

CHAPTER ONE

INTRODUCTION

REASON FOR EXISTENCE

Pos Malaysia Berhad (PMB) was incorporated on the 29th November 1991 under the Companies Act, 1965 through the legislations of Postal Service Act 1991. It inception as part of the government privatization program with the strategic intent to improve service quality, stimulate growth and enhance government financial standing. The two legal bindings do not automatically allow PMB to operate as a postal operator as it must posses a valid operating license. The Minister as stipulated under the law has been granted the power to issue, revoke and extends the license period, as it deem necessary.

In line with the policy and license conditions PMB has to fulfill two divergence objectives to support some overarching social ideal and to excel in business performance. The social objective requires PMB to provide service excess to every citizen of the country with certain minimum service standard determined by regulator at an affordable price. This implicate that PMB has to provide services to some areas on social ground even though it might run on financial loss. On the other hand the business objective demand PMB to adhere and observe fully the commercial business practice and principle with financial independent. It is required to make efficient use of it resources by ensuring a given minimum rate of return on their investments and to charge prices based on the actual cost of providing the services.

In order to support PMB social and business objectives government continues to regulate the traditional postal service market as before the corporatization but allowing competition in the courier service market.

Operating license was granted to PMB on 1st January 1992 of twenty-one years duration. Thus the monopoly power enables the entity to grow and discharge its social responsibility including to conferring government the exclusive privilege to use the service.

WEAKNESS SYMPTOM

Since its inception PMB has shown quite a reasonable performance both in business operations and social obligations. It provided service excess to nearly 90% of the population household giving little concern with economic viability. However after nearly ten years of operations the entity tends to show some observable symptoms of organizational weakness that question its effectiveness as postal service operators, which had been granted monopoly power by the government.

Some of the pertaining ones are PMB comparatively small return and profitability as oppose to other privatized utilities companies such as Tenaga Nasional Bhd. (TNB) and Telekom Malaysia Bhd. (TMB), which make the business less attractive; eroding competitive strength in the domestic market contributed by the emergence of new competitive forces; growing perception on postal service as sunset or declining sector of communication industry with little growth and profitability; and declining in market share.

Small Return and Profitability

For the last three quarters of nearly ten years of operation PMB experienced positive trend in business growth and profitability. However, after 1997 the trend shows negative or minimal growth in its core business activities. Comparatively, PMB performance is much below other privatized utility service companies such as Tenaga Nasional Berhad (TNB) and Telekom

Malaysia Berhad (TMB) that make PMB less attractive. Its profit volume is less than 10% of those companies. It still remained as government control private company. Although it is not a good indicator to assess the company performance, it creates public curiosity to know the entity business performance especially in terms of service quality, profitability, product and service development, investment activities and future prospects.

Eroding Competitive Strength

The emergence of digital and convergence technological generate communications impact, which create two forceful business environment concepts notably known as globalization and liberalization. Thus these three elements, technology and technological changes, globalization and liberalization formed new competitive forces that challenge the effectiveness of business organizations and nature of business activities in and around the world. Postal service as a component of communication industry has no exception to the wind of change. Two major effects of the new competitive forces on the postal industry in general and on PMB in particular are intensifying competition and product substitution.

Substitution

The technology and technological innovation lead to the development of new competing technologies such as Internet, data transmission equipment, phone and facsimile. These products change the nature and process of human communication that eliminates the physical communications boundaries and transforms conventional way of sending message through physical mail into virtual mode. It creates new business environment such as e-mail, e-commerce, e-business, e-banking, e-billing, e-advertisement, e-knowledge and as well as e-government. The new technologies and business environment become an alternative or substitute for mails and other business products of postal service such as remittances

services, which deal with money order and, agency services that provide facilities for bills payment, licenses renewal and contributions.

Toward the third quarter of 1990s impacts of the changing technology has given greater influences on PMB business market environments, especially with the launching of the government high profile Multimedia Super Corridor (MSC) project and emergences of Internet service provider companies that offer greater Internet access to customers. The unique characteristics, capabilities, diversities and competitive costs of the new technologies impressed and enable individual, society, government, business, and industries, to slowly adapting these new elements into their life style, administration, business and industry operations and culture. The new development in has change the value system and thus, poses as new threats to core business nature of postal service.

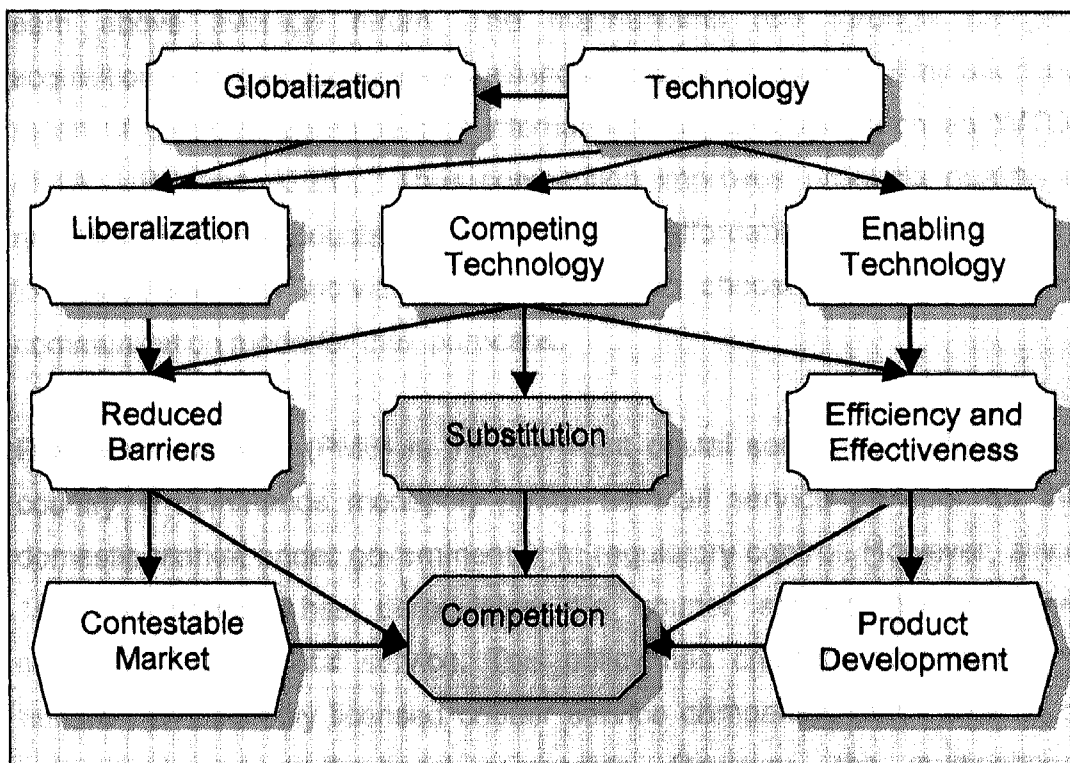


Figure 1.1: Conceptual Model On The Impact Of Technology, Globalization And Liberalization On Postal Service Industry.

Competition

Subsequently, the substitution and communication effects intensified competition within the postal service sector; postal service sector and other sectors in the communication industry; and between industries as whole. The competition can be classified into product or service competition and market share competition. Market share competition can be classified into domestic or national and internationalization or cross-border competitions. In the first category firms in the communication industry competing stiffly to rejuvenate their product life cycle by introducing new product and service innovation.

The second category is global or cross-border business competition where multinational companies aggressively extend their strategic capabilities to capture and control global market to perpetuate their business growth and earn above average return. The mechanisms are through merger, acquisition, partnership, strategic alliances and entry barrier elimination by mean of collusive agreement of international organization such as WTO, AFTA, UPU and APEC. Thus competition improves products quality, it makes to acquire products and services more affordable and it give options to customers both individual and industry to choose a wide range of communication mode for their purposes.

Post Malaysia Bhd. (PMB) is the dominant postal service operator in the country. It commands monopoly power as mail service provider for the domestic market under government tight regulatory control. However, since 1992 government has deregulated the courier service, the lucrative segment of the postal service. This policy has created more than one hundred and seventy licensed courier service companies that make up of both local and multinational companies. However, the multinational companies increase their business control which seen them pushing Poslaju, PMB courier operator, slowly down the market share hierarchy, to

become the market leader. This move in a way has improved courier service quality but at the expense of the PMB market share and profit.

Sunset Sector

The need to reevaluate on postal administrator or operator role in the postal industry is gaining it momentum especially with the growing perception on it is being regarded as a sunset sector of the communication industry, which has reached the maturity stage and on the declining slop of the product life cycle. The issue even more critical when postal service has to competes for survival against elements generated by other components of the communication industry itself.

The robust environmental changes has put government postal service operators at a crossroad as to what should be done to stay in business, retain market share, improve service quality, reduce cost, improve profitability and sustain growth. The tasks become more challenging when most of the postal operators that owned or control by government, are tied up to some social undertakings. The universal service obligation is one of the social responsibilities where postal administrators have to provide service access to every citizen at price affordable enough to them. Hence, cross-subsidization is unavoidable. The cost of non-profit market segment therefore has to be compensated by profit generating business activities.

As such with low growth rate, increased in cost of operation and competition it becomes more difficult for government owned postal companies to sustain it social obligation and at the same time to improve it services quality. This demands them to venture into other new business activities. However, divestment, diversion and diversification strategies are not something that can take effect immediately and be smoothly implemented.

CONTRIBUTING FACTOR

There are many business problems and issues that lead to the development of symptoms to PMB organizational problems. However, being a government control business entity, institutional set up that to some degree inherited bureaucracy perfectionism practices and some legal binding seem to be the major contributing factors to the phenomenon. The factors to a certain extent constrained PMB organizational versatility to manoeuvre strategically and compete effectively in the new competitive landscapes. The elaborations of institutional and legal environments and constraints encountered by PMB will be discussed in chapter six.

STUDY OBJECTIVE

The objectives of the study are;

- (a) To analyze PMB effectiveness under the existing institutional and legal setup and environments;
- (b) To assess whether the level effectiveness can meet the future challenges created by the new competitive forces, namely the technology and technological change, globalization and liberalization; and
- (c) To make necessary recommendations to overcome the weakness.

TERM OF REFERENCE

The terms of references for the study are:

- (a) Define the conceptual approach to assess PMB organizational effectiveness.
- (b) Identify PMB sense of direction or organizational purpose, corporate structure, core business activities, success factors, stakeholders and business environments;

- (c) Identify the impact of the competitive forces on postal service industry trends, market development and intensity of industry competitions.
- (d) Analyze PMB comparative position, market share and competitive advantages - resources, capabilities and competences;
- (e) Identify treats and opportunities and weakness and internal strengths that can be exploited for PMB organizational excellence;
- (f) Analyze PMB performance in term of business profitability, market share, customer satisfactions and social obligation fulfillments;
- (g) Identify the institutional and legal constraints that limit PMB organizational effectiveness; and
- (h) Outlined some sensible recommendations to improve PMB effectiveness.

METHODOLOGY

The study methodology is base on various research methods and techniques:

- (a) Participant observation on various process, discussion and official forum at PMB Head Office, Post Offices, official meetings and series of official dialogs between Consumers and Utilities Companies and questionnaires feedback coordinated by Ministry of Energy, Communications and Multimedia 1998/1999;
- (b) Expert opinions through personal interviews and Postal Industry Forum (March 2000); and
- (c) Secondary data from PMB, Jabatan Pos (regulator), UPU - Postal Statistics 1998, the 1998 "Commonwealths Conference of Postal Administrations (CCPA)" seminar papers, Postal Service Act 1991, PMB Operating License and Ministry of Energy, Communications and Multimedia.

The use of the methods and techniques are possible due to direct involvement as the Head of Corporate and International Affairs Unit, of Ministry of Energy, Communications and Multimedia, in managing policy, programs and activities of energy, postal service, communication and multimedia industries.

SCOPE

The scope of the study is mainly focus on PMB, the main operator of mail service provider, which has the largest retail network and full-time employees in the country. The study covers PMB business activities, mail business, Poslaju, Agency Service, Philately, Remittance Services and others. Special focus is given on the institutional arrangement and legal framework that have influences on the PMB business operation and decision making process.

DATA COLLECTION

Data for the study obtained from secondary sources mainly from:

- (a) PMB data information system, annual reports and management report;
- (b) Postal Department;
- (c) Universal Postal Union;
- (d) Consultant Reports;
- (e) Books and Journals;
- (f) Seminar, Workshop and Forum Papers; and
- (g) Government Law.

SIGNIFICANCE OF THE STUDY

The study is an exploratory study. It would provide some insight and information to initiate a detail research on PMB and postal service in the

country to determine the future business nature, structure and service quality to align with the global environmental changes.

The needs for the study become more apparent and critical as the business is seen to have reached the maturity stage which is characterized by low profitability, reduced market share, high operational cost, stiff competition, increase in customers' expectation on service quality and stakeholders demand on higher performance.

The study could drive greater awareness, stimulate initiative among regulators and policy makers to review the existing institutional and legal set up to ensure PMB in particular and the postal service sector in general more competitive, and generate economic growth as of other component of the communication industry.

MITATIONS

The study is focusing on PMB organization and business operations. Primary data and information on; customers' general perception on the service quality and correlation analysis between the technological changes and demand for postal services; and detail information on each individual product or service costing are not available for the study. Time constraints is the major factor. Separate exercise should be carried out of future study.

However, the limitations are mitigated by information provided by PMB on the house study on mail service quality, PMB internal audit study on four major products cost, and annual volume of mail turnover and Ministry of Energy, Communication and Multimedia on dialogues/feedbacks between consumer and the service operators.

ORGANIZATION OF THE REPORT

The report is divided into three major parts. The first part consists of chapter one and two. Chapter one is the introduction that highlights the general phenomena and issues and the justification for the study. Chapter two outlined the approach use to define PMB organizational effectiveness.

Chapter three, four and five are in the second part. Chapter three is an overview of PMB, which include the PMB sense of direction, core business activities and success factors. Study analyses are in chapter four and five. Chapter four analyses PMB past performance that look into it profitability, market share, customer satisfaction and social objective goal attainments. Chapter five is the competitive analysis or strategic analysis, which focuses on PMB general environment, industry, competitive advantages, and SWOT analysis. Chapter six is the discussion on some institutional and legal factors that has effect on PMB organizational effectiveness; and

The third part is the chapter seven and eight. Chapter seven is the summary and conclusion. Chapter eight gives some recommendations to enhance PMB effectiveness.

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