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**BPMN 3023 STRATEGIC MANAGEMENT**

**GROUP B**

***STRATEGIC AUDIT REPORT***

***COMPANY NAME: PETRONAS***

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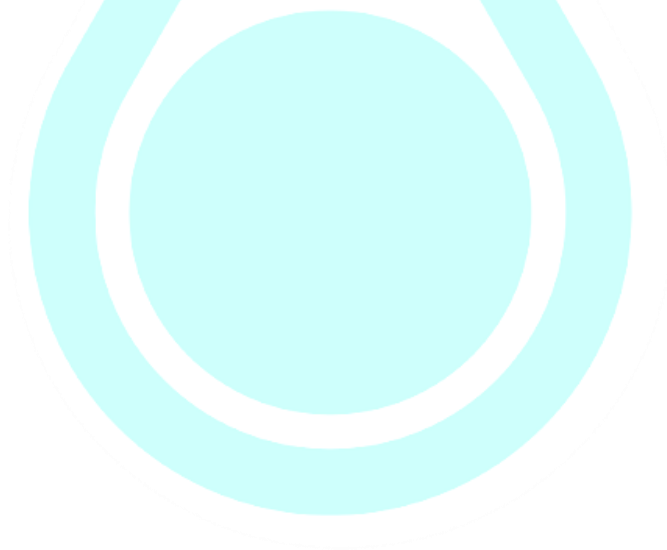
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## TABLE OF CONTENTS

|              |   |           |
|--------------|---|-----------|
| <b>1.0</b>   | <b>INTRODUCTION .....</b>   | <b>1</b>  |
| <b>1.1</b>   | <b>Company Background .....</b>   | <b>1</b>  |
| <b>1.2</b>   | <b>Company Profile .....</b>  | <b>3</b>  |
| <b>1.3</b>   | <b>BOARD OF DIRECTORS.....</b>  | <b>4</b>  |
| <b>1.4</b>   | <b>Organization Chart and Structure .....</b>                                   | <b>5</b>  |
| <b>1.5</b>   | <b>PETRONAS Product and Services.....</b>                                       | <b>7</b>  |
| <b>1.5.1</b> | <b>Products.....</b>  | <b>7</b>  |
| <b>1.5.2</b> | <b>Services.....</b>  | <b>7</b>  |
| <b>1.6</b>   | <b>PETRONAS Outlets.....</b>  | <b>9</b>  |
| <b>1.7</b>   | <b>Organization Vision, Mission, and Objectives .....</b>                       | <b>10</b> |
| <b>2.0</b>   | <b>ISSUES FACING BY PETRONAS .....</b>  | <b>10</b> |
| <b>2.1</b>   | <b>State Government stated law and political offence against PETRONAS. ....</b> | <b>10</b> |
| <b>2.2</b>   | <b>Issue of financial at PETRONAS.....</b>                                      | <b>11</b> |
| <b>2.3</b>   | <b>Issue of safety at PETRONAS .....</b>  | <b>12</b> |
| <b>2.4</b>   | <b>Corruption in PETRONAS' internal management .....</b>                        | <b>12</b> |
| <b>2.5</b>   | <b>Less Operations Earnings Cause Employee Discontent at PETRONAS .....</b>     | <b>13</b> |
| <b>3.0</b>   | <b>COMPANY'S INTERNAL ANALYSIS.....</b>   | <b>14</b> |
| <b>3.1</b>   | <b>Competitive Advantages .....</b>   | <b>14</b> |
| <b>3.2</b>   | <b>Financial Analysis .....</b>   | <b>20</b> |
| <b>3.2.1</b> | <b>Current ratio .....</b>  | <b>20</b> |
| <b>3.2.2</b> | <b>Quick Ratio .....</b>  | <b>20</b> |
| <b>3.2.3</b> | <b>Cash Ratio .....</b>   | <b>21</b> |
| <b>3.2.4</b> | <b>Profit Margin Ratio .....</b>  | <b>21</b> |

|        |   |    |
|--------|---|----|
| 3.2.5  | Return on Assets .....                          | 22 |
| 3.2.6  | Return on Equity .....                          | 22 |
| 3.2.7  | Debt Ratio .....                                | 22 |
| 3.2.8  | Debt-Equity Ratio .....                         | 23 |
| 3.2.9  | Fixed Asset Turnover.....                       | 23 |
| 3.2.10 | Operating Cash Flow/ Sales Ratio .....          | 24 |
| 3.2.11 | Cash Flow Coverage Ratio .....                  | 24 |
| 4.0    | COMPANY'S EXTERNAL ANALYSIS.....                | 25 |
| 4.1    | PETRONAS Porter Analysis.....                   | 25 |
| 4.1.1  | Threat of New Entrants.....                     | 25 |
| 4.1.2  | Rivalry among the Existing Firms .....          | 26 |
| 4.1.3  | Bargaining Power of Suppliers .....             | 26 |
| 4.1.4  | Bargaining Power of Buyers .....                | 28 |
| 4.1.5  | Threat of Substitute Products or Services ..... | 29 |
| 4.2    | PETRONAS STEEP ANALYSIS.....                    | 30 |
| 4.2.1  | Sociocultural Segment .....                     | 30 |
| 4.2.2  | Technology .....                                | 31 |
| 4.2.3  | Economic Segment .....                          | 32 |
| 4.2.4  | Ecological Segment .....                        | 33 |
| 4.2.5  | Political-Legal Segment.....                    | 33 |
| 5.0    | PETRONAS SWOT Analysis.....                     | 35 |
| 5.1    | PETRONAS Strengths.....                         | 36 |
| 5.2    | PETRONAS Weaknesses .....                       | 37 |
| 5.3    | PETRONAS Opportunities .....                    | 38 |
| 5.4    | Threats facing by PETRONAS.....                 | 39 |

|            |   |           |
|------------|---|-----------|
| <b>6.0</b> | <b>PETRONAS TOWS Matrix.....</b>  | <b>41</b> |
| <b>7.0</b> | <b>STRATEGY RECOMMENDATION.....</b>   | <b>46</b> |
| <b>7.1</b> | <b>First Business Issue: State Government stated law and political offence against PETRONAS .....</b> | <b>46</b> |
| <b>7.2</b> | <b>Second Business Issue: Financial at PETRONAS.....</b>  | <b>47</b> |
| <b>7.3</b> | <b>Third Business Issue: PETRONAS Safety Issue.....</b>   | <b>47</b> |
| <b>7.4</b> | <b>Fourth Business Issue: Corruption in PETRONAS' internal management .....</b>                       | <b>49</b> |
| <b>7.5</b> | <b>Fifth Business Issue: Less Operations Earnings Cause Employee Discontent at PETRONAS .....</b>     | <b>50</b> |
| <b>8.0</b> | <b>CONCLUSION.....</b>  | <b>52</b> |
|            | <b>APPENDIX.....</b>  | <b>53</b> |
|            | <b>REFERENCES.....</b>  | <b>58</b> |

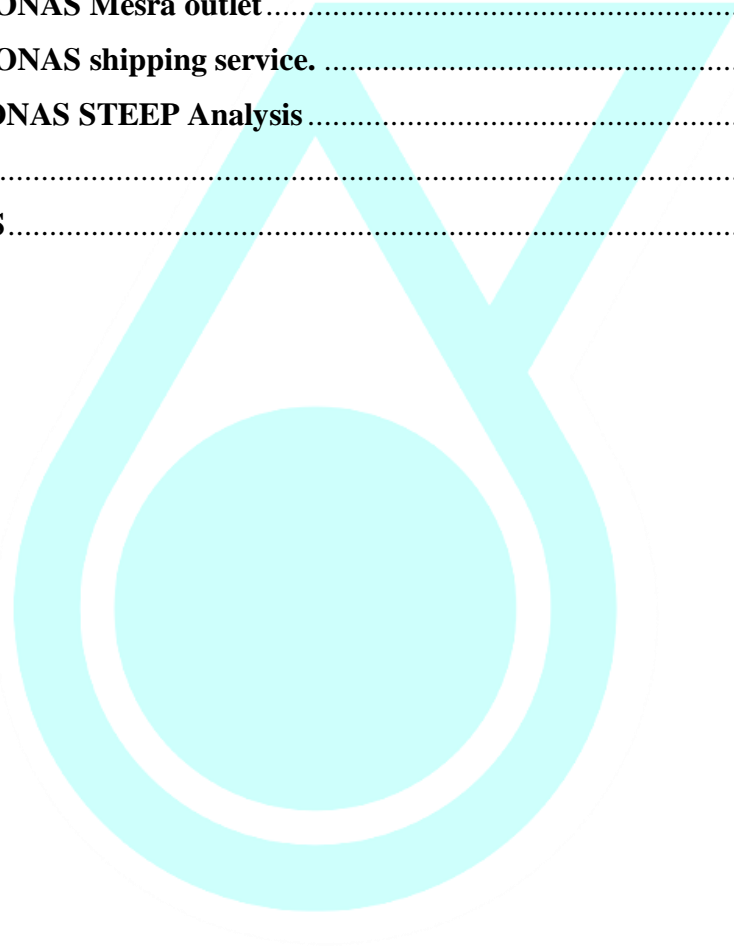


## LIST OF TABLES

|  |           |
|--|-----------|
| <b>Table 1.2 PETRONAS company profile.....</b>   | <b>3</b>  |
| <b>Table 1.6 Petronas Outlets.....</b>   | <b>9</b>  |
| <b>Table 3.1 Competitive Advantages.....</b>   | <b>19</b> |
| <b>Table 4.1.4 Bargaining Power of Buyers.....</b>   | <b>28</b> |
| <b>Table 6.1: PETRONAS TOWS Matrix.....</b>  | <b>45</b> |
| <b>Table 1.1 Chairman of PETRONAS.....</b>   | <b>53</b> |
| <b>Table 1.3 Executive Director President and Group Chief Executive Officer.....</b>                 | <b>53</b> |
| <b>Table 1.4 Independent Non-Executive Director.....</b>   | <b>54</b> |
| <b>Table 1.5 Independent Non-Executive Director.....</b>   | <b>54</b> |
| <b>Table 1.6 Independent Non-Executive Director.....</b>   | <b>55</b> |
| <b>Table 1.7 Non-Independent Non-Executive Director.....</b>   | <b>55</b> |
| <b>Table 1.8 Executive Director, Executive Vice President and Group Chief Financial Officer.....</b> | <b>56</b> |
| <b>Table 1.9 Company Secretary.....</b>  | <b>56</b> |
| <b>Table 1.10 Company Secretary.....</b>   | <b>57</b> |

## LIST OF FIGURES

|  |           |
|--|-----------|
| <b>Figure 1.2 PETRONAS Logo.....</b>   | <b>3</b>  |
| <b>Figure 1.3 Top Management (Executive Leadership Team) .....</b>                       | <b>4</b>  |
| <b>Figure 1.4: PETRONAS organization chart and structure (Annual Report, 2019) .....</b> | <b>5</b>  |
| <b>Figure 1.5: Products.....</b>   | <b>7</b>  |
| <b>Figure 1.6: PETRONAS petrol station service .....</b>                                 | <b>7</b>  |
| <b>Figure 1.7: PETRONAS Mesra outlet.....</b>  | <b>8</b>  |
| <b>Figure 1.8: PETRONAS shipping service. ....</b>                                       | <b>8</b>  |
| <b>Figure 4.2 PETRONAS STEEP Analysis.....</b>   | <b>30</b> |
| <b>Figure 1.9: IFAS.....</b>   | <b>35</b> |
| <b>Figure 1.10: EFAS.....</b>  | <b>35</b> |



## **1.0 INTRODUCTION**

This report is a strategic audit of PETRONAS. The purpose of this audit report is to identify if the organization is meeting its goals and destinations in the most proficient manner thus, we would like to identify if organization is using the available resources correctly as well as efficiently.

### **1.1 Company Background**

Petronas, the state-owned oil, and gas company based in Malaysia, is a multinational energy and business group located among the world's largest corporate partnerships in Fortune Global 500. PETRONAS Gas ranked 1881st on the Forbes Global 2000 list of the world's largest public corporations in 2017. Petronas' implementation of the PETRONAS initiative has resulted in a greater sense of cohesiveness and unity in the company across multiple countries. In addition to these 103 auxiliaries, 19 groups owned 51% of the way claimed, and 57 additional groups were owned either completely or in part by this combination. (Petronas, 2021)

This diverse range of oil and gas-based products engages different nonprofit groups. PETRONAS has been described as one of the "new seven sisters" in the Financial Times. The organization is concerned with numerous activities in the oil sector, including upstream exploration and production of oil and gas, as well as downstream oil refining, marketing, and dissemination of oil-based commodities. This includes the exchanging, handling, and liquefaction of gas, as well as the construction of pipeline networks, gas transportation, advertising of liquefied flammable gas, and car design and development.

The upstream activities of PETRONAS incorporate finding and separating unrefined petroleum and flammable gas in the oil and gas industry. It is otherwise called Field of Exploration and Production (E&P). PETRONAS is a completely coordinated global oil and gas enterprise with the broad history from wellhead to the creation of useful coastal and seaward undertakings. The downstream oil and gas operations activities include petroleum treatment facilities, petrochemical factories, wholesale companies that supply oil-based products, retail outlets, and companies involved in the transport of flammable gas. the workshop has the ability to produce a wide variety of gas, diesel, Jet fuel, ointments, cooking gas, pharmaceuticals, and propane (Petronas, 2020)

PETRONAS division, Gas and New Energy streamlines under one banner LNG, Gas & Power, and New Energy. This represents company dedication as a supplier of renewable energy solutions to move into the future. Working in 12 nations within excess of 4,000 representatives around the world, the GNE Company intends to guarantee long haul esteem improvement and practical development for their accomplices by offering client driven, imaginative, and 'start to finish' answers for secure new gas and environmentally friendly power markets. PETRONAS plan to give effective and moderate cleaner energy fueling across the incorporated inventory network, to fulfil the developing worldwide need for energy.

In both hydrocarbon and inexhaustible ventures, they search for attractive business opportunities and benefit through our integrated strategy. A multiplicity of gasoline oils, as well as petrochemical products, is part of the offer. For the first time, innovation has emerged as the only means to ensure greatness in all they give, including energy, things, and arrangements. Maintainability is the crucially important part of whatever they accomplish because we have faith in the power of positivity to offer value to daily lives. Individuals' unity and accomplices for progress make them a collective.



## 1.2 Company Profile



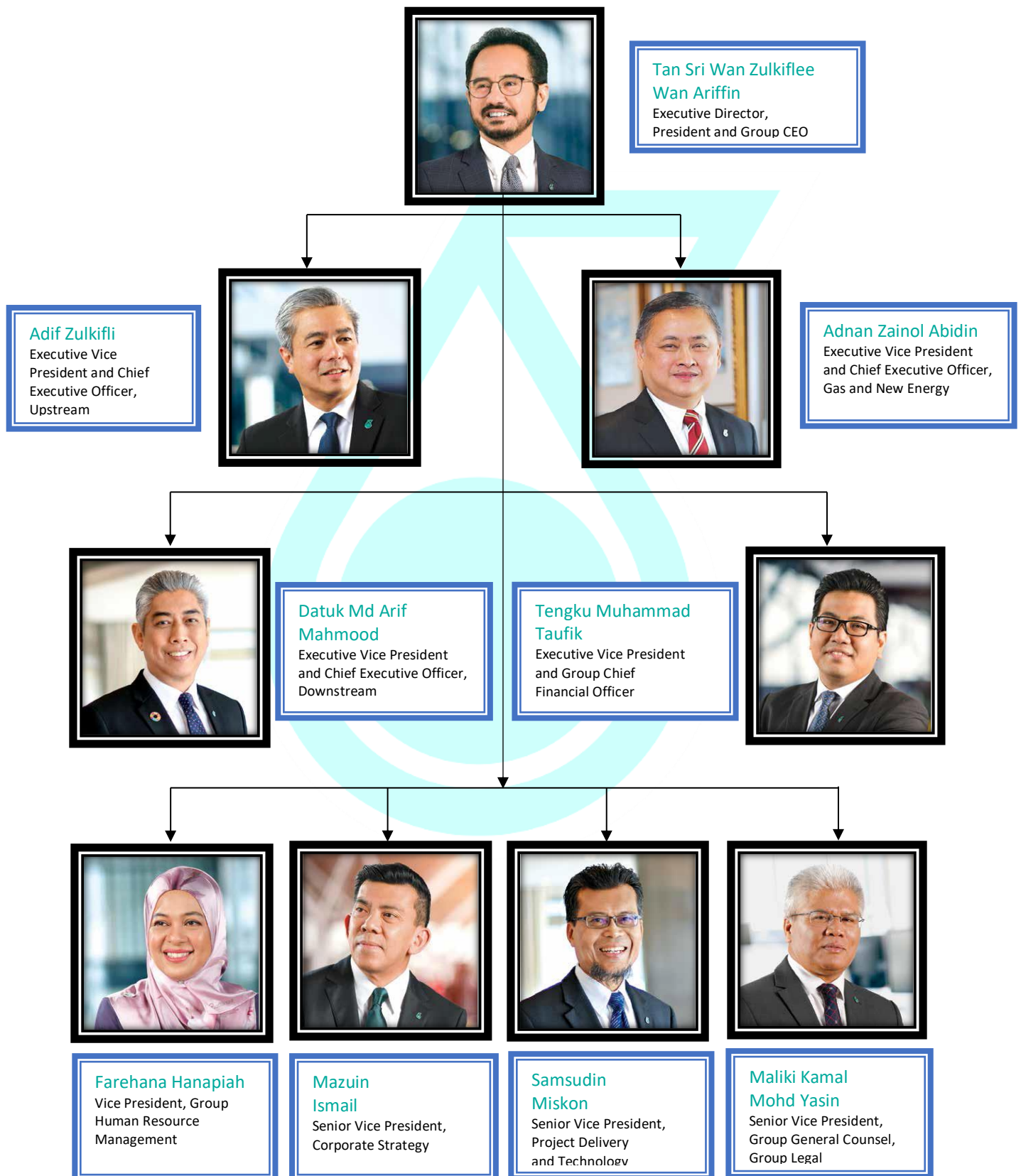
*Figure 1.2 PETRONAS Logo*

|                                      |   |
|--------------------------------------|---|
| <b>Company Name</b>                  | Petroleum Nasional Berhad ( <b>PETRONAS</b> )   |
| <b>Type of industry</b>              | Oil and Gas (Government Linked Company)   |
| <b>Date of Establishment</b>         | 17th August 1974  |
| <b>Products and Services</b>         | Petroleum, Natural Gas, Petrochemicals, Filling station services and Shipping services  |
| <b>Location of Headquarters</b>      | PETRONAS Group Strategic Communications<br>Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia  |
| <b>Contacts</b>                      | <ul style="list-style-type: none"><li>➤ Tel: +603 2051 5000</li><li>➤ Fax: +603 2026 5050</li><li>➤ <a href="http://www.PETRONAS.com">www.PETRONAS.com</a></li></ul>  |
| <b>PETRONAS Listed Subsidiaries</b>  | <ul style="list-style-type: none"><li>➤ PETRONAS Chemicals Group Berhad</li><li>➤ PETRONAS Dagangan Berhad</li><li>➤ PETRONAS Gas Berhad</li><li>➤ MISC Berhad for Logistics and Maritime</li><li>➤ KLCC Property Holdings Berhad</li></ul> |
| <b>Location of PETRONAS Stations</b> | Over 1,000 stations and 725 Kedai Mesra nationwide  |

*Table 1.2 PETRONAS company profile*

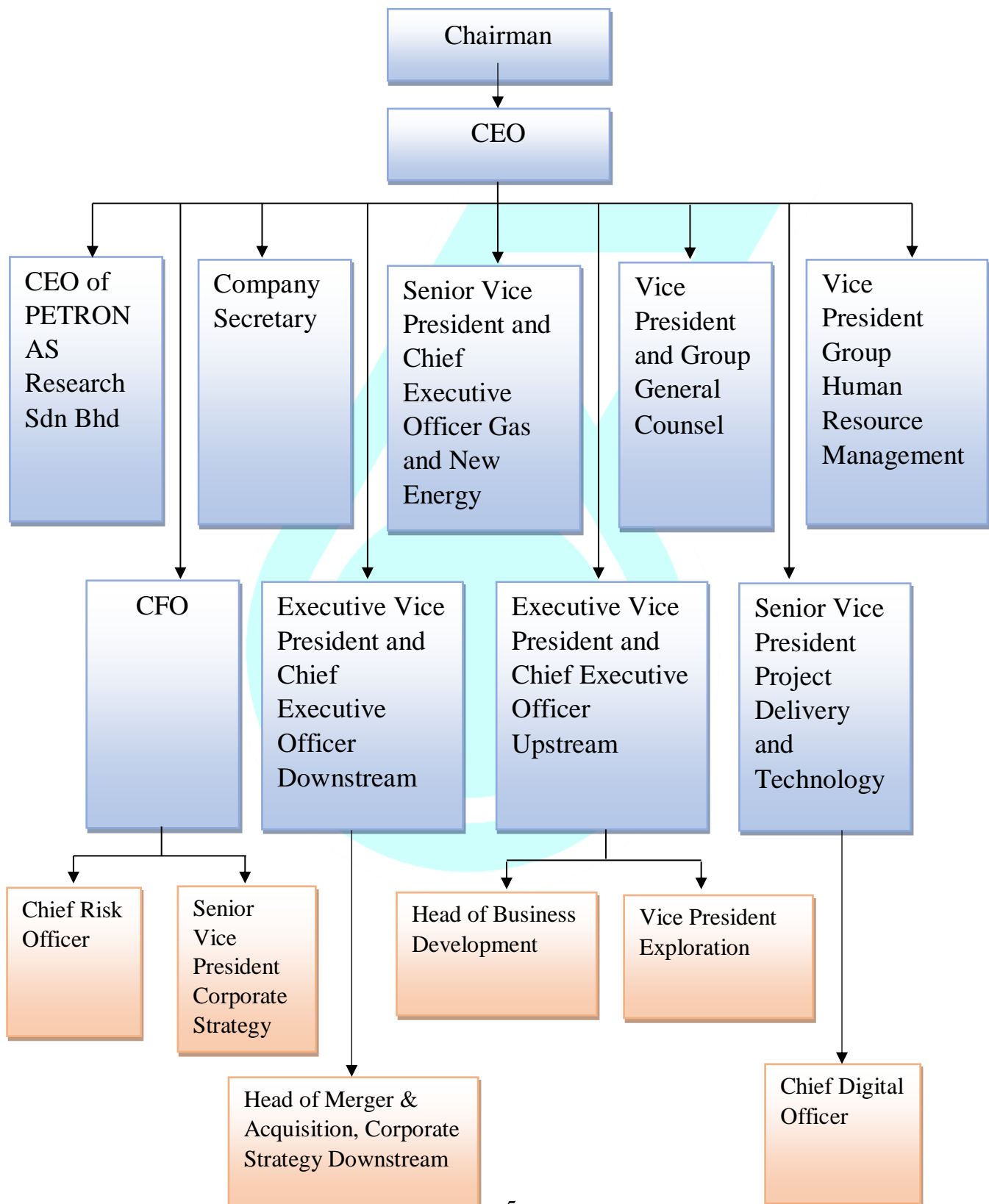
### 1.3 BOARD OF DIRECTORS

*Figure 1.3 Top Management (Executive Leadership Team)*



## 1.4 Organization Chart and Structure

*Figure 1.4: PETRONAS organization chart and structure (Annual Report, 2019)*



PETRONAS embraces the practical association structure where the association partition the office dependent on their capacity. In view of the association outline over, a useful design shows the job. For an example: the Chairman, CEO, Vice President, etc. It let the representatives of PETRONAS center around their particular regions and empowers specialization. PETRONAS embrace useful association design to guarantee the pioneer and the representatives utilizing their abilities successfully to accomplish business objective and objective. This capacity will assist PETRONAS with controlling the nature of execution and high usefulness. Be that as it may, in some cases, there is a cross-useful between the divisions where the gathering of individuals with various aptitudes cooperates to accomplish the shared objectives of PETRONAS. This holding let the achievement of the association.

Utilitarian association structure carries numerous benefits and advantages to the association where PETRONAS's chain of command is clear. This will diminish the quantity of correspondence channel inside the association. Additionally, the work is no copied in light of the fact that each office has their obligations, and the worker of PETRONAS will have a sense of safety as they play out their abilities unafraid. Subsequently, the worker of PETRONAS will show more reliability to the association. Moreover, the worker is the foundation of the organization. Hence, the practical hierarchical construction of PETRONAS will give a make vocation development way to its worker.

PETRONAS useful association structure is applicable to the current business activity. This is on the grounds that the unmistakable pecking order of practical association structure is fundamental for PETRONAS day by day activity to guarantee there is no duplication of work happen. In view of NST news, the investigators said that PETRONAS has fantastic execution during the unstable oil value climate and ought not do any enormous administration changes. The examiners likewise said that previous CEO Tan Sri Wan Zuliflee Wan Ariffin has great initiative abilities, and this his administration drove PETRONAS to perform well. This demonstrated that the administration of PETRONAS under useful association structure has great execution. PETRONAS is an enormous organization and manages numerous intricacies, a partition of positions of authority can let the pioneer and worker center around every division and work. Thus, PETRONAS current association structure is pertinent to the progressing industry activity.

## 1.5 PETRONAS Product and Services

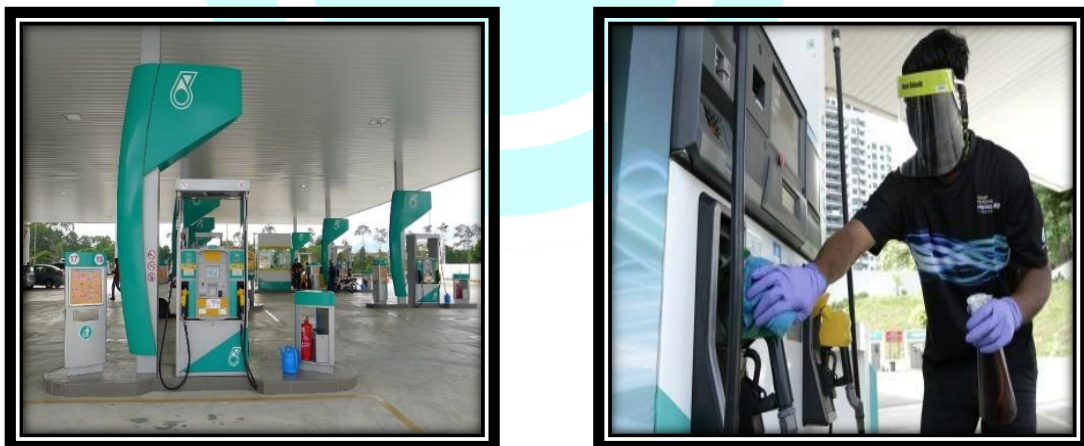
### 1.5.1 Products



*Figure 1.5: Products*

### 1.5.2 Services

PETRONAS provide the service of petrol station in Malaysia over 1,000 PETRONAS stations as well as 725 “Kedai Mesra” nationwide and shipping services.



*Figure 1.6: PETRONAS petrol station service*





*Figure 1.7: PETRONAS Mesra outlet*



*Figure 1.8: PETRONAS shipping service.*

## 1.6 PETRONAS Outlets

| <b>PETRONAS Company Building Activities</b>   | <b>Physical Building Address</b>   |
|---|--|
| <b>Headquarters, Marketing and Trading</b>  | Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia.                                   |
| <b>Offshore oil and gas Platform</b>  | Terengganu, Sabah and Sarawak  |
| <b>Refineries Facilities</b>  | Kertih (Terengganu) and Sg.Udang (Melaka)  |
| <b>Petrochemical Manufacturing</b>  | Kertih (Terengganu), Gebeng (Pahang), Bintulu and Sipitang (Sabah)   |
| <b>Gas Processing</b>   | Kertih (Terengganu), Segamat (Johor), Lumut (Perak) and Gurun (Kedah)  |
| <b>Gas Liquefaction</b>   | Sarawak (Bintulu)  |
| <b>Oil refineries, naphtha crackers, petrochemical plants, liquefied natural gas (LNG) terminals and regasification plant</b> | Pengerang Integrated Petroleum Complex (PIPC) Pengerang, Kota Tinggi, Johor.   |
| <b>PETRONAS Floating LNG Facility</b>   | (PFLNG 1) located at Keabangan field, offshore Sabah.<br>(PFLNG 2) will be developed at Rotan gas field, offshore Sabah. |

*Table 1.6 Petronas Outlets*

## **1.7 Organization Vision, Mission, and Objectives**

### ***Vision:***

- To be A Leading Oil and Gas Multinational of Choice

### ***Mission:***

- To develop and add value to petroleum resources wherever it operates, converting these resources into higher-value products that would satisfy the needs of customers and bring benefits to the people.

### ***Objectives:***

- To actively participate in the exploration of petroleum resources for the maximum benefit of the people.
- To attain full operational and technical expertise through manpower development and the transfer of technology in the shortest possible time.
- To achieve an adequate production level as to meet the nation's total crude oil and gas output.

## **2.0 ISSUES FACING BY PETRONAS**

### **2.1 State Government stated law and political offence against PETRONAS.**

Sarawak's Chief Minister, Datuk Patinggi Abang Johari Tun Openg, stated during the presentation of the Sarawak State Budget 2019 that Petrolia Nasional Berhad (PETRONAS) is compelled to remit the five percent sales tax on petroleum goods. PETRONAS was served with a Notice of Assessment (NoA) by the Sarawak government in November 2019 for failing to pay the state's five percent sales tax on petroleum goods. The Sarawak government then launched a case against PETRONAS, alleging that the company had refused to pay RM 1.3 billion in sales tax of the state on petroleum products in the first half of 2019. PETRONAS responded by filing a judicial review challenging Sarawak's jurisdiction over the establishment of such a sales tax. We learned from this case that the sales tax issue occurs when PETRONAS fails to pay the taxation towards the Sarawak government and is consequently sued. This is a problem for PETRONAS' top management because it could have a detrimental influence on the company if they do not file an appeal in court. The first effect is that PETRONAS' full-year profitability before interest, taxes,



amortization, and depreciation might be reduced by up to RM 3 billion. Furthermore, if PETRONAS is required to pay a lump amount of sales taxation during the year 2019 following losing in court, PETRONAS' cash flow will be impacted. Reduced revenue and a cash flow crisis will have a detrimental influence on PETRONAS' operations in the future. PETRONAS should establish a Cash Management Strategy as a result.

## **2.2 Issue of financial at PETRONAS**

PETRONAS' net profit fell in the year of 2019 financially due to low profits and impairment. The net profit of Petroliam Nasional Bhd (PETRONAS) fell by 27% to RM40.5 billion for the period ended on 31st of December of 2019, from RM55.3 billion in 2018. These were mainly resulting in lower earnings and RM 7.3 billion net impairment on resources, according to PETRONAS. Its revenue fell 4% to RM240.3 billion in 2019 from RM251.0 billion the previous year, particularly because to the relatively lower price performance of major products. This decline is driven largely by the consequence of greater sales, notably on LNG and also petroleum goods, combined with the influence of ringgit weakening versus the dollar. The decrease was partly offset. Tan Sri Wan Zulkiflee Wan Ariffin, president of PETRONAS and Group Executive Chairman noted that net profit was RM4.1 billion, dropping 71 percent from RM14.3 billion for the fourth quarter (Q4), principally owing to a loss of assets and decreased revenues. In Q4 the average income of primary products decreased by 8% to RM64 billion, down from RM69.9 billion.

Due to continuing geopolitical uncertainties and protracted trade stresses and short-term demand disturbances as a result of the Covid-19 outbreak, PETRONAS indicated that the prospect of the oil & gas industry remained slim. It expects these factors to affect its financial performance in 2020. President of PETRONAS stated that the entire industry was unprepared for the effects of COVID-19 and has led to softer demand from China, particularly for liquefied natural gas (LNG). Only 6% of the total group revenues were made by Chinese customers. PETRONAS stated that net asset impairments and lower income in the fourth quarter was partly compensated by lower tax expenses. PETRONAS stated that These deficiencies are driven mostly by reduced oil prices. On 31 December 2019, the gear ratio of PETRONAS declined marginally to 19,4% compared with 19,7% in the corresponding year before due to fewer lending after loans were repaid. Because of such issue, PETRONAS' sales decreased in 2019. This is due to PETRONAS Group which is marked by constant and extended volatility, geopolitical instability, as well as increased populism

and protectionism. PETRONAS Group must have a functional prediction strategy for unpredicted future occurrences that affect operational, economic, and financial operations in PETRONAS.

### **2.3 Issue of safety at PETRONAS**

The Sabah-Sarawak gas pipeline (SSGP) had been torn and fired on 13 January 2020 by stated by PETRONAS. Four kilometers from Long Selulong at Ulu Baram Miri, at 1:59 am the break-up and subsequent fire happened. In this occurrence, there are no injuries. However, this incident has caused much uneasiness and triggered fear for many of the residents close to the pipelines (Shankar, 2020). In this situation, this issue has to do with the question of safety, which also concerns the environment. In the security guide, the company did not do well. The neglect of PETRONAS therefore has a harmful impact to the environment and its nearby populations. The fire caused by the failure of the gas pipeline releases a great deal of toxins and gas to the environment and to people. This problem will not only damage the environment and citizens directly but will affect the image of the company. People are supposed to be reckless to this company. They did not do well hence in the safety manual, and the fire problem finally occurred. We thus recommend that PETRONAS assess the safety of all pipelines to guarantee that the pipeline does not leak or fail. We also propose that PETRONAS should always provide better social well-being, so that the image of the corporation is increased.

### **2.4 Corruption in PETRONAS' internal management**

Malaysia Anti-Corruption Commission arrested 3 PETRONAS workers who are engaged in corruption. Three double bills for the gas reservoir were supposedly filed by the men between 4th and 6th month of 2015. The MACC has said that the RM23.7 million alleged suspects have been detained. The company was paid in full, however no work has ever been done by PCSB. The internal management is linked to this problem in these scenarios. The effectiveness whereby the company converts such assets into revenue is diminished when resources are used within a corporation. This also has a detrimental influence on the name of the corporation. The existing stockholders would also be affected. When corruption in business is reported, current owners and shareholders lose faith and confidence in the company. In order to avoid it from happening then we'll have a certain advice. PETRONAS should review its rules and processes to enable all staff to whistle blow. Adequate internal audit standards should also be carried out for every

PETRONAS parent and subsidiary. Employees, sellers, and agents should also be instructed to take the proper measures against corruption and bribery.

## **2.5 Less Operations Earnings Cause Employee Discontent at PETRONAS**

The global oil price imbalance is among the greatest dangers to the petroleum and gas industries. The main feature of the PETRONAS sales, according to The New Straits Times, was oil and natural gas (LNG) products and perhaps even the effects of the declining ringgit value on the US Dollar. Based on the declaration, oil products are having a significant impact on PETRONAS income and profit. The company's issue is thus the imbalance of petroleum & gas costs and PETRONAS measures damage the organization by reducing cost and workforce. PETRONAS' decision to decrease staff and controllable costs could arise from a mismatch in the world price of oil. On this basis, consumer loyalty also comes from employee loyalty, which might affect consumers' loyalty by eliminating workforce. In addition, it may affect production by decreasing labor. The relationship between workforce and business ventures is simple: workforce is proportionate to productivity. On the other hand, an insufficient staff prevents companies from doing their work. The shortage of productivity means that revenues and income are decreasing, in some circumstances the company is unable to remain in service.

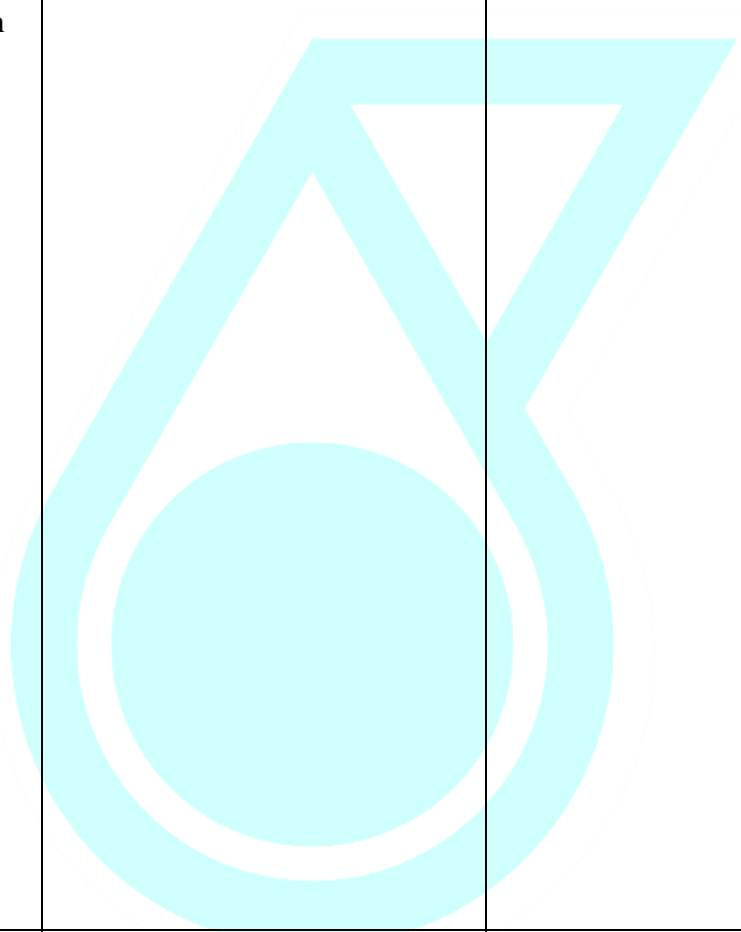
### 3.0 COMPANY'S INTERNAL ANALYSIS

#### 3.1 Competitive Advantages

| Primary/<br>Secondary<br>Support<br>Activities | PETRONAS   | Competior1<br><br>SHELL  | Competitor2<br><br>PETRON  | Competitive Advantage  |
|--|--|--|--|--|
| <b>1. Marketing activities</b>                 | <ul style="list-style-type: none"> <li>➤ Petronas is providing more than 35 countries with different types of goods. They offer items catering to the different requirements of fuel and gas for business and industry, as well as the different demands of consumers for gas and diesel.</li> <li>➤ There is only one business, Petronas, which caters to both industrial and home demands of clients. Petronas Group has more than 100 completely owned subsidiaries, some partially owned organizations, and about 50 other corporate entities</li> </ul> | <ul style="list-style-type: none"> <li>➤ The collaborative and integrated value delivery system SHELL uses to deliver its products and services on a global scale is helping the company stay ahead of its competitors. The company's various functions have been integrated and can communicate in real time to identify potential markets and provide products to customers from the nearest refinery/or third-party supplier's production facilities.</li> <li>➤ This company is the first company to announce the conversion of EURO 2M RON 95 to EURO 4M</li> </ul> | <ul style="list-style-type: none"> <li>➤ Petron is a pioneer in fuel technology. After pioneering the first and only Euro 4 gasoline (Blaze 100 Euro 4) that meets the 100-octane rating, the leading oil company recently launched a full range of gasoline variants that meet the Euro 4 standard.</li> <li>➤ This means that all Petron gasoline products are now more efficient and environmentally friendly.</li> </ul> | <ul style="list-style-type: none"> <li>➤ According to Malaysia's revised Euro 4 fuel standard, the total allowable sulfur content in RON 95 gasoline has been reduced from 500 ppm (ppm) to 50 ppm, thereby reducing vehicle emissions.</li> <li>➤ When PETRONAS is the pioneer in launching new fuels for national use, PETRONAS has a competitive advantage against PETRON and SHELL.</li> </ul> |

|                                 |   |   |  |   |
|---------------------------------|---|---|--|---|
|                                 | <p>that are owned or affiliated with it. In a nutshell, Petronas's product plan is extracted fuel and byproducts provided by the corporation.</p> <ul style="list-style-type: none"> <li>➤ And PETRONAS is the second company to announce the use of a new fuel (EURO 4M RON 95), but it is the first company to provide this fuel nationwide.</li> </ul>   | <p>RON 95 at a specific location.</p> <ul style="list-style-type: none"> <li>➤ SHELL-mainly uses geographic segmentation strategies to cooperate with customers.</li> </ul>   |  |   |
| <b>2.Technology Development</b> | <ul style="list-style-type: none"> <li>➤ PETRONAS has its own refinery to produce crude oil, while PETRONAS Penapisan (Terengganu) Sdn Bhd has a daily production capacity of 124,000 barrels of crude oil. In addition, Malaysia Oil Refining Co., Ltd. has a capacity of 300,000The number of crude oil barrels per day. The total crude oil production capacity is 424,000 crude oil per day.</li> </ul> | <ul style="list-style-type: none"> <li>➤ The Shell Refinery is located on the Mississippi River, between Baton Rouge and New Orleans. The refinery processes approximately 240,000 barrels of crude oil per day.</li> <li>➤ In addition, Shell also has advanced deep-water technology, which was drilled at a depth of 3,900 feet in Sabah, Malaysia.</li> </ul> | <ul style="list-style-type: none"> <li>➤ PETRON's comprehensive refining capacity is 268,000 barrels per day.</li> <li>➤ in addition, PETRON owns an 88,000 barrels per day refinery in Port Dickson.</li> </ul> | <ul style="list-style-type: none"> <li>➤ Among the three companies, PETRONAS has a competitive advantage in the production of crude oil from refineries, while PETRONAS can process 424,000 crude oil per day.</li> <li>➤ In addition, in terms of Deepwater technology, among these three companies, PETRONAS has a</li> </ul> |

|                            |   |   |  |   |
|----------------------------|---|---|--|---|
|                            | <ul style="list-style-type: none"> <li>➤ In addition, Petronas has advanced deep-water technology and has conducted drilling at a depth of 9,186 feet.</li> </ul>   |   |  | competitive advantage and can drill to a depth of 9,186 feet.   |
| <b>3.Inbound Logistics</b> | <ul style="list-style-type: none"> <li>➤ PETRONAS has its own offshore platform in Malaysia to explore, produce and develop oil and natural gas resources.</li> <li>➤ PETRONAS uses pipelines and floats to transport crude oil to onshore crude oil and natural gas terminals. The Floating Product Storage and Offloading (FPSO) device is one of the float methods, used in conjunction with tankers to transport crude oil. At the land terminal, the extracted crude oil will be stored and then transported by tanker to the refinery (road transportation). Petronas also owns the first floating liquefied natural</li> </ul> | <ul style="list-style-type: none"> <li>➤ SHELL has become a pioneer in offshore exploration and production in Malaysia.</li> <li>➤ SHELL Malaysia's upstream business is to extract and extract crude oil and natural gas from the sea in Sarawak and Sabah as raw materials. Gumusat-Kakap and Malikai are the latest SHELL Deepwater projects in Sabah for oil production.</li> <li>➤ SHELL Malaysia uses submarine pipelines and tankers to transport crude oil and natural gas (raw materials) from offshore platforms in Sabah and Sarawak to onshore platforms for oil and natural gas refining processes.</li> </ul> | <ul style="list-style-type: none"> <li>➤ PETRON Malaysia is one of the subsidiaries of PETRON Corporation, the largest oil refining and marketing company in the Philippines.</li> <li>➤ PETRON Corporation does not have its own offshore platform to exploit oil resources.</li> <li>➤ PETRON purchases crude oil as raw material from the Middle East. This crude oil is shipped to PETRON in the Philippines.</li> <li>➤ The Bataan Refinery (PBR) in a large crude oil carrier (tanker). Crude oil from the Philippines is transported to the PETRON Port Dickson refinery by large crude oil carriers. The crude oil is processed, processed, and converted into various petroleum products and</li> </ul> | <ul style="list-style-type: none"> <li>➤ Inbound logistics refers to the transportation, storage and delivery of goods entering the enterprise for production purposes. The Petroleum Development Act of 1974 granted the National Petroleum Corporation of Malaysia (PETRONAS) exclusive ownership of Malaysian oil and gas resources and made it the main regulator of upstream oil and gas activities. The bill gives PETRONAS an additional competitive advantage, allowing it to be responsible for the planning, investment,</li> </ul> |



|                    |   |   |   |   |
|--------------------|---|---|---|---|
|                    | gas (PFLNG 1) facility, the Canovit gas field in Sarawak and the PFLNG 2 in Rodan gas field in Sabah. |   | liquefied natural gas in the refinery.  | and supervision of all upstream activities.<br>➤ Compared with the two competitors SHELL and PETRON, PETRONAS has a superior competitive advantage in warehousing logistics activities. This is because PETRONAS has sufficient infrastructure, facilities, investment, and government support to handle inbound logistics activities, in which crude oil (raw materials) is transported from offshore to land terminals for transportation, storage and delivery for use in refineries Operations. |
| <b>4.Operation</b> | ➤ Petronas' business is divided into four divisions, namely upstream, natural gas and                 | ➤ SHELL's operating structure includes upstream, integrated natural gas and new energy, | ➤ PETRON has expanded the business of more than 2,400 gas stations nationwide in the Philippines. | ➤ According to the information in the annual report, PETRONAS, SHELL,   |



|  |  |  |   |   |
|--|--|--|---|---|
|  | <p>new energy, downstream and project delivery, and technology.</p> <ul style="list-style-type: none"> <li>➤ The main upstream business is the exploration, production and development of oil and gas resources. The Exploration and Production (E&amp;P) sector has an average of 183 production fields and 400 offshore platforms per year, with an average output of 2383kboe/d. PETRONAS is also the world's third-largest liquefied natural gas (LNG) participant.</li> <li>➤ Downstream activities, Including oil refining, sales of petroleum and petrochemical products. In 2018, PETRONAS was rated as the leader of methanol producers in the Asia-Pacific region and one of the leading chemical industries in the</li> </ul> | <p>downstream, and projects and technologies.</p> <ul style="list-style-type: none"> <li>➤ Shell's core upstream products include deep water, shale and conventional oil and natural gas. SHELL announced the Stones project in the U.S. Gulf of Mexico, which is the deepest oil and gas project in the world. The average annual output of SHELL is 2,734kboe/d.</li> <li>➤ Integrated Natural Gas Company is a midstream company responsible for managing LNG activities and selling LNG products.</li> <li>➤ Downstream organizations manage petroleum products and chemical activities. They also manage oil sands activities.</li> <li>➤ SHELL's Projects and Technology (P&amp;T) is responsible for providing</li> </ul> | <ul style="list-style-type: none"> <li>➤ In the 2019 annual report, the Malaysian National Petroleum Corporation (PETRON) has 11 factories in Malaysia, and the production plant is located in Port Dixon, Negeri Sembilan. In the Malaysian market, PETRON is the third largest downstream oil producer and added 57 new gas stations in 2019</li> </ul> | <p>and PETRON produce the same products as gasoline and gasoline.</p> <p>In order to stand out from other competitors, PETRONAS focuses on the development of petrochemical products, which has become a great achievement of PETRONAS.</p> <ul style="list-style-type: none"> <li>➤ In addition, PETRONAS is a technology partner of Mercedes-AMG. Petronas' fluid technology solutions work closely with the Mercedes-AMG Formula One team to maximize the role of performance racing. They have won the World Auto Championship five consecutive times from 2014 to 2018. Facts have proved that PETRONAS's</li> </ul> |
|--|--|--|---|---|



|  |   |  |  |   |
|--|---|--|--|---|
|  | <p>Southeast Asian market. Project Delivery and Technology (PD&amp;T) conducts data analysis, obtains insights, and provides consultation to improve the efficiency and efficiency of operations.</p> | <p>research and innovation to develop new technological solutions. P&amp;T provides technical services for upstream, downstream, and integrated natural gas. It verifies systems, processes, and skills to provide security performance guarantees</p> |  | <p>petroleum products stand out from other competitors. This is one of the differentiation strategies adopted by Petronas</p> |
|--|---|--|--|---|

***Table 3.1 Competitive Advantages***

## 3.2 Financial Analysis

### 3.2.1 Current ratio

✓ (Current asset / Current liability)

| 2018              | 2019                | 2020                |
|-------------------|---------------------|---------------------|
| 241,434 / 111,930 | 5,114,493 / 989,528 | 3,928,322 / 999,116 |
| =2.1570           | =5.1686             | =3.9317             |

The current ratio is used to measure the company's liquidity. The current ratio shows that the company is capable of meeting short-term debt obligations. The current ratio measures whether the company has enough resources to repay its debts in the next 12 months. The higher the ratio, the higher the liquidity of the company. In 2018, PETRONAS' current assets were 2.1570 times the value of current liabilities. This means that for every RM1 of current liabilities, PETRONAS has RM2.1570 of current assets to repay the debt. In 2019, PETRONAS' current assets were 5.1686 times the value of current liabilities. This means that for every RM1 current liability, PETRONAS has RM 5.1686 current assets to repay the debt. In 2020, PETRONAS' current assets were 3.9317 times the value of current liabilities. This means that for every 1 ringgit of current liabilities, Petronas has current assets of 3.9317 ringgits to repay the debts. Therefore, from the perspective of the current ratio of 3 years. In these three years, the best current ratio in 2019 was 5.1686.

### 3.2.2 Quick Ratio

✓ (Cash+ Short Term Investment+ Receivables)/ Current Liabilities

| 2018                       | 2019                | 2020                |
|----------------------------|---------------------|---------------------|
| (173,576 + 5,147 + 46,205) | (4,021,696+954,875) | (3,138,898+744,484) |
| 111,930                    | /989,528            | /999,116            |
| =2.0095                    | =5.0292             | =3.8868             |

Quick ratio, also known as acid test ratio, is a method of measuring liquidity using more liquid types of current assets. The calculation is like the current ratio, only inventory and prepayments are not included. A quick ratio greater than 1 means that the company has enough quick assets to pay its current liabilities. In 2018, the quick ratio was 2.0095, indicating that PETRONAS has Sufficient current assets to pay its current liabilities. Per RM1 Among the current liabilities, Petronas has a quick asset of RM2.0095 to repay. The quick ratio of 5.0292 in 2019 shows that Petronas has enough liquid assets to pay its current liabilities. For every RM1 of current liabilities, PETRONAS has a fast asset of RM5.0292 to pay. The quick ratio for 2020 is 3.8868, indicating that Petronas' current assets are sufficient to cover its current liabilities. For every RM1 of current liabilities, PETRONAS has a fast asset of RM3.3368 to pay.

### 3.2.3 Cash Ratio

✓ (Cash and Cash Equivalent / Total Current Liabilities)

| 2018              | 2019                      | 2020              |
|-------------------|---------------------------|-------------------|
| 173,576 / 111,930 | <b>4,021,696/ 989,528</b> | 3,138,898/999,116 |
| =1.55%            | =4.06%                    | =3.14%            |

Petronas' best cash ratio is in 2019 (4.06%) to repay short-term loans. In general, Petronas can use cash to repay short-term loans. If the result exceeds 1, it is beneficial to the company.

### 3.2.4 Profit Margin Ratio

✓ (Net Profit / Sales Revenue)

| 2018            | 2019                  | 2020                  |
|-----------------|-----------------------|-----------------------|
| 55,310 /250,976 | 1,984,052 / 5,458,250 | 2,082,281 / 5,592,117 |
| =22.04%         | =36.34%               | =37.24%               |

The profit margin is used to measure the amount of net profit generated per ringgit sold. The ratio also indicates the company's financial status. Petronas' profit margins are increasing from 2018 to 2020.

### 3.2.5 Return on Assets

✓ (Net income after tax/ total asset)

| 2018            | 2019                  | 2020                  |
|-----------------|-----------------------|-----------------------|
| 55,310/ 636,314 | 1,903,953 /19,583,521 | 2,074,017 /18,344,615 |
| =8.69%          | =9.72%                | =1.13%                |

Compared with 2018 (8.69%) and 2020 (1.13%), 2019 has the highest ROA (9.72%). The ROA in 2019 is considered good because it is close to 10%. The effectiveness of PETRONAS's conversion of investment into net income has been improved, respectively.

### 3.2.6 Return on Equity

✓ (Net income after tax/ total equity)

| 2018           | 2019                   | 2020                   |
|----------------|------------------------|------------------------|
| 55,310 425,252 | 1,984,052 / 13,565,175 | 2,082,281 / 12,968,534 |
| =13.00%        | =14.62%                | =16.1%                 |

Compared with 2018 (13%) and 2019 (14.62%), 2020 has the highest return on equity (16.1%).

### 3.2.7 Debt Ratio

✓ (Total liabilities / total assets)

| 2018             | 2019                 | 2020                  |
|------------------|----------------------|-----------------------|
| 211,062 /636,314 | 6,018,346/19,583,521 | 5,376,081 /18,344,615 |
| =33.17%          | =30.73%              | =29.30%               |

The debt ratio is a financial tool to measure a company's leverage ratio. A higher debt ratio will cause the company to face greater financing risks, because the company is highly dependent

on debt financing to operate its business. Petronas' debt ratio has been increasing, but it is still in the healthy ratio zone. Generally, the debt ratio of large companies does not exceed 40%.

### 3.2.8 Debt-Equity Ratio

✓ (Total liabilities / total equity)

| 2018             | 2019                 | 2020                 |
|------------------|----------------------|----------------------|
| 211,062 /425,252 | 6,018,346/13,565,175 | 5,376,081/12,968,534 |
| =49.63%          | =44.4%               | =41.45%              |

The debt-to-equity ratio is a ratio that shows how much equity has been raised to start a business. When the debt-to-equity ratio is high, this is a risky investment for investors. Compared with 2019 and 2020, 2018 has the highest debt-to-equity ratio (49.63%). In 2018, the ratio was almost 50%, which means that half of Petronas' assets are financed through debt.

### 3.2.9 Fixed Asset Turnover

✓ (Net sales / average fixed assets)

| 2018             | 2019               | 2020                |
|------------------|--------------------|---------------------|
| 250,976 /398,107 | 1,984,052 /7431954 | 2,082,281 /14442660 |
| =63%             | =26.7%             | =14.42%             |

Every year, PETRONAS uses its own resources to create sales. On the basis of analysis, Petronas showed that the growth in the turnover rate of fixed assets is exciting, and the company has achieved a return on investment. The best fixed asset turnover rate is 63% in 2018.

### 3.2.10 Operating Cash Flow/ Sales Ratio

✓ (Operating cash flow / net sales)

| 2018             | 2019                 | 2020                 |
|------------------|----------------------|----------------------|
| 108,730 /250,976 | 2,555,845 /1,984,052 | 2,670,194 /2,082,281 |
| =43.32%          | =12.88%              | =12.82%              |

The operating cash flow to sales ratio shows the company's ability to convert sales into usable cash. The higher the ratio, the better for the company.

### 3.2.11 Cash Flow Coverage Ratio

✓ (Operating cash flow / total debt)

Years to Cover Entire Debt

1 / CFCR

| 2018             | 2019                | 2020                |
|------------------|---------------------|---------------------|
| 108,730/ 211,062 | 2,555,845/6,018,346 | 2,670,194/5,376,081 |
| = 0.52           | =0.42               | =0.50               |
| = 52%            | =42%                | =50%                |
| 1 /0.52 =1.92    | 1/0.42=2.38         | 1/0.50=2            |

The cash flow coverage ratio in 2018 is shown as (0.52), which is the highest compared to 2019 (0.42) and 2020 (0.50). Based on the three-year ratio, all ratios are less than 1. PETRONAS generates operating cash less than the cash required to repay debt. This shows that there is a short-term problem, and more funding is needed.

## **4.0 COMPANY'S EXTERNAL ANALYSIS**

### **4.1 PETRONAS Porter Analysis**

This section analyses PETRONAS using each of the five forces of Porter's model.

#### **4.1.1 Threat of New Entrants**

There is a significant risk of new entrants in the oil and gas industries due to the high level of conservatism, both government-imposed and market-driven, and the large financial investment required to set up an oil and gas company in the Malaysian market. Following way, corporate sustainability is secured. In this way, PETRONAS can protect itself against competitors. Creating economies of scale in PETRONAS' sector is difficult. Large capacitate producers will benefit from this because it makes it easier for them to provide lower prices. In addition, it significantly increases the production cost for new entrants. New entrants have less to gain by threatening the company, therefore they have little to lose in attempting to make changes (Ewan, 2018)

PETRONAS is a vertically integrated oil and gas company; therefore, their products and services are distinctive from one another and different from the industry norm. People also search for things that are distinguished. Although customer service and promotion are vital to the company's success, they are definitely not emphasized. The competition for market share in this industry is affected by numerous factors, which is why new entrants have no real influence in it. PETRONAS has various aspects in the petroleum industry, ranging from exploring for new oil and gas sources to extracting and distributing completed petroleum products (PETRONAS , 2018). It is difficult for new entrants to set up enterprises since the industry capital requirements are high, which restricts the amount of cash that may be used.

The cost of R&D is likewise considerable due to large capital expenditure. Innovators have limited capabilities in the face of these dynamics (Ewan, 2018). New entrant distributions have simpler worldwide distribution networks, which makes distribution building easier. Entry barriers are low for any new entry, as there are few sites for them to distribute their product kind. New entrants are a key force in this market. A smart investment for PETRONAS is the creation of a strong distribution network (Ewan, 2018). Governments set numerous rules on corporations before allowing them to market their products. new firms have a hard time getting started, making the danger of newcomers less (Ewan, 2018).

#### **4.1.2 Rivalry among the Existing Firms**

When enterprises compete for market share, rivalry within the industry serves as a measurement of competitiveness. It will cost more money if there is a lot of competition; hence if a lot of competition develops, prices will fall and expenditure on advertising will rise (Porter, 1998). Some companies in the fuel and oil business are currently battling for dominance. This is because this industry is enormous in size and possesses a great deal of resistance (Ewan, 2018). PETRONAS does not have many competitors in this sector. These are all companies such as Shell, Caltex, Petron, and BHP that compete with PETRONAS. The rivalry found in this industry appears to be intense, with very competitive businesses jockeying for market share. The intensity of the battle between PETRONAS increases because of the fixed costs, and the company wants to maximize efficiency (Syed, Muhamad, Asmawati, Arlina, & Norliana, 2017). This means that the price goes down if the demand is low. This will bring more heavy competition to the industry among the competitors.

#### **4.1.3 Bargaining Power of Suppliers**

According to the Porter five force model, suppliers exercise control over businesses by restricting product availability, increasing the price, or both. The organization is paying a high price when suppliers have a lot of leverage (Corporate, 2021). Furthermore, the increased bargaining power of suppliers could help increase market competitiveness and help lower PETRONAS profits and growth potential. Low supplier bargaining power, however, will result in the market being more competitive due to a higher level of performance and efficiency capability.

Suppliers' bargaining performance was good for PETRONAS if:

- A limited number of suppliers exist, and this number is bigger than the number of people that buy from them.
- The more expensive it is for customers to switch from one provider to another, the stronger this force is.
- The power of suppliers is strengthened in this situation because demand for their product, PETRONAS, is huge.
- The PETRONAS' position in the region is weakened because of the advance network of suppliers, who now also compete with them.



- PETRONAS will strengthen the stance of the suppliers if it has inadequate business experience, a lack of business training, and no price knowledge.
- A number of other influences that elevate suppliers' bargaining strength include significant product differentiation, PETRONAS' possessing just a small part of suppliers' overall sales, and the absence of substitute products.

On the other hand, if PETRONAS' bargaining power in the supplier market is limited, this is due to:

- The business does not rely on a small number of suppliers.
- On average, switching costs are minimal.
- This product lacks distinctiveness.
- Other alternatives are available to substitute for these items.
- PETRONAS is a very price-sensitive firm, with significant market understanding.
- There is no threat of suppliers seeking to integrate into their customers' product offering.

To help enhance PETRONAS' strength against competitors, it may be possible to reduce dependent on a few key suppliers. As it becomes more valuation incorporating suppliers from diverse locations into long-term contracts means that their bargaining potential is limited, helping PETRONAS to boost supply chain efficiency. If the demand for the product is large enough, and PETRONAS has the necessary skills and competence, the company should explore other production methods. It needs rigorous cost-benefit analysis to see if it is feasible. An all-encompassing rebranding as well as expansion of product lines will aid the organization in reducing the impact that the suppliers have in the industry (Zander, 2018).

#### 4.1.4 Bargaining Power of Buyers

When purchasing a product, customers hold enormous power since they may effectively put the demand on a firm to purchase an inferior product with professionalism and affordable pricing. While (Zander, 2018) explained that buyer power is determined by various criteria.

| Factor                   | Explanation   |
|--------------------------|---|
| Buyer Concentration      | The power of the buyer will be strong when the number of buyers is fewer and more concentrated in the market.   |
| Percentage of Sales      | When one buyer occupies a high percentage in the sales of the producer, then the bargaining power of the buyer will be high as the producer wish not to lose their business from this buyer.          |
| Undifferentiated Product | In the market, where numerous manufacturers offer the same product, customers hold a significant amount of negotiating power, as purchasers could select the product they like.                       |
| Switching Cost           | The buyer will tend to find an alternative product when the cost to switch from one producer to another is low.   |
| Substitutes              | If there are many alternative products in the market, the buyer will have the power to switch to a more attractive price and better-quality product.  |
| Price Sensitivity        | This factor reflects the sensitivity of the buyer toward the changes in product prices. If the buyer sensitive to the changes in prices, the buyer will not buy the product when the price increases. |

***Table 4.1.4 Bargaining Power of Buyers***

The PETRONAS is going after more price-insensitive customers that are also repeat customers because of the worth of the good or service. (Galib, 2014), remarked that people are less attentive to prices when he mentioned this. When many customers are involved, bargaining power is at its maximum. Based on our judgment, PETRONAS' purchasing power is limited. Clients can select from a restricted number of firms in Malaysia. Furthermore, the natural gas and oil industry is very product-diversified, making it difficult to reproduce with alternate products due to these distinct qualities. The Malaysian government tracks gas and oil prices to maintain

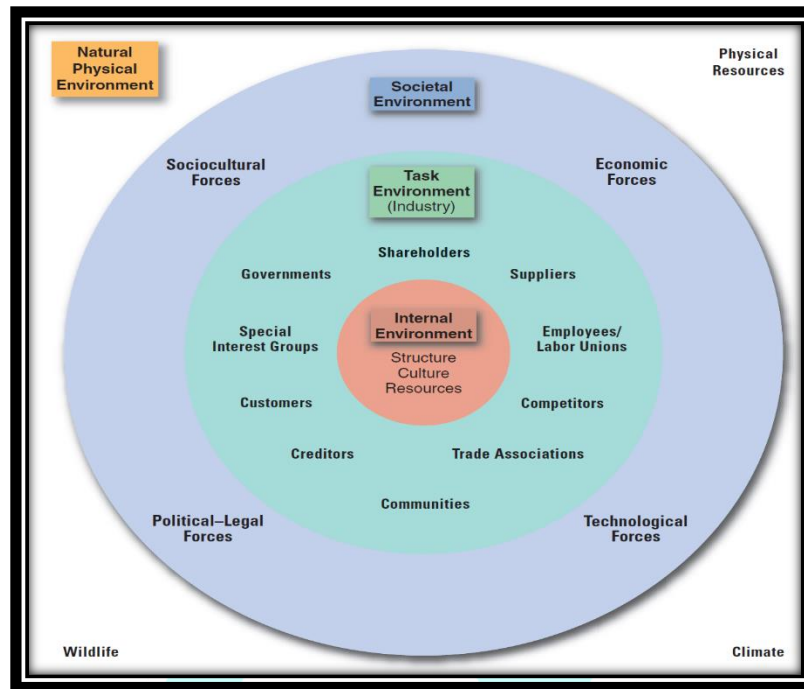
market stability. Customers are concerned about the quality of the goods and the price. This opportunity allows PETRONAS Berhad to innovate the product and provide excellent service in order to reduce threat of substitutes (Zander, 2018) to get a larger client base, PETRONAS Berhad can provide reasonable prices to gain in more buyers.

#### **4.1.5 Threat of Substitute Products or Services**

Due to the limited possibilities, PETRONAS is currently using resources in the field where they are created. In industries that have small advantage generators, numerous replacements are rarely available. This indicates that enterprises can earn an unlimited average income in the PETRONAS industry. It is not an easy task to find suitable substitutes for these products. You may want to consider other options, but they are substantially more expensive. Productively, firms selling for a cheaper price in the industry in which PETRONAS operates, while maintaining acceptable levels of productivity. Because customers become less likely to turn to quality substitutes, this indicates that the product will be more valuable to customers. This suggests that there is little or no hazard to industry competitiveness from replacements (The Strategic CFO, 2013).

The oil company will focus on making products of the highest quality. In order, customers will instead go for lower-priced things that deliver superior quality. With PETRONAS emphasizing on differentiating commodities, competition will be stiff. By providing specific qualities that go above and beyond the market norm, products would keep their identity and retain their superior customer impression. The business will get consumers through conducting competitive analysis discovering what the customers demand, and then providing customers with incentives the customers require.

## 4.2 PETRONAS STEEP ANALYSIS



*Figure 4.2 PETRONAS STEEP Analysis*

### 4.2.1 Sociocultural Segment

It is central to our approach to lifelong learning to empower our employees to have their own ideas and pursue their goals. Petronas continued to invest in human capital development in 2017. A holistic approach was formalized in order to empower and grow the workforce amid a constantly changing business environment. The PETRONAS Contractors Code of Conduct on Human Rights (CoCHR) became prominent in 2017 following the announcement of the implementation of PETRONAS best practices throughout the business value chain. This principle applies throughout the global energy sector, in addition to management of social risks, which encompasses human rights respect. Additionally, they are mindful of stakeholders' mutual hopes for advancement. The company's corporate social investments equal pay act to approximately RM230 million in 2017.

The multi-dimensional investment strategy had numerous benefits, including the creation of jobs, strengthening of local capacity, and support for a multitude of community development causes. PETRONAS was happy with their collaboration with the ambassadors, who contributed their time and energy to helping the locals in the areas of the company's operations. As a result, the decision to lay off 1,000 employees at Petroliaam Nasional Berhad results in a detrimental

impact on society. Though the figures are minor when compared to other oil and gas firms, we must consider that PETRONAS is the most important oil and gas firm in Malaysia as well as the federal enterprise (Galib, 2014).

#### **4.2.2 Technology**

The impact of technological innovation on the industry structure and competitive environment can occur rapidly. Several diverse technology elements can affect PETRONAS. It is likely that technological developments and competitive movement may alter the status quo for PETRONAS. To boost the efficacy and quantity of outputs, PETRONAS has developed award-winning technology to reduce pollutants. Enriched Oil Recovery, Enhanced Gas Recovery and infill drilling technologies allow PETRONAS to extend the period that mature oil and gas fields can produce with no additional investment. To ensure the nation's biggest cryogenic distillation facility was available, PETRONAS strove to design an environment-friendly commercialization process. Deep-water oil and gas exploration technology from a leader in that field, PETRONAS, is being used to aid in the company's rapid growth (PETRONAS, Technology. , 2020).

The specialized modeling methodologies developed by PETRONAS assist it in identifying the most profitable sites, sequences, and timeframes for addressing the reservoirs. Petronas' Kertih, Terengganu CO<sub>2</sub> Removal Facility (TGAST), which contains indigenous carbon dioxide (CO<sub>2</sub>) removal technology, located in Kertih, Terengganu. This technology would boost PETRONAS' capacity to harvest gas fields rich in carbon dioxide by a large amount, thanks to the application of techniques that combine high pressure and high temperature drilling (PETRONAS, 2020). It is vital to follow a new technology's growth rate and competitiveness in order to affect the revenues of competitors. Being able to effectively respond to technological innovation has a direct correlation to the degree of relevance a firm should exhibit. Technological advancement in the industry could raise or slash business income. This impressive revenue is commonly reinvested in R&D, where newer technologies might improve earnings over the long run (PETRONAS, Technology. , 2020).

### 4.2.3 Economic Segment

A strong downward price trend which began in the final quarter of 2018, as a result of increased excess supply and demand for oil production that was seen as weak, persisted through the first few months of 2019. As the result, OPEC is put under pressure to keep production curbs in place, and US crude oil production grows even further. Because of military conflict, downturn threats, and geopolitical concerns in critical developing states, the price of oil persisted unstable and risk adverse in 2019. As long as there are extended trade disputes, they restrict pricing expectations and depress investor morale, resulting in a lower price of oil assumption (PETRONAS, 2020).

Currently, the growing global COVID-19 pandemic has an impact on PETRONAS' economy, which has now been included in the pandemic. Many energy companies in the United States have had to deal with major problems caused by the recent Covid19 oil tanker spill and the resulting decline in oil prices due to OPEC+ failure to reduce oil production. This news has had a direct impact on the US domestic oil and gas companies and caused them to have a negative outlook on oil prices. PETRONAS's dependency on the \$2.6 billion that it receives each year from the Malaysian government may necessitate their stepping up efforts and limiting the level of their activities if the government provides them with \$2.6 billion in funding for the first half of 2020 (TheStar, 2020).

Petronas believes that oil prices in the future will be roughly \$50 a barrel, and hence its overall upstream and gas and new energy spending will be between RM 32 billion to RM 34 billion. Capital spending cuts will affect companies that own and produce raw resources, which includes PETRONAS. Additionally, the research firm claims that upstream, Malaysian Marine and Heavy Engineering Holdings Berhad and Velesto Energy will also be negatively impacted (TheStar, 2020). According to speculation, China is losing as much as three million barrels of oil daily. Covid-19 has significantly affected this. With this development, the Am Investment Bank has reduced its price projection for 2020 from \$45 to \$50 per barrel, while today oil prices are predicted to be \$45 to \$50 per barrel due to the increased quantity of excess oil capacity in the market (TheStar, 2020).

#### **4.2.4 Ecological Segment**

Additionally, to broaden the efforts in the clean energy sector, a New Energy unit has been implemented to its fullest capacity by 2019 in PETRONAS. With the goal of avoiding the need for new funding sources, the team worked to build sustainable revenue streams that were not linked to oil and gas, with an initial concentration on solar and wind power. This approach is good since renewable energy, such as solar and wind energy, is re-useable energy that does not affect the environment (Petronas, 2020).

In addition, PETRONAS delivered increased fuel efficiency through Primax fluid technology products (Syntium) (PETRONAS , 2018). This approach serves to improve the vehicle's power-producing capacity. Engine critical components are safeguarded as a result of this improved formula, which results in more output, better fuel efficiency, and better engine cooling for drivers (NST, 2019). However, it will also introduce a more disturbing component to the surroundings. Because this fuel transfers heat away from engine components that are hot, this fuel is suitable for use in engines that require more cooling. Because of this, the ambient temperature will increase as well. Stronger fuel means greater environmental harm.

Apart from that, PETRONAS Research is a collaborative partner with Daimler Automotive in the area of green initiatives, like Low-Carbon Fuel and Vehicle Emissions Control (PETRONAS , 2018). It is advantageous since it will keep automobiles from spewing additional emissions into the atmosphere and limit their overall gas emissions. PETRONAS not controlling the emission of gas might potentially result in unsafe levels of gas being released into the environment, harming the environment. This practice is therefore a good approach.

#### **4.2.5 Political-Legal Segment**

A set of laws was implemented which allowed for the expansion of the oil sector in Malaysia (PDA). The 1974 government proposal for PDA was to consolidate all of the country's petroleum resources under PETRONAS' control. This unique technique was designed in order to promote corporate development and increase the country's overall prosperity (Palmer & CMS, 2016). If oil royalty payments increase, then all three of these parties would be negatively affected. While the government's primary goal is to offer a clear rate of oil royalty, in practice the full amount of royalty paid by the federal government does not always go to states with significant oil



wealth. One dilemma that has emerged is where to place the 20% royalty from the oil (Stephen, 2018).

The Petroleum Development Act 1974, granting PETRONAS full control of all of the assets, such as property, privileges, and advantages as well as profits relating to oil and gas exploration and production onshore and offshore in Malaysia. In addition, PETRONAS owns all of the country's oil and gas reserves, as well as those in the maritime boundary (Stephen, 2018).

- Under the Gas Supply Act (GSA) of 1993, pipeline providers are required to ensure that users have a steady supply of gas.
- PETRONAS' rights to petroleum extend outside its own economic zone and continental shelf as mandated by the Continental Shelf Act 1966 and the Exclusive Economic Zone Act 1984.
- Upstream and downstream licensing requirements for processing, commercialization, and transmission of oil products established in the Petroleum Regulations of 1974.
- This act governs distribution, processing, and management of petroleum and its restrictions are referred to as the Petroleum Safety Act.
- The Company Act of 1965 establishes the legal framework under which companies are established, controlled, and run.
- It is only via law, like the Environmental Quality Act of 1974, that it is possible to combat oil spills and the like safeguard the environment and prevent pollution on land and in Malaysian oceans.

Since PETRONAS are now not equipped to deal with the volatility in the current tax rules, they must ensure that they have plans in place in order to manage the resulting effect. How PETRONAS will positively influence on investing activities in the upstream part of the business is made apparent in this example, as the company's primary strategy involves expanding its upstream operations, this leads to a lower dividend payout.



## 5.0 PETRONAS SWOT Analysis

**TABLE 5-2** Internal Factor Analysis Summary (IFAS Table): Maytag as Example

| Internal Factors                     | Weight      | Rating | Weighted Score | Comments   |
|--------------------------------------|-------------|--------|----------------|--|
| 1                                    | 2           | 3      | 4              | 5  |
| <b>Strengths</b>                     |             |        |                |  |
| ▪ Quality Maytag culture             | .15         | 5.0    | .75            | Quality key to success                               |
| ▪ Experienced top management         | .05         | 4.2    | .21            | Know appliances                                      |
| ▪ Vertical integration               | .10         | 3.9    | .39            | Dedicated factories                                  |
| ▪ Employer relations                 | .05         | 3.0    | .15            | Good, but deteriorating                              |
| ▪ Hoover's international orientation | .15         | 2.8    | .42            | Hoover name in cleaners                              |
| <b>Weaknesses</b>                    |             |        |                |  |
| ▪ Process-oriented R&D               | .05         | 2.2    | .11            | Slow on new products                                 |
| ▪ Distribution channels              | .05         | 2.0    | .10            | Superstores replacing small dealers                  |
| ▪ Financial position                 | .15         | 2.0    | .30            | High debt load                                       |
| ▪ Global positioning                 | .20         | 2.1    | .42            | Hoover weak outside the United Kingdom and Australia |
| ▪ Manufacturing facilities           | .05         | 4.0    | .20            | Investing now  |
| <b>Total Scores</b>                  | <b>1.00</b> |        | <b>3.05</b>    |  |

**NOTES:**

1. List strengths and weaknesses (8-10) in Column 1.
2. Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. **The total weights must sum to 1.00.**
3. Rate each factor from 5.0 (Outstanding) to 1.0 (Poor) in Column 3 based on the company's response to that factor.
4. Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4.
5. Use Column 5 (comments) for the rationale used for each factor.
6. Add the individual weighted scores to obtain the total weighted score for the company in Column 4. This tells how well the company is responding to the factors in its internal environment.

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**Figure 1.9: IFAS**

**TABLE 4-5** External Factor Analysis Summary (EFAS Table): Maytag as Example

| External Factors                             | Weight      | Rating | Weighted Score | Comments                         |
|--|-------------|--------|----------------|----------------------------------|
| 1  | 2           | 3      | 4              | 5                                |
| <b>Opportunities</b>                         |             |        |                |                                  |
| ▪ Economic integration of European Community | .20         | 4.1    | .82            | Acquisition of Hoover            |
| ▪ Demographics favor quality appliances      | .10         | 5.0    | .50            | Maytag quality                   |
| ▪ Economic development of Asia               | .05         | 1.0    | .05            | Low Maytag presence              |
| ▪ Opening of Eastern Europe                  | .05         | 2.0    | .10            | Will take time                   |
| ▪ Trend to "Super Stores"                    | .10         | 1.8    | .18            | Maytag weak in this channel      |
| <b>Threats</b>                               |             |        |                |                                  |
| ▪ Increasing government regulations          | .10         | 4.3    | .43            | Well positioned                  |
| ▪ Strong U.S. competition                    | .10         | 4.0    | .40            | Well positioned                  |
| ▪ Whirlpool and Electrolux strong globally   | .15         | 3.0    | .45            | Hoover weak globally             |
| ▪ New product advances                       | .05         | 1.2    | .06            | Questionable                     |
| ▪ Japanese appliance companies               | .10         | 1.6    | .16            | Only Asian presence in Australia |
| <b>Total Scores</b>                          | <b>1.00</b> |        | <b>3.15</b>    |                                  |

**NOTES:**

1. List opportunities and threats (8-10) in Column 1.
2. Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. **The total weights must sum to 1.00.**
3. Rate each factor from 5.0 (Outstanding) to 1.0 (Poor) in Column 3 based on the company's response to that factor.
4. Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4.
5. Use Column 5 (comments) for the rationale used for each factor.
6. Add the individual weighted scores to obtain the total weighted score for the company in Column 4. This tells how well the company is responding to the factors in its external environment.

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**Figure 1.10: EFAS**

## **5.1 PETRONAS Strengths**

PETRONAS has a higher competitive advantage for incoming and outgoing logistical activities, based on competitive analyzes. PETRONAS, a leading regulator of upstream petroleum and gas operations, has the exclusive rights of owner in Malaysia in the incoming logistic business. PETRONAS also has sufficient facilities for inbound logistics management in Malaysia and government support. The outbound operations of PETRONAS have appropriate supply chain management. For distributing end goods throughout Malaysia, PETRONAS is quite well accustomed terminals, transport infrastructure and storage administration. In Malaysia as well as in other nations PETRONAS also invests well by the government in improving its networks for transportation and distribution. In Malaysia, PETRONAS has a large geographical coverage. PETRONAS has the largest fuel station network in Malaysia, with over 1,000 unofficial figures from 2018. (Rahman, 2018).

PETRONAS has primary expertise in the field of exploration and production. PETRONAS stresses on the inauguration of petrochemicals and has become a major milestone for PETRONAS to distinguish itself from other competitors. (Rahman, 2018). The company is the largest manufacturer and seller of petrochemicals across Southeast Asia. Olephins, polymers, fertilizers, methanol, other compounds as well as derivatives. In Malaysia, PETRONAS is a well-known brand. PETRONAS is among the ancient traditional companies serving clients with a strong client base in Malaysia with oil and gas products. The 9th anniversary of PETRONAS, the largest positive value rise of US\$1,817m, is still dominated by Malaysia's most valuable 2019 brand and the most enhanced brand.

The Malaysian federal government provides PETRONAS with great assistance. This is because it is completely owned by the Government of Malaysia. The Malaysian government gives PETRONAS great priority to offer support such as proper facilities and many more. PETRONAS has better liquidity position on the basis of our financial analysis group. Liquidity would be utilized to show if the corporation could use its resources to repay its short-term liquidity. High liquidity means the business doesn't really take advantage of its asset efficiency since it holds too much money. While the low liquidity corporation can confront the dilemma that in the short term it cannot cover the debt. We evaluated the current ratio, fast ratio, cash and working capital rate to measure PETRONAS' liquidity. (Rahman, 2018). We have noticed that the current rate, fast ratio

and cash ratio of PETRONAS are greater than the normal rate in the last 3-year annual report. PETRONAS is effectively managed in assets and capable of fulfilling its short-term obligations. PETRONAS is also able to generate cash itself from the sales. In the last 3 years, the net income has grown. In conclusion, PETRONAS continues to make money and is a sign of robust financial health.

## **5.2 PETRONAS Weaknesses**

For numerous reasons, PETRONAS has a massive attrition rate. The PETRONAS workers are recently exposed to the inflammation of combustible vapors or gas explosions and flames. They face the danger of losing five workers and are expected to sustain substantial damages. In the Pengerang Refining and Petrochemical Center in south Johor State Malaysia, this fire and explosion took place on 16 March 2020, according to the Straits Times. (Times, 2020). PETRONAS has diversification difficulties with its employees. PETRONAS employees are often focused with local workers and too quantities of experts from other races. It is difficult for representatives of varied racial bases to change the working environment by needing expansion which leads to disasters.

In the petroleum and gas industry, PETRONAS seems to have an inarticulate dominance. Many corporations in the division are expanding to non-oil business with a lot of control over the oil and gas industry sector and new regulatory requirements. In any event, PETRONAS has a larger proportion of its trade interface within oil & gas, which might be a long-term dangerous scenario. Investment in innovative technology needs to be increased. Given the size of the company's expansion and varied regions, PETRONAS needs invest extra funds in development to synchronize its processes across the spectrum. At the moment, with the company's vision, speculation about change is not standard.

Ineffective inventory capital structure in financial analysis results in low asset returns. The Return on Assets ratio (ROA) is a one of financial instrument that analyzes just how effective the company profits. The higher the return %, the better the company. Because the corporation benefits from less investment. For its commercial activities, PETRONAS relies on innovative technology and the PETRONAS placement focuses on technologies. PETRONAS is not a modest amount of advanced technology. PETRONAS therefore has to ensure that innovative technologies are efficiently used to create more profit. In the last three of the years 2016, 2017 and, 2018

PETRONAS' ROA was 3.9%, 7.59%, and 8.69%, which was below than the ROA standard ratio, 10%. Therefore, in order to achieve optimal net profit, PETRONAS needs to focuses mostly on effective and appropriate utilization of assets, notably innovative technologies.

### **5.3 PETRONAS Opportunities**

The new competitor in the petroleum and gas industries threatens PETRONAS fewer. This is because the sector is highly protected through public rules and thus the leading investment demand necessary to set up a Malaysian oil and gas company. PETRONAS has just two LNG facilities for energy players around the world. PETRONAS is one of the largest LNG producers in the world with significant Asian demand to deliver LNG and increase its footprint in one of the fastest-growing LNG markets worldwide.

Since PETRONAS dominates the Malaysian petroleum and gas sector, the negotiating leverage of suppliers is significant. PETRONAS enhances the competitiveness of the petrol and gas sector's market, profit, and prospective expansion. In order to boost performance of crude oil sources, PETRONAS used well technology. Latest innovative developments will only increase the revenue level and create consistent income for a long time. To boost asset monetization, PETRONAS has created pre-winning pollutant removal methods and enhanced the quality and quantity of yields to optimize profits. Improved Oil Recovery, Enhanced Gas Retrieval and Infill Drills for long-term oil and gas production.

For successfully monetizing high carbon dioxide gas furnaces and minimizing the environmental impact, PETRONAS employed world's largest offshore cryogenic distilling facilities. For new advancements in deep-water exploitation and oil resources production, PETRONAS is adopting Deepwater technology. In 2019, PETRONAS completely operationalized a new energy unit to strengthen clean energy initiatives for a green environment. Initial attention to solar and wind focused on sustainable income streams separated from oil and gas. This approach is helpful since wind and solar energy may be reused without harming the environment. Furthermore, PETRONAS delivered Fluid Technology Solutions fuel efficiency. For green projects such as carbon free fuel and control vehicle gas emissions, PETRONAS Research works with Daimler Automotive Control vehicle gas emissions and reduce environmental pollution.

In addition to the exclusive rights of ACT 1974 which is Petroleum Development in respect of petroleum onshore and on the territorial sea of Malaysia, Petronas are bestowed with the full

ownership, and powers, rights and advantages for the exploration and manufacture of gas and oil, offshore and onshore. PETRONAS shares contracts spanning a wider range of jobs for major players and small and medium-sized companies (SMEs). Since several of the agreements are scheduled to be reprocessed between 2020 and 2022, the time would be appropriate to plan players on finances, digital innovations, and strategic relationships. Examples of contracts are Integrated Upstream & Downstream and Pan-Malaysia.

Employee Safety Working Area. The design, operation and technological stability of PETRONAS assets are the focus of process safety. The process safety management features in accordance with globally recognized norms and standards are incorporated into the general Safety, Health and The Environment Management System. Low rate of inflation for credit. There was a low inflation rate. This is a chance because its input costs are still modest. In comparison with previous years, lower interest rates provide PETRONAS with the chance to undergo growth project funding through loans at a lower rate.

#### **5.4 Threats facing by PETRONAS**

PETRONAS has strong feud and challenges to competition in the oil and gas business of Malaysia. PETRONAS SHELL and PETRON are the strongest competitors. PETRONAS' competitiveness is great because of the high fixed costs such as production. Therefore, if demand is low, the corporation reduces its price. The competition between competitors is thus strengthened in the industry. SHELL and PETRONAS threats to competitiveness in upstream and downstream activities. PETRONAS. Since Petron and Shell have produced more like PETRONAS oil and gas products. This leads to increased competition among companies to supply high-quality petroleum and gas energy products to meet client requirements. Threats among Shell and Petronas on offshore production. The offshore terminal for oil and gas resource extraction is available in Malaysia by both PETRONAS and SHELL Malaysia. This means, with technical equipment and investment, two businesses grow and compete with their production capability.

Preis sensitivity to customers and the number of clients of PETRONAS is increasing. The strength of negotiation is diminished when there are more customers. According to our data, PETRONAS buyers have little negotiating power. The client can also acquire oil and gas goods from other competitors as an alternative. Also increasing are the accessible substitute items, which combined pose a danger to the entire sector as existing product usage decreases. Political



uncertainty impedes the performance of PETRONAS. For instance, Pakatan Harapan party won an election in May 2018. In Pakatan Harapan's manifesto, they pledged that if they won the general election in 2018, they would review the Petroleum Development Act 1974 (PDA) and improves fuel royalty.

Tun Dr Mahathir Mohamad, the prime minister, in August 2018 promised that the oil producing countries would receive 20% of the oil royalty. Oil royalties, an issue of controversy, was raised once again. PETRONAS Group will continue to generate income to fund the rising cost of oil royalties. When PETRONAS loses earnings, it is difficult to be certain of the long-term benefits. Petronas has been sued by Sarawak's state government for unpaid sales tax. If PETRONAS loses in court, it must pay RM 3 billion. This demonstrates significant political danger. The current COVID-19 pandemic has tremendous repercussions for PETRONAS's business. Opec+ not successfully curbing its output and the recent Covid-19 disasters have already been harmful to the oil and gas sector in the long run.

Covid-19 and Opec+ represents a combination that PETRONAS may take action on if the nation's overall business income takes a hit in the first half of 2020. Geopolitical tensions and inflation risks made the oil market and the interest rate situation constantly unpredictable all year long. Negative business security, with weak view on oil prices, causes long-term commercial disagreements to persist. In the first half of 2019, oil prices stayed around their previous quarter loss because of increasing supply and decreased demand from PETRONAS. The increasing non-OPEC supply has resulted in an increase in supply stocks. The rising overage could reduce the oil price. A trade disagreement between China and the United States poses a threat to oil prices.

Layout of employees is one of the PETRONAS company's threats. The news stunned the guy on the street in 2016 when PETRONAS 1000 jobs were cut in the Atrium Conference with its employees. The corporation has to take activities that involve cost savings and human resources, caused by an imbalance in market prices. These actions, however, can have an impact on society, particularly following a mass dismissal. PETRONAS' decision to make 1,000 staff redundant has an adverse social consequence. Loss of jobs can be joined by rivals and potential loss of competing highly qualified and experienced people.

## 6.0 PETRONAS TOWS Matrix

|   | STRENGTHS (S)  | WEAKNESSES(W)  |
|---|--|--|
| Internal  | <p>S1: Core competencies of the exploration and production business.</p> <p>S2: The superior competitive advantage in inbound and outbound logistics activities results in the business covering a wide geographical area in Malaysia.</p> <p>S3: Well-known Malaysian Brand</p> <p>S4: Federal Government of Malaysia Supported</p> <p>S5: Financial Analysis Good Liquidity</p>  | <p>W1: Workforce turnover and workforce diversification</p> <p>W2: The oil and gas industry are too concentrated.</p> <p>W3: Lack of investment in new technology</p> <p>W4: Poor internal financial performance resulting in low return on assets in financial analysis.</p> <p>W5: Lack of legal experience and legal department staff.</p>  |
| External  |  |  |
| OPPORTUNITIES (O)   | STRENGTHS/OPPORTUNITIES (SO)   | Weaknesses/Opportunities (WO)  |
| <p>O1: Small threat from new entrants in the oil and gas industry</p> <p>O2: strong bargaining power of suppliers</p> <p>O3: high utilization of technology to improve crude oil resource productivity and clean energy and green environment technology unit.</p> <p>O4: Petroleum Development Act, 1974</p> <p>O5: Sharing contracts with other countries.</p> <p>O6: Safety working environment to employees.</p> <p>O7: Low inflation rate to obtain loans and provides investment opportunity.</p> | <p>Leverage strengths to maximize opportunities.</p> <p><b>=Attacking strategy</b></p> <ul style="list-style-type: none"> <li>● With fewer opportunities for new entrants in oil and gas, PETRONAS can take a dominant position and build a strong brand, increase capacity, and stand out in the supply chain of customers' products.</li> <li>● Opportunities for high utilization of technology will give PETRONAS an edge in upstream and downstream activities and a superior competitive advantage in inbound and outbound logistics activities. Use digital technologies in the procurement value chain, materials management, and logistics.</li> <li>● There are opportunities to develop new energy</li> </ul> | <p>Counter weaknesses through exploiting opportunities</p> <p><b>=Build strengths for attacking strategy</b></p> <p><b>W1/O5, O6:</b></p> <ul style="list-style-type: none"> <li>● Shared contract opportunities enable PETRONAS to work with developed countries to share safety methods, share highly skilled workers and create jobs.</li> </ul> <p><b>W2/O3:</b></p> <ul style="list-style-type: none"> <li>● Oil and most of the business interests in the oil industry. The gas industry could be a risky prospect for PETRONAS in the long term and use technology to diversify into the non-oil sector. The new technology offers PETRONAS the opportunity to differentiate</li> </ul> |

|  |  |  |
|--|--|--|
|  | <p>sources such as solar and wind to achieve developed sustainable revenue streams decoupled from oil and gas.</p> <ul style="list-style-type: none"> <li>● The Petroleum Development Act 1974 provides that PETRONAS has full ownership and exclusive rights in the oil and gas resources of Malaysia, as well as the rights and privileges of upstream and downstream activities. That power gives PETRONAS a competitive edge in Malaysia's oil and gas sector.</li> <li>● Low interest rates have enabled PETRONAS to obtain loans to develop oil projects and expand its business. PETRONAS has good liquidity in terms of financial analysis and can cover the debt generated by the loan.</li> </ul> <p><b>S1, S2, S3/O1:</b></p> <ul style="list-style-type: none"> <li>● Less threat of new entrant of oil and gas industry in Malaysia, enable PETRONAS to provide highly competitive advantages in production, supply chain and become well recognize brand in the World.</li> </ul> <p><b>S2/O2, O5:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS could strengthen its opposition and reduce its dependence on one or several suppliers. It will increase its price sensitivity. Establishing long-term contractual relationships with suppliers from different regions not only reduces their bargaining power, but also allows PETRONAS to improve the efficiency of its</li> </ul> | <p>pricing strategies in new markets. It will enable the company to maintain its loyal customers with excellent service and attract new ones through other value-oriented propositions.</p> <ul style="list-style-type: none"> <li>● Invest in renewable energy technologies for solar, wind and biomass energy.</li> </ul> <p><b>W3/O5, O7:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS can take advantage of the opportunity to sign technology sharing cooperation contracts with developing countries, which can reduce the investment in new technologies. PETRONAS can take advantage of low interest rates to expand projects or borrow cheaply to invest in new technologies to produce oil and gas.</li> </ul> <p><b>W4/O3, O5, O7:</b></p> <ul style="list-style-type: none"> <li>● Overcoming the poor performance of its internal financial position in financial analysis that resulted in a low return on assets, PETRONAS entered production sharing contracts (PSC) with other oil companies to explore and develop resources to reduce operating costs. PETRONAS can also take advantage of the low inflation rate to obtain loans, participate in and invest in new projects and technologies, in order to gain more profits and high returns on assets. PETRONAS should implement research and</li> </ul> |
|--|--|--|



|  |   |   |
|--|---|---|
|  | <p>supply chain.</p> <p><b>S1, S2, S4/ O4, O5:</b></p> <ul style="list-style-type: none"> <li>● Petroleum Development Act 1974. It proposes to protect the country's oil and gas resources, all of which are owned by PETRONAS. PETRONAS has the full support of the government in developing the nation's oil resources. This allows PETRONAS to share contracts to develop oil and gas products with other countries. The Act confers on PETRONAS full ownership and exclusive rights, powers, freedoms, and privileges over the said resources, as well as control over upstream and downstream activities and development related to oil, gas, and their products.</li> </ul> <p><b>S5 / O7:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS can take advantages of low interest rates to expand the project with cheap loans. PETRONAS ' good liquidity means it can service its debts without raising outside money. This suggests that PETRONAS could expand its oil and gas business through loans or make new developments and invest in technology to increase oil and gas production.</li> </ul> | <p>development strategy; Advances in new technologies will only increase revenues and generate sustained gains over the longer term.</p> <p><b>W5/O4:</b></p> <ul style="list-style-type: none"> <li>● The Petroleum Development Act of 1974 made PETRONAS the primary regulator of Malaysia's oil and gas industry. As a regulator, PETRONAS can strengthen its legal department by hiring experienced legal staff to address political and legal issues related to its business.</li> </ul> |
|--|---|---|

| THREATS (T)   | STRENGTHS/THREATS (ST)  | WEAKNESSES/THREATS (WT)  |
|---|---|--|
| <p>T1: Competition and competitive threats among existing players in the Malaysian oil and gas industry.</p> <p>T2: Customers are price sensitive and available alternatives are increasing.</p> <p>T3: Political uncertainty is hampering performance of PETRONAS (sales tax issue of Sarawak government)</p> <p>T4: Outbreak of COVID-19</p> <p>T4: Outbreak of COVID-19</p> <p>T5: Oil market and prices remain volatile and risk averse.</p> <p>T6: Employees Lay off</p> | <p>Leverage strengths to minimize threats.</p> <p><b>=Defensive strategy</b></p> <p><b>S1, S2, S3, S4, S5/T1:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS ' core competencies in exploration and production operations and superior competitive advantage in inbound and outbound logistics activities result in business coverage across a wide geographical area of Malaysia. Malaysian government support could overcome competitive threats from established Malaysian oil and gas companies such as Shell and Petron. The Malaysian market has fewer opportunities for new entry into the oil and gas sector because of the high level of protectionism in the sector imposed by the Malaysian government through government policy. PETRONAS ' good liquidity has allowed the company to obtain loans to develop new technologies to increase oil and gas production.</li> </ul> <p><b>S3/T2:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS strength is very good - knowing the brand in Malaysia. When the company has a good reputation and brand awareness, more customers will be more willing to choose it. PETRONAS can manage buyers' bargaining power by increasing and diversifying its customer base. This can be achieved by introducing new products, targeting new market</li> </ul> | <p>Counter weaknesses and threats.</p> <p><b>=Build strengths for defensive strategy</b></p> <p><b>W1/T6:</b></p> <ul style="list-style-type: none"> <li>● Offer incentives, increase engagement, or provide a better work environment to retain talent. This will ensure that employees do not leave and join a competitor.</li> <li>● Ongoing management supervision/ monitoring of job functions to verify that controls are functioning effectively, e.g., reconciliation, validation, exception reporting.</li> <li>● Employee awareness, education, and training to ensure that all employees are aware of and able to recognize signs of possible fraudulent or corrupt conduct.</li> </ul> <p><b>W2/T1:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS has to manufacture products or services other than oil and gas in order to overcome the competition. PETRONAS should focus on implicit consumer demands and expectations to create distinctiveness. Long-term customer connections should increase switching costs. They should also spend money on R&amp;D efforts to find new customers.</li> <li>● Disruptive forces and emerging megatrends are driving oil and gas companies to reinvent</li> </ul> |

|  |   |   |
|--|---|---|
|  | <p>segments, and using a product diversification strategy to manage customer price sensitivity. PETRONAS can reduce the threat of alternative products or services by clearly emphasizing that the products/services it offers are superior to existing alternatives. It should make a compelling case for customers by providing a better experience and a better value for money.</p> <p><b>S3, S4, S5/T4, T5:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS can overcome the volatility of the oil market and the impact of the price and COVID-19 outbreak on PETRONAS 's business by increasing oil and gas production through recognized brands, government support and good liquidity.</li> </ul> <p><b>S5/T3:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS ' three years of good financial liquidity from 2018, 2019 and 2020 will be able to solve the Sarawak government's tax problems.</li> </ul> <p><b>S4/T6:</b></p> <ul style="list-style-type: none"> <li>● With good government support, PETRONAS can discuss with the government to deal with staff reduction issues.</li> </ul> | <p>themselves and re-examine their business strategies to remain relevant and sustainable. This has prompted PETRONAS to be more innovative and to invest in other energy sources, such as renewables, to ensure security and sustainability of supply.</p> <ul style="list-style-type: none"> <li>● PETRONAS should utilize commercial renewable energy technologies, which utilize solar and wind power, to create electricity. In the transition to a low-carbon future, ensuring a sufficient and affordable energy supply is the major concern.</li> </ul> <p><b>W4/T4, T5:</b></p> <ul style="list-style-type: none"> <li>● PETRONAS can use other strategic alliance cooperation strategies between the oil and gas industry to discuss and forecast price demand to reduce economic risk and COVID-19 global oil demand and price crisis.</li> </ul> <p><b>W5/T3:</b></p> <ul style="list-style-type: none"> <li>● Reducing Political Uncertainty PETRONAS top management can propose political strategies to influence key stakeholders to make decisions and solutions to address political risks and issues. Hiring staff with legal experience can deal strategically with political risk.</li> </ul> |
|--|---|---|

**Table 6.1: PETRONAS TOWS Matrix**

## **7.0 STRATEGY RECOMMENDATION**

### **7.1 First Business Issue: State Government stated law and political offence against PETRONAS**

In November 2019, Sarawak requested RM 1.3 billion in unpaid state sales tax on petroleum products from PETRONAS. Petronas has challenged Sarawak's authority to levy such a sales tax on the establishment (Idris, 2019). PETRONAS' senior management is concerned, as an unsuccessful court challenge may damage the corporation. Profitability will take a big hit if both revenue and cash flow decline. In reference to the TOWS matrix (W5/T3), PETRONAS management could propose a political strategy to ease political uncertainty. This political approach is a method for obtaining stakeholder support. PETRONAS is a huge corporation that operates in a concentrated industry and is largely reliant on government regulation and is politically engaged.

It must work with the Sarawak government to develop a political strategy to address such political state concerns. PETRONAS can also lessen political risk by enforcing (W5/O4) recommendations. In 1974, PETRONAS was set up to regulate the entire oil and gas business in Malaysia. Recruiting competent legal employees will help the company manage problems such as political and legal difficulties that arise throughout operations. To avoid the construction of a negative image for PETRONAS because of unpaid tax difficulties, the legal department must give legal advice, assistance, and analysis to PETRONAS senior management to help them easily settle Sarawak Government tax concerns. PETRONAS has strong liquidity, according to the (S5/T3) guideline.

PETRONAS' current ratio, quick ratio and cash ratio have all been greater than the normal rate in the previous three years of the annual report. PETRONAS is well-managed in terms of assets and is able to meet its short-term obligations. PETRONAS can utilize a functional finance plan to pay down the debt by leveraging the company's strong financial position. The company must avoid a tax dispute with the government and find the best solution. Such a matter has a negative impact on PETRONAS's reputation and image. PETRONAS should also develop a culture of cash management. The Cash Management Culture allows for the development of cash flow discipline. Top management establishes cash management rules that focus on budgeting, forecasting, and financing to control their cash flow. It is believed that if PETRONAS implements

the Cash Management culture plan, the issue will not have an impact on the company's financial stability.

## **7.2 Second Business Issue: Financial at PETRONAS**

PETRONAS' net profit fell in the 2019 financial year due to low sales and impairment. Higher sales volumes, mostly for petroleum goods and liquefied natural gas (LNG), along with the ringgit's depreciation versus the US dollar have had an impact. The impact of the COVID-19 pandemic on PETRONAS income was not anticipated by the whole sector. This was due to a failure to predict and prepare for an unfavorable event. Based on the TOWS matrix (S3, S4, S5/T4, T5), PETRONAS can overcome fluctuating oil market and price fluctuations, as well as the impact of the COVID-19 outbreak on its company, by using its well-known brand, government assistance and ample liquidity to enhance oil and gas output. In this case of decreased net profit, PETRONAS is recommended as a company that concentrates on product range optimization. More buyers will prefer to pick a firm with a high reputation and brand awareness. PETRONAS is advised to enter a new market with a new product line through diversification for product range optimization. The company should not just rely on natural resources such as oil and gas. PETRONAS has strong backing from Malaysia's Federal Government to pursue innovative sustainable technologies, owing to the company's strength.

## **7.3 Third Business Issue: PETRONAS Safety Issue**

A gas pipeline in Borneo ruptured on January 13, 2020, causing a fire (SSGP). The rupture and flames happened. No injuries were reported. There are many people who have expressed anxiety and terror as a result of this incident (Shankar, 2020). In this case, safety is also impacted by the surroundings. Gas pipelines exploded, and various combustible and toxic compounds were released. This problem will harm the environment and its residents, as well as the company's reputation. Petronas' safety practices are a liability for the current workforce. To overcome PETRONAS safety concerns, implement the (W1/O5, O6) method. PETRONAS can collaborate with developed nations to exchange safety measures, high-skilled staff sharing, and job development by sharing contracts or partnership contracts. PETRONAS, for example, can enter partnerships with developed countries to boost oil and gas production resources in order to deliver oil and gas to contracting nations. Partnership agreements allow staff to share high safety standards in operations and safety measuring practices.

An incident like this could result in damage. Even a minor leak results in lawsuits, fines, injuries, and death. Thus, PETRONAS has been urged to cooperate with a PTW if the assignment necessitates one. All personnel must have personal protection equipment (PPE). All staff are required to wear a donning glove, eye guards, aprons, respirators, and other protective gear. In order to work with equipment vital to safety, people must receive authorization (PETRONAS , 2018). PETRONAS' Health, Safety and Environment (HSE) Policy must declare the company's intent to safeguard people, assets, and the environment. We are committed to process safety across all operations. Additionally, PETRONAS should allow personnel to serve in an influential role regardless of their color or gender, by checking the human resources department's operational plan (PETRONAS , 2018).

PETRONAS may adopt a joint labor-management safety team method to include its employees in the development of a safety program. Employees will be allowed liberty in voicing their opinions in meetings based on their working experience on what should be developed. A safety program is being implemented to detect and mitigate harmful conditions in the workplace. It should provide thorough training and provide people who undertake risky jobs authority. PETRONAS, for example, would hold a meeting for staff and management to examine the preceding safety program and determine if anything went wrong. Furthermore, PETRONAS' senior management is encouraged to participate in safety exercises. Managers and supervisors at PETRONAS' safety and health department are urged to go to the workplace and discuss production scheduling with the employees before the day's work begins, rather than just issuing instructions from the top down.

Toolbox meetings are gatherings that bring together supervisors and employees to discuss job hazards and safety awareness. Toolbox meetings should be held at least once a week before starting work at the office. PETRONAS may put it into effect in the following way: first, the supervisor and other workers will talk overall safety with the employees, then employees will be divided into smaller groups. PETRONAS' evacuation preparations should be improved, as industrial mishaps frequently result in death and injury to its personnel. Industrial mishaps frequently result in death and injury to PETRONAS' personnel. Early detection of difficulties, mechanisms to convey the emergency outside, and communication arrangements to trigger an evacuation should all be included in an evacuation plan. PETRONAS should implement

behavioral-based safety programs to identify its workers' working behaviors, understand how they operate, and advise and teach them to prevent working behaviors that might cause to accidents (Intan Osman, 2011)

PETRONAS may utilize a Human Resource Internet-Based System to administer their safety programs since it is a more efficient and effective way to disseminate safety and health information to all of the company's employees. The material safety data sheets from the Occupational Safety and Health Administration (OSHA) were incorporated in the Human Resource Information System (HRIS). It outlined the precautions that personnel should take while executing their responsibilities, as well as what to do in the event of an accident. If HRIS is used, the data sheet based on the updated OSHA information may be uploaded and communicated to employees more quickly. While PETRONAS is considering creating its own training websites, it may use them to help recruit its personnel about safety issues using presentations and videos. as a result, PETRONAS can provide customized and tailored training for its staff, anywhere and at any time (Intan Osman, 2011).

#### **7.4 Fourth Business Issue: Corruption in PETRONAS' internal management**

Three PETRONAS personnel were arrested by the Malaysian Anti-Wrongdoing Commission in April and June 2015 for alleged corruption in the drilling project. The MACC said that it has apprehended accused RM 23.7 million in corruption from the public (Star, 2017). PETRONAS must monitor employee ethical and unethical behavior, as outlined in the (W1/T6) TOWS plan, to minimize staff attrition and diversification, which might result in layoffs. PETRONAS should adjust its anti-corruption approach to avoid such problems in the future.

Firstly, PETRONAS should improve its anti-corruption policy. A dedicated anti-corruption agent with significant resources is required for this organization. PETRONAS' expertise in corruption-related matters should be improved. Anti-corruption measures require well-functioning and lasting official structures. Anti-corruption measures should be implemented in real-world settings. Everyone is aware of the acceptable and unacceptable boundaries. Petronas can comply with Malaysian law by implementing the new anti-corruption strategy. An anti-corruption authority or agency will improve the performance and prevent corruption. Every personnel should have a platform where they may anonymously report wrongdoing. Everyone should be made aware of how to detect and avoid corruption.



Second, PETRONAS has to improve its transparency. Legislation is a critical component of comprehensive anti-corruption efforts. PETRONAS should encourage employees to participate in anti-corruption studies. It is critical to review and improve the effectiveness of legislation pertaining to the prohibition of bribery and other forms of corruption. The laws must be sufficiently effective, achieve the stated aim and be preventative in nature. PETRONAS should promote a zero-tolerance policy for all forms of corruption. Long-term company competitiveness is dependent on organizational effectiveness. These, as well as the PETRONAS Code of Conduct and Business Ethics (CoBE), the PETRONAS Corporate Sustainability Framework and associated commitments, are critical to maximizing shareholder value (Ismail, 2017).

PETRONAS must adopt a new Code of Behavior and Business Ethics. The Code must serve as a foundation for the Group's commitment to uphold the highest standards of ethics and integrity. Specific rules on anti-competitive behavior must also be included in the CoBE (Ismail, 2017). PETRONAS has a zero-tolerance policy for bribery and corruption in any form. The Whistleblowing Policy supports exposure of any sort of inappropriate activity. The Integrity Compliance Framework and the No Gift Policy work together to strengthen the Group's ethics and integrity culture.

#### **7.5 Fifth Business Issue: Less Operations Earnings Cause Employee Discontent at PETRONAS**

One of the major benefits to the oil and gas business is the global oil market price imbalance. According to the New Straits Times, PETRONAS' revenue was mostly driven by petroleum products and liquefied natural gas (LNG), as well as the impact of the ringgit's depreciation versus the US dollar (Adilla, 2019). Due to this issue, PETRONAS has been compelled to reduce workforce in order to reduce operating costs. The COVID-19 epidemic has exacerbated the issue by affecting energy and gas prices while also increasing layoffs. The problem is linked to staff layoffs in large numbers.

Refer to TOWS matrix (S4/T6), which indicates that with excellent government cooperation, PETRONAS can resolve employee layoff concerns through communication with the government. PETRONAS might reach an arrangement with the government to offer a relief fund or program to help the company handle employee wage issues during a crisis. PETRONAS shall execute a sustainable workforce management plan through human resource management,



according to the TOWS matrix (W1/T6). PETRONAS could alleviate financial problem by deducting employee salaries rather than laying off workers. By lowering employee salaries from lower to senior management levels, PETRONAS can tackle the layoff problem.

Second, PETRONAS should stop employing new personnel, particularly those from other countries. PETRONAS also should maximize the utilization of human capital resources through work rotation, job expansion, and job enrichment. Human resource planning is critical for a long-term workforce while also addressing mass layoffs. Petronas Human Resources must undertake preliminary cost-cutting measures. The following are some of the most common ways that have emerged, according to (Gandolfi, 2008):

- 1) Hiring freeze is a modest kind of downsizing that saves money on labor in the near run. Some businesses continue to hire new staff while also laying off workers.
- 2) Firms will occasionally opt for a shorter workweek to save money on payroll in the near term. While most employees enjoy the opportunity to spend more time with their family, a wage cut may not always be welcomed.
- 3) Overtime compensation can be an effective short-term cost-cutting strategy. Salary cuts have long been a regular procedure for companies facing unforeseen financial difficulties. While wage reductions at the company level may prevent layoffs, there is an obvious danger that top performers may be enticed to depart.
- 4) Temporary facility shutdowns occur when a work site shuts for a set length of time. Employees can take time off without using their vacation days during a shutdown.
- 5) Employees like the chance to make a good difference in their workplace and environment. Employees are routinely asked for cost-cutting ideas, and they are typically innovative in coming up with cost-cutting solutions.

PETRONAS may also retain personnel by offering incentives, increasing engagement, or providing a better work environment. Human resources department must conduct assessments for the organization's current personnel. Training clarifies duties for employees, which can help to reduce job stress. Training is provided to equip employees to do their duties effectively. Employee happiness, increased morale, stronger retention, lower turnover, and improved recruiting are just a few of the advantages of training.

Human Resource Management division was vital in helping predict hierarchical organizational responsibility (P. Tiwari, 2012). Retention was linked to training and development, pay plan, and self-organization fit. To encourage and reward new employees, the industry rewards and compensates their future employees. Empowerment increases the representative's flexibility, thereby increasing job satisfaction. Motive and satisfaction of workers project a positive image of the organization. The PETRONAS staff is also looked after by the Human Resources department. PETRONAS should form strategic alliances with other oil and gas companies to lower economic risk and plan for future prices.

## **8.0 CONCLUSION**

PETRONAS' strengths, weaknesses, opportunities, and threats were identified using the SWOT analysis. PETRONAS has the power and chances to overcome the oil and gas industry's business weaknesses and dangers. The TOWS matrix advocated that PETRONAS use strengths to take advantage of chances, strengths to overcome threats, weaknesses to be converted into opportunities, and finally, overcoming weaknesses to avoid dangers. The TOWS matrix advocated that PETRONAS use strengths to take advantage of chances, strengths to overcome threats, weaknesses to be converted into opportunities and finally, overcoming weaknesses to avoid dangers. Understanding the developing business requirements and changes, as well as learning from past experiences and assessing business difficulties, would enable PETRONAS to make better decisions and maintain its long-term position. PETRONAS shall execute appropriate strategies and suggestions to address business difficulties, weaknesses, and threats in order to achieve excellence in the oil and gas industry. PETRONAS must use its strategic resources efficiently and effectively to overcome its shortcomings while lowering or neutralizing risks from the external environment and seizing chances to increase the company's position in the market and industry in Malaysia and across the world in order to survive and remain competitive in the industry. To maintain growth and sustainability in the face of continuing market volatility, PETRONAS will need to focus on judicious expenditure combined with a cost-conscious approach.

## APPENDIX

*Table 1.1 Chairman of PETRONAS*



|                                       |   |
|---------------------------------------|---|
| <b>Name:</b>                          | <b>Datuk Ahmad Nizam Salleh</b>   |
| <b>Age, Gender &amp; Nationality:</b> | 64 / Male / Malaysian   |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Business Administration, Ohio University, United States of America</li> <li>➤ Advanced Management Programme, Wharton School, University of Pennsylvania, United States of America</li> </ul> |
| <b>Date Appointed to the board:</b>   | 1 August 2018   |

*Table 1.3 Executive Director President and Group Chief Executive Officer*



|                                       |  |
|---------------------------------------|--|
| <b>Name:</b>                          | <b>Tan Sri Wan Zulkiflee Wan Ariffin</b>   |
| <b>Age, Gender &amp; Nationality:</b> | 59 / Male / Malaysian  |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Engineering, University of Adelaide, Australia.</li> <li>➤ Senior Management Development Programme, INSEAD</li> <li>➤ Advanced Management Programme, Harvard Business School</li> <li>➤ Honorary Fellowship, Institution of Chemical Engineers, United Kingdom</li> </ul> |
| <b>Date Appointed to the board:</b>   | 1 August 2007  |

**Table 1.4 Independent Non-Executive Director**



|                                       |  |
|---------------------------------------|--|
| <b>Name:</b>                          | <b>Ainal Azhar Ainal Jamal</b>   |
| <b>Age, Gender &amp; Nationality:</b> | 60 / Male /Malaysian   |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Electrical Engineering, University of Sussex, United Kingdom</li> <li>➤ Advanced Finance, IMD Lausanne, Switzerland</li> <li>➤ Emerging Leaders Programme, Daniel Business School, University Denver, Colorado, United States of America</li> </ul> |
| <b>Date Appointed to the board:</b>   | 15 May 2018  |

**Table 1.5 Independent Non-Executive Director**



|                                       |  |
|---------------------------------------|--|
| <b>Name:</b>                          | <b>Tan Sri Dato'Seri Mohd Bakke Salleh</b>   |
| <b>Age, Gender &amp; Nationality:</b> | 65 / Male /Malaysian   |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Science (Economics), London School of Economics, United Kingdom</li> <li>➤ Fellow of Institute of Chartered Accountants in England and Wales</li> <li>➤ Member of the Malaysian Institute of Accountants</li> </ul> |
| <b>Date Appointed to the board:</b>   | 18 June 2019   |

**Table 1.6 Independent Non-Executive Director**



|                                       |  |
|---------------------------------------|--|
| <b>Name:</b>                          | <b>Ahmad Faris Rabidin</b>   |
| <b>Age, Gender &amp; Nationality:</b> | 46 / Male/ Malaysian   |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Science (Honours) in Actuarial Mathematics and Statistics,</li> <li>➤ University of Heriot Watt, Edinburgh, United Kingdom</li> </ul> |
| <b>Date Appointed to the board:</b>   | 18 June 2019   |

**Table 1.7 Non-Independent Non-Executive Director**



|                                       |   |
|---------------------------------------|---|
| <b>Name:</b>                          | <b>Zakiah Jaafar</b>  |
| <b>Age, Gender &amp; Nationality:</b> | 53/ Female /Malaysian   |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Science (Honours) (Economics), University of Warwick, United Kingdom</li> <li>➤ Master of Social Science (Economics), University of Birmingham, United Kingdom</li> <li>➤ Advanced Management and Leadership Programme, University of Oxford, United Kingdom</li> <li>➤ Premier Executive Advanced Development Programme, Razak School of Government, Canberra, Australia</li> </ul> |
| <b>Date Appointed to the board:</b>   | 15 October 2018   |

**Table 1.8 Executive Director, Executive Vice President and Group Chief Financial Officer**



|                                       |  |
|---------------------------------------|--|
| <b>Name:</b>                          | <b>Tengku Muhammad Taufik</b>  |
| <b>Age, Gender &amp; Nationality:</b> | 46/ Male / Malaysian   |
| <b>Education:</b>                     | <ul style="list-style-type: none"> <li>➤ Bachelor of Arts (Honours) (Finance and Accounting), University of Strathclyde, United Kingdom</li> <li>➤ Scottish International Foundation, Langside College, United Kingdom</li> <li>➤ Fellow of the Institute of Chartered Accountants in England and Wales</li> <li>➤ Member of the Malaysian Institute of Accountants</li> </ul> |
| <b>Date Appointed to the board:</b>   | 15 October 2018  |

**Table 1.9 Company Secretary**



|                                     |   |
|-------------------------------------|---|
| <b>Name:</b>                        | <b>Intan Shafinas (Tuty) Hussain</b>  |
| <b>Age:</b>                         | 47/ Female/ Malaysian   |
| <b>Education:</b>                   | <ul style="list-style-type: none"> <li>➤ Graduate Diploma in Law, University of Western Australia, Australia.</li> <li>➤ Bachelor of Laws (Honours), University of Leicester, United Kingdom</li> <li>➤ Certificate in Legal Practice, Legal Profession Qualifying Board, Malaysia</li> <li>➤ Licensed Company Secretary</li> </ul> |
| <b>Date Appointed to the board:</b> | 1 June 2018   |

**Table 1.10 Company Secretary**



|                                     |  |
|-------------------------------------|--|
| <b>Name:</b>                        | <b>Hazleena Hamzah</b>   |
| <b>Age:</b>                         | 47/ Female /Malaysian  |
| <b>Education:</b>                   | <ul style="list-style-type: none"><li>➤ Bachelor of Laws (Honours), University of Bristol, United Kingdom</li><li>➤ Degree of an Utter Barrister, Lincoln's Inn, United Kingdom</li><li>➤ Master of Business Administration, Middlesex University, United Kingdom</li><li>➤ Licensed Company Secretary</li></ul> |
| <b>Date Appointed to the board:</b> | 1 September 2018   |



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