UNIVERSITI PUTRA MALAYSIA

# POWER CORPORATION SDN. BHD.
# A CASE STUDY

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**POWER CORPORATION SDN. BHD.**

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BY

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(Matric No. 45181)

A Case Dissertation presented to

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SECOND READER

## DECLARATION OF ORIGINALITY OF REPORT

I, Dzainuddin Bin Hj. A.Jalil (Matric No. 45181), a student of UPM/YPM Off-Campus MBA program hereby wish to certify that this case study for the course PSN598 is an original study that I had conducted for submission to the Faculty of Economy and Management, Universiti Putra Malaysia in partial fulfillment of the requirement for the degree of Master in Business Administration (MBA).

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Date: December 1997.

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## ABSTRACT

This report has been prepared to present the case study project conducted by the author for the final semester course of his UPM/YPM off-campus program for the degree of Master in Business Administration (MBA). The two-year program was jointly organised by the Faculty of Economics and Management, Universiti Putra Malaysia and Yayasan Pelajaran Mara.

As the core subject of this case study, the author attempts to demonstrate the importance of *quality customer service* to the performance of a business organization. The work focusses on how customer service can be exploited as a strategic tool by a company to gain competitive advantage in the open market environment.

For the case analysis, SWOT strategic analytical technique has been used to identify the company's strengths, weaknesses, opportunities and threats in the formulation of various alternative strategies as probable solutions to the problem. To verify the validity of the alternative solution, another strategic analysis methodology called the SPACE Model was used.

The evaluation and selection of the best alternative strategy was based on a qualitative and quantitative methodology by using the Cost-Benefit analysis. In view of the current economic scenario where most of the Asian countries are experiencing a sudden downturn due to speculative attacks on their currencies, it become more difficult for management to forecast the market outlook both in the short and long term perspective.

In today's open market environment where globalization and liberalization were the rules of the game in most of the world economies, a company regardless of its size, could not afford to stay within its domestic shores in order to survive and excell in the ever increasing competition

Despite the prevailing market instability, managers could strive to improve and maintain the performance of their company's businesses strategically through the promotion and enforcement of quality customer service. Without good customer service, a company would not be able to keep its competitive advantage even if the products offered are of high quality standard.

Customer service would be the key focus in any business organization - today and the future. The importance of its role is unarguable because it is the primary factor towards achieving customer satisfaction. Satisfied customers will stay loyal to a company's products and services and would be less likely to be influenced by the competitors.

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## 1. INTRODUCTION

The usually calm morning had suddenly turned PCSB's office into a slightly chaotic situation. As early as 8.45 am, 24th October 1996, all executives had gathered inside their bosses' rooms for an emergency Monday morning meeting. "It's going to be a black Monday," the MD's secretary told the HR Manager as she entered the room to check if the MD had arrived for the extraordinary Management Meeting scheduled at 10.00 am. The MD had called for the urgent meeting while he was in Japan when he was informed of a serious complaint from Public Works Department regarding the delay in commissioning of their Water Pumping Station due to the failure of PCSB to deliver the 3.3kV starter boards for the main water treatment plant.

The incident had embarrassed Dr. Jalaludin because all these while he had committed to fulfill the delivery to ensure the Water Treatment Plant would come on stream as scheduled. The project had attracted a lot of public attention as it was implemented to resolve the water supply problems that had been plaguing the southern region since 1995.

Without much deliberation of the problems, the MD started the meeting by asking all managers to clarify the actual events leading to the delay. "How come nobody had highlighted the potential of this problem in the last few management meetings?" Since none of the managers admitted nor willing to take responsibility of the problem, the MD decided to take an immediate remedial action by requesting the Japanese supplier to air-freight the outstanding 3.3kV parts. He insisted that, "By hook or by crook, we must get the parts within two weeks!"

Although, the problem was eventually solved within one month with the MD's personal intervention, the damage that had hurt the market confidence would not be easy to heal. The management realised that people was the most vital asset in the company. The quality of personal service required to establish customer satisfaction relied very much on the competency and motivation of its people.

There was no easy way to resolve the issue as a continuous process was necessary to deal with the complex nature of human behavior; involving both employees and the customers. However, a systematic approach of problem solving could be instituted for the management to formulate an appropriate strategic plan to enhance the long term productivity and profitability of the company.

## 2. HISTORICAL BACKGROUND

Power Corporation Sdn Bhd (PCSB) was incorporated in February1978 under the name of Power Engineering and Services Sdn Bhd (PES). It was founded by the Wong brothers, Wong Kok Ming and Wong Ah Tiam with its first operation carried out from a small "backyard" workshop in Jalan Puchong, Petaling Jaya. Its initial paid-up capital was RM25,000.00. The business started with the electrical and power engineering services for the factories and mining industry.

The scope of services included the servicing and maintenance of electrical switchboards, motor starter boards and wiring for the domestic and industrial customers. An electrical switchboard is an equipment used for the distribution of electricity taken from the power supply utility such as TNB to the end user's electrical appliance. Motor starter board is a special kind of switchboard used to control the operation of an electrical motor.

Right from its inception, business grew up steadily and within six months PES managed to establish a strong service customer base. By the end of its first year operation, the company recorded a pre-tax profit of RM0.1 million from a total turnover of about RM0.5 million.

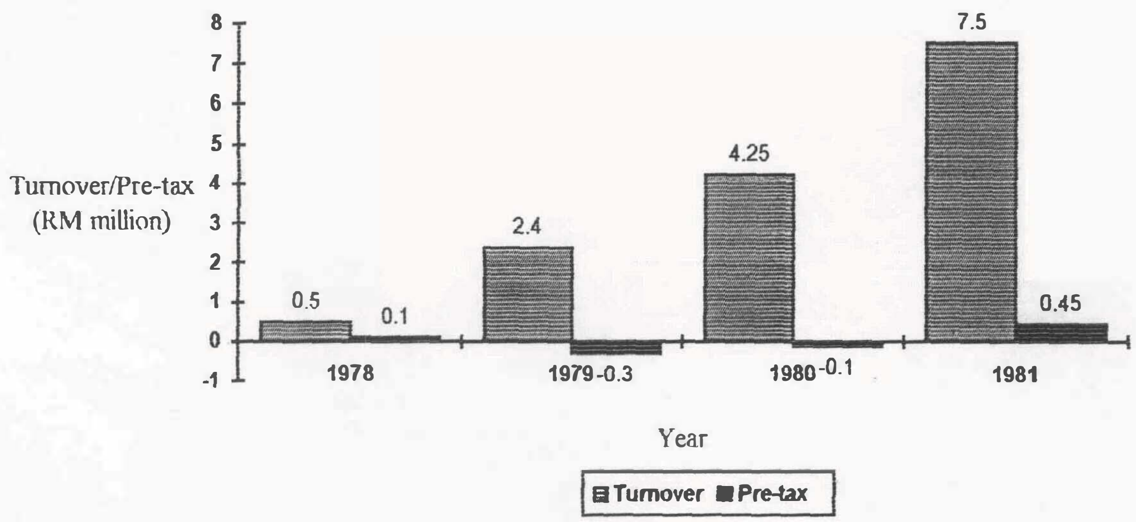
In 1979, PES went into manufacturing of electrical products. The first product was the fuse distribution boards that were commonly used in domestic and commercial premises. The small workshop was extended and converted into a factory to provide space for fabrication and assembly works. The number of employees increased from a mere group of six service technicians to fifteen wiremen and general factory workers. The company invested about RM150,000 to purchase a few bending and metal cutting machines, power tools and the paint shop equipment.

Both Wong Kok Ming and Wong Ah Tiam had more than 10 years of working experience in the electrical industry. Kok Ming was the Purchasing Manager of Tamco Switchgears Sdn Bhd in Petaling Jaya before he resigned in late 1977 to establish PES. He was one of the pioneer staff of Tamco, a U.K based company, which started its first Malaysian operation in Petaling Jaya in 1966. His younger brother, Ah Tiam was a Production Supervisor of the same company until he resigned in 1978 to join Kok Ming in running the PES business.

The two Wong brothers had a good combination in terms of their working experience. Kok Ming's background experience was more on finance and material management. Ah Tiam possessed more technical skills which had been gained through his vast experience in the production line. By combining their experiences, they formed a strong team to manage the company resources in a more efficient and effective way.

Within a few years, PES' business expanded and became one of the market leader in low voltage electrical switchboards. Due to little competition during that time, PES managed to secure about 25% of the local low voltage switchboard market share in 1981. For the financial year ending 31 December 1981, PES made a turnaround by recording a pre-tax profit of about RM0.45 million from a sales turnover of RM7.5 million. It had incurred some operating losses of RM0.3 million and RM0.1 million on the back of RM2.4 million and RM4.25 million turnover for the year of 1979 and 1980 respectively. The trend of the company's financial results from 1978 to 1981 was as shown in Exhibit 1.1.

**Exhibit 1.1: PCSB's Financial Results for 1978-1981**



To cope with the increasing demand, the factory was extended by doubling the production floor and more than 50 employees were recruited. The product range was increased to include the LV motor starter boards and feeder pillars used in electrical distribution and control systems for the industrial and commercial sectors. By optimisation of the local content of the products, the company managed to gain a competitive advantage over the competitors.

The success of the company was largely contributed to their good customer service. Customers were attracted by the prompt service rendered by PES to any emergency service call. In the Klang Valley areas, they were able to attend to any customer complaint within a few hours upon receipt of the service call. This influenced the customers' preference for PES' products over the competitors.

PES' management had created the sense of urgency to all its service personnels by stressing the fact that electricity is the "heart" in any business operation. An interruption in power supply would not be tolerable and this concept was used as a competitive strategy to gain customer satisfaction. PES had a team of skilled technicians that provided a 24-hour service to any emergency call from their invaluable customers. *"Customer first"* was the motto of PES' after-sales service team.

Based on their vast service experience, PES' products were designed and manufactured by incorporating some special features for the safety and convenience of the users in the installation, operation and maintenance of the electrical distribution system in their premises.

## 3. BEGINNING OF A NEW ERA

### 3.1 The Economic Recession of 1985

PES experienced a steady growth after its inception in 1978 The service business was profitable because it did not require high working capital. But Mr. Wong Kok Ming realised that he could not depend solely on the servicing business for the future growth of his company. He decided to venture into manufacturing as he believed the sector had a great potential for future expansion.

The timing was right for the Wong brothers because they set up PES when the Malaysian economy was in the booming stage. Business expanded progressively and it soon gained the market recognition as a reputable local company in the electrical industry. It grew from a meager sales turnover of RM0.50 million in 1978 to RM2.4 million and RM4.25 million in 1979 and 1980 respectively. The Malaysian economy was growing steadily with the implementation of a lot of infrastructure development projects by the government.

In 1983, the Malaysian government introduced the Privatisation Policy. This resulted in the implementation of more projects by the private sectors and boosted the demand for electrical power distribution products. As shown in Table 1.1, Malaysia's GDP growth rates increased steadily from early 1980 to 1984. However, due to the effects of the worldwide recession, the country was unable to sustain its economy and took a tumble in 1985 when a negative growth of -1.1% was recorded. In 1986 the GDP growth returned positive but remained at a low of 1.2%. The Malaysian economy made a steady recovery from 1987 and thereafter it maintained a healthy growth averaging above 8% until 1996.

**Table 1.1: Malaysia's Gross Domestic Product (GDP) Growth Rates for 1982-1997**

| Year | GDP Growth Rate (%) |
|---|---|
| 1982 | 5.9 |
| 1983 | 6.3 |
| 1984 | 7.8 |
| 1985 | -1.1 |
| 1986 | 1 2 |
| 1987 | 5.4 |
| 1988 | 8.9 |
| 1989 | 9.2 |
| 1990 | 9.7 |
| 1991 | 8.7 |
| 1992 | 7.8 |
| 1993 | 8.3 |
| 1994 | 8.5 |
| 1995 | 9.5 |
| 1996 | 8.6 |
| 1997*e* | 7.0 |

*Source: Malaysian Economic Report 1996/97 & 1997/98. "e = estimate"*

Unforeseeing the effect of worldwide recession to hit Malaysia, PES invested substantially in 1983 to upgrade its manufacturing facilities. About RM1.5 million was spent to purchase new plant machineries. In the same year, PES' workforce increased to around 80 personnel including 3 engineers and 4 sales executives. To increase the production capacity in meeting higher market demand, two-shift production was introduced in September 1983.

The investment made in 1983 fared favourably to PES' performance when it achieved a pre-tax profit of RM2.4 million for its financial year 1984 compared to RM1.8 million previously. Its turnover recorded the highest sales so far at RM18.8 million which was an increase of 30% from RM14.5 million achieved in 1983.

The year 1985 marked a turning point for PES' performance. All sectors of the economy were badly affected by the recession and there was no exception for the electrical industry. Due to the unexpected sudden downturn in the economy, PES' management was caught by surprise and in an unprepared situation. Most of the government's infrastructure development projects that had boosted the economic growth in early 1980's were brought to a halt, resulting in many business organisations to fall into financial difficulties.

The effects of the recession began to be felt in the first quarter of 1985 when the sales recorded failed to meet the turnover target. Some of the confirmed orders were cancelled by customers due to termination of their contracts. More projects were delayed by the clients resulting in increased stock holding cost in PES' factory operation. Finished goods could not be delivered where the installation sites were not ready to receive the electrical equipment.

The company had to face the financial burdens since payment claims could not be forwarded to the customers until delivery was completed. The suppliers on the other hand had to be paid since they had fulfilled their delivery committment and it was important to maintain a good business relation with them.

PES' cash flow problem reached its peak in the third quarter of 1985. In September 1985, the staff salary could not be paid as usual before the end of the month. The workers' union threatened to strike if their pay was not settled within one week. The credit controller went all out to beg for payments from trade debtors. In some instances, he had to resort to legal actions to recover the long outstanding payments from the stubborn poor paymasters.

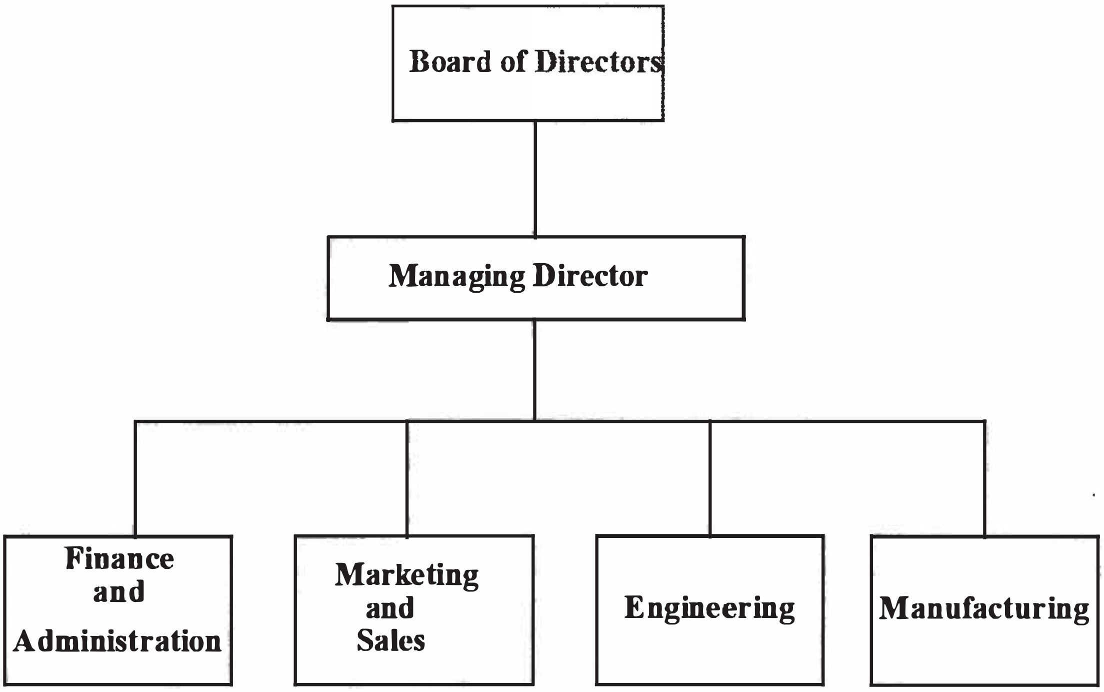
The market slowdown persisted causing PES' outstanding creditors' account to increase significantly More complaints were received from customers regarding delays in delivery of their switchboards. The problems were unavoidable because the suppliers of the manufacturing components could not fulfill PES' orders when the overdue payments exceeded the credit limits. The dampened economic scenario had adversely affected the overall business performance of the company.

No sign of improvement was seen towards the end of 1985 and this led the management to decide on some contingency plans to be taken to avoid further deterioration. The management made several proposals to the Board of Directors that included downsizing through staff retrenchment and disposal of the company. In March 1986 Board Meeting, the interim result was presented which showed a pre-tax operating loss of RM0.8 million. Sales turnover declined significantly to RM14.0 million. Looking at the uncertainties surrounding the worldwide recession, the Board members unanimously decided that PES would be up for sale. The decision was made to avoid further losses and depreciation of the company's assets in the long run.

### 3.2 The Birth of Power Corporation Sdn Bhd

When PES was offered for sale, a Bumiputera firm led by an entrepreneur Dr. Jalaludin, made a bid to takeover the majority equity in PES. After months of negotiation, he succeeded to secure the entire stake in PES in August 1986. At once, he took over control of PES' management and became the managing director (MD) of the company. With his aggressive approach, PES was restructured and renamed as Power Corporation Sdn Bhd (PCSB) in 1987. The new organisation structure of PCSB was as shown in Exhibit 1.2.

**Exhibit 1.2: Organisation Structure of PCSB (1987)**




*Source: PCSB Human Resource Department.*

Its core business activities were focussed in the manufacture and marketing of electrical power distribution products for low voltage (LV) and high voltage (HV) applications. Although it did not have a formal written mission statement, the management had a clear objective as mentioned by the new MD, "We aimed to be a market leader in the industry within five years."

Dr. Jalaludin was a professional electrical engineer. He had in-depth knowledge and vast experience in the products and services offered by PCSB. To ensure the revival of the company from the recent recession, he involved himself directly in the management of the business operation. He insisted that, whenever possible, he would chair the Management meeting held every forthnight. In 1987, the Malaysian economy displayed a strong recovery when its GDP jumped from 1.2% in 1986 to 5.4%. This gave more confidence to Dr. Jalaludin to proceed with his plans to rebuild PCSB as a market leader in the local power industry.

Due to the accumulated losses incurred by the previous PES management, PCSB's financial result for 1986 remained in the red although it managed to trim down the pre-tax loss to RM0.5 million. The sales turnover for the year improved slightly to RM15.2 million from RM14.0 million previously. The operating costs and manufacturing overhead were reduced by maintaining a small but more productive workforce. Under a downsizing exercise in November 1986, about 30% of the existing employees had been laid-off.

With the improving economy, demand for electrical switchgears increased significantly. Recognising the greater opportunities generated in the market, Dr. Jalaludin introduced a wider range of products to PCSB which included the 11kV high voltage switchgears in 1988. The paid-up capital of the company was increased to RM150,000.00. The manufacturing plant was moved from Jalan Puchong to a larger factory in Jalan Ipoh in September 1988.

By employing new marketing strategies, PCSB managed to secure several contracts with Tenaga Nasional Berhad (TNB) in 1988. TNB was the largest power utility company in Malaysia and the major consumer of 11kV switchgears in the country. PCSB returned to the black in 1988 with a pre-tax operating profit of RM1 69 million recorded on the back of RM23.7 million turnover. In tandem with the improving economy, PCSB made a forecast sale growth of 30% for 1989.

By the end of 1989, PCSB managed to regain about 15% of market share in the local electrical switchgear industry. According to Encik Halim, the Senior Marketing Manager, "We have achieved our year sales target of RM30.8 million by September 1989. The fourth quarter sales was an extra bonus to us." Encik Halim's statement had motivated his sales people to continue their efforts in securing more sales. They were anticipating that this year's bonus would be much better than the two months paid for 1988.

The sales turnover for 1989 composed of 70% from the utility market and the rest from the commercial market. When the financial result was announced in March 1990, PCSB recorded a pre-tax profit of RM3.43 million from a total sales of RM37.4 million. The turnover exceeded the year's budget by more than 20%. About 80% of the sales consisted of the HV products, while the rest were LV products.

Despite the excellent performance, the management declared a bonus payment of only 2.5 month, a slight increase compared to 1988. The employees union representatives lodged a protest through a memorandum submitted to the MD which stated, "We regret to express our dissatisfaction over the bonus payment. Our hard work and contribution to the company had not been given its due recognition." In his reply, the MD explained that, "We need to invest more on machinery to improve production capacity. I promised if business improves further next year, a special bonus will be paid."

In the 1990 Budget, the Marketing Division was given a new sales target of RM45 million, that was 20% higher than 1989's turnover. Most of the marketing staff were not excited with the new budget as they had been demotivated by the unsatisfactory bonus. They did not have the urge to work hard as last year and depended more heavily on the regional agents to book new orders.

In the First Quarter Report 1990, the Personnel Officer, Puan Asmah highlighted that, "More employees were sick, with an average of 3 persons per day during January - March 1990, compared to only 1 person per day over the last few years." There was a worrying sign that medical certificates could be easily available from the private clinics, including the company's panel doctors. The trend reflected the morale and motivation of PCSB's employees were declining due to the lack of incentives for their outstanding performance in 1989. This phenomenon had adversely affected the overall productivity and performance of the company.

By the end of the year, sales did not achieve the targetted budget with only RM40.5 million recorded. PCSB's market share dropped to about 12% from 15% previously. Although the total sales increased marginally by 8.3%, the operating pre-tax profit declined almost 15% to RM2.92 million due to increasing cost of production and administration overheads. About 80% of the projects were delayed by an average of 3.7 weeks compared to only 20% with an average of 1.5 weeks in 1989.

### 3.3 New Organisation Structure

Due to the decline in pre-tax profit for 1990 and increasing market competition, in its three-year business plan (1991-1993), the management had set certain strategic plans of which one of the key focus was on the enhancement of *"customer service"* with the objective of increasing customer loyalty and ultimately to secure a strong and stable market share. Over the past few years, a number of new players had entered the market by forming joint venture companies with foreign partners to localise the manufacture of 11kV switchgears.

Recognising the deteriorating morale of the staff as the main cause of declining performance in 1990, the management decided to pay 3-month bonus with the hope that it would restore their motivation to work harder. The impact was positive and the staff gained more confidence with the management. When the financial result for 1991 was announced, PCSB recorded 29.6% increase in turnover to RM52.5 million. What was more encouraging, the pre-tax profit jumped by 70.9% to RM4.99 million. Employees were highly motivated by the compensation given to them and they valued it as a recognition of their services to the company.

A restructuring exercise was implemented in 1991 with the appointment of the General Manager. Under the revamped organisation structure, a Customer Care Service Department (CCS) was created to replace the function of the Business Development Executive. The CCS Manager would be reporting directly to the General Manager instead of through the Marketing Manager. The CCS' functional roles covered the company-wide operations to provide customer support services to the existing and