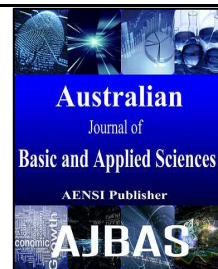




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Business Intention among Independent Oil Palm Smallholders in Malaysia

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ABSTRACT

Background: Independent smallholders make up 40% of oil palm farmers in Malaysia. While smallholders in bigger corporation such as FELDA are reaping the reward, independent smallholders only earn between RM1200 to RM2500 per month. Efforts should be done to increase their household income through business activities. **Objective:** This study analyses the feedbacks from the smallholders on their intention to earn extra income through business ventures. Survey research were done on 395 independent smallholders in Miri and Batu Pahat, Malaysia. **Results:** Fifty-five of the smallholders are either doing or intending to do business. Majority of them plan to do so in order to increase family income and earn experience. Extra supports on knowledge training, infrastructure facility and finance are needed to help these smallholders. **Conclusion:** Establishing business projects through the feedbacks from smallholders would improve better participation and commitment from them. In the earlier stage, these smallholders are more comfortable in doing retailing at a small and medium scale.

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INTRODUCTION

Analysis suggests that the role of oil palm plantations in reducing rural poverty may be overstated. Bowden (2007) claimed that the proponents of palm oil are a significant driver of development. If this was true, there would a far greater reduced rate of poverty in Sabah, Sarawak and certain states in Peninsular Malaysia (Malaysia, 2010). Therefore, it would be unwise to assume that the palm oil industry has had very strong positive impact on reducing poverty in Malaysia especially among smallholders. Palm oil authorities namely MPOB, FELDA, FELCRA and other state-level agencies have invested significantly in rural development, smallholder cultivation and agricultural productivity. While FELDA's settlers are able to gain basic oil palm crops income plus other investment income, independent smallholders are still relying solely on basic oil palm crops income. In short, palm oil industry still contributed low impact on reducing poverty especially among smallholders (Yusoff *et al.*, 2000).

It is urgent that potential businesses are further explored so that the benefits of the industry can be

enjoyed by all levels of the society especially the independent smallholders. Thus, studies are conducted to get feedbacks from the smallholders on the types of business activities suitable for the community. Top-down project management is popular among contemporary management. However, this approach leads to confusion and open the door to potential leads to failure (Filev, A., 2008). Therefore, feedbacks from smallholders are required before exploring potential business models since these actual business ventures would be directly managed by the farmers themselves. Commitment is essential in a successful long-term relationship (Gundloch, G. *et al.*, 1995). Feeling of ownership of the organization relates to the behaviour and commitment of employees of the organization (O'driscoll, *et al.*, 2006).

The objectives of the study is to identify and measure smallholders' orientation or perceptions towards commercial business activities to generate additional household income. From the feedback, researchers are able to explore potential business models. In later study, actual business model which be implemented towards improving the smallholders'

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household income and at the same time reducing their poverty level.

Review Of The Literature:

Independent Palm Oil Smallholders:

Prior to the 1970s, foreigners owned most of the large plantations with rubber and oil palm while the local Chinese and the Malays mostly owned the smaller plantations. But, in the 1970s the ownership of the large plantations went into the hands of the locals, including the state and Federal governments (Tan, 1982).

In the late sixties until early eighties, smallholders participating in a government sponsored rural poverty eradication scheme called FELDA were given land and encouraged to cultivate palm oil. Priority was given to those who did not own any land to farm. New settlers were assigned to a particular

settlement, and were given 10 acres (4.0 ha), 12 acres (4.9 ha) or 14 acres (5.7 ha) of land to cultivate usually either rubber or oil palms. All settlers were required to reside at the settlement itself, and were allotted .25 acres (0.10 ha) in a planned village, where their home — already built by FELDA — was located. Schools, business center, medical clinic and mosque are also provided. Therefore, the scheme was extremely successful in term of poverty eradicating, social development and catapulted Malaysia into the forefront of palm oil cultivation making the country the then world's largest producer. Nowadays, the average income of FELDA's settlers is around RM3,000 per month as shown in Table 1 below. This model had brought some fruitful outcome in the process of eradicating poverty among rural and landless people (FELDA, 2010).

Table 1: Income of FELDA Settlers (RM*).

Land size	1980	1985	1995	2000	2006	2010
10 acres	805	885	1,426	1,232	1,338	3,000
12 acres	1,085	764	801	705	n/a	n/a
14 acres	1,230	1,203	2,201	2,010	n/a	n/a
Average Income	1,040	950	1,439	1,316	1,338	3,000

*Based on average FFB price for respective year
Sources: Tunku Shamsul & Thong (1988)

The Malaysian palm oil model is a prime example of how investment and support for smallholders can alleviate poverty and drive economic development. The precise approach taken by palm oil authorities namely MPOB, FELDA, FELCRA and other state-level agencies which invest significantly in rural development, smallholder cultivation and agricultural productivity throughout South-East Asia. However, there are certain differences in handling two types of smallholders in Malaysia. The first model of

FELDA settler's development is considered highly successful. While the second model, is the independent smallholders' development model. Notably, around 40 per cent of all palm oil cultivation in Malaysia is by small farmers and families on small scale plantations. However, the smallholders are still relies solely on basic oil palm production/ crops income. They are earning between RM1200 to RM2500 per month (Datuk Douglas, 2015). Table 2 shows the distribution of smallholders in Malaysia.

Table 2: Independent Smallholders in Malaysia.

State	Frequency
Johor	63,354
Kedah	4,388
Kelantan	1,012
Melaka	2,011
Negeri Sembilan	4,035
Pahang	8,722
Perak	32,419
Perlis	7
Pulau Pinang	1,545
Selangor	18,647
Terengganu	2,350
Sabah	27,857
Sarawak	45,657
Total	184, 147

Source: Malaysian Palm Oil Board (MPOB)

Factors of Business Intention:

Individual intention of getting involved in business ventures have long been studied. There are many theories that can relate to human intention of improving themselves. For instant, in Maslow's

Hierarchical of Needs, there are five (5) level of needs that have to be fulfilled such as physiological, safety, social, esteem and self-actualization. The first level refers to personal of physical aspects that an

individual needs such as food, water and a place to stay.

The second level is the safety needs which cover the aspects of individual safety, financial safety and health. For individual safety, all of us need money because of stability and the pressure of living among the society. As mentioned by Watson, *et al.* (1998), an individual indulge in business activities to increase the family income. Individuals also get involve in business to become rich, fulfil their ambition, become independent and do not want to be wage earners (Manaf, *et al.*, 2012). In addition, some people run their own business to change their life style or personality (Walker & Brown, 2004).

Individuals getting into business do need supports for their new ventures. Financial support is the most important since they require enough capital to set up a business. According to Jasra, *et al.* (2011), financial resource is the most important and critical factor in running a business. In fact, their study also showed that the success factor of any business is related to finance. However, getting financial support from government or private agencies is not that easy. Any business would fail if the company did not get enough financial resources (Walker & Brown, 2004).

A study by Kuzilwa (2005) noted that the provision of infrastructure facilities is important for those who are starting their business. Poor facilities would hinder the progress of any business activities. Internet facility is another important infrastructure that a business needs and should be provided in order for any government or local authorities to help the entrepreneurs (Avcikurt *et al.* 2010). Companies have gain tremendous help from Internet in promoting their products and services (Brüderl & Preisendörfer, 1998).

Finally, any individual who plans to do business need to master the basic business knowledge such as finance, marketing, accounting and management. Avcikurt and colleagues (2010) said that among the skills needed for an entrepreneur are Internet knowledge, quality service, financial performance and marketing. The knowledge needs to be enhanced through continuous training. According to Zaidatol & Zakaria (2000) successful business needs to involve several skills such as communication skills and human relations in work place to ensure the sustainability of a business entity.

Bottom-Up Project Management:

Top-down approach means that all the directions of an organization come from the top such as guidelines, information, plans and fund processes. Also, formality is very important since all information come from the top management. According to IMA Worldwide (2008), emphasis on top-down and one-way is one of the main reasons for implementation failure. Team members felt that they

weren't listened to and they were not morally motivated to do the jobs.

On the other hand, the bottom-up approach allows members to participate in every step of the management process. The choice of methods and ways to perform their tasks is up to the team. The advantage of this approach is that it empowers team members to think more creatively. They feel involve into the project development and know that their initiatives are appreciated. The team members' motivation to work and make the project a success is doubled. Individual members of the team get an opportunity to come up with project solutions that are focused more on practical requirements than on abstract notions. Bottom-up project management can also be viewed as a way of coping with the increasing gap between the information necessary to manage knowledge workers and the ability of managers to acquire and apply this information (Filev, A., 2008).

However, despite all the advantages, the bottom-up style alone will not make your projects successful. The bottom-up approach is not the perfect solution, as sometimes it lacks clarity and control. The best way is to find a balance between the two opposite approaches and take the best practices from both of them.

Methodology:

The study aims to assess the factors that motivate the independent smallholders to get involve in business activities. Field studies were done in the areas of Batu Pahat, Johor and Miri, Sarawak through face-to-face survey as the research instrument. In addition, focus groups were done in both areas to collect more detail information from the respondents. The research questionnaire is divided into four (4) main sections. First section seeks information related to the socio-demographic profiles of the respondents such as race, marital status, number of children, religion and education background. In section two, the respondents are asked whether they intend to do business in the future. This section measures the respondents' opinion on the business activities and income level. Section three is only reserved for respondents who are currently involved in business activities. This section seeks the factors that encourage the respondents to do business. The final section asked the kinds of support that these entrepreneurs require from the government or private sectors. This part is measured using a 5-point Likert scales from "most unimportant (1)" to "very important (5)".

This study used the SPSS software to analyse the respondents' feedbacks using the descriptive statistics. When using a 5-point Likert scales, the mean score of below 2.5 is not important, while above 2.5 is considered to be important (Salleh, *et al.*, 2011).

Analysis:

The section starts by analysing the socio-demographic profiles of the respondents. It is then followed by the type of business that the respondents intend to do. Then, this section discusses the factors that motivate the current and future entrepreneurs and types of business they plan to do. Lastly, information on the kind of support these entrepreneurs require is also discussed.

From a total of 395 respondents surveyed, only 55 of them are already involved or plan to do

business activities. In Table 3, majority of respondents are Malay and Iban since the study was done in Batu Pahat in Johor and Miri in Sarawak. In terms of marital status, majority of them are married (81.8%) with an average of between four to six children. In education, most of them have only secondary school education (60.0%). Those who do their own business earn an average income of between RM200 to RM1000 a month.

Table 3: Smallholders Intend to Do Business (n = 55).

Items	Freq	Items	Freq
Race		Marital Status	
Melayu	26	Married	7
Cina	4	Single	45
India	1	Divorce / Widow	3
Iban	22	Education Level	
Bidayuh	1	No formal	7
Penan	1	Primary school	10
No. of Child	5	Secondary school	33
None	24	Diploma	3
1-3	22	Degree	2
4-6	2	Monthly income (besides palm oil)	33
7-9	2	100-1000	16
Above 10		1001-2000	6
Permanent Job	42	Above 2001	
- Self-employed	6		
- Public Sector	7		
- Private sector			

Source: Field Work (2015)

Type and Form of Business:

Table 4 highlights the kind of business that the respondents plan to be involved in. There are seven (7) types of business as stated by the respondents. Agriculture related business is the favourite among the respondents. This is because of the geographical factor of the study which are mostly located in the

agriculture areas. Retailing such as sundry shop is the second popular business activity as stated by the respondents. The least favourite among the smallholders are restaurant and tailoring business. In a nutshell, most of them are more interested to be involved in a small and medium industry which is much simpler and less complicated to manage.

Table 4: Type of Business Intention.

Business Type	Frequency
Retailing	11 (19.9%)
Agriculture	19 (34.5%)
Livestock	7 (12.7%)
Handicraft	5 (9%)
Restaurant	2 (3.6%)
Clothes / Tailor	2 (3.6%)
Traditional Food / Snacks	9 (16.7%)

Table 5 shows the form of business that the respondents intend to do. Majority of them prefer to do it on their own (81.8%) since it is less risk and

easy to control. Another 10 respondents intend to set up their business on a partnership basis.

Table 5: Form of Business.

Items	Frequency
Enterprise	45 (81.8%)
Partnership	10 (18.1%)

Factors in Doing Business:

There are several factors contributing to the oil palm smallholders to participate in business activities. From Table 6, the most important factor is to improve the overall household income of their family. This is because the monthly income of the

independent small-holders is still low ranging from RM200 to RM1000. According to Maslow, financial stability is part of the financial safety in order to continue their life comfortably. This result is also consistent with the findings from Manaf, *et al.* (2012), Kuzilwa (2005) and Othman, (2012)

demonstrated that respondents involved in business in order to improve their income.

Another factor for doing business is to add and gain new experience besides managing their oil palm plantation. As mentioned by Othman (2012), respondents participated in business to become independent and willing to take risks. Also, they did

not prefer to work in a routine job environment. Freedom in working time tends to produce self-satisfaction. (Walker & Brown, 2004). In addition, some respondents are involved in business because they want to spend their free time and to continue their family business.

Table 6: Factors in Doing Business.

Item	Want	Percentage (%)
Improve family income	48	87.3
Gain experience	33	63.6
Fill free time	6	10.9
Continue family business	4	7.3

Types of Support Needed from Agencies:

Table 7 depicts the supports that the smallholders require from the public and private sectors in order to conduct business activity. From the study, all types of knowledge training, infrastructure facilities and finance are important to the respondents. They agreed that training on marketing is the most important (mean= 4.07) followed by financial management with a mean score of 4.05.

In terms of infrastructure, the respondents would require support for the business sites, water, electrical and Internet facilities. Electrical facility ranked first (mean = 3.92) followed by business site with a mean score of 3.81. For small and medium enterprise, these facilities are important to ensure proper business operation. For financial support, the respondents would prefer financial support rather loan since it would be easier for them to manage.

Table 7: Supports Needed from Agencies.

Item	Mean
Training	
1. Marketing	4.07
2. Financial Management	4.05
3. Human Resource Mgmt	3.69
4. Technical	3.74
Infrastructure Facility	
Electrical	3.92
Business / sales site	3.81
1. Water	3.72
Internet	3.47
Finance	
1. Financial Support	4.10
2. Loan	4.07
3. Profit sharing	3.87

Discussion And Conclusion:

Independent smallholders only cultivate their crops at less than average income. Though, majority of them are senior citizens and have only secondary education, the efforts to increase their income are strongly supported. This includes providing business opportunity for them to increase their household income. However, participation from the smallholders themselves is strongly needed in order to get their support and commitment.

From the study, about 87% of the smallholders who have and plan to do business said they want to increase the family income. Majority of them are interested to become an SME involving in retailing, agriculture and livestock. Malaysia has a vibrant entrepreneurial base with a huge potential to succeed. Nevertheless, the quality and level of competitiveness among the entrepreneurs especially the Bumiputera companies could be improved so that they are more resilient to the ups and downs of economic cycles (M. Ariff & Syarisa, 2015). Hence,

it is important to give them the support when necessary in terms business training, infrastructure facility and financial support.

The next step in the study is assist the smallholders in business ventures. Couple with the smallholders' feedbacks and the expert opinions from the industry, several business models could be designed to ensure that their business activity is sustainable. The modern environmental management literature stresses the need for community involvement to identify indicators to monitor progress towards sustainable development and environmental management goals (Evan, F., *et al.*, 2006)

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