

A brief review of petronas



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PETRONAS is the short for Petroliam National Berhad. As an incorporated company, it was founded on the 17th of August 1974. It was wholly owned and controlled by the government of Malaysia. PETRONAS has ventured into more than 32 countries including Argentina, Russia and Egypt. It currently employs over 30, 000 employees of 38 nationalities.

PETRONAS has involved in the entire petroleum activities. From managing the sharing contractors of the foreign production, it has been changed into developing its own capabilities in the upstream sector – allow it to take the lead in the exploration and production of the nation’s oil and gas resources. Vested with the entire oil and gas resources in Malaysia, PETRONAS is entrusted by the government to develop and add value to these resources.

Besides that, it also ventured into downstream activities. It seeks to maximize value creation and strengthen of its operations all the way down the value chain. The range downstream activities of PETRONAS includes oil refining, gas processing and liquefaction, gas transmission pipeline operations, petrochemical manufacturing and marketing, property investment, shipping, marketing of liquefied natural gas, marketing and distribution of petroleum products, and trading.

Internal Environment

There is a high level of interdependence between an organization and its internal environment. The internal environment, also known as micro force, comprises elements that have a direct influence on the operations of the organization. They have an impact on the achievement of the organization’s goals. The Micro forces of the environment are:

Vision and Mission

PETRONAS is a big organization and a corporation which is widely known to the world as a company that exports Malaysian oil. Being a big organization, PETRONAS has its very own vision and mission to achieve its common goal and to serve its customers the best service they can provide.

As we all know vision is a long-term plan that exists in almost every company or organization. PETRONAS's vision statement is to be a leading oil and gas multinational of choice. It is hoping to become a worldwide known organization and also the first choice among all other oil companies present so far.

PETRONAS mission statements, on the other hand, are as follows:

We are a business entity.

Petroleum is our core business.

Our primary responsibility is to develop and add value to this national resource.

Our objective is to contribute to the well-being of the people and the nation.

(PETRONAS, 2010)

The mission and vision PETRONAS believes has made it grows tremendously since it was incorporated in the month of August on the 17th in the year 1974. It is now a fully-integrated oil and gas corporation which is ranked among FORTUNE Global 500's largest corporation in the world.

Organizational structure

Organizational structure is the internal, formal framework of a business that shows the way in which management is linked together and how authority is transmitted. (Stimpson, 2006)

structure. jpg

Figure 1: The Corporation Organizational Structure of PETRONAS

(PETRONAS Case Study on Education, 2005)

As shown in the Figure 1, PETRONAS adopts the functional organization structure. It enables specialization and allowing its employees to focus on their respective areas. There is cross functional bonds between the respective divisions and departments. It is the bond and process of specialization that has led to the success of the organization. Team work is encouraged, all the departments work together to achieve the company's goals and targets. This has proved to rewarding for the organization as a whole and the employees, customers, suppliers and the community as a whole.

The line of authority is clearly drawn, orders are sent from the top most level, the president and the CEO. PETRONAS has also hired consultants to improve business and organization results.

Functional Strategies

Corporate Planning and development division

This division plans long term and short term business strategies which lead to the development of the organization.

Education division

This division undertakes the responsibility of all the educational activities associated with PETRONAS. It involves the scholarships provided by University Technology PETRONAS and the education programs provided to the underserved community.

Finance division

The Finance division provides the company with its accounting and financial reporting backbone of the company. Its role is to identify financial sources to finance the operations of the company and to locate profitable areas where the business can invest their money to get higher returns. PETRONAS is involved in the sports world through its investment with Mercedes F1team. It has also contributed towards the development of Turkmenistan economy, by investing US dollar \$ 1. 8 billion in the oil and gas industries.

Technical Services division

This division is set up to drive and manage the technological activities of PETRONAS.

Human Resource division

The most important function of the human resource department is recruitment, selection and training of employees among others. PETRONAS selects the best and brightest of employees through talent searches

amongst local and overseas graduate. PETRONAS trains and molds its own employees through technical training and innovative program provided in University Technology PETRONAS.

Shareholders

Shareholders of a firm can directly influence its policies and activities.

PETRONAS shareholder is the government. It generates income and value for its shareholder. PETRONAS gave the government RM 52.3 billion from its RM86.8 billion pre-tax profit, in the form royalty, dividends, corporate tax, income tax and export duty. PETRONAS provides shareholders with the opportunity to gain first hand exposure on the Company's operations by organizing several visits to its Gas Processing Plants. Such two-way communication increases corporate transparency and helps shareholders take a longer term view of their investment based on a better understanding of the company's corporate strategy and operation. PETRONAS recognizes the importance of timely and equal dissemination of information to shareholders. Therefore they arrange the Annual General Meeting (AGM) which is a crucial mechanism in shareholders communication.

Employees

“ PETRONAS must be committed to enhancing the capability of its employees, as a corporation is only as good as the people who work for it.”

This phrase is from PETRONAS mission statement. Employees are the most important asset of an organization, since it is the dedication, motivation and skills of an employee that make a business successful. PETRONAS highly values its employees and understands the importance of their motivation.

Therefore it arranges various programmes to encourage and support its employees by involving them in voluntary work. Programmes such as Sentuhan Kasih and Jalinan Insan allow their employees to contribute to homes for disadvantaged children and orphans in the areas of their operations. These programmes provide the employees with job satisfaction, which in return highly motivates them to perform better.

Community

Lord Holme and Richard Watts used the following definition.

“ Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”

The culture now is to be generous by giving back to the community.

Therefore organizations have certain responsibility towards the community they work in. PETRONAS is a responsible citizen of the community, thus is has successfully imitated and supported various social, environmental and community projects.

PETRONAS and Education

PETRONAS is committed is developing the people and they operate in by providing education particularly in the field on science and technology. They are determined to create a skilled human resource base for Malaysia through various schemes.

Scholarships

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University technology PETRONAS (UTP) – provides hands on technical training and innovative programs to help employees build skills and competencies.

PETROSAINS – provides a rich and motivating environment for the public to acquire knowledge about science and technology.

PETRONAS benefits from this program since they are molding their own workforce, by educating them in standards which are important to PETRONAS.

PETRONAS and Environment

PETRONAS recognizes the importance of conserving biological diversity in order to ensure people, animals and plants. Therefore they developed the KUALA LUMPUR CITY CENTRE (KLCC) PARK, to balance the challenging demands of growing urban populations, with the environmental conservation. A much needed public park and green lung for the city of Kuala Lumpur.

External Environment

External environment refers to the macro forces that happen outside the business which cannot be controlled by the business. These forces will influence the internal functions of the business and its strategies to adapt itself to the changing environment.

Political Environment

The Malaysian government chose to create a state company, rather than using taxes, production limits, leasing, or other familiar instruments of

supervision. The government sought to assert national rights over the use of the country's resources. A state company, having both supervisory powers over the majors and production activities of its own, was a workable compromise between allowing the majors full rein and excluding them, along with their capital and expertise, altogether.

PETRONAS is given full trust by Malaysia government to conduct business independently from the government. Government holds 100% of PETRONAS and formulates and implements energy policies including oil & gas. The company cooperates with the government for the common purpose to develop the country to achieve the level of advanced countries. Regarding the relationship between PETRONAS and the government, one executive in the company said, " There is a world, especially in the Third World, where only the government and the government (G&G) can open the first door." He claimed that there is the world which does not function well with the absence of " mutual trust" between the government and the national oil company.

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Legal Environment

Legal concepts, principles and issues are affecting everyday business decisions of all organizations. PETRONAS is a multinational organization. Therefore the company is subjected to laws in all of its host countries.

Petroleum Development Act 1974

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To regulate the oil and gas industry to achieve Malaysia's economic development needs, Petroleum Development Act 1974 was formulated, and PETRONAS was established under this act. Through this act, PETRONAS owns the exclusive right of ownership, exploration and production of petroleum and gas. Under the direct purview of Malaysia's Prime Minister, PETRONAS is responsible for its planning, investment and regulation of all up-stream activities.

Government Taxation

PETRONAS is liable to pay to the Federal and State Government in terms of dividends, taxes, export duties and royalties. In the year of 2009, PETRONAS has paid RM 30. 0 billion as dividends, RM20. 3 billion as income tax, RM 9. 1 billion as corporate income tax, RM 2. 2 billion as export duties and RM 6. 2 billion as royalties to the government (PETRONAS: Media Release, 2009).

Laws Regarding Employee Benefits

On the other hand, nearly all government pass laws to control recruitment, employment, minimum wages, health and safety at work, and trade union rights of employees. One of its aims is to protect the workers from any kind of physical injuries. It requires the working environment in PETRONAS to be safe with adequate equipment and sanitation. However, these requirements usually add up to the business cost.

Consumer Rights

In addition, PETRONAS has to protect consumer rights. The Consumer rights seek to protect the rights and interest of consumers, as well as to prevent

them from receiving products that do not reach a reasonable level of safety. PETRONAS sternly practices this as to ensure maximum popularity amongst other oil and gas company as well as looking after customer satisfaction.

Economical Environment

Economical environment refers to the collective of the nature of economic system in the country. It would affect a business in terms of recession, interest rates, exchange rates and global economic factors.

Recession

Recession is the process when values of goods and services decline in an economy. It results in the fall of demand for certain products, as income is reduced. To keep the demand on going, the prices of products are lowered. According to an article by Jane Lee in 2009, net income of PETRONAS in the year ended March 31 dropped 14%. It was its first annual profit decline in 7 years due to sapped energy demand in global recession and high production cost.

Interest rates

During inflation, there will be increase in the supply of money associated to the amount of goods available. This will result in a rise in prices of goods and services in the economy over a period of time. For PETRONAS, the high interest rates and fall of purchasing power would consequently affect the cash flow of the organization.

Oil Price

Oil Price has strong relationship with PETRONAS sales performance. When oil price in Malaysia increase, its sales will strongly increase, and when oil price in Malaysia decrease, its sales also decrease.

<http://www.thegeminigeek.com/wp-content/uploads/2009/07/business-environment.jpg>

Technological Environment

In order to adapt itself to the rapid growing technological environment, an organization has to be versatile and recognises the value of technology to its business growth. PETRONAS is a technology dependent organization that promotes and uses technology vastly for research and development. It pursues the strategic deployment and application of technology to further enhance operational excellence and maximize the potential of its existing assets and emerging opportunities.

Technology in Gas Business

In the Gas Business, PETRONAS's technology emphasizes on mercury management. With the initiatives to remove mercury from raw condensates, the onshore mercury removal system, a technology that is among the first in the world, has been installed at PETRONAS' Onshore Gas Terminal in Kertih. This system is able to treat raw condensates at the terminal, to improve operational and Health, Safety and Environment (HSE) performance as well as to assure product quality.

Technology in Oil Business

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In the Oil Business, PETRONAS continue to pursue leading edge technologies to enhance its fuels and lubricants businesses. PRIMAX 3, the unleaded petrol, was developed in-house utilizing a superior quality fuel formulation innovated by optimising base fuel properties through the addition of the Sinar G-05 additive (PETRONAS: Oil Business, 2010). While meeting environmental standards, it enhances engine performance and efficiency.

In addition, PETRONAS also believes there are opportunities in alternative energy resources and continue to explore the potential of hydrocarbon resources as well as solar energy and bio-fuels. In building a long term and sustainable energy business, the company looks toward Green Technologies to prepare for the future low-carbon economy.

These technologies are believed to be providing a strong competitive advantage for PETRONAS to strengthen its position in global business.

Competition

In any of the industry, there must be competition among organizations. An organization will try to get more customers to buy their product instead of the one offered by the competitors. The success of organizations depends on which one makes the most attractive products at lower prices.

The major competitors to PETRONAS are Shell and Caltex. They produce different type and efficiency of petrol.

PETRONAS

PETRONAS has designed PETRONAS PRIMAX 3 to provide maximum protection and performance for your car. By formulating with unique additive

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components, PETRONAS PRIMAX 3 efficiently protects the engine against injector fouling and corrosion, reinstating the car to its peak performance to improve fuel economy.

Shell

However, Shell is the leader in developing high quality fuels. Shell Super with fuel economy formula is specially designed by Shell experts to give you extra miles at no extra cost. It is formulated with Shell's Synthetic Viscous Friction Improver, designed to reduce friction in this crucial part of your engine, helping to improve its efficiency.

Caltex

On the other hand, all Caltex petrol's now include technologically-advanced, patented fuel ingredient, Techron®. Caltex Techron with cleaning agent is unsurpassed at keeping engines clean and cleaning up deposits to help reinstate original performance. It contains powerful detergents which help in removing deposits from fuel injectors intake ports and valves. The key benefits for using Techron® are improved performance, enhanced reliability, smoother drive, restored fuel economy and lower emissions.

Comparing these petrol brands, each of them has its own strengths. They are having a healthy competition in the petrol industry with the same goal to provide the best petrol they could produce.

Social Environment

Social environment refers to the factors regarding the society as well as the environment. An organization needs to have social responsibilities in order to contribute to the people of the society and to protect natural environment.

Social Responsibility on Consumer

Many companies are affected by society and vice-versa. For PETRONAS, it was noticed that consumers are the foundation of the entire business, and dissatisfied customer could be a warning signal to the business. Therefore, it has to take care of societal needs and safeguard human rights. For example, it concerns about the safety and health of consumers. It has to make sure that it supplies safe products to the consumers and provides product knowledge via advertisements, as well as ensures product utility and performance as advertised.

Social Responsibility on Environment

In undertaking its business activities, PETRONAS cares for the environment by adopting responsible environmental management practices in its operations. At the same time, it also contributes to the biodiversity and conservation of the environment for the sake of the community.

PETRONAS is taking every practicable and reasonable step to prevent the risk of injuries, health hazards and damages to properties in according to international Health, Safety and Environment standards. It is also investing in community-related initiatives in environmental conservation and urban

renewal, both in Malaysia and other countries. These community projects aimed to create sustainable benefit and tangible value to the communities.

<http://www.momisteaching.com/wp-content/uploads/2009/08/social-media-marketing.jpg>

Conclusion

Over the years, PETRONAS's unique experience and expertise, coupled with its technical and operational competencies have allowed it to be accepted as the preferred strategic partner by international companies and the host countries. Facing the adverse business and economic environment, PETRONAS is still able to integrate, add value and globalize its operations. These would bring the company towards the realization of its vision to become a "Leading Oil and Gas Multinational of Choice".

Moving forward, PETRONAS will continue to improve its business performance, strengthen its resilience and enhance its capabilities to confront the challenges in delivering a sustainable energy future for all its stakeholders. Moreover, it will be guided by its objective to serve the nation and people with high standards of ethics and integrity, while at the same time maximizing shareholders' returns.

(3029 words)