over the past 9 years examined
44 the company's strategy and competitiveness, in particular its organisational
45 competencies that support the delivery of service excellence in a cost-effective
46 manner. Further, we explored how these competencies are developed and sup-
47 ported by SIA's operational configurations and functional strategies, such as
48 the human resource development strategies and internal innovation processes.
49 We collected both primary and secondary data relating to these issues.

¹ IATA Financial Forecast, March 2011, www.iata.org/economics.

² In Heracleous and Wirtz (2010) we present an alternative conceptualisation of how SIA has achieved this dual strategy, based on balancing four paradoxes: providing service excellence at low cost, integrating centralised and decentralised innovation, being both a technological leader and follower, and balancing standardisation and personalisation in its processes.

50 In addition to researching database resources on SIA and the airline industry,
51 gathering materials such as annual reports and press reports, we have conducted 18
52 in-depth interviews (a list of interviewees is provided in the Appendix) at the SIA
53 headquarters, had several informal conversations with SIA employees and took
54 field notes during our visits. These data have allowed us to gain a deeper appre-
55 ciation of how SIA has configured its operations and internal processes to develop
56 the core competency of cost-effective service excellence, achieve sustainable
57 competitive advantage and outperform other airlines in its peer group for decades.
58 We have transcribed and analysed the interviews to identify the practices and
59 common themes that we outline in this paper.

60 *1.2 Singapore Airlines' Strategy*

61 Singapore Airlines is positioned as a premium carrier with high levels of inno-
62 vation and excellent levels of service, and has made a strategic choice of giving
63 priority to profitability over size. The internal organisational practices outlined in
64 this paper, such as continuous people development and rigorous service design are
65 key aspects of operationalising and sustaining this positioning and strategic choice.

66 At the corporate level, SIA follows a strategy of related diversification. The
67 Singapore Airlines Group has 13 primary subsidiaries and a number of associated
68 companies, with the key subsidiaries being Silk Air, SIA Engineering Company
69 and SIA Cargo [13]. Its airline subsidiaries which comprise 100% ownership of
70 regional carrier Silk Air, budget carrier Tiger Airways (32.9%) and Virgin Atlantic
71 (49%) cover the key customer segments within the industry. This has been a long-
72 standing strategy. According to CEO Chew Choon Seng “we intend to play in
73 all the segments—SIA at the high end, Silk Air on middle ground and Tiger
74 Airways at the low end” [10]. The shareholders in Tiger Airways include Temasek
75 (the Singapore government’s investment arm as well as SIA’s majority owner) and
76 Irelandia Investments, the private family investment vehicle of Anthony Ryan, the
77 founder of Ryanair, one of the world’s leading budget carriers. Temasek owns
78 55% of Singapore Airlines [13], making SIA one of a very rare breed of companies
79 which although state-owned, act as market-oriented, competitive entities and
80 achieve global leadership positions in their industry.

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

86 Use of information technology is an essential feature of SIA’s strategy both in
87 enhancing customer service as well as increasing efficiency. SIA’s web site is one
88 of the most advanced and user-friendly in the industry, where customers can check
89 schedules, buy tickets, check into a flight, manage their Krisflyer (frequent flyer)
90 account, find out about promotions and even choose their meal for their next flight

91 (Singapore Airlines' "book the cook" service). Given that agents' commissions
92 can be up to 7.5% of the total operating costs (and reservations/ticketing a further
93 5.4%) [4], effective use of IT can significantly reduce costs and also enhance
94 service levels since transaction costs for the customer are lower for online trans-
95 actions. When Chew Choon Seng took over as CEO in mid-2003 (until Goh Choon
96 Phong's appointment as CEO from 1st January 2011), cost cutting was on the top
97 of Chew's agenda with particular emphasis on cutting non-fuel costs by 20%
98 within 3 years, and outsourcing IT functions to IBM. The sustained drive for
99 efficiency as well as quality has enabled SIA to increase the spread between
100 breakeven load factor and actual load factor to 6.7% by 2006.³ This spread was
101 4.1% in 2010–2011, when actual load factor was 78.5% and breakeven load factor
102 was 74.1%.

103 With regard to business-level strategy, Singapore Airlines has managed to
104 deliver premium service to very demanding customers (achieving differentiation);
105 at a level of costs that approach those of a budget carrier (as we discuss further
106 below). This achievement challenges Porter's suggestion that differentiation and
107 cost leadership are mutually exclusive strategies [11]. Singapore Airlines supports
108 this dual strategy of differentiation and internal cost leadership through the
109 core competency of cost-effective service excellence, enshrined in a unique, self-
110 reinforcing system of organisational processes and activities.

111 ***1.3 SIA's Organisational Activity System: Five Pillars*** 112 ***of Cost-Effective Service Excellence***

113 The five pillars of SIA's organisational activity system are rigorous service design
114 and development, total innovation, profit consciousness ingrained in all employ-
115 ees, achieving strategic synergies and developing staff holistically.

116 **1.3.1 Rigorous Service Design and Development**

117 Over two and a half decades ago, services marketing professor Lyn Shostack noted
118 that service design and development was characterised by trial and error rather
119 than by a structured process as was the case in manufacturing [12, pp. 133–139].
120 Things appear to have changed little since then for most service organisations. SIA
121 however views product design and development as a serious, structured effort.
122 SIA's initial commitment to exceptional levels of service and innovation began in
123 1972, when, after its separation from Malaysian Airlines, it chose not to be a
124 member of IATA, whose rules SIA considered too constraining.

³ Singapore Airlines analyst presentation, http://www.singaporeair.com/saa/en_UK/content/company_info/investor/analysts.jsp, accessed 19th June 2007.

125 SIA has a Service Development department that hones and thoroughly tests any
126 change before it is introduced. This department undertakes research, trials, time
127 and motion studies, mock-ups, assessing customer reaction, to ensure that a service
128 innovation is supported by the appropriate procedures. Underpinning the contin-
129 uous innovation is a corporate culture that accepts change and development as not
130 just inevitable, but as a way of life; a cultural element that is also inculcated at the
131 national level by Singapore's government. A trial that fails or an implemented
132 innovation that is removed after a few months is acceptable, and damages no one's
133 reputation.

134 At SIA it is expected that any innovation may have a limited shelf life. SIA
135 recognises that to sustain its differentiation, it must maintain continuous
136 improvement, and be able to dispose of programs or services that no longer pro-
137 vide competitive differentiation or that could be offered in a different way.
138 According to SIA's senior management, "It is getting more and more difficult to
139 differentiate ourselves because every airline is doing the same thing ... the crucial
140 fact is that we continue to say that we want to improve. That we have the will to do
141 so. And that every time we reach a goal, we always say that we got to find a new
142 mountain or hill to climb ... you must be able to give up what you love" (Yap Kim
143 Wah, Senior Vice President, Product and Services).

144 The stakes are raised for SIA, not only by its competitors but also by its
145 customers, who have sky-high expectations: "Customers adjust their expectations
146 according to the brand image. When you fly on a good brand, like SIA, your
147 expectations are already sky-high. And if SIA gives anything that is just OK, it is
148 just not good enough." (Sim Kay Wee, former Senior Vice President, Cabin
149 Crew). Combined with its extensive customer feedback mechanisms, SIA treats its
150 customers' high expectations as a fundamental resource for innovation ideas.
151 Weak signals are amplified; every customer letter, be it complaint or compliment,
152 creates a reaction within the airline. SIA initiated a program called "SIA", for
153 "staff ideas in action", where staff can propose any ideas they have that would
154 improve service or cut costs. Additional sources of intelligence are the IATA GAP
155 (Global Airline Performance) survey, and SIA's "spy flights", where individuals
156 travel with competitors and report detailed intelligence on competitive offerings.

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

161 1.3.2 Total Innovation: Integrating Incremental Development 162 with Un-anticipated, Dis-continuous Innovations

163 SIA does not aim to be a lot better but just a bit better in every one of its functions
164 and offerings than its competitors. This not only means constant innovation but
165 also total innovation—innovation in everything, all the time. Importantly, this also
166 supports the notion of cost-effectiveness. Continuous incremental development

167 comes at a lower cost than radical innovation, but delivers that necessary margin of
168 value to the customer: “It is the totality that counts. This also means that it does
169 not need to be too expensive. If you want to provide the best food you might
170 decide to serve lobster on short haul flights between Singapore and Bangkok for
171 example, however you might go bankrupt. The point is that, on that route, we just
172 have to be better than our competitors in everything we do. Just a little bit better in
173 everything. This allows us to make a small profit from the flight to enable us to
174 innovate without pricing ourselves out of the market.” (Yap Kim Wah, Senior
175 Vice President, Product and Services).

176 In addition to incremental improvements, SIA also implements frequent major
177 initiatives aiming to sustain service excellence. Organisational initiatives include
178 SIA’s “Outstanding Service On The Ground” program, “Transforming Customer
179 Service” and “Soar”, for “Service above all the rest”. As a way of inspiring dis-
180 continuous service innovations, SIA strives to gain a deep understanding of trends
181 in customer lifestyles, and debates their implications for the future of better service
182 in the air. According to the Senior Vice President (Product and Service), “Most
183 new changes that really secure the wow effect are those things that customers
184 never expected ... we have our Product Innovation Department that continuously
185 looks at trends and why people behave in a certain manner, why they do certain
186 things. And then we do a projection of 3–5 years of what is going to happen ... for
187 the airline, it’s not just about having a smoother flight from A to B. That will be
188 taken for granted. It is really about what are the customers’ lifestyle needs. Can
189 you meet these lifestyle needs?” Earlier examples of such innovations include the
190 Krisworld on-demand entertainment system for all classes, internet and phone
191 check-in for all classes and the full-size “space-bed”. SIA was the first airline to
192 fly the A380 jet (when it was finally delivered after long delays). The offerings on
193 this aircraft include suites, or “a class beyond first” in SIA’s words, as well as the
194 widest seats in the sky that have helped to perpetuate its differentiated positioning.
195 Another investment in innovation included a US\$1 m simulator that mimics the air
196 pressure and humidity in the air, so that food can be tasted under these conditions,
197 which affect taste buds. One decision was to reduce spices in its food.

198 SIA has made a clear strategic choice of being a leader and follower at the same
199 time. It is a pioneer on innovations that have high impact on customer service (for
200 example in-flight entertainment, gourmet cuisine that includes fine wines, the ability
201 to order one’s choice of dishes in advance by internet, ‘beds’ in the air). However, it is
202 at the same time a fast follower in areas that are less visible from the customer’s point
203 of view, such as revenue management or CRM systems. In doing so, SIA relies on
204 proven technology that can be implemented swiftly and cost-effectively; this reduces
205 the implementation risk while delivering the necessary functionality.

206 1.3.3 “Profit-consciousness” Ingrained in All Employees

207 Despite SIA’s focus on service excellence and innovation, managers and staff are
208 simultaneously aware of the need for profit and cost-effectiveness. This derives

209 from the company culture: “It’s drilled into us from the day we start working for
210 SIA that if we don’t make money, we’ll be closed down. Singapore doesn’t need a
211 national airline. Second, the company has made a very important visionary
212 statement that ‘We don’t want to be the largest company. We want to be the most
213 profitable.’ That’s very powerful.” (Yap Kim Wah, Senior Vice President, Product
214 and Services). It is due to this policy of pursuing profitability, rather than size, that
215 SIA has one of the highest market capitalisations in the airline industry globally,
216 even though its revenues are relatively modest compared to competitors such as
217 the Air France-KLM Group, British Airways or the Lufthansa Group.

218 Any proposed innovation is analysed carefully on the balance of expected
219 customer benefits versus costs. A solid business case needs to be made to support
220 all proposed innovations and new service offerings. Station managers and frontline
221 staff know that they should balance passenger satisfaction versus cost- effective-
222 ness in their decisions. The importance of efficiency in the company culture is
223 reinforced by SIA’s physical spaces. In contrast to the company’s world-class
224 fleet, there are no grand or expensive decorations and furnishings at the company’s
225 headquarters for example. The HQ is characterised by a simple, functional design
226 that epitomises the drive for internal efficiency.

227 Further, SIA has a rewards system that pays bonuses according to the profit-
228 ability of the company; the same percentage for everyone—the same formula is
229 used throughout the SIA Group. As a result there is a lot of informal peer pressure
230 from individuals within the organisation, and staff and managers can challenge
231 decisions and actions if they see resources being wasted. In 2006, the profit sharing
232 bonus formula has shifted to place more weight on the performance of individual
233 companies (subsidiaries) in the SIA Group in order to increase cost and profit
234 consciousness in these companies and motivate them to increase their business
235 with third parties, so that they will be less dependent on the airline [14].

236 SIA builds team spirit within its 6,600 crew members through its “team
237 concept”, where small teams of 13 crew members are formed and then fly together
238 as far as possible for at least 2 years. This leads to the development of social bonds
239 within the team that reinforce the culture of cost-effective service excellence and
240 the peer pressure to deliver SIA’s promise to customers. Based on both cabin
241 crew feedback and efficiency issues, this team concept has recently been under
242 consideration for further refinement. The aims include the improvement of rostering
243 efficiency, enhancement of the cabin crew evaluation system and providing cabin
244 crew the opportunity to meet other colleagues who are not on their team.

245 Supported by this mindset and organisational practices, the productivity of SIA
246 employees is one of the highest in the global airlines industry (second only to
247 Korean Airlines), at 1,028 thousand available tonne-Kms per employee⁴ [4]. For
248 comparison, the figure for budget airlines such as easyJet is 494,000, Jetblue is

⁴ A measure of airline productivity derived by multiplying the number of tonnes of capacity available for carriage of cargo and passengers (each passenger estimated at 90–95 kg including luggage) on each flight by distance flown. Figures cited in [4], ch. 5.



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249 522,000, and Southwest is 410,000. Calculated per \$1,000 of labour cost, SIA is at
250 20,768 available tonne-Kms as compared to easyJet at 14,629, Jetblue at 12,799
251 and Southwest at 9,348.

252 **1.3.4 Achieving Strategic Synergies Through Related Diversification** 253 **and World-class Infrastructure**

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

261 Singapore's Changi Airport is regularly voted as among the best airports in the
262 world. This excellent airport management and infrastructure entices passengers
263 who are traveling to Australia, New Zealand or other countries in the region, to
264 pass through Changi and to choose SIA as their carrier. Changi Airport is also one
265 of the most cost efficient major airports, with cheaper landing charges compared to
266 Hong Kong or Narita airports for example [3].

267 SIA's subsidiaries operate under the same management philosophy and culture
268 that emphasises cost-effective service excellence. Although they are part of the
269 group, they are quoted separately and are subject to market discipline with very
270 clear Profit and Loss expectations. In SIA the conventional wisdom of outsourcing
271 (outsource "peripheral" activities and focus on what you do best) does not readily
272 apply. External suppliers might find it difficult to offer the value offered by SIA's
273 own subsidiaries. SIA's related diversification leads to strategic synergy benefits in
274 terms of reliability of key inputs, high quality, transfer of learning and at the same
275 time cost-effectiveness.

276 A usual metric of airline costs is cents per available seat kilometer.⁵ An IATA
277 study⁶ found that full service airlines had ASK costs of between US\$8 and 16
278 cents in Europe, 7–8 cents in the US and 5–7 cents in Asia. Budget carriers had
279 costs of between 4 and 8 cents in Europe, 5–6 cents in the US and 2–3 cents
280 in Asia. SIA's average cost during the period 2001–2009 was US\$4.57 cents
281 (Singapore \$7.47 cents, converted using average exchange rates for this period),
282 which means that SIA has the highest efficiency levels of any full service airline
283 anywhere in the world.

⁵ Available seats multiplied by distance flown.

⁶ From IBM Institute for Business Value, 2006, "Aviation 2010" report, drawing among other sources from IATA Economics Briefing No. 5, 2005, "Airline cost performance".



284 1.3.5 Developing Staff Holistically

285 Senior managers at SIA believe that “training in SIA is almost next to Godliness”.
286 Everyone, no matter how senior, has a training and development plan with clear
287 goals. The famous “Singapore Girl” undergoes training for 15 weeks, longer than
288 any other airline and almost twice as long as the industry average of 2 months.
289 This training includes not only functional skills such as Food and Beverage serving
290 and safety training, but also soft skills of personal interaction, personal poise,
291 grooming and deportment, and emotional skills of dealing with the consequences
292 of serving very demanding passengers. SIA’s training of the Singapore Girl is
293 likened to a “finishing school”: “The girls are transformed from coming in, and by
294 the time they come out, they look totally different. Their deportment, the way they
295 carry themselves ... There’s a great transformation there” (Sim Kay Wee, former
296 Senior Vice President, Cabin Crew).⁷

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297 In addition to such training, SIA also encourages and supports activities that
298 might, on the surface, be seen as having nothing to do with service in the air. Crew
299 have created groups such as the “Performing Arts Circle”, staging full-length
300 plays and musicals, the “Wine Appreciation Group” and the “Gourmet Circle”.
301 These activities help to develop camaraderie and team spirit. During their initial
302 training and subsequent career, crew employees also spend time at welfare homes,
303 to get a close-up engagement with the less fortunate, who have to depend on others
304 for their survival. This is aimed to help them develop empathy for others and
305 put themselves in the shoes of the passengers. The contents of the training change
306 to reflect customer expectations. “While our Singapore Girl is our icon, and we’re
307 very proud of her and her achievements, we continue to improve her skills;
308 we continue to improve her ability to understand appreciation of wines and cheeses
309 for example, or our Asian heritage ... the enhancement must be continuous”
310 (Yap Kim Wah, Senior Vice President, Product and Service).

311 Cabin crew can select refresher courses, and on average attend 3–4 days of such
312 courses a year. Popular courses include “transactional analysis” (a counseling-
313 type course), leadership courses and European languages. The company is moving
314 from a system of directing which courses cabin crew should attend, to one of “self-
315 directed learning”, where staff take responsibility for their own development.

316 Even before development starts, there is substantial effort to ensure that the
317 company hires the right staff. For example, entry qualifications for cabin crew
318 applicants are both academic (at least polytechnic diploma, meaning that they have
319 spent 13 years in school), as well as physical attributes. The recruitment process
320 is extensive, involving three rounds of interviews, a “uniform test”, a “water
321 confidence” test, psychometric tests and a tea-party. Over 16,000 applications are
322 received every year, and the company hires around 500–600 new cabin crew, to
323 cover attrition rates of around 10%. This includes both voluntary and directed

⁷ 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.

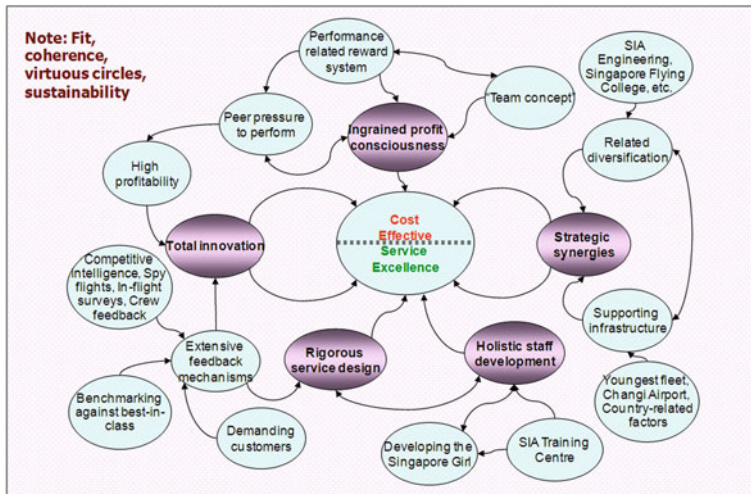


Fig. 1 Singapore Airlines' organisational activity system supporting cost-effective service excellence (Source Heracleous et al 7)

324 attrition. After the Singapore Girls start flying, they are carefully monitored for
 325 the first 6 months, through a monthly report by the in-flight supervisor. At the end
 326 of the probationary period, 75% get confirmed, around 20% get an extension of
 327 probation and 5% leave.

328 As noted above, the five pillars of cost-effective service excellence are inter-
 329 connected into an organisational activity system characterised by self-reinforcing
 330 virtuous circles and high levels of fit. It is this level of fit and mutual reinforcement
 331 among the elements that supports the *sustainability* of competitive advantage at
 332 SIA. It is relatively easy to copy individual elements of the system, but incredibly
 333 difficult to duplicate the whole system, which has evolved historically and is held
 334 together not only by formal processes but also by intangible elements such as
 335 organisation culture. Figure 1 below illustrates organisational activity system of
 336 SIA, where the five pillars support the core competencies of cost-effective service
 337 excellence.

338 **1.4 Achieving a Dual Strategy of Differentiation and Cost** 339 **Leadership, in the Context of Strategic Alignment**

340 Strategies of differentiation and cost leadership have usually necessitated different
 341 and incompatible investments and organisational models. A strategy of differen-
 342 tiation for example implies high quality offerings, and significant investments in
 343 innovation, staff development and branding, leading to higher costs than average.
 344 SIA achieves a differentiation strategy, but intriguingly, without a cost penalty.

Table 1 Elements of differentiation and cost leadership strategies at SIA

Elements of differentiation and cost leadership strategies at SIA	
<i>Differentiation</i>	<i>Cost leadership</i>
Positioning of service excellence and superior quality, brand equity (marketing strategy)	Young fleet (fuel efficiency, lower maintenance costs, effective fuel hedging, paying case for planes)
Developing the Singapore girl (HR development policies)	Labour costs compared to major competitors (16.6% SIA vs 20.1% average of all major airlines); continuous drive for productivity, cost reduction programmes
In-flight experience (young fleet, entertainment system, gourmet cuisine–operations strategy)	Related diversification through efficient subsidiaries that contribute to bottom line
Cultural values and practice of constant innovation and learning	Cultural values: cost consciousness, obsession with reducing wastage
Changi airport one of world’s best (related infrastructure)	Innovations not only increase differentiation but also efficiency
Premium pricing in Singapore and in business/ first class, and higher load factor as differentiation indicators	Changi airport one of most efficient (related infrastructure)

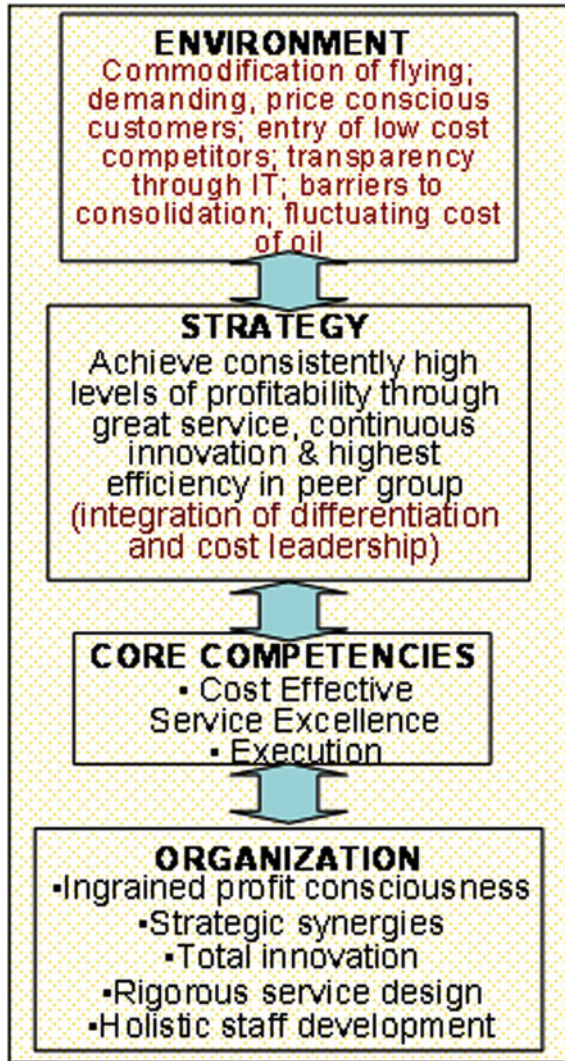
345 In fact, as noted above, SIA has significantly higher efficiency than its peer group,
 346 the key feature of a successful cost leadership strategy. Table 1 outlines many of
 347 the elements discussed above in relation to the dual strategy of integrating ele-
 348 ments of differentiation and cost leadership⁸.

349 It is worth noting that SIA has one of the youngest fleets in the world, with an
 350 average age of 75 months, less than half the industry average which is 163 months
 351 [13, p.194]. This is a conscious strategic choice that contributes both to efficiency
 352 and service excellence. From a service perspective, younger planes are more
 353 comfortable and quiet than older ones. From an efficiency perspective, a young
 354 fleet has added benefits in addition to lower repair and maintenance costs and
 355 lower fuel consumption. Fewer problems during service and maintenance for
 356 example mean lower costs in terms of compensating passengers for flight delays or
 357 cancellations, and replacement aircraft costs. Further, a key benefit of a younger
 358 fleet is a higher utilisation rate as planes spend less time in the hangar for repairs,
 359 checks and maintenance; at SIA, utilisation is 13 h per day, versus an industry
 360 average of 11.3 h per day.

361 Strategic alignment can be represented as consisting of four key elements: First,
 362 environmental conditions (macro and micro elements relating to the industry),
 363 second, the strategy of the company which should be appropriate for the envi-
 364 ronmental conditions, third, the core competencies that should effectively support
 365 the strategy, and finally the organisational level (including elements such as

⁸ SIA’s labour cost as percentage of total cost was 16.6% in 2007–2008, and 12.5% in 2008–2009. IATA’s Economic Briefing, February 2010, notes that the mean figure for all major airlines in 2008 was 20.1%.

Fig. 2 A representation of strategic alignment at Singapore Airlines



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366 processes, culture and functional strategies) that should deliver the necessary core
 367 competencies.

368 The elements of SIA relating to the five pillars, as discussed above, are
 369 principally located at the level of organisation. This is the basic and key level of
 370 strategic alignment, which delivers the core competencies of the organisation.
 371 SIA's core competence is the ability to achieve a differentiated offering with
 372 exceptional levels of efficiency, which we labelled "cost effective service excel-
 373 lence". This capability supports SIA's dual strategy, which in turn is aligned with
 374 the environmental (macro and micro-level) market conditions (see Fig. 2).



375

1.5 Turbulence on the Horizon?

376

Competitive conditions in the airline industry are becoming more challenging. Apart from wildly fluctuating fuel prices and security concerns, 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, is capable of flying 17,500 km, almost half way around the world. These planes can allow airlines to by-pass hubs like Singapore on flights from Europe to Australia for example. SIA has been seeking rights to fly directly from Australia to Europe, and from Australia to the US as a way of mitigating this risk.

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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 nowhere near SIA's (available tonne-kms per employee is 355,000, around just one-third of SIA's—[4]). Other competitors have embarked on aggressive growth while also competing on service quality. For example, Emirates has placed successive orders for 45 A380 aircraft (at a cost of about US\$19b),⁹ and prices tickets at levels generally lower than its main competitors.

378

Higher paying jobs elsewhere regularly tempt SIA employees that are sought after in other service organisations, many of whom decide to take up new challenges. Further, with regard to internal conditions at SIA, the need to reduce employee numbers and introduce a variable component to wage packages based on company profitability after the 2003 SARS crisis has been stressful for its industrial relations climate. Singapore's then Senior Minister Lee Kuan Yew intervened to resolve these issues, given the importance of Singapore Airlines and the aviation sector to Singapore's economic prosperity. Further, delays in delivery of the A380 during 2006–2007 have increased SIA's launch costs and delayed the realisation of its capacity plans.

379

In 2006 the Singapore media expressed concerns regarding service issues at SIA [15]. The Skytrax World Airline Awards ranked SIA 7th in their "Airline of the Year" rankings in 2006, down from 4th in 2005, prompting some to wonder about the effectiveness of sustaining the balance between efficiency and quality at SIA. In both the 2007 and 2008 Skytrax rankings, SIA regained the top position as airline of the year. In 2009 it came in at 2nd place after Cathay Pacific, in 2010 2nd after Asiana Airlines and in 2011 also 2nd after Qatar Airways, sustaining its record of service excellence.

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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 55% stake is lower perceived debt risk by lenders and therefore lower cost of borrowing (even though SIA does not need to borrow significantly). The industrial relations climate in Singapore is

⁹ See http://www.emirates.com/a380/news_emiratesLargestOperator.asp, accessed on 20 June 2007.

415 deemed to be less adversarial than elsewhere, enabling SIA to implement policies
416 that would have caused significantly more friction in many other airlines. Critics
417 also suggest that SIA's acquisitions have not fared that well. In 1999, SIA bought
418 49% of Virgin Atlantic, and wrote off 95% of the investment soon after 9/11.
419 In 2000, it acquired a 25% stake in Air New Zealand, which was seriously
420 impacted by the collapse of its debt-laden Australian arm, Ansett Airlines; this
421 investment was also written off.

422 Many on the other hand disagree with the suggestion that SIA's success is due to
423 the state. Indeed, high levels of state aid to airlines that have supported many of
424 SIA's competitors [4] have never been awarded in Singapore, where deregulation
425 and encouragement of competition has been the norm. According to SIA's Chairman
426 "We are unlike many of our competitors: we have never had government protection,
427 or underwriting of our business in difficult times. We operate on a commercial basis
428 and our people know that our customers have a choice of airlines" [14, p. 6].

429 SIA continues its dual focus on the customer experience though service
430 excellence and innovation, as well as continuously striving for efficiency. According
431 to CEO Chew Choon Seng, "the day we stop having visions or objectives to work
432 to, then that is the day we atrophy. I can assure you we have no intention of doing
433 that" [3].

434 Appendix

435 *List of Interviewees*

436 In this paper we draw from interviews conducted with the SIA executives listed
437 below, between 2001 and 2006. We note the designation of the individual at the
438 time of the interview, and any changes in designation are indicated in parentheses.

- 439 • Gladys CHIA Ai Leng, Assistant Manager, Training
- 440 • CHOO Poh Leong, Senior Manager, Crew Services
- 441 • Timothy CHUA, Project Manager New Service Development (now Senior
442 Manager Inflight Services (Projects))
- 443 • Dr GOH Ban Eng, Senior Manager, Cabin Crew Training (now Senior Manager
444 Human Resource Development)
- 445 • LAM Seet Mui, Senior Manager for Human Resource Development (now
446 Senior Manager Cabin Crew Training)
- 447 • LEONG Choo Poh, Senior Manager, Cabin Crew Performance (now Senior
448 Manager Crew Services)
- 449 • LIM Suu Kuan, Commercial Training Manager
- 450 • LIM Suet Kwee, Senior Rank Trainer, SIA Training School
- 451 • Patrick SEOW Thiam Chai, Inflight Supervisor, Cabin Crew Division
- 452 • TOH Giam Ming, Senior Manager, Crew Performance (now General Manager,
453 Taiwan)



- 454 • SIM Kay Wee, former Senior Vice President, Cabin Crew
- 455 • Betty WONG, Senior Manager, Cabin Crew Service Development (now Acting
- 456 Vice President Inflight Services)
- 457 • YAP Kim Wah, Senior Vice President Product and Services (until 26 December
- 458 2010)
- 459 • Dr YEOH Teng Kwong, Senior Manager, Product Innovation (currently with
- 460 another company)

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