



UNIVERSITI PUTRA MALAYSIA

**BUNIYAMIN ENGINEERING SDN. BHD.: - INVESTMENT
DECISION BETWEEN JOINT-VENTURE IN PROTON CITY
PROJECT AND PRIVATIZATION OF SYSTEM SERVICE
PROVIDER (SSP).**

NIK MOHAMED SUHAIMI BIN NIK MAHMOOD

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By

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Case Study Submitted in Fulfillment of the Requirements for the
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This work is dedicated to

Buniamin Engineering Sdn.Bhd and all the staff



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GLOSSARY

MBA	Master of Business Administration
ARR	Accounting Rate of Return
SSP	System Service Provider
IT	Information Technology
MBO	Management by Objective
DRB	Diversified Resources Berhad
Hicom	Heavy Industry Company
CIDB	Construction and Industry Development Board
J.O.O	Joint Operation Organization
J.V	Joint Venture
PABX	Public Address and Business Exchange
RM	Ringgit Malaysia
HRB	Harvard Business Review
Std.Dev.	Standard Deviation
CorV	Coefficient of Variation
A	Expected Value
A_i	The value of i th possible outcome
P_i	The probability that the i th outcome
N	The number of Possible outcomes



Abstract of case study submitted to the senate of the Universiti Putra Malaysia in fulfillment of the requirement for the degree of Master of Business Administration.

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September 1998

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Faculty : Malaysian Graduate School of Management

The Buniyamin Engineering Sdn .Bhd. was incorporated on the 7th May 1994. The company was established as construction and civil engineering contractor. Zean Tech Sdn. Bhd. was the associated company created as domain company to undertake new venture especially in IT and telecommunication services.

Since the beginning of operation, Buniyamin had been involved in various small to medium size projects costing RM 10,000.00 to RM 1,000,000.00. Since Buniyamin were in the starting stage of development, the company size were quite small. As the Managing Director of the company, Nik was running the company with the help of two other directors, Mr.Loo and Mr. Ah.Heng.



Buniamin received first proposal from Takenaka Corporation to join-venture for development of Proton City . The second proposal came from Ericsson Communication Sdn .Bhd to privatize its maintenance and services department. In evaluating the two proposals, he did not seek any assistance from any body, using his knowledge learned in his MBA course and tried to apply to the real situation.

In analyzing the proposals, several methods were used in analyzing the feasibility of the proposals; they are accounting rate of return (ARR), pay back period, decision tree, standard deviation, risk adjustment discount rate and the financial modeling.

From the above method, Nik emphasized the analysis of using decision tree method for the evaluation of the joint venture between Takenaka Corporation and Buniamin Engineering Sdn.Bhd for the development of package A3 and A4 of Proton City in Tanjung Malim, Perak. While for the investment analysis of privatization of system service provider (SSP) by Ericsson to Zean Tech Sdn.Bhd., Nik used the financial modeling and simulation of the cash flow and return by using the Excel spreadsheet.

As conclusion, the proposal for the joint –venture between Takenaka and Buniamin for the development of Proton City was feasible and gave high returns and needed only a small initial capital investment. The privatization proposal by Ericsson was much risky and needed high initial investment and gain little return which could not cover the



operation cost of the Zean Tech Sdn.Bhd, as the result the proposal was not feasible and canceled.Both evaluation techniques were the tool that was used by the Buniyamin and Zean Tech Sdn.Bhd in evaluating the proposals of investment and facilitate the decision making by management of both companies.



CASE STUDY – PART I (CASE FACT)



CHAPTER I

INTRODUCTION

An Office Scene on 30TH August 1997

On the late evening of the 30th August 1997, Nik paused at the end of another busy day to think and make decision about the two new proposals which came up for Buniyamin Engineering Sdn.Bhd. and its associate domain company which is ZeanTech Sdn.Bhd. Both companies are controlled by Nik who holds the majority of shares. Buniyamin was setup as an engineering and construction company while Zean Tech Sdn.Bhd. was setup as domain company to take on any new project, which will concentrate on the engineering and communication aspects..

With the economy slowdown, the construction industry also slowdown, whilst some of the big projects like Bakun were forced to stop due to financial problem.

In order to cope with this slowdown, a drastic and risky decision had to be made on the selection of proposals that reached him a couple days before. Buniyamin received the proposal to enter a join-venture with the Proton City Project from the Takenaka Corporation of Japan while the Zean Tech Sdn.Bhd. received a proposal from the Ericsson

Communication Sdn.Bhd. to privatize its maintenance and services department.

As managing director of the both companies, Nik was responsible in decision making on both companies' future direction and investment.

Both proposals were attractive in terms of their risk and return.



CHAPTER II

THE COMPANY

Company Background

The Buniyamin Engineering Sdn.Bhd. was incorporated on the May 1994. It started its business operation in May 1995. The firm was established as a construction firm that provided services in the field of civil and building construction. Buniyamin was set-up as private limited company with an authorized capital of RM500, 000.00 and with a paid-up capital of RM410, 000.00 .

The company is held by three partners, one Malay and two Chinese directors. Buniyamin is currently renting on office block in Jalan Kepong, Kepong, Kuala Lumpur. Since it began operation, Buniyamin has been involved in various small and medium size projects costing between RM10, 000.00 to RM1, 000,000.00. The total value of the project carried out in the last two and half years has been more then RM5, 000,000.00.



Start of Buniyamin

The story of Buniyamin started off in April 1995 when Nik (the Malay director) had undergone several lithotherapy treatments for renal stones at Tawakal Medical Centre. During that treatment, Nik contemplated his future. Nik was then working as Senior Project Manager for the Faber Hotel Holding, managing the construction of several international hotel projects, under the flagship of Sheraton ITT (Sheraton Labuan, Sheraton Penang and Sheraton Perdana, Langkawi). As a senior project manager of many projects, Nik knew and was exposed to many contractors and consultants in the construction industry.

Following the treatment at Tawakal, Nik met his former contractor, Mr.Loo who was working under Nik's supervision while he was working in Proton. Mr. Loo was an elderly Chinese man who ran his own construction, lorries and machinery business in Kepong. Over dinner, Nik asked Mr.Loo "Do you support me if I open a construction business?" Smiling and puffing his cigarette, he answered "Sure, why not?" Later he uttered "Actually we have been eyeing you since in Proton, but the time was not right. Now that we are on the same side and let us work together." He then added "We already set up a domain company by the name of Buniyamin Engineering Sdn.Bhd. (the name that was suggested by Nik while he was in Proton, for the company to be more Malaysian).

Then Mr.Loo suggested Nik to take 51% share of the company and became the majority shareholder and ran the company. After several meetings and negotiations, we agreed to an agreement where Nik would take 51% share of Buniyamin. Mr.Loo would inject RM150, 000.00 for the paid-up capital and initial investment, that money would be paid back later when the company has sufficient funds to run on its own without any interest.

As both agreed on the proposal, Nik resigned from his position in the Faber Hotel Holding and resumed the post as Managing Director and Project Director of the Buniyamin Engineering Sdn.Bhd. Two weeks later, Buniyamin started to tender for jobs in Proton because Nik has good reputation and strong relationship/network.

The company landed with its first project, worth RM 550,000.00, a civil construction job in Proton. Starting from there, Buniyamin never looked back and moved forward to be one of the Proton and Hicom-DRB Groups reliable contractors.



Organization

The operation of Buniyamin was based on simple functional type of structure as indicated in Figure1. Operationally, Nik who was the managing director heads the company .He was supported by Mr.Loo (administration/contract director) and Mr.AhHeng (Project Management director). The-managing director in this case, reported directly to the Board of Directors, comprising all the three partners in the company.

Due to small size of the company, the actual line of reporting for the staffs has been well defined. Buniyamin has a close relationship between management and its staff because there was only a few layer of management hierarchy involved .The style of management was open-door style where Nik emphasized on the management by objective (MBO).

BUNIYAMIN ENGINEERING SDN. BHD.

ORGANISATION CHART

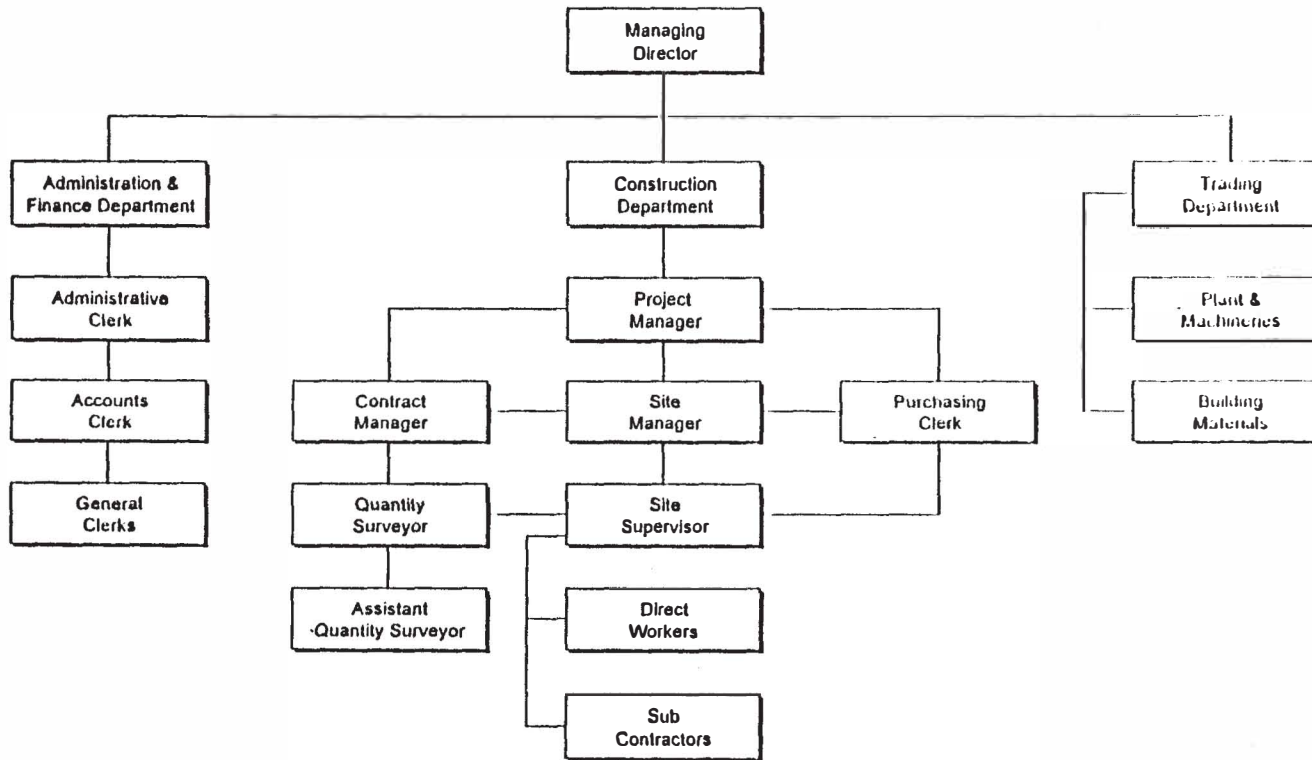


Figure 1 :- Buniyamin Sdn. Bhd. Organization Chart.

Vision and value

As managing director of the Buniyamin Engineering Sdn.Bhd., Nik's vision is to make Buniyamin as one of the established and top civil and building contractor in Malaysia and in the Asean region. It was in line with the Malaysian Government vision in promoting and exporting the engineering expertise overseas. Mr.Loo in particular has envisaged to integrate his existing business with Buniyamin and became well-integrated construction company. Since the formation, the company has been involved with only local projects especially in Selangor and Kuala Lumpur areas only.

The main priority was to make sure that Buniyamin survive the first few initial years of its formation on its own accord. Now, Nik's priority is to see Buniyamin as an entity that could provide future prosperity to the partners and shareholders. It was also as the based for the other business ventures. Nik's always remind Mr.Loo "I would rather lose all the staff rather than see Buniyamin falling down."

In terms of work, Buniyamin subscribes to ensure all projects completed on schedule, at the budgeted cost and of high quality. There would be equality to all, be it the employees, suppliers, sub-contractors or all the directors. These would be no conflict of interest when carrying out duties for the company and its clients. In addition, the company had set a

policy of high quality and standard of workmanship and minimum wastage of materials on the sites.

Scope of Services

The construction industry involves various sectors of the economy. The scope of construction is wide. Buniyamin has concentrated itself in the industrial and factories construction and maintenance services. In order to be in the business, it is mandatory that Buniyamin be registered with CIBD and as such its operations are bound by the professional ethics as stipulated by the regulatory body.

In the period of 1994 to 1995, the construction sector was growing at between 12% to 14% per annum. Due to this the property and construction sector in Malaysia was experiencing a boom. Constructions were mushrooming and demanding for the construction sector like engineering and construction works were also on the rise. Buniyamin was established in the mid of this development.

From 1995 to 1997, Buniyamin has secured approximately 20 projects with a total estimated value of RM3, 000,000.00. The majority of those projects were from the same clients such as Proton and Hicom – DRB Groups of companies. Buniyamin was involved in two main areas of construction i.e. civil and building construction as well as the maintenance of the building. As contractors, Buniyamin undertook comprehensive

construction management and engineering works from turnkey to conventional construction.

The scope of the construction works and services that provided by Buniyamin included the areas as listed below: -

a) Construction works ,

- i) Construction of civil and structural for the building and factory
- ii) Fabrication works including steel structure and timber
- iii) Renovation and modification works for building and factory
- iv) Electrical and mechanical works for building and factory
- v) Supplying construction materials for the building and factory.

b) Maintenance and services

- i) Landscaping
- ii) Maintenance works for building and factory
- iii) Cleaning for building and factory

CHAPTER III

MANAGEMENT

Marketing Strategies

Since its establishment, Buniyamin has been getting jobs through its network of friends and associates in the construction sectors.

Buniyamin concentrates on the niche clients such as Proton and Hicom-DRB Groups of companies. Buniyamin's track record has made the company well known in Proton .It was noted that a lot of the work done comprised repeated orders mainly from the same clients.

The main strategies were to gain foothold in the construction business by filling up the gap left by the established contractors and using the networks of suppliers established by Mr. Thus, the company mainly concentrated on the small to medium size projects ranging from RM10,000.00 to RM1,000,000.00.

Another strategy adopted by the Buniyamin was to maintain a minimum number of staff in order to minimize the operating cost. The agreement with the subcontractors includes their invoice being paid in stages upon receipt of payment from the clients. This arrangement has been instrument as in keeping the fixed cost to the minimum.

