Covid-19 Pandemic as an External Threat: A Case of AirAsia

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ABSTRACT

This conceptual paper outlines the strategic management process of AirAsia. A short company background is followed by a strategic analysis of the company itself and its environment in an elaborate literature review, and then identifying the tools that would be used in formulating different levels of strategies, both corporate as business. This paper highlights how the airline has and will benefit from the strategic management process. This study is concluded by discussing issues related to the mitigation function of AirAsia in a world crisis of COVID’19 pandemic, and the implementation of a mitigation plan once the necessary precautions are taken. Furthermore, an issue related to the leadership management in AirAsia corporate Structure will also be discussed.

Keywords: Strategic management process, Air Asia, corporate strategy, mitigation, Covid-19

1. COMPANY BACKGROUND

AirAsia Berhad is a Malaysian low-cost airline, with its headquarters in Kuala Lumpur and main hub KLIA2. The airline operates domestic and international flights to more than 165 destinations in 25 countries, making it the largest airline in Malaysia, both by fleet size and number of destinations. The AirAsia Group includes AirAsia Berhad (AirAsia Malaysia, AirAsia Indonesia and AirAsia Philippines), AirAsia Thailand, AirAsia India and AirAsia Japan. The airline started with two aircrafts flying six domestic routes in Malaysia in 2002, but employs over 22,000 staff today and has a market capitalisation of just over RM9.7 billion. The airline has 24 hubs, 5 in Malaysia, 6 in Thailand, 5 in Indonesia, 4 in India, 3 in the Philippines and 1 in Japan (AirAsia Group, 2019).
AirAsia was founded in 1993 by a government-owned conglomerate, DRB-HICOM, and began operations in 1996. In 2001, Tune Air Sdn. Bhd. bought over the debt-riddled AirAsia from the HICOM Holdings for a token sum of RM1. This was the start to democratise air travel. Since then, AirAsia’s adherence to best practices and their commitment to become the best low cost carrier has been recognised via numerous awards over the years. A good example of this is Syntrax’ award of World’s Best Low Cost Airline, which AirAsia has won for eleven consecutive years from 2009 to 2019 (AirAsia Group, 2019).

AirAsia’s vision is to become the largest low cost airline in Asia, in order to be able to serve the passengers who could not travel before because of the high fares and poor connectivity. They want to enable cost-efficient connectivity for everyone. It is AirAsia’s mission to be the best company to work for, through their dedication to be an employer in which their employees are treated as members of a big family. They want to create a globally acknowledged ASEAN brand and make sure they only provide the best quality products and services through their commitment to innovation and new technologies.

In a nutshell, they want to allow everyone to fly with AirAsia by attaining the lowest costs. AirAsia’s values are safety conscious, caring, passionate, full of integrity, hardworking and fun (AirAsia, no date). At AirAsia they see their values as the heart of their brand. Their values are:

- People first: Care for out people, care for our guests
- Dare to dream: Progress comes from innovation. Both require change to happen.
- Make it happen: Learn fast and deliver more with less.
- Safety always: Safety is everyone’s responsibility. It starts with you.
- One AirAsia: We are one airline. With one vision and one person.
- Be guest-obsessed: Understand deeply what our guests want. Then give them more than they expect.

(AirAsia, 2019).

2. LITERATURE REVIEW

The entry into the market of low-cost carriers was the most important factor affecting the ability of conventional airlines to retain competitive advantages and profitability (Detzen, Kahn, Likitapiwat, & Rubin, 2012). The company selected for the study, AirAsia, started operations in 1996, beginning in 2001 with just two aircraft as a full-service domestic airline, now that number has risen to 43 domestic and foreign aircraft.

AirAsia’s success is the result of a successful implementation of the Low Cost Aviation Carrier (LCC) aviation business model consisting of reduced flight service, point-to-point travel, high use of aircraft, single fleet type, ticketless passenger booking systems and considerable staff flexibility. The airline believes in enabling everyone to fly (see figure 1) by achieving low costs and using efficient technology to improve their flight experience (AirAsia, 2019).
To have lower fares than conventional airlines, low-cost airlines concentrate on cost management, cost control and unbundling of fare (Diaconu, 2012). Passengers on low-cost airlines can incur additional charges for services and amenities including checked baggage, on-board food, allocated seating, early boarding, and carry-on luggage (De Wit & Zuidberg, 2012). However, when repeated service and aircraft issues cause complaints from passengers on these airlines, staff and managers need to be prepared to fix and mitigate complaints from passengers (Helm & Tolsdorf, 2013; Hvass & Torfadottir, 2014). Passengers flying low-cost airlines are conscious of service gaps between low-cost and conventional airlines (Wittman, 2014). This research study may provide valuable information to the low-cost airline leaders seeking to address and mitigate complaints from passengers due to a world crisis.

2.1 Mitigation Strategies

There are all kinds of strategies that companies need to implement in order to be effective, that exist across a number of different business functions. A main strategy often ignored by companies is a mitigation strategy. Risk reduction is the process of creating actionable ideas, which minimize the risks to an organization's overall well-being. Threats come in all shapes and sizes, from natural disasters to cyber attacks. These threats can cause millions of dollars in harm, both physical and virtual. Accordingly, having a mitigation plan can help save costs and improve the business continuity strategy.

Owing to the high degree of regulatory scrutiny risk management is deeply rooted within the aviation industry. The AirAsia Group Risk Team (Group Risk) has the responsibility to handle risks efficiently for them. The main aspects of risk management within AirAsia are realized through the creation and implementation of the Community Risk Policy by creating a robust risk governance framework (AirAsia Annual Report, 2016). During a time when a large percentage of corporations were still on the fence and determining the degree of their digital sophistication, COVID-19's rapid emergence as a global challenge has forced their hands and made digital transformation a strategic priority overnight. With the exponential spread of the global pandemic, many businesses have had to accelerate the production of their business plans. Below chart refers
to the global crisis that has happened during the last few decades and what was the impact of it on the airline industry (Figure 2, Canso.org, 2019).

Impact of some significant historical events on the air transport sector (canso.org, 2019)

The COVID-19 pandemic will lead to global airline revenue losses of up to $252 billion by 2020, according to IATA’s forecasts. Consequently, the effect on airlines is expected to be much greater than what was experienced during the global economic crisis, both in terms of revenue loss and the pace at which those losses were incurred.

2.2 Theoretical Framework

The emergence of strategic management could be traced back to the 1950s when Selznick (1957) introduced the need to bring together the 'internal state' and 'external expectations' of an organization for policy implementation into the social structure of the organization.

Andrews (1971) defined strategy as the balance of actions and choices between an organisation's internal capacity and its external environment. Weihrich (1982) further conceptualized the internal and external analysis into a formal matrix known as the SWOT system that examines an organization's strengths, vulnerabilities, opportunities and threats.

The SWOT analysis persists today in some companies as a strategic management tool since it has a long history in the area of strategic management (Mintzberg et al., 1998). Importantly, the system is very easy to implement, with virtually no investment needed when used and no specialized skills involved in facilitating the formulation of strategies.

3. FINDINGS AND DISCUSSIONS

3.1 Strategic Analysis

The strategic analysis involves three components that together help strategists understand an organization's competitive role on the outside, internal climate culture, and shareholders' expectations. Other authors describe strategic analysis from a management structure perspective as follows: task, external environment competitive analysis and organizational culture analysis.
AirAsia provided a similar perspective for other businesses in 2016. The owners perform their first measurement of materiality. Through a systematic process of seminars, surveys, and interviews, we have been able to define and prioritize certain topics that are relevant to both AAB and related stakeholders based on their impact.

Figure 3: AirAsia’s Materiality Matrix (AirAsia, 2019).

These materiality measurements identified seven issues. Below are the seven issues that were highlighted:
- Safety and Health
- Stakeholder Engagement
- Talent Attraction & Retention
- Operational Efficiency
- Service Efficiency
- Energy Consumption and Fuel Management
- Risk and Crisis Management

In the AirAsia Sustainability Statement, they focused on these seven material issues, and are reporting on them again in this report, highlighting progress in each area. In some substantive matters, they have improved their collection of data, such as carbon emissions, and the scope of their coverage could be increasing.

3.2 SWOT Analysis and SWOT Matrix of AirAsia

A SWOT Matrix analyzes the internal and external environment of a company. The dimensions of the strengths and weaknesses illustrate the internal environment while the external environment is presented under the dimensions of opportunities and threats. It shows where to seek opportunities, where to avoid risks, and how to distribute resources. Below is a SWOT analysis of AirAsia where we can identify Strengths, Weaknesses, Opportunities and Threats of the company.
**Strengths**
1. Great campaigns for promotions
2. Strengthen geographic position
3. Expanding the amount of skill workers
4. Using CSR for brand awareness
5. Have a positive attitude towards competition
6. Utilization of aircraft and efficient operation
7. Excellent utilization of IT

**Weaknesses**
1. Joint Venture termination
2. Services are somewhat poor and limited
3. Websites crashing.

**Opportunities**
1. Lean Distribution System
2. Additional aircraft
3. Growth expectation
4. Easy access

**Threats**
1. Advertisements problem
2. Financial speculation
3. Effect of fuel price
4. Authority interferences and policy
5. Accidents, terrorist attacks and pandemics like COVID’19 can affect customer confidence and the market

The Air Asia Company is also using SWOT analysis to advance its enterprise. The strengths and disadvantages taken into account by various branches are capable of opening up the business to benefit from profitable sales. The best use of these strategies can attract customers to take advantage of their aviation services.

**SWOT MATRIX**

<table>
<thead>
<tr>
<th>Strengths - S</th>
<th>Weaknesses - W</th>
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<tbody>
<tr>
<td>1) Great campaigns for promotions</td>
<td>1) Joint Venture termination</td>
</tr>
<tr>
<td>2) Strengthen geographic position</td>
<td>2) Services are somewhat poor and limited</td>
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<tr>
<td>3) Expanding the amount of skill workers</td>
<td>3) Websites crashing</td>
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<tr>
<td>4) Using CSR for brand awareness</td>
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<tr>
<td>5) Have positive attitudes towards competition</td>
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<tr>
<td>6) Utilization of aircraft and efficient operation</td>
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<td>7) Excellent utilization of IT</td>
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<tr>
<th>Opportunities - O</th>
<th>SO Strategies</th>
<th>WO Strategies</th>
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<tbody>
<tr>
<td>1) Lean</td>
<td>1. Focus on improving basic quality of service in order to improve prices (S1, S2, S3, O1, O2, O3)</td>
<td>1. Getting the expertise on their own maintenance and services (W2, W3, O1, O2, O3)</td>
</tr>
<tr>
<td></td>
<td>2. Soft bundling travel packages (S1, S2, S5, O1, O2)</td>
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A company should use its strengths to achieve performance goals while the limitations hinder the achievement of performance goals. Scanning the organization's internal climate, analyzing its tasks helps recognize the core competencies, and how synergies and value can be generated.

Based on the SWOT analysis, several recommendations can be made for AirAsia’s strategy. For a company as AirAsia, it is important to make sure they keep their strengths, especially with the enduring global pandemic and following economic problems. One way to do it is through upward communication. AirAsia has a relatively flat company structure, which makes it easier for employees to provide feedback to the management team. Employees should feel like their opinion matters, by including them into team meetings. Another strategy to improve an organization's position, is by improving the known weaknesses. As was mentioned in the SWOT matrix above, an important weakness of AirAsia is their poor and limited services. This is caused by lack of training and empowerment by the management. That’s why it is important to put formal processes into place to prepare for service failures, in order to prevent them in the future. AirAsia should also try to exploit its opportunities. One way to do it is by aligning the capacity with the demand. This means a flexible strategy is necessary to allocate resources (including personnel) for attaining fluctuation in demand. AirAsia has a wide range of resources that are deployed during peak travel time or during expected increases in demand. Last but not least, it is of course important to mitigate the threats (Essays UK, 2018).

<table>
<thead>
<tr>
<th>Threats - T</th>
<th>ST Strategy</th>
<th>WT Strategy</th>
</tr>
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<tbody>
<tr>
<td>1) Advertisement's problem</td>
<td>1. Fuel conscious aircraft (S2, S5, S6, T3)</td>
<td>1. Train ground crew for higher airborne time (W2, T3, T4)</td>
</tr>
<tr>
<td>2) Financial speculation</td>
<td>2. Attractive designs of advertisements (S1, S4, T1, T4)</td>
<td>2. Negotiator organisation within AirAsia staffs (T1, T2, T3, T4, S3, S4, S6)</td>
</tr>
<tr>
<td>3) Effect of fuel price</td>
<td></td>
<td>3. By taking tangible actions at the first phase (W2, T5)</td>
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<tr>
<td>4) Authority interferences and policy</td>
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<tr>
<td>5) Accidents, terrorist attacks and pandemics like COVID'19 can affect customer confidence and the market.</td>
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Figure 3: SWOT Matrix of AirAsia
3.3 Covid-19 Pandemic

In the wake of the global COVID-19 pandemic, companies around sectors across the globe are in turmoil. The aviation industry is facing a similar fate, with the number of passengers dropping dramatically. A loss in revenue of USD 252 billion was forecast in 2020. Government funding worth USD 200 billion is being looked at to protect the sector from failure.

In most of AirAsia's key markets, including Malaysia, Thailand, Indonesia, the Philippines, China and India, the COVID-19 crisis resulted in border closures resulting in a 22 percent reduction in total passengers transported to 9.85 million in the first quarter. For the three months up to March 31, AirAsia Japan, in which the group owns a 67 percent stake, reported a loss of 1.24 billion Japanese yen ($12 million).

The biggest low-cost airline in Southeast Asia said it had begun the year well, until the business conditions in February worsened suddenly as the coronavirus outbreak began to spread. AirAsia said they remain optimistic because it has ample working capital for the time being. AirAsia announced 270.1 million ringgit worth of fair value losses on derivatives in its stock exchange statement, fuel hedging losses worth 110 million ringgit, and 243 million ringgit in incremental depreciation and operating aircraft lease liabilities.

In late April, AirAsia began domestic travel schedules in Malaysia, in Thailand on May 1, India on May 25, in the Philippines on June 5 and in Indonesia on June 18. AirAsia has mentioned that they are slowly adding frequencies and expanding routes in the domestic market, with government and health authorities' advice and regulations, adding demand has been strong so far, with load factors steadily increasing. In addition, AirAsia has ongoing negotiations for joint ventures and partnerships with a variety of parties that may result in additional third-party investments in different segments of the group's sector.

Adapting to the “New Normal”

While the airline industry has adapted to address the impact of previous crises, it is clear that the magnitude of COVID-19 ‘s impact on aviation will be much greater than any downturns the industry has ever experienced before. Therefore, as the aviation industry regains traction, we are likely to see the dawn of a 'new standard' - among other factors, demand return will almost certainly be diminished by society and companies becoming more comfortable with virtual encounters for otherwise face-to-face meetings. It means that what airlines, airports and ANSPs are supposed to look for in terms of recovery will potentially be very different from the world in which they were working previously.

Generally, approaches to preparing for the 'new normal' would vary for each market segment. Particularly when compared with their regional counterparts by international airlines and airports. The paths taken by stakeholders will rely heavily on how key market drivers (i.e. those with high uncertainty but with high business impact) emerge, based on factors like:

- Demand as an example: medium and lower medium-term volatile demand
- Insolvency Levels
- New business, proprietary and revenue management models emerge
- Changes in the public view of flying
  e.g. attitudes toward environmental safety or the spread of infection due to close proximity while flying
New entrants to the sector, e.g. market liberalization scale

Are there any factors involved which are likely to have a significant effect on your business' future? Ultimately, the earlier the industry begins to prepare, the greater the chance AirAsia has to implement effective business recovery solutions. This also helps organizations to contribute to a broader variety of 'positive' improvements (See Figure 4).

![Figure 4](image)

What could be the look of global aviation in a post-pandemic world? It is difficult to envisage what the 'new normal' would look like at this point, thus making it very difficult for businesses to prepare. In view of these uncertainties, it will be important for companies to assess the implications of a number of possible future scenarios in order to improve resilience and agility of business.

3.4 Leadership Issues : Bribery Allegations

For several times, AirAsia has been named in connection to bribery allegations. In the beginning of 2020, AirAsia's CEO Tony Fernandes and chairman Kamarudin Meranun stepped down for about 2 months while the airline was caught in an anti-corruption investigation. European prosecutors said Airbus, a major aircraft manufacturer, paid $50 million to sponsor a sports team that was at that time jointly owned by the above mentioned CEO and Chairman. In return, AirAsia was supposed to purchase aircrafts from Airbus. AirAsia denied any wrongdoing by stating Airbus had its own reasons for sponsoring the sports team, while there was a sound commercial logic for them to purchase aircrafts from Airbus. The carrier has been named in a 3.6 billion euro settlement of these bribery allegations against Airbus SE (Fickling, 2020).

In 2017, Rolls-Royce Holdings Plc admitted to providing $3.2 million worth of credits to an AirAsia executive in connection with an engine contract. It was expected they would be used to pay for maintenance of a private jet owned with other executives. However, AirAsia claimed there was nothing improper in the arrangement (Das, 2020).

In AirAsia’s annual reports, there are several more examples of transactions between AirAsia and companies associated with Tony Fernandes and Kamarudin Meranun. For example, $4.9 million has been paid to Caterhamjet Global for the lease of a Bombardier Inc. private jet. For several years, Tune Insurance Malaysia Bhd. offered commission fees returning to AirAsia for the insurance they provided for AirAsia passengers outbound from Malaysia (Fickling, 2020).
4. CONCLUSION

Airlines need to accurately determine how the accounting results can be influenced by fleet landings, travel bans, economic uncertainty and market instability. Such considerations may include changes in the methods of depreciation, revision of future salary assumptions in existing liabilities, impact of extension in expiry dates for loyalty points, reassessment of the forecast fuel consumption and gas volumes hedged, reassessment of current operating leases (conditions, payment rates, leasing options, sub-lease etc.), revision of aircraft repair and overhaul costs, among others.

Potential global and economic impacts of COVID’19 pandemic keep on evolving rapidly. Airlines must track the situation as circumstances change can require more or updated disclosure in current and future filings. Disclosures will contain content, details relevant to investors as of the date of the periodic report.

The COVID-19 pandemic is one of the most daunting obstacles our race has encountered in the last few months. Organizations that, in these difficult times, can focus on moving in the right direction will emerge stronger than ever. By embracing the right technologies, a positive corporate mentality to bring about progress, and a systematic approach to formulating strategy, through implementing effective strategies.

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