

Loyalty in the Corporate World

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Zaki, the founder of Semporna Sdn. Bhd., a successful oil and gas company, must decide whether he wants to continue with the internship program at his company as he is losing a lot of money training young engineers only to have many of them resigning without notice later on. Other companies are stealing his well-trained engineers with higher salaries and better benefits. He is concerned about how to reduce staff turnover and at the same time improve the skill of his staff.

On 16 September 1996, the telephone in the office rang suddenly. Zaki walked towards the telephone and answered it.

“Assalamualaikum. Is this Mr. Zaki?” a man’s voice could be heard on the other line enquiring.

“Yes, this is Zaki,” he answered, “Who is this?” he asked puzzled.

“I am calling regarding your staff Aziz. I am Aziz’s father. He got a job in PETROS and he will not be working for you anymore. I apologize for all the inconveniences. It was too good an offer to decline. ” Aziz’s father sounded tensed.

“What? Resigning without notice?” Zaki said angrily.

“I am sorry again. We will pay whatever we owe the company,” Aziz’s father explained.

“It is not that. We have trained him for 4 months and to get experienced worker is not that easy,” Zaki sadly explained.

Zaki felt frustrated because the effort and hard work for the previous 4 months were wasted. He had made plans for the young engineer to work at his prestigious company. He needed to find a replacement quickly for this critical position.

Company Background

Semporna Sdn. Bhd. was a locally incorporated company and in active operation since 1996. The founder was Zaki bin Rahman. The company was engaged in providing engineering products and solutions required for the Oil and Gas, Petrochemical, Chemical and Power industries in Malaysia.

Semporna Sdn. Bhd. drew on their partners' wide experiences coupled with a range of top quality products & services to support the organizational growth of the company. It continued to have a growing success in the Oil and Gas sectors in Malaysia both Upstream and Downstream. The major customers were the likes of BF, Petro, Bell, Exs, Murp, Newfax and many others.

Semporna Sdn. Bhd. worked hard to gain customers' trust and confidence. The company was ISO 9001:2008 and OHSAS 18001:2007 certified. The continuing innovation and improvement in the quality of products and services came from customers' support.

The headquarters was located in Kuala Lumpur but the company operated in various areas in Malaysia with two branches in Sarawak and Terengganu and employed more than thirty six (36) people. The company was locating people, resources and authority closer to clients in order to better understand the local markets and risks, enabling them to provide more responsive, more focused and more adaptable service.

In 2005, the company underwent a major transformation. In 2008, the Group's spectrum of activities consisted of four main divisions namely; Instrumentation, Automation, Process and Solution. Semporna Sdn. Bhd. had grown to become one of the successful companies in Oil and Gas related services in Malaysia.

Oil and Gas Industry Challenges

Malaysia's oil and gas production was depleting and sustaining production would be more challenging due to matured basins, technically challenging reserves and stranded marginal oil and gas fields.

Top 10 Challenges in Oil and Gas Industry in 2012¹

- **Frontier Acreage:** The challenge was in exploration and development of new fields that was previously regarded as too difficult, too expensive or too politically unstable to justify operations. Moreover, the remote locations, with newly discovered reserves, such as Arctic, far North Sea, and pre-salt basins in deep water of Brazil. Access to reserves involved competition for access to proven reserves that became more difficult compared to decades ago due to expansion of government role.

¹<http://www.intelligenthq.com/investors-cut/top-10-challenges-in-oil-and-gas-industry-in-2012/>

- **Unconventional resources:** These resources were not commercially viable until recently. Only due to technology advancement, ‘unconventional’ became so popular nowadays resolving partially the issue of global demand. Although unconventional was a convenient solution for the energy needs, the technology it involved, raised debates among communities and professionals about harm it made to nature conservation and water resources. This in turn might impede its development through government unfavorable legislation.
- **Conventional Reserves in Challenging Areas.** This represented mostly unstable political regime, which in turn led to lack of security for investments. These areas were countries with unstable political situation such as Libya or areas with new discoveries which were in unfamiliar environments.
- **Rising Emerging Market Demand.** As per the Energy Institute, 51% of oil and gas respondents reported making significant investments to achieve growth in emerging markets, i.e. China and other Asian economies. Since performance in emerging markets mostly was dependent on government pricing policy, a significant risk was involved for any foreign direct investments and created the issue of ‘bargaining power’ of the state.
- **Investing in Innovation and R&D:** Every company understood that R&D and Innovation was a key to growth and prosperity. This position created severe competition between market-players with sufficient resources for R&D.
- **Alternative Fuels, Including Second Generation Bio-fuels:** The environmental pressure and market demand that oil companies experienced forced them to explore new industries.
- **Worsening Fiscal terms:** The fluctuation of fiscal regime in Host-Governments made enormous pressure on oil companies created insecurity for the entire company financial strategy and investment policy.
- **Price Volatility and Role of Speculators:** The role of speculators involved a huge debate between the leading energy agencies, as well as investment institutions and governments.

However, this was only one of the influencing factors on oil and gas prices. The fundamental economy drivers played major roles in reaching the equilibrium in natural gas prices.

- **Corporate Social Responsibility:** This challenge included relations with various stakeholder groups, health and safety concerns, i.e. human rights, employee rights, stakeholder rights, environmental protection, community relations, transparency and corruption issues. CSR required oil companies to succeed in each criterion in order to build a reputation as a reliable potential partner for public-private strategic partnerships: cross-sector and government.

The above challenges represented only a tiny part of concerns of this extremely complex industry. However, it provided brief overview of trends the interested party, whether it was oil company, services providers or investment institution, needed to take into consideration while building its strategy.

Semporna Sdn. Bhd.'s Challenges

As Semporna Sdn. Bhd. started as a sole-proprietorship (1996-2005), from the very beginning the main challenges were getting bank loans, loyal workers and network. The first challenge for Semporna Sdn. Bhd. came when the regional economy deteriorated in the period of 1997-1998 when the financial crisis hit Asian countries. At that time, the Malaysian GDP dropped from RM197.1 billion to RM182 billion that affected the exchange rate of the Malaysian Ringgit against the US Dollar. The Malaysian ringgit lost about 40% of its value, whereas the Thai baht lost 55% of its value and the Indonesian rupiah depreciated by 80%. More than USD100 billion was also lost in the Malaysian stock market which a recorded lost of USD140 billion in a year.

For the first half of 1998, the currency fluctuated between RM 3.80 - 4.40 to 1 USD before Bank Negara Malaysia² decided to peg the ringgit to the US dollar in September 1998. After the decision by the central bank, the Malaysian Ringgit maintained its value at RM3.80 to USD1 for almost seven years, while it remained floated against other currencies.

The second challenge for Semporna Sdn. Bhd. was in 2000 when the economic value of the Malaysian currency again suffered a hit when it dropped against the Euro going from RM2.40 to between RM3.80 – RM4.20 as the company imported most of their products from Europe. The

ringgit suffered general depreciation against other currencies except for USD which was pegged at RM3.80 to USD1.

Another of challenge for Semporna Sdn. Bhd. was loyalty among its employees. Although the management provided training for their employees in the country and also abroad still some of their employees were not loyal and almost always left Semporna immediately especially when other competing companies offer higher pay and better benefits.

The company also faced a challenge when it came to hiring loyal staff who were skilfull as there was always a need to train them – which was costly. To train five staff cost around USD 200,000 or more. This was expensive because to produce a high caliber staff, an expert trainer needed to be hired.

Research had been done on staff turnover and job satisfaction². Employee job satisfaction was related to turnover rates. Employees who were satisfied with their jobs tended to stay, while those who were dissatisfied would look for new jobs. There was a reverse relationship between job satisfaction and staff turnover; when job satisfaction was reported to be high, turnover was often low, and vice versa.

Finally, the lack of network relationship was one other major challenge for the company to penetrate the market. In order to overcome the challenge of network, Semporna Sdn. Bhd improved their marketing strategies by using promotion and aggressive marketing strategies to expand the company.

In 2005 two new partners who were well off financially joined the company as shareholders, which helped the company to boom by getting a few bank loans to expand the business. Since then the company grew and the number of employees of Semporna Sdn. Bhd increased from 4 to 36 employees.

Secret Recipes

A lot of successful businesses have their own secret recipes. In the corporate world, it was called trade secrets. These secrets were guarded and were essential to the profit making business as they offer competitive advantages.

²Executive Brief: Tracking Trends in Employee Turnover.

http://www.shrm.org/research/benchmarks/documents/trends%20in%20turnover_final.pdf

One Sunday when it was raining, Semporna's CEO, Zaki looked outside his window at home. His thoughts went back to the interview he had with the two academic researchers, Noraishah and Dr. Omaima. They asked him about the secret recipe for Semporna's success. He smiled. He asked himself again, what were the secret ingredients? He mumbled the same answers he had given the ladies – meticulous planning, merit based business, hardwork, perseverance and the most important thing was not to mix politics into the business. He wondered whether these ingredients would work on other types of businesses. He believed it would, if Allah wills it to be so.

Family Values

Family values were those values that made a person whole spiritually. It was a sense of satisfaction and internal love one felt toward members of the family. These values made us strong and impeccable. In some cultures, the corporate managers treated their staff like family members to improve the working environment.

Zaki looked at all his staff in the office. He felt at home. So it was true what his wife said to him that “office is family”. He treated his employees as his family members. He rewarded his employees with bonuses and increments. What more, he also selectively chose some of them for training locally and abroad. But sadly, he realized that none of his family member was interested in the oil and gas business – the hard work and physical strength needed to complete the projects.

Thinking about his family-cum-employees, he pondered into some ideas. He might offer partnership or shareholding opportunities to them. He might also offer services and established collaborations between his own products and the competitors' products. Another idea was that he might open new subsidiaries based on expertise. He was thinking about going to Malacca, Johor or even as far as Kota Kinabalu, Sabah. These were strategic locations for oil and gas industry.

The telephone in the office rang again.

“May I speak to Mr. Zaki. This is Harun,” a man introduced himself.

“Yes. How can I help you?” Zaki offered.

“I am your new executive. I have some documents that need your signature,” Harun said respectfully to the CEO.

“Just give me ten minutes. I have to finish my work first,” the CEO said and hung up the phone.

He looked at his own work and sighed heavily. The new staff was very slow in getting the report done. He felt frustrated that he had to wait a long time for it. Employees lacked all the values such as loyalty, efficiency and commitment to the organization. How was he taught these qualities? How could he teach these same values to this new generation of employees? Maybe he could teach them. “Someday I will be a trainer-cum-CEO-cum-everything else,” he smiled to himself. He felt motivated again. He picked up the phone.

“Siti, can you ask Harun to come in,” the CEO said to his secretary and put down the phone. He waited patiently for his young executive to come in. He looked outside the window. It was shining brightly and he felt confident that the future will be as bright as the sun.

Discussion Questions

1. What are the core issues in this case?
2. Explain the importance of loyalty in the work place.
3. “Family values are the root of a successful business.” State whether you agree or disagree with this statement. Give reasons for your answer.
4. Discuss the impact on society when employees are not loyal to the company.
5. What would you advice be to an employee who has a choice to leave his current job for a job with a better salary or to stay working in the existing company with lower pay but better working conditions?
6. Explain the possible ways companies can retain their employees and reduce staff turnover rates.