



GRADUATE SCHOOL OF MANAGEMENT

الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
وَنبِيْرِنَسِيْ اِسْلَامًا اَنْبَاْرًا نَبِيْرًا بَلَدِيْنَسِيْا

The IIUM Journal of Case Studies in Management

Vol. 2 No. 2 December 2011 ISSN: 2180-2327

- Kerosene Draw at Petronas Terengganu Refinery 1
Noor Hazilah Abd Manaf
International Islamic University Malaysia
Mohd Hisham Hamdan
Lean Applied Sdn. Bhd.
Sharil Goh Fadhil
Lean Applied Sdn. Bhd.
-
- Sime Darby Goes to Liberia 15
Mohamed Sulaiman, Gholamreza Zandi & Akmal Nurbananie A. Rahman
International Islamic University Malaysia
-
- Lynas Advanced Materials Plant 21
Gholamreza Zandi, Mohamed Sulaiman & Najwa Anis Dzulkefli
International Islamic University Malaysia
-
- Al-Rajhi Bank: Setting an Ummatic Vision of International Management 27
Khaliq Ahmad
International Islamic University Malaysia
Mohd. Mustafa Omar
International Islamic University Malaysia
-
- Traditional Music Industry at the Crossroads 35
Kim Jong-Seok
Freelance Consultant
-
- Higher Education, Professionalism and Authority: A North-South Gulf 49
Muhammad Arif Zakauallah
International Islamic University Malaysia





IIUM Journal of Case Studies in Management

Vol. 2, No. 2, December 2011

Contents

Kerosene Draw at Petronas Terengganu Refinery Noor Hazilah Abd Manaf <i>Kulliyah of Economics and Management Sciences International Islamic University Malaysia</i> Mohd Hisham Hamdan <i>Lean Applied Sdn. Bhd.</i> Sharil Goh Fadhil <i>Lean Applied Sdn. Bhd.</i>	1
◆ Sime Darby Goes to Liberia Mohamed Sulaiman, Gholamreza Zandi & Akmal Nurhananie A. Rahman <i>International Islamic University Malaysia</i>	15
◆ Lynas Advanced Materials Plant Gholamreza Zandi, Mohamed Sulaiman & Najwa Anis Dzulkefli <i>International Islamic University Malaysia</i>	21
◆ Al-Rajhi Bank: Setting an <i>Ummatic</i> Vision of International Management Khaliq Ahmad <i>International Islamic University Malaysia</i> Mohd. Mustafa Omar <i>International Islamic University Malaysia</i>	27
◆ Traditional Music Industry at the Crossroads Kim Jong-Seok <i>Freelance Consultant</i>	35
◆ Higher Education, Professionalism and Authority: A North-South Gulf Muhammad Arif Zakaullah <i>International Islamic University Malaysia</i>	49

Teaching Notes of the Case Studies, published in this issue, are available **ONLY** to lecturers and trainers. Please send your request to the Chief Editor (arifh@iium.edu.my/arif.hassan@gmail.com) giving details of your job position and institutional affiliation using your institutional email address.

IIUM Journal of Case Studies in Management

ISSN 2180-2327

Published:

International Islamic University Malaysia
53100 Kuala Lumpur.

Editorial Team

- **Chief Editor:**

Prof Dr Arif Hassan

Deputy Director

Graduate School of Management

International Islamic University Malaysia

- **Co-Editors:**

Assoc Prof Dr Noor Hazilah Abd Manaf

Graduate School of Management

International Islamic University Malaysia

Assoc Prof Dr Arif Zakauallah

Graduate School of Management

International Islamic University Malaysia

- **Editorial Advisory Board:**

Prof Dr A Seetharaman

Faculty of Business Strategy

S.P. Jain Centre of Management, Singapore

Prof Dr Faridah Hj Hassan

Director

Centre of Business Excellence

Faculty of Business Management

Universiti Teknologi MARA (UiTM)

Professor Dr Khaliq Ahmad

Dean

Kulliyah of Economics and Management

Sciences

International Islamic University Malaysia

Prof Dr Mohd Ismail Sayyed Ahmad

Director

Graduate School of Management

International Islamic University Malaysia

Prof Dr Mukund Dixit

Indian Institute of Management

Vastrapur, Ahmedabad, India

Dr Muslim Harsani

Department of Accounting

Kulliyah of Economics and Management

Sciences

International Islamic University Malaysia

Dr Amir Mahmood

Deputy Head of Faculty and Assistant Dean,

International Faculty of Business and Law

University of Newcastle

NSW Australia

Assoc Prof Dr Nik Nazli Nik Ahmad

Deputy Dean (Postgraduate Studies)

Kulliyah of Economics and Management
Sciences

International Islamic University Malaysia

Prof Dr P M Shingi

Dean, School of Business

Flame University, Pune

India

Dr Sharifah Raihan Syed Mohd. Zain

Head, DBA program

Graduate School of Management

Kulliyah of Economics and Management
Sciences

International Islamic University Malaysia

Aim and Scope of the Journal

The *IIUM Journal of Case Studies in Management* is an internationally refereed journal published twice yearly by the Graduate School of Management, International Islamic University Malaysia. The journal is dedicated to the development and promotion of case studies in the field of management and related disciplines for the purpose of enhancing our knowledge and understanding in the areas. Cases selected for publication are expected to deal with important issues related to the discipline, which may be used, among others, by instructors of Master of Business Administration and Master of Management programmes. Special consideration will be given to cases that deal with management issues in the Asia-Pacific region. Cases based on both research and secondary sources, will be considered. Also, papers on case writing, case teaching and case analysis will be accepted for publication. Occasionally the journal will publish empirical papers on current issues in management.

Editor's Note

We are pleased to publish the next issue of our journal. It has six case studies— four of them relates to companies located in Malaysia. The first case entitled **Kerosene Draw at Petronas Terengganu Refinery** authored by Dr. Noor Hazilah and her colleagues describes the total quality measures taken up by this company, the process of implementing Six Sigma and the resultant impact on its performance. The discussion questions given at the end of the case can be a good source of learning for any one interested in quality management issues. The second case entitled **Sime Darby Goes to Liberia**, authored by Professor Mohamed Sulaiman and his associates, provides an interesting insight into the plantation business of this company and the opportunities as well as the risk of international business ventures. Case three entitled **Lynas Advanced Materials Plant** authored by Gholamreza Zandi and his associates presents the case of an Australian company and the concerns as well as controversies associated with the proposed rare earth processing plant in Malaysia. The case discusses the advantages as well possible risks associated with this plant. Case four entitled **Al-Rajhi Bank: Setting an Ummatic Vision of International Management**, authored by Professor Khaliq Ahmad and Dr. Mohd. Mustafa Omar, illustrates the case of an Islamic banks from middle east doing business in Malaysia. The next case is entitled **Traditional Music Industry at the Crossroads** authored by Kim Jong-Seok presents music industry scenario in South Korea and the challenges that this traditional industry is facing from innovation and technology. Finally, the case entitled **Higher Education, Professionalism and Authority: A North-South Gulf** authored by Professor Muhammad Arif Zakaullah paints the picture of a boss who is a control freak with feudal values. Such toxic personalities unfortunately prosper in some cases at the cost of employees' morale and motivation.

We hope that these cases will be useful in teaching management concepts. As always I look forward to your comments and feedback.

Arif Hassan



Case Study 1 **Kerosene Draw at Petronas Terengganu Refinery***

Noor Hazilah Abd Manaf

International Islamic University Malaysia

Mohd Hisham Hamdan

Lean Applied Sdn. Bhd

Sharil Goh Fadhil

Lean Applied Sdn. Bhd

Abstract: Six Sigma is a quality improvement methodology that is widely used by both service and manufacturing organisations. It was pioneered by Motorola but gained wide-reaching recognition through extensive adoption of the methodology by General Electric. Six Sigma focuses on the DMAIC principles of define, measure, analyse, improve, and control with team-based decision-making and problem-solving approach as the mainstay of its implementation. Kerosene draw at Petronas Terengganu Refinery was improved from 69.7 m³/hr before implementation of Six Sigma to 73.03 m³/hr after its successful implementation, which represented a breakthrough improvement from -1.47 to 12.32 sigma level. Headed by a Master Black Belt, the Six Sigma project team first began by mapping the process of kerosene draw in the define stage, followed by rigorous statistical analysis in analysing the critical to quality characteristics (CTQs) of the process, before arriving at an optimum process without compromising the quality of the kerosene. During the first six months of implementation, the project made a cost-savings of RM 5.5 million without any capital expenditure.

INTRODUCTION

Ahmad Hamizan looked out of his office window and thought about the way the December monsoon season could sometimes be unforgiving. It had been raining non-stop for the past few days and the flood water had taken its toll in some areas in the

* This is a best practice case which was based on a true event. Some of the data has been disguised due to proprietary interests.

state. He had also been on the alert in case the flooding got worse. No doubt the weather had not been good, but he had reasons to rejoice. The refinery plant where he had served for the past year as Chief Executive Officer, PETRONAS Penapisan (Terengganu) Sdn Bhd, (PP(T)SB), had shown some excellent results that he was very excited about. He wanted to celebrate despite the wet and dreary December month. The plant was able to draw more kerosene than it ever did, thanks to Six Sigma. He had never felt that an American import could bring such great financial benefits to Malaysian soil.

BACKGROUND OF PP (T) SB

PP(T)SB was Malaysia's first oil refinery located in the state of Terengganu, a coastal state in the eastern shores of Peninsula Malaysia. It is a wholly-owned subsidiary of PETRONAS, the country's national oil company, and was commissioned in 1983. To date, it has a capacity to process 50,000 barrels per day of crude oil into liquefied petroleum gas, motor gasoline, naphtha, kerosene, diesel and low sulphur waxy residue for both domestic and export markets.¹ As the CEO of PP(T)SB, Ahmad Hamizan aspires for the refinery to be the best in class integrated petroleum refinery and the aromatics complex of choice. He has had the experience of successfully driving Six Sigma at his former plant in Petronas MTBE² Malaysia Sdn Bhd and would therefore like to continue with the initiative at PP(T)SB.

Background Brief: PETRONAS and the Malaysian oil and gas industry

PETRONAS, the acronym for PetroliaM Nasional Berhad, is Malaysia's oil and gas company that is wholly-owned by the Malaysian government. It was established in August, 1974 and was modelled along PERTAMINA, Indonesia's state-owned oil and gas company which was established in 1971. As a government-owned corporation, PETRONAS is vested with the entire oil and gas resources in Malaysia and is entrusted with the responsibility of developing and adding value to the country's most valuable resources. From its humble beginnings as a novice in the oil industry, PETRONAS has grown by leaps and bounds. It posted a 48% growth in revenue within 5 years from 2005 until 2009. The revenue from its international operations surpassed RM 100 billion to reach RM 111.3 billion in 2009. In 2008, PETRONAS was ranked 95th among Fortune Global's 500 largest corporations in the world and subsequently rose to the 80th spot in 2009. Fortune also ranked PETRONAS as the thirteenth most profitable company in the world in 2009.³ Headquartered at the PETRONAS Twin Towers in Kuala Lumpur in 2009, PETRONAS has business interests in 31 countries,

¹ <http://www.petronas.com.my/internet/corp/centralrep2.nsf> (accessed 14 January 2010).

² MTBE is a product of Petronas Petrochemical Division, and the company was named after the product.

³ <http://money.cnn.com/magazines/fortune/global500/2009> (accessed 19 December 2009).

with 103 wholly-owned subsidiaries, 19 partly-owned outfits and 57 associated companies, bringing in a revenue of 75.5 billion USD in 2009.⁴

Malaysia stands to benefit greatly from its oil and gas reserves. It has the world's 25th largest crude oil reserves, estimated at 4.5 billion barrels; the world's 12th largest natural gas reserves estimated at 89 trillion cubic feet; and is the world's third largest producer of liquefied natural gas.⁵ As of January 2004, the breakdown of the country's estimated oil and gas reserves is as shown in Table 1. There are five oil refineries in Malaysia and these are located as shown in Table 2.

Apart from harnessing its rich oil and gas resources, Malaysia has long-established links with some of the world's largest petroleum companies. The petrochemical industry has attracted large multinational investors to Malaysia such as Dow Chemicals, ConocoPhillips, Kaneka, Polyplastic, Toray, Dairen, Mitsui, BP, BASF, Idemitsu, Titan and Eastman Chemicals.⁶

Background Brief: Properties of Kerosene

Table 1: Oil and gas reserves in Malaysia (as of January 2004)

RESERVES	NATURAL GAS (trillion cubic feet)	CRUDE OIL (billions barrels)
Peninsular Malaysia	32.5	2.03
Sarawak	46.6	1.26
Sabah	9.9	1.21

Source: MIDA (2004). *Profit from Malaysia's Petrochemical Industry*. Kuala Lumpur.

Table 2: Location of oil refineries in Malaysia

Oil refineries	Location
PETRONAS Penapisan (Terengganu) SdnBhd	Kertih, Terengganu
PETRONAS Penapisan (Melaka) SdnBhd	Tangga Batu, Melaka
Malaysia Refining Company SdnBhd	Tangga Batu, Melaka
Shell Refining Company (FOM) Bhd	Port Dickson, Negeri Sembilan
Esso (Malaysia) Bhd	Port Dickson, Negeri Sembilan

Source: MIDA (2004). *Profit from Malaysia's Petrochemical Industry*. Kuala Lumpur.

⁴ <http://en.wikipedia.org/wiki/PETRONAS> (accessed 19 December 2009).

⁵ Malaysian Industrial Development Authority (MIDA) (2004). *Profit from Malaysia's Petrochemical Industry*. Kuala Lumpur.

⁶ http://www.mida.gov.my/en_v2/index.php?mact=Products,cntnt0, details, 0 & cntnt01pro ductid=22&cntnt01returnid=115 (accessed 14 January 2010).

Kerosene is one of the petroleum products that is obtained from the processing and refining of raw crude oil. It is a combustible hydrocarbon liquid and is also commonly known as paraffin. It is a thin, clear liquid formed from hydrocarbons, with a density of 0.78-0.81g/cm³. It is obtained from the fractional distribution of petroleum between 150°C and 275°C. The flash point⁷ of kerosene is between 37°C and 65°C and its auto-ignition temperature⁷ is 220°C. The heat combustion of kerosene is similar to diesel with a lower heating value of around 43.1MJ/kg, and a higher heating value of 46.2 MJ/kg. Kerosene is insoluble in water, but is miscible in petroleum solvents. It is widely used to power jet-engine aircraft and some rockets, but is also commonly used for heating.⁸

SIX SIGMA AND DMAIC

From January to December 2008, with the kerosene draw from PP(T)SB being at 69.9m³/hr, Ahmad Hamizan thought that the performance could be improved further. He had a word with his subordinate, Ir. Azhar, on the possibility of optimizing the kerosene draw rate at his plant, while minimizing loss from a reduction in a lower priced product, Naphtha. Ir. Azhar was most supportive of his plan and proposed that it should be taken on as one of the plant's Six Sigma projects. Ahmad Hamizan concurred with his subordinate, for he also believed that the Six-Sigma methodology would be able to deliver the results he wanted. Pioneered by Motorola and widely used by companies such as General Electric, the Six Sigma methodology focuses on the following DMAIC principles:⁹

Define (D)

- Identify customers and their priorities.
- Identify a project suitable for Six Sigma efforts based on business objectives as well as customer needs and feedback.
- Identify CTQs (critical to quality characteristics) that the customer considers to have the most impact on quality.

Measure (M)

- Determine how to measure the process and how it is performing.

⁷ Flash point of a volatile liquid is the lowest temperature at which it can vapourise to form an ignitable mixture in air.

⁸ Auto-ignition temperature of a substance is the lowest temperature at which it will spontaneously ignite in a normal atmosphere without an external source of ignition, such as flame or spark. <http://en.wikipedia.org/wiki/Kerosene> (accessed 19 December 2009).

⁹ Evans, J.R. & Lindsay, W.M. (2008). *The Management and Control of Quality*: Mason: Thomson South-Western.

- Identify the key internal processes that influence CTQs and measure the defects currently generated relative to those processes

Analyze (A)

- Determine the most likely causes of defects.
- Understand why defects are generated by identifying the key variables that are most likely to create process variation.

Improve (I)

- Identify means to remove the causes of the defects.
- Confirm the key variables and quantify their effects on the CTQs.
- Identify the maximum acceptable ranges of the key variables and a system for measuring deviations of the variables.
- Modify the process to stay within the acceptable range.

Control(C)

- Determine how to maintain the improvements.
- Put tools in place to ensure that the key variables remain within the maximum acceptable ranges under the modified process.

The Six Sigma methodology involves the use of statistical analysis from basic statistics to more advanced techniques such as analysis of variance and regression. This, Ahmad Hamizan felt, would allow him to objectively evaluate the outcome of the project. The Six Sigma approach to improving kerosene draw began by clearly identifying the problem, which was to minimize variation and also improve the average kerosene draw from X m³/hr to an increment of at least 2 m³/hr. The project was thus titled “To increase kerosene by optimizing draw rate by 2m³/hr by June 2009”. Without this increment, PP(T)SB would not be able to optimize kerosene draw and instead experience a potential loss of RM6.9 million per year. Project metrics were also clearly defined at this initial stage and a Project Team was established.

Project Metrics

Big Y = Kerosene Draw, N m³/hr

Little y = Kerosene Flash, IP170

Little y = Kerosene Freeze, ASTM D2386

Little y = Heavy Naphtha IBP, ASTM D86

In a Six Sigma project meant for process optimization, it is important to define the process outputs that need to be selected as the project ‘Ys’. The project ‘Y’ can be divided into two main categories, which are the ‘Big Y or Primary Y’ which is actually the process outputs that need to be improved or optimized and second the ‘Little Y or

Secondary Ys' which is/are the process quality aspects that need to remain as the requirement by the customer. In other words, it is mandatory in a Six Sigma project to ensure that the improvement or optimization on a particular process output will not affect the quality. The team has to make sure that increasing input will not affect the quality of kerosene.

Project Defect Definition

Kerosene draw ($< 72 \text{ m}^3/\text{hr}$ @ 328 kbd feed.)

Kerosene flash point ($< 38^\circ\text{C}$)

Kerosene freeze ($< -44^\circ\text{C}$)

%C6 in heavy naphtha (IBP) ($< 85^\circ\text{C}$ & $> 97^\circ\text{C}$)

Defining the 'Defect' would allow for an objective evaluation on the success or failure of the project. For example, if the outcome of kerosene draw at the end of the project closure is $70.5 \text{ m}^3/\text{hr}$, the project would be considered a failure as it satisfied the defect definition of the project which is less than $72 \text{ m}^3/\text{hr}$ for the kerosene draw. The project team was established as shown in Table 3. The project roadmap was planned as shown in Figure 1.

Process mapping (Figure 2) was carried out in order to understand the performance of the process better.

Process mapping and cause and effect matrix (Table 4) are crucial in order to understand the process flow and also to identify all the possible process input variables and the process output variables at each process step. Brainstorming sessions carried out enabled team members to identify the strength of relationships between the variables.

The process capability was also evaluated based on data from January 2008 to November 2008. It was found that the capability of kerosene draw compared to the new target ($72 \text{ m}^3/\text{hr}$) was very poor, standing at -1.47 sigma level. This would translate into 92.9 % defect, that is, the current process was not able to optimize the kerosene draw most of the time. The process capability before the Six Sigma intervention is as shown in Figure 3.

Variables from the cause and effect matrix were analyzed by using regression analysis in order to draw out the critical factors. Of the 19 process inputs, seven were found to be critical in optimizing kerosene draw based on the final regression model as shown in Table 5.

During the improvement phase, further statistical analyses were carried out in order to determine the best proportion of all the Xs in order to bring the Y at the desired level. This approach may be exemplified as follows:

"A company that makes fruit juice is investigating mixtures of fruit juice for a new product. The goal is to find the proportion of orange, lemon & strawberry juices that maximize flavour."

The best setting was drawn from the various Six Sigma tools which resulted in the following control chart (Figure 4) for rate of kerosene draw after adjustments were made to the refining process.

Table 3: Project Team

Title	Name	Responsibility
Executive Champion (MD)	Ahmad Hamizan b Hassan	Provide top level support to implement the Six Sigma program
Project Leader (Green Belt)	Marina bt Abdul Karim	Lead the project
Process Owner	Ismail Hashim b Abdul Hamid	Assist in project identification /opportunity
Team Member (1)	Sazali b Selamat	Help Project Leader to collect data and experimentation.
Team Member (2)	Rostam b Tamjis	
Team Member (3)	Maula b Ngah	
Team Member (4)	Tg Razali b Tuan Mahmood	
Team Member (5)	Khairul Hazly B M Isa	
Team Member (6)	Tg Saazman b Tg A Kadir	
Team Member (7)	Jamaluddin b Yahamat	
Resource Person (1)	Mazlan b MohdZain	Provide process expertise
Resource Person (2)	Satiesh Muniandy	
Resource Person (3)	Mukhtar b Mohammad	
Resource Person (4)	Zamaluddin b Embong	
Resource Person (5)	Azmi b Nor C	
Project Champion	Ir. M Azhar b Salleh	Tracks Six Sigma team current health level
Master Black Belt	Mohamad Hisham b Hamdan	Instructor & Expert on Six Sigma steps from Lean Applied. Mentors Project Leader.
Financial Analyst	Noor Inayah bt Marzuki	Consults on project financial benefits

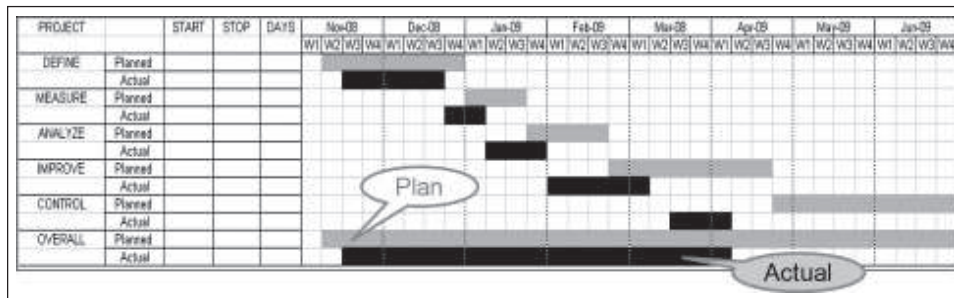


Figure 1: Six Sigma project roadmap

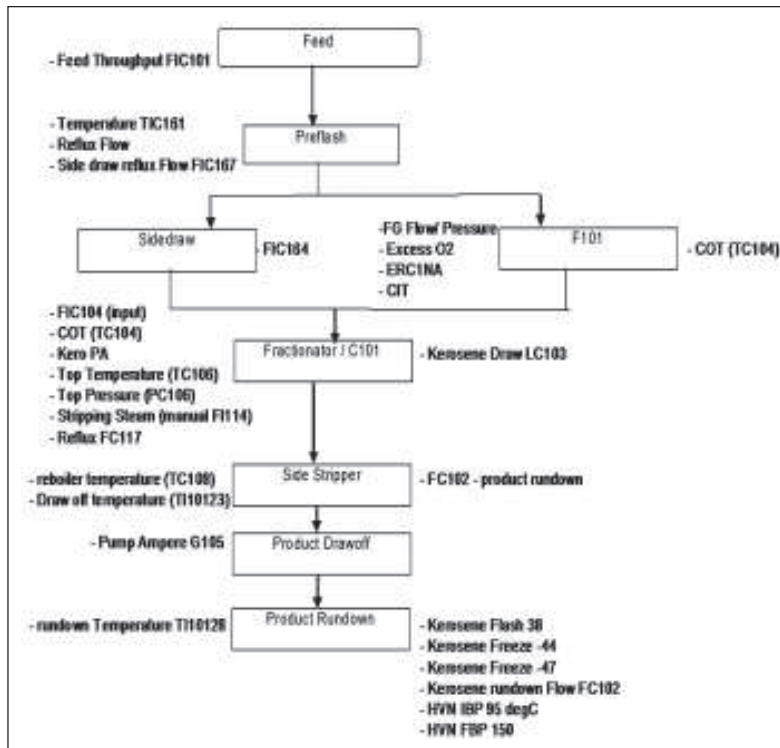


Figure 2: Process mapping

Table 4: Cause and effect matrix

	Big Y – Kerosene Draw rate									
	y1	y2	y3	y4	y5	y6	y7	Total	%	Cum%
1 Preflash sidedraw Flow (FIC104)	9	1	7	7	7	5	5	358	10.84%	10.84%
2 Crude Tower Top Temperature (TC100)	1	3	7	5	5	7	5	312	9.45%	20.29%
3 COT (TC104)	1	9	7	5	5	3	3	302	9.15%	29.44%
4 Kero PA (FC111)	3	1	9	5	5	3	3	282	8.54%	37.98%
5 Kerosene Side stripper reboiler temperature (TC108)	1	1	5	9	7	3	3	256	7.75%	45.73%
6 Kerosene Draw off temperature (TI10123)	1	1	7	5	5	3	3	248	7.51%	53.24%
7 Feed Throughput (FIC101)	5	3	5	3	3	3	3	232	7.03%	60.27%
8 F101 Total Flow (ERC1NA)	1	9	7	1	1	1	1	216	6.54%	66.81%
9 F101 CIT (TI179)	3	9	3	1	1	1	1	166	5.03%	71.84%
10 Side draw reflux Flow (FIC107)	5	1	5	3	3	1	1	146	4.42%	76.26%
11 FG Flow Pressure (FC103)	1	9	1	1	1	1	1	132	4.00%	80.25%
12 Excess O2 (AHD0A)	1	9	1	1	1	1	1	132	4.00%	84.25%
13 Stripping Steam (manual FI114)	1	1	3	1	1	1	1	88	2.67%	86.92%
14 Preflash Overhead Temperature (TC101)	7	1	1	1	1	1	1	78	2.38%	89.30%
15 Preflash Reflux Flow (FIC105)	7	1	1	1	1	1	1	78	2.38%	91.68%
16 Kerosene run-down Pump Ampere (G105)	1	1	1	1	1	1	1	78	2.38%	94.06%
17 Kerosene run-down Temperature (TI10128)	1	1	1	1	1	1	1	78	2.38%	96.44%
18 Crude Tower Top Pressure (FC106)	1	1	1	1	1	1	1	60	1.82%	98.26%
19 Crude Tower Reflux (FC117)	1	1	1	1	1	1	1	60	1.82%	100.00%

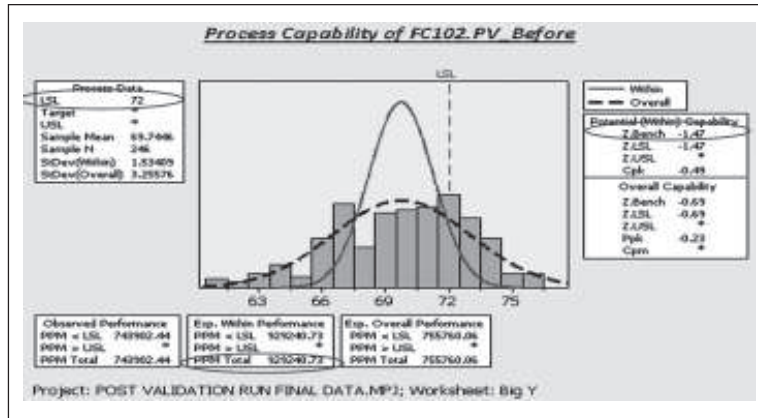


Figure 3: Process capability before the Six Sigma intervention

Table 5: Regression analysis to analyze cause and effect matrix

Regression Analysis: FC102.PV versus ERC1FYA.PV, TI10128.PV, ...

The regression equation is

$$FC102.PV = 16.0 + 0.196 ERC1FYA.PV + 1.27 TI10128.PV - 0.562 TC106.PV + 2.25 PC103.PV + 0.883 AI102A.PV + 0.153 FIC164.PV - 0.0929 FC111.PV$$

Predictor	Coef	SECoef	T	P	VIF
Constant	15.966	9.522	1.68	0.095	
ERC1FYA.PV	0.19557	0.01770	11.05	0.000	1.472
TI10128.PV	1.2658	0.1610	7.86	0.000	1.138
TC106.PV	-0.5624	0.1226	-4.59	0.000	1.596
PC103.PV	2.2534	0.7987	2.82	0.005	1.171
AI102A.PV	0.8829	0.2224	3.97	0.000	1.287
FIC164.PV	0.15304	0.05340	2.87	0.004	1.408
FC111.PV	-0.09290	0.03862	-2.41	0.017	1.590

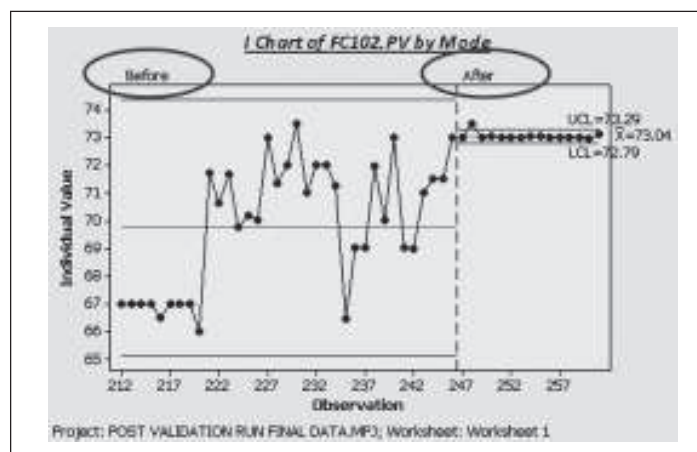


Figure 4 : Kerosene draw before and after Six Sigma intervention

The Sigma level indicates a breakthrough improvement from -1.47 to 12.32. In the Six Sigma, process improvement could be divided into ‘Breakthrough Improvements’ and ‘Incremental Improvements’. In this project, improvements made are considered as ‘Breakthrough Improvements’ as the initial Sigma level of -1.47 jumped to more than 3 Sigma level. From May 2009 up to December 2009, the project gave savings of up to RM 5.5 Million (USD 1.53 Million)¹⁰ without any capital expenditure and is projected to give savings RM 11.01 Million (USD 3.3 Million) by end of April 2010.

Improvements were also observed in the Little Ys. The following graphs show an improvement in kerosene draw while maintaining the kerosene flash quality requirement, kerosene freeze point, and heavy naphtha IBP. In fact, variance was reduced for all three variables. By operating near specification limit, the project team was able to reduce product quality giveaway which was the reason why they were able to optimize production. This is very important as it provides a platform for improvement.

The following graph shows that the improvement in kerosene draw neither affected kerosene freeze quality requirement nor lessened the kerosene freeze result variation. In other words, it improved the precision of kerosene freeze (according to Unit Regulation, kerosene freeze must be $\leq -y2^{\circ}\text{C}$)

Since the project had successfully improved the Big Y without affecting the Little Ys, therefore the next step was to ensure all the significant Xs are controlled at the best setting.

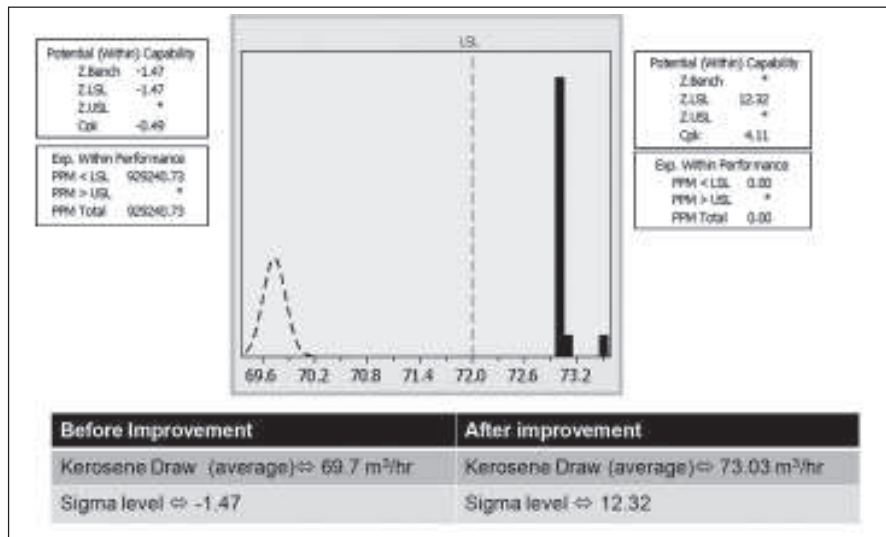


Figure 5: Kerosene draw before and after Six Sigma

¹⁰ Currency Exchange dated Jan 14, 2010, (1 USD = 3.375 Malaysian RM), www.xe.com, on-line currency exchange.

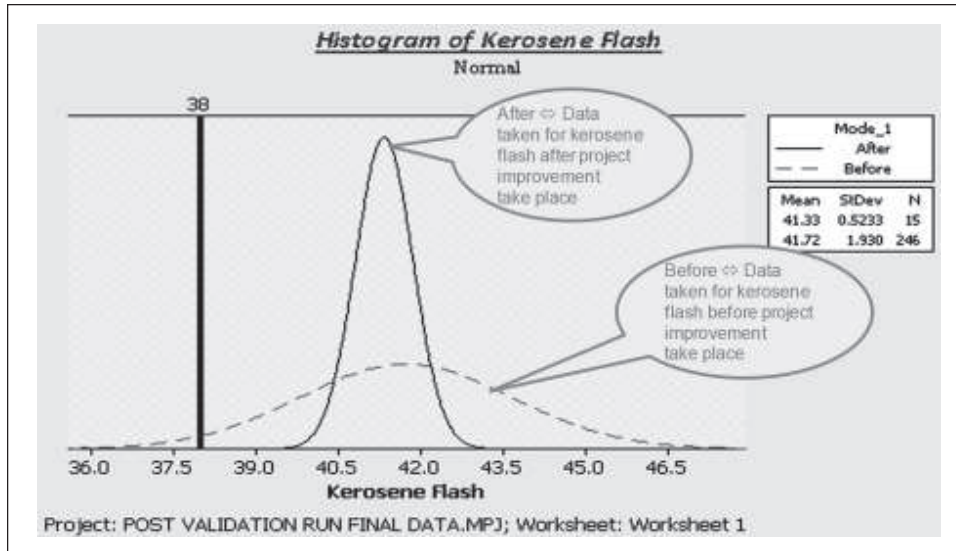


Figure 6: Little Y: Kerosene flash point

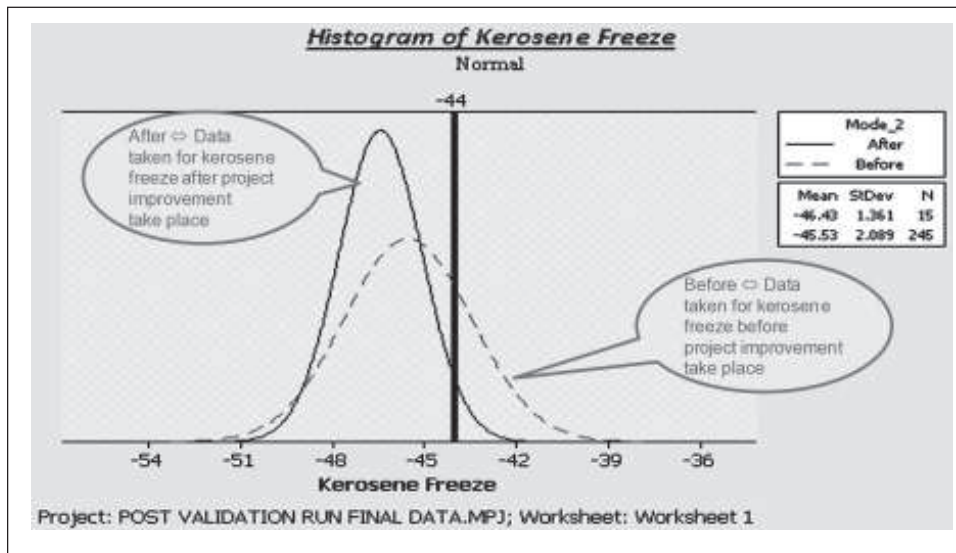


Figure 7: Little Y: Kerosene freeze point

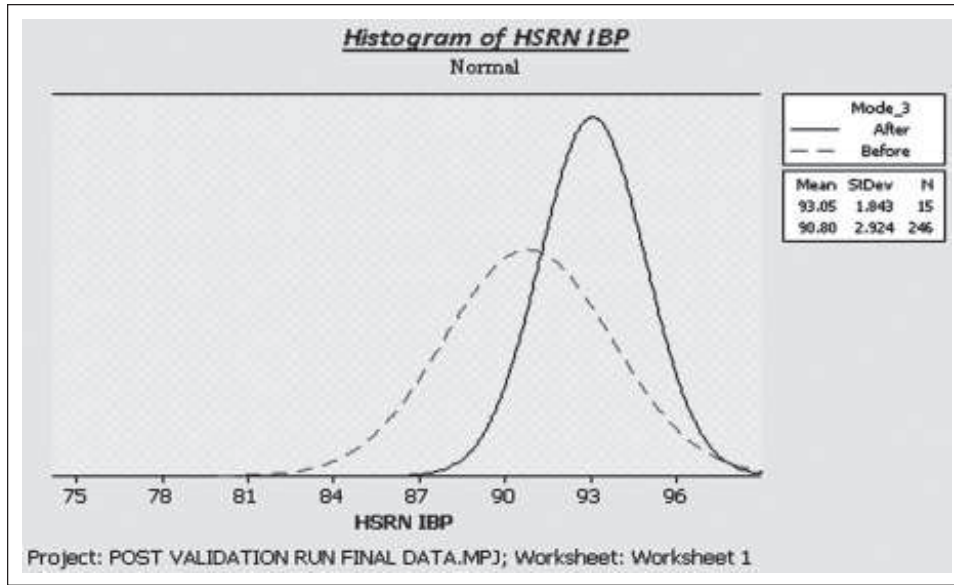


Figure 8: Little Y: Heavy naphtha IBP

Table 6: Six Sigma process control plan

Six Sigma Process Control Plan														
Process Name: <u>Optimizing CDU Kerosene Draw</u>		Prepared by: <u>Muhammad Akmal Karim</u>		Page: <u>1</u> of <u>1</u>										
Customer: <u>ET-1 Production</u>		Int Ext: <u>IntExt</u>		Approved by: <u>Suzali bin Sulaiman</u>										
Location: <u>CDP</u>		Approved by: <u>Muhammad Hisham</u>		Revision Date: <u>8/24/2009</u>										
Area: <u>ET-1</u>		Approved by: <u>M Hisham & Hamdan</u>		Supervisor: <u>Ismail Fakhri & Haniid</u>										
Sub-process	Sub-process Step	CTS		Specification Characteristics	Specification/ Requirement			Measurement Method	Sample Size	Frequency	Who Measure	Where Recorded	Decision Rule/ Corrective Action	SOP Reference
		OPV	OPW		UCL	Target	LSL							
Kerosene Product Spec	Kerosene-1Spec	x		DegC	As per UR			Temperature	1 per day	Daily	Chemist	PMLVUNS	To control product spec within UR limit at all time. If so, please notify by re-sample as limit. If required, re-adjust temperature, Kerosene PA & petrolash calibration.	
Naphtha Distillation Cut	MHTUFuel	x		DegC	As per UR			Temperature	1 per day	Daily	Chemist	PMLVUNS		
Diesel Distillation Cut	DieselD4C-803	x		DegC	As per UR			Temperature	1 per day	Daily	Chemist	PMLVUNS		
Kerosene Draw Rate	FC102/PV	x		m3/hr		73		Flow Rate	NA	NA	Panel	PIDCS	To maintain flow at max 75 m3/hr	
Preflash rate draw rate kerosene	FC104/PV	x		m3/hr	30		44	Flow Rate	NA	NA	Panel	PIDCS	Do not go below 30 m3/hr	
Pump Around Flow	FC111/PV	x		m3/hr	36		39	Flow Rate	NA	NA	Panel	PIDCS	Do not go below 36 m3/hr	
Overhead Temperature	TC108/PV	x		DegC	87.5		90	Temperature	NA	NA	Panel	PIDCS	To maintain overhead temperature at 90 degC	

CONCLUSION

Sustaining gains made is an important element in Six Sigma implementation. Once the improvements are in place, it is the team and process owner's responsibility to ensure the gain is sustained and the profit earned. For this project, Table 6 shows a section of the control plan agreed by the team members and the process owner.

This project was closed in April 2009, and as of December 2009, the monthly audit on the Big Y, Little Ys and 7 significant Xs were still ongoing. The audit will be continued for at least a year after project closure to ensure the targeted benefit calculated for one year in the Define phase would be realized

DISCUSSION QUESTIONS

1. What does the project metric indicates?
2. What is the importance of Little Y?
3. What is the purpose of the Project Roadmap?
4. What is the purpose of process mapping?
5. Why was regression analysis used rather than other statistical tools?
6. Why was the project considered as breakthrough improvement rather than incremental improvement? Is it appropriate?
7. Why was the audit necessary and for what purpose?



Case Study 2 Sime Darby Goes to Liberia

Mohamed Sulaiman*, Gholamreza Zandi & Akmal Nurhananie A. Rahman
International Islamic University Malaysia

Abstract: This case study discusses the issues arising from Sime Darby Corporation being given a concession agreement to develop 220,000 hectares of land with palm and rubber plantations in Liberia for a period of 63 years. Sime Darby Bhd is a Malaysian multinational company with diverse interests. Its main focus is plantations with its major crops being oil palm and rubber. It has large plantations in Malaysia and Indonesia. With land becoming scarce in Southeast Asia, Sime Darby looked for opportunities in Africa. They found a partner in Liberia which needed foreign investment to revive its economy after two civil wars. While the opportunities looked great on papers, questions arose over the risks involved.

BACKGROUND

Sime Darby Berhad is a Malaysian-based multinational company operating in more than 20 countries worldwide. The company has diverse interests in plantations, property, motor vehicles, industrial equipment, and energy and utilities. Besides, Sime Darby had also diversified into healthcare, which is considered a growth sector in the group. Today the company is a merger of three large plantation entities, with the merger having taken place on November 2007; the entities are Kumpulan Guthrie Berhad, Golden Hope Plantations Berhad and Sime Darby Berhad.

Following the merger, Sime Darby Plantation, which is one of Sime Darby's business divisions, was established as one of the world's largest palm oil producer, producing about 2.4 million tons or 6% of the world's crude palm oil (CPO) annually.^[1] The division mainly focuses on the plantation of palm oil and rubber, as well as manufacturing and distribution of food based and non-food based products. To date, Sime Darby Plantation owns approximately 314,154 hectares of palm oil plantations and 8,419 hectares of rubber estates in Malaysia, while another 208,049 hectares of oil palm plantations are located in Indonesia.^[1]

Sime Darby Plantation was granted an amended and restated concession agreement (CA) by the Government of the Republic of Liberia in April 2009. Sime Darby plantation (Liberia) Inc. (SDPL) took over the ex-Guthrie plantation operations in Liberia on 1

* Correspondence author: Mohamed Sulaiman, Email: Mohamed.sulaiman@yahoo.com

January 2010.^[2] The CA allows SDPL to develop 220,000 hectares of land with palm and rubber plantations in Liberia for a period of 63 years. Sime Darby plantation officially commenced its large-scale plantation activities in the African republic on 19th May 2011 at the Matambo Estate in Grand Cape Mount.

The former Kumpulan Guthrie Berhad had operated rubber plantations in the Republic of Liberia between 1981 and 2002. The two civil wars that ruined Liberia, one in 1989 to 1996, and another in 2001 to 2003, had forced the company to withdraw from the country at that time.^[3] Hence, following the merger of the plantation companies, the Liberia project involved two operations. One was the existing 7,782 hectares rubber plantation which was planted between 1956 and 1988, while the other is the new concession area located in four counties- Grand Cape Mount, Bomi, Bong and Gbarpolu. The new concession consisted of abandoned agricultural land and degraded forests that had been neglected during the civil wars.

To date, Sime Darby plantation had already invested RM50 million in Liberia for the purpose of establishing and rehabilitating the infrastructure required for the company to begin its operations in Grand Cape Mount and Bomi counties. A total of 187,000 germinated seeds were received and planted during 2010 and a nursery of 1 million seeds was established up by October 2010.^[3]

WHY INVEST IN LIBERIA

Liberia is an African republic located in the west of the African continent. The land of Liberia consists of flat terrain and dense tropical forests, with hot and tropical conditions conducive for palm tree growth and fruit production. At one time, the country was well-known for its iron-mining and rubber plantations. Despite having rich resources and potential for self-sufficiency in food production, Liberia's productive capacity remains limited because of high unemployment, low literacy, poor health, corruption, and the absence of basic infrastructure. Political disturbances that began in the 1980s, followed by a 14-year civil war from 1989 to 2003, have largely destroyed its economy and brought a sharp decline in the people's living standards. This has caused heavy damages to most major businesses, with most foreign investors and businesses leaving the country. Prior to the civil war, their economy relied heavily on the mining of iron ore and on the export of natural rubber.

On 4 May 2009, Sime Darby Berhad had signed a palm oil deal with the government of Republic of Liberia. The deal covered a concession of 220,000 hectares of land in the West African country, with an investment of USD800 million by Sime Darby in palm oil and rubber plantations. About 80% of the investment will be used for the development of Liberia's palm oil industry, while the balance will be spent on restoring Liberia's third largest rubber plantation.

The main reason for the expansion of Sime Darby plantation into Liberia was the abundance of land in the country itself. Indonesia is implementing a two-year ban on granting new concessions of land to plantation companies in forest areas.^[4] The rationale for the ban is based on the Indonesian government's concerns relating to large-scale

deforestation that has an effect on global warming. In addition, Malaysia itself is facing a scarcity of land to develop into plantations. It is increasingly difficult to acquire plantation land in Asia and thus it is essential that new areas are explored to meet the increasing demand. Moreover as most of the concession land in Liberia has already been logged, issues related to deforestation restrictions are not likely to emerge.

As stated by the chairman of the Sime Darby group, the demand for palm oil is expected to increase in the future, as the global population grows and disposable income in developing countries rises.^[1] This is because palm oil is widely used in food products, for industrial purposes, and in biodiesel. Considering the location of Liberia, a fully operational crude palm oil processing plant in the country would provide Sime Darby plantation with greater access to the lucrative market for biofuels on the Atlantic rim, Europe and Africa. The plantation could offer significant savings in logistics distribution.

Given the economic condition of the Liberian republic, Sime Darby was also seeing an economic opportunity for developing a commercial palm oil industry. Most of Liberia's annual production of palm oil goes toward domestic consumption. Given that the unemployment rate in the country is high, Sime Darby plantation will not face problems in relation to labor shortages.

BENEFITS FROM INVESTMENT

Liberia's vice president Joseph N. Boakai had stated that the Sime Darby investment would help to boost Liberia's peace and security, and enhance stability in post-war Liberia. The reason being that it will create employment and social opportunities that will keep the active population of Liberia positively engaged and hence divert their attention from trouble.^[5] Through its investment, Sime Darby plantation would directly employ 35,000 people, which will have a significant indirect impact on renewed economic activity in the surrounding areas.^[6]

By expanding its palm oil plantation into the Republic of Liberia, Sime Darby plantation has the first mover advantage over future entrants into Liberia in terms of securing choice land. According to Richard Tolbert, chairman of Liberia's National Investment Commission (NIC), after concluding a USD800 million deal with Sime Darby Plantation last year, Liberia was approached by Sime Darby's biggest competitor.^[6] In fact, the country is now in the negotiation phase with their competitor for USD1.6 billion investment in establishing a palm oil plantation in its Southeast region.

In addition, by entering the market in Liberia, Sime Darby plantation is bringing along with it the technology and expertise that they have in the palm oil industry. This is highly beneficial for the Liberians as their government intends to revive the agriculture sector which has been hindered by a lack of access to credit. Besides, most farms in Liberia are small and lack mechanization.

For these reasons, Sime Darby plantation will apply its best practices in its Liberian plantation, just as it does in Malaysia and Indonesia. It will continue to ensure the land

under its care is constantly developed. For this purpose, Sime Darby Plantation had built centralized housing complexes for its estate workers in Liberia. These villages will be similar to the company's facilities in Malaysia and Indonesia and will feature facilities which include worker's quarters to community halls, fully equipped schools and day-care centers, dispensaries and clinics.^[7] Furthermore, Liberia will be receiving huge benefits in terms of infrastructure building as Sime Darby Plantation will be undertaking the construction of roads, schools and recreation centers. From the company's point of view, it is giving back something in return to the residents of the areas under their operation.

Sime Darby investment would trigger other development activities in the company's operational areas. Some of the development activities that had already started, involved rehabilitation of 15 school buildings including D8 Camp Junior School, Factory Camp Junior School, Malema Camp School and Mambo Camp School.^[8] Despite all these development activities, the company will adhere to strict conservation rules and according to this policy, the company will retain any area of high conservation value forest and will employ agricultural practices that are designed to minimize negative impact on the environment.

DISADVANTAGES OF INVESTMENT

Investing in the Republic of Liberia involves high risk because the country itself has a relatively risky business environment.^[9] First, the country had just recently emerged from a period of civil war and this scenario brings with it some political and economic risks that Sime Darby Plantation will have to face. In addition, the regional instability caused by political disputes in neighboring countries, particularly the Republic of Ivory Coast, has made the situation in Liberia increasingly unstable. As a country that has gone through the ravages of two civil wars, Liberia lacks infrastructure, as much infrastructure was destroyed during the civil wars. The transport sector in the country is very poor, the capacity of the water supply is very low, and the energy sources are insufficient. However, currently the infrastructure is being slowly rebuilt, with the help of foreign investors.

Compounding these problems is Liberia's less developed banking and financial system. As a result of the two civil wars mentioned previously, the banking system of Liberia collapsed. Currently, the banking system is undercapitalized and is unable to meet the credit demands of the business sector. Not only is the financial system underdeveloped, it is exposed to political and economic instability. The banking and financial system in Liberia lacks deregulation and faces constant government intervention, which reduces the bank's ability to implement policies, leading to financial system failure. Therefore, Sime Darby Plantation will probably face transactional risks, income risks from operation and financing, as well as accounting risks due to fluctuations in the exchange rate of the local currency. Financial system stability in Liberia requires political and social collaboration in establishing and maintaining stability

in the Liberian economy. A strong financial system is less vulnerable to risks caused by political and social disruption and should become stronger with time.

CONCLUSION

Sime Darby Berhad had considered the scarcity of land at home and prohibitions against granting new concession land by the Indonesian government, as a threat to further development of its plantations business and had made a decision to seek opportunities in Liberia. The initiative by Sime Darby Plantation to develop oil palm plantations in Liberia is an optimistic step aimed at being closer to the European market. Although the political and economic stability in Liberia does offer some risks, Sime Darby places high trust in the Liberian government and its people. Moreover, the company believes that it will benefit both parties, as Malaysia and Liberia are developing countries, albeit at different levels, and this investment is considered as helping each other to progress further.

DISCUSSION QUESTIONS

1. What factors should Sime Darby have considered before starting operations in Liberia? Why?
2. What conditions are prevailing in Liberia that are not conducive to business for Sime Darby ?
3. What are the possible risks of investing in Liberia?
4. What plans should be drawn up to mitigate the risks?

REFERENCES

- [1] Sime Darby Berhad Annual Reports 2010.
- [2] Sime Darby to set roots in Liberia. Sime Darby News Archive. From http://www.simedarby.com/sime_darby_to_set_roots_in_liberia.aspx [Retrieved 9 May 2011].
- [3] Hanim Adnan (2011). Sime Darby plantations makes foray into Liberia. *The Star Online*. From <http://biz.thestar.com.my/news/story.asp?file=/2011/5/28/business/8767822&sec=business> [Retrieved 28 May 2011].
- [4] Levitt, T. (2011). Palm Oil Giants Target Africa in 'Land Grab' following Indonesia Deforestation Ban. From <http://climate-connections.org/2011/03/25/palm-oil-giants-target-africa-in-land-grab-following-indonesia-deforestation-ban/> [Retrieved 25 March 2011]
- [5] Liberia: Vice President Boakai impressed with Sime Darby. *The Analyst*. From <http://allafrica.com/stories/201011050646.html> [Retrieved 5 November 2010]
- [6] Liberia becoming more popular as investment destination. From <http://www.howwemadeitinafrica.com/liberia-becoming-more-popular-as-investment-destination/2742/> [Retrieved 20 July 2010].

- [7] Galvez, R. Palm oil – Extracting Values. *Religar Institutional Research: Palm Oil Sector Report*. From <http://asianplantations.com/mediarelations/equityresearch/2011-03-14-palm-oil-sector-report.pdf> [Retrieved 11 March 2011]
- [8] Country brief: Liberia (2009). From <http://standardsforum.org/system/briefs/271/original/brief-Liberia.pdf> [Retrieved 15 June 2009].
- [9] Liberia: Overview(2011). African Economic Outlook 2011. From <http://www.africaneconomicoutlook.org/en/countries/west-africa/liberia/> [Retrieved 2011].



Case Study 3 Lynas Advanced Materials Plant

Gholamreza Zandi^{1*}, Mohamed Sulaiman & Najwa Anis Dzulkefli
International Islamic University Malaysia

Abstract: This case study illustrates the issues regarding Lynas Advanced Material Plant. The Lynas Corporation Ltd of Australia first looked at China before settling on Pahang, Malaysia to establish its rare earth processing plant. Rare earth is a slightly radioactive material. Despite reassurances by the company and the State and Federal governments that the Lynas Advanced Material Plant is not dangerous to the employees and the community, some NGOs and the public are still skeptical. They say the benefits derived from investment may not outweigh the risks. The case presents a balanced perspective on both the benefits and risks of this project.

INTRODUCTION

Lynas Corporation Ltd of Australia is building a rare earth processing plant called Lynas Advanced Materials Plant (LAMP) which is currently under construction at Gebeng in Pahang Malaysia. The company had proposed that raw materials (lanthanide ores) from Western Australia be processed into purified lanthanides, one of the rare earth groups. Rare earths are crucial for production of high-tech goods from fiber-optic cables to smart phones and electric cars.

The Malaysian government has appointed a panel of experts to review the safety aspects of the project. The International Atomic Energy Agency (IAEA) has been asked by the Government to appoint an expert panel for a second opinion on the issues raised.^[1] There are reasons behind the Government's decision on letting Lynas to proceed further with the project. Though the government insists that the project will definitely bring advantages, it is the disadvantages that worries the citizens of the country. The concerns are over the storage and further safety of this radioactive material that will be processed in the factory; it this aspect of the business that fuelled protests in Malaysia.

LYNAS CORPORATION LTD

Lynas Corporation Ltd was founded in 1983 by a company with the name of Yilgangi Gold NL which saw a name change to Lynas in 1985. It is an Australian rare earth

¹ Correspondence author: Gholamreza Zandi; Email: zandi@iium.edu.my

mining company. It was publicly listed on the Australia Securities Exchange, (ASX) in 1986 and is now an ASX 100 company. Lynas holds to the strategy of being a reliable, fully integrated source of rare earths from the mine, all the way to market. Lynas has also set its eyes on becoming the benchmark for environmental standards as well as ensuring a secure supply in the global rare earths industry. ^[2]

Lynas Corporation Ltd has two major operations which are in mining and a concentration plant at Mount Weld, Western Australia and a refining facility now taking shape in Pahang, Malaysia. Mount Weld in Western Australia has the richest known deposit of rare earths in the world, while the state-of-the art rare earths processing plant called the Lynas Advanced Materials Plant (LAMP) is currently under construction in Gebeng Malaysia. The production at Mount Weld is intended to be sold directly to other countries for further refining, as well as to serve as feed stock for the company's facilities in Malaysia.

WHY LYNAS CHOSE MALAYSIA

According to Nicholas Curtis, Lynas Executive Chairman, in an interview with *The Malaysian Insider* last April, Lynas Corporation Ltd initially considered China as a place to build LAMP. It was because China provides good technologies and offers low processing costs. But later, while negotiations were underway, China stated that it would impose rare earth export quotas. Lynas asked for permission to bring their concentrated material into China and re-export it and be exempted from quotas but China denied the request. ^[3] LAMP is a global business which offers a material that is high in value. As a result, Lynas focused on the most efficient cost and began to seek the most pragmatic places to process and refine the material. They searched around the globe for a place with the best combination of circumstances and this search culminated in Malaysia being chosen.

Malaysia has a good platform with industrial capacity based on gas and oil fuel. The energy, water, chemicals and gas are a lot cheaper in Malaysia compared to other places specially Australia. LAMP is being built in Gebeng Malaysia for several reasons. There are other major chemical corporations based in the vicinity such as Polyplastics Asia Pacific, BASF-PETRONAS, Petronas CUF, Petronas Centralized Emergency Facilities and the PDH Plant. Gebeng has industrial infrastructure including industrial land. Also, Gebeng has easy access to sources of gas, water and electricity and facilities to obtain re-agents from local suppliers.

The Gebeng Industrial Estate offers an excellent chemical and petrochemical manufacturing facility for investors. The Gebeng bypass eases traffic flow from the industrial estate to Kuantan Port. It links Kuala Lumpur and Kuantan directly through the East Coast Highway. This route provides a cost effective and convenient means of transportation. It makes it a lot easier for investors as it allows more efficient transfer of freight and raw materials locally as well as for international channels. ^[4]

The area where the plant is being built also offers much knowledge infrastructure, such as technical and trade skills and chemical industry experience. The government

infrastructure is in place and provides accountable and reliable regulators and clear legal frameworks. Malaysia has the clearest set of regulations compared to other countries. Additionally, the Malaysian government also offers good foreign investment incentives. Furthermore, as stated by Curtis in a video interview posted in Lynas Malaysia channel in YouTube, Malaysia has a very well trained workforce in the chemical industry. ^[5] This will bring great benefits to Lynas as they need a professional workforce. Further, Curtis also stated that Malaysia has a solid and rapidly growing industrial economy.

HOW WILL MALAYSIA BENEFIT?

Lynas's RM700 million plant, Lynas's Advance Materials Plant, (LAMP) is said to be the world's largest rare earths processing plant. It is scheduled to start operations in September 2011 with strong backing from the Malaysia government. Malaysia will stand to benefit in several ways. First, the project will contribute towards increasing Malaysia's gross domestic product (GDP). It is reported that the plant may generate up to 1% of the nation's GDP. ^[3]

In a video interview posted in YouTube by Lynas Malaysia, Lynas' Executive Vice President Matthew James stated that Lynas will pour an initial AUS350 million (RM 1.1 billion) into the first phase of LAMP before an ongoing investment of AUS 10 million per annum. Furthermore, the business ecosystem and multiplier effect of this investment is equivalent to a generation of about AUS1.3 billion worth of turnover in the region applying a tenfold multiplier effect. ^[6] The plant will also offer job opportunities in Malaysia as it is said that 99% of those employed will be local. LAMP will require some 350 skilled workers and this includes senior leadership positions. Malaysia after all has a well trained work force in the chemical and mineral industry.

James also stated that the current move is for advanced chemical companies to locate or co-locate around a stable, long-term, secure, safe supply of rare earths. There are also companies that have shown their interest from the beginning. ^[6] This means there is already interest from customers with regard to this aspect. It shows that the market for processed rare earth is a growing market and this will definitely benefit Malaysia. More importantly, the building of the plant at Gebeng will bring in new knowledge, information and technology into Malaysia. The project is well known for its advanced technology and this will give an opportunity for Malaysians to learn both the advantages and disadvantages of rare earths processing. This consequently should help educate society and lead to the growth of the industry. This is very crucial to Malaysia as we are a growing and developing country.

DISADVANTAGES FOR MALAYSIA

Lynas Advanced Materials Plant in Gebeng is a place where imported rare earth ores mined from Mount Weld in Australia are to be processed. The miners in Australia will source the radioactive ore which produces the precious element before shipping it to Kuantan. Rare earths, a group of 17 elements which are placed at the bottom of the

periodic table, are not radioactive themselves. However, every rare earth ore deposit around the world contains, in varying concentrations, a slightly radioactive element called thorium.^[7] The finished products of the rare earth will be exported overseas by Lynas whereas the management of radioactive waste is still in question.

Since the beginning, public disclosures from the Malaysian government and Lynas have been sparse and contradictory. Lynas's executive chairman Nicholas Curtis claims that they have permission from the government to store the waste on site forever. On the other hand, Atomic Energy Licensing Board (AELB) director general, Datuk Raja Abdul Aziz, refuted this by saying that the plant can only store waste temporarily. From press statements, it can be deduced that the waste management aspect has not been finalized yet. The Australian government also flatly rejected calls and refused to take back Lynas's radioactive waste.

This is bad news for Malaysia. If the waste is to be stored in Malaysia, it might have possible negative effects on the residents and endanger the environment. Exposure to such radioactive material is hazardous. Radiation can cause or trigger cancer in humans in the long term even though it may take decades for the cancer to appear. That is not all; radiation can also damage living things, animals included, at a cellular and genetic level. Radiation can cause severe cellular damage in seeds which sometimes prevent them from sprouting and germinating, thus affecting the ability of plants to reproduce.^[8] According to Datuk Raja Aziz, Lynas' waste is safe enough to be scattered everywhere if Lynas can keep the thorium level in its waste to 1,600 parts per million^[9]. However, no matter how small the radiation is, it still involves a possible risk to human beings and the environment. Furthermore, critics have questioned the real economic benefit of the project despite reports that the plant may generate up to 1% of national GDP, citing the 12-year tax holiday Lynas is set to get as a pioneer status company.^[3] It appears to be somewhat of a disadvantage to Malaysia as the government will not get tax from Lynas for a long period.

The government on its side had engaged the International Atomic Energy Agency (IAEA) to study the Lynas processes and potential outputs and by-products. The report from the IAEA seems to indicate that the company's processes, products and byproducts will be harmless to humans and the environment. Still, some quarters are not happy with Lynas being located close to the villages in Gebeng, Kuantan. The anti-Lynas group rejected the IAEA report as not credible.

CONCLUSION

LAMP indeed brings advantages and benefits to Malaysia. However, the health and public safety of the citizens is much more important. Not only will those who live around the area be affected, but other citizens' lives are also endangered as radiation has no barrier. We should learn our lesson from the radiation disaster of the Asian Rare Earth (ARE) which was located in Bukit Merah. Even though ARE was finally closed in 1992, the area is currently still undergoing a massive RM303 million cleanup. This is such an unnecessary loss as the incident could have been prevented earlier. The

government should have instead placed greater focus on public engagement, environment impact studies and public safety guarantees. It is also very important to know exactly how Lynas plans its waste disposal management especially since LAMP is located close to human habitation. Is this project of any value to Malaysia?

DISCUSSION QUESTIONS

- 1 What factors should a company like Lynas consider when locating its operations abroad? Why?
- 2 What factors should the local authorities like the Kuantan City Council, the State government and the Federal government consider before approving the license to a company like Lynas to operate? Why?
- 3 Were the objections by the NGO's and local population justified with regard to Lynas operations in Kuantan? Why?
- 4 If you were the CEO of Lynas (LAMP), what would you do to overcome the objections and protests by the local population?

REFERENCES

- [1] *The Star* (2011). Lynas' Fate Depends on IAEA. 24 May 2011, p.31
- [2] Lynas Corporation Ltd official website. Retrieved from <http://www.lynascorp.com/>
- [3] Teoh, Shannon (2011). Australia is not as competitive as Malaysia. From <http://www.themalaysianinsider.com/malaysia/article/australia-not-as-competitive-as-malaysia-says-lynas> [Retrieved 6 May 2011].
- [4] Thong, Simon (2011). Lynas and Gebeng Kuantan. From <http://simonthongwh.wordpress.com/2011/06/06/lynas-and-gebeng-kuantan/> [Retrieved 6 June 2011].
- [5] Curtis, Nicholas. Why Lynas chose Malaysia. From <http://www.youtube.com/watch?v=LjfYXqRqpIw>
- [6] James, Matthew. Benefits to Malaysia. From <http://www.youtube.com/watch?v=rhPcekFzplc>
- [7] Teoh, Shannon (2011). Twenty Years on, Malaysia Another Rare Earth Bet." From <http://www.themalaysianinsider.com/malaysia/article/twenty-years-on-malaysia-another-rare-earth-bet/> [Retrieved 9 March 2011].
- [8] Ma Wen Jie. Environmental Effects on Radiation. From http://www.ewhow.com/about_5285742_environmental-effects-radiation.html
- [9] Soo Jin Hou (2011). The Case Against Lynas. From <http://www.malaysia-today.net/mtcolumns/letterssurat/40198-the-case-against-lynas> [Retrieved 5 May 2011]
- [10] Chi, Melissa (2011). Anti-Lynas Group Says International Report Not Credible. From <http://www.themalaysianinsider.com/print/malaysia/anti-lynas-group-says-international-report-not-credible/> [Retrieved 11 June 2011].



Case Study 4 Al-Rajhi Bank: Setting an *Ummatic* Vision of International Management

Khaliq Ahmad*

International Islamic University Malaysia

Mohd. Mustafa Omar

International Islamic University Malaysia

Abstract: Al-Rajhi Bank, from Saudi Arabia, is making its presence felt in the Malaysian market with the establishments of many branches throughout the country, providing its products and services to the competitive Islamic banking segments in the local market. It has proven itself to be effective and efficient in its services while declaring lucrative profits by the year end - 2011, that is an increase of 26%. Carefully monitored by its own Shariah Board it has not only inculcated Islamic values in its products and services but has also stressed on adherence to the Islamic code of conduct by the members of its management teams, the people behind its many successes and accomplishments. The bank is professionally managed according to its vision, mission and values.

INTRODUCTION

The Malaysian Islamic banking and finance industry added another feather to its cap by opening its market space to foreign Islamic banks. Besides other interested foreign banks, Al-Rajhi took the bold decision to test its success back home to venture into an international market. A brief explanation follows about the origins of the Al Rajhi bank. The Al Rajhi bank started in 1978 as a banking and trading establishment and subsequently merged into an entity called 'Al Rajhi Trading and Exchange Corporation.'. In 1987, it was converted into a joint stock company under the Saudi Royal Decree No. 59. Later, the company was renamed Al-Rajhi Banking and Investment Corporation under Ministerial Decision No. 1398, and renamed again in 2006 as Al Rajhi Bank.

Al-Rajhi belongs to the Al-Rajhi family, Saudi Arabia's wealthiest non royals and the world's leading philanthropists. The shareholding pattern of Al Rajhi shows that the four sons of Abdul Aziz Al Rajhi (Saleh, Sulaiman, Abdullah and Mohammed) and their heirs remain the corporation's primary equity holders.

* Correspondence author: Khaliq Ahmad, Email: khaliqahmad@iium.edu.my

AL-RAJHI IN SAUDI ARABIA

Al-Rajhi Bank, one of the largest banking corporations in the kingdom, has a 100% funded capital base that began with SR 750 million**, increasing steadily from SR1.5 billion, to SR2.25 billion, then to SR4.5 billion (March 2005) and to SR6.75 billion (March 2006). In March 2007, it stood at SR13.50 billion. Al Rajhi Bank ranks third in terms of asset size: Saudi Arabian riyals (SR) 212.8 billion (USD56.7 billion) as of 30 September 2011 with a 14%-16% market share in loans and deposits.

As of today, Al-Rajhi is the largest Islamic banking group in the world recognized for being instrumental in bridging the gap between modern financial demands with intrinsic Islamic values. As one of the fastest growing and most progressive banks in Saudi Arabia, it owes its banking excellence to its unwavering commitment to *shariah* principles and the use of modern technology to offer diverse products to meet its customer needs. The Group has a vast network of over 500 bank branches, about 2,000 ATM machines and over 18,000 POS installed throughout the Saudi kingdom.

Al-Rajhi business principles are guided by *non-ribawi* (interest free) financial services under Saudi Arabia's strict *shariah*-compliant (legal maxims) banking. The bank is competing in an alternative financial system against a widely prevalent interest based (prohibited in Islam) conventional financial system.

AL-RAJHI IN MALAYSIA

Recently, after 30 years of operation solely within Saudi Arabia where it operated in a home culture, the Al-Rajhi bank launched its first branch in Malaysia in October 2006, signifying its foray into international financial services. Following the Saudi business model which adhered closely to the deeply rooted strict *wahabi* sect prescribed Islamic banking principles, this *shariah*-compliant banking group is planning to bridge the gap between Islamic finance and the international financial market. This financing institution demands strict adherence to intrinsic Islamic values. Malaysia is opening up to international banking institutions in order to fulfill a range of industry needs and to accelerate growth and development.

Al-Rajhi Malaysia, is banking upon its financial strengths and the latest technologies, to provide consistently efficient banking services at the speed and convenience demanded by an international customer base. It opened its first and main branch at Jalan Ampang, Kuala Lumpur on 16th October 2006. As of January 2012, Al Rajhi has 15 branches in the Klang Valley, and another 8 branches outside the Klang Valley bringing the total to 23 branches in the whole of Malaysia. Thus far, Al-Rajhi owns 470 branches in the Kingdom of Saudi Arabia, 23 in Malaysia, one in Kuwait and 2 branches in Jordan with the total being 496 branches worldwide.

As of February 2008, Al-Rajhi's customer base was almost 100,000 with the numbers steadily growing. In financial year 2011, customers' accounts rose by 21% (SR 173 billion compared to SR 143 billion in 2010)

** 1 USD = 3.75045 SR as of 24 Jan 2012 <http://www.alrajhibank.com.my/>

Products and Services

As an Islamic bank, all banking and financing products/services offered by Al-Rajhi are Islamic and *shariah*-compliant. Some of the products and services offered by Al-Rajhi are given below :

- Personal Financing-i
- Structured Home Financing-i
- Debit ATM Card-i
- Charge Card-i
- Current Account-i
- Savings Account-i
- Fixed-Term Investment Account-i
- Al-Musafir Card-i
- Automobile Financing-i
- Customized Corporate Products

Financial Strengths

Al Rajhi Bank is a financial institution that is gaining recognition as indicated by the following:

- As of 31 December 2007, Al Rajhi had assets totaling USD 33,298 million (RM110,149 million) and a net income of USD 1,720 million (RM 5,689 million).
- Al Rajhi bank commanded a total equity of USD 6,294 million (RM 20,821 million) and a market capitalization of USD48 billion (RM 155 billion) as of 31 December, 2007.
- The bank had the highest profits among banks in Saudi Arabia, standing at USD 1,720 million (RM 5,689 million) and offered the best ROE and ROA in the world at 29.5% and 5.6% respectively.
- Financial strength was rated as A by S&P on 11 May 2007. Customers' accounts went up 21% in the financial year 2011 (SR 173 billion compared to SR 143 billion in 2010)

Beside the above, Al-Rajhi Bank achieved SR 3.5 billion in profits during the first half of the year 2009, a 5% increase over the previous year. Al-Rajhi Bank CEO, Mr Abdullah Sulaiman Al-Rajhi, announced that the Bank posted a net profit of SR 3.503 million, compared to SR 3.344 million during the same period last year, representing a 5% increase. He attributed the growth to an increase in customer deposits and the diversification of the Bank's financing and investment strategy. He further explained that the bank was continuing with its conservative strategy by increasing its financial provisions of 55% compared to the same period last year.

The financial results for June, 2009, 2010 and 2011 (Table 1) shows that the net income from financing and investing operations reached SR4.623 million, compared to SR4.170 million, representing a 11% increase from last year and SR 9.07 million in 2011 indicating 41% increase compared to previous year(s). Total operational revenue reached SR5.641 million, compared to SR5.201 million, representing an 8% increase; in June 2011, it was SR12.502m, an increase of 7.2% in 2011 but showed a little dip compared to the previous year. Al-Rajhi Bank reveals that it was successful in diversifying its revenue base due to its efforts in developing the investment and banking sectors hand in hand with managing customer relationships through meeting their needs with a better quality products and services.

The management of Al-Rajhi, during an interview, added that shareholder value increased to SR27 billion compared to SR24 billion during the same period, an increase of 13%. Assets increased to SR165 billion compared to SR150 billion representing an increase of 10%. Customer deposits grew by 14%, increasing from SR 123 billion,

Table 1: Financial ratios for the period July 2008 – June 2011

	July 2008	June 2009	June 2010	June 2011	Percentage Difference
Net profits (Financial provision)	SR 3.344 m	SR 3.503 m	SR 6.771 m	SR 7.378 m	9% increase (55% increase)
Net income (Financing and investment operations)	SR 4.170 m	SR 4.623 m		SR 9.070 m	41 % increase
Total operational revenues	SR 5.201 m	SR 5.641 m	SR 11.661m	SR 12.502m	7.2% increase
Shareholder value	SR 24 b	SR 27 b	SR 30 b	SR 33 b	8.3% increase
Assets	SR 150 b	SR 165 b	SR 185 b	SR 221 b	20 % increase
Customer deposits	SR 108 b	SR 123 b			14 % increase
Return on investments (assets)					4.25 % increase in rate
Return on shareholder value					26% increase in rate
Profits per share	SR 2.23	SR 2.34		SR 4.92	5 % increase

compared to SR108 billion previously. The Bank made a return on investment from assets at a rate of 4.25% whereas the return on shareholder value reached 26%. Profits per share reached SR 2.34 compared to SR 2.23 representing a 5% increase from the preceding year.

The good financial posted by the bank saw the Board making a decision to distribute dividends. The Board of Directors agreed to distribute SR 1.875 billion at SR 1.25 per share after deduction of Zakat as half year dividends for 2009. Priority for profit distribution for registered shareholders was given in July 2009 and the Bank began depositing profits in shareholder accounts by end of July 2009.

Table 2: A SWOT analysis of Al-Rajhi Bank

<p>Strengths Long established Family-oriented corporate governance Shariah-compliant management team (<i>Shariah Board and Committee</i>) Customer-centric Business Plan Pioneer in Islamic banking</p>	<p>Weaknesses Took way too long time to expand business into other countries Conservatism</p>
<p>Opportunities An increased awareness of investors of Islamic banking/finance Family-oriented business Close relationship with Saudi Royals Public-oriented shareholders</p>	<p>Threats Ever increasing competitors (conventional banks with Islamic window and Islamic banks)</p>

Awards (Local and International)

The management of the bank was largely responsible for exploiting the strengths and opportunities. The management strategized expansion and growth by using TOWS analysis. This allowed the administration of the bank to go global by overcoming its weakness of limiting its operations only to Saudi Arabia or the Gulf Cooperation Countries (GCC). As a result, the bank started moving to other Muslim populated areas such as Malaysia in South East Asia.

An ongoing commitment to and focus on customer care through the delivery of quality products and services have been rewarded with numerous awards from independent local and international bodies worldwide. During the first half of 2009 the bank received several awards from *Euro-money*, *Arabian Business*, *Global Finance* and *The Asian Banker* for achievements in retail and corporate banking, including best finance deals based on Islamic structures for various projects in several fields. Some of the awards received by Al-Rajhi Bank are:

- Islamic Finance News Awards
- Deal of the Year 2008

- Project Finance Deal of the Year 2008
- Al Ma'den Phosphate Islamic Facility 2008
- Musharaka Deal of the Year 2008
- Best Islamic Retail Bank in Saudi Arabia 2007, 2008
- Best Retail bank in Gulf States in 2007
- The Asian Banker Excellence Award in Retail Financial Services (2008)

The Al Rajhi Banking Group won a regional award for the Best Retail Bank in the Gulf States which also included the Country Award for Saudi Arabia. The award was created by The Asian Bank for Excellence in Retail Financial Services Programme in 2008. The ceremony was held in Bangkok on 16 May 2008 and was witnessed by banks' representatives from across 23 countries. The Excellence in Retail Financial Services Programme usually rewards banks in the Asian region for the pursuit of excellence in retail financing.

Al Rajhi Bank also won the Asian Banker Achievement Award in Islamic Finance for the year 2007. The Asian Banker Achievement Awards were announced recently in a ceremony held in Hanoi, Vietnam. This is one of the most prestigious awards available for achievement in Islamic finance and the banking industry in the Asia Pacific and Gulf regions.

The Al Rajhi Bank (Malaysia) was recently awarded a 'Special Citation for its Islamic Payment Switch (IPS)' for the Al-Musafir Card-I. IPS allows customers to purchase Saudi Riyals in various denominations and load the cash into the ALMUSAFIR CARD-i which enables customers to withdraw from Al Rajhi Saudi ATMs. The award is in recognition of the bank's efforts to stay innovative and consistent with their promise to offer value added and stay ahead of their competitors.

AL-RAJHI'S VISION, MISSION AND VALUES

Vision

A trusted leader delivering innovative financial solutions to enhance quality of life everywhere

Mission

To be the most successful bank admired for its innovative service, people, and technology and *Shariah*-compliant products, both locally and internationally.

Values

Despite the growth over the last three decades, our commitment to our core values remains the same. Everything we do is built around our core values, based on a customer-centric approach which puts the customer at the heart of our activities.

These core values include:

1. **Integrity and Transparency:** Openness and highest standards of corporate & personal ethics, in all that we do.

2. **Passion to Serve Our Customers:** A strong commitment to anticipate and address customer needs beyond expectation.
3. **Solution Oriented:** Helping customers achieve their objectives.
4. **Modesty:** Humility in thought and deed in everything we do.
5. **Innovativeness:** Nurturing imagination and fostering creativity for better results.
6. **Meritocracy:** Defining, differentiating and reinforcing excellence in people
7. **Care for Society:** Contributing towards a better tomorrow

CHALLENGES AND STRATEGIES FOR SURVIVAL

Al-Rajhi Bank, being the pioneer in Islamic banking in Saudi Arabia, is making its presence felt in the Malaysian market with the establishments of many branches throughout the country while the strategic intent and plan is to have at least one branch in every major city in all the states of Malaysia. It is rapidly spreading its wings as it sees a window of opportunity for its products and services to be competitive in the Islamic banking segments in the local market. It has proven itself to be effective and efficient in its services while declaring lucrative profits by the year end - 2011, that is an increase of 26%. Carefully monitored by its own *Shariah* Board which comprises credible Islamic scholars and experts, it not only inculcated Islamic values in its products and services but also stressed on adherence to the Islamic code of conduct by the members of its management teams, the people behind its many successes and accomplishments. Being just, being honorable and granting respect are the three key elements instilled in its management teams as Al-Rajhi sees them as their most reliable assets in providing good governance and valuable services to their potential customers. The bank is professionally guided by its employees who are compliant towards its Vision, Mission and Values in creating an Islamic work culture in modern times. Al-Rajhi will definitely continue its historical legacy in Malaysia given its pioneering Islamic banking status in Saudi Arabia, said Mr. Selamat Hj. Sirat, Director of Operations in Al-Rajhi Bank, Kuala Lumpur. It can set a pace for the development of Islamic banking in tandem with other Islamic banks operating in the Malaysian environment.

DISCUSSION QUESTIONS

1. Given a new international business environment with international financing operations, in comparison to its home, what are the challenges ahead for Al-Rajhi bank?
2. How will Al-Rajhi shift away from the home business environment to operate in a Muslim nation which has different legal maxims?
3. Evaluate past financial performance and suggest future growth strategies for Al-Rajhi in Malaysia which has a different socio-cultural context and is a high income society of workers and customers?

REFERENCES

<http://www.alrajhibank.com.my/>

http://www.alrajhibank.com.my/corporate_branches

Annual Report of Al-Rajhi for the year(s) 2008-2009.

Annual Report of Al-Rajhi for the year(s) 2011

http://www.alrajhibank.com.my/landing_page.shtml

<http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245325857838>

<http://www.alrajhibank.com.sa/en/media-centre/news/pages/financial-results-2011.aspx>



Case Study 5 **Traditional Music Industry at the Crossroads**

Kim Jong-Seok*

Freelance Consultant

Abstract: After the emergence and growth of digital music services in 2003, South Korea became the first country where digital music sales overtook physical sales of music CDs or cassette tapes. A review of the period from 1996 to 2009 indicates that recording companies experienced dramatic changes in the rise and fall of physical sales. Those changes were due to new technological developments such as the emergence of digital music services. By focusing on recording companies or entertainment agencies in the traditional music industry, this case intends to analyze the external environmental change driven by innovation. With the task of accomplishing an analysis of dynamic changes in market forces, the aim of this case study is to suggest strategies for adoption by firms in order for them to achieve competitive advantage.

INTRODUCTION

The chief executive officer (CEO) of one of the biggest recording companies in South Korea sat in his office preparing for the meeting that will take place at night. All his colleagues from recording companies, consultants etc. will discuss strategies for recording companies. His colleagues and staff in the traditional music industry have experienced a shrinking market. A review of the period from 1996 to 2009 indicated that recording companies experienced extreme roller-coaster cycles in their businesses, with dramatic changes in the rise and fall of the market in sales of physical products. A typical response from industry insiders of what had happened to the traditional music industry was:

The music industry just went through the lowest point of its business cycle. There are many reasons as to why the recording industry encountered a disastrous collapse. One of the major reasons is that digital sales suddenly increased and consumption patterns changed through the diffusion and advancement of digital devices and the Internet.

* Correspondence author: Kim Jong-Seok; Email: gabrieljskim@googlemail.com

He is contemplating what has changed in the music industry structure. Obviously, there have been dynamic changes in the music industry structure which have led to changes in competition. He believes that it is time to consider strategies.

There was a turning point in the industry's business cycles in the year 1998, when South Korea faced the economic crisis, also known as the IMF financial crisis. Many in South Korea found the IMF financial crisis to be a bitter experience, and hoped they never would have to go through it again. Rather surprisingly, the size of the traditional music market diminished just a little during the IMF financial crisis. Ironically, in 2000, the market size of physical sales reached a peak point of 410.4 billion Korean Won. Since then, the market cycle has been on a consistent downward trend. The recording industry market size was just 108.7 billion Korean Won in 2005, a 74% reduction compared with 2000. Overall, the market size of the traditional music industry had decreased while there had been continuous growth in digital sales (Figure 1). South Korea's market size is ranked 29th in the world (KOCCA, 2006). The South Korean market is very small, compared with the market size of other countries but in terms of the digital music market, South Korea ranked fourth in the world, after the USA, Japan and the UK in the IFPI Digital Music Report for 2008 (IFPI, 2008). IFPI describes South Korea as the first country where digital sales overtook physical sales of CDs, cassette tapes, etc.

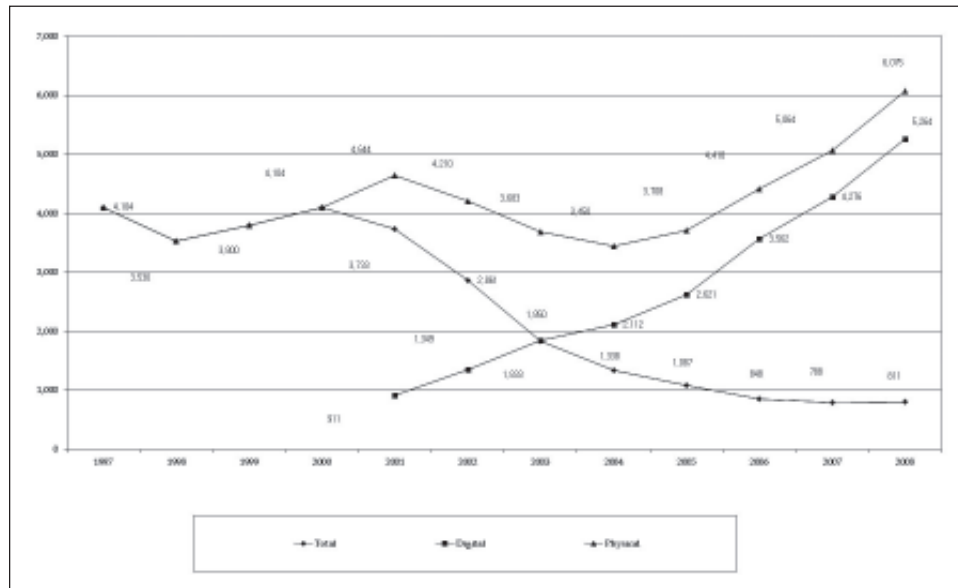


Figure 1: Physical and digital sales from 1997 to 2008 (Unit: 100 million Korean Won)
 Source: KOCCA (2010)

Note: 1,000 Korean won is equivalent to around 1 USD and 0.5 pounds Sterling

Obviously the emergence of digital music services has brought about a huge change in the music industry. The current music industry is clearly divided into two different market segmentations: the physical products and digital music services. Seoul Recording Company, OASIS Recording Company etc. in the traditional music industry played a role in supplying physical music products. However, since 2001, there has been an emerging group of firms that supply digital music services to customers. The CEO's attention initially goes to the traditional music industry in which recording companies supply physical products to customers.

TRADITIONAL MUSIC INDUSTRY IN SOUTH KOREA

Market Structure and Competition in Traditional Music Industry

Recording companies produce vinyl records, compact discs (CDs), digital versatile discs (DVDs), audio cassette tapes, etc. The most popular product is the CD which accounts for 65% of physical sales in South Korea. Since 2001, the market size of the traditional music industry has been rapidly shrinking with the sales of physical products accounting for around 16% of total sales.

Recording companies in South Korea can be classified into several groups such as record labels, music entertainment agencies, etc. In fact, a traditional product in the music industry is a package of pre-recorded music captured on a physical format such as a CD, which is the endpoint of a set of value-added activities, such as exploring new musicians and songs, recording their work in a studio, selecting their music and creating master tapes, followed by the production of a CD, cassette, etc. These activities are undertaken by recording companies.

In the late mid-1980s, multinational companies such as Polygram, BMG, Sony, EMI, etc. entered South Korea's traditional music industry. Multinational companies functioned as distributors and only focused on sales of western pop music and classical music. In the mean time, Korean recording companies naturally took on the role of producing Korean pop music (called K-pop). In the late 1980s, Samsung, LG, etc. diversified into the traditional music business. This was a global trend. As in the case of Sony which originally produced audio cassette tape players or CD players, more electronics manufacturers acquired major recording companies or created joint ventures in order to enter the traditional music industry. Customers who had Sony Walkman or CD players etc. started to purchase music cassette tapes or CDs to listen to music outside of the home. At the extreme opposite, Warner Bros, who owns Warner Music, acquired Pioneer, which is the manufacturer of the electronic gramophone or stereo.

In terms of market share of K-pop in South Korea's traditional music industry, Samsung or LG and others were not the dominant companies. In 1997, before the IMF financial crisis (which led to Samsung, LG and others exiting the traditional music industry), Samsung Music only achieved around 6% of market share. Market shares among traditional recording companies and entertainment agencies were very much fragmented. It was populated by a large number of small- and medium-sized companies, 50.3% of which were privately owned. In 1997, the IMF financial crisis

seriously damaged the South Korean economy, and Samsung Music, LG Media, and other recording companies that had a large conglomerate as a parent company exited the traditional music industry.

However, interestingly, in South Korea, the number of recording companies increased by more than ten times in 2005, compared with the number of companies in 1997 (Figure 2). In 2006, only 10% of recording companies among these new entrants survived to stay on in the market. The reason for the increase in the number of new recording companies was due to a 'regulation change'. The procedures for establishing recording companies were simplified with firms only having to notify their establishment to the Ministry of Culture and Tourism in South Korea. The requirements for registration in the regulations were replaced by notification of the establishment. These changes brought about an increased number of recording companies or music entertainment agencies. With the previous regulations, new entrants needed to invest at least a billion or a half billion Korean won on building up pressing facilities, studios, offices, and storage space, etc (Shin, 2002). Those facilities were a prerequisite in order to register.

Different genres of Korean pop music appeared in the mid-1990s: Rap music by Duex, House music by Noise, Reggae by Roo'Ra, Rave Music by R.e.f, Rhythm and Blues by Solid, and Techno pop by Lee Jung-Hyun (Shin, 2002: p. 229). However, the music genres that are now released have become similar and competition is fierce now. There has been the fast cycle of life in music. A manager, working in SK Telecom's music service team stated:

The life cycle of new music, released by recording companies or entertainment agencies will not go for more than a month. After a month, new music comes in. But the songs are similar.

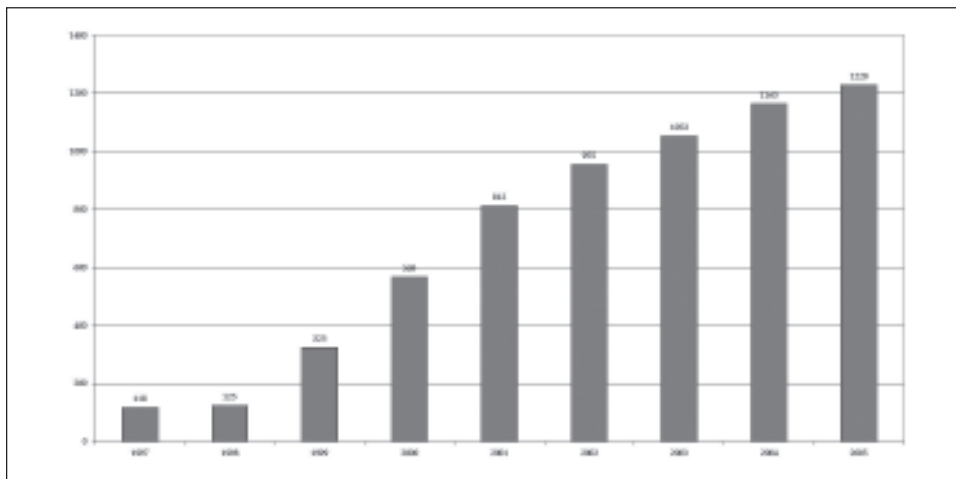


Figure 2: Number of recording companies (1997 to 2005)

Source: Shin (2002: p.177); KOCCA (2006: p.69)

Star System in the Traditional Music Industry

The star system has been the main guideline of the industry’s commercial activities. In the traditional music industry’s star system, recording companies, broadcasting companies, and major distributors play major roles in commercial activities. The artist and repertoire department (A&R) in recording companies and entertainment agencies play a major role in exploring new artists and musicians as creators of music. Commonly, in an A&R department, 4-6 employees undertake various activities such as identifying new talent and developing repertoires (Shin, 2002: p. 229). They also organize formal and informal searches, and activities through music clubs, universities, competitors and the Internet while continuously looking into music market trends and customer preferences by monitoring major broadcasters, the Internet, and music concerts, etc. Currently, one of the most popular areas for finding talented singers and trends in South Korea is the Internet. In the star system, an open audition is one of the major search methods to select talent based on the image of a group or plan that the recording company has already proposed. In South Korea, the term ‘group’ is commonly used to describe a composite of singers under a single name. The selected singers, performers, composers, and other creators enter into contractual relationships with the recording companies. Recording companies create an iconic character of each singer or group member that is relevant to the name of the group or team, according to the individual recording company’s plan. After completing these contracts with the musicians and other participants, recording companies organize the production of the music. Composers and musicians create musical content in various forms. Recording companies integrate diverse musical talent and knowledge to make music that can be distributed in physical form. While producing music (or an album), members of each musical group learn skills such as dance skills from professional staff for their performance. Finally, the recording companies or entertainment agencies then organize a press conference. New music bands or singers make their debut via broadcasting companies and conduct a variety of activities on TV or radio programs. In the star system, the typical cycle from ‘picking up a singer’ to ‘commercial musical activities of music’ does not take longer than six months. The cycles for each dance group or singer are repeated.

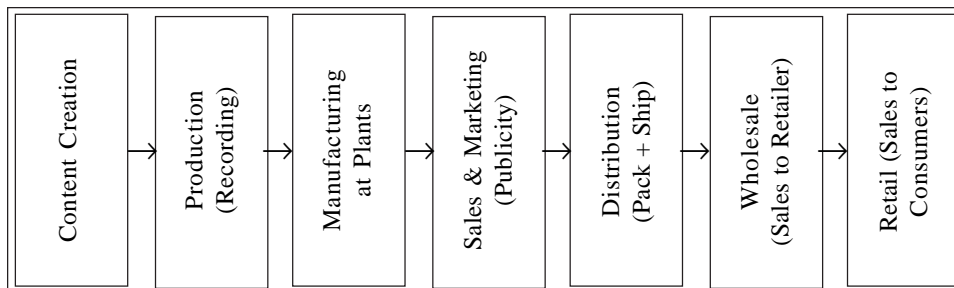


Figure 3: Value chain of traditional music industry

The commercial success of the music business depends on how much the music captures the customers' favor in the music market. In order to communicate unfamiliar music to consumers, recording companies must work closely with media companies. Through broadcasting or commercial events, customers are offered the opportunity to become familiar with the new musicians. In South Korea's traditional music industry's star system, broadcasting companies play a major role in determining whether a particular piece of music will be successfully commercialized or not. Due to promotion or marketing of a new album, singers rely on major broadcasting companies such as MBC, KBS, and SBS, etc. Recording companies, particularly entertainment agencies, rigorously try to broadcast bands or dancing groups (or singers) on TV or radio music programs. Entertainment agencies consider broadcasting as an economical form of marketing. In order to market musicians, staff of recording companies and entertainment agencies need to establish strong and cohesive networks with managers or TV and radio music program producers of broadcasting companies. These networks may come from personal relationships or previous work experiences. The CEO recalls on what his former colleagues told him:

Managers of labels or entertainment agencies have various backgrounds such as DJs at music clubs, musicians, and producers from broadcasting companies etc. They execute their business through their personal networks. Many of them rely on their business insights, rather than developing business plans.

A team chief, who works for one of the major music cable channels, MNET, pointed out:

In mid-2000, major broadcasting companies ceased TV or radio music programs. This had a direct impact on the traditional music industry. Many people in the traditional music industry right now want to increase TV or radio music programs.

An analyses of financial statements of recording companies in South Korea indicate that their profit structures are unstable. This is because they are entirely dependent on some of their talented musicians and are working through informal networks. This unstable profit structure has also brought several problems in business activities such as marketing, production, etc. Recording companies and entertainment agencies in the traditional music industry have not paid any attention to research and development (R&D) after working on the digital production system for CDs. In fact, many music instruments have been digitalized. But many recording companies have not paid attention to conducting further R&D after successfully launching CDs on the market.

His old colleagues said that one of the main problems was the loss of technological leadership. In other words, recording companies did not have systematic capabilities against new technologies. Currently I am watching other foreign companies like 'W' or 'S' etc. For example, W spent its financial resources on research and on developing new solutions, file formatting, etc. It would be a good thing for the traditional music industry to exploit new

technologies in order to obtain technological leadership. Of course, many recording companies still do not focus on those issues. In South Korea, I have not heard of any developments.

The CEO postulates that this issue is due to managerial capabilities in recording companies, from recollections of his previous colleagues:

I think recording companies and entertainment agencies in the traditional music industry do not have enough capabilities. They really need to enhance their competencies in order to survive the current harsh market competition and technological changes.

Some companies have their own production plants, while others outsource manufacturing activities. After producing the music product, recording firms along with broadcasting companies or other media companies implement a ‘promotion strategy.’ Recording companies and entertainment agencies distribute their products in music stores and through media companies such as television and radio stations, etc. Distribution structures whereby physical products are retailed to customers can be deployed in three steps or types of business: wholesale distributors, wholesale stores, and retail stores. Under South Korea’s star system, wholesale distributors (stores) played a major role in the commercial success of albums. Wholesales stores usually selected albums to be distributed and managed the logistics from the recording companies to small retail stores.

What is Happening in the Music Industry

The CEO thinks that recording companies and entertainment agencies should have a chance to understand the new trends in the music industry. The digital music market has emerged and grown rapidly. A new group of companies, which supply digital music services, has rapidly increased in size. Meanwhile, sales in physical products have decreased. Since 2001, when digital music services took off in the music industry, digital music services have overtaken physical sales. Since 2005, the market for digital music services has reported much growth because online music providers have authorized streaming and downloading services. Compared with the 2004 figures of 211.2 billion Korean Won, digital sales increased by 24%. In 2008, the size of digital sales was estimated to be 6.5 times larger than that of physical sales.

The CEO quickly reviews a variety of digital music service providers that have emerged since 2001. He classifies digital music services into two types of networks in South Korea’s digital music market: online and mobile network. Ringtone/tune and ring-back tone services are entirely based on mobile networks. Streaming and downloading services mainly rely on the Internet. At the initial stage of digital music services, ringtone/tune and ring-back tone services were a growth engine to boost the digital music market because customers were not able to share illegal music files through such closed networks, unlike the Internet. A recent survey demonstrated the business model of mobile music services (KIPA, 2007). Those mobile music services

received 191.1 billion Korean Won in the year 2004. In 2005, they demonstrated slow growth, up to 202.6 billion Korean Won, but since 2006, the market growth has slowed down, and in 2006, mobile music services showed negative growth (-5.6%). In contrast with the slow growth (or negative growth) of mobile music services, online music services have successfully penetrated the authorized market since 2005. New business models of online-based services, such as background music (BGM), and rental services etc. have emerged. These online music services formulated a 100 billion market of digital music (KIPA, 2007). BGM recorded 29% growth from 13.9 billion USD(in 2005) to 17.8 billion USD(in 2006). In addition, streaming and downloading services increased 46.2% to a USD 92.4 billion music market (from USD63.2 billion in 2005 to USD92.4 billion in 2006). This rapid growth of the digital music market was due to an increase in new entrants and the launch of the authorized digital music market. The three mobile telecommunication operators launched new digital music services on new business models of rental services through convergent networks. Market competition became much more intense. In the meantime, many online service providers in South Korea successfully modified their services to authorized services.

Online service providers started to provide their services in 2000. Service providers such as Let's Music, IMSTATION, M4U, MPCAT, etc., created a market for digital music downloading services. Online service providers in the digital music downloading services market struggled with illegal file sharing or weak business models in shaping a proper market. Many online service providers disappeared due to insufficient profitability from their business model because most of them tried to make a profit by offering free-of-charge MP3 music files to customers for downloading and making their revenue from online advertising. However, some online music service providers including Bugs, MaxMP3, Muz and Soribada launched authorized services. MaxMP3 and Juke-On started to provide authorized services (at a price of 3000 Korean Won equivalent to around USD3) in 2003. Two years later, one of the popular online service providers (Bugs) moved into the authorized music market with a charge of 2700 Korean Won (less than USD3) in 2005.

Compared with online music service providers, the other group of digital music services is the 'online portal company'. These online portal providers attempted to leverage on the strong technology of the search engine and the increasing number of users of digital music services as they combined their services with digital music services. BGM is one of the best models among online portal service providers. It has targeted users who wish to decorate their own blog or homepage on online portal sites. Cyworld is a Korean version of Facebook offered by SK Communications, which has initiated BGM's model and other digital music services. Subsequently, three major Korean online portal service providers initiated new digital music services: Never Music, Daum 52 Street, and Yahoo Music.

In contrast with increasing sales in digital music services, as well as the increasing number of new entrants in the digital music market, the physical sales of CDs have dramatically decreased. Compared with the 1990s when there were some albums that

Table 1: Trends of physical sales (2001 to 2008)

Section	2001	2002	2003	2004	2005	2006	2007	2008
No. of albums	80	66	27	27	17	9	3	6
Volume of sales (a thousand)	22,862	15,409	5,644	5,429	2,856	1,662	473	1,112

Source: KOCCA (2010: p.116)

Note: Number of albums indicates that the album achieved a sales volume of more than 100,000.

Table 2: Digital products by digital music service providers

Digital Music Service Providers	Service in Detail	Price*
Mellon, Dosirak, Music-OnBugs, MNET, Muse, Soribada etc	40 downloads	5,000
	150 downloads	9,000
	40 downloads + streaming	7,000
	150 downloads + streaming	11,000

*Unit: Korean won

Source: KOCCA (2010: p. 26)

Note: 1,000 Korean won equivalent to 1 USD

achieved a sales volume of a million; it would be considered lucky if they were to reach more than a 100,000. In 2008, only six albums achieved a sales volume of more than a 100,000.

Increasing sales of digital music services and decreasing sales of physical products have a direct impact on the traditional music industry structure. Interestingly, only a few recording companies manage digital music services. In South Korea’s music industry, foreign distributors mainly deal in genres of classical or western pop music. Major foreign distributors are Universal, Sony, EMI, and Warner. Universal achieved around 14 billion Korean won in sales because classical music increased in popularity in 2008. A TV soft-drama, called ‘Beethoven Virus’ which dealt with the story of orchestra presented in classical music genres became increasingly popular. The popularity of ‘Beethoven Virus’ led customers to purchase albums of the classical music presented in ‘Beethoven Virus’. Universal released a classical music compilation album ‘*Fairy on the ICE*’, which was featured by Kim Yuna in her figure skating performance. Kim Yuna is a famous figure skater in South Korea. ‘*Fairy on the ICE*’ was ranked first in the list of classical albums in South Korea. Among South Korean recording companies, MNET achieved the largest sales of around 17 billion Korean won. In 2008, MNET had eight albums, on the list of Top 10 album in terms of sales volume. Others were SM Entertainment, ROEN, etc.

While the CEO reflects on the trends of physical sales, he wonders whether digital music services could be entirely substituted by physical albums (or CDs) in the South Korea’s music industry. The average price of physical albums (and compact

discs) ranges from 5,000 to 10,000 Korean won (equivalent to 5 to 10USD). However, in comparison, for 5,000 to 11,000 Korean won, customers of digital music services can choose a number of songs and download what they like.

He also contemplates over what he recently read about in the survey of the Korea Creative Content Agency (KOCCA), as well as an industry expert's interview. KOCCA (2010: p. 247) surveyed customer behavior in relation to music, and in particular asked 'why consumers did not want to spend their money on buying music compact discs.' The survey indicates that 48.6% of respondents pointed out that the music CD price is expensive. Interestingly, the younger generation also had a similar response. It may be because they can listen to music through digital music services for a cheaper price compared with a physical CD. Customers, with high purchasing power also pointed out that good quality music was not available for purchase. An expert said:

In the interviews, interestingly, even though music CDs did not meet their requirements or their idea of quality, they had bought them before the emergence of digital music services.

In South Korea's traditional music industry, the music genres that are released have become similar. They eventually failed to attract customers who have the purchasing power to buy CDs. Recording companies and entertainment agencies should have developed products of diverse genres, rather than competing for similar genres. He is reminded of what he heard from one of the industry experts. Currently, more than 89.5% of South Korean customers are likely to use PCs and notebooks, MP3 players or mobile phone handsets, in order to listen to music, even though they still listen to music from the television or radio (KOCCA, 2006: p. 242). One expert said:

There have been different responses according to age. The young generation is willing to use digital music files, in order to enjoy their music or to decorate their websites or mobile phones. However, the older generation had little concern for non visible digital music files other than a physical format. In terms of cognitive dimension, they do not feel very comfortable with just purchasing digital files, which are intangible. But for the younger generation, they have NOT been very reluctant to buy digital music files. The customer patterns are diverse between simply listening to music and musical decoration.

Using digital players such as MP3 players or PCs (or digital music files) to listen to music is becoming the customer dominant pattern, compared with traditional methods such as on electronic gramophone, high-fidelity gramophone, CD player, etc, in order to listen to music. The recent survey of the National Internet Development Agency(NIDA) (2008) indicated that more than 95% of the population chose PCs as a tool to access the Internet. In 2008, around 80.4 % of the population had PCs in their households. One popular device for listening to digital music is the MP3 player. In South Korea, the market for MP3 players has enjoyed great success, especially among customers aged 30 years old and younger. Around 82% of the population between 16 and 18 years old have MP3 players. Approximately 65% of the population

Table 3: Diffusion rate of MP3 players in South Korea

Year	2002	2003	2004	2005	2006	2007
Rate*	2.7	8.2	15.2	22.7	27.0	30.3

* Unit: %

Note: Modified data, based on Jung and Chea (2004)

in the age group between 19 and 29 years old own MP3 players. The 16- and 29-year old age group has become the dominant group for using MP3 players to listen to music.

Some of the many manufacturers of MP3 players are Iriver, Cowin, Yepp, Samsung Electronics, LG Electronics, Kowin, iAudio, etc. In the USA, Apple, one of the major manufacturers of consumer electronics, introduced iTunes, which became a popular digital music service in 2001. The remarkable sales of the iPod also led to the commercial success of iTunes. Samsung Electronics and LG Electronics also introduced MP3 players equipped with mobile handsets, which resulted in the three mobile operators eventually diversifying into the music business. After the emergence and growth of digital music services, broadcasting companies still have a major role in K-pop star system. Many customers download music files or listen to music from digital music service providers, after watching a TV drama or some music-related program. For example, in 2008, the popularity of classical music was due to a TV drama.

The emergence and growth of digital music services has had a huge impact on distributors. In fact, digital music service providers have displaced the role of distributors. The number of distribution companies has decreased (Table 4). Distribution firms have experienced two disastrous consequences from technological innovations: electronic commerce and sales of digital music. The former involves new electronic commerce technology to retail CDs to customers. Many customers have started to make their orders through online or electronic commerce. The decreasing demand for retail shops or wholesale companies has caused them to turn around their business strategies by merging with other firms or specializing, for example, in particular genres like classical music or jazz. The latter is the emergence of digital delivery along with illegal file sharing. Decreasing physical sales have had significant implications for the music industry as 58.8% of the sales revenue came from wholesale and retail outlets. The number of distribution companies has decreased dramatically from 2001 to 2005; from 25 wholesale chains to only 5, while shops declined from 2000 to just 300. Such drastic reductions have led to many recording companies and labels opening or expanding their distribution channels into movies, home-shopping channels, home-ware (or grocery retail) shops, such as Wal-Mart, Tesco etc., in order to promote their sales of physical products. Obviously this has burdened recording companies or labels in terms of managing and developing a new distribution network.

Table 4: Number of distribution firms (2001 to 2005)

Section	2001	2002	2003	2004	2005
Wholesale	25	15	5	5	5
Retail	2000	1100	600	350	300

Source: KOCCA (2006)

MOVING FORWARD

The CEO stops his thinking because it is time to leave his office to attend the important meeting, in which other chief executive officers of recording companies and entertainment agencies in the traditional music industry will get together to discuss issues, as well as to get some advice. Undeniably, those in the music industry missed taking initial action when the new digital music market was emerging. After setting up the rules of the game, it has become very difficult to change (or modify) it. One expert said:

The time when digital music services emerged was one of the periods when the traditional music industry was enjoying its prosperity. I think that they believed that the traditional music markets would go on forever, even though there already were strong market signals to people in the traditional music industry. But they just ignored it. When they suddenly looked around the market, it was already too late.

He heard that some consultants from the Boston Consulting Group would be joining the meeting at the request of some chief executive officers. In anticipation of this meeting, he has some ideas of what he will say at the meeting.

DISCUSSION QUESTIONS

- Q1. Describe the structure of South Korea's traditional music industry. What is the major source of its competition?
- Q2. Can you analyze the changes in threats to South Korea's music industry after digital music services emerged?
- Q3. What are your strategic recommendations for recording companies that do not have any digital music business? And why? (*Note: You should not recommend a strategy such as simply adopting digital music services.*)

ACKNOWLEDGEMENT

I would like to thank Ian Miles, Kieron Flanagan, Richard Whittington, Sotirios Paroutis, Brigitte Andersen, and Robert Grant for their helpful reviews and encouragement to presenting this case. I would like to thank the MBAs in my class who read and tested this case with me. My thanks also go to industrial experts, managers, and chief executive officers, who provided invaluable information and materials for this case. I

also wish to thank Deborah Hong for proofreading the manuscript and Mayumi Ikeda for her input of K-pop from the Japanese viewpoint. Lastly, I wish to record my appreciation to Ji-Hyun Kim and Hun Kim for their support.

REFERENCES

- Brandenburger, A. & Nalebuff, B (1996). *Co-opetition*. New York: Doubleday.
- IFPI (2008). *IFPI Digital Music Report 2008: Revolution Innovation Responsibility*. Zurich: IFPI.
- Jung, S. W. & Chea, J.Y. (2004). *Policy Strategy to Perk Up On-Line Music Market, Seoul*. Korea Culture & Tourism Policy Institute.
- KOCCA (2006). *White Paper of Music Industry 2006*. Seoul: KOCCA.
- KOCCA (2010). *White Paper of Music Industry 2010*. Seoul: KOCCA.
- Lee, D.Y. (1999) *What did Seo Tai Ji mean to us?* Seoul: Moonhwagwahak.
- NIDA (2008.) *Survey on the Computer and Internet Usage*. Seoul: NIDA.
- Porter, M. E. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press.
- Shin, H.J. (2002). *Global, Local, Korea Music Industry*. Seoul: HanNaRea.



Case Study 6 Higher Education, Professionalism and Authority: A North-South Gulf

Muhammad Arif Zakaullah¹

International Islamic University Malaysia

Editor's Note: Many of us have experienced the agony and frustration of working with authoritarian bosses who may be control freaks, narcissists, manipulators, bullies, humiliators or poisonous. They are sadists to the core and enjoy tormenting their subordinates. Interestingly, such people completely change in front of their superiors and show utmost loyalty and submission to them. The following case study addresses these issues and has been written for academic discussion. Any semblance to any individual, institution or event in this case would be coincidental only.

Ali had returned to Pakistan after two decades and was enjoying meeting with friends, relatives and new members of the family. One day, he visited the Progressive Commonwealth Bank (PCB) to meet his former colleagues. He had worked in the PCB for a number of years before leaving overseas for higher studies. In the bank, he met his former colleagues and many friends with whom he had worked, and with whom, as a young man, he had shared his dreams for the future. When he was leaving, somebody said with a smile “how can you leave without meeting your *dear* friend.” Ali said “which friend?” The person responded, “Mr Choudhry Wajid.” Ali asked, “Is he still here?” “Yes, of course he is still here! He’s now the DMD (Deputy Managing Director) of the bank and you must meet him”. “Then his office must be on the 13th floor,” said Ali. He remembered that when he was at PCB, the offices of the top executives of the bank were usually on the 13th floor which was at that time called *The Executive Floor*. Ali decided to go to Mr. Wajid’s office and meet him. As he started walking towards the elevator to go to Mr. Wajid’s office, a flood of memories flashed through his mind.

In the 1960s – 1970s, the PCB was one of Pakistan’s leading financial institutions. It was well respected for its performance, professionalism, efficiency and contribution to the country’s economy. Its research department was one of the most prestigious in the country. Students majoring in economics used to dream of joining its economic research department to launch a rewarding career. But landing a job with the research department was not easy as the bank used to pick the best and the brightest through

¹ Former Professor and Head of Masters of Management Programme at the Graduate School of Management, International Islamic University Malaysia. Email: dr.arif@gmail.com

a nationwide competitive exam. The salary was good, with perks and service conditions, by Pakistani standards, unmatched. So the competition was intense. After graduating from university, Ali took the PCB's competitive exam and fortunately made it through the written examination; this was followed by the interview and he landed his dream job in the PCB's research department. Upon joining the bank, the administrative section of the department informed him that he would be posted to Mr. Wajid's section. Mr. Wajid was deputy head of the research department at that time. Being new, Ali had no idea about the nature and the temperament of those who were in the hierarchy of the department's leadership. Neither did the staff tell him anything about them, and rightly so. Since Ali was very new, no one knew him well and his relationship with the people in the research department at that time was formal and cordial. There was no reason for seniors to show him the skeletons hidden in the closet of the research department. As far as he was concerned, during orientation of a few days, he had seen only a few officials of the department, and from a distance. Hence he was not able to form any opinion about them.

Ali had seen Mr. Wajid too, but from a distance. Somebody had told him that Mr. Wajid had a graduate degree in economics from a known North American University. Mr. Wajid was always well dressed: a suit and tie, walked straight without looking at any one, avoiding all eye contact, and always spoke in English to his section's professional staff. His peon used to sit on a stool in front of the door of his office. When Mr. Wajid would come out of his office, the peon would instantly stand up straight and would not sit until Mr. Wajid was out of the hall. If Mr. Wajid stayed in the hall where his professional staff had their desks, the peon would remain standing. Similarly, when Mr. Wajid entered the hall, the peon would stand up again in his honor and when he entered his room the peon would open the door for him and would remain standing until Mr. Wajid took his chair. After Mr. Wajid sat on his chair, the peon would close the door and remain standing, in case Mr. Wajid rang the bell to call him. If no bell rang for a few minutes, the peon would give a sigh of relief, and sit down on his stool.

The news that he (Ali) would be posted to Mr. Wajid's section, spread in the research department like wildfire. The research department occupied the entire 6th floor of the 16 storey bank building. The 6th floor consisted of four big halls occupied by professional staff who numbered almost 40 – 50 (excluding the leadership of the department). Most of these 40 – 50 professionals did not know Ali, yet he was surprised to see that none of them wasted time in exploiting any opportunity available to find an excuse to initiate a discussion with him. After initial greetings, they would immediately jump to the topic of his posting in Mr. Wajid's section. "So you have been posted to Mr. Wajid's section." And he would say, "Yes." As soon as he said "Yes", they would be quiet. Their silence would make him curious, and he would ask "So what do you think about my posting." And they would try to deflect their response. He wondered why they were not candid about his response to their question which they themselves had posed to him. In the beginning when people asked him these kinds of questions, he took it as a gesture of their goodwill and thought that perhaps they were trying to

initiate communication with him to make him feel comfortable as he was new in PCB. Ali soon joined Mr. Wajid's section, and slowly started to settle down in his dream job.

During his undergraduate years, Ali had been very active in sports as well as in a host of extracurricular activities. From cricket and debate to participation in student government, campus journalism, poetry reading, community service etc. He was always found at the forefront of these activities. In order to meet the challenges of such an active life, he had read a great deal of Dale Carnegie type of literature and practised those theories and principles with great enthusiasm and dedication. The results had not disappointed him, to put it modestly. Many of these principles and practices had enriched him so much that he had unconsciously internalized them and they had become part and parcel of his personality. Hence when he joined the research department of the PCB, he was full of enthusiasm and idealism. As he began his professional life, he had a very positive attitude towards his job – he knew that it was a dream job not only for him but for any young economics major in the country aspiring to be a professional. He was determined to serve the bank with all his intellectual might, physical strength and efficiency, team spirit, commitment to excellence, adherence to the highest professional standards and to the best of his ability. His goal was to make this job experience a stepping stone towards pursuing his doctoral studies overseas.

There were other professional economists too in Mr. Wajid's section but as time went by, Ali found that only his work load started increasing. Officially the office hours started at 8:00 am. The professional staff in the entire research department usually would come around 8:00 am but Ali would be in the office between 7.00 – 7.15 am to finish the work of the previous evening which had to be delivered to Mr. Wajid by 9:00 am. Similarly, though the office hours ended at 5:00 pm, Ali would be lucky if he could leave by 9:30 – 10:00 pm. He realized that he was the only one (not only in his section but in the entire research department) sitting so late in the office on a regular basis. Once in a while people in other sections also stayed late but it happened only when they were trying to meet the deadline of a report or responding to an urgent query/crisis, but such late sittings in the department were more of an exception than a rule. But for Ali it had become almost a routine that every afternoon around 3:30 pm – 4.00 pm Mr. Wajid's peon would come to him and say "*Saab bulata hay*" (The boss has called you to his office. It may be noted that the word *saab* is the distorted pronunciation of the Urdu word *Saheb* which means Mr./Sir/boss). Receiving this message he would go to Mr. Wajid's room and Mr. Wajid would ask him to analyze trends in some financial sector of the economy, or trace movements in some products or study credit allocations in the light of some monetary policy measures for the last 10 – 15 years, etc. While Mr. Wajid would be laying down this work agenda, he would not ask Ali to sit, and hence Ali would continue standing. After outlining the work assignment, Mr. Wajid would make his final crunch statement: "This report has to be completed and finalized by this evening or at the most by 8:30 am tomorrow, because the MD (Managing Director) needs this as he is attending a meeting on this topic at the Ministry of Finance or the State Bank of Pakistan (The Central Bank of the Country) tomorrow. Since Mr. Wajid usually gave such assignments around 4:00 pm, it put

enormous pressure on Ali. In those days, there were no computers or online data bases. The data was usually contained in big, thick annual reports, statistical yearbooks, quarterly bulletins, etc. All these resources were available in the bank's library which was on the 9th floor. The library closed at 5:00 pm. After being given these assignments Ali would hurry to the library, collect all the relevant reports / statistical yearbooks and carry their heavy volumes to the library's circulation counter to check them out. Since it would be near closing time, there would be a long queue at the checkout counter and also for the elevators. After getting these volumes checked out, carrying them to his desk was another ordeal for Ali. More often than not, he would have to make multiple rounds via stairs between the library and his desk carrying the huge and heavy volumes. Only he knew how he struggled to carry these huge volumes to his desk for so many years and for sure Mr. Wajid also knew it too, all along.

Being in his section, Ali had the opportunity to watch Mr. Wajid closely. Whenever he would call Ali to his office, and as Ali would enter, he would find Mr. Wajid seated in a very relaxed fashion with both his feet on the table and the soles of his shoes facing Ali. Mr. Wajid would be expressionless, as if he was about to announce the death sentence on a criminal. After Ali entered his room, Mr. Wajid would not ask him to take a seat – so he would continue standing and would be fully focused on the job assignment that Mr. Wajid would be spelling out. If Ali needed further clarification on any aspect of the job assigned and went to him again for clarification, Mr. Wajid's facial expressions and body language would loudly tell him that he did not like it. Ali also noted that it was Mr. Wajid's nature that he never greeted those junior to him in rank. Rather as a junior, you were supposed to greet him, and his response would not be verbal, but only a nod without eye contact. Most of Mr. Wajid's friends and acquaintances who visited him in the office were either people in uniform (i.e. police/military) or those who appeared to be feudal by their appearance and demeanor. Their visits were the only occasions when Mr. Wajid was seen in a happy mood and initiating greetings with smiles on his face. The peon had told Ali that the *saab* (i.e. the boss, in this case Mr. Wajid) was from a known feudal family. In fact when Mr. Wajid was in the company of these kinds of people, his face would glow and he would have a beaming smile; his voice would become sweet and his frequent laughter could be heard in the big hall.

As the time passed, Ali's Dale Carnegie spirit began evaporating. He hated going to Mr. Wajid's office. He started feeling that his self-esteem, outlook towards life and towards himself was slowly being affected adversely. He could not figure out what was happening to him and why? He just felt disenchanting with his surroundings in the office. He was a great fan of the poet philosopher Iqbal, Abraham Lincoln, Mustafa Kamal Atatürk, and Muhammad Ali Jinnah. They were his heroes. He was an avid reader. World history, current affairs, and biographies of great people and adventurers were his favorites. He could not afford to buy books or magazines like *Time* or *The Economist*. He had solved this problem in his high school days by becoming a member of the United States Information Service (USIS) Library and the British Council Library. He visited these libraries frequently to borrow books, and read magazines and news

papers of the U.S and the U.K. Reading history, adventures and biographies were a great source of inspiration to him. However, another hobby that he cherished most during his visits to these libraries was to read about the academic programs, admission requirements and scholarships available in American and British universities. To him, higher study at these universities was his 'promised land'. The dream to pursue higher studies in economics was very much alive in him but so far he had refrained from applying for admission because of his financial constraints and family situation. By Pakistani standards he had a good and stable job, therefore at times, there was pressure on him by family elders to get married. Although Ali did think of marriage, he did not want to get married just yet as in his scheme of life, the top priority at that time was further education.

Though the United States Information Service (USIS) Library and the British Council Library were open from 10.00 am - 7.00 pm during the weekdays, the regular late sittings in the office deprived Ali of his library visits. All these things gradually started slowing him down. The Dale Carnegie kid inside him was alarmed about this deterioration of morale and motivation. There was a serious battle raging inside him. The Wajid effect was forcing him to give up his reading habit and dreams of further studies and instead accept the new reality. The Dale Carnegie effect on the other hand was pushing him not to surrender and continue to chase his dreams. In order to refuel and reignite his weakening motivation, he started reading more on the rise of the West. In the European history reformation, enlightenment and renaissance were very encouraging but as a young man Ali was really awestruck by the American and French Revolutions. In these revolutions he saw the ideals of freedom, human dignity and liberty coming into full action and changing the lives of the oppressed people forever and for the better. The more he read about them, the more positive he felt – reading these books were reviving his inspiration and he was anchoring new hope. He started feeling that it was possible for him to beat the gravitational force of the Wajid effect that was putting him down. He decided that higher studies abroad were his destiny and nobody could stop him from realizing it. He reminded himself of poet philosopher Iqbal who sought to inspire youth with the analogy of the *shaheen* (eagle). Iqbal had said that when the wind blows against the eagle, instead of surrendering to the wind, it flies even higher and overcomes all resistance ultimately reaching not only its destination but achieving new heights as well.

As he was going through this vision of his life and feeling a new sense of empowerment by having determined the course of his future in the direction of his version of the 'Promised Land', it so happened that one afternoon, around 4:00 pm, Mr. Wajid's peon came to him and said, "*Saab bulata hay*" (the boss wants you in his office). Ali knew that the boss was about to 'bless' him with some sectoral issues of the country's economy whose complexities and trends he would be tracking until late night and into the next morning. He stood up and walked to Mr. Wajid's office behind the peon. As he entered the office, Mr. Wajid's secretary told him to sit and wait as Mr. Wajid was on the phone. While he was sitting there Mr. Wajid was talking so loudly on the phone that both his secretary and Ali could hear him very clearly. The tone of his

special sweet voice and his loud laughter were indicative that at the other end, either it was someone in uniform or a feudal. In his mind Ali could vividly imagine the person at the other end. And then Ali heard Mr. Wajid say, “no, actually I am free this evening but I cannot come because these days I am crushing a new recruit from the university. This is my *shughal* (hobby) every evening these days.” (*University say aik naya larka bharti huwa hay. Aaj kal sham mayn oosko ragarrna mayra shughal hay.*) When Ali heard this, he was stunned, and for a few seconds he felt as if his head was spinning very fast and he was about to fall. Instinctively his grip on the handle of the chair tightened. He tried to control himself and struggled to calm his emotions down. He looked at Mr. Wajid’s Secretary, Mr. Zafar. Mr. Zafar was looking at him too. Ali got out of his chair, moved closer to him and whispered, “Is it really true that he is crushing me.” The secretary quietly nodded in the affirmative. Then he opened the drawers of a big, tall cabinet and showed the hundreds of sheets of paper which Ali had submitted (over the months) as reports from the analyses of innumerable industries, sectors, and institutions that Mr. Wajid had asked him to prepare urgently for the MD. The secretary whispered to him that the MD had never asked for any of these reports. Mr. Zafar told him “This work was given to you to just detain you after office hours.”

Mr. Wajid’s telephone talk and laughter continued for some time, when they ended Ali was given another urgent assignment which had to be submitted to the MD next morning. Having overheard Mr. Wajid and having seen what the secretary showed him, Ali now knew just how ‘badly’ the MD needed it.

As Ali left Mr. Wajid’s office that evening, he was surprisingly not so angry about the fake work assignment given to him. Instead he was wondering why Mr. Wajid, despite having done his graduate studies in North America and being a frequent participant in conferences and various professional forums in the West, had not learned anything about the values of human dignity, equality, fairness, etc, commonly practiced in those democratic societies? Was a highly educated person expected to know a host of theories and acquire some skills to solve technical problems in a certain professional area only?

After this experience Ali started talking to his colleagues in the research department, especially to the senior ones. While talking to them, he would deliberately steer the conversation towards Mr. Wajid to see their reaction. Their comments on Mr. Wajid were revealing. They did not hold him in high esteem. Actually he was hated across the board. Ali met no one who had stayed in his section for long.

Among those who had worked with Mr. Wajid, everyone had a horror story to tell. Everybody used an adjective to define him. Some called him sadist, others called him a slave driver, some said the way he treated them made them feel as if they were primary school kids and he was the head master. These revelations helped Ali figure out why he was posted in Mr. Wajid’s section. It was because no one wanted to work with Mr. Wajid and since Ali was new, he did not know anything about him. Hence Ali did not resist the administration when they assigned him to Mr. Wajid’s section for duty.

The elevator stopped on the 13th floor and Ali got out. He walked to Mr. Wajid's office on the executive floor. At the entrance there stood a "*darbaan*" (doorman). Unlike Mr. Wajid's peon in the research department who used to wear wrinkled, smelly, long shirt and baggy Salwar, the *darbaan* was wearing a clean, well ironed khaki uniform (like police / military soldiers) with golden, shining buttons and colorful stripes on his shoulders. Ali remembered that Mr. Wajid respects men in uniform and wondered how much he respected his *darbaan* in uniform.

Ali gave his visiting card to the *darbaan*, the card with his name, qualifications (PhD) and the name of the foreign university where he was teaching. He was sure that Mr. Wajid would not be able to connect him with the person described on the card as he had had absolutely no contact with him during the last twenty years. Mr. Wajid's Secretary (not Mr. Zafar, but someone else) came out and very cordially escorted Ali to Mr. Wajid's room. As Ali entered the room Mr. Wajid saw him and their eyes met. The card was still in Mr. Wajid's hand. He quickly glanced at the card again, and then looked at Ali. Ali said *Salam* (greetings) to him. Ali could read from Mr. Wajid's face that he could not believe what he had seen on the card. For a few seconds Mr. Wajid did not say a word. Ali kept standing (after all Mr. Wajid was his former boss, and Ali knew the rules in his office for people like him in those days). Mr. Wajid then responded to Ali's greetings, shook hands with him and asked him to sit. Ali thanked him and took his seat. Then Mr. Wajid started asking him about his life's journey after leaving the PCB. They were barely a few minutes into conversation, when Mr. Wajid's phone rang. He picked it up and Ali saw him bolt up out of his chair, stand up straight and instinctively give an almost military style salute to the caller at the other end, saying enthusiastically "Yes Sir, I am coming." With this he hung up and said to Ali, "Sorry I have to go. It was MD *Saheb* on the phone. He wants me to go to his office." Ali said "Sure you should go." They shook hands and said good bye to each other. Ali thanked his secretary and left his office. As he was walking towards the elevator, Ali realized that in that short meeting, he had discovered yet another dimension of Mr. Wajid's personality: he was extremely arrogant and harsh towards the people below him but was exceptionally polite and submissive to those above him. Unfortunately, Ali was not surprised by this realization. He knew that in his part of the world, Mr. Wajid was the epitome of the majority of people in authority.

Ali had received higher education in the West and had worked there as a professional too. He compared his experience with his bosses in the democratic societies of the West to his experience with Mr. Wajid. Ali had personally experienced and observed that bosses in the West treat people below them with respect and dignity and a high degree of equality and fairness. Like Ali's bosses in the West, Mr. Wajid was also a Western educated professional and had continuously been in contact with Western professionals through conferences etc. He wondered why despite these commonalities in training and exposure, bosses like Mr. Wajid in these parts of the world were different in their behavior from their Western counterparts?

DISCUSSION QUESTIONS

- Q1: How would you describe the personality traits of Mr. Wajid? How would you describe the culture of an organization where bosses behave like Mr. Wajid?
- Q2: To what extent is the personality of Mr. Wajid responsible for his behavior? To what extent does the organizational and national culture promote people like Mr. Wajid?
- Q3: What would you recommend to an employee who has to work with people like Mr. Wajid?
- Q4: If the culture of a society is such that a vast majority of people in authority behave like Mr. Wajid and thrive, what should that society do?



Published by



الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
وَمِنْ رِيسْتَقِ اِسْتِلَاحِ اَنْبَارِ اَنْجِنَا بِالْمَدِينَةِ

ISSN 2180-2327



9 772180 232007

www.iiumgsm.com/journal