

REVISED EDITION

# FLYING HIGH

**in a Competitive Industry**

SECRETS OF THE WORLD'S  
LEADING AIRLINE



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# PREFACE

This book aims to answer a simple but intriguing question: How has Singapore Airlines (SIA) managed to make healthy profits year in year out, in an industry whose financial performance over the years has been dismal? SIA's profitability on the other hand has been exceptional, superior in the long term to any competitor in its peer group. Our purpose in writing this book is to answer this question, based on our in-depth research on the airline industry and SIA, and derive some general lessons for managers in other industries.

We begin the book with an analysis of the airline industry and its key trends (Chapters 1 and 2), moving on to a broad outline of SIA's strategic drivers of success (Chapter 3). We then focus on specific elements of SIA's strategy and organisation, such as its core competency of cost-effective service excellence (Chapter 4), its innovation capabilities (Chapter 5), and its human resource management practices (Chapter 6). We end with some strategic lessons that we believe apply to any organisation that aims to achieve sustainable success in hyper-competitive markets (Chapters 7 and 8).

Chapter 1 analyses the airline industry as a whole, reviewing its historical development, important trends over time and key aspects of the industry economics. Issues discussed include the impact of government intervention; uncontrollable factors such as oil prices or

political events; factors such as the perishability of seats, seasonality of demand and long time horizons in infrastructural decisions, injecting additional levels of complexity; airlines' fixed and variable direct operating costs, and indirect operating costs; and lastly the chronically poor and volatile performance of the whole industry. Key trends in the industry such as the formation of alliances, the emergence of budget carriers and regional growth are addressed.

Chapter 2 outlines macro-environmental trends affecting the airline industry such as political, economic, social and technological elements, and then engages with the industry's underlying structural dynamics such as the rivalry among competitors, threat of new entrants, power of suppliers and buyers and threat of substitutes. Lastly, strategic imperatives for airlines to succeed in this difficult environment are discussed, such as the need to utilise cutting-edge technology, the importance of cost-control, alliance management, avoiding the herd instinct and strategies to address commoditisation.

Chapter 3 proceeds to focus on SIA itself, addressing important strategic choices and resource deployment decisions at SIA, in order to get a broad understanding of the company's superior performance. Factors discussed include SIA's young fleet, low staff costs, global revenue base, push for efficiency, brand reputation, strategic consistency, response to crises, and alliance and acquisition strategies. In addition to having a significant stand-alone impact on SIA's performance, these factors also interact with other factors, thus enhancing the magnitude of their impact. A key conclusion drawn from this analysis is that SIA's superior performance is attributable to a complex array of strategic decisions which have been highly consistent over time. As we further discuss in Chapter 4, imitators would have to copy many of SIA's strategic and organisational aspects to achieve similar levels of performance; this is always a more difficult task than copying single aspects.

Chapter 4 addresses what we believe is SIA's core competence, cost-effective service excellence. It is relatively easy to deliver excellent service if one pours money into doing so. It is also relatively easy to achieve low costs if one does not aim to deliver excellent service. What

is much harder to do is to deliver service excellence in an efficient manner, in other words implementing a strategy that integrates elements of differentiation and cost leadership. SIA is known for its service excellence, but what is less often appreciated is that its costs (seen as cents per available seat kilometre) are among the lowest in its peer group. How has SIA managed to achieve this? In common with other organisations with a reputation for excellent service, SIA displays characteristics such as top management commitment, customer-focused staff and systems, and a customer-oriented culture. However, our research has uncovered further insights into the development and maintenance of a reputation for service excellence while controlling cost – what we call the ‘five pillars’ of SIA’s activity system. These pillars are rigorous service design and development; total innovation (integrating continuous incremental improvements with discontinuous innovations); profit and cost consciousness ingrained in all employees; holistic staff development; and reaping of strategic synergies through related diversification and world-class infrastructure. These five pillars of SIA’s cost-effective service excellence are supported, operationalised and made real in everyday decisions and actions through a self-reinforcing activity system of virtuous circles, presented in the chapter. The core competence of cost-effective service excellence and the cultural values supporting it are thus more than just abstract ideas. They are ingrained into both the hearts and minds of employees as well as organisational processes. This may help to explain why SIA’s competitive advantage has been sustained for decades. While it is easy to copy single elements, it is much harder to reproduce an entire self-reinforcing activity system.

Chapter 5 continues the theme of service excellence with a focus on innovation. This chapter sheds light on SIA’s ability to be a serial innovator, introducing many firsts in the airline industry, and sustaining this innovative orientation over decades in the face of intense cost pressures, industry crises and the push towards commoditisation. We first present senior management’s perspective of the key challenges they face in delivering sustained and cost-effective service excellence. These challenges include, firstly, how to consistently satisfy the sky-high

and rising expectations of SIA's demanding customer base; secondly, how to balance standardisation and customisation of its services, and deal effectively with the tension between offering uniform service that is at the same time personalised; and thirdly, how to approach a large number of services and their support sub-processes in a holistic manner to attain consistent excellence in all related processes and sub-processes.

The chapter proceeds to address SIA's innovation process, characterised by the ability to seamlessly combine the hard and soft aspects of innovation. SIA's unique approach to new service development involves the seamless combination of both hard, structured, rigorous, centralised innovation, led mainly by the Product Innovation Department, with the soft, emergent, distributed, but equally significant innovation led by different functional departments. This competence is further enhanced by SIA's integrated customer and frontline staff feedback systems that provide valuable insights for both the Product Innovation Department and other functional departments.

Chapter 6 then addresses SIA's human resource management processes, a crucial aspect of any service business where people, especially frontline staff, are a core part of the offering and the most visible element of the service. Frontline staff from a customer's point of view can be seen as an integral element of the service firm itself, delivering the service and ideally acting as a conduit for understanding the customer's needs and wants; an understanding that can then be used as an important input in the innovation process. Frontline staff are also a core part of the brand, determining whether the brand promise gets delivered. After addressing these issues with examples from SIA, the chapter turns to a discussion of the five elements forming SIA's human resource management, and how each of these elements reinforces SIA's service excellence strategy. The five elements are stringent selection and hiring of people, followed by extensive training and re-training, formation of successful service delivery teams, empowerment of the frontline staff, and motivation.

Even though these service elements are simple to state, very few firms have been able to implement systems that deliver these to a high level.

In this chapter, drawing from further insights from SIA's strategic human resource management practices, we also outline how SIA manages to address the three key service-related challenges introduced in the earlier chapter; namely how to deal with sky-high customer expectations, how to achieve balance between service standardisation as well as personalisation, and how to approach a large number of services and support sub-processes in totality to attain service excellence.

The reason we undertook this study was to gain a deeper understanding of the factors that can help a company achieve sustainable success in extremely tough industries, so we based our study on the analysis of the strategy and organisational features of a company that has achieved just that. Chapters 7 and 8 present some lessons from our research in SIA, which we believe apply to any company in search of sustainable competitive advantage, the holy grail of strategy. We do not aim to provide silver bullets (which are not possible in such situations anyway given the context specificity of business challenges and solutions) but rather to suggest useful strategic principles, and to help executives ask the right questions.

Chapter 7 begins by reminding us why it is so hard to be successful in the airline industry. We then address one of the most important findings and also a key principle for success: the importance of achieving strategic alignment, and of recognising and dealing with misalignments before they become destructive. We discuss the nature of strategic alignment, as well as the main misalignments that companies should be vigilant of. We offer frameworks to help managers diagnose the levels of strategic alignment in their organisations and to take corrective actions where needed. We note that achieving strategic alignment is a pre-condition for achieving sustainable competitive advantage.

Chapter 8 then proceeds with further strategic lessons, which relate to the need to be clear about the company's generic strategy (or a combination of elements of generic strategies), the importance of identifying, nurturing and investing in capabilities and core competencies



that support the strategy, and the need to understand and foster strategic innovation. We then examine SIA's institutional context and culture, and suggest that even though SIA has definitely gained from being located in a supportive institutional context, this is far from a comprehensive explanation of its success; its success can ultimately be traced to robust strategies, seamless execution and continuous vigilance and realignment.

In addition to the eight chapters, we also provide a self-contained case study of SIA, which presents key information from our research on the main elements of the company's success. This case study can be employed by instructors, organisation development practitioners and consultants as a launching pad for debate on the strategic and organisational issues involved. The case study has been successfully used at different levels of instruction (undergraduate, MBA, EMBA and executive levels) in courses relating to strategy and services marketing. Instructors who wish to use this case study can contact the publisher or one of the authors for further information.

We are grateful to all the people at SIA who kindly allowed us to interview them to gain a deeper understanding of what makes SIA tick. These include, in alphabetical order, Mr Choo Poh Leong, Mr Timothy Chua, Dr Goh Ban Eng, Mrs Lam Seet Mui, Mr Lee Lik Hsin, Ms Lim Suet Kwee, Ms Lim Suu Kuan, Mr Patrick Seow, Mr Sim Kay Wee, Mr Sim Kim Chui, Mr Toh Giam Ming, Ms Betty Wong, Mr Yap Kim Wah and Dr Yeo Teng Kwong. We would also like to thank Ms How Hwee Yin, Ms Karen Liaw and Ms Roshini Prakash of SIA's public affairs office, who were instrumental in helping us arrange the interviews at SIA. We are also grateful to the people at CAAS who gave us insights into the development of their joint biometrics project with SIA, in particular Mr Poh Young Peng and Mr Wang Pei Chong. Furthermore, we are indebted to Professor Robert Johnston at Warwick Business School, who has collaborated with us on a number of research projects involving SIA. We also thank our publishers, McGraw-Hill, and in particular Ms Pauline Chua. Lastly, we would like to thank our families who did not mind the countless hours we spent in front of the computer working on this book.

# 6

## MANAGING PEOPLE EFFECTIVELY TO DELIVER SUSTAINED SERVICE EXCELLENCE<sup>1</sup>

*‘The only resource that the country has is its people. And therefore, there’s no option but to be the best ... At the end of the day it’s the software, people like us, who make the real difference.’*

Patrick Seow, senior rank trainer,  
Singapore Airlines Training School, and senior flight steward

*‘In Singapore, we always want to be the best in a lot of things. SIA is no different. ... a lot of things that we have been taught from young, from our Asian heritage ... filial piety, the care and concern, hospitality, and of course the most important part is trying, if we can, to do whatever we can to please the customer. And how do we do it? Sometimes, people just wonder “how do you guys manage to do it with limited time and resources on a flight”, yet we manage to do it somehow. Call us magicians.’*

Lim Suet Kwee, senior rank trainer,  
Singapore Airlines Training School, and senior flight stewardess

**B**ehind most of today’s successful service organisations stands a firm commitment to the effective management of human resources (HR), including recruitment, selection, training, motivation and retention of employees.<sup>2</sup> Leading service firms are often characterised by a distinctive culture, strong service leadership and role modelling by top management. It is probably harder for competitors to duplicate high-performance human assets, and the associated mindset and values than

any other corporate resource. In addition, service staff can be crucially important for a firm's competitive positioning, because the frontline:

- **Is a core part of the product.** As soon as frontline staff are involved in a service process, it tends to be the most visible element of the service, delivers the service and significantly determines service quality. This is exemplified in the case of SIA where its frontline staff – the Singapore Girl – has become synonymous with SIA, personifies quality service,<sup>3</sup> and is one of the airline industry's most instantly recognised figures. This affords the airline a key competitive advantage since none of the other airlines have managed to 'brand' and promote their cabin crew as successfully as SIA.
- **Is the service firm.** Frontline staff represent the service firm, and from a customer's perspective, are the firm. Frontline staff at SIA are empowered to make appropriate decisions that customise service delivery as needed and take corrective actions instantaneously during service recovery.
- **Is the brand.** Frontline staff and service are a core part of the brand. It is the staff that determine whether the brand promise gets delivered or not. SIA understands that and places enormous emphasis on all aspects of the selection, training and motivation of its staff in general, and its frontline staff in particular.

In this chapter, we will focus on the people side of SIA's sustained service excellence. Specifically, we will:

- Expand on the five key elements behind SIA's effective HR management, and how each of the five elements reinforces SIA's service excellence strategy
- Outline how SIA manages to effectively address three key service-related challenges: how to deal with sky-high customer expectations; how to achieve balance between service standardisation as well as personalisation; and how to approach a large number of services and support sub-processes in totality to attain service excellence

- Address the industrial relations challenges posed by the need to cut costs due to the difficult operating environment, and the steps SIA took to address them

## The Five Key Elements of SIA's HR Management

Based on our interviews with SIA's senior management, we identified five interrelated and mutually supportive elements that together constitute SIA's strategic HR management. Together with the leadership and role-modelling of its top management, these five elements are an important part of the explanation of how SIA has managed to consistently deliver cost-effective service excellence for over three decades through the effective development and management of one of its greatest assets, its human resources (see Figure 6.1).

**Figure 6.1**

**The five elements behind SIA's effective HR management**



*Source: This model was derived from the authors' interviews with SIA's senior management and service personnel.*

As seen in Figure 6.1, the five elements behind SIA's effective HR management include stringent selection and hiring of people, followed by extensive training and re-training of employees, formation of successful service delivery teams, empowerment of the frontline, and employee motivation. Such elements are highlighted in successful HR management, especially in the 'strategic HRM' field, and they have been shown to lead to higher company performance.<sup>4</sup> However, many service firms have not been able to implement them successfully. Now let us take a closer look at how the five elements work and complement each other at SIA.

### ***Stringent Selection and Recruitment Processes***

As Jim Collins says, 'The old adage "People are the most important asset" is wrong. The right people are your most important asset.' We would like to add to this: '... and the wrong people are a liability.' Getting it right starts with hiring the right people. To support its service excellence strategy, SIA adopts a rigorous system and process for staff selection and recruitment.

Cabin crew applicants, who must be under 26 years old, are initially assessed on both academic and physical attributes. If they meet baseline requirements on these, then they go through an extensive recruitment process that involves three rounds of interviews, a 'uniform test', a 'water confidence' test, psychometric tests and a tea party. Out of 16,000 applications received annually, around 500 to 600 new cabin crew are hired to cover turnover rates of around 10%, which include both voluntary and directed attrition. When the cabin crew start flying, they are carefully monitored for their first six months through a monthly report by the inflight supervisor. At the end of the probationary period, around 75% get confirmed for their initial five-year contract, around 20% get an extension of the probationary period, and around 5% leave.

Due to the special social status and glamour that SIA's cabin crew enjoy, many young and educated women and men from all over Asia apply every year to join the ranks of SIA. Ms Lim Swet Kwee, senior rank trainer at the SIA Training School, who joined SIA in the late 1980s,



The Singapore Girl created in 1972 has since been the leading figure of SIA's international marketing and advertising campaign.

*Source: Courtesy of Singapore Airlines.*

says, 'It was like everyone was talking about SIA. It was the most hip word you heard around ... The commercials played a very great part ... [For many] girls at the time, ... [and even] today, being a stewardess at SIA has been the ultimate. You know, we just want to fly with this airline that everybody has been talking about and ... [to be] part of it.'

Because of SIA's brand reputation as a service leader in the airline industry and as a company that develops its staff in an extensive and holistic manner, it can have its pick of talented young people. Many prospective employees in Asia, especially school leavers and university graduates, see SIA as an excellent company to work for, often opening the door to more lucrative jobs in other companies. In order to provide a richer sense of what is involved in SIA's selection and recruitment process, we quote Mr Choo Poh Leong, senior manager of crew services.

According to Mr Choo, SIA looks for cabin applicants 'who have that empathy with people.' He says, 'We try and see whether the person is cheerful, friendly, humble, because we don't want him or her to fly and then ... give ... [passengers] a bad time on board the airline.'

After SIA receives the job applications, successful candidates are shortlisted and then brought in for an interview. Applicants go through several rounds of interviews: first a group interview, an initial preliminary round where the interviewers look at the applicants' overall looks and personality and their spoken English. Typically, in that round, applicants will be asked to introduce, talk about themselves, and then read a passage for interviewers to assess their standard of English. In this initial round, interviewers look at applicants purely to determine whether they have that SIA look and overall personality. At this point, the interview is not very in-depth. If an applicant is successful in the initial round, he or she moves on to a more in-depth one-on-one interview. Here, the interviewer will ask more in-depth questions to try and assess whether applicants have the core values and competencies SIA desires in its cabin crew. If an applicant succeeds in this second round, he or she will then take a psychometric test. The result will be given to a senior management panel at the end of the process. This test complements the selection exercise in confirming the results of the in-depth interviews. After this test, applicants move on to what SIA calls a 'uniform check'. Applicants will actually put on the *sarong kebaya* (SIA's uniform for female cabin crew), and at this stage mostly female interviewers will assess how an applicant looks in the *sarong kebaya* in terms of posture, gait and general looks. Successful applicants in this round then move on to a water confidence test. At SIA's training pool at its flight safety wing, applicants, wearing a life jacket, are asked to jump from a three-metre height into the pool; since successful applicants will later as part of their training learn how to help passengers when doing an evacuation on water, SIA cannot have cabin crew with a fear of water or heights. The next round of interviews is what SIA calls the management round. Here, the senior vice president of cabin crew and one of the senior staff of cabin crew services interview all those who

have been shortlisted from all the earlier rounds. Here, it is a two-on-one interview. This round is again very in-depth, because SIA wants to ensure that it picks the right applicants. After this round, the final assessments will be made at a tea party with the successful applicants. Mr Choo Poh Leong says, 'We mix with them, we talk to them ... in case during the two-on-one round, we have certain doubts about them, ... or we may have made certain judgement about them [which] we like to reconfirm in the management tea party round. So once you get through that, then you are selected.' This rigorous selection process ensures with reasonable certainty that SIA hires the cabin crew it desires, and eliminates less suitable candidates. The result is that only 3-4% of applicants are hired in each recruitment drive.

### ***Extensive Investment in Training and Re-Training***

When a firm has good people in the first place, investments in training and re-training can then yield outstanding results. Service champions show a strong commitment in words, dollars and action towards training. As Schneider and Bowen put it: 'The combination of attracting a diverse and competent applicant pool, utilising effective techniques for hiring the most appropriate people from that pool, and then training the heck out of them would be gangbusters in any market.'<sup>5</sup>

Our interviews with SIA's senior management clearly show that SIA places great emphasis on training, so much so that it is one of its focal points in its HR and service excellence strategy. Ms Lam Seet Mui, senior manager for HR development, says, 'SIA invests huge numbers of dollars in infrastructure and technology but, ultimately, you need people to drive it. At SIA, we believe that people actually do make a difference, so the company has in place a very comprehensive and holistic approach to developing our human resources.'

Although training is regularly highlighted as a key component in the cycle of success for service firms,<sup>6</sup> SIA seems to put a relatively greater emphasis on the training of its frontline staff. For example, a newly recruited batch of cabin crew staff are required to go through an intensive four-month training course, which is considered to be the longest





SIA's pilots will only be allowed to take off and land upon completing 29 months of comprehensive training.

*Source: Courtesy of Singapore Airlines.*

and most comprehensive training programme in the airline industry,<sup>7</sup> being twice the industry average. In addition, flight crew are also required to go through 29 months of comprehensive 'online training' before being promoted to First Officer.<sup>8</sup>

The aim of SIA's training is to provide gracious service reflecting warmth and friendliness, while maintaining an image of authority and confidence in the passengers' minds. Each month, thousands of prospective cabin crew employees apply for the airline's rigorous and holistic course that encompasses not only safety and functional training, but also beauty tips, discussions on gourmet food and fine wines, and the art of conversation.<sup>9</sup> Mr Choo Poh Leong elaborates, 'During the four months of training, of course, there are several courses you go through. Typically, you'll have to go through modules like the SIA Way [in which] they teach you what we expect of you in SIA, passenger handling skills, food and beverage skills, service attributes, grooming. We pay a lot of attention to grooming and deportment. And then you also go through various safety training courses which are conducted by our flight safety department ... [where you learn] about first aid, ... safety equipment [and] procedures, evacuation procedures [and] how to handle unruly passengers. So it's quite a comprehensive training course and [after]

you pass the course, then you fly. And then you go on probation for six months ... But training doesn't stop there, there's continual training, so even operating crew are brought back down to the ground for further training.'

The development of soft skills is crucial. Mr Patrick Seow, senior rank trainer, comments, 'Making eye contact to us is very important, body language, how we should greet, the words we should use [are all very important].' Further, new recruits are being taught the importance of going the extra mile. Ms Lim Suet Kwee, senior rank trainer, adds, 'Apart from the standard procedures that you have to know, all the "extra miles" come from within. So we always tell ... [the staff], "If you think you can go the extra mile, you want to give more to make a very happy passenger, ... please go ahead and do it." We always say that we do not expect any form of reward or anything from our customers when we give excellent service. The only thing that is most pleasing to our ears is, you know, [when] someone getting off the plane ... [says to us] "thank you for your wonderful job, I want to come back and fly with you guys again. It's been a wonderful experience." This is the thing that we love to hear. We don't need anything else.'

Because of SIA's reputation for excellent service, coupled with its aim of continuous improvement, SIA's customers tend to have very high expectations and can be very demanding, which can put considerable pressure on its frontline staff. According to Ms Lim Suu Kuan, commercial training manager, SIA has a motto: 'If SIA can't do it for you, no other airline can ... The challenge is to help the staff deal with the difficult situations and take the brickbats'. Although SIA staff are very proud and protective of the company, the company still has to help them deal with the emotional turmoil of having to satisfy and even delight very demanding customers, without feeling that they are being taken advantage of.

According to Dr Cheong Choong Kong, 'to the company, training is forever and no one is too young to be trained, nor too old.' And Mr Yap Kim Wah, senior vice president of product and service, adds, 'We believe that there is no moment, regardless of how senior a staff is,

when you cannot learn something. So all of us, senior vice presidents included, are sent for training regularly. We all have a training path. You can always pick up something. If you have completed quite a number of programmes, then you go on sabbatical. You go and learn a language, do something new and refresh yourself.' Such continuous training and re-training have been vital to SIA's sustained service excellence, because it helps staff have an open mindset, accept change and development, and deliver the new services that SIA introduces regularly.



SIA's extensive training equips its frontline staff with the skills and attitude required for delivering warm, friendly as well as competent service.

*Source: Courtesy of Singapore Airlines.*

SIA's Training Centre was set up in January 1993 and consists of the Management Development Centre (MDC) plus four other training departments: Cabin Crew Training, Flight Crew Training, Commercial Training and IT Training. General management training is offered by MDC, which is under the purview of the HR Division. It provides executive and leadership programmes for staff from all parts of the company to generate effective administrators as well as visionary managers. This training is centralised so that engineers get to meet IT experts, marketing people, and so on. This purposeful mixing of its staff enhances mutual understanding and a more integrated and holistic view (and management) by all divisions. MDC's programs are divided into three broad areas:<sup>10</sup> firstly, management development programmes focusing on the changing priorities and skills required at various levels of the managerial hierarchy; secondly, management skill programmes which are functional or skill-related ranging from the art of negotiation to the learning of other cultures; and thirdly, self-development programmes in areas such as social etiquette.

SIA trains about 9,000 people a year and is well known for its dynamic and committed approach to training. Ms Lam Seet Mui says, 'About 70% of SIA's courses are in-house, and one of SIA's recent service excellence initiatives, called Transforming Customer Service (TCS), involves staff in five key operational areas - cabin crew, engineering, ground services, flight operations and sales support. To ensure that the TCS culture is promoted company-wide, it is also embedded into all management training. The MDC has put together a two-day management training programme entitled TCS Operational Areas Strategy Implementing Synergy (OASIS) ... The programme is also about building team spirit amongst our staff in key operational areas so that together, we will make the whole journey as pleasant and seamless as possible for our passengers. One has to realise that it is not just the ticketing or reservations people and the cabin crew who come into contact with our passengers. The pilots, station managers and station engineers have a role in customer service as well, because from time to time, they do come into contact with the passengers

... But TCS is not just about people. In TCS, there is the “40-30-30” rule – a holistic approach to people, processes (or procedures) and products. SIA focuses 40% of its resources on training and invigorating our people, 30% on the review of process and procedures, and 30% on creating new product and service ideas.’ SIA thus looks at the totality rather than focus on just one aspect of the customer experience, which enables the airline to deliver a service that is excellent in all aspects.

One of the main forces behind the success of SIA’s training and re-training programmes is its leadership, as well as the relationship management builds with staff. Mr Timothy Chua, product manager of the New Service Development Department, says, ‘I see myself first as a coach and second as a team player.’ Instead of positioning themselves as managers or superiors, SIA’s management staff often view themselves as mentors and coaches, guiding and imparting knowledge and experience to new recruits and new department members.

To assure its management understands the big picture, SIA trains all management staff through job rotation. Managers are rotated between departments every few years. This policy has a number of benefits. Managers acquire an understanding of the workings of more of the organisation than they would otherwise. It also promotes a corporate outlook, reduces inter-departmental disputes, and creates an appetite for change and innovation as people constantly bring fresh perspectives and new ideas to their new positions.

### ***Building High Performance Service Delivery Teams***

The nature of many services requires people to work effectively in teams, often across functions, if they want to deliver seamless customer service. Effective teams facilitate communication and knowledge sharing among team members, thus enabling the members to understand and learn from each other.

SIA understands the importance of teamwork in the delivery of service excellence, and has always worked hard to create esprit de corps among its cabin crew. SIA’s approach to developing teamwork

among its diverse group of cabin crew involves the 'team concept', which entails dividing the 6,600 crew into teams, small units with a team leader in charge of about 13 people. Members of the team will be rostered to fly together as much as possible. Flying together as a unit allows them to build camaraderie and get to know each other. The team leader also gets to know each member's strengths and weaknesses well, and will become their mentor and their counsellor, someone whom they can turn to if they need help or advice. The 'check trainers' oversee 12 or 13 teams and fly with them whenever possible, not only to inspect their performance, but also to help the teams develop.

Senior vice president of the Flight Crew Department Mr Sim Kay Wee says, 'The interaction within each of the teams is very strong. As a result, when team leaders do a staff appraisal, they really know the staff. You would be amazed how meticulous and detailed each staff record is, even though there are 6,600 of them. We can pinpoint any staff's strengths and weaknesses easily. So, in this way, we have good control, and through the control, we can ensure that the crew deliver on what they promise ... If there are problems, we will know about them and we can send them for re-training. Those who are good will be selected for promotion.'

Mr Toh Giam Ming, senior manager of the Crew Performance Department, adds, 'What is good about the team concept is that despite the huge number of crew, people can relate to a team and have a sense of belonging. They can say, "This is my team." And they are put together for one to two years and rostered together for about 60-70% of the time, so they do fly together quite a fair bit ... New people will find that they have fewer problems adjusting to the flying career, no matter what their background is, because once you get familiar with the team, there will be support and guidance on how to do things.' Mr Choo Poh Leong adds, 'The individual, you see, is not a digit or a staff number, because if you don't have team-flying, you have 6,000-odd people; it can be difficult for you to really know a particular person.'

Even when members of the usual team do not fly together, the team spirit is still alive. Mr Patrick Seow notes, 'As far as we are concerned, on every flight, we work as a team whether you are from "my" team or not. Whatever team you come from, you have to work as a team because it's how we get things done. We cannot work individually, there is no way we can do that.' Further, teamwork extends much beyond the flight itself, 'we see that the crew on the flight is a team, and we are also a part of a bigger team. We have to work and have good relationships with the ground services, the engineering ... Because we are a team among all divisions, that's why we are successful.'

SIA also has a lot of seemingly unrelated activities in the cabin crew division. For example, there is a committee called the Performing Arts Circle made up of talented employees with an interest in the arts. During the biennial Cabin Crew Gala Dinner in 2004, SIA cabin crew raised over half a million dollars for charity.<sup>11</sup> In addition to the Performing Arts



Extracurricular activities give SIA crew members the opportunity to do charity work while fostering team spirit.

Source: <http://www.singaporeair.com>, accessed on 3 March 2005.



Circle, SIA also has a gourmet circle, language circles (such as a German and French speaking group), and even sports circles (such as football and tennis teams). As Mr Sim Kay Wee notes, 'SIA believes that all these things really encourage camaraderie and teamwork.'

### ***Empowerment of the Frontline Staff to Control Quality***

Over time, the soft skills of flight crew and other service personnel get honed, leading to service excellence that is difficult to replicate, not only in terms of how the service is delivered, but also in terms of the mindset that supports this delivery. Ms Lim Suet Kwee says, 'Through the years, we have learnt how to anticipate the [needs of our] customers ... [by watching them as we walk] through the cabin. Sometimes they nod their head a little bit or move their hands a little bit and somehow, from the corner of our eye, we notice that and we just walk over to them and ask, "Can I help you, sir? Is there something I can do for you?" ... You never know if someone needs some help somewhere. And if we can help, we do. So we try, sometimes we crack our heads a little bit to try and help a passenger solve some problems that he or she may have encountered somewhere. And if we can't do that, that's when we start to liaise with the ground staff anywhere else in the world to take over the problem from us so that this person may be helped.' This customer-oriented mindset contrasts markedly with the mindset of flight crew from many other airlines, who are neither as engaged nor display too much interest or care in their passengers and any problems they might be facing. In fact the media regularly reports service lapses and mistreated customers in the airline industry.

Virtually all outstanding service firms have legendary stories of employees who recovered failed service transactions, walked the extra mile to make a customer's day, or averted some kind of disaster for a client. Mr Toh Giam Ming shares two such recent stories about SIA staff: 'This particular wheelchair passenger in her eighties was very ill and suffering from arthritis ... She was travelling from Singapore to Brisbane. ... What happened was that this stewardess found the elderly passenger gasping for air due to crippling pain. [The stewardess] used her personal



hotwater bag as a warm compress to relieve the passenger's pain, and then she knelt beside her to massage her [swollen] legs and feet for 45 minutes ... The stewardess stayed with the passenger and offered her a new pair of flight support stockings for her swollen feet ... without asking her to pay for it. Basically she cared for her throughout the seven- to eight-hour trip. This old lady was so grateful when she got back to Brisbane ... her son was so thankful that he called the hotel where the crew were staying to try and track down this particular stewardess to thank her personally. This was followed up with a letter to us. I don't know if training is part of it, or if it was a personal thing. You can't find people to do this just purely from training, I think. We find the right people, give them the right support, give them the right training, which enable them to do this kind of things.' Such actions are part of the culture at SIA. According to Mr Choo Poh Leong, the crew members 'are very proud to be part of the SIA team, very proud of the tradition and very proud that SIA is regarded as a company that gives excellent care to customers. So they want to live up to that.'

Employees have to feel empowered in order to engage in such discretionary efforts. Employee self-direction has become increasingly important, especially in service firms, because frontline staff frequently operate on their own, face-to-face with their customers, and it tends to be difficult and also unproductive for managers to constantly closely monitor their actions.<sup>12</sup> Mr Patrick Seow says, 'The most important thing is that crew must have situational awareness ... We don't have a set procedure for each and every situation that we encounter. We say "what would I like to see happen if I were the passenger?" So the crew will look at it from that angle.'

However, one of the biggest issues many service organisations face when it comes to empowerment is that they talk a lot about empowerment without taking concrete actions to achieve it. According to SIA's senior management, staff must have a clear idea of what is within their authority, and it is the responsibility of management to articulate and make it clear what they mean by empowerment. In SIA's case,

for example, whereas the usual baggage allowance is 20 kg, frontline staff are empowered to increase the baggage allowance to 25 kg, 30 kg and even 50 kg, as long as the staff feel that it is a right decision. However, such a decision by a frontline staff must be recorded and justified. Mr Yap Kim Wah elaborates, 'For a department to implement the empowerment guidelines, it should give all its staff empowerment two levels up. If you are a clerk, you should know what your officer and your senior officer could do. If these two guys are not around, then go up to their limit.' Empowerment of the frontline staff is especially important during service recovery processes. Mr Timothy Chua comments, 'We strive for instantaneous service recovery. I think that is one of SIA's biggest differentiators. When something goes wrong, we react quickly, and I believe we generally do it in a very fair way.'

The empowerment of the frontline staff to control quality is consciously considered in SIA's innovation processes. According to Mr Sim Kim Chui, vice president of product innovation, cabin crew service is the key strength of SIA, and when developing new services this fact is taken into account so that these new services can be developed in a way that is as much as possible synergistic with SIA's famous inflight service. Further, cabin crew contribute to cross-functional task forces to address specific challenges, and can participate in processes such as the 'innovation lab', where employees from all departments get transferred for a year to work full-time on generating ideas and developing and testing innovations.

### ***Motivating People through Rewards and Recognition***

Once a firm has hired the right people, trained them well, empowered them and organised them in effective service delivery teams, how can it ensure that they will deliver service excellence? Staff performance is a function of not only ability but also motivation. Reward systems are the key to motivation, and service staff must receive the message that they will be recognised and rewarded for providing quality service. Motivating and rewarding strong service performers is also one of the most effective ways of retaining them.

Understanding that many service businesses fail because they do not utilise the full range of available rewards effectively, SIA employs several forms of reward, including interesting and varied job content, symbolic forms of recognition and performance-based share options. SIA recently introduced equity-linked incentives for staff, and linked more variable components of pay to the individual staff contribution as well as to the company's financial performance.<sup>13</sup> SIA's employees also continuously receive praise and motivation through the international accolades for excellence that have been awarded to the airline over the years, which include several 'best airline', 'best cabin crew service' and 'Asia's most admired company' awards.

To further spur the desire of its employees to deliver excellent service, the company believes in effective communication. Corporate-wide business meetings and briefings are held regularly to keep staff informed of the latest developments. Corporate newsletters and circulars help to promote information sharing. Interaction between staff and management is encouraged through regular staff meetings. As Ms Lim Suu Kuan notes, 'It's about communication. For example, if we add a new service at check-in, we will talk to the people involved before, during and after implementation. We will discuss the importance and the value of it, and make sure everyone is aware of what we are doing and why. It helps to give staff pride in what they do.' Communication is also important in celebrating service excellence. According to Ms Lim Suu Kuan, 'the company uses other non-financial rewards to encourage good service. The newsletters are used to share and recognise good service.' Ms Lam Seet Mui adds, 'We try to recognise members of staff who go the extra mile. Every year there is the Deputy Chairman's Award. This is a way for the top managers to show appreciation.' Sim Kay Wee also comments on the importance of recognition at SIA: 'We know that a pat on the back, a good ceremony, photographs and write-ups in the newsletters can be more motivating than mere financial rewards, hence we put in a lot of effort to ensure that heroes and heroines are recognised for their commitment and dedication.' SIA's performance management system is quite sophisticated and comprehensive; an outline of this

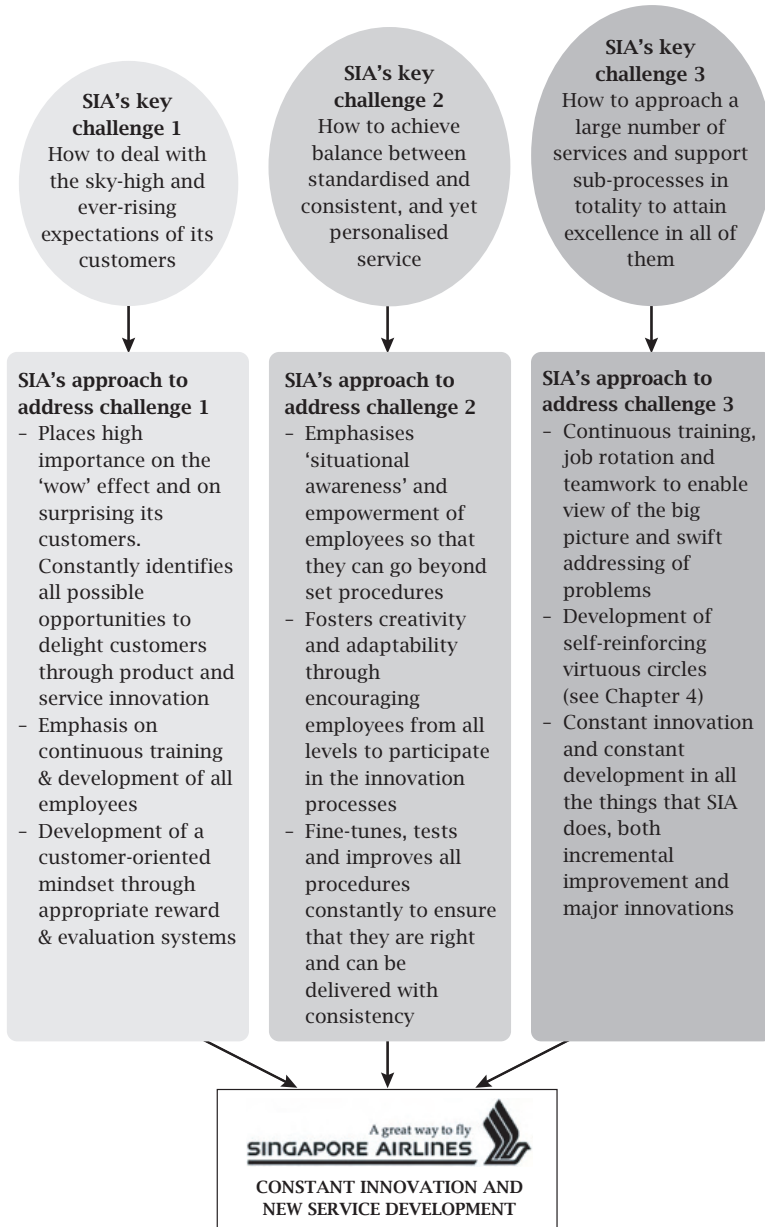
system with regard to cabin crew, supplied by SIA, is described in the appendix.

In response to our query of what makes SIA cabin crew so special that other carriers try to imitate it, Mr Choo notes, 'Here, there are some intangibles ... I think what makes it special is a combination of many things. Because first, you've got to ensure you find the right people for the job you want and then your training matters a great deal; the way you nurture them, the way you monitor them and the way you reward them. It need not necessarily be money, the recognition you give, and I think another very important ingredient is the overall culture of cabin crew, and the fact that you have people who really are very proud of the tradition. A lot of our senior people, and it rubs off on the junior crew as well, take pride in that they have helped build up the airline; they are very proud of it and they want to ensure that it remains that way.' Mr Toh adds, 'Amongst other contributing factors is a very ingrained service culture not just among the cabin crew but in the whole company, ... I think it goes back to 35 years ago when the airline was set up. Very, very strong service culture throughout the whole organisation, very strong commitment from top management; we take every complaint seriously ... We react to every complaint ... we try to learn from the feedback, it's a never-ending process.'

### ***Dealing With Service Delivery Challenges***

The combined effect of the strategic HR management processes discussed above is that SIA manages to effectively address three key service-related challenges: how to deal with the sky-high and ever-rising expectations of its customers; how to achieve balance between standardised and consistent, yet personalised service; and how to approach a large number of services and support sub-processes in totality to attain excellence in all of them. We discussed these challenges in Chapter 5 from the perspective of innovation. Figure 6.2 summarises the challenges and how SIA deals with them, additionally drawing from the discussion in this chapter on issues such as people training and development, and customer-oriented mindset.

**Figure 6.2**  
**How SIA deals with three key challenges of service delivery**



## **Cost-Cutting Measures Leading to Industrial Relations Challenges**

The cost-cutting measures necessitated by the company's first-ever quarterly loss of S\$312 million in the quarter ending July 2003 brought about by the SARS (severe acute respiratory syndrome) period and the challenges posed by the market entry of a multitude of low cost carriers across Asia have exerted pressure on SIA. On 19 June 2003, SIA's CEO Chew Choon Seng announced the retrenchment of 414 Singapore-based employees (1.5% of the company's staff), comprising office staff, airport workers and engineering personnel. SIA initiated the retrenchment exercise as a last resort in response to the difficult operating environment, following earlier moves towards stringent cost management that included deferring discretionary spending, freezing recruitment, asking management to accept wage cuts of up to 27.5%, and introducing compulsory no-pay leave for cabin crew.<sup>14</sup> Mr Chew Choon Seng announced, 'We have always said that we would consider retrenchment as a measure of last resort. I am sad to say that we are now at that point. It is unfortunate, but there is no alternative if we are to ensure that the company survives this downturn and to position ourselves to compete effectively in the marketplace of the future.'

In addition to retrenchments, SIA staff were asked to accept pay cuts and take unpaid leave. What followed was a public debate of labour-management positions in the pages of the *Straits Times*, Singapore's major daily newspaper. A survey of three of the four SIA unions showed lower staff morale and a perceived change in the 'family atmosphere', for which the carrier was known, to one of 'accountability' in which workers feared losing their jobs.<sup>15</sup> Tension between pilots and the airline escalated after pay cuts were implemented in June 2003, and the situation worsened when the pay cuts continued after SIA posted a profit of S\$306 million in the following quarter. Leaders of three unions – SIA Staff Union (SIASU), the Singapore Airport Terminal Services Workers Union (SATSWU) and the SIA Engineering Company Engineers and Executives Union (SEEU) – were asked to provide feedback on SIA labour-management relations and several areas that needed to be addressed were cited.<sup>16</sup>

Even though SIA's labour productivity is high and rising (as noted in Chapter 3), it will be a challenging balancing act to keep raising SIA's already high labour productivity while at the same time retaining and retooling its hitherto highly successful HR management. While we were impressed by SIA's rapid response to the crises, the stringent cost-cutting measures that were required to cope with these challenges inevitably affected morale with the potential to challenge the company's service-oriented culture, despite SIA's efforts to offer support services to retrenched staff such as training programmes and workshops that included courses on managing emotions, financial planning and career guidance.<sup>17</sup>

SIA has recognised the tensions raised by the cost-cutting measures, and has taken steps to restore morale and smooth relations between unions and management. Managerial and supervisory staff have been advised to be more sensitive to the needs of their staff, and top management has been receiving regular feedback to keep apprised of the situation on the ground.<sup>18</sup> Further, two organisational climate surveys were conducted (in 2005 and 2006) to gain understanding of employee perceptions on various organisational areas and what needs to be addressed; two workshops were held in early 2007 between the SIA unions, management and the national trade union congress (NTUC), which identified several initiatives aiming to improve the SIA group's competitiveness as well as staff welfare; and in April 2007 the Singapore Airlines Group Union-Management Partnership was launched as a way of sustaining attention to these issues.<sup>19</sup>

In conclusion, for over three-and-a-half decades, SIA has managed to achieve what many others in the aviation industry can only dream of: cost-effective service excellence that is reinforced by effective HR management and a positive company culture and image and accompanied by superior and stable financial performance. In this chapter, we discussed the role of SIA's leadership and the five key elements constituting SIA's HR management (that is, stringent selection and hiring of people, followed by extensive training and re-training of employees, formation of successful service delivery teams, empowerment of frontline staff, and employee

motivation), which helped SIA to build and sustain service excellence at levels consistently above the competition. We also outlined how these processes enable SIA to deal with three central challenges of service delivery. The recent crises, the emergence of budget carriers, security concerns and high oil prices mean that SIA needs to sustain its focus on achieving cost-effective service excellence and keep re-examining and enhancing its recipe for success.



## APPENDIX

### Cabin Crew Performance Management (PM) Questions

1. How is the cabin crew area structured and how does this influence the PM system?

Our crew are formed into 36 groups known as wards, each headed by a ward leader who monitors the performance of the crew. The ward leader, in turn, reports to a Cabin Crew Executive (CCE). Each CCE has six ward leaders under his or her charge and also oversees other aspects of crew administration/management such as communication, welfare, etc.

2. Describe the performance management tool/process that you use to monitor your cabin crew.

The performance of a crew member is measured through 'on-board assessments' (OBA) carried out by a more senior crew member on the same flight. Elements assessed in OBA are:

- a) **Image** – on grooming and uniform turnout
- b) **Service Orientation** – crew's interaction and passenger handling capabilities
- c) **Product Knowledge and Job Skills** – crew's performance with the various bar and meal services and crew's familiarity with procedures/job and product knowledge
- d) **Safety and Security** – knowledge and adherence to safety and security procedures
- e) **Work Relationship** – to assess crew's general attitude and teamwork/team-spirit
- f) **People Management Skills** – supervisory and man-management skills, development of junior crew; ability to plan and co-ordinate the various services
- g) **Pre-Flight Session** – Effectiveness of the pre-flight briefing

*\*\*Sections f & g are only applicable to the crew-in-charge*

### 3. How frequently do the assessments occur?

It varies from rank to rank and is tracked over a Financial Year (FY).

- a) **New Crew on Probation** – six OBAs during the six-month probation period

In addition, there is also a 'closed assessment', which is carried out in conjunction with the OBA. In the closed assessment, we look at crew's attitude, interest towards the job and biases/apprehension towards certain passengers

- b) **Flight Steward/Stewardess** – minimum four per FY

- c) **Supervisory Crew** – three to four times per FY

- d) **Crew-in-Charge** – twice per FY

### 4. What level of feedback is given to the individual – at the time of checks and cumulatively, that is, during the quarterly review, annual review, etc.? How do you manage a good quality of interaction rather than just making sure the meeting happens?

The OBA is an open appraisal and the appraiser discusses the strengths and weaknesses with the appraisee. Appraisee views and endorses the OBA. All returned OBAs are scanned and flagged out for the ward leader's monitoring if the scores fall outside our pre-determined thresholds. If necessary, the ward leader will go on the appraisees' flight to check out the crew personally. The ward leader can (and often does) call in the crew for a discussion at any time if deemed necessary.

Concerted effort is made for the ward leader to fly with each crew member in his ward at least once a year. The ward leader will take this opportunity to review/discuss the records of the crew. In addition, the ward leader is required to carry out an annual assessment of all crew in his ward before finalising the annual appraisal score.

The annual appraisal is weighted as follows:

Elements	Weightage %
OBA	60
Discipline	15
Attendance Record	10
Passenger Feedback	10
Ward Leader Assessments	5

5. What degree of alignment is there between the company values and the areas assessed?

The company's core values are embedded in the elements assessed in the OBAs, such as service orientation & product knowledge (pursuit of excellence), safety & security (safety) and work relationship & people management (teamwork).

6. How do you train assessors and what level of on-going training occurs to ensure rater consistency?

All crew promoted to supervisory rank have to attend a one-day appraisal workshop where they are taught the basics of assessment and coached on the use of the OBA form. There's also an on-going process to review all OBAs that have been improperly done and pick out appraisers who habitually give extreme ratings for follow-up by the ward leaders.

# Praise for the book

This book is unique since it covers different areas such as innovation processes, service quality control, human resource management and strategy in action which together contribute to exceptional performance. To learn from excellent business results you need to understand the game behind the success, the rules of the game, the strategies and tactics chosen. The authors' findings from studying Singapore Airlines are presented in an inspiring and pedagogic way. The book should be read by all managers and leaders in service organisations with an interest in understanding the prerequisites for cost-effective service excellence.

**Professor Bo Edvardsson, Director, Service Research Center – CTF; and editor of the *International Journal of Service Industry Management***

How is it possible that Singapore Airlines (SIA) is very successful in pursuing seemingly incompatible strategies? On the one hand, the company is a quality leader; on the other hand, it is able to produce its excellent services so efficiently that it is highly profitable. Loizos Heracleous, Jochen Wirtz and Nitin Pangarkar answer this intriguing question in a very impressive way. Their book is much more than just a best-practice description. It convinces through an excellent and systematic diagnostic analysis. The essential and self-reinforcing components of a 'cost-effective service excellence' are identified precisely. Besides, it is pointed out exactly which general lessons can be learned from SIA. The authors don't give quick 'how to' recommendations. Instead, they succeed in brilliantly showing which questions need to be answered for a company to be successful in tough markets. This book is a 'must' for all ambitious managers who want to compare themselves with the best.

**Professor Bernd Stauss, Chair of Services Management, Ingolstadt School of Management, Germany**

Since 1990 I have flown more than one million miles on Singapore Airlines. The quality of service is consistently outstanding. Where else can you find such warm, professional and responsive service in a brutally challenging industry? Singapore Airlines knows the secrets to delivering spectacular service and superior profits. Finally, this book reveals the inside secrets of 'cost-effective service excellence'. Great reading, great service!

**Ron Kaufman, bestselling author, *UP Your Service!*®**

There is probably no disputing the statement that the Singapore Airlines brand name is associated primarily with service excellence and a deep customer focus. In telling the Singapore Airlines story, this book goes under the surface to give the reader insights into how and why the company uses service excellence as a strategic lever, and more importantly how they execute this strategy at various customer touch points. While the story is told from the Singapore Airlines perspective, its lessons and intriguing insights ring loud for any service provider in any industry.

**Professor Dilip Soman, Corus Professor of Strategy and Professor of Marketing, Rotman School of Management, University of Toronto**

Very refreshing ... A strategic, analytical and yet pragmatic insight into how a world-class service organisation translates a complex multi-faceted strategy into a clear, effective success story. A must read for senior management and entrepreneurs.

**Nolan H.B. Tan, Chief Executive, Service Quality (SQ) Centre, Singapore**

Managers who so far have kept a black bottom line through productivity gains experience that this route is running out of date. Being able to learn how Singapore Airlines manages to make healthy profits year in and out despite hyper-competition will make a welcome read. In this

book, Heracleous, Wirtz and Pangarkar document and describe the five pillars of Singapore's service delivery system which offers unique value to its customers. It is my prediction that managers capable of developing a core competence of cost-effective service excellence and the cultural values to support it will be the winners in the new decade. While the recipe is simple its execution is hard. This book will provide you with a jumpstart in the race.

**Tor W. Andreassen, Professor of Marketing, Norwegian School of Management**

This book delivers an independent and detailed assessment of one of the world's best service organisations. Using a blend of theory and practice the authors provide a deep insight into the reasons for the success of SIA.

**Professor Robert Johnston, Warwick Business School**

This is a thoughtful book describing and analysing the success story of a corporate icon in Singapore. It reveals a spectrum of hidden business practices that cause travellers to feel so good that they have chosen to fly with SIA. And it is also a treasure chest of trade secrets of how to build a great company. What an exciting read! I recommend it to all high-flying executives.

**Dr Tan Tay Keong, Former Executive Director, Singapore International Foundation**

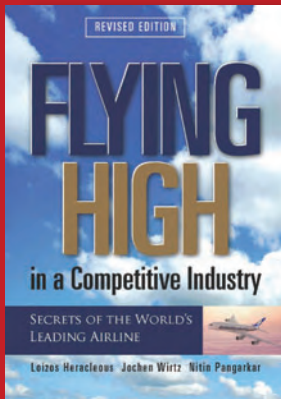
In their lucid and insightful account of what makes Singapore Airlines such a distinctive company, Heracleous, Wirtz and Pangarkar offer a salutary reminder that there are no such things as industries that are 'good' or 'bad' or economic sectors that are 'old' or 'new'. At best such characterisations are oversimplifications of the basic economic structures of an industry. In contrast, the story of Singapore Airlines adds further proof to the thesis that what ultimately matters is whether companies

can marshal their resources effectively and efficiently to create value for their shareholders, their customers and their employees. The 'non-secret' of success: A clear strategy realised through seamless execution. As a former management consultant and management practitioner in a 'very old economy' sector, I commend this practical, no-nonsense book.

**Stavros Yiannouka, Vice Dean, Lee Kuan Yew School of Public Policy and former senior consultant with McKinsey & Company**

In the rough and tumble world of cut-throat airline competition, one company stands out as the undisputed global leader in almost every measurable category of performance year after year. That company is Singapore Airlines and this exceptional book tells you the story of exactly how they do it. The last chapter, summarising strategic insights and lessons learned, is both an invaluable guide to managers seeking to benchmark the 'best of the best', as well as a major contribution to thinking about business strategy, execution and performance excellence.

**Robert J. Marshak, Ph.D., Adjunct Professor-in-Residence, American University, Washington, DC, USA; and Former Associate Editor of the *Journal of Applied Behavioral Science***



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