



UNIVERSITI PUTRA MALAYSIA

**A CASE STUDY ON
PETRONAS CARIGALI SDN BHD
(Facing the International Challenges)**

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TESIS

**A CASE STUDY ON
PETRONAS CARIGALI SDN BHD
(Facing the International Challenges)**

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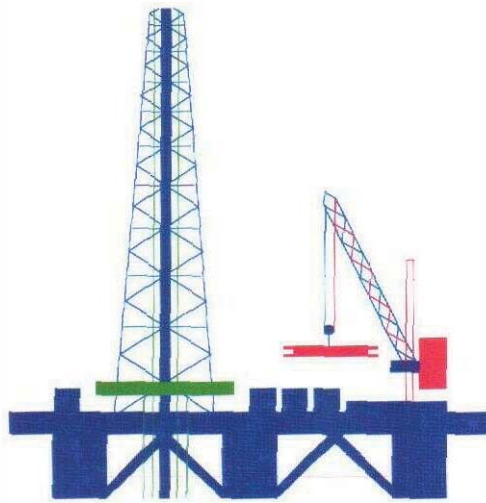
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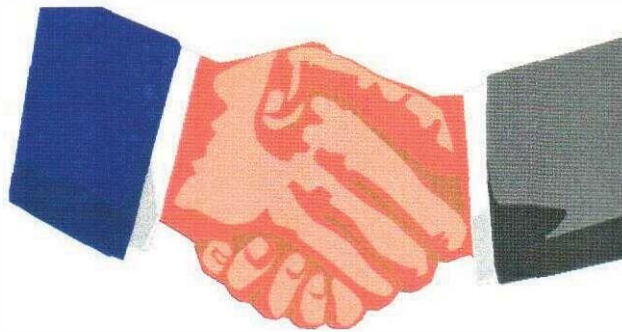


This Case Study is submitted in partial fulfilment of the requirement for the Master of Business Administration, Malaysian Graduate School of Management, University Putra Malaysia, Serdang, Selangor Darul Ehsan.



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Originality of the Document

I, Wan Zainuddin Hj Wan Muda, Matric No. : 45161, a final year student of the MBA programme at the University Putra Malaysia, Serdang, Selangor Darul Ehsan hereby confirmed that the case prepared for the above programme is purely the sole effort of my goodself.

Name :  Wan Zainuddin Hj Wan Muda
Date : 3rd January, 1998

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PART I - CASE

PETRONAS CARIGALI - Facing the International Challenges

Dialogue

Yang Amat Berhormat Dato' Idrus, the Managing Director of PCSB kept on pondering, looking at the blue sky out of the tallest building in the world, the Petronas Twin Tower. He was furious on the future of the company. Having run the company ever since its inception, he wondered if the company could keep pace with the current competitive business environment. With the current unexpected economical problem fuelled with currency problem facing by the nation, he thought that he ought to do something rather than sitting down pondering the future.

He picked up his phone and calls up his secretary.¹

Ring.....Ring....Ring...

Maggie : Hello, what can I do for you Dato'?

YAB Dato' : Maggie, can you schedule a board meeting on Thursday, 21st July. 97 at 9:00 am in the Board Meeting room ?

Maggie : Certainly can Dato'. Do you want all the board of directors to attend the meeting?

YAB Dato' : Yes, please call all the board of directors like En . Jamil, Dr. Khalid, En. Taha and Dr. Hashim. Tell them that they all must come to this urgent meeting.

¹ The characters in this dialogue are purely fictitious and does not resemble of any real people either living or dead.

Maggie : *Very well, I inform them right away Dato'. Is there anything you want me to do ?*

YAB Dato' : *That's all Maggie, thank you.*

On Thursday, 20th Sept. 1997, in the Board Meeting Room

YAB Dato' : *Good morning gentlemen. I have been thinking hard lately, pondering how PCSB could cope with the current competitive business and economical situation. As this might affect our business, I think we should do something more than what we have done to sustain the business. Thus, I hope this meeting can provide a first step towards developing the appropriate strategy to be adopted by the company. Any suggestion from the members ?*

En Jamil : *Well Dato', I agree with you that current situation certainly will affect our business. What more that we are in the oil and gas industry where we need high investment, hi-tech equipment, and expertise to run the industry.*

Dr Khalid : *But what can we do?. If we depend solely in the oil and gas resources domestically, we definitely be affected by the current economic situation. Unless we expand our business outside Malaysia.*

YAB Dato' : *You mean, we go internationally ?*

Dr. Khalid : *Yes Dato'. It's a trend these days that many countries expand their business outside their own countries.*

En. Taha : *That's a good idea. Do we have enough resources and prepare to go internationally?*

Dr. Hashim : *Can you elaborate a bit more what do you mean by that ?*

En Taha : *Well.....what I mean is that do we have the right people to look for international business activities. We need experience people as well as capital.*

Dr Khalid : *I need to add something... Apart from these resources, we also need to look at other factors if we were to get into international business like political situation, infrastructure, culture, economic and many more.*

YAB Dato' : *Dr. Khalid, can you prepare a report on the current company performance and situation before we discuss further on the next course of action.*

Dr. Khalid : *I certainly can Dato'. I will prepare and pass it to all board members when we meet again in the fortnight.*

YAB Dato' : *This meeting definitely a good step towards planning strategically for the future growth of the company. We can brainstorm again in the next meeting.*

(Dr Khalid, En. Jamil, En Taha & Dr Hashim unanimously agreed with Dato's idea.)

If there is no more question, we adjourn the meeting and meet again within the next two week, says on the 5th August, 1997 at the same time.

******* End of Dialogue *******

1.0 INTRODUCTION

It was envisaged that globalisation of the world economy in terms of trade and investment would become more evident with rapid advancements in transport, communication and information technologies. As the twenty-first century approaches, the world would undergoing enormous change, a process of great upheaval and great possibility. In just a few short years, we have witnessed the dawn of post-industrial society, the advent of the information age, the rush to computerisation and therefore intensity competition.

The increasing trend towards regionalism in trade and economical relationships would make it more imperative for small open economies like Malaysia to adapt effectively and speedily to the consequent challenges to maintain their comparative position. International competitiveness would be a moving target. However, it has the underpinning objective of maximising and increasing productivity as well as efficiency.

Business environment has grown dramatically more intense including in Malaysia, and competition has become more global and more energised. And technology races on. No longer could business safely ignore their customer's wants and needs. No longer could personal relationships be granted. No longer could so much human creativity go so scandalously untapped.

Malaysia was a unique country in the sense that it was one of the few countries in the world which has, within the span of two decades, succeeded in bringing about a socio-economic transformation of society which has enabled Malaysian from all walks of life to gain benefit of development and enjoy a better quality of life. Vision 2020 that paved the way for meaningful growth and orderly development would offer vast opportunities and challenges for Malaysian industries particularly in the oil and gas industries. In the world of rapid and profound change, the role of a multinational in the oil and gas industry was still one of the continuing and increasing contribution to the development of national economies and to the improvement of the quality of life of the communities in which we operated and whom we shared a common future. ⁽¹⁾

As a significant contributor to the nation's growth as well as major export earner and contributor to the national revenue, the oil and gas industry has played a key role in the nation industrialisation journey towards attaining a fully develop nation status by the year 2020. Being the leading integrated Multinational Petroleum Corporation, PETRONAS would continue to spearhead the development of the oil and gas industry and contribute to the nation through on-going technology transfer and technical skills training gain in various projects undertaken. In order to realise the above, the key to PETRONAS future growth and success was through the market globalisation such as venturing business activities in the international arena. Recognising this, the corporation has embarked on a globalisation programme to expand its operation into it's chosen strategic market around the world.

2.0 BACKGROUND

2.1 PETRONAS

The first commercial oil development in Malaysia dated back as early as 1910 when the Anglo-Saxon Petroleum Company, forerunner of the present day Sarawak Shell, developed the Miri oilfield in Sarawak. Between that period and April 1, 1975, oil companies in Malaysia was operated under the Concession System for exploitation of the hydrocarbon. Under the Concession System, oil companies had the exclusive right to explore and produce oil and gas fields. Royalty and taxes were paid to the respective state/federal government.

On October 1, 1974, the Petroleum Development Act (PDA) was enacted in parliament. Under the PDA, the entire ownership and exclusive rights, powers, liberties and privilege of exploring, exploiting and obtaining the oil and gas in either onshore or offshore Malaysia were vested in a corporation called Petroleum Nasional Berhad. ⁽²⁾

PETRONAS, the acronym for Petroliaam Nasional Berhad, was the national petroleum corporation wholly owned by the government of Malaysia. Since its incorporation in 1974, PETRONAS which has been vested with the entire ownership and control of the country's oil and gas resources under the Petroleum Development Act, 1974, has grown to become a fully integrated petroleum corporation, diversifying rapidly from its upstream activities into the downstream sectors.

PETRONAS has made tremendous progress since its inception in 1974 to gain a favourable reputation internationally. Today, PETRONAS has grown into an integrated oil and gas company operating beyond national boundaries.

Currently, PETRONAS business activity for both domestic and international level was undertaken by the various group of companies. The PETRONAS Group of companies consisted of 47 wholly owned subsidiaries, 20 partly owned subsidiaries and 27 associated companies. Figure 1.0 illustrated PETRONAS Group of Companies. Meanwhile, Figure 2.0 illustrated PETRONAS Organisation Structures and business activities at the corporate level.

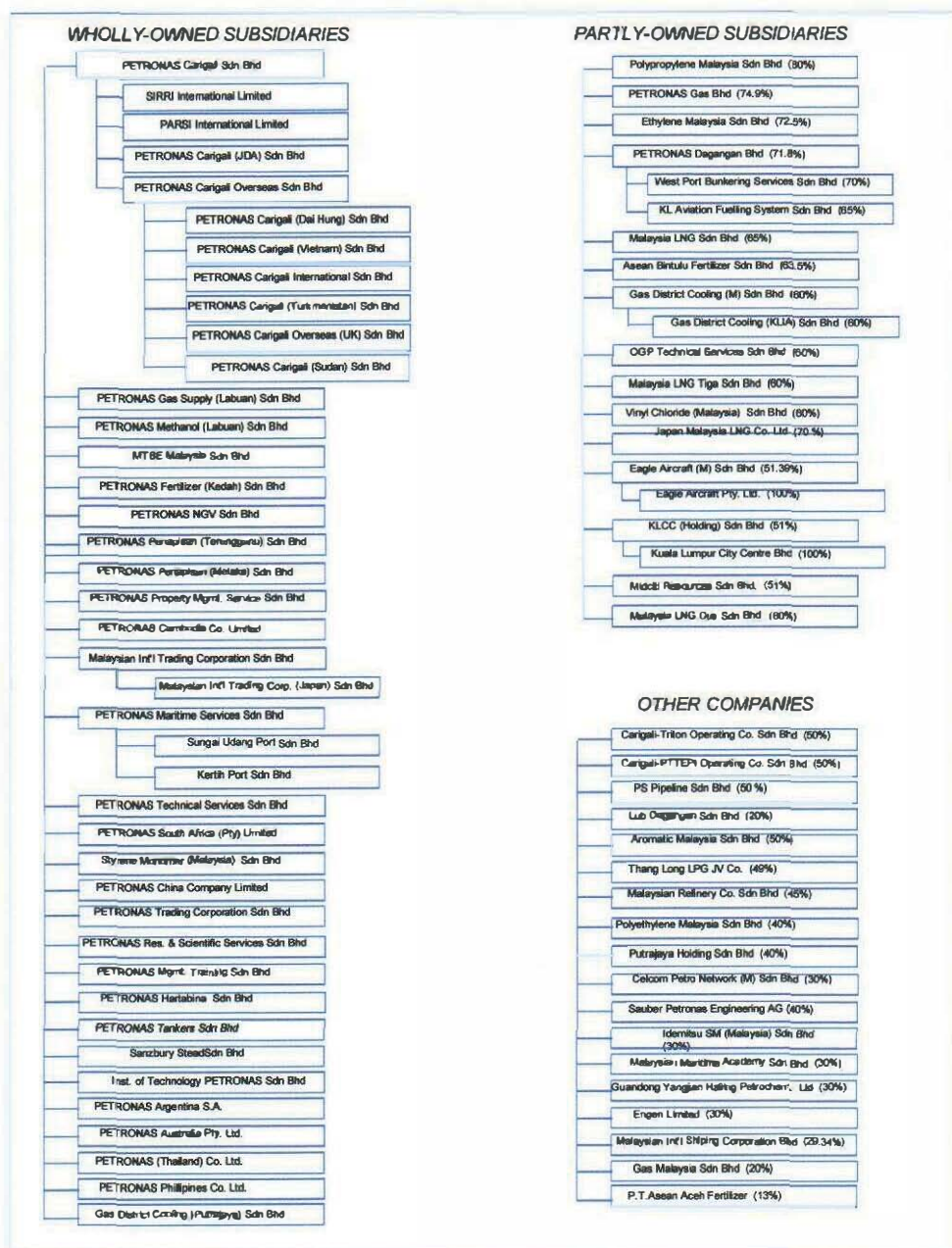


FIGURE 1.0 - PETRONAS GROUP OF COMPANIES

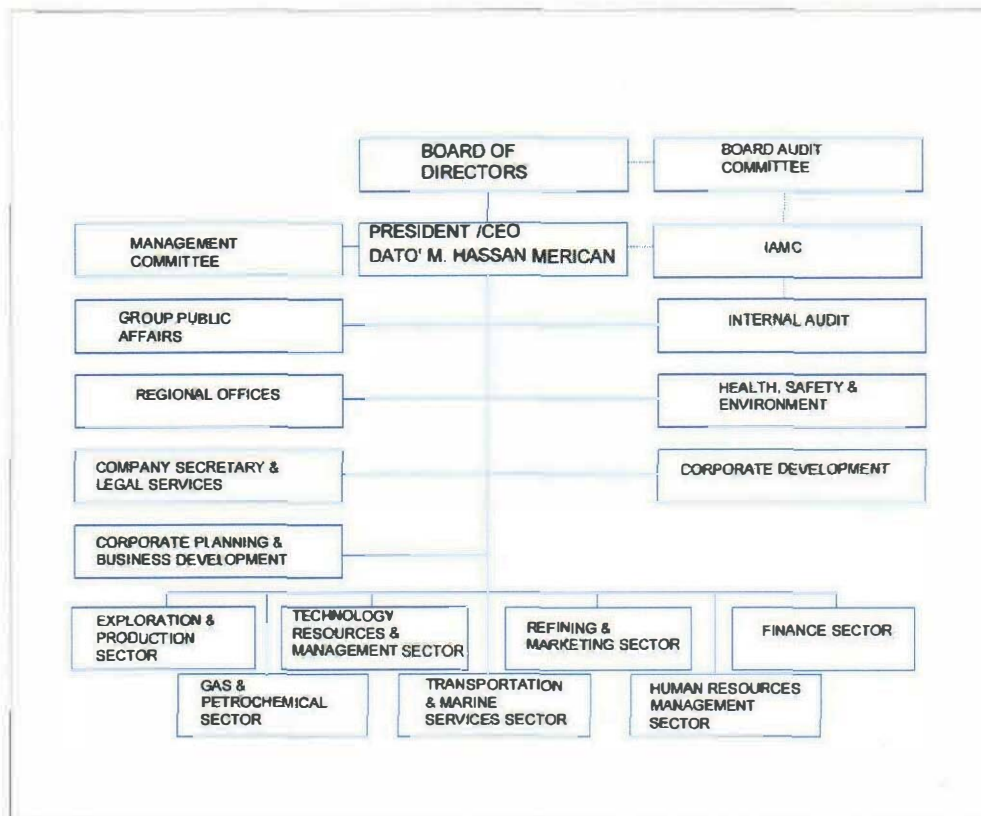


FIGURE 2.0 - PETRONAS ORGANISATION STRUCTURE

PETRONAS was now a full-fledged oil and gas company which engaged in a wide range of activities, covering petroleum exploration and production, oil refining, marketing, trading and distribution of crude oil and petroleum products, natural gas processing, transmission and distribution, natural gas liquefaction and marketing oil liquefied natural gas, and manufacturing and marketing of petrochemicals and fertilisers. Due to the government's depletion policy, oil production in the country was levelled off between 600,000 bopd to 650,000 bopd.

Today, within a strong foothold in the country, while building on to its domestic operations, PETRONAS was actively expanding into the global market forging towards its vision of becoming a multi-national petroleum corporation. As PETRONAS President says...." The most critical challenge would be to achieve and keep our *competitive edge* in the international arena where we would be up against the most established and experience players. In order to realise the above, we need to *re-examine ourselves and continuously improve on everything we do* in order to achieve the most cost effectiveness, efficient utilisation of our resources,.... we must continuously seek improvement in our organisation and respond positively to the constant changes in the dynamic business environment that we operate in.....". ⁽³⁾

2.1.1 VISION STATEMENT & MISSION STATEMENT

PETRONAS, having consolidated its position at home and with the expertise and knowledge acquired over the span of 20 years of its existence, was spreading its wing and venturing abroad to pursue its "dreams". In order to realise organisational goals, PETRONAS has recently launched the long term Vision Statement as well as creating a Mission Statement to benchmark and evaluate organisation success.

PETRONAS VISION STATEMENT

" To be a Leading Oil and Gas Multinational of Choice "

PETRONAS MISSION STATEMENT

" We are a business entity,

Petroleum was our resources,

Our primary objective was to develop and add value to this national resources,

Our objective was to contribute to the well being of the people and the nation"

2.1.2 SHARED VALUES

In addition to having both Vision and Mission Statement, PETRONAS also launched organisational "Shared Values" to enhance organisational objective in achieving the goals.

| | | |
|------------------------|---|---|
| <i>Loyalty</i> | - | Loyalty to the Nation & Corporation |
| <i>Professionalism</i> | - | Committed, Innovative and Proactive and Always Striving for Excellence |
| <i>Integrity</i> | - | Honest and Upright |
| <i>Cohesiveness</i> | - | United in Purpose and Fellowship |

With the above Vision, Mission Statement as well as establishing "Shared Values" statement, it was envisaged that PETRONAS employee could foster a better teamwork, quality product and services which could provide competitive edge, and hence would portray PETRONAS image, reputation and success of the organisation not only at home but also at the international arena.

2.2 PETRONAS CARIGALI SDN BHD

PETRONAS CARIGALI SDN. BHD. (PCSB) was one of the PETRONAS wholly owned subsidiaries incorporated on 11th May 1978. With the increase business activities in the exploration and production of oil and gas and good potential for industry development, PCSB has been entrusted by PETRONAS to spearheaded the challenge in the oil and gas exploration, development and production not only locally but also at the international arena. To date, PCSB was the operator of more than 12 fields, producing about one third of the country's total oil and gas production. The fields operated by PCSB locally are Duyong, Dulang, Bekok, Tapis and Pulai in Peninsular Malaysia, the Tembungo and Samarang in Sabah, nine oilfield in

Baram Delta area in Sarawak. Meanwhile, in the international area, PCSB was operating Dai Hung in Vietnam, and few platforms in the Caspian sea which undergoing development phases.

Currently, PCSB has been involved in a number of projects internationally. Among the international projects undertaken by PCSB was in the Asia region such as Thailand, Philippine, Vietnam, Burma, Indonesia, India; in the Middle East such as in Iran, Iraq, Syria; in Eastern Europe such as Turkmenistan, Uzbekistan, Azerbaijan; in Africa such as in Sudan and many more. Through the years, PCSB kept on venturing into new concession area and aggressively participate in the international arena to further strengthen its business. ⁽⁴⁾

2.2.1 PCSB VISION STATEMENT

Many multinational companies set a long term organisational objectives or goals known as vision statement. Likewise, as business activities were facing a stiff challenge in today's global market environment, PCSB has also established company vision in realising its goals and objectives. With the vision, PCSB was expected to enhance its capabilities. PCSB vision was ***"To Be A Multinational E & P Company of Choice, Creating Value Through Continuous Improvement & Growth"***.

2.2.2 PCSB BUSINESS OBJECTIVES

One could argue that it was virtually impossible for an organisation to function without having established some business goals or objectives. An objective sets a future target or end result that an organisation wishes to achieve. It also sets a direction where the organisation was heading towards achieving its dream. As part of globalisation efforts to pursue its business activities, PCSB has set few organisational objectives to spearhead the challenge of the oil and gas industry that was very competitive particularly in the international arena. PCSB business objectives were ;

- o To actively participate in the exploration of petroleum resources for the maximum benefit of the people*
- o To attain full operational and technical expertise through manpower development and the transfer of technology in the shortest possible time*
- o To achieve an adequate production level so as to meet the nation's total crude oil and gas output*
- o To ensure maximum Malaysian involvement in the fabricating and assembling of all production facilities and provision of ancillary and supportive services in the oil and gas industry.*

The above business objectives were in line with PETRONAS President wishes who said that "...The most critical challenge would be to achieve and keep our **competitive edge** in the international arena where we would be

up against the most established and experienced players. In order to be competitive, we need to constantly *re-examine ourselves and continuously improve on everything we do* in order to achieve cost effectiveness, efficient utilisation of our resources,.....we must continuously seek improvement in our organisation and respond positively to the constant changes in the dynamic business environment that we operate in....".⁽⁶⁾

3.0 PCSB ORGANISATION STRUCTURE

Having diversifying its business activities outside the domestic environment, PCSB basically adopting functional concept of the organisation structure. Current PCSB organisation structure composed of essentially five (5) main divisions that were Exploration, Development, Commercial Services, Domestic Operation, and International Operation. Each of these divisions was headed by the General Manager who reported directly to the Managing Director/Chief Executive Officer. Exploration division focus on finding new oil and gas reserve that could provide substantial return to the company. Whenever Exploration teams find new oil and gas reserve, the field development was then be the responsibility of the Development division to further study how to produce hydrocarbon from offshore. Development division composed of Petroleum Department, Drilling Department, Design Department, Construction Department, and Services Department that specialise in certain work scope. Commercial Services Division mainly focused on all contractual matters pertaining to the project development and exploration activities. Meanwhile, for both