

# The petronas corporation based in malaysia economics essay



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## **Introduction**

The company of my choice is PETRONAS, the petroleum Multinational Corporation based in Malaysia. The paper will outlined the background of the company followed by identification of the actual and potential impacts of globalisation on the company. Recommendation of strategies which the company might use to respond to the impacts is covered in the last part of the paper.

### **1. 0 Overview of PETRONAS**

Multinational enterprise is defined as a large company with substantial resources that perform various business activities through a network of subsidiaries and affiliated located in multiple countries. (Cavusgil, Knight& Riesenberger, p. 13).

PETRONAS, the acronym for Petroliam Nasional Berhad is a petroleum multinational corporation headquartered in Kuala Lumpur, Malaysia which was incorporated on 17 August 1974 under the Companies Act, 1965. It is national oil company of Malaysia, vested with the entire ownership and control of the petroleum resources in the country (PETRONAS, 2010). Under the leadership of Tan Sri Hassan Marican, PETRONAS is transformed rapidly into a global company with oil explorations and business joint ventures with overseas partners. Over the years of effort, it has become a fully-integrated oil and gas corporation with operations in more than 30 countries worldwide and ranked among FORTUNE Global 500® largest corporations in the world (PETRONAS, 2010).

## **1. 1 Integrated business of PETRONAS**

PETRONAS is fully integrated across the value chain from the upstream exploration, development, production, processing, and transportation and gas transmission to the marketing of liquefied natural gas and other petroleum products as shown in Figure 1. 0. PETRONAS also involved in domestic refining, petrochemical manufacturing and marketing business, while managing a globally coordinated downstream operation designed to optimize product delivery to its customers through its marketing and trading operation (PETRONAS Capital, 2009). PETRONAS also engage in shipping, automotive engineering and property investment.

Figure Integrated Business of PETRONAS

Source: PETRONAS Annual Report 2010

## **1. 2 Petroleum as the Core Business of PETRONAS**

Petroleum is the core business of PETRONAS because refined petroleum products account for 37% of the company total revenue amounting to RM80. 7 billion (PETRONAS, 2010). Exports and domestic operation contributed 35% and 19. 7% of PETRONAS's total revenue respectively which bring positive balance of payments to Malaysia (PETRONAS, 2010). Thailand, Japan, Korea and Singapore has been the main crude oil export countries of Malaysia which account for 87% whereas over 40% of gas was exported to markets in Japan, Korea and Taiwan, most of the remainder used domestically for electricity generation (Malaysia Green Technology Corporation, 2010).

Figure PETRONAS Composition Revenue 2010

Source: PETRONAS Annual Report 2010

The international operations are as important to PETRONAS which generated 45.3% (RM98.1 billion) of the company total revenue. PETRONAS's production are mainly comes from Indonesia, Thailand, Myanmar, Vietnam, Chad, Egypt, Sudan, Mauritania, Iran, Pakistan and Turkmenistan. Africa remains to be the company's prominent operation region which contributed 57.7% of the company international production followed by South East Asia (25.1%) & Oceania and Middle East & Asia (17.2%).

### **1.3 Organisational Structure of PETRONAS**

Figure Organization structure of PETRONAS

Source: PETRONAS Annual Report 2010

PETRONAS adopted a centralized functional organisation structure which the executive vice president (EVC) and vice presidents (VC) have to constantly report their performance to the CEO. Each VC or EVP from respective function are responsible to monitor and controlling the overseas operation with the aids of overseas joint venture companies or partners

## **2.0 External Analysis of PETRONAS**

### **2.1 Political**

PETRONAS'S oil exploration often takes place in high political risk countries such as Sudan and Iraq with abundant resources of oil and natural gas.

Sudan has been in political instability and having war for more than three-quarters of its existence due to the independence, protracted conflict rooted in deep cultural and religious differences which has slowed down country

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economical and political development (U. S. State Department, 2010).

Recently, Sudan's internal war evolved from the issue of exploring more oil region outside the territory because of depletion of the existing oil reserves.

Despite political instability of Sudan could disrupt PETRONAS in oil exploration, the company had strengthened its politics affiliation through Malaysian Government to mitigate the effect. For example, PETRONAS is welcome by Sudan Government to pursue exploration and development works in its, Melut and Muglad Basins which has expanded in both the upstream and downstream sectors of the country's oil and gas industry (PETRONAS, 2010).

Besides, liberalize of countries' trade policy is prominent to guarantee the profitability of PETRONAS's overseas operation. In Malaysian, fewer tariffs are imposed on petroleum and gas product. PETRONAS is assigned to regulate the upstream activities in oil and gas as well as controlling the foreign investment of upstream petroleum and gas industry through the form of production-sharing contracts (PSCs), between foreign investors and PETRONAS. Likewise, South Africa's government also developed their national oil and natural gas company, Petroleum Oil and Gas Corporation of South Africa (PetroSA) on managing and promoting the licensing of oil and gas exploration includes onshore and offshore exploration of the country. Thus, PETRONAS set its own oil refining and marketing presence in Africa through its 80% owned subsidiary, Engen Petroleum Limited " ENGEN", a leading South African refining and marketing company.

## **2. 2 Social**

Islam remain as the important role in shaping Malaysia's position on many international issues especially those related to the Muslim world of which the Middle East is a part (Ruhana Harun, 2009). Middle East and North Africa account for 60.4% of the world oil reserve which are the important for PETRONAS's exploration and production. Thus, Malaysian government has been proactive to build up religious affiliation by developing membership of a worldwide Islam brotherhood. The action is paid off when Malaysia oil reserves have dwindled and few domestic opportunities exist to drill for new reserves, PETRONAS has successfully to expand its operations to Iraq and Sudan which are Islamic oriented developing countries.

## **2. 3 Economic**

PETRONAS is the biggest contributor to the Malaysian government budget, accounting for 39.3% of the federal government's revenues in 2008, up from 36.4% in 2007 (CIA, 2010). According to Bank Negara, 26% of inward FDI of Malaysia was channelled into manufacturing oil and gas in 2008. With the financial support of PETRONAS, Malaysian Government has been subsidizing the local fuel prices since 2004 which is different from many countries whose followed the exact fuel prices regulated by global market price of gasoline (Bernama, 2010). The fuel price subsidies is intended to protect the local welfare of middle income household but it causes 5.0 to 44% of Malaysia's fiscal deficit (JATRO). The activities of the state-owned PETRONAS influence the aggregate patterns, resulting in substantial investments in exploration and extraction in the oil and gas industry which is

more towards the US, Canada and Australia as the recent rapid development of unconventional gas resources.

## **2. 4 Technology & Environment**

In Malaysia, domestic reservoirs are maturing due to the fact that Malaysian production is depleting since oils has been produced for hundred years.

PETRONAS has been expanding overseas exploration and production of resources such as South Africa, Egypt and so on. Just like many other oil companies offshore rig has caused ecological imbalances such health and reproductive problems for surrounding marine life, destroys kelp beds, reefs and coastal wetlands, and exposes the wildlife to threats of oil spills

(Greening Forward, 2008-2010). In such way, PETRONAS's image is harm through the directly linkages to environments' pollution. Company has been focusing on green technologies and developing in-house greening solutions. In particularly, the company has an ongoing research for strengthening PETRONAS' ECOPLUS™ environmentally friendly, degradable polymer series (PETRONAS Annual Report).

## **3. 0 Overview of Globalization**

According to Business Dictionary, globalisation implies opening out beyond local and nationalistic perspectives to a broader outlook of an interconnected and inter-dependent world with free transfer of capital, goods and services across national frontiers.

As world economy globalizes the national economies integrate into the international through trade; foreign direct investment; short-term capital flows; international movement of workers and people in general and flows of

technology (Najam, A., Runnalls, D. & Halle, M). This has created opportunity to the rise of multinational like PETRONAS in developing country venturing to the petroleum industry that used to be the exclusivity of companies from developed countries such as Royal Dutch Shell from United Kingdom and Exxon Mobil from United States.

With the globalisation effect, PETRONAS has been growing organically and through strategic partnerships, via joint ventures, mergers & acquisitions and so on as catalysts for escalated performance (Dato' Shamsul Azhar Abbas, 2010). PETRONAS is gaining more freedom either on exporting petroleum products or setting up oil refineries in worldwide. This enable the company to continue dominant its position in the international business environment by penetrating larger capital market that has lesser regulations on foreign direct investment. For instance, PETRONAS is included in " The New Seven Sister" ranking by Financial Times which considered as one of the most influential international oil and gas companies which controlled about one third of the of the world's oil and gas production and reserves (Nicholas Vardy's The Global Guru, 2010).

However, globalisation is not a bonus giving for all companies but imposes certain opportunity cost to the companies' operations. PETRONAS may enjoy of possessing diversified revenue base which generated from its overseas operations and marketing. At the same time, the company has the opportunity cost of facing unexpected problems of like changing economic, regulatory and political environments globally and regionally which would create a serious impact to the company's growth. The actual globalisation



impact on PETRONAS will be political risk, global competition and global technology transfer.

### **3. 10 Actual Globalisation Impact on PETRONAS**

#### **3. 11 Political risk**

Political risks of operating countries remain as the fundamental globalisation impact of PETRONAS because 42. 1% of the company's revenue derives from international operation in countries such as Iran, Myanmar, Cuba and Sudan in the fiscal years ended in 2009. PETRONAS strategy was to pick strongest partner in operating countries to minimise these risk. For instance, the company is in partnership with China National Oil Corp. and Sudan's National Oil Company, Sudapet, while in Iran it has a tie-up with France's TotalFinaElf, which has a strong relationship with the country (Leslie Lopez, 2003).

#### **3. 12 Global Competition**

Globalization makes it increasingly difficult for PETRONAS to rely only on national regulation to protect its local positions in oil and gas industry. PETRONAS is deemed to face intense competitions of its oil and gas and refining industries in both domestically and internationally. For instance, PETRONAS's retail subsidiary company, PETRONAS Dagangan Sdn Bhd used to compete with its main competitor Royal Dutch Shell but now competing with other retail competitors like ESSO (Exxon Mobile subsidiary), Caltex and BHP (Boustead Petroleum Marketing Sdn Bhd). On the other hand, globalisation of liberalization enables oil firms to set up oil refinery in other countries which lead PETRONAS in a competition of oil exploration and production operations in Sudan.

### **3. 13 Risk and Benefit of Technology Transfer**

As economies open up, more people become involved in the processes of knowledge integration and the deepening of non-market connections, including flows of information, culture, ideology and technology. New technologies move across boundaries quicker, by connecting workers and citizens across boundaries and oceans (e. g., the rise of global social movements as well as of outsourcing), but they can also threaten social and economic networks at the local level (Najam, A., Runnalls, D. & Halle, M). Under the effect of globalization, technology transfer is performed from MNC home country to host countries. PETRONAS presence in Sudan has transferred its exploratory and production technology to expand upstream and downstream sectors of Sudanese oil and gas industry. This could have harmed PETRONAS in a sense that transferring its competitive advantage to Sudan because the nation can explore the country's oil reserved through skills learned from PETRONAS.

Nevertheless, PETRONAS also learn special technology skill through its overseas joint venture partners. PETRONAS learned appropriate petrochemical technology through its joint venture partners include The Dow Chemical Company ("Dow Chemical"), BASF Netherlands B. V. ("BASF"), BP Chemicals, Idemitsu Petrochemical Co. Ltd, Mitsubishi Corporation, and Sasol Polymers International Investments (Pty) Ltd, ("Sasol Polymers") which possess financing capability, marketing and distribution expertise (PETRONAS Capital).

### **3. 20 Potential Globalisation Impact on PETRONAS**

#### **3. 21 Depletions of Natural Resources**

The rapid acceleration in global economic activity and our dramatically increased demands for critical, finite natural resources undermine our pursuit of continued economic prosperity (Najam, A., Runnalls, D. & Halle, M.). Under the globalisation process, firms gain free access to exploit natural resources of one country to another without any restriction. Non renewable resources like petroleum and gas sooner will be depleted over the years through uncontrollable exploration and productions. These impose serious environmental cost as well as the influencing the future direction of oil and gas industry. Sustainability of PETRONAS and other petroleum companies is deemed to be affected as petroleum product is source of revenue of the industry. Therefore, finding replacement of these depleted resources through invention of new technology is crucial to sustain the companies the industry.

#### **3. 22 Changes in foreign environmental laws and regulation**

In order to protect the environments, some countries might enact additional environmental legislation and regulation regarding exploration and production of oil and gas, petroleum, petrochemical products and other activities. Environmental law and regulation would limit or prohibit the company on drilling activities within protected areas and certain other areas; and impose penalties for pollution resulting from oil, natural gas and petrochemical operations, including criminal and civil liabilities for serious pollution ( Green Forward, 2008-2010). These would incur significant unforeseen expenditures for PETRONAS to comply with such requirements, which could adversely affect on PETRONAS' business, financial condition and

results of operations in overseas. Therefore, PETRONAS is in disadvantage because of taking longer time to response the changes in foreign environment laws and regulation attributes to its centralised management structure which connected globally

### **3. 23 Risk of “ Brain Drain”**

During the year under review, the shortage of critical skills faced by the oil and gas industry represented the key people related challenge faced by PETRONAS (PETRONAS, 2010). With the globalisation effect, PETRONAS could have enjoyed the benefit of penetrating and extracting talents in different countries by setting up overseas operations. However, it put the company at risk of “ brain drain” in worldwide operation. Brain drain is referring to the net loss of a country’s highly trained and skilled manpower through migration (WebFinance, 2010). This is because globalisation process improves the mobility of skilled labour to move around the world freely. This means workers are becoming active information seekers and concern about their benefits in the organisations. Conveniences of knowledge sharing like pay standards and job opportunity via Internet able to influence the workers decision on staying in the same organisations. If PETRONAS Malaysia unable to offered attractive incentive to motivate skilled workers, the company is likely to find very difficult to retain the higher skilled workers who attracted better remuneration and benefits from companies in developed countries such as UK, Middle East, and so on.

### **4. 0 Recommendation**

<http://www.franteractive.net/resources/Ansoff-Matrix>. GIF

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## Figure Ansoff's Matrix Strategy

Source: <http://www.franteractive.net/resources/Ansoff-Matrix>. GIF

### **4. 10 Diversify to innovative green technology**

In order to overcome the potential impact, PETRONAS should not over dependence on natural resource like oil and gas to sustain the company future. PETRONAS is recommended to acquire new market with new product line through diversification. The company could focus on developing green technology as the environment preservation is key concern of around the world. Thus, PETRONAS is recommended to develop alternative fuels such as converting plastic waste to fuels, wastewater to fuels and so on which are considered economical to consumers yet reducing the pollution and damages to environment. In Malaysia, PETRONAS should emphasize on recycle energy supply technology by turning garbage into energy because Malaysian produced 23000 tonnes of garbage each day. With this technology, PETRONAS could form partnership with local electricity producer, Tenaga Nasional Berhad (TNB) as a way to increase its competitive advantage of diversification in energy industry over other oils and gas competitors as well as improving the environment status in Malaysia.

### **4. 20 Reposition PETRONAS's image**

By addressing the environmental problem causing by exploration and production activities, PETRONAS has been investing on its corporate social responsibility (CSR) centred on enhancing the education and community programme in Malaysia and abroad. In Vietnam, PETRONAS' contribution to the nation's development through education was recognised through the

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Certificate of Merit in Education by the President and Deputy Prime Minister of Vietnam in 2010 (PETRONAS, 2010). But still there is a limitation of the company's CSR direction which should be refocused on preserving the environments. Therefore, it is important for PETRONAS to reposition its image to be responsible and environmental concern oil and gas corporation. The company has to be alert of the changes foreign environmental laws and regulation as well as filling Environmental Assessment (EIA) before setting up exploration, production, refining and chemical projects in overseas. The company should increase investment on its research and development by reducing the air emission and discharges resulting from the operation of natural gas processing plant, chemical plants, refineries, pipeline system.

#### **4. 30 Retain talents with attractive incentives program and growth**

PETRONAS believe staff is selflessly built, nurtured and grown under the corporation share value of loyalty, integrity, professionalism and cohesiveness. PETRONAS should continue its CSR on providing quality education in each country as a way to recruit talents from amongst the local and overseas graduates. However, retaining the existing high quality staffs of PETRONAS is a prominent factor to sustain the future of the corporation. Therefore, PETRONAS should increase the human empowerments by offering occupational mobility along both the technical or managerial tracks and ample opportunities for learning and growing. PETRONAS should also launches special incentive program to motivate staff through giving bonuses, company trips and other staff benefits. In this way, staffs would find themselves appreciated and more willing to serve the company with loyalty.

## 5. 0 Conclusion

From time to time, the most distinct globalisation impact on PETRONAS is the politics instability of oil exploration and production countries followed by the global competition of building market share as well as the oil and gas resources. The trend of technology transfer under globalisation, on the other hand, has benefited PETRONAS of capturing technical skills from overseas partners but it also leads PETRONAS losses its competitive advantage through transferring patented technologies while exploring other countries. Potential impact of globalisation would be the depletion of resources, changing environmental law and regulation and loss of human capital which are needed to take account by PETRONAS of sustaining its global presence in the coming future.

In order to mitigate the actual globalisation impacts, PETRONAS has to strengthen its politics and religious affiliation with oil production countries for the future benefit. As for resolving the potential impact, PETRONAS is recommended to perform diversification in innovative green technology as the world is stressing on environment preservation. In addition, the company needs to reposition its global image not only by means of its current corporate social responsibility that solely focus on regional education but it should be more focus on environment preservation. Next, PETRONAS's re-evaluate their incentives plan to avoid brain drain problem which high skilled workers are poached by competitors in developed countries.

As a conclusion, it is important for MNC to join hand with government to mitigate the globalisation impact. PETRONAS strategy of growth through joint venture and partnership in the global is a brilliant way of reducing <https://assignbuster.com/the-petronas-corporation-based-in-malaysia-economics-essay/>

business risk. But without the effort of Malaysia Government of being proactive in developing politics and religious affiliation with Middle East countries, PETRONAS can never gain the opportunity to explore in these countries. Therefore, PETRONAS has to maintain its current competitive advantage as well as keep an eye on the unknown impact of globalisation.

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