

## CHAPTER I

### INTRODUCTION

In this chapter , the background of the study will be discussed briefly along with the objectives and the significant of the study. The scope of the study, will also be explained whereby some key definitions and limitations of the study will be highlighted. Finally this chapter will deal with the organisation of the paper to give a wholesome idea about the study.

#### Background

Tenaga Nasional Berhad (TNB) , formerly known as the National Electricity Board of the States of Malaya ( NEB) was corporatised in 1990 and subsequently became a company listed on the Main Board of the Kuala Lumpur Stock Exchange in 1992. It is now the second largest company in terms of market capitalisation on the Kuala Lumpur Stock Exchange. Its outstanding shares had an aggregate market value of approximately RM28.4 billion at the end of financial year 1995.

The company is responsible for the generation , transmission and distribution of electricity, supplying about 97 per cent of Peninsular Malaysia or approximately 3.9 million customers.

TNB's twelve major power stations have a total installed capacity of 7,475.1MW. These stations consist of either thermal or hydro generation sets.

The company's 132kV/275kV transmission system , known as the National Grid , spans Peninsular Malaysia from north to south with a closed loop connecting the maior load centres to the power stations.

The group of companies is involved in the manufacture of transformers , consultancy services , research and development , higher education , property management and development. Together with its five subsidiaries TNB has operations throughout the Peninsular.

The company is constantly reorganising its whole structure and , with the expansion of its operational base , it expects 80 per cent of its revenue to come from its core businesses and 20 per cent from non-core activities.

Joint projects that have been formulated during the year are designed to transfer operational skills and knowledge in a variety of technical and engineering disciplines to local personnel. It is hoped to market this expertise to developing countries in the region such as Vietnam , Cambodia and Laos.

TNB is diversifying its activities into areas that are related and also unrelated to its core businesses. The Company has expertise in property management ; it is one of the biggest landlords in the country and it plans to go into the property business including building condominiums and shopping complexes.

In an organisation of TNB's size and complexity , there is for example an urgent need for it to be pro-active in Risk management and to bring this function into the Company's overall structure. In view of its constant striving to reduce costs of its operations and increase efficiency , plans were initiated three years ago to strengthen its expertise in this area. As a results , it has successfully reduced insurance claims to a significant level. Between 1993 and 1995 there was a reduction of 89 per cent , thus preventing an escalation of premium costs , among other benefits.

The core group within the TNB which is the Operations Division is responsible for the operation and maintenance of all power plants, equipment and facilities to ensure the supply of energy for national development and to upgrade the quality of life.

Under the Operations Division are three core Strategic Business Units ( SBUs ) and the Development Planning Unit . The three SBUs are :

Generation - SBU

Transmission - SBU

Distribution - SBU

TNB's long-term goal is to become a holding Company with three large conglomerate ,; one to oversee the core business , another to handle non-core business and the third to manage its international ventures . TNB has plans to go global.

This study is made at one of TNB's power station known as the Sultan Idris - II Power Station which is located near Cameron Highlands in west central Malaysia in the state Of Perak (Figure 1 ). It was built under the programme of Batang Padang Hydro- Electric Scheme and it is now part of the Cameron Highlands Power Stations ( Figure 2 ). It is a hydro power station and uniquely built almost one kilometer under-ground. It is surrounded by hilly primary and secondary Tapah forest reserve.

It is first commissioned in 1967 and at that time the turbines were one of the largest high head , Francis turbines in the world .Also during that time as the power system of NEB contains only 110 MW of hydraulic power plants and 12.6MW of diesel engine power plant , Sultan Idris - II Power Station with a total capacity of 150 MW was a leading power plant and maintain the

Despite its relatively small contribution that the Sultan Idris - II Power Station is supplying to the National Grid now, it is nevertheless still an important power station to Tenaga Nasional Berhad . Its current manpower complements is 80, which was greatly reduced from almost 120 before the privatisation of TNB ( Appendix E ).

## Objectives and Significant of Study

Within the TNB organisational structure , Sultan Idris - II Power Station falls under the Generation - SBU. Its managerial , financial , and all its operational matters have to be referred to the Generation - SBU which has its main office in TNB headquarters in Kuala Lumpur.

Perhaps due to the geographical distance between the Sultan Idris - II Power Station and the Generation - SBU office , the effect of business diversification activities that have been taken by the Generation - SBU or the TNB for that matter is not really being felt in the Sultan Idris - II Power Station. This is also probably true for all the other TNB's power stations as well as hundreds of its offices all over the country. Since the responsibility for business diversification activities are typically given to the Business Division within the main SBUs, in a sense the Power Stations and Offices are somewhat left behind in terms of real business participation and contribution within TNB apart from the core business that they are handling.

This study is an attempt to explore the business opportunity that may exist in the Sultan Idris - II Power Station. It is trying to view the business entrepreneurship from the Station perspective. It is trying to see whether business creativity and innovativeness exist within the Station and its surroundings.

The significant of this study will be obvious when one consider the diversification activities made by TNB in areas which are related and unrelated to its core business. The study may shade some light in contributing ideas to a conceptual understanding about the types of business ventures that can be undertaken by the Station in particular and the TNB in general.

## Scope of Study

In this section , attempt will first be made to define a few key words that will be used in this study so as to give a uniform understanding about the subject. This will be followed by explanation about the scope of this study.

### Definition

Sultan Idris - II Power Station . The name Sultan Idris - II Power Station is also known as 'Stesen Janaelektrik Sultan Idris - II' in Bahasa Malaysia or ' Woh Power Station ' after the name of River Woh. It may also be referred as ' the Power Station' or ' the Station' in this study.

Strategic Business Unit (SBU) . In explaining concept of SBU, Fred R. David mentioned that "The SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units. In the ninety-division conglomerate just mentioned , the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics such as competing in the same industry , being located in the same area , or having the same customers." David ( 1987 , p.251 ). In this contact the emphasis on the definition of SBU is given to the regrouping of various divisions into fewer units based on certain common characteristics. This definition matches closely with the existing Generation , Transmission , and Distribution - SBU within TNB.

Philip Kotler mentioned that “ An SBU has three characteristics:

1. It is a single business or collection of related businesses that can be planned separately from the rest of the company.
2. It has its own competitors, which is trying to equal or surpass.
3. It has a responsible manager who is responsible for strategic planning and profit performance and who controls most of the factors affecting profit.” Kotler ( 1967, p.39 )

Here the emphasis on definition of SBU is given to the characteristics of the business and the business institution . The definition that would be used in this study particularly pertaining to the Sultan Idris-II Power Station is more towards Kotler’s.

Concepts . An abstract idea generalised from particular facts .

Construct . Specific types of concepts which exist at higher levels abstraction and are invented for some special theoretical purposes.

Core Business. Business related to electric power generation.

#### Scope of study

This study is basically an exploratory research on Sultan Idris - II Power Station and it is an attempt to identify possible business opportunities that may exist within the power station. This study will only cover the non-core and the non-engineering business because currently there is an ongoing effort along the engineering line especially taken by the Generation SBU to do inhouse repair and maintenance work as well as to cater for other power producers.

Whatever findings the study may achieve still remains as plausible theoretical suggestions which needs further scrutiny had the Station wishes to embark on any of the findings . The study is not authorise and does not have authority in anyway to put any judgement especially to the current management , operation and performance of the TNB especially to the Sultan Idris - II Power Station. It is important to note also that much of the feedbacks and thoughts in this study have been contributed over the years by the management as well as the staff of Sultan Idris - II Power Station.

### **Organisation of Paper**

This Study is basically divided into five chapters. In chapter II , it will dwell on literature review whereby key concepts pertaining to the study will be obtained from various sources and discussed. It will also try to review past studies and other companies ventures that may be related to the subject.

Chapter III will dwell on research methodology. It will explain the sources of database, the type of surveys , the questionnaires etc. It will also try to explain how the data is processed in the study. Finally this chapter will highlight on the limitation of the study.

Chapter IV will show the research results. Here the plausible business opportunities will be identified. A discussion will be made to view the business opportunities from several perspectives. In viewing the formation of strategic business unit , two key issues namely the management and also the implementation aspects will be discussed. The implementation aspects will be discussed along financial resources, human resources, marketing and also risk and limitation point of view.

The chapter V will round-up the study with conclusion and recommendation to the Sultan Idris - II Power Station and TNB in general. Suggestion for future research also will be covered in this chapter.