The Hub of the World

Emirates is one of the fastest-growing and most profitable airlines in the world. Yet the secret of its success is largely unknown outside the Arab world. **Donald N. Sull, Sumantra Ghoshal** and **Felipe Monteiro** unveil some of the mystery that shrouds a national carrier that enjoys no state handouts – and treats its employees as a giant family.

Less than two decades after its foundation, Emirates placed the biggest order in civil aviation history, for $19 billion worth of aircraft. This at a time when the industry was facing a global slump, which Emirates defied with a massive 74 per cent increase in net profits to $429 million in the financial year ending April 2004. Despite 9/11, two Gulf wars and escalating fuel costs, Emirates has enjoyed a 25 per cent annual growth rate since its founding in 1985 and has not posted a loss in the past eighteen years. In 2004, the airline was among the twenty largest global carriers in terms of passenger miles flown.

policy granted foreign airlines the same access and privileges as Emirates. Competing under Dubai's open skies policy from its onset toughened the fledgling carrier, and according to Flanagan "has helped us to become a carrier which can compete with the best of the world's airlines".

Much of Emirates' success is due to the Al Maktoum's sheikhdom's ambitious strategy of re-inventing Dubai as a modern hub of tourism and commerce in the Middle East. Almost entirely newly built – buildings over 20 years old are bought for their land value, ripped down and re-built ten times the size – Dubai has strategically re-invented itself

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When Airbus delivers its 555-passenger A380 aircraft, Emirates will take delivery of 45 of the double-decker planes, by far the largest order to date totaling nearly as many A380s as Lufthansa (15), Qantas (12), Singapore Airlines (10) and Air France (10) combined. Most impressively, Emirates has achieved this enviable track record without direct government-funding, although the airline has benefited from the farsighted and ambitious leadership of the Al Maktoum ruling family which has led Dubai's transformation from a small principality to one of the most vibrant city-states in the world.

Preparing for takeoff

Few would have predicted Emirates' success in 1985, when the airline began with a fleet of two borrowed aircraft. Emirates was born out of crisis, when Gulf Air refused to increase flights to and from Dubai unless the government protected the carrier for its long-haul services. Rather than persuade Gulf Air to change its mind, and knowing how dependent Dubai was on air travel for its burgeoning economy, Sheikh Mohammed bin Rashid Al-Maktoum, chairman of the Emirates Group, established the Emirates airline with an investment of $10 million, a trifling sum by the standards of international airlines.

Right from the start, Emirates did things differently. Sheikh Mohammed instructed his new managing director Maurice Flanagan: "Forget about protection against competition. That's not the way Dubai works." Emirates began operations in October of the same year. In contrast to many other national airlines, Emirates never received direct subsidies or relied on government handouts. Dubai's open skies

as a high quality international tourism destination. The creation of modern Dubai (one of seven emirates that together constitute the United Arab Emirates) provided an ingenious solution to the problem of Dubai's limited oil reserves, which are fast running out. In 2000, visitors exceeded 3 million. By 2010, the Dubai government expects to increase the number of visitors to 15 million per year, with another 22 million travellers passing through Dubai in transit. Emirates plans to both contribute to and benefit from Dubai's growth.

Defying conventional wisdom

Emirates' formula for success cannot be found in any management book. Its creativity in seizing opportunities and solving problems as they arise is the company's strength. "We don't have to do what other airlines do," Flanagan observes, "We do what seems right for us." Gary Chapman, president of affiliated company Dnata, adds, "We are a multicultural environment, with different nationalities, cultures, tribes, kingdoms, so you are always looking at what will keep that team motivated and working well. We sometimes leave things that functionally don't quite fit, but they work – so why disturb it?"

Flexible family organisation. Emirates' success has emerged from taking a non-traditional management approach, rather than relying on the industry's conventional wisdom. Emirates is run like a family with, for example, an informal and entrepreneurial spirit. At the head of the family sits Sheikh Ahmed Bin Saeed Al-Maktoum. The family culture allows the airline great structural flexibility. "We are organised around the strengths of individuals," said Gary Chapman, "rather than being constrained by a rigid organisational structure." In Dubai, employees generally leave their doors open, according to Abdulaziz Al Ali, executive vice president human resources, "much more than you typically would in the West, Arabs don't have an issue with people coming in, saying hello and wanting to do business face to face. They don't care as much as European people do about privacy."

Emirates resisted its external auditors' advice to introduce a board of non-executive directors. Just because that governance structure was common among other carriers, Emirates did not feel compelled to follow suit. "We don't have a board – we have an open agenda," says Flanagan. "We are a 30-people group, we go round the table, we discuss whatever comes up, we argue. I have other meetings just with the chief directors. Then the chief directors and myself meet with Sheikh Ahmed once a week and the big stuff comes up. Then I meet several times with Sheikh Ahmed."

Fluid strategy process. The company's top management team also follows a fluid approach to strategy that resembles a start-up more than a traditional airline, and allows them to make decisions quickly. "One okay from Sheikh Ahmed is enough," says Flanagan. "This has to do with the Dubai style. Obviously, you must have created the confidence to get into that situation. We have weekly meetings, and the ability to go to Sheikh Ahmed or to the senior management group and get a decision very quickly is the key."

The fluid decision making, however, is firmly grounded in detailed analysis. Dermot Mannion, president of group support services, takes up the point. "I don't agree with the classic business school view that senior managers should focus on the big picture," he declares. "I think we should focus on the detail. The big picture is formed by small details. Large companies have problems because nobody is focusing on such details." Mannion believes this "big picture" thinking is a recipe for disaster. He also questions the conventional wisdom that airlines are destined to become unprofitable as they grow. "I dispute that volume brings complexity. Diversity brings complexity – new markets don't. For example, in the US we will have challenges but the basic business process is not complex."

Go it alone. And unlike most other airlines, Emirates does not see the business case for joining an alliance. According to Maurice Flanagan: "We don't have to do what other airlines do. We do what seems right for us. Small airlines make alliances for the same reason a kid might join a gang – to avoid getting beaten up by the other gangs." Such alliances tend to be defensive and Emirates doesn't need them. "We have code shares with members of all the major alliances," he says, "and these work very well."

Multi-cultural culture. A cultural gulf, as well as a geographical one, separates Emirates from its Western competitors. Emirates Group has more than 90 different nationalities among its 22,500 employees, with expatriates accounting for nearly 80 per cent of all employees. Some 95 per cent of Dubai's population is not local. The challenges of managing across cultures are immense. But it is the difference in culture that oils the company's wheels. "Emirates is the United Nations that actually works," says Mike Simon, senior vice president of corporate communications. "It's because we have the majority of the staff based in Dubai. They feel and live Emirates all day."

Emirates' strategy of hiring from around the world confers economic advantages as well. The airline pegs staff salaries to the level common in their home country, which is often lower than wage rates in Western Europe or the United States. Employees are attracted not only by Emirates' reputation as an employer of choice, but also by the absence of income tax for Dubai residents. These factors allow Emirates to maintain staff costs at approximately two-thirds the level incurred by many large carriers.

The airline's Dubai base also presents cultural challenges. Central to this is an emphasis on increasing the number of UAE nationals in the company – currently they comprise less than 5 per cent of all employees, although the number exceeded 25 per cent in the management ranks. "The nature of cabin crew jobs means that many United Arab Emirates' nationals do not want to apply because they don't want to serve alcohol," says Abdulaziz Al Ali. "Some nationals also don't want to work in shifts, which is necessary for a 24-hour operation like ours. Female retention is particularly challenging."

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Scaling for take off

In the late 1980s, Emirates virtually doubled in size every three years. Between 1989 and 1991, the company added eight new destinations each year. Suddenly, the possibilities really opened up. In 1994, the company won the Executive Travel "Airline of the Year" award. "We broke through from almost being nothing to be recognised as one of the world's best," says Clive Reed. A delegation arrived from Virgin Atlantic (which won the same prize in 1991). "You must be doing something right – and we want to share information with you," Virgin declared. Reed had lunch with Sir Richard Branson and shared some of their initiatives. "You could →

Picture Caption

feel the atmosphere, the buzz and the excitement. We took our cabin crew philosophy from Virgin. And they took on board our ideas about communicating vision effectively to front line staff."

It was when the company started to expand into Europe and the Far East that it encountered greater challenges. "We faced many cross-cultural influences," acknowledges Clive Reed, vice president of training and development. "We brought people to Dubai, trained them and sent them back to their stations. For the first couple of years we could do little more than get them ready for operation start-up. For many, it remained their only visit to Dubai for some time. The growth of the airline was so rapid that the infrastructure could not support it."

After 10 years of operation, the diversity of Emirates staff had increased significantly. To ensure reliability of service and improve efficiency, management focused on improving productivity and put better measurement systems in place. A mandatory finance course was introduced, to ensure all staff understood the financial implications of their actions.

And the company published its first Annual Report in 1994. It did not need to, as it was a privately owned company. But this fitted in with the family ethos, which also explains the decision to share financial information with staff. "Whilst this was well-received," says Gary Chapman, president of the affiliated company, Dnata, "it also meant that if things went wrong we would have to tell the staff". "We have never changed for the sake of change," Chapman adds, but rather limited changes to those required to overcome the growing pains associated with rapid growth. Emirates continued to grow significantly in the late 1990s, with ongoing but less dramatic reorganisations in the group.

Surviving the perfect storm

By not doing what other airlines do, Emirates has carved a niche for itself as a profitable, successful player that writes its own script, rather than copying what others do. The greatest test of the airline's business model came in 2001 when Emirates, along with all other carriers, faced one of the most severe crises in the history of the airline industry – the September 11 terrorist attacks. But that was not the only challenge. The industry was engulfed by the perfect storm of a weak global economy, the 9/11 attacks, the war in Iraq and SARS in rapid succession. The global scheduled airline industry made net losses of $31 billion in the period of 2001-2003, and by some estimates, the airline industry lost the equivalent of the total profit made by all carriers since 1945 in those three years.

Worldwide, many airlines faced bankruptcy and a few succumbed. Delta Airlines hovered on the brink of insolvency and US Airways threatened a second bankruptcy unless labour unions granted immediate concessions. Even United Airlines, the world's second largest carrier, faced an uncertain future after its request for a critical federal loan guarantee was denied. In Europe, Alitalia was dependent on a €400 million emergency state loan. Swissair closed. Air France and Lufthansa scaled back their short-term growth forecasts, expecting reduced demand in the future. And in the UK, British Airways launched a major cost-cutting initiative with the aim of cutting £300 million in employee costs by March 2006.

Emirates was not immune to 9/11 – seat factors and profitability fell, but Sheikh Ahmed and his team kept their nerve. After the attacks, Sheikh Ahmed emailed all employees, telling them: "We are a family, and I want to address you as the head of the family. I want to reassure you that your safety and well-being is our paramount concern. My message is that this is the time to prove that Emirates Group really is the best multinational team in the travel business. Show respect to each other, and we will emerge an even stronger team."

And Emirates' unique way of working appears to have paid off. In spite of the crisis in the industry, Emirates remained profitable. It did not reduce its workforce, as many other airlines did. "It would have been forgivable to batten down the hatches," Sheikh Ahmed explains. "We could have slashed costs by announcing large numbers of redundancies as several other carriers did, and forget about our prognosis for another profitable year. But we did not. We did not make a single employee redundant, and paid salary increments in full."

The crisis in the global airline industry proved an aircraft buying opportunity for Emirates, as it was one of the few major airlines healthy enough to make large commitments to new aircraft. Since 2001, Emirates has become renowned for placing eyebrow-raising orders for new aircraft. At an international air show just two months after the terrorist attacks, Emirates announced orders for $15 billion worth of new aircraft, including 22 Airbus 380 Super Jumbos (with 10 options), 25 Boeing 777s, and eight Airbus 340-600s, in addition to the six A340-500 very long range Airbuses (with 10 options) already on order. As a result of these purchases, Emirates operates one of the youngest fleets in the airline industry — with an aircraft average age under four years old —compared with an industry average exceeding 12 years.

Challenges going forward

In 2004, traffic volumes finally recovered to pre-9/11 levels. But just as the industry appeared to be turning the corner, it was hit by a crippling surge in oil prices. Emirates weathered the storm once more. In the year up to April 2004 Emirates carried 10.4 million passengers – nearly two million more than the preceding fiscal year. Profit was up by a massive 74 per cent. And Emirates successfully concluded a $500 million Eurobond issue in March 2004. Oversubscribed by 25 per cent, more than half the investment came from outside the UAE.

Betting on Dubai. Emirates' management and employees share the belief that Dubai – and the company – will continue to prosper, whatever happens in the airline industry. At the beginning of 2004 it operated 500 flights every week out of Dubai. Its network is expanding constantly, with a direct flight to New York City added in June 2004. After almost two decades of steady growth, Emirates controls 32 per cent of all flight movements in and out of Dubai International Airport, flying to more than 70 destinations in five continents. Emirates' executives expect the total number of tourists visiting Dubai to reach 15 million per year by 2010. They want to capture 70 per cent of the flights through Dubai airport by this date – up from the 60 per cent they were responsible for in 2003.

Global hub and spoke. The challenge now is to make Emirates larger than Dubai. The success of one feeds off the other – but "Dubai alone is not big enough to sustain Emirates," according to Dermot Mannion, president of group support services. "We are linked to Dubai and if Dubai is doing well and growing that is great. But the airline is bigger. We move passengers west-east, east-west, north-south, and many of them only touch Dubai in transit. The location is a strategic one – we are a well oiled hub centred in a major catchment area." Emirates now wants to be a global hub-and-spoke system with passengers able to fly from any major city in the world to any large destination through Dubai.

But Emirates is not alone in spotting this opportunity. Well-respected rivals such as Singapore Airlines are also poised to emerge as →

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Best Practice

serious rivals in the global hub-and-spoke game. Emirates' success has attracted local competition. Air Arabia, the first low-cost carrier in the Middle East started operations in the UAE in October 2003. A month later Etihad Airways started to offer flights from Abu Dhabi, just 60 miles from Dubai. But Emirates keeps fighting back.

Emirates has placed some big bets—on Dubai, the A380 and its global hub-and-spoke strategy and its ability to scale operations. And no one would confuse the airline industry with an easy sector to make money.

Scaling pains. Executing on the global hub-and-spoke strategy will require Emirates to expand its route network. The company is now planning direct flights to San Francisco and Chicago, enabling flights from North America to the Gulf and Africa without changing planes in Europe. To serve these routes, Emirates now plans to double the number of planes operating from over 50 in 2005 to well over 100 in 2010.

Increasing aircraft and routes may prove to be the most straightforward aspect of scaling operations. Emirates must also attract the passengers to fill the planes. Emirate managers hope to do this, in part, by passing part of the savings from their lower cost base on to passengers in the form of lower prices. The A380 is estimated to reduce fuel costs by 15 per cent versus existing long-haul aircraft, and Emirates managers plan to maintain their labour cost advantage. In addition, Sheikh Ahmed and his team plan to build a truly global brand – "like McDonald's or Vodafone," according to Mike Simon, that builds loyalty to the carrier.

Emirates' expansion will require an increase in the total staff from some 22,500 in July 2004 to 35,000 by 2010. Over the years, Emirates has earned a reputation for thoroughness, quality and consistency of service. The airline's planned growth could strain its ability to provide consistent service quality, however, and jeopardise its hard-earned reputation. Emirates has steps in place to ensure service quality while growing, including systems to track problems quickly, ISO certification for certain operations, and increased standardisation of certain operations to ensure consistency. And of course, Emirates is no stranger to growing operations.

Emirates has placed some big bets—on Dubai, the A380 and its global hub-and-spoke strategy and its ability to scale operations. And no one would confuse the airline industry with an easy sector to make money. Given Emirates' past success, however, the Dubai-based carrier has a good chance of continuing to defy the odds and succeed in a tough industry. Soon Dubai will possess the tallest building in the world – the Burj Dubai office block. But Emirates may well be soaring even higher.

London Business School doctoral candidate Felipe Monteiro prepared the case study from which this article was written, under the guidance of Professors Donald N. Sull and the late Sumantra Ghoshal, who gratefully acknowledge funding from the Centre of Management Development and cooperation of Emirates Airline. The full Emirates case study (along with exhibits and references) can be ordered from the European Case Clearing House (www.ecch.cranfield.ac.uk).

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What do they Know?

Managing customer knowledge is critical to ensure the survival of your organisation. Fail to manage such knowledge and you will be out of business; leverage it, and you can lure your competitor's customers. **Kevin C. Desouza** and **Yukika Awazu** describe how companies can use customer knowledge management to optimum advantage.

→ This was Ogilvy's slogan for his Rolls-Royce campaign. It exemplified his approach of putting the product centre stage. "Make your product the hero of the commercial," Ogilvy famously entreated. As Ogilvy's client list grew fatter so his attempts to alter the advertising industry grew bolder. In 1960 Ogilvy challenged one of the industry's prized but anachronistic practices – the 15 per cent commission. As usual Ogilvy's stance was not merely ethical but one guaranteed to attract publicity. It succeeded, bringing new clients such as Shell who were only too happy to be rid of the 15 per cent commission in exchange for a flat fee.

The 1960s was a big decade for Ogilvy. In 1963 he published his book *Confessions of an Advertising Man*, which sold well over half a million copies and cemented his position as an advertising guru. In 1965, the year after his brother's death, his firm merged with Mather & Crowther, to form Ogilvy & Mather. It was a deal that created a company with total billings of $120 million. Ogilvy took a back seat, preferring to concentrate on the creative side and leaving the administrative chores to others. Then in 1966 Ogilvy & Mather became a publicly-listed company, only the sixth advertising agency to do. Ogilvy sold 61,000 shares of his 161,000 becoming a wealthy man in the process.

In 1975 Ogilvy & Mather was one of the top five advertising agencies in the world with 1000 clients, offices in 29 countries and billings of some $800 million. In the same year, Ogilvy stepped down from his position as creative head to spend more time at his 12th century chateau in the south of France. In 1989 following a wave of mergers in industry Ogilvy's remaining share in the business was acquired by WPP group.

Simple genius

David Ogilvy said the secret to success was simple: "First make a reputation for being a creative genius. Second surround yourself with partners who are better than you are. Third leave them to get on with it." But the most important lesson that Ogilvy learned in his time on Madison Avenue was the ability and creative flair to lead by example. "The most important ingredient in any agency is the ability of the top man to lead his troops," he said. Ogilvy was a brilliant advertising "creative". He came up with some of the most memorable copywriting of his times. Yet he was also a brilliant leader. He knew when to lead from the front and when to take a back seat, how to motivate, how to cajole and how to get the best from his workforce. Ogilvy is also a shining example of a man who made it to the top in spite of several so-called handicaps to success. He once measured his IQ: expecting a genius score of 145 he found it was a disappointing 96. He was afraid of the sea, of heights, and of flying, suffered asthma until middle age and didn't enjoy any of the usual executive pastimes such as golf or tennis. He was also late-starter in advertising at 39. Yet he still made it to the top of his profession – and made an indelible mark on that profession. ■

Resources

Confessions of an Advertising Man by David Ogilvy, Atheneum, 1963
Blood, Brains & Beer by David Oglivy, Atheneum, 1978.
Ogilvy on Advertising by David Oglivy, Crown, 1983.