

**A SUSTAINABLE COMPETITIVENESS MODEL FOR
STRATEGIC ALLIANCES**

**A STUDY OF RURAL ENTREPRENEURS AND COMMERCIAL
ORGANISATIONS IN MALAYSIA WITH SPECIAL EMPHASIS ON
MALAYSIAN FARMERS' ORGANISATIONS**

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ABSTRACT

It is evident that strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward, towards wealth creation and socio-economic development. It has brought about positive financial rewards to the farmers as well as that of the farmers' organisations themselves. Statistical significance on effectiveness of the various types of alliance and important control factors of profitable alliance have also been identified.

Based on 1991-2004 international strategic alliance development models, a three-stage Dynamic Domestic Sustainable Competitiveness Development Model of Strategic Alliance was developed. It consists of Start-up Period, Adaptation Process and Transformation / termination. With the presence of dynamic business entities, strategic alliance projects inevitably face Competitive Challenge from time to time. A Sustainable Competitiveness Cycle, a product of the Adaptation Process, turns saviour in more ways than one, in a lifespan of an alliance.

EXECUTIVE SUMMARY

Strategic alliance is envisaged to have the potential in bringing new business opportunities to farmers' organisations thereby increasing their income as well as improving the standard of living of their members. The validity of this statement has not been tested in Malaysia. Although strategic alliance projects have been in operation for nearly twenty years or more, there has been no meaningful assessment as to whether earlier government policies and those of farmers' organisations themselves are still relevant. Equally, there is no clear information regarding the relationship between participating groups as well as that of parent organisations, which create successful strategic alliances. The question of Sustainable Competitiveness Alliance has also not been addressed.

It is therefore the intention of this research to answer the main research question, that is: "The strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward, towards wealth creation and socio-economic development".

To enhance the above hypothesis and in an effort to examine the present position and, if feasible to assist the future direction of the farmers' organisations, this research was conducted along the following lines i.e. Reviewing all farmers' organisations strategic alliance business opportunities as at 30th June 1998 and assessing the type and trend of projects implemented, Evaluating the impact of relevant and, where appropriate, related projects on the income generation activities of participating members, establishing factors that describe the Formation, Motivation, Partners Selection Criteria, Management, Environmental and Evolution factors of these strategic alliances and their relationship to alliance effectiveness, Identifying the characteristic of Profitable Strategic Alliance (winning alliances) from the perspective of parent organisations and taking the Umbrella Broiler Scheme as a typical example of the consortium type of strategic alliance, its strength and weaknesses are carefully examined as well as its resilience to be a Sustainable Competitive Alliance.

Extensive literature reviews were done which cover wide range of areas such as the overall theory, early history and experiences of co-operative movement from various countries, as well as international and national factors that prompted the Malaysian Farmers' Organisations to establish strategic alliances. The literature reviews also include the international strategic alliance models from 1991-2004 that examined, amongst others, the comparative study of the models such as Formation, Management and Evolution of international strategic alliances.

The research methodology in Chapter 4 has been organised into seven parts, namely, 1) the choice of multi-method approach, 2) the scope and layout of the statistical approach, 3) questionnaire & interview design, 4) case study, 5) census plan and data collection 6) customer satisfaction and 7) data Analysis. This study has adopted a multi-method approach in order to get a better understanding of what actually took place in the development of farmers' organisations strategic alliance projects. It described the purpose, process and outcome of the research. The purpose of the research is to support the hypothesis through achieving the objectives of the research. This can be accomplished through the Exploratory, Descriptive, Analytical and Predictive type of research.

The process of research however, is based on quantitative (close and open-ended structured mail questionnaire) and qualitative (documentary sources, direct observation and in-depth, open-ended interview) method of data collection as well as through case studies. As a result, the overall outcome of this research can be classified more towards Applied Research that may be used in solving specific problems relating to farmers' organisation strategic alliance activities. Meanwhile, the Umbrella Broiler Scheme has been employed as the main case study to develop Stage 2 and Stage 3 of the dynamic Domestic Sustainable Competitiveness Development Model of Strategic Alliance, which consists of three parts, namely, The Start-up Period, The Adaptation Process and The Transformation/ Termination of Alliance.

The effectiveness of the Farmers' Organisations Strategic Alliance was examined through dependent variables such as single culture development, reputation among themselves as well as within the industry, achieving the intended result of alliance objectives, and adaptive to change. For the association analysis, "One-way ANOVA" and "Correlation" tests have been applied to determine the strength and direction (nature) of the relationship between the independent and dependent variables. "One-way ANOVA" has been used to identify the association between Effectiveness and Type of alliance while the "Correlation" test was undertaken to establish the association between Effectiveness and Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors. As a result, 69 control factors of Overall Statistical Significant to Farmers' Organisations Strategic Alliance's Projects have been identified.

As organisations that operate on co-operative principles, Malaysian Farmers' Organisations are responsible to serve and unite their members in an effort to improve their economic and social well-being. Malaysian Farmers' Organisations availed themselves in various types of business activities like food production, small and medium industries, development of farmer entrepreneurs in various sectors of economic activities such as agriculture, manufacturing and services sectors, amongst others. As a result, nearly RM80 million of share capital in farmers' organisations, as at 31 December 2000, belong to the farmers themselves with total volume traded reaching nearly RM1.8 billion in that year and strategic alliance projects were part of it.

Entering into strategic alliance projects would pave the way for farmers' organisations and their members to get complementary resources that they need to further enhance their economic activities. As stated in Chapter 5, for the period 1975 to 1998 (as at 30th June 1998), around RM300 million worth of 45 strategic alliance projects have already been on stream throughout the country. It includes 18 (40%) projects in production, 7 (15.5%) related to trading, 4 (8.9%) in investment, 5 (11.1%) involved in processing, 4 (8.9%) providing services, 4 (8.9%) in property development and 3 (6.6%) engaged in marketing projects.

From the analysis on the trend of strategic alliance projects, it can be seen that production project values have significantly decreased from 93.1% during 1975-90 to 57.7% for the period of 1995-98. Even though the percentage of trading project fell from 26.7% during 1975-90 to 16.67% in 1995-98, the projects' value has increased from 2.8% to 35.7%. Processing project values have also increased from 0.1% (1975-90) to 11.98% (1995-98). The same pattern goes for the property development project, with the value touching 38.6% during 1991-94 as compared to zero percent during 1975-90. However, the marketing projects' values have decreased from 3.81% (1975-90) to 0.4% (1995-98) even though the project percentage has increased from 6.7% to 11.1% during the same periods.

As they gain experience, the direction of strategic alliance saw a switch on project concentration from food to non-food sector such as property development and industrial crops. The type of projects implemented also change from that which favours equity distribution during 1975-90 i.e. Syarikat Perniagaan Peladang MADA (to invest on behalf of the MADA's farmers in commercial, trade and industry projects) and Umbrella Broiler and Egg Schemes (to develop small Bumiputra entrepreneur in poultry industry) to that of growth driven and commercially oriented during the period 1994-1998 i.e. managing oil palm estates, investment, property development and wholesale market.

It is also evident that environmental factors such as Government policies and international events have strongly influenced the emergence of innovation culture on Malaysian Farmers' Organisations strategic alliance projects. Government policies have influenced the present structure of the alliance i.e. New Economic Policy on wealth distribution strategy, while Government involvement in AFTA (ASEAN Free Trade Area) has promoted regional business expansion. National Farmers' Organisation is already moving into regional alliances with Indonesia and planning to do so with other Asian countries

As far as impact on income generation of participating members is concerned, the Umbrella Broiler Scheme and Pasaraya Peladang projects have brought positive results to the participating members as well as related farmers' organisations as proved by information gathered during the fieldwork. As far as per capita income is concerned, the farmers' income under the Umbrella Broiler Scheme has increased between 3.5% to nearly 270%. The big variation in percentage is due to the different level of income before project that earned by farmers. Besides that, related farmers' organisations also make a lot of side income from the same projects. In more ways than one, strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way towards wealth creation and socio-economic development.

In achieving their objectives, Malaysian Farmers' Organisations have performed dual economic functions, firstly, the wealth distribution function, through profits earned by farmers as equity holders of the organisations concerned. Secondly, the growth development function, through various business ventures including strategic alliance projects. It cannot be denied that engaging in strategic alliance is one of the ways to accelerate wealth distribution and achieve growth development so that co-operative organisations like Malaysian Farmers' Organisations, will be able to participate actively in Malaysia's economic development and at the same time contribute to poverty eradication and reducing income disparity in Malaysia.

In Chapter 6, the Farmers' Organisations strategic alliance's effectiveness is defined as any positive result produced by the strategic alliance activities for their benefit, their partners (including the organisations, managers and workers), their members as well as the environment (including customers). This includes the intended result, impressive and striking movements, and the ability to adapt to their environment. Alliances are also considered to have achieved their effectiveness when they have developed a single culture with strong bonding factors, which make them capable of working together, competent and constantly adjusting to change. Additionally, alliance effectiveness is considered accomplished when they fulfil the objectives to a degree acceptable to them in direct quantifiable and in more indirect spin-off

terms. Besides that, good alliance's reputation and being well accepted by the industry are also effective output factors that determine their effectiveness. All factors for Start-up Period (right partners, accurate situation analysis, sensible strategy analysis as well as suitable style and type of management), environmental and evolution variables have been tested for their effectiveness.

As far as joint venture type of alliances is concerned, from the 61 control factors that have been tested, 90% of them are contributing to its effectiveness. These comprise of all External and most of the Internal Motivation Factors as well as all control factors under the Partner Selection Criteria. However, Partial Integrative Strategic Management is not significantly associated with joint venture effectiveness as opposed to almost all variables under Integrative Strategic Management. Even though environmental factor is not a criterion for Start-up Period of domestic alliance model, several of those factors are influential components to the effectiveness and business performance of this joint venture type of alliance.

Consortium type of alliance has fewer control variables to alliance effectiveness as compared to that of joint venture. Whilst its effectiveness is drawn from some of the Internal Motivation Factors, the same could not be said of External Factors. In as far as Partner Selection Criteria is concerned, only certain variables are accountable to the success of the consortium type of alliance. Unlike Partial Integrative Strategic Management, which is not closely associated to the effectiveness of consortium type of alliance, most of the variables under the Integrative Strategic Management are. Based on the findings of this study, it is evident that only certain factors are significantly associated to the effectiveness of the consortium type of alliance. On this premise, different types of policies, incentives and rewards are therefore needed to promote and sustain the consortium and joint venture types of alliance projects.

There are instances when consortium type of alliance was set up to tackle growth-wealth distribution conflict while joint venture is more geared to

accelerate growth for Bumiputra entrepreneurs in economic development programmes. Forming alliances with a view to help correct economic imbalance is a unique characteristic of domestic strategic alliances for a country like Malaysia. Be that as it may, strategic alliances alone cannot assure success since it is imperative to have efficient management to transform quality input (economic factors) to effective out-put (such as factors that represent the strategic alliance effectiveness) of any agreed policy.

Consequently, based on the "Correlation" test, which was used to identify association between Effectiveness and Motivation, Partner Selection Criteria, Management and Environmental factors (including External Motivation Factors), a group of important control variables for Start-up Period (right partners, accurate Situation Analysis (including Environmental Factors), sensible strategy analysis as well as suitable style and type of management, has been identified. This Start-up Period is the **first part** of the dynamic Domestic Sustainable Competitiveness Development Model of Strategic Alliance.

In Chapter 7, the study also manages to establish certain characteristics of Profitable (Project-based and Non-project Based), Non-indicated and Lost Alliances from the perspective of their parent organisations. It is noted that both Profitable Alliances have very low debt to capitalisation ratio i.e. 0.10:1.00 and 0.11:100 whilst both the Non-indicated and Lost Alliances have higher debt to capitalisation ratio i.e. 1.9:1:0 and 15.0:1.00 respectively.

The study confirms that most of the alliances established before 1990s' tend to have higher percentage of their sales to government market outlets i.e. Project-based Profitable Alliance (nearly 50%) and Lost Alliance (around 75%). As for alliances formed after 1990s' i.e. their market direction have shifted in that the Non Project-based Profitable Alliances and Non-indicated Alliances sell 100% and 56% of their products into the open market respectively. The policy to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community seems to have been effective in encouraging more alliances that formed after 1990's ventured into

open market outlets and less depending on government help.

From **59** effectiveness factors that were tested, **33** factors (56%) were recognised as having the characteristic of a Profitable Alliance whilst **14** factors (24%) were identified to be characteristically related to that of a Lost Alliance. The three factors under Partner Selection Criteria i.e. Reason for Partner Selection, Positive Attitude, and Strategic Plan are deemed to be important characteristics of Profitable Alliances. Most of the Integrative Strategic Management factors are found to be contributory to the success of a winning alliance. Role of Environmental Factors (including External Factors) are prime factors responsible to the positive performance and business conduct of Profitable Alliances. The Profitable Strategic Alliance are also convinced that they have developed strong bonding factors, adopt a stronger philosophy of constant learning that enable the partners to successfully overcome external challenges. As it is indeed a very general guideline, the characteristics of Profitable Alliance need to be carefully studied and adopting them should only be on a case-by-case basis.

When inquiring the operational system of strategic alliances as prescribed in Chapter 8, close attention was afforded to consortium and joint venture types of alliances. Based on a study conducted at Syarikat Perniagaan Peladang MADA (SPPM), it can be deduced that joint venture companies are free of operational problems. With consortium type of alliance however, a close study on the Umbrella Broiler Scheme reveals that as the business expanded, the system not only face issues from the internal operating system but also from the success of the scheme as well as from environmental factors. These factors create Competitive Challenge (as well as prevailing Opportunity) to the project.

Following continued Assessments done throughout the contract period, Competitive Challenge came to light and duly identified. The partners had then made known their desire and commitment to expand the objectives of the contract by becoming an efficient poultry integrator. In their pursuit for a better future, a business plan was prepared citing suitable Competitive

Corporate Strategies needed. With the resultant inter-play of the above factors, this study has come up with the **second and third parts** of the dynamic Domestic Sustainable Competitiveness Development Model of Strategic Alliance indicating the crucial and effective factors to be considered by the Malaysian Farmers' Organisations for future development of their strategic alliance projects. The dynamic Domestic Sustainable Competitiveness Development Model of Strategic Alliance consist the Start-up Period, the Adaptation Process and the Transformation/Termination of alliance.

The Start-up Period guides the formation process of future strategic alliance projects and notifying the important factors that need to be seriously considered for the new alliance projects to effectively achieve established objectives. The Adaptation Process would assist implementers of strategic alliance projects to consider and take appropriate action in order to be sustainable, reliable and competitive in the era of globalisation. The third part of the model i.e. the Transformation/Termination is a considered decision that has to be made by the policy makers on the continued existence or eventual termination of the alliance. The Malaysian Farmers' Organisations strategic alliances model are indeed domestic in nature when compare to international strategic alliances. The latter are mostly cross border alliances operated by multinational companies, which apparently are more concerned on growth rather than wealth distribution as some domestic strategic alliances do.

Meanwhile, the Sustainable Competitiveness Cycle was derived from the Adaptation Process. It explains Competitive Cycle that can take place in a lifespan of an alliance. As dynamic business entities, strategic alliance projects will face Competitive Challenge from time to time. Through performance Assessments, reassessing of Partners' Capabilities and developing new/modified Competitive Corporate Strategies, Competitive Strength will ensue and elevate the strategic alliance/business entity to a new Sustainable Competitiveness Level. This model may also be modified and prudently applied to other types of business entities in order to be sustainable and competitive.

Hopefully, the findings of this study will help to sustain the present and future strategic alliance projects, so that, strategic alliance could become the effective route offered to Malaysian Farmers' Organisations towards wealth creation and socio-economic development of their members.

CONTENTS

	PAGE
<i>ACKNOWLEDGEMENTS</i>	<i>ii</i>
<i>ABSTRACT</i>	<i>iii</i>
<i>EXECUTIVE SUMMARY</i>	<i>iv</i>
<i>TABLE OF CONTENTS</i>	<i>xiv</i>
<i>LIST OF TABLES</i>	<i>xxii</i>
<i>LIST OF FIGURES</i>	<i>xxvii</i>
CHAPTER 1: INTRODUCTION	
1.1 INTRODUCTION TO THE STUDY	1
1.2 DEFINITION OF STRATEGIC ALLIANCE	4
1.3 THE IMPORTANCE OF THE RESEARCH	5
1.4 RESEARCH OBJECTIVES	6
1.5 THE SCOPE OF STUDY	7
1.6 THE RELATIONSHIP OF ALLIANCE	7
1.7 RESEARCH DESIGN	10
1.8 ORGANISATION OF THESIS	13
CHAPTER 2: MALAYSIA AND MALAYSIAN FARMERS' ORGANISATIONS	16
2.1 INTRODUCTION	16
2.2 MALAYSIA'S DEVELOPMENT POLICIES	18
2.2.1 <i>EARLY STAGE DEVELOPMENT PERIOD - PRE 1970</i>	19
2.2.2 <i>HIGH GROWTH WITH EQUITY PERIOD - 1971 – 1983</i>	20
2.2.3 <i>STRUCTURAL ADJUSTMENT PERIOD - 1983 – 1990</i>	20
2.2.4 <i>TOWARD A DEVELOPED NATION PERIOD - POST 1990</i>	21
2.3 IMPLICATION OF THE ASIAN FINANCIAL CRISIS ON THE MALAYSIAN ECONOMY	23
2.4 THE THIRD OUTLINE PERSPECTIVE PLAN (OPP3) AND THE EIGHT MALAYSIA PLAN	25
2.5 AFFECT ON THE SEPTEMBER 11 TRAGEDY	26
2.6 THE MALAYSIAN'S AGRICULTURAL POLICIES	27
2.7 BRIEF HISTORY OF CO-OPERATIVES IN MALAYSIA	29
2.8 THE MALAYSIAN FARMERS' ORGANISATIONS	31
2.8.1 <i>OBJECTIVES AND FUNCTIONS OF</i>	

	<i>THE FARMERS' ORGANISATIONS</i>	32
2.9	FARMERS' ORGANISATION AUTHORITY	33
	2.9.1 <i>FARMERS' ORGANISATIONS DEVELOPMENT AREAS</i>	33
	2.9.1.1 AREA UNDER THE FARMERS' ORGANISATION AUTHORITY	35
	2.9.1.2 AREA UNDER THE MUDA AGRICULTURAL DEVELOPMENT AUTHORITY (MADA)	35
	2.9.1.3 KEMUBU AGRICULTURAL DEVELOPMENT AUTHORITY (KADA)	36
2.10	THE STATUS OF THE FARMERS' ORGANISATIONS AS AT 30 TH MARCH 2000	36
	2.10.1 <i>INTRODUCTION</i>	36
	2.10.2 <i>MEMBERSHIP</i>	37
	2.10.3 <i>SHARE CAPITAL</i>	38
	2.10.4 <i>ASSETS</i>	39
	2.10.5 <i>DEVELOPMENT PROGRAMME UNDER THE FARMERS' ORGANISATION AUTHORITY</i>	40
	2.10.6 <i>BUSINESS ACTIVITIES UNDER FARMERS' ORGANISATIONS</i>	43
	2.10.6.1 TYPE OF BUSINESS ACTIVITIES	43
	2.10.6.2 BUSINESS VOLUME	44
	2.10.6.3 FINANCIAL PERFORMANCE	45
2.11	RATIONALE FOR STRATEGIC ALLIANCES	46
	2.11.1 <i>INTRODUCTION</i>	46
	2.11.2 <i>FARMERS' ORGANISATIONS STRATEGIC ALLIANCES AS AT 31ST DECEMBER 1995.</i>	46
	2.11.3 <i>THE FUTURE REGIONAL STRATEGIC ALLIANCES FOR FARMERS' ORGANISATIONS</i>	49
2.12	SOME EXPERIENCE OF CO-OPERATIVES MOVEMENTS	51
2.13	THE RELATIONSHIP OF CO-OPERATIVE STRATEGIC ALLIANCE	56
	CHAPTER 3: INTERNATIONAL STRATEGIC ALLIANCE DEVELOPMENT MODELS	62
3.1	INTRODUCTION	62
3.2	INTERNATIONAL STRATEGIC ALLIANCE MODELS	65
	3.2.1 <i>DEFINITION OF STRATEGIC ALLIANCE</i>	67
	3.2.2 <i>BACKGROUND OF INTERNATIONAL STRATEGIC ALLIANCE CASE STUDIES</i>	70
	3.2.3 <i>TYPE OF ALLIANCE</i>	71
3.3	COMPARATIVE STUDY OF THE STRATEGIC ALLIANCE MODELS	74
	3.3.1. <i>THE OVERALL MODELS OF INTERNATIONAL STRATEGIC ALLIANCE</i>	74
	3.3.2 <i>THE FORMATION OF ALLIANCE</i>	90
	3.3.3 <i>PARTNER (S) SELECTION CRITERIA</i>	92

3.3.4	<i>THE MANAGEMENT OF ALLIANCES</i>	94
3.3.5	<i>THE ALLIANCE EVOLUTION</i>	96
3.4	MALAYSIAN FARMERS' ORGANISATIONS STRATEGIC ALLIANCE SUSTAINABLE DEVELOPMENT MODEL.	98
3.4.1	<i>THE START-UP PERIOD</i>	99
3.4.2	<i>STAGE 2: ADAPTATION PROCESS</i>	100
3.4.3	<i>STAGE 3: TRANSFORMATION/TERMINATION OF ALLIANCE</i>	101
3.4.4	<i>AN ADVANCED MODEL OF SUSTAINABLE COMPETITIVENESS CYCLE</i>	102
3.5	CONCLUSION	102
	CHAPTER 4: RESEARCH METHODOLOGY	106
4.1	INTRODUCTION	107
4.2	CHOICE OF MULTI-METHOD APPROACH	109
4.3	THE SCOPE AND LAYOUT OF THE STATISTICAL ANALYSIS.	111
4.4	QUESTIONNAIRES AND INTERVIEW DESIGN	112
4.4.1	<i>QUESTIONNAIRE (A) FOR FARMERS' ORGANISATIONS</i>	112
4.4.2	<i>QUESTIONNAIRE FOR PARTICIPATED FARMERS (GROWERS)</i>	114
4.4.3	<i>INTERVIEW GUIDE</i>	115
4.5	CASE STUDY	116
4.6	CENSUS PLAN AND DATA COLLECTION	118
4.7	CUSTOMERS SATISFACTION	119
4.8	ANALYSIS OF RESULTS	120
4.8.1	<i>STATISTICAL METHODS APPLIED ON CHAPTERS 5.</i>	121
4.8.2	<i>STATISTICAL METHODS APPLIED ON CHAPTERS 6.</i>	122
4.8.3	<i>METHOD OF ANALYSIS APPLIED ON CHAPTER 7</i>	128
4.8.4	<i>METHOD OF ANALYSIS APPLIED ON CHAPTER 8</i>	130
4.9	THE DIFFERENCES IN METHOD AND ANALYSIS BETWEEN THIS THESIS AND INTERNATIONAL STRATEGIC ALLIANCES STUDY BY DAVID FAULKNER, 1995.	131
4.10	LIMITATION OF THE STUDY	132

CHAPTER 5: IDENTIFYING FARMERS' ORGANISATIONS STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES AS AT 30TH JUNE 1998 AND EXAMINING THE IMPACT OF RELATED STRATEGIC ALLIANCE PROJECTS ON INCOME GENERATION ACTIVITIES OF PARTICIPATING MEMBERS.	133
5.1 INTRODUCTION	133
A. TO REVIEW ALL FARMERS' ORGANISATIONS STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES AS AT 30TH JUNE 1998 AND EVALUATE THE TYPE AND TREND OF THE PROJECT IMPLEMENTED	134
5.2 THE OVERALL BUSINESS OPPORTUNITIES FOR THE PERIOD BETWEEN 1975-1998.	134
5.3 STRATEGIC ALLIANCES BUSINESS OPPORTUNITY BETWEEN 1975-1990	139
5.4 STRATEGIC ALLIANCES BUSINESS OPPORTUNITY BETWEEN 1991-1994	145
5.5 STRATEGIC ALLIANCES BUSINESS OPPORTUNITY BETWEEN 1995-1998	149
5.6 ANALYSIS OF FARMERS' ORGANISATIONS' STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES	155
5.7 ANALYSIS OF TYPE AND STRATEGIC ALLIANCES TREND	162
B. TO EXAMINE THE IMPACT OF RELEVANT AND, WHERE APPROPRIATE RELATED STRATEGIC ALLIANCE PROJECTS ON INCOME GENERATION ACTIVITIES OF PARTICIPATING MEMBERS.	164
5.8 CHICKEN (BROILER) CONTRACT WITH FEDERAL GOVERNMENT	165
5.8.1 <i>FACE TO FACE INTERVIEW WITH RELATED FARMERS IN KUANTAN UTARA, PAHANG</i>	167
5.8.2 <i>FARMERS INCOME FROM OTHER FARMERS' ORGANISATIONS</i>	170
5.8.3 <i>ANALYSIS OF THE FARMERS' PROFIT/LOSS</i>	171
5.8.4 <i>ANALYSIS OF PER CAPITA INCOME</i>	176
5.8.5 <i>INCOME GENERATED FOR FARMERS' ORGANISATIONS</i>	177
5.9 PASARAYA PELADANG SDN. BHD.	179
5.10 CONCLUSION	181

CHAPTER 6: ESTABLISHING FACTORS FOR START-UP PERIOD OF STRATEGIC ALLIANCE AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	187
6.1 INTRODUCTION	188
6.2 ALLIANCE EFFECTIVENESS AND ASSOCIATION ANALYSIS	189
6.3 REASONS FOR SELECTING SPECIFIC TYPE OF ALLIANCE FORMS	191
6.3.1 <i>REASONS WHICH LEAD TO THE FORMATION OF A CONSORTIUM</i>	192
6.3.2 <i>REASONS TO SELECT JOINT VENTURE TYPE OF ALLIANCES</i>	194
6.4 STATISTICAL TEST TO TYPE OF ALLIANCE	198
6.5 SIGNIFICANT VARIABLES APPLIED TO FARMERS' ORGANISATIONS STRATEGIC ALLIANCES.	199
6.6 MOTIVATIONAL FACTORS AND THEIR RELATIONSHIP TO EFFECTIVENESS	199
6.6.1 <i>EXTERNAL MOTIVATION FACTORS</i>	199
6.6.2 <i>THE INTERNAL MOTIVATION FACTORS.</i>	203
6.7 THE COMMON PARTNER SELECTION CRITERIA AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	210
6.7.1 <i>REASONS FOR PARTNER(S) SELECT EACH OTHER (PARTNERS COMPATIBILITY)</i>	210
6.7.2 <i>PARTNER POSITIVE ATTITUDE AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS</i>	212
6.7.3 <i>STRATEGIC PLAN AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS.</i>	215
6.8 TYPE OF ALLIANCE MANAGEMENT AND THEIR RELATIONSHIPS TO ALLIANCE EFFECTIVENESS.	217
6.8.1 <i>TYPE OF ALLIANCE MANAGEMENT</i>	217
6.8.2 <i>ESTABLISHING ANY POSSIBLE RELATIONSHIP BETWEEN NON-INTEGRATIVE STRATEGIC MANAGEMENT AND ALLIANCE EFFECTIVENESS.</i>	219
6.8.3 <i>DETAIL RELATIONSHIP OF FULL INTEGRATIVE STRATEGIC MANAGEMENT PROCESS AND ALLIANCE EFFECTIVENESS</i>	220
6.9 ENVIRONMENTAL FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS.	222
6.10 THE EVOLUTION FACTORS AND THEIR RELATIONSHIPS TO ALLIANCE EFFECTIVENESS.	226
6.11 SUSTAINABLE COMPETITIVESS MODEL FOR MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE	228
6.12 CONCLUSION	233

CHAPTER 7: IDENTIFYING THE CHARACTERISTIC OF DOMESTIC PROFITABLE STRATEGIC ALLIANCES (WINNING ALLIANCES) BY MALAYSIAN FARMERS' ORGANISATIONS FROM THE PERSPECTIVE OF PARENT ORGANISATIONS.	237
7.1 INTRODUCTION	238
7.2 PROFITABLE STRATEGIC ALLIANCES	238
7.3 DETAILS OF STRATEGIC ALLIANCE PROFITS BETWEEN 1993-97	240
7.4 GENERAL INFORMATION ON THE PROFITABLE ALLIANCES	245
7.5 SIGNIFICANT CHARACTERISTICS APPLIED TO DOMESTIC PROFITABLE STRATEGIC ALLIANCES PROJECTS;	245
7.5.1 CAPITAL STRUCTURE	246
7.5.2 MARKET OUTLETS	248
7.5.2.1 GOVERNMENT MARKET	249
7.5.2.2 OPEN MARKET	250
7.5.3 PARTNER SELECTION CRITERIA	253
7.5.4 ALLIANCE MANAGEMENT	257
7.5.5 INTEGRATIVE STRATEGIC MANAGEMENT	269
7.5.6 THE EVOLUTION OF ALLIANCE	264
7.5.7 ROLE OF EXTERNAL FACTORS	267
7.5.8 ROLE OF ENVIRONMENTAL FACTORS	270
7.6 CONCLUSION	274
CHAPTER 8: TO EVALUATE THE EVOLUTION OF STRATEGIC ALLIANCE SYSTEM UNDER CONSORTIUM TYPE OF ALLIANCE REPRESENTED BY THE UMBRELLA BROILER SCHEME AND SUGGESTIONS TO ASSIST THEM TOWARD SUSTAINABLE COMPETITIVENESS DEVELOPMENT	279
8.1 INTRODUCTION	279
8.2 SCENARIOS AND PROSPECT OF POULTRY INDUSTRY IN MALAYSIA	281
8.3 ORIGINS AND HISTORY OF THE UMBRELLA BROILER SCHEME	284
8.4 PROBLEMS ENCOUNTERED WITH THE UMBRELLA BROILER SCHEME	291
8.4.1 COMPETITIVE CHALLENGE AND OPPORTUNITY	291
8.4.1.1 ASSESSMENT ON CONTRACT PERFORMANCE	291
8.4.1.2 ASSESSMENT ON SOCIO-ECONOMIC OBJECTIVES	292
8.4.1.3 ASSESSMENT ON THE OPERATIONAL SYSTEM	293
8.5 PROSPECT FOR CHANGE – POTENTIAL BENEFIT OF STRUCTURAL CHANGE AND TECHNOLOGICAL ADVANCEMENT	303
8.5.1 PILOT TESTING OF PROPOSED CHANGES	305

8.5.2	<i>THE DYNAMIC MODEL OF TRANSFORMATION PROCESS FROM CONSORTIUM TO JOINT VENTURE TYPE OF ALLIANCE BASED ON THE UMBRELLA BROILER SCHEME</i>	307
8.5.3	<i>THE INPUT AND OUTPUT CHAIN FOR THE NEW JOINT VENTURE COMPANY</i>	313
8.5.4	<i>FACTORS INVOLVED TO INCREASE COMPETITIVE STRENGTH</i>	316
8.5.4.1	<i>BROILER MANAGEMENT</i>	316
8.5.4.2	<i>FACTORS AFFECTING COST OF BROILER PRODUCTION</i>	317
8.5.4.3	<i>PRICE OF INPUTS FOR THE PRESENT PRODUCTION OF BROILERS (AS AT JULY 2001)</i>	318
8.5.4.4	<i>HOUSING CAPACITY PER CHICKEN HOUSE of 34' x 340' or 11,560 SQ. FEED</i>	318
8.5.5	<i>WHAT IS INVOLVED TO MODERNISE A CHICKEN HOUSE.</i>	319
8.5.5.1	<i>CAPITAL COST ON EQUIPMENT PER CHICKEN HOUSE (34' x 340')</i>	321
8.5.5.2	<i>COMPARISON OF PRODUCTION COSTS PER BROILER</i>	322
8.5.6	<i>FINANCIAL HIGHLIGHT FROM THE PROJECTED CASH FLOW</i>	323
8.5.7	<i>SUSTAINABLE COMPETITIVENESS MODEL FOR MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE:</i>	325
8.5.7.1	<i>INTERNAL AND ENVIRONMENTAL CHANGES</i>	328
8.5.7.2	<i>ASSESSMENT</i>	330
8.5.7.3	<i>ALLIANCE CAPABILITY</i>	332
8.5.7.4	<i>COMPETITIVE CORPORATE STRATEGY</i>	334
8.5.8	<i>SUSTAINABLE COMPETITIVENESS MODEL FOR MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE:</i>	336
8.5.9	<i>SUSTAINABLE COMPETITIVENESS CYCLE</i>	338
8.6	CONCLUSION	340
	CHAPTER 9: CONCLUSION	344
9.1	INTRODUCTION	344
9.2	RESEARCH FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	349
9.2.1.	<i>THE FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS FROM 1975- 30th June 1998.</i>	350
9.2.2	<i>IMPACT OF PROJECTS ON INCOME GENERATION OF PARTICIPATING MEMBERS.</i>	354

9.2.3	<i>THE RELATIONSHIP BETWEEN THE CRITERIA FOR START-UP, ENVIRONMENTAL AND EVOLUTION FACTORS TO THE EFFECTIVENESS OF STRATEGIC ALLIANCES</i>	355
9.2.4	<i>THE CHARACTERISTIC OF PROFITABLE, NON-INDICATED AND LOST ALLIANCE FROM THE PERSPECTIVE OF PARENT ORGANISATIONS.</i>	358
9.2.5	<i>THE UMBRELLA BROILER SCHEME AS A TYPICAL EXAMPLE OF THE CONSORTIUM TYPE OF ALLIANCE, IT'S STRENGTHS AND WEAKNESSES IN LINE WITH EARLIER OBJECTIVES AS WELL AS ITS RESILIENCE TO BE A SUSTAINABLE COMPETITIVENESS ALLIANCES.</i>	363
9.3	IMPLICATION AND CONTRIBUTION	366
9.3.1	<i>POLICY AND DIRECTION OF MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE PROJECTS.</i>	366
9.3.2	<i>THEORY OF STRATEGIC ALLIANCES</i>	368
9.3.2.1	<i>THE DOMESTIC SUSTAINABLE COMPETITIVENESS DEVELOPMENT MODEL OF STRATEGIC ALLIANCE</i>	369
9.3.2.2	<i>SUSTAINABLE COMPETITIVENESS CYCLE</i>	375
9.4	OVERALL CONCLUSION	376
9.5	SUGGESTION FOR FUTURE RESEARCH	381

LIST OF TABLES

2.1	THE REGISTERED FARMERS' ORGANISATIONS	36
2.2	THE OVERALL MEMBERSHIP OF FARMERS' ORGANISATIONS	37
2.3	SHARE CAPITAL BELONGS TO FARMERS' ORGANISATIONS	38
2.4	MALAYSIAN FARMERS' ORGANISATIONS' ASSETS AS AT 31 DECEMBER 2000	39
2.5	MALAYSIAN FARMERS' ORGANISATIONS' ASSETS AS AT 31 JUNE 1996	40
2.6	DEVELOPMENT BUDGET ALLOCATION AND SPENDING CAPABILITY OF FARMERS' ORGANISATIONS AUTHORITY UNDER SEVENTH MALAYSIA PLAN	41
2.7	FARMERS' DEVELOPMENT PROJECTS UNDER SEVENTH MALAYSIA PLAN	41
2.8	FARMERS' ORGANISATIONS BUSINESS ACTIVITIES	43
2.9	FARMERS' ORGANISATIONS' BUSINESS VOLUME	44
2.10	PROFIT/LOSS FOR THE BUSINESS ACTIVITIES	45
2.11	FARMERS' ORGANISATIONS STRATEGIC ALLIANCES AS AT 31 ST DECEMBER 1995	47
2.12	SUBSIDIARY COMPANIES UNDER FARMERS' ORGANISATIONS AS AT JUNE 1998	48
2.13	STRATEGIC ALLIANCE PROJECTS PROPOSAL BY ASEAN COUNTRIES DURING AGRICULTURAL CO-OPERATIVE SECTOR'S TECHNICAL WORKING GROUP MEETING IN PHILIPPINES ON AUGUST 1996.	49
2.14	CO-OPERATIVE MARKET SHARES IN EEC COUNTRIES FOR SELECTED PRODUCT MARKETS, 1977 (% OF NATIONAL MARKETS)	54
3.1	DEFINITIONS OF STRATEGIC ALLIANCE	68
3.2	TYPE OF ALLIANCE APPLIED IN INTERNATIONAL STRATEGIC ALLIANCE MODELS	71
3.3	ALLIANCE BEST PRACTICE	87

4.1	THE CATEGORIES OF STATISTICAL APPROACH	111
4.2	CATEGORIES OF QUESTIONNAIRE (A) AND ITS INDEPENDENT VARIABLES	113
4.3	NUMERICAL CODES	121
4.4	WEIGHT OF AGREEMENTS	123
4.5	QUESTIONS FOR STRATEGIC ALLIANCE EFFECTIVENESS	124
4.6	STRATEGIC ALLIANCE PROPERTIES	128
4.7	THE DIFFERENCES IN METHOD AND ANALYSIS BETWEEN THIS THESIS AND INTERNATIONAL STRATEGIC ALLIANCES STUDY BY DAVID FAULKNER (1995)	131
5.1(a)	MALAYSIAN FARMERS' ORGANISATIONS STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES AS AT 30 TH JUNE 1998.	135
5.1(b)	FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS BETWEEN 1975-1990.	139
5.1(c)	FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS BETWEEN 1991-1994	146
5.1(d)	FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS BETWEEN 1995-1998	150
5.2	THE SUMMARIES FOR NUMBER OF PROJECTS AND VALUE OF STRATEGIC ALLIANCES BUSINESS OPPORTUNITIES FROM 1975-JUNE 1998.	155
5.3	TYPE OF STRATEGIC ALLIANCE TREND	162
5.4	THE CENTRAL CONTRACT POULTRY MEAT PERFORMANCE (IN TERMS OF VOLUME AND VALUE) FOR THE PERIOD 1991-2000	166
5.5	ANNUAL INCOME EARNED BY FARMERS IN KUANTAN UTARA FROM THE UMBRELLA BROILER SCHEME PROJECT	169
5.6	INCOME EARNED BY OTHER PARTICIPATING MEMBERS IN OTHER FARMERS' ORGANISATIONS	170
5.7	NAME OF PARTICIPANTS GREW ABOVE 10,000 BROILERS PER CYCLE.	172
5.8	AVERAGE PROFIT FOR SELECTED FARMERS THAT REAR MORE THAN 10,000 BIRDS PER CYCLE	174
5.9	FARMERS' INCOME BEFORE AND AFTER THE IMPLEMENTATION OF THE UMBRELLA BROILER SCHEME PROJECT	176

5.10	INCOME GENERATED FOR FARMERS' ORGANISATIONS FROM THE UMBRELLA BROILERS SCHEME	178
5.11	PART OF BUMIPUTRA INDIVIDUALS AND COMPANIES THAT SUPPLY GOODS TO PASARAYA PELADANG.	180
6.1	EXTERNAL MOTIVATION FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	199
6.2	INTERNAL MOTIVATION FACTORS AND THEIR RELATIONSHIP TO EFFECTIVENESS	203
6.3	THE DEGREE OF INTERNAL MOTIVATION FACTORS DURING THE FORMATION OF STRATEGIC ALLIANCES.	203
6.4	INTERNAL MOTIVATION FACTORS FOR STRATEGIC ALLIANCES AMONGST FARMERS' ORGANISATIONS AND OUTSIDE PARTNERS	206
6.5	THE OVERALL STATISTICAL SIGNIFICANCE OF MOTIVATIONAL FACTORS	209
6.6	REASONS FOR PARTNERS SELECT EACH OTHER (PARTNERS COMPATIBILITY)	210
6.7	POSITIVE ATTITUDE AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	212
6.8	STRATEGIC PLAN AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	215
6.9	CATEGORY OF ALLIANCE MANAGEMENT	218
6.10	TYPE OF ALLIANCE MANAGEMENT FOR JOINT VENTURE AND CONSORTIUM PROJECTS	219
6.11	NON-INTEGRATIVE STRATEGIC MANAGEMENT AND THEIR RELATIONSHIP TO ALLIANCE MANAGEMENT	220
6.12	INTEGRATIVE STRATEGIC MANAGEMENT AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	221
6.13	ENVIRONMENTAL FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	223
6.14	ENVIRONMENTAL FACTORS THAT SIGNIFICANTLY ASSOCIATED TO ALLIANCE EFFECTIVENESS.	224
6.15	THE EVOLUTION FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS	226

7.1	PERCENTAGE OF ALLIANCES INDICATED PROFIT BETWEEN 1993-1997	240
7.2	TOTAL AND AVERAGE PROFIT FOR TEN STATES, MADA AND NAFAS DURING 1993-1997	242
7.3	CAPITAL STRUCTURE OF FARMERS' ORGANISATIONS STRATEGIC ALLIANCES	246
7.4	PERCENTAGE OF GOVERNMENT MARKET OUTLETS FOR STRATEGIC ALLIANCE PROJECTS	249
7.5	PERCENTAGE OF OPEN MARKET OUTLETS FOR STRATEGIC ALLIANCE PROJECTS	250
7.6	PARTNER SELECTION CRITERIA OF PROFITABLE ALLIANCES DURING THE FORMATION PERIOD	253
7.7	INTEGRATIVE STRATEGIC MANAGEMENT PHASES AND GROUP OF ALLIANCE INVOLVED	258
7.8	INTEGRATIVE STRATEGIC MANAGEMENT VARIABLES THAT HAVE CONTRIBUTED TO THE SUCCESS OF PROFITABLE ALLIANCE	260
7.9	THE EVOLUTION VARIABLES OF STRATEGIC ALLIANCE	264
7.10	ROLE OF EXTERNAL FACTORS IN INFLUENCING THE PROFITABLE STRATEGIC ALLIANCES	268
7.11	ROLE OF ENVIRONMENTAL FACTORS IN INFLUENCING THE PERFORMANCE OF PROFITABLE STRATEGIC ALLIANCES	271
8.1	PROJECTED DEMAND AND SELF-SUFFICIENCY LEVEL OF POULTRY PRODUCTS, 1995-2010	282
8.2	ISSUES RAISED BY FARMERS PARTICIPATING IN THE POULTRY CENTRAL CONTRACT RELATED TO OPERATIONAL SYSTEM OF THE UMBRELLA BROILER SCHEME	294
8.3	COMPETITIVE CHALLENGES AND OPPORTUNITIES FACED BY UMBRELLA BROILER SCHEME	298
8.4	DETAIL COMPARISON OF CO-EVOLUTION PERSPECTIVE BETWEEN THE CURRENT STUDY AND THE NETWORK ALLIANCES BY KOZA & LEWIN (1999)	300

8.5	SIMPLIFIED SUGGESTION OF COMPETITIVE CORPORATE STRATEGIES	306
8.6	AYAM PELADANG'S CASH FLOW POSITION-WITH AND WITHOUT CAPITAL INJECTION	324

LIST OF FIGURES

1.1	THE RELATIONSHIP OF ALLIANCE	8
1.2	RELATIONSHIP ASSOCIATION IN JOINT VENTURE	9
2.1	STRUCTURE OF PRODUCTION 1990-2000	17
2.2	DIVERSIFICATION OF EXPORT	18
2.3	OPERATIONAL STRUCTURE OF FARMERS' ORGANISATIONS	32
2.4	FARMERS' ORGANISATIONS DEVELOPMENT AREAS	34
2.5	DEVELOPMENT AREA OF FARMERS' ORGANISATIONS	34
2.6	CO-OPERATIVE STRATEGIC ALLIANCES' RELATIONSHIP	58
2.7	CO-OPERATIVE STRATEGIC ALLIANCE BETWEEN CO-OPERATIVE AND NON-CO-OPERATIVE ORGANISATIONS	59
2.8	CO-OPERATIVE STRATEGIC ALLIANCE IN A FULL-BLOWN JOINT VENTURE	60
3.1	EI-HAJJAR'S MODEL OF STRATEGIC ALLIANCE	74
3.2	PHASE 1: STRATEGIC DECISION UNDER BRONDER & PRITZL (1992)	75
3.3	PHASE 2: CONFIGURATION OF AN ALLIANCE UNDER BRONDER & PRITZL (1992)	75
3.4	PHASE 3: PARTNER SELECTION UNDER BRONDER & PRITZL (1992)	76
3.5	PHASE 4: MANAGING A STRATEGIC ALLIANCE UNDER BRONDER & PRITZL (1992)	76
3.6	FORMATION PROCESS UNDER LORANGE AND ROOS' MODEL (1993)	77
3.7	THE EVOLUTION STAGES IN A STRATEGIC ALLIANCE UNDER LORANGE AND ROOS'MODEL (1993)	78
3.8	ALLIANCE FORMATION PROCESS BY PEKER AND ALLIO (1994)	80
3.9	CO-EVOLUTION OF NEXIA, ITS MEMBERS AND ENVIRONMENT BY KOZA AND LEWIN (1999)	83
5.1	UMBRELLA BROILER SCHEME PROJECT IN SEBERANG PRAI SELATAN, PULAU PINANG	141
5.2	FARMERS HAVING SIDE VISIT TO A COMMERCIAL OIL PALM PLANTATION DURING THEIR TRAINING PROGRAMME	142
5.3	SERVICES TO FARMERS THROUGH "KEDAI PELADANG"	144

5.4	VEGETABLE PROJECT IN JOHORE	148
5.5	ORCHID PROJECT	148
5.6	BEEF INTEGRATED PROJECT	153
5.7	DETAIL OF ACTIVITIES AND PROJECT PERCENTAGES	156
5.8	DETAIL OF ACTIVITIES AND PERCENTAGE OF PROJECT VALUES	158
5.9	VALUE PERCENTAGES BETWEEN FOOD AND NON-FOOD SECTORS	161
5.10	AVERAGE PROFIT EARNED BY SELECTED FARMERS FROM 1995-1997	175
5.11	INCREASE OF FARMERS INCOME IN UMBRELLA BROILER SCHEME AT KUANTAN UTARA, PAHANG.	177
6.1	THE STRENGTH OF CORRELATION	190
6.2	THE TRANSFORMATION MODEL	192
6.3	STAGE 1: START-UP	229
7.1	YEARLY AVERAGE PROFIT FOR PROFITABLE FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS DURING 1993-1997	241
7.2	TOTAL AND AVERAGE PROFIT EARNED BY FARMERS' ORGANISATIONS STRATEGIC ALLIANCES BETWEEN 1993-1997	243
7.3	TOTAL PROFIT FREQUENCY FOR ALL AREA FARMERS' ORGANISATIONS IN EACH STATE BETWEEN 1993-1997	244
7.4	PERCENTAGE OF GOVERNMENT MARKET FOR STRATEGIC ALLIANCE PROJECTS	250
7.5	OPEN MARKET OUTLETS FOR STRATEGIC ALLIANCE PROJECTS	251
7.6	PARTNER SELECTION CRITERIA FOR PROFITABLE ALLIANCES DURING FORMATION OF ALLIANCE	254
7.7	THE IMPLEMENTATION OF INTEGRATIVE STRATEGIC MANAGEMENT PROCESS ON STRATEGIC ALLIANCE PROJECTS	261
7.8	THE EVOLUTION OF ALLIANCE	265

7.9	ROLE OF EXTERNAL FACTORS IN INFLUENCING THE PROFITABLE STRATEGIC ALLIANCES	269
7.10	ROLE OF ENVIRONMENTAL FACTORS IN INFLUENCING THE PERFORMANCE OF PROFITABLE STRATEGIC ALLIANCES	272
8.1	TWO HARD-CORE POVERTY PARTICIPANTS IN THE UMBRELLA BROILER SCHEME	285
8.2	A FARMER PARTICIPANT OF THE UMBRELLA BROILER SCHEME IN HIS SEMI-AUTOMATED CHICKEN SHED	286
8.3	POULTRY FEED IS BEING DELIVERED TO ONE OF THE CONSORTIUM MEMBERS BY HIS FARMERS' ORGANISATION	287
8.4	THE PRESENT TECHNIQUE OF PROCESSING CHICKEN UNDER THE UMBRELLA BROILER SCHEME	288
8.5	THE FLOW CHART OF UMBRELLA BROILER SCHEME UNDER THE CENTRAL CONTRACT DURING THE PERIOD 1985-2002	290
8.6	THE DYNAMIC MODEL OF TRANSFORMATION PROCESS FROM CONSORTIUM TO JOINT VENTURE TYPE OF ALLIANCEBASED ON PROPOSED BUSINESS PLAN OF UMBRELLA BROILER SCHEME PROJECT	310
8.7	THE FIRST AND SECOND STAGE OF INPUT AND OUTPUT CHAIN FOR THE UMBRELLA BROILER SCHEME'S JOINT VENTURE COMPANY	314
8.8	CONVENTIONAL METHOD OF GROWING CHICKEN	319
8.9	THE ENTIRE MODERN METHOD OF GROWING CHICKEN	320
8.10	MORE CHICKEN COULD BE GROWN USING THE MODERN METHOD	320
8.11	PROPOSED SUSTAINABLE COMPETITIVENESS CONTEXT FOR ALLIANCE ADAPTATION PROCESS UNDER UMBRELLA BROILER SCHEME	326
8.12	TRANSFORMATION/ TERMINATION OF ALLIANCE	336
8.13	COMPETITIVENESS CYCLE	338
9.1	STAGE 1: START-UP PERIOD	370
9.2	STAGE 2: ADAPTATION/SUSTAINABILITY PROCESS	372

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9.3	STAGE 3: TRANSFORMATION/ TERMINATION OF ALLIANCE	375
9.4	SUSTAINABLE COMPETITIVENESS CYCLE	376

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CHAPTER 1

INTRODUCTION

SUMMARY

This Chapter will introduce concept, research objectives and scope of study of the Malaysian Farmers' Organisations strategic alliances.

In this study, strategic alliance is defined as any short or long-term collaboration that is developed for strategic reasons with the view to gain mutual benefits. The evidence shows that the Malaysian Farmers' Organisations have been involved in some form of strategic alliances since 1985.

The main research question is whether the strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward, towards wealth creation and socio-economic development. The study focuses on the strategic alliances established between Malaysian farmers' organisations as well as those, which have been developed with other companies or institutions on a project basis.

Besides that, this Chapter will also explain the relationship of alliance, research design and the organisation of thesis.

The relationship of alliance is where two or more firms form collaboration in terms of partnership, joint venture, alliances and others. It is set up to enable partner (s) to interact with its environment more competitively e.g. gain access to a market, skill improvement, new technology and so on.

The research has been designed into six parts as follows: 1) the development of the database which includes the strategic alliance formed by Malaysian Farmers' Organisations between the period of 1975 to 1998, 2) census plan 3) questionnaire & interview design, 4) field work, 5) case study and 6) data Analysis. The main information for the database is gathered from mail questionnaire and face-to-face interview during the fieldwork

1.1 INTRODUCTION TO THE STUDY

The establishment of the Single European Market (1992) and the establishment of World Trade Organisation (WTO) on 1st January 1995 to replace General Agreement on Tariff and Trade (GATT, 1948) was an influential environmental factor to the economy and business all over the world especially in the field of agriculture. Both have acted as important catalyst for globalisation of the markets. While GATT was only a set of rules and a multilateral agreement applicable to trade in merchandise and goods, WTO is responsible for rules relating to traditional trade in goods, agricultural, services and trade related intellectual property matters. Besides that, the WTO agreements also establish

new rules and commitments¹ in market access, domestic support and export competition including provision that encourages the use of less trade-distorting and domestic support policies to maintain the rural economy. The competition generated as a result of globalisation of market offers two possible benefits. First, it opens new market in an increasingly border-less world and secondly, liberalisation and deregulation policies adopted by WTO members forces new challenges onto domestic firms to upgrade their products and services to the higher standard achieved by global competitors.

The rapid development of information technology (IT)² has and will significantly affect and reshape all aspects of everyday life of the individual, business, government and every sector of the economy. They are adopting this new technology as part of their strategy to increase efficiency and competitiveness of the organisations or sectors. IT helps to increase quality, availability, up-to-date information and enhancing two-way communication that are beneficial to clients or customers of information services. For instance, in the agricultural sector, new IT applications can facilitate further farm education, enhanced search skills for new technology of new products, efficient marketing and advanced farming practices amongst others. In marketing for example, IT application does help in vertical co-ordination of the food distribution system, just-in-time delivery, specialised production for niche markets and others. It is apparent therefore that IT application increases communication and co-ordination in the food chain between buyers and sellers at each stage of production, processing, distribution, and retailing process.

The growth in knowledge especially through research and developments as well as rising educational level among consumers have, together, contributed to an increased demand for innovative product range and related services (Alter &

¹ The General Agreement on Tariff and Trade, The United Nations' Secretariat, The Uruguay Round - A Giant Step for Trade and Development and Respond to the Challenges of the Modern World, 1994, pp.11.

² FAO Report on SFA, ATENE-Information Technology, 1996, pp. 57-58.

Hage, 1993)³. The complexity of tasks that are required to produce innovative and high quality products and services have led to an increase for expertise and additional funding (Mark, 1992)⁴ and the sharing of risks (Gugler, 1992)⁵. It is also important to find the right local partner (s), which is in it a difficult task, in the effort to penetrate overseas market (Hung, 1991)⁶.

The movement of international companies in search of alliance partner (s), amongst others, is to find ways of securing new market opportunities, complementary resources and latest technology available, to reduce cost by tapping ready distribution channels and local expertise, to share development expenses as well as calculated risks. These benefits or motivation factors of strategic alliances are supposed to reduce costs and increase efficiency to enable them to compete from a greater position of strength and advantage.

A couple of significant developments in the last decade, internationally and domestically, have signalled the need for farmers' organisations to be alert to global and domestic issues. The international events imply that, in the near future, many imported products (including agricultural products) will have free entry to our market. Malaysian products have to compete with imported products that are normally cheaper, high in quality, have better appearance (include packaging), new taste and more varieties. This situation will put our agricultural products and their producers (especially farmers) in a very difficult and disadvantage position, until and unless something has been done in order to ensure that our farmers are equally competitive as their foreign competitors.

The need for strategic alliance between Malaysian Farmers' Organisations' at a regional (and even international) level was first highlighted by the ASEAN

³ Catherine Alter & Gerald Hage, *Organisations Working Together, Interorganisational Networks: A New Institution*, 1993, pp 25-29.

⁴ Stevens Mark, *Strategic Partnerships. D & B Report*, vol.41, 1992, pp. 50-51.

⁵ Gugler, Philippe, *Building Transnational Alliances to Create Competitive Advantage*, *Long Range Planning*, vol.25, 1992, pp. 90-99.

⁶ Hung C.L, *Canadian Strategic Business Alliances in Southeast Asia, Motives, Problems and Performance*, *Journal of Southeast Asia Business*, vol. 7, 1991, pp.57,

Centre for the Development of Agricultural Co-operatives (ACEDEC) at the Senior Officers Meeting- Agricultural Ministers and Forestry held in Kuala Lumpur on 6th April 1996. Subsequently, several meetings and workshops have been held between and among ASEAN countries for the establishment of strategic alliance in the Agricultural Co-operative Sector.

The first ACEDEC workshop, which followed in Bali, 11-13 July 1996, saw all ASEAN member countries presenting their second report on the same subject based on a National study carried out in their respective countries. The Seventh meeting of the ASEAN Centre for the Development of Agricultural Co-operatives (ACEDEC) Board was held on 2nd April 2000 in Langkawi, Malaysia. All member countries gave progress report on their activities of the strategic alliances. Among others, it includes strategic alliance projects on Data and Information Exchange (Thailand), Vegetable Production (Malaysia), Dairy Farming (Indonesia), Orange Fruit Production (Brunei Darussalam), Coconut By-product Industry (Philippines), Organic Fertiliser Production (Philippines), Agro-ecotourism (Indonesia), Beef Farming (Malaysia) and Co-operative Productivity Enhancement Programme (Philippines).

However, the overall status of progress for the Malaysian Farmers' Organisations strategic alliances is unclear and that provided an important rationale to examine the present position of strategic alliance concerning Malaysian Farmers' Organisations.

1.2 DEFINITION OF STRATEGIC ALLIANCE

Mattsson (1988)⁷ defines a strategic alliance as " A particular mode of inter-organisational relationship in which the partners make substantial investment in developing a long-term collaborative effort, and common orientations". According to this definition, the inter-companies projects that have a beginning and are preordained and, those, which are loose co-operative arrangements

⁷ Mattsson, L.G. Interaction Strategies: a Network Approach, 1988, Working Paper.

without long-term commitment, are excluded.

Forrest (1989)⁸ defines strategic alliance as " Any collaboration between firms and other organisations, which are both short and long-term, involve partial or contractual ownership's and are developed for strategic reasons".

For the purpose of this study, a strategic alliance is defined as " any short or long-term collaboration that is developed for strategic reasons with the view to gain mutual benefits".

1.3 THE IMPORTANCE OF THE RESEARCH

Strategic alliance is not a new concept to the farmers' organisations in Malaysia. The evidence shows that they have been involved in some form of strategic alliances since 1985. As at 31.Dec.1995, 68 strategic alliances with the value of more than RM160 million (at 31st December 1995, £1.00 = RM3.8-RM4.0) had been launched and operating at all level at which, farmers' organisations function. A specific example relevant to this study shows that it began with the "umbrella concept" through which, with respect to Malaysia, farmers supplied poultry and eggs directly to government departments and agencies on a contract basis. This meant that for the first time they also controlled marketing and sales in addition to their traditional functions by setting up strategic alliance with appropriate groups. Earlier experiences, which had shown functions of farmers' organisations to provide input supply, mechanisation, transport facilities and retail services of consumer goods alone, do not guarantee a maximum returns to their members.

Therefore, strategic alliances have potential in bringing new business opportunities to farmers' organisations to increase income for themselves as well as their members. The validity of the last statement has not been tested in

⁸ Forrest and Martin, *Strategic Alliances between Large and Small Research Intensive Organisation*, 1992, pp.1-10

Malaysia. Although strategic alliances have been operating for nearly twenty years or more, there has been no significant assessment as to whether earlier government policies and those of farmers' organisations themselves are still relevant. Equally, there is no clear information regarding the relationship between participating groups as well as that of parent organisations, which spawn successful strategic alliances. The question of sustainable and competitive alliances has also not been addressed.

1.4 RESEARCH OBJECTIVES

The aim of this research is to answer the research main question, that is:

“The strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward, towards wealth creation and socio-economic development”.

The research objectives':

To support the above main research question, this research will cover several objectives as mentioned below:

1. Reviewing all Farmers' Organisations strategic alliance business opportunities as at 30th June 1998 and assessing the type and trend of projects implemented.
2. Examining the impact of relevant and, where appropriate, related projects on the income generation activities of participating members
3. Establishing factors that describe the Formation, Motivation, Partner(s) Selection Criteria, Management, Environmental and Evolution Factors of these strategic alliances and their relationship to alliance effectiveness.
4. Identifying the characteristics of Profitable Strategic Alliance (winning alliances) from the perspective of their parent organisations.

5. Taking the Umbrella Broiler Scheme as a typical example of the consortium type of strategic alliance.
 - a. To evaluate its strengths and weaknesses in line with earlier objectives.
 - b. To assess its resilience to be a Sustainable Competitiveness Alliance.

1.5 THE SCOPE OF STUDY

The study focuses on the strategic alliances' established between Malaysian farmers' organisations as well as those, which have been developed with other companies or institutions on a project basis. The quantitative and qualitative methods as well as case studies have been used to get full information about the strategic alliances. The study was designed to assess various types of projects that have been implemented and their development trend. Consequently, this also included an assessment of the benefits gained by farmers on projects that they have been involved in.

The research questionnaire was also developed to seek specific information regarding the formation and management of those alliances. The study made an attempt to capture the characteristics of winning alliances with respect to farmers' organisations as parent organisations on investment, market outlet and other factors were considered relevant to influence their success. The questionnaire was such that it also sought feedback on factors that contributed to the evolution of the alliances. Meanwhile specific case study on Umbrella Broiler Scheme has been analysed to develop the proposed models on Sustainable Adaptation Process and Sustainable Competitiveness Circle.

1.6 THE RELATIONSHIP OF ALLIANCE

For the past two decades, various changes have occurred in both public and private sectors. Institutions other than market are controlling and co-ordinating the economies⁹. The co-operate behaviour such as joint venture, partnership, consortia, alliances and systemic inter-organisation networks have been used

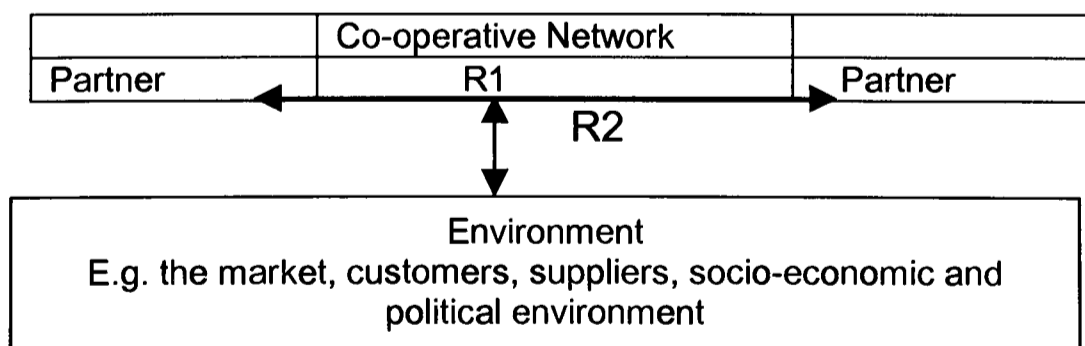
⁹ Ibid. Catharine Alter, Jerald Hage, *Organisation working Together*, 1993, pp.1-43, 259-272.

to co-ordinate activities across organisational boundaries. Many large-scale vertical integrated firms have been downsized and broken into smaller firms and decentralised, based on strategies of co-operation and horizontal relationships. The social forces that are forcing these changes include shifts in consumer preferences from standardised products produced at low cost, towards products that are innovative and of high quality. The growth in knowledge especially through research and development has generated rapid technological change and product innovation. The rise of educational level among consumers also facilitate shift in utilities.

Inter-organisational collaboration can take in many forms. It can be in the form of partnership, joint venture, alliances and others. Mitcheal D. Cunningham (1993) stated that co-operative strategies are also referred to as strategic partnering, strategic alliances, collaborative agreement, co-operative alliance etc. In his thesis, he called the Strategic Co-operative Alliances (SCA's) as " the long term co-operative relationships and linkages between two or more partners with the view to achieve their mutual benefits and development". The SCA's relationship type is as follows:

Figure 1.1

THE RELATIONSHIP OF ALLIANCE



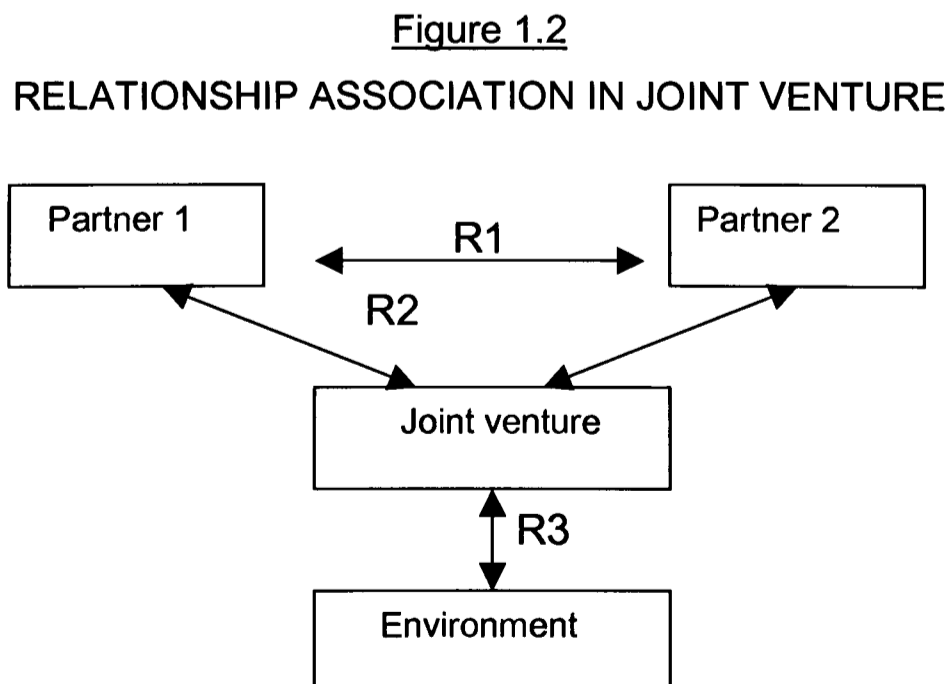
Note:

- R1 = Interaction/relationship mode between partners in a particular co-operative net work.
- R2 = Interaction/relationship mode between the particular network to its environment

From Figure 1.1, a distinction is made between the environment and the co-operative network. A co-operative network is where two or more firms form SCA. In the above illustration, only two firms entered into a joint firm are involved, but it can consist of a higher number of partners. This pooling of resources enhances their chances of success of a chosen market.

The SCA was set up to enable the partner to interact with its environment more competitively e.g. gain access to a market, skill, technology and so on. The environment is defined as everything external to the focal firm's co-operative network. This would include the supplier to the SCA, customers, competing firms, potential partners as well as the socio-economic and political environments. The interaction/relationship between the focal firm's co-operative network and its environment give rise to R2. Therefore, SCA involves two basic and important interaction/relationship types, R1 is the interaction/relationship mode between partners in a particular co-operative network and R2 relates to the relationship/interaction mode between the particular network and its environment. Both R1 and R2 are linked, interdependent and vital to the success of SCA.

As for the joint venture, it involves at least three different relationships as can be seen as follows:



Note:

- R1 = Relationship between the partner/owner in order to combine their strength.
- R2 = Relationship between the owner and the joint venture.
- R3 = Relationship between the joint venture and its environment

Relationships in Joint ventures are the relationships between the partner (s)/owner in order to combine their strength (R1). Meanwhile (R2) is the relationship between the owner and the joint venture (R2). The relationship of the joint venture and its environment is represented in R3.

The above SCA topologies are suitable for alliances between partner (s)/owners of a firm/company either investor-oriented firms, co-operation, proprietorship or partnership. In this case, the ownership, control, liability (except for proprietorship) and benefit of shareholders (direct or indirect) are based on the equity investment that they have in a company. Therefore, the ultimate aim of the investment is to see a positive increase in the shareholder value potential.

1.7 RESEARCH DESIGN

The research methodology has been designed into seven parts, namely, 1) the choice of multi-method approach, 2) the scope and layout of the statistical approach, 3) questionnaire & interview design, 4) case study, 5) census plan and data collection 6) customer satisfaction and 7) data Analysis. The main information for the database is gathered from mail questionnaire and face-to-face interview during the fieldwork. Besides that the principal source of data also include e.g. reports from the Malaysian Farmers' Authority, Muda Agricultural Development Authority (MADA), Kemubu Agricultural Development Authority (KADA), Economic Planning Unit, Ministry of Agriculture, books, articles and journals from the British Libraries until April 2002.

Secondly, a small census has been conducted whereby Questionnaire A had been sent to all 282 farmers' organisations under the supervision of the Farmers' Organisation Authority in West Malaysia, Muda Agricultural Development Area (MADA) and Kemubu Agricultural Development Area

(KADA). Therefore, no sample design is applied as far as strategic alliance population is concerned. Farmers' Organisations in East Malaysia is not included in the study. Farmers' organisations had been asked to fill a form for every alliance they have been involved in. Meanwhile, Questionnaire B is for farmers in Kuantan Utara, Pahang that were involved in the Umbrella Broiler Scheme.

Thirdly, two (2) questionnaires and one interview guide have been designed. Important subjects and issues have been incorporated in the questionnaire design. This work involved full consultation of the literature on strategic alliances, strategic management, corporate strategy as well as the researcher's own experience in the effort to identify important issues to the research questions. Substantial reference has been made to the study on International Strategic Alliances¹⁰ (Faulkner, 1995) with modification and adjustment to suit research model and objectives of farmers' organisations strategic alliances. The overall questionnaire (A) has also been based from other three models namely, Bronder and Pritzi (1992)¹¹, Lorange and Roos (1993)¹², as well as Pekar and Allio (1994)¹³. The end product of this stage was the generally related assumption and issues that have been designed into guiding questionnaire formats, which was used in the fourth (field work) part of the research.

At the same time, an interview guide was also prepared for people outside the farmers' organisations strategic alliance projects but has interests or influence over the activities of the organisations such as the Director General of Farmers' Organisations Authority. This set of interview guide attempts to capture other people's opinions, feeling and knowledge towards the farmers' organisation strategic alliance projects. The opinions, feeling and knowledge will only be based on their experience and perception of the projects. This guide together

¹⁰ David Faulkner, *International Strategic Alliances, Co-operating to Compete*, 1995, pp. 1-220.

¹¹ Christoph Bronder and Rudolf Pritzi, *Developing Strategic Alliances: A Conceptual Framework for Successful Co-operation*, *European Management Journal*, Vol. 10, 1992, pp. 412-421.

¹² Peter Lorange & Johan Roos, *Strategic Alliances, Formation, Implementation and Evolution*, 1993, pp. all pages.

¹³ Peter Pekar Jr. and Robert Allio, *Making Alliance Work, Guidelines for Success*, 1994, pp.54-65

with Questionnaire (B) was also used in the fourth part (field work) of the research.

Fourthly, the field-work involved sending mail questionnaire to 282 farmers' organisations and face-to-face interview with farmers' who were involved in the Umbrella Broiler Scheme in Kuantan Utara, The Director General of Farmers' Organisations Authority, Director General of Agriculture Department and several other related officers as well as the managing director of Syarikat Perniagaan Peladang MADA. Face-to-face interview method of data collection was in fact the most effective and suitable means to obtain the required depth and richness of information to satisfactorily answer the research objective

Fifthly, there were two case studies (i.e. Umbrella Broiler Scheme and Syarikat Perniagaan Peladang MADA) have been cited in Chapter 8 to analyse the system that operate under the joint venture and consortium type of alliances. It is based on the information obtained during the fieldwork (through reports, interview, a specific supplementary form that have been sent out to farmers' organisations that were involved in the Umbrella Broiler Scheme and researcher's own experience and observation). In order to assess the reliability of the recommended proposal and the conclusions reached, a small business plan has been developed in the Umbrella Broiler Scheme's case study

Lastly, statistical package software has been used to build up and process the database into information for Chapters 5, 6, 7. In Chapter 6, Simple frequencies have been used to analyse the level of cited reasons while one-way ANOVA and Correlation have been applied for correlation analysis. Meanwhile, in Chapter 8 the results of the qualitative nature of information that have been obtained through the interviews and secondary resources such as reports have been analysed on a topic-by-topic analysis.

1.8 ORGANISATION OF THESIS

The current chapter states the turning point of globalisation and liberalisation of economy, influence of ICT and knowledge development have drive the movement of international companies in search of alliance partner (s) seeking for innovative product range and related services. It also highlights the regional strategic alliances with respect to farmers' organisations, the strategic alliance definition, the importance of the research, research objectives, the scope of the study, the main finding of the research and the chapter outline. The rest of the research includes general information about Malaysia and the Malaysian Farmers' Organisations (Chapter Two), Literature Review (Chapter Three), Research Methodology (Chapter 4), Analysis of Result and Findings (Chapter Five to Eight), and the Conclusion (Chapter Nine).

Chapter 2 highlights information about Malaysia and the Malaysian Farmers' Organisations. This Chapter explains the general background of the Malaysia and its developmental stages as well as the overall background of Malaysian Farmers' Organisations and its current strategic alliances activities. The Chapter also briefly explains the role of co-operatives (especially producer co-operatives) in other parts of the world in bringing together small farmers (such as agricultural producers) for mutual support. The mechanism of operation (Topology) of co-operative strategic alliances in relation to Malaysia has also been developed towards the end of the chapter.

The literature review in Chapter 3 captured international strategic alliances development models from 1991-2002. It includes the definition, background of the case study, type of alliances and important gist of the related international strategic alliance models, the comparative study of those strategic alliances models as well as the cost and benefits of alliances. In order to gain better understanding on the international strategic alliance development and movement, the comparative study also looked into the overall models of international strategic alliances such as the formation of alliance, partner(s) selection criteria, management, and alliance evolution.

The Research Methodology is discussed in Chapter 4 and, in particular, focuses on research design and research methods used. Both qualitative and quantitative methods as well as case study approaches have been used to gather data. It also discusses the approaches adopted for field research and analysis of the result.

Chapter 5 presents the first part of the finding from the questionnaire that had been sent out, namely the strategic alliance business opportunities as at 30th June 1998. The analysis provides information on the number, value and type of strategic alliance projects that have been implemented over the last two-decades and the impact of the project on income generation of the participating members.

Chapter 6 identifies the formation, motivation, partner selection criteria, management, environmental and evolution factors of farmers' organisations strategic alliances and their relationship to alliance effectiveness. Based on International strategic alliance's models available, the analysis helps to develop the Start-up period (Stage: 1) for the Farmers' Organisations Strategic Alliance Development Model.

Chapter 7 deals with the characteristic of profitable strategic alliances (winning alliances) from the perspective of parent organisations. It analyses details of strategic alliance profits and statistically significant variables applied to farmers' organisations strategic alliance projects such as capital structure, market outlets, criteria of partners that they chose, their management strategy as well as the role of external factors in influencing the profitable strategic alliances. Through comparison with the result of lost alliances, a clearer picture will appear on what sort of alliance is needed by farmers' organisations to face future challenges.

The Umbrella Broiler Scheme has been used as the case study in Chapter 8 to evaluate the evolution of strategic alliance system under the Consortium type of

alliance. This Chapter attempts to assist toward sustainable competitiveness development of alliances through suggestion of competitive strategies and Dynamic Model of Transformation Process by developing the Adaptation/Sustainability process (stage: 2) and Transformation/Termination (stage:3) of Malaysian Farmers' Organisation strategic alliance Life Span/Circle model for domestic strategic alliances based on Malaysian experiences.

Chapter 9 deals with the research findings, conclusions and recommendations from Chapter 5-8. Besides that, this Chapter also introduces a model of Sustainable Competitiveness Cycle for strategic alliance/business entity.

CHAPTER 2

MALAYSIA AND MALAYSIAN FARMERS' ORGANISATIONS

SUMMARY

This chapter introduces Malaysia and its properties such as the location, climate, population, economy and its development policies such as the early stage of development period (pre-1970), between 1970-1983, 1983-1990 and post 1990 which include the Third Outline Perspective and the Eight Malaysia Plan. It also explains the implication of the Asian Financial Crisis on the Malaysian economy as well as affects on the September 11 tragedy.

These create a setting for the development of Malaysian Farmers' Organisations in order to unite farmers to have better and stronger bargaining power in an effort to improve their economic and social well-being. This chapter also explains brief information on the Malaysian Farmers' Authority, its development areas and the background of Malaysian Farmers' Organisations that comprises of the administrative structure, objectives and functions and its status as at 31. December 2000. The status examines the membership, share capital, assets, development programmes and business activities of the farmers' organisations.

This chapter also introduces the Malaysian Farmers' Organisations strategic alliances activities as at 31. December 1995 and the future regional strategic alliances. It also briefly explains some selected co-operative movement experiences from other countries. At the end of this chapter, a relationship (topology) of the co-operative strategic alliances will have been built.

MALAYSIA

2.1 INTRODUCTION

Malaysia is situated in the tropic, has a total land area of 330,000 square kilometres of which 42% or 14.75 million hectares are suitable for agriculture. The neighbouring countries are Singapore, Thailand, Indonesia, Philippines, Vietnam, Laos and Kampuchea. Being near to the equator, the climate is humid with sunshine and rain throughout the year. The annual rainfall is between 2,000-2,500 mm with October-December being the wettest months and January-March the driest period. The daily average temperatures throughout the year do not vary much from 27C-28C with temperatures rising to 33C-34C during the heat of the day and fall to 22C-23C in the early dawn.

As at 2001 (forecast), the total population of Malaysia is around 23.7 million with per capita income of RM13, 708¹⁴. Malays as the main race make up

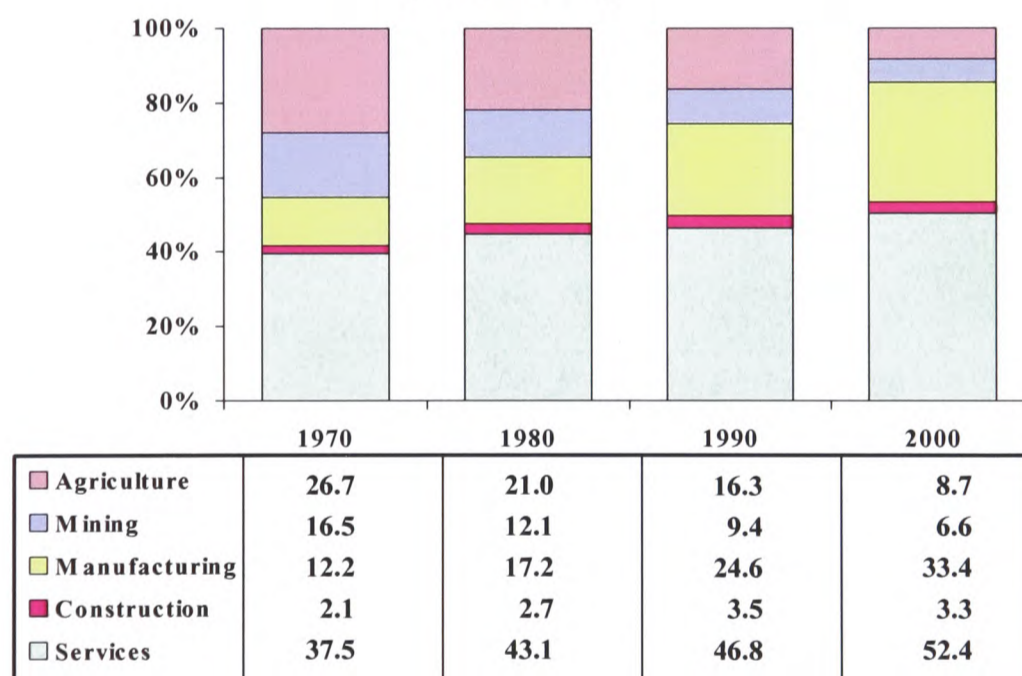
¹⁴Economic Planning Unit, Prime Minister's Department, The Malaysian Economy in Figures-Malaysia Basic Statistic, 2001, pp. iii.

about 50% of the population. The other races are Chinese, Indians, Ibans, Kadazan and others. Bahasa Malaysia is the national language with English widely used commercially. Islam is the state religion while Christianity, Buddhism, Hinduism and other religions are widely practised throughout the country.

The Malaysian economy has undergone significant structural changes over the last four decades. For the first three decades since independence, agriculture was the main contributor towards the national economy, being one of the largest producers of rubber, oil palm, cocoa, pepper and tropical timber in the world. This can be seen in [Figure 2.1](#) below:

Figure 2.1

STRUCTURE OF PRODUCTION, 1990-2000
(% of GDP) ^{1/}



^{1/}: Excludes import duties and bank service charges

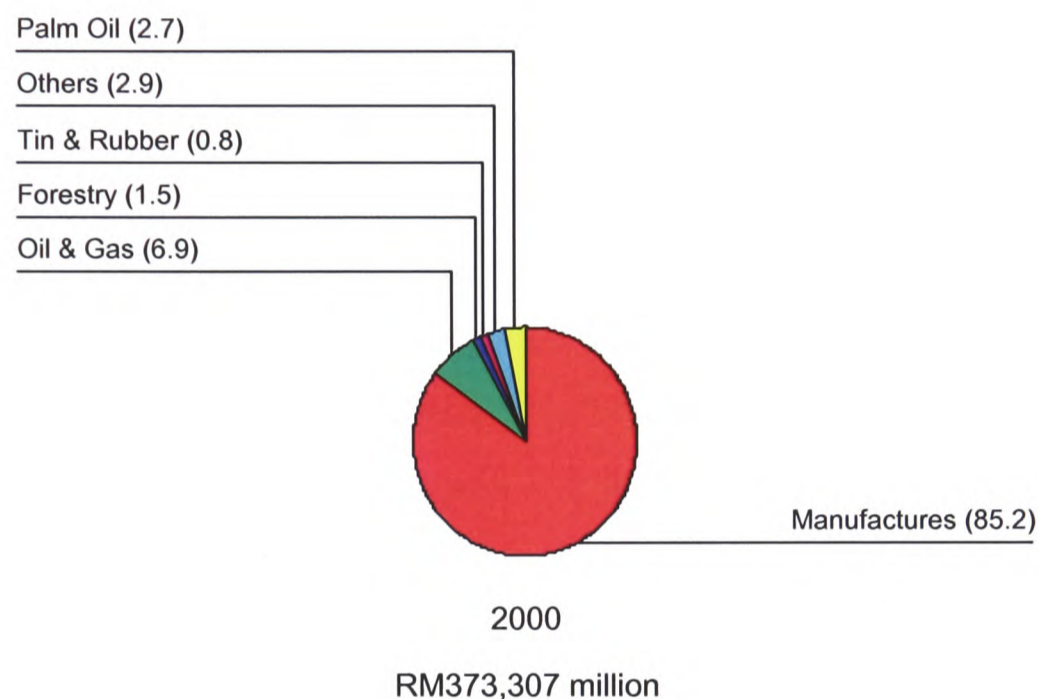
Source: Macro and Evaluation Section, Economic Planning Unit, Prime Minister's Department, Malaysia, 2001

The agriculture sector laid the foundation of the economic growth of the country and was used to finance the development of the country, which progressively led to the transformation of the economy towards industrialisation. Nevertheless, the sector's contribution in production has dropped from 26.7% in 1970 to only 8.7% in the year 2000. The rapid industrialisation during the last decade led to a decline in the sector's relative

contribution to national income, export earnings, employment and investments. The contribution of the agricultural sector in the export earning is represented in the following pie chart, Figure 2.2

Figure 2.2

DIVERSIFICATION OF EXPORT (% OF TOTAL)



Source: The Malaysian Economy-In Figures (2001), EPU, Prime Minister's Department, Malaysia, 2001

In the year 2000, the agriculture sector only contributed around 5% of the total export earning while manufacturing captured more than 85%.

2.2 MALAYSIA'S DEVELOPMENT POLICIES

In Malaysia, the development policy transformation has occurred in several stages. It has responded well to the changing domestic and global environment. The development policies have evolved from a purely growth oriented to one that is also concerned about liberalised and market-oriented economy. The nation strives to ensure that the policies instituted respond pragmatically to changes in the country's development needs and external circumstances. This can be seen in the following four stages of development covering distinct periods between pre -1970 to post -1990.

2.2.1 EARLY STAGE DEVELOPMENT PERIOD - PRE 1970

Prior to 1970¹⁵, Malaysia's development policies were designed primarily more to achieve economic growth and rural development. The significant aspect of the policy then was the willingness of the Government to adopt deficit financing to finance development programme to build up physical infrastructures particularly roads, railways and air transport as well as social infrastructures such as schools, hospital and clinics.

The economy was essentially primary commodity-based with heavy dependence on rubber and tin, which contributed about 70 percent of total Malaysia's export earning. The industrial development was at its infancy and concentrated on basic resource-based industries and simple import substitution. As a result of the progress made in agriculture and manufacturing as well as in utilities, service and other sectors, the country emerged, at the end of the decade (1960's) with a deeper, broader and strong economic base.

Although the economy gained strength by the end of the 1960's, a serious problem had emerged in that there was wide prevalence of poverty and income disparities between the two major races in the country. It was estimated that about 49.3 per cent of the population were living in poverty in 1970 with the largest proportion of the poor concentrated among the Bumiputras (indigenous people). The income data showed that the average income of the Bumiputras was less than half to that of the Chinese. The Bumiputras were also grossly under-represented in the secondary and tertiary sector employment. Imbalances were even more pronounced in the ownership of corporate equity. In 1970, the Bumiputras, which comprised more than half of the total population only had 2.4 per cent share of the equity compared to other Malaysian residents at 32.3 per cent while foreigners owned 63.3 per cent. The 13 May 1969 racial incident demonstrated that policies and strategies, which focused on growth without sufficient regard to the needs of the poor and the economic imbalance that

¹⁵ Economic Planning Unit, Prime Minister Department, Malaysian Experiences in Economic Development, 1993 (unpublished materials), pp.1-3

existed among the races were indeed unsatisfactory and found wanting.

2.2.2 HIGH GROWTH WITH EQUITY PERIOD - 1971 – 1983

The realisation of the past policy weakness led to a critical assessment and a major shift in the focus of development policies.¹⁶ The Second Malaysia Plan (1971 - 1975) with the New Economic Policy (NEP) embodied in it, has twin objectives, underlined efforts to eradicate poverty and restructure society to reflect the ethnic composition of the nation in order to ensure a united, socially - just, economically equitable and progressive society. The NEP was to be implemented within the context of rapid economic expansion (8 per cent a year) in order to generate sufficient employment and other opportunities. It allows restructuring to occur without depriving other sections of the community and to provide the social services and infrastructure necessary to meet the NEP's socio-economic objectives.

The second prong strategy of NEP, restructuring of society, give special benefits to Bumiputras to increase the productivity and enhance the quality of life especially of the rural poor through rural modernisation. It also progressively reduced the current imbalances in employment, increased progressively the share of Malaysian (particularly Bumiputras) in the ownership of productive capital in the economy including the corporate sector.

2.2.3 STRUCTURAL ADJUSTMENT PERIOD - 1983 –1990

In response to the unsustainable scenario arising from the prolonged world recession, beginning in 1983, the government instituted major structural adjustment¹⁷ in the economy. This included restraining public sector expenditure to reduce budgetary deficits, adopting a private sector led growth, introducing economic liberalisation and deregulation and improving investment policies and incentives to promote private sector participation.

¹⁶ Ibid. Economic Planning Unit of Malaysia, Malaysian Experience in Economic Development, 1993 (unpublished materials), pp. 4-8

¹⁷ Ibid. Economic Planning Unit of Malaysia, Malaysian Experiences in Economic Development, 1993 (unpublished materials), pp.9-20

The emphasis of government policy was re-orientated towards providing a conducive environment for private industry to flourish and gradually withdrew from direct participation in economic activities. The Malaysian economy recovered in 1987 and the balance of payment turned into surplus position that year. By 1989, the contribution of the private sector to economic growth surpassed that of the public sector and by 1990, the budget deficit was almost eliminated. Since then the economy continued to grow rapidly and by the end of the decade, Malaysia was transformed into a private sector driven economy. The decade also saw further diversification of the economy into more advanced industries.

Despite problems and weaknesses encountered particularly during mid 1980's, great stride was made to achieve both growth and equity. At the end of the NEP period, the economy had returned to a high growth path with restored fiscal and financial stability, strengthened balance of payments and reduced external debt burden. The inflows of foreign capital were larger than ever experienced before. The incidence of poverty declined, the employment pattern was more reflective of the racial composition and the equity ownership pattern improved though at a lower than targeted level.

2.2.4 TOWARD A DEVELOPED NATION PERIOD - POST 1990

For the next thirty years, beginning 1991, Malaysia's development efforts and designed direction of growth will be guided by what is termed as Vision 2020¹⁸. The policies and strategies for the first phase of Vision 2020 are spelled out in the Second Outline Perspective Plan, 1997-2000. It is embodied in the National Development Policy (NDP) to replace NEP, which contains several shifts in policy to provide new dimensions to the development efforts in bringing about a more balanced development while maintaining the basic policies of the NEP. The focus of the anti-poverty strategy is shifted to the eradication of hard-core poverty, while at the same time reducing relative poverty.

¹⁸ Ibid. Economic Planning Unit of Malaysia, *Malaysian Experiences in Economic Development*, 1993 (unpublished materials), pp. 20-23.

For two and a half decades after 1970, Malaysia achieved significant progress in economic growth as well as in meeting its social objectives. Together with this growth, there were also rapid improvement in poverty alleviation and restructuring of society. Efforts have also been geared to raise the standard of living of all Malaysian. The NDP incorporated several new dimensions, namely, focus on hardcore poverty, emphasis on the rapid development of an active Bumiputra Commercial and Industrial Community (BCIC), greater reliance on the private sector to achieve the restructuring objective, and the strengthening of human resource development.

During the Seventh Malaysia Plan, the thrust of poverty eradication was directed at reducing the incident of poverty among Malaysian to 5.5 percent by the year 2000. At the same time, hard-core poverty will be practically eradicated by lowering its incidence to about 0.5 percent. Anti-poverty programmes, among others, will focus on income generating projects although direct welfare assistance, attitudinal change programmes and basic amenities will continue to be provided.

Package programmes to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC) had been further extended in the Seventh Malaysia Plan period to provide opportunities for more Bumiputra entrepreneurs to be involved in commercial and industrial activities. Among other programmes, they include the more active role and contribution by the private sector in nurturing and developing Bumiputra entrepreneurs. The various chambers of commerce and trade associations are expected to persuade their members to participate fully in BCIC programmes. State governments are expected to initiate and expand Bumiputra entrepreneurial development programmes in their respective states and the **co-operative movement is expected to play an active role in the development of Bumiputra entrepreneurs.**

2.3 IMPLICATION OF THE ASIAN FINANCIAL CRISIS ON THE MALAYSIAN ECONOMY

The Malaysian Government's White Paper on "Status of the Malaysian Economy", April 1999¹⁹ reported that, the financial crisis, which began in mid-1997 with the speculative attack on the East Asian currencies, including the ringgit, had affected all sections of the Malaysian society, individuals as well as businesses. The crisis was triggered by the speculative attack on the Thai baht amidst concerns of a slowdown in export, significant overvaluation of the currency, high short-term external debt and the decline in assets prices in Thailand. This caused anxiety amongst investors and many believed that similar risks were present in the other regional economies. This led to the deterioration in market sentiment and the general erosion in the investor confidence, which in turn, sparked off the massive outflow of short-term capital and a series of reductions in the value of regional currencies and stock markets. It was then immediately followed by similar attacks on the Philippines peso and Indonesian rupiah. Subsequently, the ringgit and Singapore dollar came under selling pressure followed by the Korean won and Taiwan dollar. Later the crisis spread to Russia and Brazil.

During the period preceding the crisis, East Asian Economies including Malaysia experienced several years of rapid economic growth. This growth was accompanied by low rates of inflation, rising per capita income and reduction in the incidence of poverty. Malaysia achieved a real Gross Domestic Product (GDP) growth of 8.5% between 1991-1997 with per capita income increasing two-fold in terms of US dollar (USD) by 1997 and the incidence of poverty falling from 16.5 to 6.1%. Consequently, the standard of living of all Malaysians improved.

Before the crisis, Malaysia had just been given a clean bill of health in terms of its macroeconomic fundamentals and financial sector by the IMF (International Monetary Fund). Some of the fundamental strength of the Malaysian economy at the onset of the crisis amongst others was low inflation rate, full employment, high saving, low external debt, strong fiscal

¹⁹ The Government of Malaysia, White Paper, Status of the Malaysian Economy, 1999, pp. 1-66.

position of the Government, healthy external reserves, declining current account deficit in the balance of payments and a generally sound banking sector.

The financial crisis has had wide-ranging effects. It adversely affected the real economy of Malaysia, weakened the financial sector and had some socio-economic implications. However, the strong fundamentals allowed Malaysia to avoid the potentially extreme effects of the crisis as experienced in other regional economies. Malaysia introduced a series of policy packages to address the crisis. During the initial phase, Malaysia adopted a set of stabilisation measures and financial sector reforms. This package was essentially a combination of tight fiscal and monetary policy accompanied by financial sector reforms. However, these measures proved to be ineffective in restoring macroeconomic and financial sector stability, causing serious difficulties to business and resulting in the rapid contraction in GDP growth.

The National Economic Recovery Plan (NERP), which was launched in July 1998, provided a comprehensive framework for economic recovery, including steps to counter the negative effects of the ringgit depreciation and stock market collapse. Appropriate steps were also taken to strengthen the financial sector. The Government undertook these measures to strengthen the resilience of the financial sector in order to avoid systemic risks and ensure the continued efficient functioning of the intermediation role of the banking system, which is crucial for economic recovery. Among the measures were the settings up of Pengurusan Danaharta National Berhad (the national asset management company), Danamodal National Berhad (a special purpose vehicle) and the Corporate Debt Restructuring Committee. Besides that, steps were also taken to restore the domestic capital market through improving the corporate governance, selective exchange controls was implemented to contain speculative capital (do not apply to FDI).

The measures, which have been introduced since mid-1998, and the selective exchange control measures introduced in September 1998 are showing positive results and contributing towards restoration of public and investor confidence.

2.4 THE THIRD OUTLINE PERSPECTIVE PLAN (OPP3) AND THE EIGHT MALAYSIA PLAN

Having attained a significant success since the launching of the New Economic Policy (NEP) in 1973 and The National Development Policy (NDP) in 1991 under the First and Second Outline Perspective Plans, the Government of Malaysia on the 3rd April 2001 launched the Third Outline Perspective Plan (2001-2010). With the successful implementation of the National Development Policy during the 1990s, which marks the first phase of Vision 2020, we now move into the second phase of Vision 2020. While incorporating the key strategies of previous policies, such as the New Economic Policy and National Development Policy, during the next 10 years, the National Vision Policy (NVP) will form the basis of the strategies and programmes under the OPP3.

The National Vision Policy is aimed at establishing a progressive and prosperous Bangsa Malaysia (the Malaysian race) that lives in harmony and engages in full and fair partnership. Economic growth will be promoted alongside efforts aimed at poverty eradication and restructuring of society, as well as reducing social, economic, and regional imbalances. National Vision policy will also incorporate special efforts to instil positive social and spiritual values to balance rampant materials. In addition, NVP pursues environmentally friendly and sustainable development to ensure that the environment is clean, healthy and attractive as well as capable of sustaining the nation's needs and aspiration.

In recognition of the challenges ahead arising from globalisation, national development policies will be directed towards *building a resilient and competitive nation*. Malaysians will have to be more disciplined and competent in whatever they do in order to produce goods and services that can compete in the global market place. The onset of the Information Age, a more integrated global economy and greater liberalisations have changed the rules of competitions. Knowledge rather than factor inputs determines a country's competitiveness

The Eighth Malaysia Plan (2001-2005) launched on 23rd April 2001 by the Prime Minister will be implementing the National Vision Policy to strengthen the nation's capacity, capability and resolve future challenges while pursuing the overriding goal of national unity. The theme of the Eighth Malaysia Plan is to achieve sustainable growth with resilience. The three key trusts of the Plan are to shift the growth strategy from input-driven towards knowledge-driven in order to enhance potential output growth, accelerate structural transformation within the agriculture, manufacturing and services sectors and strengthen socio-economic stability through equitable distribution of the nation's income and wealth. In the Eight Malaysia Plan, farmer and fishermen organisations, including co-operatives²⁰ continued to be encouraged to participate actively in agricultural activities including marketing and downstream processing.

2.5 AFFECT ON THE SEPTEMBER 11 TRAGEDY.

The September 11 incident witnessed a crash in major equity markets especially in the United States, were the worst affected with the Dow Jones declining to the lowest level in recent years. Stock markets in Taiwan, Thailand and Kuala Lumpur, which reopened on 13 September, experienced similar declines.

As an open economy with trade accounting for more than 200 per cent of GDP, the Malaysian economy has been affected by the growing difficulties in the external sector. In the light of recent development, GDP growth for 2001, which had been revised from 7 per cent to between 5 to 6 per cent in March 2001, has been further revised downwards to between 1 to 2 per cent. The Government responded immediately by putting in place measures to prevent further deterioration in the economy. Growth must be led by domestic sector activities and exploring new market as we cannot be overly dependent on external trade.

In line with the domestic-led growth policy, the Government announced an additional pre-emptive fiscal package of RM 4.3 billion on 25 September

²⁰ Economic Planning Unit, The Eighth Malaysia Plan, Agricultural Development, 2001, pp.221.

2001. This is an additional to the earlier pre-emptive package of RM3.0 billion which was announced in March. The package is aimed at stimulating domestic economic activities as well as alleviating the negative impact on the low-income group and the disadvantaged. It is also aimed at promoting business activities, increasing income opportunities for small entrepreneurs and assisting retail businesses. In this regard, specific small rural projects have been offered to Bumiputra and Non-Bumiputra contractors. The package provided skill training for retrenched workers and unemployment graduates.

2.6 THE MALAYSIAN'S AGRICULTURAL POLICIES

The implementation of the previous two National Agricultural Policies since 1984 has enabled the agricultural sector to achieve a growth rate of 3.2 per cent per annum. The total value-added of the sector increased from RM11.9 billion in 1985 to RM16.2 billion in 1995. However, structural changes in the economy have brought forth new issues and challenges in the agricultural and forestry sectors. Especially acute are labour shortage, limited availability of suitable land and increasing cost of production arising from intersectoral competition for resources as well as intense competition in the global market resulting from trade liberalisation. At the same times, the development of high value-added resource-based products is still limited and exports mainly consist of primary and intermediate products.

The 1997 financial crisis in the country and the region resulting from the further liberalisation of the financial market has made the currency market highly vulnerable to speculation. The volatility and resultant decline in the exchange rate of the ringgit vis-à-vis major currency has negatively affected the stability and security of the country's food supply. This can have serious economic, social and political implications. The country's food import bill is continuously increasing from RM3.5 billion in 1985 to RM10.0 billion in 1997.

The further growth of agricultural sector will depend on how the nation addresses the above challenges. The formulation of the National Agricultural Policy 2 (1992) did not anticipate such rapid and sudden changes in the domestic and international economy and therefore did not adequately

address the new issues and challenges above. The formulation of the National Agricultural Policy 3 (NAP3) (1998-2010) is to strengthen the sector's robustness to changes in external factors and enhance its global competitiveness as well as to ensure the continuing growth of Malaysian Agriculture. Therefore, greater efficiency and optimal utilisation of existing resources is needed to further improve agricultural sector competitiveness.

Under NAP3, the sector is expected to achieve a growth rate of 2.4 per cent per annum. Two new strategies have been employed. These are the Agroforestry and Product-Based Approaches. The Agroforestry strategy is planned to integrate agriculture and forestry development outside Permanent Forest Estates. This approach views agriculture and forestry as mutually compatible and complementary and therefore provides a scope for joint development that can bring about mutual benefit. The Product-Based Approach will identify key products and markets based on market demand preferences and potential. This market demand and preference are translated into strategies for upstream primary agricultural production to enhance production and marketing of agricultural and forestry. This approach is adopted to reinforce and complement the cluster-based agro industrial development as identified in the Second Industrial Master Plan 1996-2005.

Strategic approaches and policy trusts of the NAP3²¹ are as follows:

- i. Meeting national food requirements.
- ii. Enhancing competitiveness and profitability in agriculture and forestry.
- iii. Enhancing the integrated development of the food and industrial crop sub-sectors.
- iv. Strengthening requisite economic foundation.
- v. Adopting sustainable development.

The above approaches together with policy trusts will provide the enabling environment to sustain and enhance the growth of agricultural and forestry sectors and become more globally competitive. In the Seventh Malaysia

²¹ Ministry of Agriculture Malaysia, Executive Summary for the Third National Agricultural Policy (1998-2010), 1999, pp.7-11.

Plan, the institutional development programme for agriculture continued to be emphasised for further modernising of the smallholder sub-sector through the active participation of farmers and fishermen in the development process. During the plan period, the role of farmer organisations will be further enhanced to compliment government efforts.

As mentioned in the plan, these institutions are expected to participate in privatisation projects, establish joint venture with other private sector, act as the nuclei in contract farming and provide markets to members. This may be achieved through various approaches such as partnerships, group farming, and establishment of subsidiary companies or formation of strategic alliances such as joint marketing, minority equity agreements, shared distribution and so on. In the Eighth Malaysia Plan, the farmer and fishermen organisations together with other co-operatives continued to be encouraged to participate actively in agricultural activities.

2.7 BRIEF HISTORY OF CO-OPERATIVES IN MALAYSIA

Broadly, co-operatives in Malaysia can be categorised as follows:

- i. Non-agro-based Co-operative such as housing, consumer and credit co-operatives, which are mainly in urban areas. Registered, supervised and controlled by the Co-operative Development Department, Malaysia.
- ii. Agro-based Co-operative and Farmers' Organisations. Registered, supervised, controlled and developed by The Farmers' Organisation Authority, Malaysia.
- iii. Co-operative Societies exclusively formed to serve rubber smallholders and settlers of Federal Land Development Authority (FELDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) schemes. Registered, supervised and controlled by the Ministry of Rural Development with support and assistance from Rubber Institute of Smallholder Development Authority (RISDA), FELDA and FELCRA: and
- iv. Fishermen's Associations, which are registered, supervised, controlled and developed by the Fisheries Development Authority, Malaysia.

The co-operative movement in Malaysia was first conceived when the Federal Legislative Council passed the Co-operative Societies Enactment of the Federal Malay state on 28 June 1922²². This Enactment was replaced by the Co-operative Societies Ordinance 1984 which became a base for the

²² Zainal Baba, *Sejarah Perkembangan Gerakan Koperasi DiMalaysia*, Jabatan Pembangunan Koperasi Malaysia, 1996, pp. 1-3.

Malaysian co-operative act. This Ordinance has been revised several times until the present Co-operative Act 1993, which covers the whole of Malaysia, was passed on 22 January 1994. The earliest idea of promoting the co-operative concept in Malaysia (Malaya at that time) was to combat rural indebtedness amongst farmers and deficit spending among wage earners in places of employment. The co-operative credit society was the first to be formed to solve the above problems. Later, after the people accepted the co-operative concept, other types of co-operatives were introduced such as rice milling, village shop, marketing (e.g. rubber and fish), housing, consumer and others.

Agricultural organisations such as Farmers' Organisations were established (1973) to unite farmers in order to have better and stronger bargaining power in an effort to improve their economic and social well-being. Individually, farmers could not exercise this function effectively. Stronger bargaining power is needed for farmers to get better end-result in purchasing and marketing of input and output of agricultural produces. Meanwhile, FELDA, FELCRA and RISDA, which are responsible for land development and improving economic and social well being of the small holders, are also helping in setting up of co-operatives in these land schemes. The main objective is to encourage co-operation amongst settlers in order to improve their socio-economic condition. The same type of objective also goes to the Fisherman Association, which is responsible to upgrade the economic and social well being of fishermen since parliament passed the Fishermen Association Act in 1973.

In Malaysia, the present agricultural co-operative legislation recognises a co-operative as a corporate entity. It has power to hold property, to invest, to do and transact business as well as to sue and to be sued. At the same time, primary corporate entity is accorded to a co-operative to give effect to and protect the co-operative principle of open membership. As far as the Farmers' Organisations is concerned, Dr. Abu Hassan and Sheikh Md. Noor Alam²³ (1996) state that the law must define the limit of adjustment and

²³ Abu Hassan, Sheikh Md. Noor Alam – Legal and Ideological Paradigm Shift, Strategic Alliance

prohibit deviations from the basic co-operative patterns. On the other hand, the law cannot be too dogmatic and restrictive and becomes too overloaded with ideology and philosophy, which would ultimately discourage change. The law should enable the co-operatives to do all things necessary to build up an economically efficient business organisation.

2.8 THE MALAYSIAN FARMERS' ORGANISATIONS

As organisations that are responsible for the development of farmers, Malaysian Farmers' Organisations (as part of the co-operative movement) have no choice but to become viable and efficient organisations. They not only have to compete with international producers but also to develop entrepreneurs among the members. As organisations that operate on co-operative principles, they are responsible to serve their members. With limited capacity and capability, the farmers' organisations have to find ways and means to progress feasibly and at the same time to fulfil their social and political commitment. Entering into a strategic alliance is one of the choices available to them. With strategic alliance, the co-operative can still maintain their identity and served their members. Strategic alliance will allow them to get complementary resources that they need to further enhance their economic activity, not only among themselves but also with the non-co-operative organisations.

The motion to form the Farmers' Associations based on The Taiwanese Model was passed at the First Bumiputra Economic Congress held in 1965²⁴. The National Farmer's Association (NAFAS) was established in 1972. Other forms of Agro-based co-operatives like Syarikat Kerjasama Asas Tani (SKATA), credit co-operatives, multi-purpose co-operatives and rice milling co-operatives were also operating parallel with Farmers' Associations during that period even though they were registered under the Co-operative Societies Ordinance, 1948.

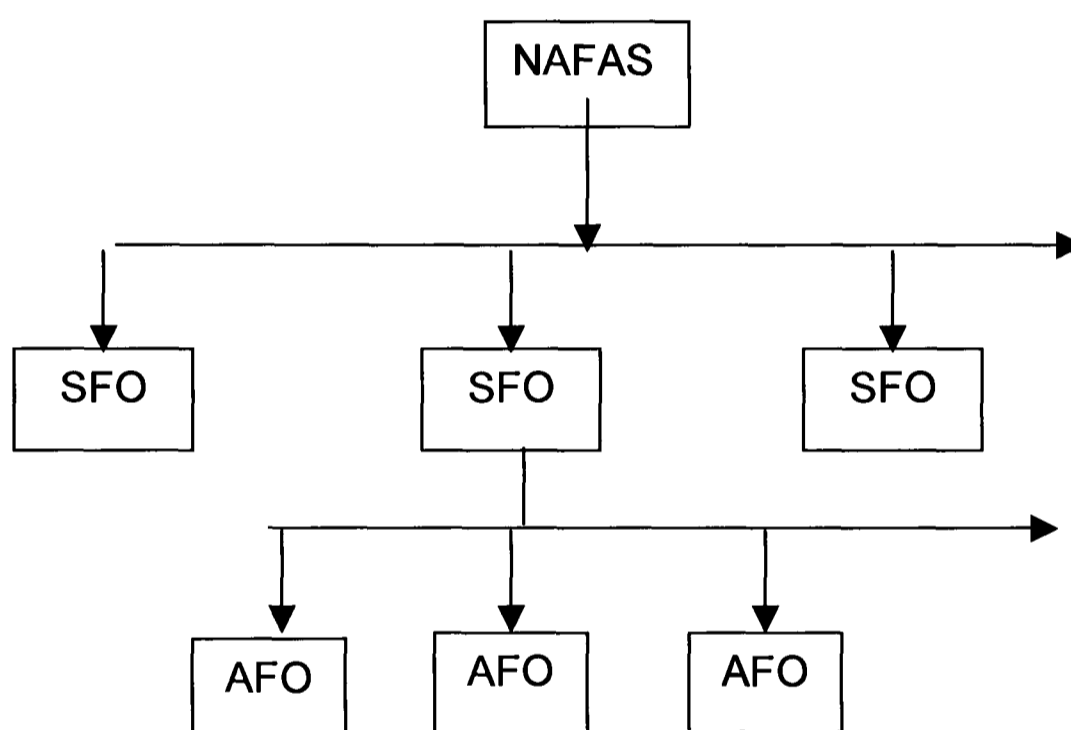
Among Agricultural Co-operative, *Business Law Journal*, 1996, pp. 9-17.

²⁴ Farmers' Organisation Authority, *Taklimat Kepada Pengurus Lembaga Pertubuhan Peladang*, April 2001, pp.2-9.

In order to minimise duplication and over lapping functions between these numerous agro-based institutions, The Farmers' Organisation Act 1973 (Act 109) was passed by parliament and provided for the integration of agro-based co-operatives with farmers' association in each operating area into Area Farmers' Organisation. Given that Malaysia is made up of thirteen states, all area Farmers' Organisation in every state are members of each State Farmers' Organisations, which in turn become members of the National Farmers' Organisation (NAFAS). The Act unites the farmers' movement and links them from area to national level as shown in Figure 2.3.

Figure 2.3

OPERATIONAL STRUCTURE OF FARMERS' ORGANISATIONS



Note:

NAFAS = National Farmers' Organisation
 SFO = State Farmers' Organisation
 AFO = Area Farmers' Organisation

2.8.1 OBJECTIVES AND FUNCTIONS OF THE FARMERS' ORGANISATIONS

The objectives of the Malaysian Farmers' Organisations are to enhance the economic and social status of farmers, to improve their knowledge and skill, to increase productivity and income, better quality of live of the members as well as to build up a progressive, self-reliant, peaceful and united farmer's community, in doing so, the farmers' organisations will focus their function on enhancing the farmers' productivity through providing essential services

such as producing and selling agricultural fertiliser, quality seeds, transportation and farm mechanisation, credit facilities and marketing services. Besides that farmers' organisations also are responsible to stimulate high growth in agricultural sector, enhance business and investment growth in farmers' organisations themselves, increase the farmers' socio-economic status and their quality of life and balance the development of agricultural and industrial sectors through the development of agro-based industry in rural area.

Before the implementation of the New Economic Policy (1973), rural farmers practised subsistence farming for self-consumption. The establishment of farmers' organisations which operate on a three-tier level system namely national, state and area farmer's organisations have objective of promoting the economic and social interest of its member or member units through direct participation in all activities undertaken by the organisation. This goes with the principle that groups of farmers will have better bargaining power compared to individuals.

2.9 FARMERS' ORGANISATION AUTHORITY

Section 4 of The Farmers' Organisation Authority Act 1973²⁵ entrusts the authority to promote, stimulate, facilitate and undertake economic and social development of farmers' organisation. The mission of the Farmers' Organisation Authority is to provide professional management services to farmers' organisations and enterprises aiming firstly, to build farmers' organisations as viable and competitive farmers' business bodies based on agriculture as well as social development of farmers. Secondly, it is to create commercial farmers that can contribute to the agricultural industry through the movement of the farmers' organisations

2.9.1 FARMERS' ORGANISATIONS DEVELOPMENT AREAS

Section 3 of The Act²⁶ states that the powers to register and control the farmers' organisations are in the hands of the Director General of Farmers'

²⁵ Act 110, Laws of Malaysia, Farmers' Organisation Authority Act, 1973, pp. 6

²⁶ Ibid. Act 110, Laws of Malaysia, Farmers' Organisation Authority Act, 1973, pp.6

Organisations Authority. Nevertheless for the purpose of smooth and efficient administration, the development areas of farmers' organisations have been divided into four main areas as explained in Figure 2.4:

Figure 2.4

FARMERS' ORGANISATIONS DEVELOPMENT AREAS

DEVELOPMENT AREA	THE REGISTRAR & CONTROLLER
Muda Agricultural Development Area (MADA)	Director General of MADA – with 27 area farmers' organisations (AFOs)
Kemubu Agricultural Development Area (KADA)	Director General of KADA – with 13 area farmers' organisations
Sabah and West Malaysia (except MADA and KADA areas)	Director General of FOA – with 200 AFOs, 12 state farmers' organisations and NAFAS.
Sarawak	Director General of Agriculture Department of Sarawak – with 28 AFOs and one state farmers' organisation.

Note:

Farmers' organisations in Sabah and Sarawak are not included in this study

The brief division of the farmers' development areas could be seen in Figure 2.5 below:

Figure 2.5

DEVELOPMENT AREA OF FARMERS' ORGANISATIONS



Note:

- Red = Under the Director General of MADA (Muda Agricultural Development Area)
 Yellow = Under the Director General of KADA (Kemubu Agricultural Development Area).
 Green = Under the Director of Farmers' Organisation Authority.
 Brown = Under the Director General of Agriculture Department of Sarawak

2.9.1.1 AREA UNDER THE FARMERS' ORGANISATION AUTHORITY

The Farmers' Organisation Authority (FOA) is also empowered to register, control and supervise farmers' organisations. At the same time it is responsible to plan and undertake such agricultural development including primary production, manufacturing, assembling, processing, packing, grading and marketing of agricultural products, research and training within such farmers' development area as well as to control and co-ordinate the performance of the aforesaid activities. The details of Farmers' Organisations Authority are explained in the Farmers' Organisation Act as attached in Appendix 1(a). As shown in Figure 2.5, green colour area is the area that falls under the jurisdiction of Farmers' Organisation Authority.

2.9.1.2 AREA UNDER THE MUDA AGRICULTURAL DEVELOPMENT AUTHORITY (MADA)

MADA is the biggest granary area in Malaysia. The Muda Agricultural Development Act (MADA) was established in 1972²⁷ to promote, stimulate and undertake economic and social development in the Muda area in the state of Kedah and part of Perlis (as shown red in colour in figure 2.5). It also empowered those charged with its authority, responsibility and accountability to undertake within the Muda area such agricultural development as may be assigned to it by the State Authority of the State of Kedah and Perlis. Through delegation of power from the Director General of Farmers' Organisations Authority twenty-seven area farmers' organisations have been established to regulate social and economic development in the Muda area. These farmers' organisations have formed a joint venture by the name of Syarikat Perniagaan Peladang Mada (SPPM) in order to increase the value of their investment, generate stable income and indirectly to increase farmers' economic and general well-being.

²⁷ Act 70, Laws of Malaysia, Muda agricultural development Act, 1972, pp. 6

2.9.1.3 KEMUBU AGRICULTURAL DEVELOPMENT AUTHORITY (KADA).

The Kemubu Agricultural Development Authority Act established KADA²⁸ in 1972 to promote, stimulate, facilitate and undertake economic and social development in 60,438 hectares Kemubu granary area in the state of Kelantan (as shown yellow in colour in Figure 2.5). It also entrusts its executive group similar responsibilities as those assigned to the MADA group but to be undertaken within the Kemubu area. Through delegation of power from the Director General of Farmers' Organisations Authority, thirteen area farmers' organisations have been established throughout the Kemubu area to unite the farmers. Syarikat Perniagaan Peladang KADA (SPPK) is the apex organisation for the farmers' organisations with the overriding objective to increase the economic and general well being of farmers.

2.10 THE STATUS OF THE FARMERS' ORGANISATIONS AS AT 30TH MARCH 2000

2.10.1 INTRODUCTION

The performance below includes all achievement for farmers' organisations in West and East Malaysia (Peninsular, Sabah and Sarawak). It includes the National Farmers' Organisation, the thirteen (13) state farmers' organisations and the two-hundred sixty eight (268) area farmers' organisations as shown in Table 1.2 below. All figures for performance reports below (except mentioned otherwise) are based on the official document titled " Briefing to the new Chairman of the Farmers' Organisations Authority on 20th April 2001" prepared by Planning and Evolution Division, Farmers' Organisation Authority.

Table 2.1

THE REGISTERED FARMERS' ORGANISATIONS

	<u>CATEGORIES</u>	<u>NO OF REGISTERED</u>
	Area Farmers' Organisations	
1	Managed by Farmers Organisation Authority	200
2	Managed by MADA	27

²⁸ Act 69, Laws of Malaysia, Kemubu Agricultural Development Authority Act, 1972, pp.6.

3	Managed by KADA	13
4	Managed by Department of Agriculture, Sarawak	28
	Total	268
State Farmers' Organisations		
1	Managed by Farmers' Organisation Authority	12
2	Sarawak	1
	Total	13
National Farmers' Organisation		
		1
	Grand Total	282
	Syarikat Kerjasama Asas Tani (unit members of farmers' organisations)	468

Note:

NAFAS = National Farmers' Organisations,
SFO = State Farmers' Organisations
AFO = Area Farmers' Organisations.

2.10.2 MEMBERSHIP

On the average, the membership has increased around 2.0% yearly since 1995²⁹ as shown below:

Table 2.2**THE OVERALL MEMBERSHIP OF FARMERS' ORGANISATIONS**

Year	Membership	% of increased
1995	609,791	-
1996	622,022	2.0
1997	638,220	2.6
1998	652,594	2.2
1999	663,578	1.7
2000	671,558	1.2

Source:

Figures for 1995-1998 is taken from the report on "Briefing to The Minister of Agriculture at Farmers' Organisations Authority on 22nd January 2000" prepared by Planning and Evolution Division, Farmers' Organisation Authority.

The membership of farmers' organisations has increased 2.0%, 2.6%, 2.2%, 1.7% and 1.2% from 1995 to the year 2000 respectively. The yearly increasing percentage keeps on reducing because most of the farmers are

²⁹ Farmers' Organisation Authority, Laporan Prestasi Pertubuhan Peladang, Modal Saham PP, 1996,1997,1998 and 1999, 2000, pp. 1-3

already members of the respective area farmers' organisations. As at August 1999, 84% (783,535 families) of farm families are already members of area farmers' organisations.

2.10.3 SHARE CAPITAL

As at 31 December 2000, the amount and average of share capital belonging to the members are as Table 2.3 below:

Table 2.3

SHARE CAPITAL BELONGS TO FARMERS' ORGANISATIONS

	Total Share (RM)	Average Share (RM) Per Farmer
Area Farmers' Organisations		
Under FOA	45,856,619	99.63
MADA	8,760,951	182.45
KADA	1,956,891	55.30
Sarawak	4,007,408	31.39
Sub-total (1)	54,861,851	92.19
State Farmers' Organisations		
FOA	15,048,183	
Sarawak	328,764	
Sub-total (2)	14,425,660	
NAFAS	3,526,680	
Total	79,485,496	

Note:

The share capital came from subscriptions

At 31st December 1995, £1.00 = RM3.8 - RM4.0

The annual incomes of farmers generally come from yearly profit on capital investment and profit earned from business with area farmers' organisations.

The highest average share per farmer is in MADA i.e. RM182.45. In MADA, all activities are handled by the 27 farmers' organisations. The strategic alliances' apex body, Syarikat Perniagaan Peladang MADA handles most of the farmers' organisations investment in business activities. The average share per farmer, which comes directly under the supervision of the Farmers' Organisation Authority is RM99.63. Both of the average shares are above the value of the overall average share that is RM92.19. Nevertheless, the average share for KADA is only around half and Sarawak is only one-third of the overall average share. Even though, these figures might be used at first glance to show the difference in the farmers' organisations performance but without taking into consideration factors such as area of coverage, business

activities and length of operational period, the interpretation might be misleading.

2.10.4 ASSETS

Assets and their net value that belong to Farmers' Organisation for the whole country are presented in Table 2.4;

Table 2.4
MALAYSIAN FARMERS' ORGANISATIONS' ASSETS AS AT
31 DECEMBER 2000

ORGANISATION	ASSETS (RM MILLION)	NET VALUE (RM MILLION)
Area Farmers' Organisations	472.210	218.310
State Farmers' Organisations	458.758	227.588
NAFAS	177.017	86.688
Total	1,107.985	532.586

Source: Planning and Evaluation Division, Farmers' Organisations Authority, Malaysia.

Note:

Asset comprises of fixed and current assets. Fixed asset includes land, building (such as offices, factories and commercial) and machineries (such as lorries, machines and others). Current asset includes stock, debtors, non-secured loans, fixed deposit and cash.

Table 2.4 shows that the 42.62%, 41.40% and 15.90% of farmers' organisations assets belong to area farmers' organisations (268), state farmers' organisations (13) and National Farmers' Organisation (NAFAS) respectively. On the average, each of area farmers' organisations only hold 0.16% of the total asset while each of state farmers' organisations holds nearly 3.2%. The vast difference in value of assets holding is due to the reason that most of the state farmers' organisations had been rewarded valuable lands by state governments in the effort to help farmers. However, above all, as an organisation NAFAS owns the major percentage of assets as compared to other farmers' organisations. As far as the responsibility to regulate, monitor and develop the farmers' organisations, figures in Table 2.5 below indicates that Farmers' Organisations Authority has the major responsibility to regulate, monitor and develop around 82.3% of the assets

belonging to the farmers' organisations.

Table 2.5

MALAYSIAN FARMERS' ORGANISATIONS' ASSETS AS AT 31 JUNE 1996

THE INST	W. M'SIA AND SABAH (RM)	MADA (RM)	KADA (RM)	SARAWAK (RM)	TOTAL (RM)
NAFAS	81,393,154	-	-	-	81,393,154
SFOs	145,456,794	-	-	11,981,553	157,438,347
AFOs	240,280,841	50,116,442	23,911,522	14,633,681	328,942,486
TOTAL	467,130,789	50,116,442	23,911,522	26,615,234	567,773,987

Source: Planning and Evaluation Division, Farmers' Organisations Authority, Malaysia

Note:

Asset comprises of fixed and current assets. Fixed asset includes land, building (such as offices, factories and commercial) and machineries (such as lorries, machines and others). Current asset includes stock, debtors, non-secured loans, fixed deposit and cash.

Meanwhile, of the balance, it left 8.8% to MADA, 4.2% to KADA and 4.7% to the Sarawak authorities to manage. These assets came from various sources such as grant, during the early period establishment of the farmers' organisation, and now mostly generated from business activities by farmers' organisations.

2.10.5 DEVELOPMENT PROGRAMME UNDER THE FARMERS' ORGANISATION AUTHORITY

The Farmers' Organisations Authority is responsible in developing economic projects for farmers' organisations and their members. It has been done through budget allocation from the Government and bank loans. There are nine (9) development programmes that have been approved for Seventh Malaysia Plan (1996-2000) period. The amount of allocation and the spending performance of the budget are as Table 2.6:

Table 2.6

DEVELOPMENT BUDGET ALLOCATION AND SPENDING CAPABILITY OF FARMERS' ORGANISATIONS AUTHORITY UNDER SEVENTH MALAYSIA PLAN

Year	1996	1997	1998	1999	2000
Allocation (RM Million)	20.58	29.69	30.80	31.75	30.03
Spending (RM Million)	20.21	28.84	30.79	31.47	-
% of Spending	98.2	97.1	99.9	99.1	-

Source: Planning and Evaluation Division, Malaysian Farmers' Organisation Authority

The result of the nine approved programmes under Seventh Malaysia Plan is as in Table 2.7:

Table 2.7

FARMERS' DEVELOPMENT PROJECTS UNDER SEVENTH MALAYSIA PLAN

No	Programmes	No. of Participants/Project/Unit				
		1996	1997	1998	1999	Total
1	Development of Farmers' Organisations					
	Development of farmer entrepreneurs;					
	Agricultural sector	73	53	61	55	242
	Processing sector	26	2	5	4	37
	Service sector	14	12	6	10	42
	Manufacturing Sector	1	1	-	-	2
	Total	114	68	72	69	323
	Human development based on village	175	175	146	107	603
2	Food Production					
	Estate Nuclear and Farm Management.	27	16	21	30	94
	Fruit Production	11	3	11	15	40
3	Ornamental Plants	-	2	6	3	11
4	Small and Medium Industries	12	4	3	6	25
5	Marketing of Food Products					
	Marketing of Agricultural Produce					
	Farmers Market	-	2	12	7	21
	Fresh market (Speciality Store)	-	-	3	2	5
	Down Stream Centre	-	-	16	2	18
	Total	-	2	31	11	44
	Farmers Shops					
	Mini Market				12	12
	Farmers Shop				25	25
	Total				37	37
6	Human Resource Development	Continuous Programmes				
	Promotion and Communication					
	Farmers Relation					
	Promotion					
	Media Communication					
	Publicity					
	Up Grading Farmers Training Centre					
	Farmers Institute of Management					
7	Farmers Infrastructure Programme					
	Farm Mechanisation Services					

	Overhaul – Tractors	16	10	15	22	63
	- Combine Harvesters	4	2	2	12	20
	Used Machine – Tractors	-	-	-	-	-
	- Combine Harvesters	1	-	3	-	4
	Buying of New Lorries	4	2	2	4	12
	Building & Office of Area Farmers' Org.	1	2	2	4	9
8	Farmers Institutions Dev. Programme (Computerisation Programme)	Continuous Programme				
9	Special Programme for Sabah and Small Sugar Cane Plantation in Padang Terap, Kedah.					

Source: Planning and Evaluation Division, Malaysian Farmers' Organisation Authority.

There was not much effect on the development of Farmers Entrepreneurs programme for Agricultural and Service Sectors between 1966 (before Asian financial crisis) and the rest of the years during the financial crisis. Nevertheless, the performance was slower in developing farmer entrepreneurs in Processing and Manufacturing Sectors in 1997 and 1998. As far as the development of farmer entrepreneurs was concerned, overall in 1996, they achieved the highest performance by developing 114 entrepreneurs.

Hisrich and Peters (1998)³⁰ define entrepreneurship as “ the process of creating something new with value by devoting the necessary time and effort, assuming accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence”. Meanwhile, Gartner (1988)³¹ defines Entrepreneurship as “an event-creation of new organisation”. For the purpose of this study, entrepreneur is defined “as a farmer who is willing to take calculated risk in transforming an existing company/activity with the chance of profit or loss”.

In 1997, more food productions were developed in the effort to combat the effect of financial crisis (such as inflation) and to ensure food security for the country³². Most of the programme performances began to pick-up again in

³⁰ Hisrich, R.D. and M. P. Peters, *Entrepreneurship*, 4th edn, 1998, New York, Irwin/McGraw-Hill

³¹ Gartner, W.B. “ Who is an Entrepreneur? Is the wrong question” *Entrepreneurship Theory and Practice*, Spring, 1988, vol. 12, pp. 47-67.

³² Farmers' Organisation Authority, “ Briefing to The Minister of Agriculture at Farmers' Organisations Authority on 22nd January 2000” prepared by Planning and Evolution Division, , January 2000.

1999, after Malaysia imposed selective exchange control on 1st September 1998 including Small and Medium Industries. Remarkable efforts had been made in the marketing of food products through farmers and fresh markets as well as Down Stream Centre for more value-added products. These activities not only gave wider market for farm produces but also at the same time increased farmers' incomes. It complimented the policy to increase domestic demand and controlling inflation. Saving activities became necessary in such a critical period such as employing more tractors and overhauling combine harvester in 1999 in order to control expenditure without effecting related productions.

2.10.6 BUSINESS ACTIVITIES UNDER FARMERS' ORGANISATIONS

2.10.6.1 TYPE OF BUSINESS ACTIVITIES

Besides handling programmes/projects for which allocation has being provided by Farmers' Organisations Authority, farmers' organisations also handle their own business activities. The volume percentages of business activities' for National Farmers' Organisation, State Farmers' Organisations and Area Farmers' Organisation are as Table 2.8:

Table 2.8

FARMERS' ORGANISATIONS BUSINESS ACTIVITIES

No	Sector	Percentage (%)			
		NAFAS	SFOs	AFOs	Overall*
1	Supply of agriculture input	37.55	10.38	12.58	20.17
2	Marketing of agriculture produce	12.12	36.45	40.50	29.69
3	Farm contract (SPAD and SPAT)	12.03	7.21	2.79	7.34
4	Supply contract	0.29	-	-	0.096
5	Consumer product	-	0.77	4.29	1.69
6	Transportation & farm mechanisation	4.02	5.80	2.37	4.06
7	Agro-based industry	-	21.24	2.71	7.98
8	Work contract	-	3.63	13.01	5.54
9	Special projects	33.35	13.23	15.91	20.83
10	Other projects	0.64	1.29	5.84	2.59
	Total				100.00

Source: Planning and Evaluation Division, Farmers' Organisation Authority, as at April 1998.

Note:

* = Researcher own calculation

Marketing of agricultural produces is the biggest share (29.69%) of the farmers' organisation business activities. It is followed by special projects and supply of agricultural input which each holding around 20% of the activities. Supply contract is still a small part of the business volume. Consumer goods, other projects and transportation & farm mechanisation each contribute less than 5% and are small but significant. Meanwhile, farm contract, agro-based industry and work contract are slightly larger contribution to the overall activities but each still make up less than 10 percent of the business activities.

2.10.6.2 BUSINESS VOLUME

The business volumes for National Farmers' Organisation, State farmers' organisations and area farmers' organisations in dealing with the above business activities are listed in Table 2.9:

Table 2.9

FARMERS' ORGANISATIONS' BUSINESS VOLUME

	Business Volume (RM)				
	1996	1997	1998	1999	2000
NAFAS	206,993,284	251,459,997 (21.48%)	327,986,519 (30.43%)	258,086,692 (-21.31%)	269,390,920 (4.38%)
SFOs	215,581,103	302,647,263 (40.39%)	412,256,595 (36.22%)	332,549,630 (-19.33%)	245,566,538 (26.16%)
AFOs	544,035,915	622,439,886 (14.41%)	731,244,410 (17.48%)	746,318,125 (2.06%)	674,993,878 (-9.56%)
Total	966,610,302	1,176,547,146 (21.72%)	1,471,487,524 (25.07%)	1,336,954,447 (-9.14%)	1,722,908,794 (28.89%)

Source: Yearly Performance Report, 1995-2000, Planning and Evaluation Division, Farmers' Organisations Authority.

Note:

Percentage figures are based on the volume of increment from the previous year.

Important information could be gathered from the Table 2.9 above. Among others, the business volume for NAFAS in 1997 and 1998 increased 21.48% and 30.43% respectively. However, the business volume fell down to -21.31% in 1999 due to the financial crisis but started to recover in year 2000. Nevertheless, the business volume was still low as compare to the 1998

figure. Meanwhile, the volume of business for state farmer' organisations decreased from 40.39% in 1997 to 36.2% in 1998 and –19.33% in the year 2000. The volume of business had pickup fairly fast immediately after the recession period. The business volume for area farmer' organisations also increased even though with lower figures until 1999. It started to fall in the year 2000 when NAFAS and state farmers' organisations began to recover from the effect of Asian financial crisis. It seems that the country's financial crisis had affected the business volume of farmers' organisations especially in 1999.

2.10.6.3 FINANCIAL PERFORMANCE

The profit/loss performance of farmers' organisations from 1995-1998 is shown in Table 2.10:

Table 2.10

PROFIT/LOSS FOR THE BUSINESS ACTIVITIES

	PROFIT/LOSS (RM/MILLION)				
	1996	1997	1998	1999	2000
NAFAS	7.23	7.51	7.87	7.47	10.52
SFOs	11.7	20.45	30.91	30.17	10.42
AFOs	24.86	26.68	27.04	26.22	17.86
Total	43.79	54.64 (24.8%)	65.81 (20.4%)	63.86 (-2.96%)	38.8 (-39.24%)

Source: Planning and Evaluation Division, Farmers' Organisation Authority.

Note:

Percentage figures are based on the increment of profit from the previous year.

Figures in Table 2.10 shows that from 1997-1998 the percentage of profit has decreased from 24.8% in 1997 to 20.4% in 1998. However, in 1999 the profit started to fall to –2.96 % and continued to fall in the year 2000 to –39.24%. Even though the business volume for NAFAS started to recover in the year 2000, the profit figures showed otherwise. It may be due to the increased in cost of production as a result of decreased in the value of Malaysian Ringgit., whereby the cost of agricultural imported input such as fertiliser, animal feed, machineries and others had increased.

2.11 RATIONALE FOR STRATEGIC ALLIANCES

2.11.1 INTRODUCTION

The traditional functions of farmers' organisations to supply agriculture input, land mechanisation and transport facilities as well as retail services of consumer goods appear not to guarantee maximum return to respective organisations and their members. Therefore, aided by environmental forces (such as government intervention and other external and political factors), farmers' organisations have formed various strategic alliances to explore further business opportunities and to take advantage of the numerous advantages (e.g. economic of scale, expertise etc.) that come along from effective collaboration and co-operation.

The strategic alliances favoured by farmers' organisations can be divided into domestic and regional alliances. The domestic alliances are all between farmers' organisations themselves as well as in specific project with outside organisations. The farmers' organisations in Sabah and Sarawak are not covered in this study because the phase of development of the farmers' organisations in East Malaysia is not as independent as compared to those in peninsular (West) Malaysia. They have long been handled entirely by their own state governments. The farmers' organisations in Sabah only came under direct supervision of the Federal Authority on 1st April 1992.

2.11.2 FARMERS' ORGANISATIONS STRATEGIC ALLIANCES AS AT 31ST DECEMBER 1995.

However, with respect to West Malaysia, as at 31st December 1995, the following organisations were involved in some form of domestic strategic alliances with various types of partners as shown in Table 2.11;

- i. Twenty-eight (28) farmers' organisations under the supervision of Farmers' Organisations Authority.
- ii. Twenty-seven (27) farmers' organisations under the supervision of MADA.
- iii. Thirteen (13) farmers' organisations under the supervision of KADA

Table 2.11
FARMERS' ORGANISATIONS STRATEGIC ALLIANCES AS AT
31ST DECEMBER 1995

Farmers' Organisation	Name of the Partner	Value of Strategic Alliances (RM)
NATIONAL LEVEL		
NAFAS	Peladang Kimia Bhd	2,465,600
	Howard Alat Pertanian	343,000
	Agricultural Chemical	625,000
	Medan Juara	200,000
	Lembayung Saujana	174,000
	Konsortium Pasar Borong	137,500
	BERNAS	20,000,000
	STATE FARMERS' ORGANISATIONS	
Pahang	Prosper Commodity	1,000,000
	Medan Juara	17,000
	FRIM	1,568,000
	UMNO	27,026,420
	Persatuan Bekas Perajurit	2,200
Perlis	Kilang Kapor Pertanian	60,000
	Perlis Flour	240,000
Selangor	Magnificent Diagraph	1,700,000
Terengganu	KPT Peladang	125,998
	SPL	1,994,934
	Permodalan Peladang Bhd	50,000
	NAFAS	195,729
P.Pinang	Gabungan Peladang	N/A
Johor	Perladangan Peladang	840,000
	Medan Juara	632,000
	Lembayung Saujana	600,000
AREA FARMERS' ORGANISATIONS		
Rembau	MARDI	N/A
Kuala Berang	SFO Terengganu	5,000
Pengerang	SFO Johor	1,500,000
Bukit Diman	SFO Terengganu	580,000
	Syk. Semangat Tani	597,900
	Konsortium Pahang Terengganu	5,000
	Tenaga National Bhd	25,000
Kuantan	Nestle Products	184,080
Parit Raja	SFO Johor	N/A
Kluang Utara	SFO Johor	200,000
Sg. Manik	Syk Kilang Beras Bagan Serai	2,000,000
Semerak	Leaf Tobacco Development Corp.	
Manir/Belara	NAFAS	9,000,000
Bukit Besar	Konsortium Peladang Terengganu	5,000
Dengkil		
Jasin	Bank Pertanian Malaysia	250,000
	LPP	48,720
	SFO Melaka	43,844
	Permodalan Peladang Berhad	20,000
Hulu Langat (s)	Forum Vista Sdn Bhd.	40,000
Bukit Awang	Nestle	488,400
Tumpat	TOL Curer	150,000

Rompin/Jelai	SFO Negri Sembilan	13,000
	Permodalan Peladang Bhd.	5,000
Titi Tinggi	Rainshelter	79,998
	Syarikat Dinasti Sentosa	415,044
Jempol	Syarikat Serbaguna Dewan Jempol	703,400
Kluang Selatan	Leong Hup	50,000
	Lim Yu Chong	80,000
MADAΣ	27 farmers' organisation (SPPM)	27,000,000
KADAΣ	13 farmers' organisations (rice mill)	4,000,000
	TOTAL	160,061,679

Source: The Bali Report on ACEDEC (Asean Centre for the Development of Agricultural Co-operatives) workshop meeting on July 1996, Corporate Division, Farmers' Organisation Authority.

Note:

Σ- Information is gathered direct from the two agencies.

-The strategic alliance value for joint ventures is based on the monetary value of the alliance's agreements. Meanwhile, the value of collaboration and consortium type of alliances has to be based on the agreeable business values/volume in the related agreements.

- At 31st December 1995, £1.00 = RM3.8 - RM4.0

The Farmers' Organisations Authority has classified the above strategic alliance under several categories such as Joint Product Development, Joint Manufacturing, Joint Marketing, Minority Equity Agreement, Shared Distribution, Fifty-fifty Joint Venture and others. Although most of the alliances were among farmers' organisations themselves, there were several alliances with outside partners such as Nestle, Leong Hup (is one of the poultry integrators in the country) and Tenaga National (the main supplier of electricity). In addition to the above alliances, the farmers' Organisations also have other subsidiaries companies, among others as shown in Table 2.12:

Table 2.12

**SUBSIDIARY COMPANIES UNDER FARMERS' ORGANISATIONS
AS AT JUNE 1998**

No	Company	Being Form	Equity	Activity
1	AFMY Enterprise Sdn Bhd	1995	-AFO 40% -Co-operative 40% -2 individual 20%	Furniture
2	Sinar Chekal Sdn. Bhd	1992	-SFO Melaka 100%	-Land Dev -Contract
3	Peladang Angkut Sdn Bhd	1993	-SFO 100%	Transportation Services
4	Peladang Urus Sdn Bhd	1994	-SFO 100%	Land/Farm Management

				Agency
5	PPNJ Tours & Travel	1997	-SFO 100%	Tourism
6	Pengangkutan Peladang Terengganu	1997	SFO 100%	-Cargo Services -Garage
7	NAFAS			
8	NAFAS BAJA KIMIA	1970	NAFAS 100%	Importation and Distr. of Fertiliser
9	Saby Sdn Bhd.	1974	NAFAS 100%	Cocoa Estate
10	Peladang Urus		NAFAS 100%	Marketing & Rent
11	NAFAS Jentera	1981	NAFAS 100%	Farm Mechanisation
12	NAFAS Estate	1991	NAFAS 100%	Property and land Development

Source: Organisational Division, Farmers' Organisation Authority, June 1998.

2.11.3 THE FUTURE REGIONAL STRATEGIC ALLIANCES FOR FARMERS' ORGANISATIONS

During the ACEDEC workshop in Bali, 11-13 July 1996, all the ASEAN country presented their second report on the findings of their National Study about the establishment of strategic alliances in the Agricultural Co-operatives Sector. The ASEAN Agricultural Co-operative Sector's Technical Working Group meeting was held in Makati, Philippines on August 21, 1996. At that meeting, five ASEAN countries, namely, Brunei, Indonesia, Malaysia, Philippines and Thailand presented their strategic alliances project proposal in Table 2.13:

Table 2.13

STRATEGIC ALLIANCE PROJECTS PROPOSAL BY ASEAN COUNTRIES DURING AGRICULTURAL CO-OPERATIVE SECTOR'S TECHNICAL WORKING GROUP MEETING IN PHILIPPINES ON AUGUST 1996.

COUNTRY	PROPOSED PROJECTS
BRUNEI	Protected cultivation of vegetable.
	Tropical Orange Juice Production.
	Dairy Production
INDONESIA	Marketing Vegetables Produces.
	Joint Venture in Dairy Farming, Manufacturing & Co-op Dev.
	Joint venture in manufacturing and marketing goods from coconut by-product for local and export market.
	Promotion of Farming Tourism among Agricultural Co-operatives in ASEAN.
MALAYSIA	Establishment of Centre for information exchange of data among the agricultural co-operatives in ASEAN.
	Sourcing Feeder Cattle for Johor State Farmer Organisation, oil palm

	estate, Johor, Malaysia.
PHILIPPINES.	Joint venture for a common and Centralised Frontline World Trade Facilities for ASEAN Co-operatives
	Farm tourism co-operative development project
	Joint venture on institution building for establishing a buffer
	Joint venture on establishing a stabilising fund
	Windows for co-operative development (WINCODE)
	Bio-organic fertiliser (BOF) production from sugarcane mill waste and other agricultural waste
	Study on the establishing of SA in the agricultural co-operative sector in the Philippines.
THAILAND	Exchange of information on agricultural production and marketing.

During the Seventh Meeting of the ASEAN Centre for the Development of Agricultural Co-operative (ACEDAC) Board that was held on 2nd April 2000 in Langkawi, Malaysia, all member countries presented progress report³³ on their strategic alliance activities as summarised:

i. Project on Data and Information Exchange (Thailand)

All countries have to ensure their co-operatives are in the capacity to take strategic link and get the information to be on the web-site. The ASEAN member countries need to submit the web-site address to the ACEDAC Secretariat by May 2000 for distribution to all ASEAN member countries.

ii. Vegetable Production (Malaysia)

This project had only proceeded to the stage of initial discussion between Brunei Darussalam and Malaysia co-operative organisations. The meeting agreed to combine the project with the Orange Fruit production and rename it as Strategic Alliance Project on Agricultural production and Marketing.

iii. Dairy Farming project (Indonesia)

Indonesia welcomed the ASEAN Member Countries to participate in the implementation of project on Dairy Farming. Moreover, Indonesia agreed to submit the detail proposal on breeding of dairy cow to ASEAN member countries for consideration. Indonesia also welcomed the ASEAN member country interested to purchase high quality semen and agreed to submit its quotation. The meeting agreed that Indonesia would supply high quality

³³ ASEAN Centre for the Development of Agricultural Co-operatives, Report on the Seventh ACEDAC Board Meeting and ASWDAC Meeting, Langkawi, Malaysia, April 2000, pp. no page number.

semen and facilitate training for the ASEAN member countries.

iv. Orange Fruit Production

Besides the progress report, Brunei Darussalam welcomed the ASEAN member countries to have joint ventures in production and processing of orange juice.

v. Agro-ecotourism Project (Indonesia)

The meeting was informed that Indonesia had conducted a national seminar on Agro-ecotourism in Yogyakarta, Indonesia on 16-18 April 1998. All members' countries were requested to submit the name, address and designation of the related co-operatives to Indonesia by June 2000.

vi. Beef Farming Project (Malaysia)

The meeting was informed that the project could not be continued as the partner concerned had withdrawn from the project. In this regards the meeting agreed with the request of Malaysia to review the feasibility of the project.

vii. Coconut By-product, Organic Fertiliser Production and Co-operative Productivity Enhancement Programme (Philippines)

Since the Philippines were not represented, the meeting agreed that the Philippines would report the progress of the projects in the next meeting.

Since the formation of farmers' organisation in 1973, the organisations have been playing an important role in promoting the economic and social interest or general well-being of the members particularly and rural agricultural community generally. The membership, capital, asset, business volume and profit have increased every year. Therefore, it is worthwhile in investigating the role of these farmers' organisations and examines more closely their contribution to farmers' income/profits.

2.12 SOME EXPERIENCE OF CO-OPERATIVES MOVEMENTS

Co-operative performance has always been assessed through **impact study**. Performance indicators are used to indicate result of co-operative achievement. Those impact studies prove that many countries have been

able to successfully develop agricultural co-operatives. A producer co-operative is one type of co-operative that has been successfully played an important role in the agricultural sector. For example in India, the Anand Co-operative (Kaira District Co-operative Milk Producer Ltd, Anand)³⁴ established in 1946 has been able to increase the farmers' income through its activities by producing butter, milk powder and other dairy products. By 1974, the Anand complex handled 750,000 litre's milk per day and produced butter, milk powder and other dairy products.

Another successful story of Marketing and Supply (producer) Co-operatives is in Denmark. The first co-operative dairy was established in 1882 and the first co-operative slaughterhouse was followed in 1897. They entered into mutual binding co-operation with the right attitude as well as obligation. The need for capital for financing the slaughterhouses and dairies was realised because Danish farmers were creditworthy, as they owned their own farms. Today, the co-operative enterprises control a large market share in agriculture sector and have proven to be the strongest (100%) in the two most exports oriented sectors, pig and milk. About two thirds of the cattle sector and half of farm supply sector are also owned by the co-operatives.

As far as Danish co-operatives developments are concerned, the number of the farm holdings was reduced tremendously from 260,000 in 1903 to 67,000 in 1994. During the same period, the number of farmers and co-operatives such as dairies, slaughterhouses and egg were reduced significantly while production increased both locally and nation-wide. It clearly shows that during the 89 years period farmers adapted to dramatic structural changes caused by global adjustment in marketing condition, EU intervention scheme, and such factor as development in productivity, the labour market and technology.

³⁴ COPAC, *Agricultural and Food Marketing in Developing Countries: Selected Readings*, Edited by John Abbott, C. A. B International, 1993, pp.138-140.

In Japan³⁵, the farmers formed agricultural co-operative marketing (known as “Joint Marketing System”) to realise and stabilise farm prices that enabled them to continue production and build multiple distribution channels in order to positively respond to consumers needs and supply farms produces in a steady manner. Japanese agricultural production sector has changed due to several factors. Among others are shortages in farm workforce with the majority of farm workers being female and fewer young farmers around. Farmers over the age of 65 have increased from 12% in 1960 to 41% in 1996. Additionally, the increase in cheap imported food due to globalisation, liberalisation and consumer preference has also influenced the change in agricultural structure and reform.

Agricultural co-operatives that represent Japanese producers are required to be more consumers oriented. They deal with bigger retailers and diversified consumers (with two different consumption patterns i.e. consumers that prefer high price food and consumers that prefer low price food) by dealing with wholesale markets and direct channel respectively. In dealing with agricultural produces marketing, village co-operatives handle collection depot, grading centre, packing operation, joint shipment and payment by pooling their accounts etc. Prefectural Federation (secondary operation) of co-operatives play a role of assorting goods to different wholesale market, local marketing and payment of pooling accounts. Meanwhile, Zennoh Distribution Centre (National level, established in 1973) is in charge of direct sales to bulk consumer distribution centres as well as price stabilisation function with the cooperation of the Government.

In Taiwan, the most important farmers' organisation is the Farmers' Association, a multiple-purpose co-operative organisation³⁶. Their functions include supply of input, marketing, extension services, credit, insurance and information services. In 1975, they were reorganised at three levels: one (1)

³⁵ Nakaoka, Yoshitada, Japanese Country Paper to ACEDEC Meeting in Langkawi, Malaysia, Japanese Agricultural Co-operative Marketing Model with Special Reference to Marketing of Member's Produce to Central Wholesale market, 2000, pp. 1-15.

³⁶ Dr. Liu Fu-Shan (Director of The Economics and Planning Department, Council of Agriculture, Taiwan), A Country Paper, Taiwan Farmers' Association Model (Special reference on the Operation of Saving and Credit Schemes, 2000, pp. 1-29.

provincial level, 21 country associations and 267 township associations. Farmers' associations have played a crucial role in Taiwan's agricultural development by providing adequate credit for farmers to finance their regular production, necessary consumption, sideline production and others. Malaysian farmers' organisations is based on the Taiwanese model³⁷, therefore, it has more or less similar function.

In 1977, from a study of Co-operative Marketing in European Agriculture³⁸, it is apparent that Danish co-operatives have the largest market share within EEC countries. While the UK co-operatives have the least market share for selected product market as explained in Table 2.14.

Table 2.14

CO-OPERATIVE MARKET SHARES IN EEC COUNTRIES FOR SELECTED PRODUCT MARKETS, 1977 (% OF NATIONAL MARKETS)

	G'many	France	Italy	H'land	B'gium	L'bourg	UK	Ireland	D'mark
Pig meat	20	52	3	26	15	-	7	25	90
Beef	19	19	5	18	-	22	6	33	60
Poultry	-	42	10	32	-	-	2	50	50
Eggs	-	25	5	20	-	90	19	25	59
Milk	78	48	35	87	65	90	-	88	87
Sugar-beet	-	17	15	61	-	-	-	-	14
Cereal	52	67	15	60	15	90	17	23	50
Fruit	26	40	62	10	40	30	19	14	65
Vegetables	36	30	5	84	55	-	10	22	70

Source:

COGECA (The Agricultural Co-operation in the European Economic Community, Brussels: General Committee of Agricultural Co-operation in the EEC and National Co-operative organisation).

³⁷ Ibid. Farmers' Organisation Authority, Taklimat kepada Pengurus Lembaga, April 2001, pp.1-3.

³⁸ Gardon R. Foxall, Organisation Structure & Market Strategy (A study of Co-operative Marketing in European Agriculture), Department of Agricultural Marketing, University of New Castle Upon Tyne, 1980, Report no: 26.

The variation in market share between the UK and other EEC members was due to several factors. Among other factors were the similar average farm sizes on the continent, the proportion of the population engaged in agriculture production, the contribution to GDP of the agriculture sector and the relative terms of trade between the agricultural and non-agricultural sector. All those factors have been cited as stimuli to agricultural co-operation in European Countries other than Britain. Other stimulating factors were the availability in Europe of finance for co-operative development, environment of EEC and the operation of its policy towards agriculture. Besides that, favourable legislation's to co-operatives growth on the continent and the quality and training of co-operatives managers have contributed to the differences in market share between the UK and other nations.

According to Gordon (1980), based on the EEC countries that have been examined, the strength of the market strategy as indicated in their market share was based on several main factors. Among others are the successful of strategic management of co-operative marketing system and the existence of highly complicated co-operative organisational structures. These factors coupled with a considerable amount of central planning help to boost the market share in most of the countries. The three-tiered organisational system has provided strong organisational structure to implement plans aimed at the enhancement of the co-operatives sector's efficiency. Besides that, the activities of primary co-operatives are capable of being integrated and co-ordinated on a large scale through secondary co-operative organisations operating territorially or on a commodity basis.

Together with the co-operatives movement in the EEC countries, they have force substantial structural re-organisation among their member co-operatives. They have also been able to take strong interventionist action to make sure that change is forthcoming. In France, Denmark and Holland for example, the possibility of co-operatives trading with non-members has been deliberately promoted for product-market integration. This is especially so through the extension of co-operative organisation into processing, storage and distribution phases of marketing management. These have had the

effect of reducing competition not just between co-operatives but also between the co-operative and non-co-operative sectors.

In some countries' co-operatives have been used as **a tool to alleviate poverty**³⁹. An empirical study has been conducted to provide a counter-argument to the proposition that co-operatives are not suitable organisational form for providing benefits to poor people. Sri Lanka's Thrift and Credit Co-operation Movement (SANASA) provides empirical evidence that co-operatives can play a poverty alleviation role. Since the revitalisation of this movement in late 1970's, SANASA'S membership has increased and the co-operatives network has become one of the largest sources of rural financial services in the country.

SANASA has progressively focused more on the poor, including women and other disadvantaged groups. Based on the fieldwork and survey that had been conducted, data have shown how the Thrift and Credit Co-operation have brought real benefits to poorer members. Significant numbers of borrowers have achieved increased income and there is evidence of reasonable graduation above the poverty line. The study has also identified some observations. Co-operatives can play a poverty-alleviation role provided they keep their distance from the State and managing political relationship well. They have to avoid activities that can attract to the elite group. They must use market mechanism to provide services and cover costs.

2.13 THE RELATIONSHIP OF CO-OPERATIVE STRATEGIC ALLIANCES

The founding of the Rochdale Equitable Pioneer' Society was the starting point of the true history of co-operation. Even though in the seventeenth and eighteenth centuries, there were numerous religious colonies, living on collective economy, none of them however was to develop into the present co-operative movement⁴⁰. The co-operative movement exists and develops economic activities and cultural life of peoples. There are various types of

³⁹ Hulme, Montgomery, *Cooperative, Credit and Poor: Private Interest, Public Choice and Collective Action in Sri Lanka*, 1994, pp.159-164.

⁴⁰ Paul Lambert – *Studies in the Social Philosophy of Co-operation*, 1976, pp. 37-51

co-operative movement such as marketing and supplying, consumers, credit, insurance, housing and construction, production, mixed and multipurpose. Even though, a little different and contradictory in interest, co-operatives of different types unite themselves into one co-operative movement by some general basis and principles of activity⁴¹.

Even though a co-operative (like farmers' organisations) is also a co-operation, the differences in properties between co-operative and non-co-operative organisation (which are mainly based on profitability of individual investor) creates more beneficiaries in co-operative alliances as compared to non-co-operative alliances. Open membership, one-member one-vote basis, limited share ownership and yearly dividend could encourage active participation in business activities among co-operative members in order to get more benefits from the organisation. By increasing their business dealing with the co-operatives, members of co-operatives will also get direct benefit from expansion of co-operative activities/investment/alliances. This is parallel to the co-operative principles of user ownership, user control and user benefits⁴².

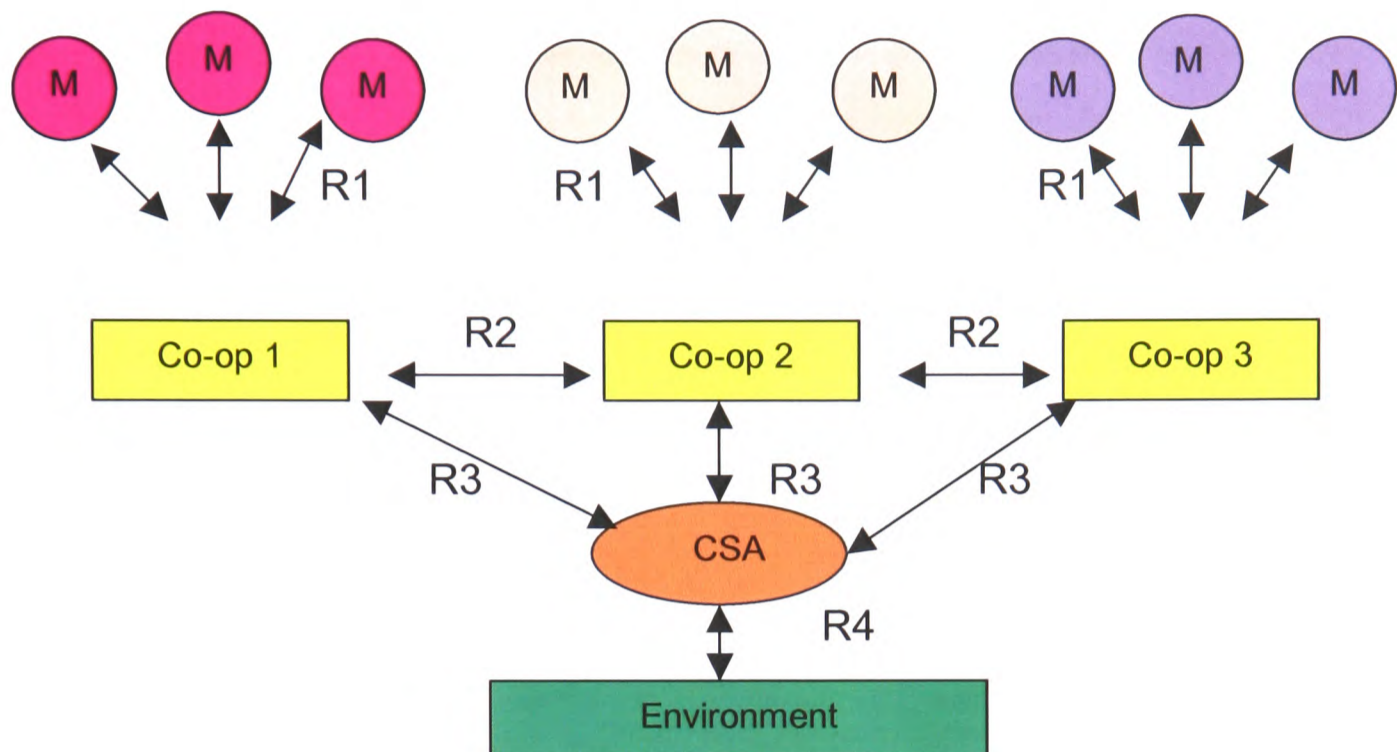
Therefore, the active participation of members can easily be seen, for example, in the topology of Co-operative Strategic Alliances (CSA) for a joint venture company as shown in [Figure 2.6](#) below:

⁴¹ Professor G. Y. Blank – Co-operative Principle in the Modern World (Essay contributed in memory of Arnold Bonner) 1967, pp. 17-19

⁴² David Barton – What is a Co-operative Principle, Co-operative in Agriculture, edited by David Cobia, 1989, pp. 22-33.

Figure 2.6

CO-OPERATIVE STRATEGIC ALLIANCES' RELATIONSHIP

Note:

- M = Member
- R1 = Business relationship between a co-operative and its members
- R2 = Relationship mode between partners (co-operatives).
- R3 = Relationship between a co-operatives and the joint venture/consortium/collaboration.
- R4 = Relationship between a Co-operative Strategic Alliance and its environment.
- CSA = Co-operative Strategic alliance.

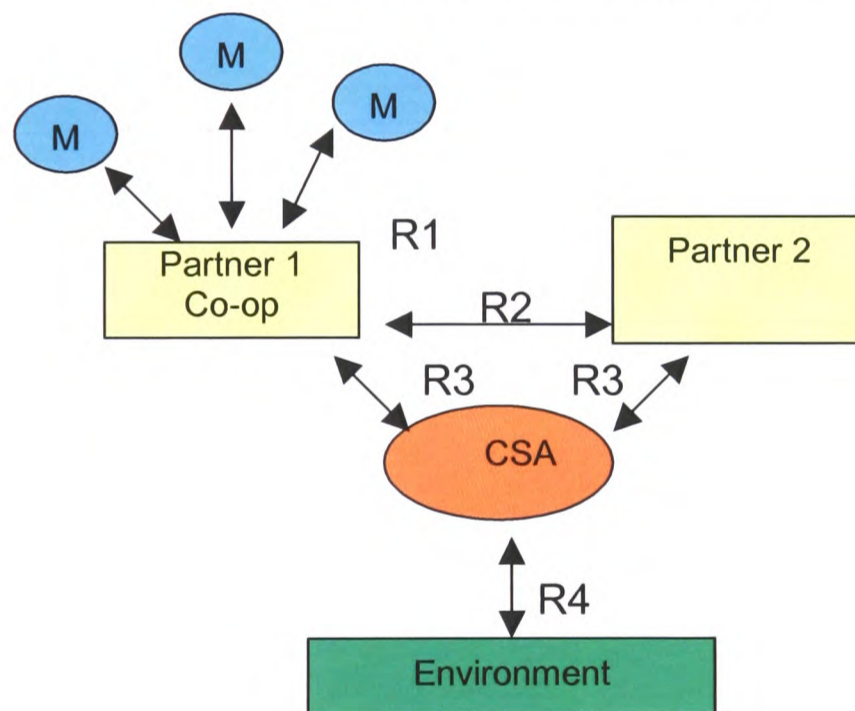
The above diagram shows that strategic alliances among co-operatives will create further business opportunities for the co-operatives themselves (R2) as well as their members (R1). Members of co-operatives are also their shareholders that have direct interest in the organisations of the strategic alliances. The CSA (R3) relationship either add-hoc pool, consortia or joint venture is set up to enable co-operatives to collaborate among themselves or with non-co-operative organisation in order to get access to markets, distribution channel, pooling of resources, skill, technology and others. The active involvements of members will not only further expand business opportunities of co-operatives but will also increase the income level of participating members.

Therefore, CSA can help to create more entrepreneurs in a society and can act as a social engineering agent in poverty alleviation and income distribution. R4 is the relationship of the CSA with its environment. As defined by Michael D. Cunningham, the environment is everything external to the organisation co-operative network such as suppliers, customers, competing firm, competing CSA, potential partners as well as socio-economic and political environments.

Nevertheless, the topology of co-operative strategic alliance with non-co-operative organisation could be seen as follows:

Figure 2.7

CO-OPERATIVE STRATEGIC ALLIANCE BETWEEN CO-OPERATIVE AND NON-CO-OPERATIVE ORGANISATIONS



Note:

M = Member

CSA = Co-operative Strategic Alliance.

R1 = Business relationship between a co-operative and its members

R2 = Relationship mode between a co-operative and non-co-operative organisation

R3 = Relationship between a co-operative and a joint venture/consortium/collaboration.

R4 = Relationship between a Co-operative Strategic Alliance and its environment.

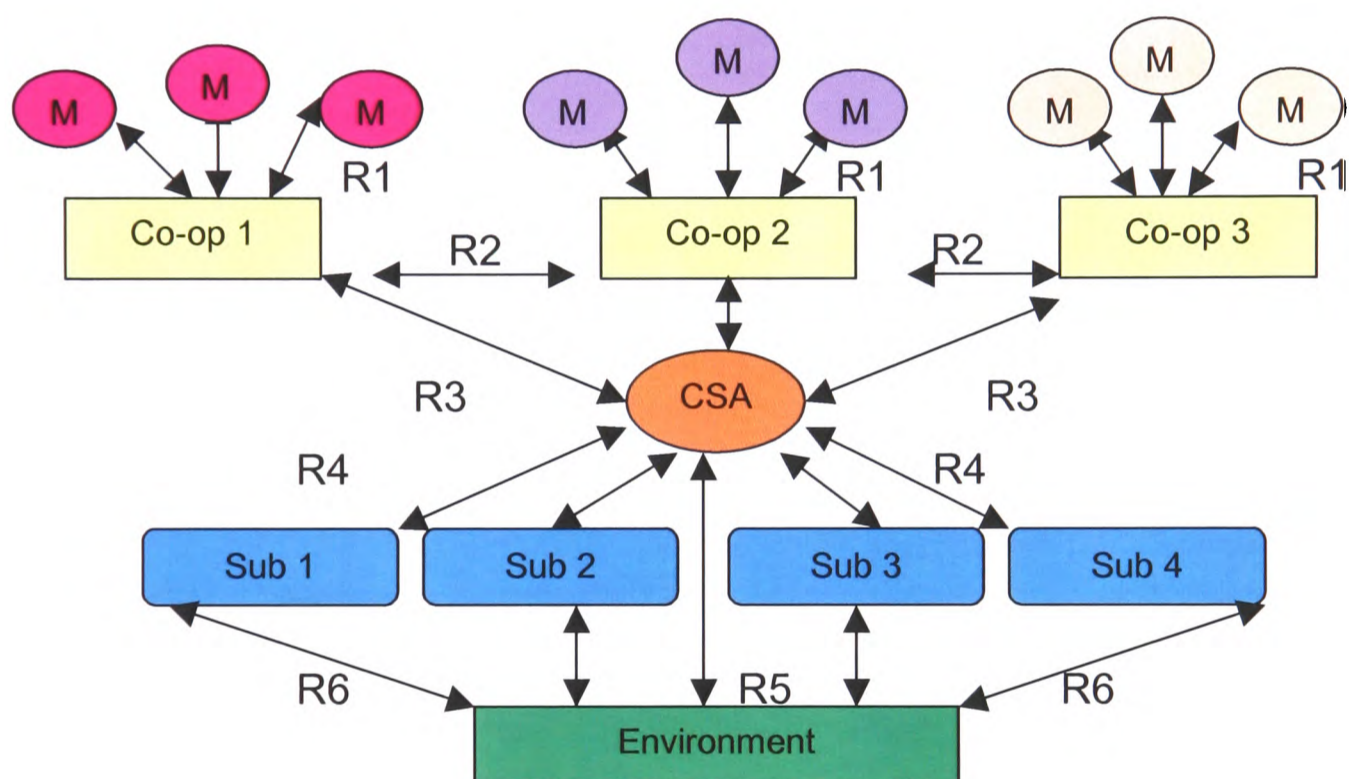
It can be clearly seen that Co-operative Strategic Alliance will give more business benefit to shareholders of co-operatives. Besides getting shareholder benefits, members of co-operatives can also do business with the Co-operative Strategic Alliances by supplying goods and services. Meanwhile, the said co-operative will again get another business opportunity

by supplying input to related farmers that supply the related goods and services to the alliance.

A joint-venture relationship can also be further expended to full-blown relationship. Many co-operatives and non-co-operatives collaboration have extended their alliance to cover other investments/activities/projects. The CSA when full-blown can be seen in Figure 2.8 below:

Figure 2.8

CO-OPERATIVE STRATEGIC ALLIANCE IN A FULL-BLOWN JOINT VENTURE



Note:

- M = Member
- Sub = Subsidiary
- CSA = Co-operative Strategic Alliance.
- R1 = Business relationship between a co-operative and its members
- R2 = Relationship mode between partners (co-operatives).
- R3 = Relationship between a co-operatives and Co-operative Strategic alliance either through a joint venture/consortium/collaboration.
- R4 = Relationship between the CSA joint venture and subsidiaries that have formed as a result of business expansion.
- R5 = Relationship between a CSA joint venture and its environment
- R6 = Relationship between subsidiaries and their environment.

For the purpose of this thesis, environmental factors in most cases are defined as factors that have influenced the policies of alliances but have no direct relationship to day-to-day business of alliances such as socio-economic and political factors. Meanwhile, factors that have direct relationship with alliance day-to-day business such as suppliers, customers and competitors are considered as external factors. Nevertheless, external and environmental factors sometimes are used

interchangeably.

It is worthwhile investigating the role of these farmers' organisations and examines more closely their contribution to farmers' incomes/profits. It is because the domestic development policies, as mentioned above, have identified the co-operative movement to play an active role in the development of Bumiputra entrepreneurs especially Farmers' Organisations as a form of private institutions that can participate actively in the economic and social development of farmers.

CHAPTER 3

INTERNATIONAL STRATEGIC ALLIANCE DEVELOPMENT MODELS

SUMMARY

This chapter explains the international strategic alliance development models that have been proposed during 1991-2004 by 13 researchers namely, El-Hajjar, Sawsan Yehia (1991), Christoph Bronder and Rudolf Pritzl (1992), Peter Lorange and Johan Roos (1993), Peter Pekar and Robert Allio (1994), David Faulkner (1995), Judith M. Whipple and Robert Frankel (1998), Mitchell P. Koza and Arie Y. Lewin (1999), Mitchell Koza and Arie Lewin (2000) and Jeffrey Reuer and Maurizio Zollo (2000). Timothy L. Pett and C. Cley Dibrell (2001), Lynn A. Isabella (2002), Johan Draulans, Ard-Pieter deMan and Henk W. Volberda (2003), W.L. Cheng, Eddie, Li, Heng, E.D. Love, Peter, Irani, Zahir (2004).

Most of these alliance development models from 1991-1995 can be divided into three main phases, that being Formation, Management and Evolution of Alliance. However, Bronder and Pritzl (1992) and Pekar and Allio (1994) have, in addition, presented a fourth phase, that of Partner Selection Criteria. That said, models from 2000-2004 are more focussed on management of alliance.

It also highlights definition of strategic alliance and background on international strategic alliance case studies that mainly quoted cases and examples from well-known international companies (except that of Whipple and Frankle's model (1998) that explains alliance formation process based on agri-business and food industry channels in the United States) and therefore more domestics in nature. The type of alliances that mainly based on system and purpose has also been examined.

Based on the international strategic alliance overall models, comparative study has been prepared as an attempt to discover the differentiation and similarity of those models as far as formation, partner (s) selection criteria, management and evolution of alliances are concerned.

Malaysian Farmers' Organisation Strategic Alliance Sustainable Competitiveness Development Model has been highlighted. It has been divided into a three stages model, namely (1) The Start-up period, (2) Adaptation Process and (3) Termination/Transformation of alliance. The model is drawn largely from the nine models on strategic alliances(1991-2000) that have been mentioned above, information gathered from the fieldwork and case study from the farmers' organisations own experiences.

3.1 INTRODUCTION

As a result of globalisation and liberalisation, alliances between organisations have grown in significant as a strategic feature in business arrangement during the last decade of the 20th century as well as the beginning of the new millennium. It involves not only international strategic alliances⁴³ but also domestic alliances⁴⁴.

⁴³ International Strategic Alliance is defined as any collaboration effort made between firms originated in different countries (cross border firm). The business can be operated either in one or both of the partners' countries or other countries.

⁴⁴ Domestic alliance is defined as any collaboration efforts between firms originated within the same

The movement of international companies in search of alliance partner (s) is believed, amongst others to find ways of securing new market opportunities, complementary resources and latest technology available, to reduce cost by tapping ready distribution channels and local expertise and share development expenses as well as calculated risks. These benefits or motivation factors of strategic alliances are supposed to reduce costs and increase efficiency to enable them to compete from a greater position of strength and advantage.

At the end of the day, parent companies that have strategic alliance activities should be able to increase profit, share value, income and their overall well-being and quality of life. The farmers' organisations strategic alliance activities are also being seen as one of the effective ways to improve the income of their members and to raise their standard of living. The same endeavour is stipulated in the hypotheses of the study; "The strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward toward wealth creation and socio-economic development". The earlier alliances are operating mostly in other counties while the later ones operate mainly on the domestic scene.

However, firms intend to pursue a strategic alliance route in their business strategy must carefully weigh the benefits and costs that accompanying this option. The formation stage of alliance has been stressed by models proposed between 1991-1995 periods as the most important phase of alliance development. At this stage, all benefits and costs of forming an alliance must be calculated carefully. For example, the need to enter global market and requirement for new technologies (external factors) are the strongest factors leading to the establishment of strategic alliances (Faulkner, 1995⁴⁵). Nevertheless, transaction costs can make co-operation less efficient (Carlos & Howard, 1991) and the giving firm will lose technological superiority as a

country. The business can be operated locally or internationally.

⁴⁵ Ibid. David Faulkner, *International Strategic Alliances*, The formation of an alliance, 1995, pp.56-63.

MODELS

result of training their competitors (Hladik, 1988)⁴⁶ as well as lose their competitive strength (Gugler, 1992)⁴⁷. At the same time access to complementary resources, the sharing of large research and development expenses (Gugler, 1992) can result in the loss of authority (Hladik, 1988).

The specialising firms that need to produce innovative and high quality products to be exported or have to compete with imported products need to form strategic alliance which, provides platform in exchanging critical resources, skill and competence (Kogut, 1988)⁴⁸. Day (1995)⁴⁹ noted that in USA alone, alliances are growing at a rate of twenty-five percent annually and about 20,000 alliances were formed between 1988 and 1992. Freidheim (1999)⁵⁰ quoted from a survey of 2,500 U.S. alliances from 1988 to 1992 shows that the average return on investment for alliances are higher compared with the average return of U.S. industry i.e. 17% and 11% respectively, and rose significantly as companies gained experience. Nevertheless, although strategic alliance between firms are increasingly numerous, their failure rate seems to remain high (Arino & Doz, 2000)⁵¹.)⁵². According to Dean, Kathawala and Yunus (2001)⁵³ a well managed strategic alliances agreement is needed to avoid tactical errors by management which could lead to failure. This is because managing alliances well is crucial for firms to secure competitive advantage and create value with strategic alliance (Ireland, Hitt & Vaidyanath 2002)⁵⁴. It is imperative that careful planning and attention to detail is absolutely necessary at all stages in the formation and management of strategic alliances.

⁴⁶ Karen J. Hladik, *Cooperative Strategies in International Business, R&D and International Joint Venture*, (Edited by Contractor & Lorange), 1988, pp.187-203.

⁴⁷ Ibid. Gugler (1992)

⁴⁸ Kogut, B. (1988), " Joint Venture Theoretical and Empirical Perspective, *Strategic Management Journal*, Vol.9, pp.319-332.

⁴⁹ Day, G. S. "Advantageous Alliances", *Journal of Academy of Marketing Science*, 1995, 23, 297-300

⁵⁰ Freidheim, Cyrus, *The Trillion Dollar Enterprise, A Natural Evolution*, 1999, pp. 26-41.

⁵¹ Africa Arino & Yves Doz, *Rescuing Trouble Alliances.....Before its too Late*, *European Management Journal*, 2000, Vol. 18, No. 2, pp. 173.

⁵² Africa Arino & Yves Doz, *Rescuing Trouble Alliances.....Before its too Late*, *European Management Journal*, 2000, Vol. 18, No. 2, pp. 173.

⁵³ Dean, Kathawala & Yunus (2001), *An Overview of Strategic Alliances*, *Management Decision (Article)*, Vol. 39, Issue:3, pp.205-218.

⁵⁴ Ireland, Hitt & Vaidyanath (2002), *Alliance Management as a Source of Competitive Advantage*, *Journal of Management*, pp. 413-446.

In the globalisation era, Intellectual Capital and knowledge have become important properties to a business venture. Das, Sen & Sengupta (2003)⁵⁵ in their study of two forms of strategic alliances, technical and marketing, they concluded that, technological alliances are potentially more beneficial than marketing alliance, and more likely to create intellectual capital. Additionally, Grant & Baden-fuller (2004)⁵⁶ however inferred that alliances contribute to the efficiency in the application of knowledge, first, by improving the efficiency with which knowledge is integrated into the production of complex goods and services, and second, by increasing the efficiency with which knowledge is utilised. Therefore, careful planning and attention to detail is required at all stages in formation and management of strategic alliances.

3.2 INTERNATIONAL STRATEGIC ALLIANCE MODELS

The development of an alliance can be divided into three main phases:

- Formation.
- Management, and
- Evolution of alliance.

This is shown virtually in most of the models proposed during 1991-1998 by:

- i. El-Hajjar, Sawsan Yehia's model (1991).
- ii. Christoph Bronder and Rudolf Pritzl's model (1992).
- iii. Peter Lorange and Johan Roos's model (1993).
- iv. Peter Pekar and Robert Allio's model (1994).
- v. David Faulkner's model (1995).
- vi. Judith M. Whipple and Robert Frankel's model (1998).

However, Bronder and Pritzl (1992) and Pekar and Allio (1994) have, in addition, presented a fourth phase, that of Partner Selection Criteria. . All the above models (except that of Whipple and Frankle's model (1998)) are based on international strategic alliances.

⁵⁵ Das, Sen & Sengupta (2003), Strategic Alliances: A Valuable Way to Manage intellectual Capital, *Journal of Intellectual Capital*, Vol. 4, Issue 1, pp.10-19.

⁵⁶ Grant & Baden-fuller (2004), A Knowledge Accessing Theory of Strategic Alliances, *Journal of Management Studies*, Vol.41 Issue: 1, pp. 61-84.

Strategic alliance models from 1999-2004 focus their attentions more on alliance management such as:

- vii. Mitchell P. Koza and Arie Y. Lewin (1999).
- viii. Mitchell Koza and Arie Lewin (2000).
- ix. Jeffrey Reuer and Maurizio Zollo (2000).
- x. Timothy L. Pett and C. Cley Dibrell (2001)
- xi. Lynn A. Isabella (2002).
- xii. Johan Draulans, Ard-Pieter deMan and Henk W. Volberda (2003)
- xiii. W.L. Cheng, Eddie, Li, Heng, E.D. Love, Peter, Irani, Zahir (2004)

Koza and Lewin (1999) focussed their study on applying and extending a co-evolutionary perspective of a single case study of a professional service network in the public accounting industry, and in the year 2000, they shifted their research to Exploitation and Exploration approaches for organisational adaptation process. Reuer and Zollo (2000) did their research on Managing Governance Adaptation in strategic alliances while Pett and Dibrell (2001) developed a conceptual framework of Global Strategic Alliances Formation Process by using the hybrid type of organisation as part of the framework. The framework illustrates the relationship of various characteristics that may be evident in an industry and across national boundaries which could influence alliance participation. Isabella (2002) is convinced that managing alliances is much more than business as usual by recommending Alliance Best Practice. Draulans, deMan, and Volberda (2003) suggested special management techniques need to be implemented in order to strengthen the organisation's alliance capabilities. Cheng, Heng, Peter and Zahir (2004) however came up with a Long-term Commitment Model for inter-organisational relations in construction that embraces components that help to stimulate the level of employees and management commitment in order to satisfy the stakeholders such as, effective people management, promoting spirit of co-operation and team-work through establishment of shared value, active participation of top management as well as developing synergistic relationship that can modify work practices that attain superior performance.

Almost all the above models take into account the important requisites such as vast business experience, wide range of products and distribution channels, sophisticated business linkages as well as need for experienced managers and highly skilled work force amongst others. This may lead to the assumption that the lessons from these studies are applied to and benefited international companies and alliances, which operate at an international level.

Close examination will show that by using the same principles, concept and models, domestic strategic alliances will also gain much and enjoy the same benefits as the international strategic alliances if not more. Therefore, this study will focus on relationship between the criteria for start-up, maintenance and effectiveness of strategic alliance of farmers' organisations in Chapter 6. However, some adaptation of specific stages may be required and this will be part of the current research to be discussed in this thesis.

3.2.1 DEFINITION OF STRATEGIC ALLIANCE

Several authors / researchers have provided definition for strategic alliances as mentioned in Table 3.1:

Table 3.1
DEFINITIONS OF STRATEGIC ALLIANCE

	DEFINITIONS
El-Hajjar (1990) ⁵⁷	An internal strategic alliance is an agreement between two or more compatible companies (mainly belonging to two or more developed nations) who co-operate through resource pooling and/or technology exchange, and share the operation and management of a long-term strategic relationship in a manner intended to create a superior competitive position for them. This relationship is more than just a license agreement and at the same time falls short of a merger.
Bronder & Pritl's (1992) ⁵⁸	A strategic alliance occurs when value chain activities between at least two companies with compatible goal structures are combined for sustaining and/or achieving significant competitive advantage.
Lorange & Roos' (1993) ⁵⁹	Strategic alliances involve co-operation between two or more firms. Besides that, an alternative theoretical definition of strategic alliances can be established according to the definition of Contractor and Lorange (1988) that is based on the degree of interdependency between the parties involved. It varies from low to high interdependency such as informal co-operative venture, formal co-operative venture, joint venture, joint ownership, mergers and acquisitions.
Faulkner's (1995) ⁶⁰	A particular mode of inter-organisational in which the partners make substantial investments in developing a long-term collaboration effort, and common orientation. (Mattsson, 1988).
Whipple & Frankel (1998) ⁶¹	Process wherein participants willingly modify their basic business practices to reduce duplication and waste while facilitating improved performance".
Koza and Lewin (1999) ⁶²	Strategic alliance co-evolutionary perspective explores the antecedents and stimuli for the formation of the network, the network's morphology, the motivation of the network's members, and the ways in which the network co-evolves with its environment and with the adaptation practises of its members
Freidham (1999) ⁶³	Strategic alliances begin with a long-term commitment and shared resources.... Alliances are about growth. Alliances are about capabilities. Alliances are about consolidation".
Pett, Dibrell (2001) ⁶⁴	In sum, strategic alliances can be viewed as a form of hybrid organisation.

⁵⁷ El-Hajjar , Strategic Alliances, Motivation, Management & International Competitiveness, 1991, pp. 6 (Ph.D Thesis).

⁵⁸ Ibid. Christoph Bronder and Rudolf Pritzi, Developing Strategic Alliances: A Conceptual Framework for Successful Co-operation, European Management Journal, Vol. 10, 1992, pp. 412-421.

⁵⁹ Ibid. Peter Lorange & Johan Roos, Strategic Alliances, Formation, Implementation and Evolution, 1993, pp. 3-5.

⁶⁰ Ibid. David Faulkner, International Strategic alliances, Co-operating to Compete, 1995, pp. 7.

⁶¹ Judith M. Whipple & Robert Frankle, The Alliance Formation Process, International Food and Agribusiness Management Review, 1998, 1(3), pp.335-357.

⁶² Mitchell P. Koza & Arie Y. Lewin , 1999, *The Co-evolution of Network Alliances: A Longitudinal Analysis of an International Service Network*, pp. 638-653.

⁶³ Ibid. Freidheim, Cyrus, The Trillion Dollar Enterprise, A Natural Evolution, 1999, pp. 26-41.

⁶⁴ Pett & Dibrell (2001), A Process Model of Global Strategic Alliance Formation, Business Process Management Journal, Vol. 7, Issue:4, pp. 349-364

Deeds and Rothaemel (2003) ⁶⁵	Strategic alliances are inter-organisational relationships that firms enter voluntarily with one another.
Cheng, Heng, Peter and Zahir (2004) ⁶⁶	A long-term relationship formed between two parties (or more) within a supply chain to develop mutually agreed strategies in terms of goal and objectives for the involved parties to pursue jointly.

It appears that Pekar & Allio (1994) and Koza & Lewin (2000) however have only focused on developing the respective model based on earlier definitions. However, Koza & Lewin (1999) do give specific definition for Network alliances as the multiplicity of ways in which at least two firms or sub-units within the firms may be organised as hybrids to cooperate for mutual benefit. Overall, the essence of the definitions for models from 1990-1995 is concentrating on the collaboration and co-operation between two or more firms for strategic purposes. For examples, Lorange & Roos' (1993)⁶⁷ define strategic alliances involving co-operation between two or more firms and Faulkner takes a strategic alliance as a particular mode of inter-organisational activity in which the partners make substantial investments in developing a long-term collaborative effort, and common orientation. Whipple & Frankle, however, base their definition on the strategic alliance process when participants willingly modify their basic business practice in order to reduce duplication and waste.

Several other authors have reviewed this subject area at different periods and have proposed definition but without developing models to illustrate new dimension i.e. Forrest (1989)⁶⁸, Parkhe (1991)⁶⁹, Freidhem (1999)⁷⁰. The

⁶⁵ David L. Deeds and Frank T. Rothaemel (2003), Honeymoon and Liabilities : The Relationship between Age and Performance in Research and Development Alliances, *Journal of Product Innovation Management*, Vol.20, pp. 468-484.

⁶⁶ Eddie W.L. Cheng, Heng Li, Peter E.D. Love, Zahir Irani (2004), Strategic Alliances: A Model for Establishing Long-term Commitment to Inter-organisational Relation in Construction, Building and Environmental Article, Vol. 39, Issue 4, 459-468

⁶⁷ Ibid. Peter Lorange & Johan Roos, Strategic Alliances, Formation, Implementation and Evolution, 1993, pp. 3-5.

⁶⁸ Forrest (1989) defines SA as " Any collaboration between firms and other organisations, which are both short and long-term, involved partial or contractual ownership's and are developed for strategic reasons".

⁶⁹ Parkhe, Interfirm Diversity, Organisational Learning and Longevity in Global Strategic Alliance, *A. Journal of International Business Studies*, , 1991, vol. 22, pp.579-601 defines strategic alliances as interfirm co-operative arrangement, involving flows and linkages that utilise resources and governance structures from independent organisation, for the joint accomplishment of individual goals linked to the

MODELS

essences of their definitions are the same as the models from 1990-1995 and focus on the rationale for alliances to form. For example, Freidham (1999) defines "Strategic alliances begin with a long-term commitment and shared resources.... Alliances are about growth. Alliances are about capabilities. Alliances are about consolidation". Since models from 2000-2004 put more emphasis on analysing management of alliance, their definitions are focused mainly on inter-organisational relationships

3.2.2 BACKGROUND OF INTERNATIONAL STRATEGIC ALLIANCE CASE STUDIES.

Two of the important reasons found by El-Hajjar (1991) as to why British Multinational Enterprises become involved in international strategic alliances were: (1) the trend toward globalisation of the markets and (2) market integration as the result of the establishment of the Single European Market (1992). All authors who have commented on these quoted similar views. The Single European Market⁷¹ was formed to enhance free trade between all member states within the European Union (EU). It also allows the citizens of member states free movement, to work and to live in the country of their choice within the community. Clearly, the prime motive is to reduce restrictions on trade within the community i.e. free movement of goods, services and capital and to allow companies within the member countries to compete on an equal basis throughout the EU. Hence, the Market is a way of removing barriers⁷² without challenging the sovereignty of member countries. In the case of farmers' organisations, different reasons have been cited for different time periods and these are explained in Chapter 5.

It is also important to note that when explaining their models, all authors have quoted cases and examples from mainly well-known international companies, and all from within the United Kingdom, United State of America and Japan. This may due to two reasons: (1) these companies have a long history of

corporate mission of each participating firm.

⁷⁰ Ibid. Freidheim, Trillion-dollar enterprise, 1999, pp. 32 & 36.

⁷¹ Martin, The Single European Market, 1992, pp. 1-3.

⁷² Simon J. Bulmer, New Institutionalism, The Single Market and EU Governance, ARENA Working Papers, 1997.

successful business experience from, which lessons could be drawn (2) equally, to-date most examples of strategic alliances are only evident from major companies with a global reach. These companies are pre-dominantly within Ohmae Kenichi's Triad⁷³ i.e. Europe, USA and Japan. Nevertheless, Whipple and Frankel (1998) have specifically focused their research on the agricultural food system while the rest of the case studies have mainly concentrated on manufacturing and services industries. In the domestic alliances of farmers' organisations most of the case studies are in the area of agriculture production, trading, investment, services, property development and marketing.

3.2.3 TYPE OF ALLIANCE

A description of an alliance can be in one of two main categories. First, it can be based on the system that operates the alliance such as in the form of a consortium and joint venture. Alternatively, it can be based on the purpose for which the alliance is formed such as marketing and technology. Below are the types of alliance under various authors:

Table 3.2
TYPE OF ALLIANCE APPLIED IN INTERNATIONAL
STRATEGIC ALLIANCE MODELS

Authors	System Based	Purpose based
El-Hajjar (1991)		Technology alliances Production Alliances Marketing Alliances Multiple-activity alliances 5) Single country and multi-country alliances 6) Others.
Bronder & Pritzl (1992)		Building value chains for competitive advantage
Lorange & Roos (1993)	Ad hoc pool Consortium Project-based joint venture Full blown joint venture	
Pekar & Allio (1994)		Collaborative advertising R & D partnerships Lease service agreements

⁷³ Ohmae, Kenichi, *The Borderless World: Power and Strategy in the Interlinked Economy, An Inside-out View of Macroeconomics*, 1994, pp. 1.

		Shared-distribution Technology transfer Co-operative bidding Others.
Faulkner (1995)	Joint venture Consortium Collaboration	
Whipple & Frankle (1998)		Improving performance through efficiency
Koza & Lewin (2000)		A single longitudinal case study of a professional service network in the public accounting industry applying and extending a co-evolutionary perspective.
Mitcheal Koza and Arie Lewin (2000)		Exploitation and Exploration approaches for organisational adaptation process
Reuer & Zollo (2000),		Managing Governance Adaptation in strategic alliances
Lynn A. Isabella (2002)		Managing alliances is much more than business as usual
Draulans, Ard-Pieter and Volberda (2003)		Special management techniques to strengthen the organisation's alliance capabilities.
Eddie, Heng, Peter and Zahir (2004)		Embraces components that help to stimulate the level of employees and management commitment in order to satisfy the stakeholders

Lorange & Roos's (1993) and Faulkner's (1995) models are based on the operational system of the alliances such as collaborative arrangement, consortium and joint venture. Meanwhile, Pekar and Allio (1994) have distinguished their type of alliances from the purpose of alliance formation, e.g. collaborative advertising, shared distribution of alliances and others. Meanwhile, Koza & Lewin (1999) have focused their study on Network alliances. The authors' view of alliance networks as rational constructed organisations designed to accomplish the instrumental aims of the members firms. The concept of alliance networks is to indicate multiparty alliances, in which multilateral transaction among the network members are facilitated by the network. This kind of alliance even though could be categorised as collaboration or consortium type of alliances, is distinct due to the existence of memberships to a non-equity apex organisation (voluntarily). Thus making it unique and may entitle it to be presented as another distinct type of alliances alongside collaboration, consortium, joint venture and full-blown joint venture.

Therefore, if the type of alliance is based exclusively on its operating system its scope will be limited to just collaboration, consortium and joint venture and network alliances (noting that full-blown joint venture, focus alliances and others are still using the same basic system as joint venture). However, if it is based on the purpose of why these alliances are being formed, then potentially there will be as many types of alliances as complementary resources are needed. However, in the case of Bronder & Pritzl's (1992) and Whipple & Frankle (1998), their models can also be typed as purposed-based model in building capability.

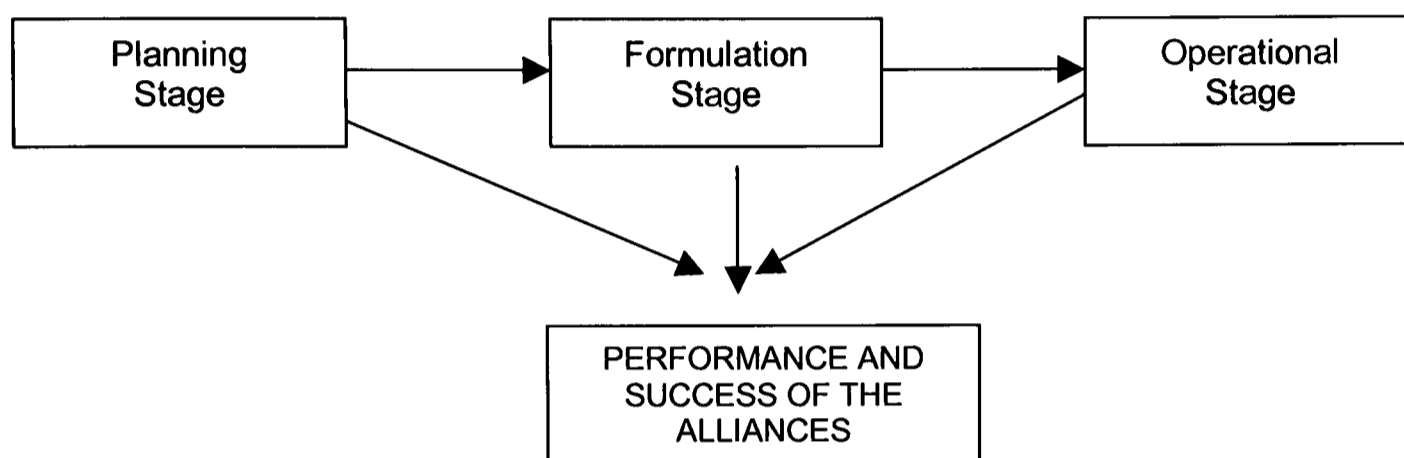
However, since models from 2000-2004 concentrate more on management of alliance, inter-organisational relationships, such as management techniques, has become an important element in strengthening the organisation's alliance and management components to stimulate the level of employees and management commitment in order to satisfy the stakeholders.

Nevertheless, in this study, evaluation and evolution type of alliances are based on the operating system, which is explained in Chapter 8.

MODELS

3.3 COMPARATIVE STUDY OF THE STRATEGIC ALLIANCE MODELS**3.3.1. THE OVERALL MODELS OF INTERNATIONAL STRATEGIC ALLIANCE****i. El-Hajjar (1991)⁷⁴**Figure 3.1

EI-HAJJAR'S MODEL OF STRATEGIC ALLIANCE



El-Hajjar (1991) has developed a framework for British Multinational Enterprises (MNEs) to secure the achievement of the required value added and/or competitive advantages through three sets of managerial guidelines. The competitiveness of MNEs depends greatly on how they manage to reap the benefits of international strategic alliances through the following guidelines:

Planning stage (concerns with strategic and organisational fit for clear objectives and well prepared negotiators)

Formulation stage (deals with clear division/allocation of accountabilities and responsibilities by a well-developed management team, which relies on a clearly tailored plan).

Operational stage (overall is the implementation of the business plan that have been agreed upon that involved, among others, defined objectives, continuous contribution of sufficient resources, enhance the capacity to learn & absorb skills from partner, control mechanism & decision making, continuous evaluation and assessment of objectives and alliance impacts).

ii. Bronder & Pritzl (1992)

Bronder and Pritzl's (1992)⁷⁵ model, present a structured procedure for developing strategic alliance that outlines four critical phases. There are: strategic decision, alliance configuration, partner(s) selection criteria and alliance management. The authors noted that this concept does not represent a strict sequence of logical decision or guarantee the building of successful strategic alliances but it is just a structural approach as a "tool for the do-it yourself strategist".

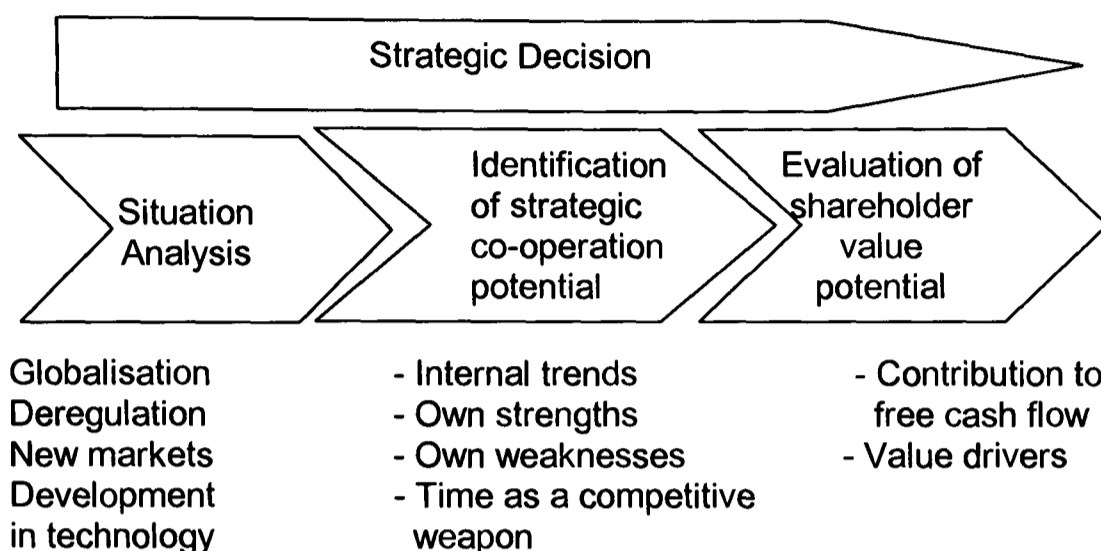
During the formation stage, the Strategic Decision Phase includes the situation analysis, identification of strategic co-operation and evolution of shareholder value potential.

⁷⁴ Ibid. ⁷⁴ El-Hajjar, Sawsan Yehia, Strategic Alliances, Motivation, Management & Internal Competitiveness, 1990, pp. 91-98. (Ph.D. Thesis).

⁷⁵ Ibid. Christoph Bronder and Rudolf Pritzl, Developing Strategic Alliance: A Conceptual Framework for Successful Co-operation, European Management Journal, 1992, vol.10, pp.412-421.

Figure 3.2

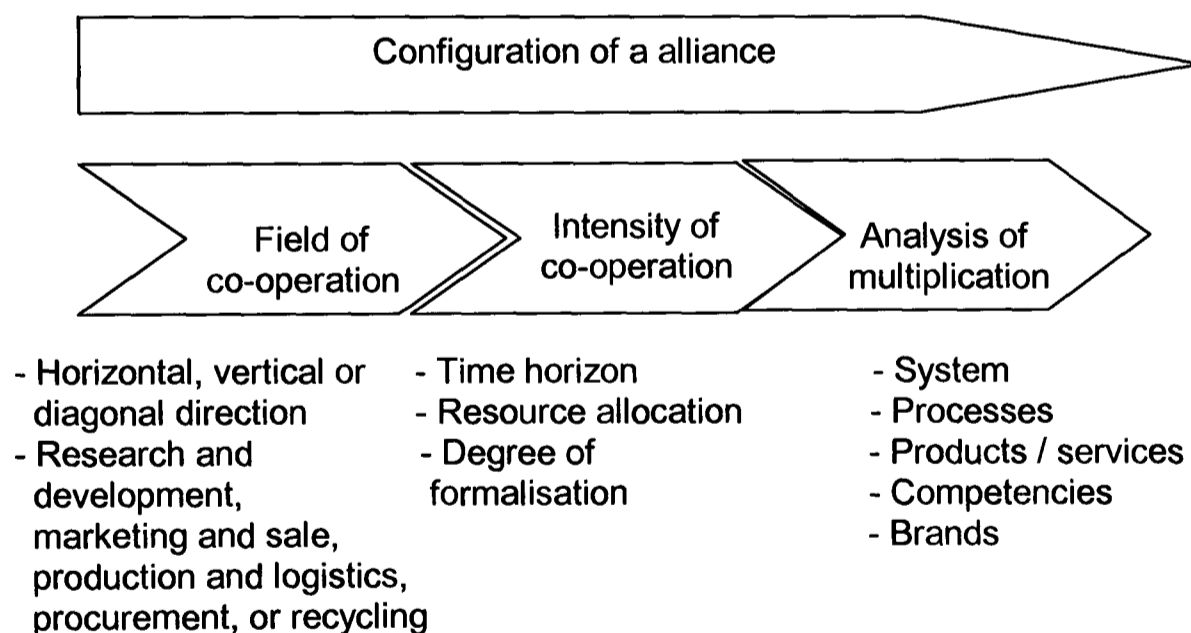
PHASE 1: STRATEGIC DECISION
UNDER BRONDER & PRITZL (1992)



The firm must assess the impact of environmental factors on its current position to assess opportunities available to them and threats that they must face in order to move forward. The identification of strategic co-operation potential will provide the best choice of strategic option to choose based on their current internal and external position in order to assess their strength and weaknesses. The evaluation of shareholder value potential is the best measurement to value the performance of a strategic alliance.

Figure 3.3

PHASE 2: CONFIGURATION OF AN ALLIANCE
UNDER BRONDER & PRITZL (1992)



Configuration aspects such as field of co-operation, intensity of co-operation and opportunities for multiplication should be decided upon deciding to form a strategic alliance. The field of co-operation is based on the direction of co-operation and value chain activities involved. What form of alliance should be chosen, whether horizontal, vertical or diagonal alliances, will be based on the type of business that have been chosen.

Figure 3.4

PHASE 3: PARTNER SELECTION

UNDER BRONDER & PRITZL (1992)

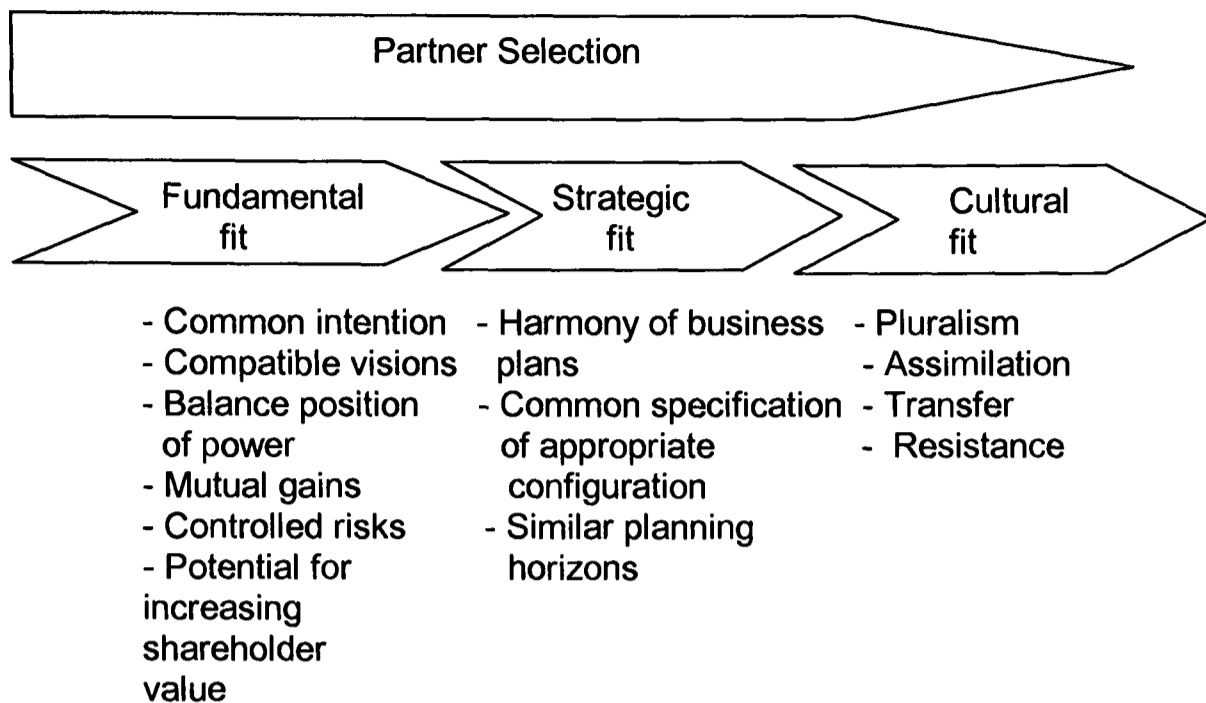
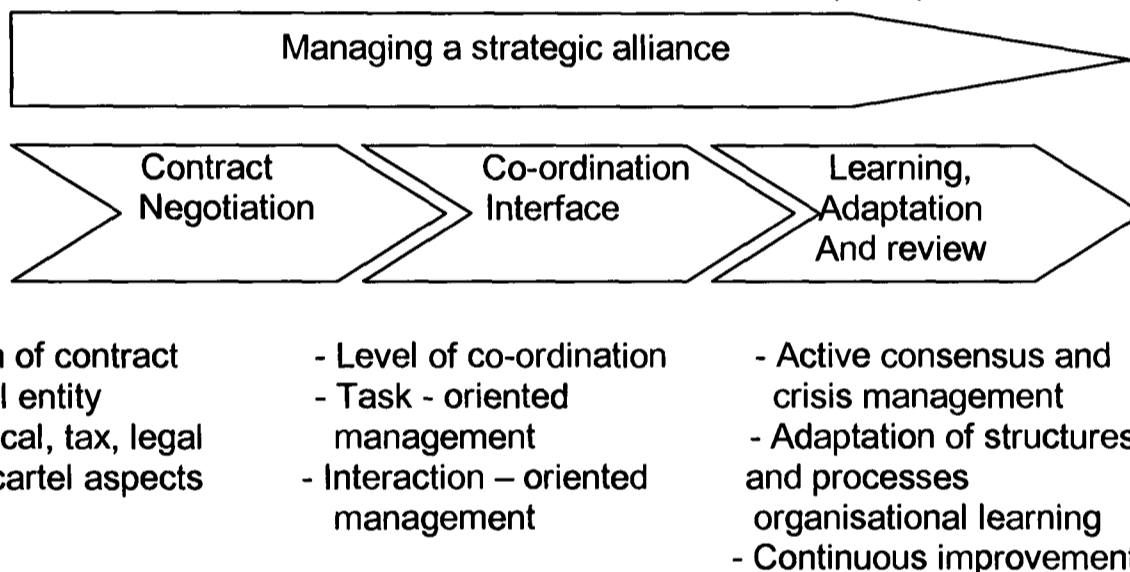


Figure 3.5

PHASE 4: MANAGING A STRATEGIC ALLIANCE
UNDER BRONDER & PRITZL (1992)



In order for the strategic alliance to be successfully managed, it is necessary for the partner to adapt to changing condition and to learn from one another. This phase can be divided into three divisions, namely, Contract negotiations, Co-ordination interface and Learning, adaptation and review.

Both potential partners should define negotiation objective to include limitation of risk in case of failure of the alliance, limitations on the partner concerning other alliance, option for participation in future developments and products as well as participation in growth potential of the partner.

As far as co-ordination interface is concerned, it involves interface co-ordination between various tasks at hand and interpersonal aspects of managers. Therefore, it is advisable to assign an experience manager as a co-ordinator for strategic alliance. This manager should be free from other duties in the company. When first started the strategic alliance, after signing the contract, workload is increasing and conflict between partners can arise, both in task – oriented and interpersonal areas. Not all conflicts are negative; some competitive tensions may lead to an increase in productivity. Therefore, it is a crucial aspect of managing an alliance is to undergo continuously the process of learning, adaptation and review the whole aspect of strategic alliance and changing them if necessary.

iii. **Lorange and Roos⁷⁶**

Both of the authors have divided their model into three stages, namely:

The formation of alliance

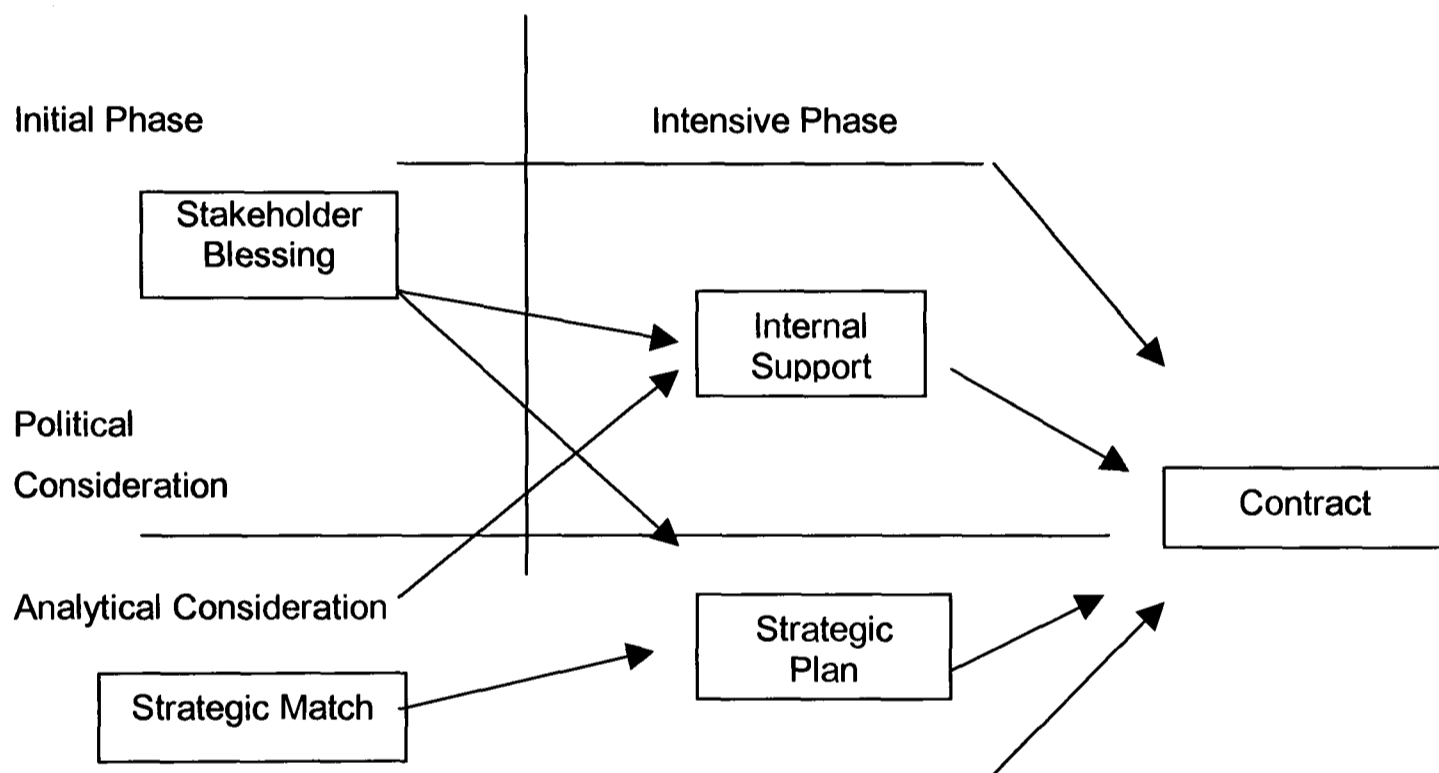
The evolution of alliance

The management of alliance

The Formation Process of Strategic Alliance includes the following factors:

Figure 3.6

FORMATION PROCESS UNDER LORANGE AND ROOS' MODEL (1993)



There are two phases in the formations of strategic alliance, namely the Initial and the Intensive Phase. Both phases deal with different types of political and analytical considerations. The initial analytical phase during the formation of alliance deals with strategic match of the potential partners relating to overall strategic potentials for co-operation. Political consideration is very important at the initial stage to ensure that most important external (owners, board members, bank as well as unions and government) and internal stakeholders would see the general benefits from the strategic alliance.

At the intensive phase, the entire organisation should has been prepared to move quickly as if on a special task, assigned with full commitment and enthusiasm over the alliance. This is to avoid rejection at a later stage when they feel that they have been left out. At this phase, it is also important to gather more in-depth information in order to undertake proper analysis and to develop a strategic business plan.

Management of Alliance

Lorange and Roos⁷⁷ approach the management process of strategic alliance through twin

⁷⁶ Ibid. Peter Lorange & Johan Roos, Strategic Alliances, Formation, Implementation and Evolution, Planning and Control Considerations, 1993, pp.105-147.

MODELS

challenges of Planning and Control consideration as well as Human Resource Development. In order to achieve the setting goals, to avoid information asymmetry, and to reach consensus regarding how to take corrective measures and adapt over time between several partners, strategic planning and control processes can help in the implementation of strategic alliance. There are four important aspects related to that process:

- The setting of objectives for the strategic alliance network as a whole.
- Developing strategic programme for implementing particular objectives.
- Delineating the near-term tactics in relevant budgets (strategic budgeting).
- Monitoring of bottom-line progress, longer-term strategic progress and protection of the firm's core competencies (control and protection of core competence through black box, financial and non-financial strategic control).

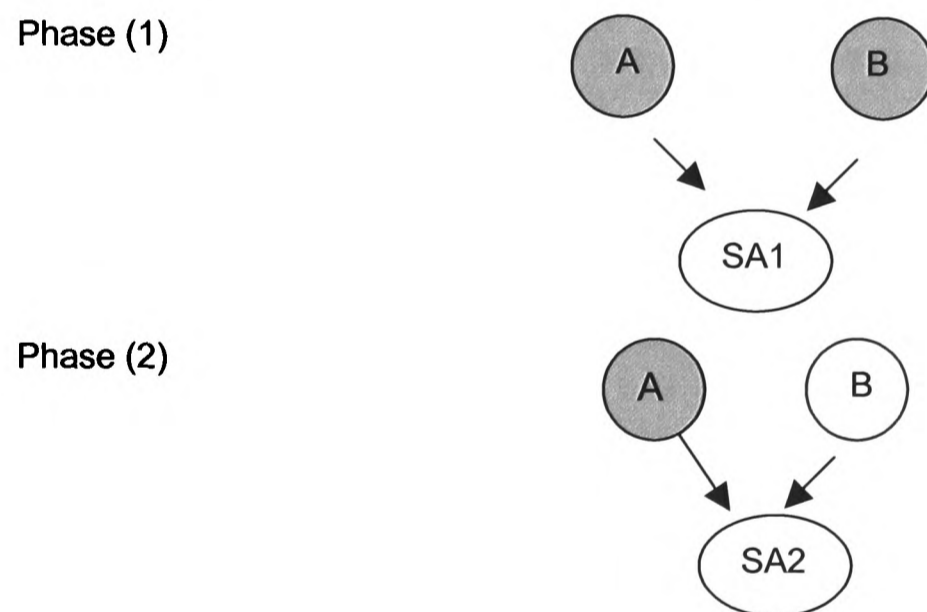
Management of alliance by Lorange and Roos has been used as part and parcel of the questionnaire on alliances' management that needs to be answered by farmers' organisations, which information then be used to develop part of Chapter 5, 6 and 7.

The Evolution of Alliance

Lorange & Roos (1993) noted that strategic alliances grow and develop from childhood to become independent adults. It is based on the change in relationship experienced by strategic alliances with their parent over time. The strategic alliances evolutionary pattern can be illustrated in three phases as shown below:

Figure 3.7

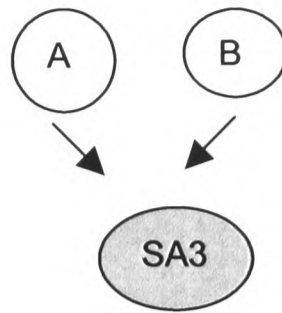
THE EVOLUTION STAGES IN A STRATEGIC ALLIANCE UNDER LORANGE AND ROOS' MODEL (1993)



⁷⁷ Ibid. Peter Lorange & Johan Roos, Planning and Control Considerations, Strategic Alliances, Formation, Implementation and Evolution, , 1993, pp.105-147.

MODELS

Phase (3)

Note:

A	= Partner	SA1	= Strategic alliance at an early stage
B	= Partner	SA2	= Evolve into a more independent state with one or both partners active.
SA	= Strategic Alliance Evolution	SA3	= Largely independent.

Source: Adopted from Lorange & Roos, *International Strategic Alliances*, (1993).

Generally, as a model, the evolution of an alliance can be divided into three phases. During phase (1), the alliance can be seen as a shared strategic alliance between parents both equally active in order to get the activities start. These roles are complementary, for example, one partner provides technological expertise and the other will be providing market access. After a while, the strategic alliance will evolve to phase (2). Usually one partner become increasingly dominant in the role of executing the strategic alliance's task and the other partner may become relatively less active, as the strategic alliance itself could carry out its own function over time. The phase (2) can be slowed down or prevented, if both partners have a strong wish to remain active. Managing a business in a hand-on co-ordination for the long run will be too stressful for both parties involved. The strategic alliance can even start directly as a phase two type.

Evolution into phase 3 becomes evident when the strategic alliance plays the role of a more or less fully autonomous organisation and becomes an independent entity. There are few situations, which may challenge this evolution path, such as the advancement of technology requiring the partner controlling that technology playing an active part from time to time.

As far as the four strategic alliance archetypes are concerned, the ad-hoc pool of strategic alliance has a strong feature as the phase (1) of the [Figure 3.7](#). Whereby each of the parents performing its part and is difficult to expect further evolution beyond this stage as it has very minimum resources.

In the consortium⁷⁸ type of strategic alliance, even though they have more abundant resources and the business is important to the partners, partners are only followers within the particular business area. This will allow each party to carry out its complementary role within the consortium. If the intended results are achieved, the next evolution will be the establishing of the new consortia.

In the project-based joint ventures⁷⁹, even though the partners tend to be leaders in that business segment, portfolio wise, it is only somewhat peripheral to their own business. This therefore limits the amount of resource available to the strategic alliance. The full-blown joint venture⁸⁰ tends to have ample resources from parties involved as well as accumulation of resources from the strategic alliance itself. The parties involved commit all their energies into the strategic alliance in an effort to benefit positively from the restructuring that each expects will take pace through the strategic alliance. The parents will end up having only a financial stake in the alliance. It is only the full-blown joint venture, which will follow the entire life-cycle shown in [Figure 3.7](#).

iv. **Peker and Allio (1994)**

⁷⁸ Ibid. Lorange & Roos, (1993), pp. 86-87

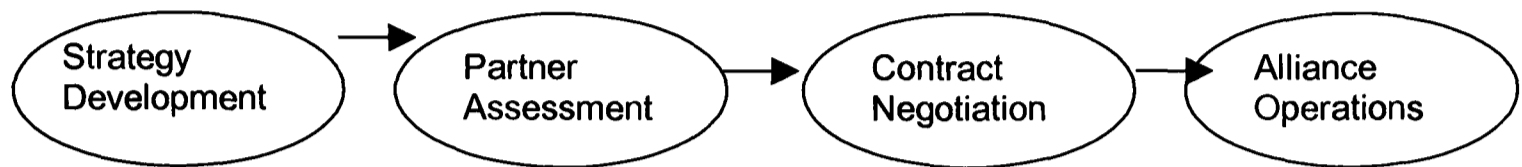
⁷⁹ Ibid. Lorange & Roos (1993), pp.87-88

⁸⁰ Ibid. Lorange & Roos, 1993, pp. 88

MODELS

Three out of four stages in strategic alliance process under the model falls within formation process. Namely, Strategy Development (study the alliance's feasibility, objectives and rationale), Partner Assessment (analysing a potential partner's strengths and weakness and preparing for partner selection criteria) and Contract Negotiation (to determine all parties objective, contributions and rewards). Alliance Operation deals with management of alliance.

Figure 3.8
ALLIANCE FORMATION PROCESS
BY PEKER AND ALLIO (1994)



v. David Faulkner (1995)⁸¹

In discussing the formation of alliances, Faulkner has identified three factors namely: Motivation, Partner Selection Criteria and Selection of alliance form. Several strong internal motivation factors are resource dependency, spreading financial risk, fast to market and low costs. Among industrial (external) factors are globalisation, economies of scale, fast technology change and others. Each of the partners normally seeks complementary resource or skill from the others in order to match their resources or competence requirement.

Partner Selection Criteria can be divided into Strategic Fit and Cultural. The main issue in assessing strategic fit is whether the joint value chain⁸² seems likely to achieve sustainable competitive advantage for the partners, through the complementarity of their skill and assets and potential synergies that can be projected. Cultural fit deals with an attitude of understanding of cultural differences, and willingness to compromise in the face of cultural problems. Selection of Alliance Form deals mainly with three types of alliance forms such as collaboration, consortia and joint venture.

In Management of alliance, right attitude is needed in managing the alliances i.e. positive, sensitive and flexible. Besides that, commitment and trust are other vital attitude to develop close interpersonal relationship in making alliance effective. Several arrangements are needed to run a very workable organisational arrangement. They are as follows:

- Good dispute resolution mechanisms.
- Clarity authority in the hands of the managing director in a joint venture.
- An appropriate of a alliance form.
- Divorce mechanism agreed at the outset.
- Wide information dissemination.
- Congruent goals.
- Positive partner attitudes.

⁸¹ Ibid. David Faulkner, The Formation of an alliance, Internal Strategic Alliance, 1995, pp.50-68

⁸² The value chain is composed of several linked stages: research, development, design, manufacturing, marketing, sales and distribution.

MODELS

The Evolution of Alliance

Alliance theory proposes that condition for evolution⁸³ include:

- Perception of balanced benefits from the alliance by both partners.
- The development of strong bonding factors.
- The regular development of new projects and responsibilities between the partners.
- The adoption of a philosophy of constant learning by the partners.

From the cases studied⁸⁴, the most effective alliances seem to be those that show positive evolution over time, rather than merely a competent pursuit of the objectives agreed at their formation. The surviving alliance can be divided into three levels of effectiveness, limited, latent and dynamic. The Limited alliance shows little sign of evolution or limited future potential for a number of reasons. The Latent alliances have shown substantial developments, but exhibit major limitation. While the Dynamic alliances show a flow of new projects, additional area of co-operation and flexible adjustment to change.

From a close look at ten established alliances and from statistical analysis of 67 alliances, Faulkner tries to gain a greater understanding of why firms develop strategic alliances and how they run them. The main conclusion from both investigations is that partner relationships are more important as a predictor of a successful alliance is than any other economic, organisational or structural factors. Among key positive conclusions from the study are:

- 1) The most common current motivations for alliance formation proved to be, externally, the globalisation of market and the growth of fast-changing technologies, internally, the need for specific resources and competencies to be able to thrive and survive in these markets.
- 2) Although cultural compatibility was rarely a major consideration in selecting a partner, sensitivity to culture at least was found to be an important factor in predicting alliance effectiveness.
- 3) From the three identified stages of alliance development, namely, formation, management and evolution, the statistical analysis suggested that the formation condition and decision were the least associated with the ultimate effectiveness of the alliances.
- 4) Positive attitudes in managing the alliance, and action to stimulate bonding and organisational learning during the evolution of the alliance, were strongly associated with its effectiveness.
- 5) On the management side, positive attitude, cultural sensitivity and clear arrangements were each seen as important.
- 6) It is clearly shown that international strategic alliances need not be transitory arrangements between resource-deficient firms who consider themselves to be actually or potentially in trouble.
- 7) Faulkner's International Strategic Alliance Questionnaire has been used as part of this research questionnaire, with certain modification and adjustment as well as additional factors, to suit the research model and objectives of farmers' organisations strategic alliances as explains in Chapter 6. It involved 234 strategic alliances by farmers' organisations within themselves as well as with outside organisations. Besides the overall effectiveness of formation, management and evolution of alliance,

⁸³ Ibid. David Faulkner, *International Strategic Alliance, The Formation of an Alliance*, 1995, pp.45-47

⁸⁴ Ibid. David Faulkner, *International Strategic Alliance, The Formation of an alliance*, 1995, pp.115-

MODELS

this research also examined the effect of environmental factors on strategic alliance as well as to determine factors that have positive influence on the joint venture and consortium types of alliances.

vi. **Whiple & Frankle's (1998)⁸⁵**

Whipple & Frankel's model only explains alliance formation process based on agri-business and food industry channels in the United States and therefore more domestics in nature. However, in addition to the alliance formation process they put forward the stages of alliance development and the important strategic and operational decision required at each of the four (4) stages were also key to strategic alliances. The model was designed for two purposes. Firstly, the model can be used to guide a manager through the alliance development process beginning with alliance conceptualisation and continuing through long-term maintenance and administration. Secondly, the model serves as a foundation for researchers to measure an alliance's development and long-term success. Nevertheless, their conclusions are relevant even when international arrangements are considered.

Level One – Alliance Conceptualisation – begins when a firm determines an alliance has appeal and provides an alternative to traditional relationships;

Level Two – Alliance Pursuance – finalise the decision to form an alliance and established the strategic and operational considerations that will be used to select the alliance partner;

Level Three – Alliance Confirmation – focuses on partner selection and confirmation. Strategic and operational expectation for the arrangement are jointly determined, and the relationship is solidified; and

Level Four – Alliance Implementation/Continuity – occurs over time during which the alliance is continually administered and assessed through a feedback mechanism to determine whether the alliance is sustained, modified or terminated.

vii. **Koza and Lewin (1999)⁸⁶**

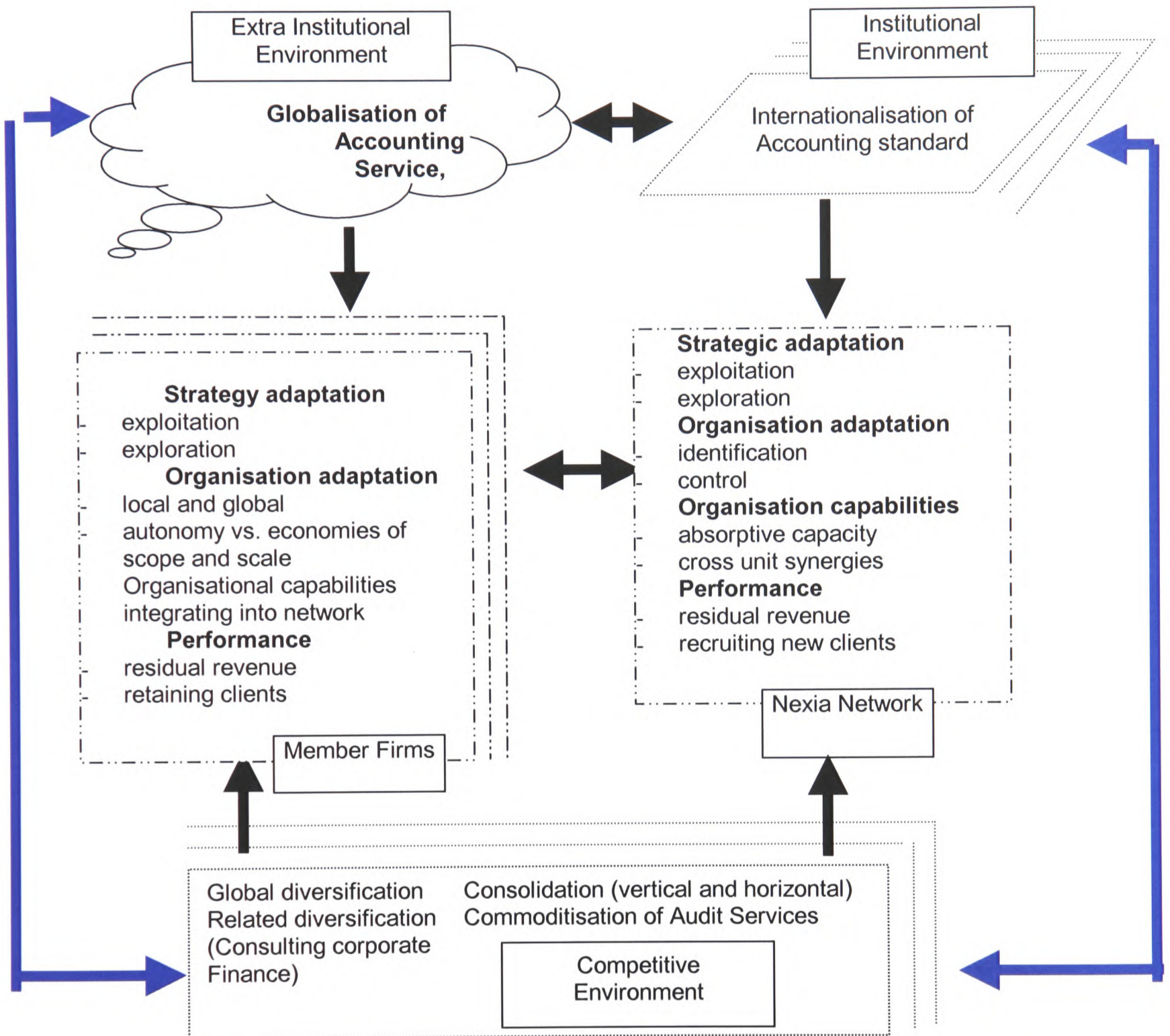
Both authors examined in details a single longitudinal case study of a professional service network in the public accounting industry applying and extending a co-evolutionary perspective. The paper explores the antecedents and stimuli for the formation of the network, the network's morphology, the motivation of the network's members, and the ways in which the network co-evolves with its environment and with the adaptation practises of its members.

A network intentionally created and formally organised to pursue residual referral revenue for the member firms but the creation of the network immediately gives rise to a new class of tensions involving the relationship of the members with the network and to one another. The paper concludes with a model of the co-evolutionary process as follows:

⁸⁵ Judith M. Whipple and Robert Frankel, *International Food and Agribusiness Management Review*, The Alliance Formation Process, 1(3), 1998, pp. 335-357.

⁸⁶ Ibid. Mitchell P. Koza & Arie Y. Lewin (1999), pp. 638-653.

Figure 3.9
CO-EVOLUTION OF NEXIA, ITS MEMBERS AND ENVIRONMENT
BY KOZA AND LEWIN (1999)



MODELS

It is intended to portray the simultaneous evolution of several factors external to the nexus (link) of interaction between a member firm and the Nexia network. Also illustrates the loose coupling between member firms and the network and the ongoing exchanges that taken place. The model is intended as a summary of the incident (event) actions of members firms and the new interaction with the network. It is evident that the creation of Nexia served to dissolve certain issues for the network members. However, the creation of the network immediately gives rise to a new class of tensions involving the relationship of the members with the network and to one another.

These new relationships can and do become a source of tension and potential instability. Several sources of instability are evident in this case. As Nexia develops its strategic action and strive to achieve a network effect, tension emerges as a result of member firms' desire to maintain autonomy. Significant network effects cannot result from returns to exploitation (residual revenue). Referral commission must be balanced against the costs incurred by the member firms for maintaining the network. It is very evident that Nexia is very sensitive to this central overhead burden. However, a network effect requires Nexia to explore for new opportunities. The exploration strategy of Nexia is potentially in conflict with the strategy of member firms such as to identify Nexia as the corporate signatory on all audits is the initial step for the Nexia itself to begin marketing auditing and other consulting services. Therefore, one potential source of conflict is between the member firms' exploitation.

The same stage of evolutionary process has also been experienced by the Umbrella Broiler Scheme as part of their adaptation/sustainability process as explained in Chapter 8.

viii. **Mitcheal Koza and Arie Lewin (2000)⁸⁷**

More recently, Koza and Lewin have focused their research on Exploitation and Exploration approaches for organisational adaptation process. The article mentioned that the survival and prosperity of companies is a direct reflection of their ability to pursue enough exploitation to ensure the company's viability today, and engage in sufficient exploration to ensure its viability tomorrow. Whereby, **Exploitation** refers to the elaboration and deepening of existing capabilities and to incremental improvement in efficiencies and **Exploration** refers to experimenting with or establishing new assets and new capabilities.

According to Koza & Lewin (2000), Alliance can offer a source of incremental revenue from pooling complementary resource that neither partner is interested in developing on its own. These exploitation alliances generally will be implemented as joint equity venture. The performance goals for exploitation alliance normally that known as measurable operational objectives simplifies monitoring progress through outcome control. Alliances are also being useful as the strategic and organisational vehicle for promoting or co-developing new market, products or technological opportunities. These exploration alliances are generally implemented as open-ended co-development joint venture. They are intended to accomplish learning of unknown technologies, new geographic market or new product domains. In short, exploration alliances can serve as prospecting strategies.

The two partners may have symmetric strategic intent when they inter into the alliance but may fail to observe the emergence of asymmetry, which is also a major cause of alliance failures or dissolution. The overall strategic direction of one-partner changes as the firm evolves over time and the initial strategic intent for entering the alliance become non-operative. As explained in Chapter 8, the Umbrella Broiler scheme also experienced the exploitation and exploration process in their efforts to strive for Sustainable Competitiveness position.

⁸⁷ Ibid. Mitchell Koza and Arie Lewin (2000), pp. 146-151.

MODELS

ix. Reuer & Zollo (2000)⁸⁸

Their research has focused on Managing Governance Adaptation in strategic alliances. Considering all of alliance life-cycle stages, adaptation is viewed as the set of interventions parent firms make in alliances after collaboration have been set up and before they have been terminated. Using a survey of biotechnology alliances, the focus of this article is on the specific governance changes firms make in strategic alliances and some of the factors that contribute to these changes. There are three factors contributing to governance adaptation in collaborative agreement. These factors are potentially to influence post-formation dynamics in alliances. The factors are environmental conditions (such as changes in rivalry, host country condition and others), parent firm factors (such as partners capabilities in providing more capital) and alliance attribute (such as scope of collaborative activity and the division of labour among partners).

Based on a cross-section study of Managing Government Adaptation in 119 Biotechnology alliances, among others, the results indicated as follows:

- **In frequency of governance changes**, there are major changes in the board overseeing the collaboration activities and 40% of the 119 biotechnology alliances that have been studied experienced contract alteration.
- **In alliance experience effects**, the inter-organisational routines (customary) firms develop from prior relationship with each other facilitate adjustment in an alliance, firms can draw upon prior alliance experience in a given technological domain to anticipate an alliance's governance needs.
- **In alliance complexity**, Alliances experiencing board changes are likely to be broader in scope than alliances that were not subject to board changes. This change occurs as alliances experience contract alteration that due to the intention to share responsibilities over individual project tasks more evenly. Such changes should be less likely for alliance with a clear division of labour and did not experience changes in the collaborative agreement.
- **In alliance relevance**, changing the governance of an alliance is a negotiated intervention that involves cost. Firms are selective when changing the contractual agreement of collaboration: alliances experiencing contract alteration were more likely to be "critical" to the firm based on parent firms' resource commitment. Whereas average alliances that did not have changes on its contractual agreement was "normal" in term of the parents' contributions.
- **In alliance expansion**, it considers the relationship between alliance expansion and the introduction or formalisation of monitoring mechanism by parent firms. In alliance that parent firms did not expand the scope of the agreement, parent firms later altered monitoring mechanisms only 7% of the time. By contrast, changes in alliance governance occurred four times as often for alliances that underwent expansion. The result suggests that parent firms intervene in an alliance to adapt its governance to the alliance's expansion into new business domains.

x. Timothy L. Pett and C. Clay Dibrell (2001)⁸⁹

Their model on Process Model of Global Strategic Alliance Formation develops a conceptual framework of global strategic alliances by using the hybrid type of organisation as part of the framework. The framework illustrates the relationship of various characteristics that might be present in an industry and across national boundaries that would influence alliance participation. The model developed here is based on four echelons, the exploratory, recurrent, relational, and outcome stages and concludes with some general comments on the proposed global strategic framework.

Exploratory Stage

The exploratory stage is the initial process of bringing together two or more autonomous

⁸⁸ Ibid. Jeffery Reuer & Maurizio Zollo (2000), pp. 164-172.

⁸⁹ Ibid. Pett & Dibrell (2001), A Process Model of Global Strategic Alliance Formation, Business Process Management Journal, Vol. 7, Issue:4, pp. 349-364.

MODELS

organisations, and these units attempt to fill gaps either in their technology, resources, or markets. Included in this process is the scanning of governmental regulations and ethical issues for both the multinational and domestic organisations. Organisations should also consider the role of national culture in the process.

Recurrent Contract Stage

After the exploratory stage is completed and both organisations agree to develop some type of alliance, the process moves into the recurrent contract stage. An evaluation of the risk and motives of both organisations through short-term arrangements highlight this stage. Important areas of discussion in this area include the development and review of each organisation's motives, the risk associated with the stage, the structure needed, and evaluation of the trust of the partners associated with these short-term dealings.

Relational Contract Stage

The relational contract stage is based on the assurance that all opportunistic behaviours are, or nearly are, extinct from the other members of the alliance. Also that the level of risk and trust are high in the alliances; once accomplished, members can then move forward and seek a longer-term alliances. However, if trust between any members fluctuates, the alliance should be terminated or reposition back to recurrent stage, before any long-term commitment is made. If problems arise because of different motives at this point, the problem may become so large that an organisation could lose its competitive edge. Once both parties agree on the direction of the alliance, it becomes difficult to continue if mistrust or unethical behaviour occurs in the future. Therefore, trust is probably the single most important consideration for the alliance success.

Outcome Stage

The outcome stage is highlighted by the potential to gain some competitive edge. However, this stage has other alternative types of outputs that can occur along with the intended strategy, including discontinuance and residual outcomes. Although no organisations sets out to fail or to furnish its knowledge unilaterally to the competition, such is the case in many alliances. This section has elaborated on each of these potential outcomes in more detail.

xi. Lynn A. Isabella (2002)⁹⁰

This model has argued that managing alliances is much more than business as usual. Building relationships, balancing those equitably with business tasks, creating a healthy alliance spirit and dealing with static make the work of managing an alliance is very demanding. Continually been said by executives that alliances and alliance management are different, and, as managers, they are not often equipped for the situations they encounter. Therefore, alliances are entities that take on a life of their own – that develop and evolve in a manner consistent with the experiences, interactions and meanings created by the partner companies and the alliance managers. Alliances are fluid, dynamic and complex. Add to that the fact there is a certain amount of ambiguity and uncertainty inherent in the alliance landscape, and alliances themselves can be coping mechanisms for hedging that uncertainty. Events can occur that shake the alliance, call into question the operating spirit or simply nibble away at the alliance fabric. This is reality of doing a strategic alliance.

⁹⁰ Lynn A Isabella (2002), *Managing an Alliance is Nothing Like Business as Usual*, Article in *Organisational Dynamic*, Vol,31,No.1, pp.7-59.

MODELS

This model offers positive strategies and more effective ways to think about alliances, which are summarised as follows:

Table 3.3

ALLIANCE BEST PRACTICE

No	Challenges	Best Practice
1	Insuring the optimal partner match, not simply the best partner	<ul style="list-style-type: none"> - Know what you offer and what you want to get. - Strive for compatibility of goals and complementarity of assets. - Include “Soft Factors” as due diligence criteria for partner selection. - Put together the right team of people.
2	When the deal is done, the alliance is just beginning.	<ul style="list-style-type: none"> - Keep in frequent, if not daily, contact. - Create excessive numbers of opportunities to interact personally. - Build trust slowly and steadily. - Consider that actions speak louder than words. - Chose managers with relationship building skills - - Stay in your zone of balance.
3	It’s all about alliance spirit and partnering mindset	<ul style="list-style-type: none"> - Accept that alliances are not business as usual - Discuss and understand your company’s spirit - Consider spirit in partner selection - Nurture the alliance spirit. - Use the power of apprenticeship.
4	Predict and manage your alliance static.	<ul style="list-style-type: none"> - Internal Static requires vigilance. - Alliance-based static requires relationship skills. - External static requires foresight.
5	Is it time for a “No-Blame Review?”	<ul style="list-style-type: none"> - Establish joint review of progress and status. - Utilise the guidelines for an effective process and discussion.

xii. Draulans, Ard-Pieter and Volberda (2003)⁹¹

They found out that alliances between organisations quite often result in failure because firms have not built up adequate capabilities to manage alliance. They suggested that special management techniques have to be implemented in order to strengthen the organisation’s alliance capabilities. In order to study whether an alliance capability is important and how an organisation can develop such a capability, KPMG Alliances and the Erasmus University Rotterdam / Rotterdam School of Management jointly conducted a survey to which 46 large companies responded. Alliance success was determined according to the following criteria:

⁹¹ Draulans, Ard-Pieter deMan and Volberda (2003), Building Alliance Capability, Journal of Long Range Planning, Vol.36, pp.151-166.

MODELS

- 1) Economic / financial performance
- 2) The extend to which the goal had been achieved
- 3) The relationship between partners
- 4) Overall performance.

The results of the research are presented by the number of alliances, the used of evaluation methods, the use of an alliance specialist and the use of alliance training. Lesson for managers could be summarised as follows:

First, it pays to actively pursue the building up and dissemination of alliance knowledge by amending or instituting alliance training (especially for inexperienced companies), appointing alliance specialist at middle management level and evaluating alliances (individually and against each other). In order to be successful with alliances, companies need to develop new process in the internal organisation. These processes should be directed at learning from alliances, gathering knowledge about alliances from outside the company and spreading knowledge to alliance managers inside the company.

Secondly, an alliance capability does not have to be built up from scratch inside the company, alliance training can help to avoid the more general pitfalls of partnering. Most training programme cover the various steps in the alliance process, types of alliances, joint business planning

Various levels of alliance capability may also be distinguished. Each of these levels may call for different management techniques. A strategy to develop alliance capability should therefore be geared to the needs and development stage of the company in question:

- Experienced organisations learn the most from the comparison of alliances with each other, while inexperienced organisations learned more from the individual evaluation of alliances.
- Experienced organisations in particular benefits from the use of an alliance specialist , as long as the latter is able to exert influence on the operational practicalities of the alliance. The specialist needs to be close to practice.
- Alliance training courses are particularly successful for inexperienced organisations.

In their empirical study, alliance capabilities turned out to play an important role as an explanatory factor for alliance success and we showed that management and learning do matter in alliance success.

xiii. **W.L. Cheng, Eddie, Li, Heng, E.D. Love, Peter, Irani, Zahir (2004)⁹².**

This paper introduces a long-term commitment model that can support the long existing change process of a strategic alliance in construction that has typically an informal rather than formal relationship. This model embraces components that help to stimulate the level of employees and management commitment⁹³ in order to satisfy the stakeholders such as, effective people management, promoting spirit of co-operation and team-work through establishment of shared value, active participation of top management as well as develops synergistic relationship that can modify work practices that attain superior performance.

The researchers also suggest the measure of satisfaction under project, business, and corporate levels so that the performance of individual organisations and the alliance can be

⁹² Ibid. Eddie W.L. Cheng, Heng Li, Peter E.D. Love, Zahir Irani (2004), Strategic Alliances: A Model for Establishing Long-term Commitment to Inter-organisational Relation in Construction, Building and Environmental Article, Vol. 39, Issue 4, 459-468

⁹³ According to Eddie W.L. Cheng, Heng Li, Peter E.D. Love, Zahir Irani (2004), Commitment is the willingness of one party to maintain the current partnered relationship with other parties based upon the favourable outcomes.

MODELS

traced according to these levels. Employee and management satisfaction⁹⁴ resulting from the favourable performance of the organisations and the alliance will reinforce their commitment⁹⁵ further. This interdependence process occurring between commitment and satisfaction supports a growing and never-ending survival of the strategic alliance.

In addition, the paper provides guidelines to set up jointly agreed upon regulations or rules to create a favourable alliance environment that helps to facilitate the establishment of necessary co-operative behaviour for the change process. Finally, a case study is presented and measures for four key accomplishments (Long-term commitment, Management satisfaction, Employees satisfaction and Match the alliance environment with performance goals) are proposed.

In Chapter 7, this study makes an attempt to identify the characteristic of winning alliance (profitable alliances) from the perspective of their parent organisation through a cross-section study as well. Nevertheless, it focuses on factors such as the source of capital, market outlet, partner selection criteria, management of alliance and success of the evolution process leading to growth as well as the role and successful use of environmental factors (including external factors) in influencing the performance of the alliances.

Whilst the last seven models from 1999- 2004 (except Pett and Dibrell (2001)⁹⁶ do not specifically deal with features linked to the “development model”, those from 1991-2000 offer stimulating ideas to the adaptation process inherent in the proposed Malaysian Farmers’ Organisations “Sustainable Competitive Strategic Alliances Development Model”. This study has indeed benefited directly or indirectly from all the models mentioned above. It gives an idea on what strategic alliances are all about, their development and adaptation process.

3.3.2 THE FORMATION OF ALLIANCE

The models proposed between 1991-95, places equally strong emphases on the first phase, i.e. on the formation of the alliance, in order to develop a strong base to start from. They also believe in the potential benefits that can derive from the formation of strategic alliances such as compatible objectives, synergy, complementary resources and competencies, technological advancement etc.

⁹⁴ According to Eddie W.L. Cheng, Heng Li, Peter E.D. Love, Zahir Irani (2004), Employee satisfaction is a general measure of overall employees’ perception on the organizational performance (e.g. profit, market share) that may affect their normal way of life, such as salary increment and promotion. Management satisfaction, however, is a measure of the perception of the top management on the performance of the alliance team, such as the relationship with other alliance partners and joint problem solving ability.

⁹⁶ Ibid. Pett & Dibrell (2001), A Process Model of Global Strategic Alliance Formation, *Business Process Management Journal*, Vol. 7, Issue:4, pp. 349-364.

Initial stage of Al-Hajjar's model is divided into Planning and Formation stages. Planning stage includes strategic and organisational fit that concerned about clear objectives and well prepared negotiators. Meanwhile, Formation stage is concerned about clear division/allocation of accountabilities and responsibilities by a well-developed management team, which relies on a clearly tailored plan.

Bronde & Pitzl's model (1992) gives greater emphasis on a SWOT analysis in the Strategic Decision process and a business plan analysis during the Configuration of alliance. The field of co-operation is based on the direction of co-operation involved and value chain activities.

Lorange & Roos (1993) do not touch on Partner Selection Criteria during the formation stage. Nevertheless, they consider manpower requirement under a section on Human Resource Development. Their analysis of issues in relation to analytical consideration during initial and intensive stages focussed on preparing a business plan. They also noted the importance of political consideration at the initial stage to ensure internal and external stakeholders are able to see the general benefits from the strategic alliance.

Peker & Allio (1994) also stressed on feasibility study in their alliance formation model e.g. Strategy Development and Contract Negotiation. However, Strategy Development studies about alliance's feasibility, objectives and rationale, contract negotiation, among others deal with all parties' contribution and rewards.

However, Faulkner (1995), with only three phases in his alliance development model places special emphasis on Partner Selection Criteria in the formation stage. He includes internal and external motivation factors, as well as type of alliances (mainly collaboration, consortia and joint venture) but without any emphases on formulating a business plan.

Whiple and Frankle's model (1998) offers conceptual guidelines to managers to facilitate the alliance formation process through alliance conceptualisation,

pursuance and confirmation. Besides that, it also helps researchers to measure development of alliance and long-term success. Overall, the formation process of alliances is the period of putting alliance on a strong business foundation as desired by the partner(s). It supposed to be with the right partner(s) and pre-determined lines of responsibilities and accountability.

Timothy L. Pett and C. Clay Dibrell (2001)⁹⁷ in their model on Process Model of Global Strategic Alliance Formation, develop a conceptual framework of global strategic alliances by using the hybrid type of organisation as part of the framework. The framework illustrates the relationship of various characteristics that may be present in an industry and across national boundaries that could trigger alliance participation. The model developed here is based on four echelons; the exploratory, recurrent, relational, and outcome stages, concluding with some general comments on the proposed global strategic framework.

In order to achieve objectives one (1) to fourth (4) of the study i.e. to analyse the overall Malaysian Farmers' Organisations strategic alliances development, the questionnaire that need to be answered by farmers' organisations has been divided into two parts, A & B. In Part A, there are four main sections namely, The Formation of Alliance, The Management of Alliance, The Role of Environmental Factors and The Evolution of Alliance. There are three sub-sections in the Formation of Alliance i.e. Situation Analysis, Partner Selection Criteria and Strategic Plan. In this study, most of the questions in the Formation of Alliance in Questionnaire (A) have been adopted from the above theories especially that of Faulkner (1995).

⁹⁷ Ibid. Pett & Dibrell (2001), A Process Model of Global Strategic Alliance Formation, Business Process Management Journal, Vol. 7, Issue:4, pp. 349-364.

3.3.3 PARTNER (S) SELECTION CRITERIA

Partner (s) Selection Criteria should be given extra emphasis when dealing with alliances that have potential to be regionalised and internationalised. Hung (1991)⁹⁸ has highlighted finding a right partner is the most cited problem by Canadian firms to penetrate local markets in eight Southeast Asia Countries. It is evident that a right partner will determine the future of an alliance through good working relationships, developing right corporate culture, business harmonisation, suitable technology and others.

While El-Hajjar (1991) touches on the Partner's Evaluation and Selection during the planning stage, Faulkner (1995) deals with Partner Selection Criteria during the formation stage. Only two authors' emphasise on partner (s) selection criteria by including this as a phase in their strategic alliance development models as follows:

Bronder & Pritzl (1992), in dealing with Partner Selection (Figure 3.4), emphasize that a firm should be able to determine precisely what sort of partner it should be looking for. Analysis should be focused on fundamental, strategic and cultural fit between the potential partners. Various issues should be considered in determining the fundamental fit. The alliance achieves fundamental fit when activities and expertise complement in a way that increases value potential. A "win-win" match situation from which both partners benefits is an ideal supposition.

Strategic Fit includes the harmonisation of business plans, (strategic goals concerning value potentials, products, markets and regions), joint specification of appropriate configuration and common time frame for achieving goals. Cultural Compatibility is another factor that cannot be neglected. "The readiness of both partners to accept the geographically and internally grown culture of the partner is of critical importance for a successful and long term co-operation ". The authors suggest using a cultural profile as an analysis that could identify potential areas of conflict. A cultural profile

⁹⁸ Ibid. Hung C.L., 1991, pp.57.

MODELS

involves identifying and measuring both partners' orientation towards environmental, employee, customer, technology, innovation, quality, cost and internalisation. From the analysis, the firm's management should be able to identify gap and differences as well as similarities in culture between both partners. This information can be used to improve the working relationship between the partners.

Pekar and Allio (1994) in their Partner Assessment Process emphasise building a data-base on possible partners, analysing a potential partner's strengths and weaknesses and preparing appropriate partner selection criteria. Great weight is placed on understanding a partner's motives for joining the alliance, creating strategies for accommodating all partners' management styles and addressing resource capability gaps that may exist for a partner.

Lynn A. Isabella (2002)⁹⁹ in her study in partner selection, emphasise the importance of ensuring the optimal partner match and not simply having the best partner. Know what you offer and what you expect in return, strive for compatibility of goals and complimentarily of assets, include "Soft Factors" as due diligence criteria and put together the right team of people.

In this study, Partner Selection Criteria is one of the important sub-sectors in the Formation of Alliance. It includes reasons for partner selection criteria (fundamental, strategic and cultural fit) and positive attitude. It is because alliance is about working together. Without compatible partner (s), alliances simply cannot exist. Complementary alliance¹⁰⁰ needs partner (s) that, among others, are willing to share responsibilities and accountability, complementary resources, committed to the long-term objectives of the alliance and others in order to support their offensive strategies. Will there be successful

⁹⁹ Lynn A Isabella (2002), *Managing an Alliance is Nothing Like Business as Usual*, Article in *Organisational Dynamic*, Vol,31,No.1, pp.7-59.

¹⁰⁰ Bernard Garette & Pierre Dussauge, *Alliances Versus Acquisitions: Choosing the Right Option*, *European Management Journal*, 2000, Vol. 18, No. 1, pp. 63-69. Defines Complementary Alliance as "contribute to enhancing their competitive advantage by tapping the skills and resources of their partners."

intervention of partners in alliance adaptation without compatibility?

3.3.4 THE MANAGEMENT OF ALLIANCE

It is inherent within all strategic alliance models that in order to achieve success the alliance development process has to be managed carefully. Bronder & Pritzl (1992) explained that in order for the strategic alliance to be managed successfully, it is necessary for the partner (s) to adapt to changing conditions and to learn from each other. Both potential partners should define their contract negotiation objectives, co-ordination interface and learning, adaptation and review.

Lorange and Roos (1993)¹⁰¹ viewed the management process of strategic alliance through the Twin Challenges of Planning and Control as well as Human Resource Development. In order to achieve the setting of goals, to avoid information asymmetry, and to reach consensus regarding how to take corrective measures and adapt over time between several partners, strategic planning and control processes can help in the implementation of strategic alliances. There are four important aspects that relate to this process, i.e. Objectives Setting, Strategic Programming, Strategic Budgeting, Financial and Non-financial Controls and Human Resource Management.

Pekar and Allio (1994) found that there are four stages in the strategic alliance process: (1) effective alliance operation which required senior management commitment (2) appropriate calibre of resources devoted to the alliance, (3) linking of budgets and resources with strategic priorities and (4) measuring and rewarding alliance performance.

Faulkner (1995) has approached the Management of Alliance by means of very workable organisational arrangement. For examples, Clear authority in the hands of the managing director is needed in order to manage a company efficiently and to become a neutral party between the partners whenever conflict arises. By having an appropriate alliance form, it will put an alliance on

¹⁰¹ Ibid. Peter Lorange & Johan Roos, *Strategic Alliances, Formation, Implementation and Evolution, Planning and Control Considerations*, 1993, pp.105-147.

MODELS

the right path to start the activities. Meanwhile, a good dispute resolution and a divorce mechanism can provide important guidelines on how to quickly resolve any unpleasant situation if it ever arises.

A Comparison of the four management models above leads to the conclusion that Lorange and Roos (1993) model differs from the others as it proposed the need for an Integrative Strategic Management process. This approach will set a management procedure that provides preventive measures of management problem occurrence as it laid down the strategic management package that covers from Objective Setting to the Control Mechanism Practices. Nevertheless, this would mean that only companies currently practised or with the potential to practise the Integrative Strategic Management Process can fit in within the steps and process proposed by Lorange and Roos (1993).

In contrast, the other authors, such as Faulkner, have approached the management of alliances through more subjective processes such as, amongst others, Contract Negotiation, Measurement of Alliance Performance, Organisational Arrangement and Information Dissemination. This type of management approach provides more corrective measures to the management problem as compared to preventive measures offered by Lorange and Roos's model (1993). It is very much easier for companies that are not yet implementing Integrative Strategic Management to follow this method in analysing their management of alliances.

Models from 2000-2004 are abound with management of alliances. Mitcheal Koza and Arie Lewin (2000) focused their research on Exploitation and Exploration approaches for organisational adaptation process, Reuer & Zollo (2000) chose to deliberate their research on Managing Governance Adaptation in strategic alliances while Lynn A. Isabella (2002) concludes her study that managing alliances is much more than business as usual. Draulans, Ard-Pieter and Volberda (2003) suggested that special management techniques will have to be implemented in order to strengthen the organisation's alliance capabilities.

MODELS

This study has divided management of alliance into Integrative Strategic Management and Workable Organisation Arrangement and all questions are based on Lorange and Roos's and Faulkner's models. However, Integrative Strategic Management has been divided into stages to suit the stage of implementation of each alliance. All alliances need to answer relevant section according to the type of management system that they have been practising.

3.3.5 THE ALLIANCE EVOLUTION

Only three authors, Lorange and Roos (1993), David Faulkner (1995) and Eddie, Heng, Peter and Zahir (2004) provide special emphasis on Alliance Evolution. Bronder and Pritzi (1992) and Pekar & Allio (1994) models basically do not go further beyond the formation (including Partner Selection Criteria) and management of alliances. The evolution of alliance could also be measured by the alliance effectiveness.

Lorange & Roos (1993) viewed that strategic alliances grow and develop from childhood to become independent adults based on the change in relationship of the strategic alliances with their parent over time. In a general model, the evolution of an alliance can be divided into three phases. During the first phase, an alliance can be seen as a shared strategic alliance between parents both equally active in order to get the activities start by playing complementary roles. When an alliance evolves to second phase and as the strategic alliance itself could carry out its own function, normally one partner becomes increasingly dominant in the role of executing the strategic alliance's task while the other partner may become relatively less active. Evolution into third phase becomes evident when the strategic alliance plays the role of a more or less fully autonomous organisation and becomes an independent entity. There are few situations, which may challenge this evolution path, such as the advancement of technology requiring the partner controlling that technology playing an active part from time to time.

Faulkner (1995)¹⁰² developed his evolution phase guided by alliance evolution

¹⁰² Ibid. David Faulkner, *International Strategic Alliances, The formation of an Alliance*, 1995, pp.

MODELS

theory and alliance classification. Alliance theory provides conditions for evolution such as perception of balanced benefits from the alliance by both partners, the development of strong bonding factors, the regular development of new projects and responsibilities between the partners and the adoption of a philosophy of constant learning by the partners. Alliance classification deals with the surviving alliances that move into three levels of effectiveness namely, limited, latent and dynamic.

Whipple & Frankle (2000) have noted that perceived expectation of the partners can be measured by strategic and operational effectiveness. Strategic effectiveness is defined as the extent to which firms are committed to the alliance and find it to be productive and worthwhile and it is affected by five factors i.e. actual benefit, length of alliance, alliance management, partner match and partner co-ordination. Operational Effectiveness is defined as the extent to which partner is adhering to the agreed-upon operating practice and procedures of the alliance and it is determined by propensity to commit, formalisation and relationship commitment.

Eddie, Heng, Peter and Zahir (2004) introduce a long-term commitment model that can support the long existing change process of a strategic alliance in construction that has typically an informal rather than formal relationship. This model embraces components that help to stimulate the level of employees and management commitment in order to satisfy the stakeholders such as, effective people management, promoting spirit of co-operation and team-work through establishment of shared value, active participation of top management as well as develops synergistic relationship that can modify work practices that attain superior performance.

Alliance evolution will therefore highlight operational weaknesses to management so that it is able to take appropriate action concerning redressing the problems. This requires detail information of the alliance's activities; good flow of information and good communication among the

people involved

3.4 MALAYSIAN FARMERS' ORGANISATIONS STRATEGIC ALLIANCE SUSTAINABLE DEVELOPMENT MODEL.

Close examination of the literature on strategic alliances indicated that alliance development is in three phases, i.e. formation, management and evolution of the alliance. Consequently, in trying to meet one of the objectives of the current research, that of developing new ideas on domestic sustainable alliance development model, it was decided to divide the model into three stages, namely the Start-up Period, the Adaptation Process, and the Transformation/Termination of the alliance.

In order to study the development of strategic alliance activities of Malaysian Farmers' Organisations a questionnaire was devised based on the nine models on strategic alliances and some preliminary investigations. The latter was primarily comprised of informal discussions with senior officials in the Ministry of Agriculture in Malaysia, the author's own experience and discussions with research supervisors.

The questionnaire was in two parts, A and B. Part A includes four sections: The formation of the alliance, the management of the alliance, the role of the environmental factors, and the evolution of the alliance. The alliance formation aspects were drawn out in the questionnaire through three sub-sections: situation analysis, partner selection criteria and strategic plan. Most of these questions were adopted from Faulker (1995). Meanwhile, Part B is focused on details/ information regarding projects, financial benefits and source of capital, as well as issues and challenges of strategic alliances' business opportunities.

3.4.1 THE START-UP PERIOD

The start-up period will be fully explained in Chapter 6. It comprises four sets of criteria: 1) Situation Analysis, 2) Partner Selection Criteria 3) Strategy Analysis and 4) Management of alliances. Nevertheless, the first three are actually factors that determine the formation of alliance. Therefore, if

MODELS

compared to the present alliance development model, it looks like it only comprises of a two phase model i.e. the Formation and Management of alliance. However, only factors that has significant association to alliance effectiveness have been considered in the Start-up of Malaysian Farmers' Organisation Model. This implies that the alliance evolution factors such as perception of balanced benefits, the development of strong bonding factors, the regular development of new projects and responsibilities between the partners and the adoption of a philosophy of constant learning as well as achieving the alliance objectives to a degree acceptable to them have already been taken into account. Most of the questions in the Formation of Alliance in Part A of Questionnaire (A) have been adopted from the above theories especially that of Faulkner (1995).

This study has divided management of alliance into Integrative Strategic Management and Workable Organisation Arrangement and all questions are based on those of Lorange and Roos's and Faulkner's models. However, Integrative Strategic Management has been divided into stages to suit the stage of implementation in each alliance, namely, Financial Planning, Forecast Based Planning, Environmental Planning and Integrative Strategic management. The interaction of these factors has played an important role to set the scene of Malaysian farmers forming strategic alliances to date.

Besides that, based on information gathered from the fieldwork, socio-economic factors such as better income distribution to the rural population have influenced to some extent the type of alliance projects that have been formed at certain period of time. Therefore, socio-economic factors are being included as one aspect of the factors in the situation analysis because of their direct influence on government policies. Another aspect is the ability of alliances to constantly adjust to changes in the environment. Will changes in the internal and external (environmental) factors that effect the business proposition force alliances to assess themselves, make necessary adjustments and continue to exist?

3.4.2 STAGE 2: ADAPTATION PROCESS

MODELS

The adaptation model will be established in chapter 8. As mentioned above, Koza & Lewin (1999) have developed a model of the co-evolutionary process of Nexia, its members and environment from a single longitudinal case study of a professional service network in the public accounting industry applying and extending a co-evolutionary perspective. They view these case studies as both unique opportunities for empirical and theoretical interpretation and a mean of developing an evolutionary understanding of alliances. The objective of the case analysis is to elaborate and interpret the co-evolution of an alliance network with the objective of exploring the dynamics of alliances over time.

It is intended to portray the simultaneous evolution of several factors external to the nexus (link) of interaction between a member firm and the Nexia network. It also illustrates the loose coupling between member firms and the network and the ongoing exchanges that are taking place. The model is intended as a summary of the incident (event) actions of member firms and the new interaction with the network. It is evident that the creation of Nexia served to dissolve certain issues for the network members. However, the creation of the network immediately gives rise to a new class of tensions involving the relationship of the members with the network and to one another.

In the case of Umbrella Broiler Scheme, the issues and challenges (as well as opportunities) came from the productivity challenge due to weaknesses of the internal system such as the disintegrated operational system, non-adequate facilities and excess production. Globalisation and liberalisation of international trade increase imported goods into the country, therefore it increases competition from the neighbouring country such as cheap poultry from Thailand. The Adaptation Process derives from the interaction process of Assessment on alliance effectiveness, Alliance's Capability, Competitive Challenge faced by the Umbrella Broiler Scheme (changes from internal and environmental factors) and suggested Competitive Corporate Strategies (based on proposed business plan).

MODELS

The Adaptation/Sustainability process will include factors such as Assessment, Alliance Capability, and Change in Internal & Environmental Factor as well as propose Competitive Corporate strategies. The internal and external factors (environmental forces) that caused Competitive Challenge (including explore of opportunities) for the whole operation need to be addressed. Through the dynamic model of transformation process, a joint venture company (among the second strategy adaptation) needs to be established in order to replace the consortium type of alliance (one of the first strategy adaptation). It is to increase internal strength in order to face environmental forces/challenges and capture opportunities, strengthen the company internal operational system by becoming an integrator, expanding market domain, providing better service and product quality as well as increasing productivity and efficiency. In planning Competitive Strategies, several strategic dimensions, incrementalism and structural adjustment approaches have been applied.

Through Adaptation Process, with right Competitive Strategy coupled with Alliance Capability and continues Assessment, an alliance could generate significant Competitive Strength that would propel it to a new Sustainable Competitive Advantage/ Sustainability Level.

3.4.3 STAGE 3: TRANSFORMATION/TERMINATION OF ALLIANCE

Based on the Umbrella Broiler Scheme's case study in Chapter 8, and literature reviews regarding alliances, an alliance life span would not necessarily be ended by termination of the alliance. There is a possibility for an alliance to undergo a transformation process. The alliance operation might be terminated if it has achieved its objectives. For example, a joint research alliance will be terminated or end the task after the intended result has been obtained. In the case of Umbrella Broiler Scheme, by changing the mission, goal and objectives, the partner's intention is to create new tasks to the alliance (future joint venture). They intent to change the objectives of the alliance, from merely to increase the income of rural farmers and create Bumiputra entrepreneurs, it is now to become (among others) an efficient integrator of the poultry industry.

Therefore, The Malaysian Farmers' Organisations strategic alliance model above has been developed based on domestic alliance experiences whereby almost all of the value chain is available within the same boundary. The three stages model is a continuous model that could happen from time to time in a life of an alliance as it strives for competitiveness and sustainability.

3.4.4 AN ADVANCED MODEL OF SUSTAINABLE COMPETITIVENESS CYCLE

The Sustainable Competitiveness Cycle that takes place from time to time in a life of a business entity (e.g. a joint venture) or in a business arrangement such as strategic alliances is an advanced model derives from the Adaptation Process of an alliance. It shows that a business entity/activity needs to face Competitive Challenges and explore Opportunities from time to time and develop Competitive Strength in order to move to another sustainability level.

The farmers' organisations strategic alliance's model is a continuous model and an important process for an alliance to be competitive in the light of globalisation and liberalisation of the world economy.

MODELS

3.5 CONCLUSION

All the above models (except that of Whipple and Frankle's model (1998) are based on international strategic alliances. These models take into account important requisites such as vast business experience, wide range of products and distribution channels, sophisticated business linkages as well as need for experienced managers and highly skilled work force amongst others. This may lead to the assumption that the lessons from these studies applied to and benefited international companies and alliances, which operate at international level only. A close examination will show that by using the same principles, concept and models, domestic strategic alliances will also gain much of the benefits as the international strategic alliances, if not more. However, some adaptation of the specific stages may be required and this will be part of the current research discussion in this thesis.

While the definitions of alliances can be quite stringent in order to describe certain types of alliances that qualified under specific criteria, they are sufficiently flexible to enable more alliance arrangements to be included within the sample. Overall, the type of strategic alliance can be based either on the operating system or purpose of the alliance.

Even though the development model of alliance could be based on Formation, Management and Evolution of alliance, but all models (1991-1995) strongly emphasis on the first phase, i.e. the formation of alliance which includes the form of alliance, External and Motivation Factors, Partner Selection Criteria as well as strategic Business Plan. They also emphasize on the potential benefits that can derive from the carefully planning of alliance formation such as compatible objectives, synergy, complementary resources and competencies, technological advancement etc. Partner Selection Criteria is one of the important sub-sectors in the Formation of Alliance. It includes reasons for Partner Selection Criteria (Fundamental, Strategic and Cultural Fit) and Positive Attitude.

MODELS

All alliance development models from 1991-1995 agreed, that in order to be successful, an alliance need to be carefully managed. There are two main approaches on this matter. Some researchers like Faulkner have approached the management of alliances through more subjective processes such as contract negotiation, measurement of alliance performance, organisational arrangement, information dissemination and others. This type of management approach provides more corrective measures to the management problem as compare to preventive measures offered by Lorange and Roos's model (1993) through the Twin Challenges of Planning and Control as well as Human Resource Development. There are four important aspects that relate to this process, i.e. Objectives Setting, Strategic Programming, Strategic Budgeting, Financial and Non-financial Controls and Human Resource Management.

Most of the models basically do not go further beyond the formation (including partner selection criteria) and management of alliances. Even though the evolution of alliance could also be measured by the alliance effectiveness, Lorange & Roos (1993) viewed that strategic alliances grow and develop from childhood to become independent adults based on the change in relationship of the strategic alliances with their parent over time.

However, Models from 19200-2004 concentrate more on management of alliance such as Mitcheal Koza and Arie Lewin (2000) focused their research on Exploitation and Exploration approaches for organisational adaptation process to ensure viability, Reuer & Zollo (2000), focused their research on Managing Governance Adaptation in strategic alliances while Lynn A. Isabella (2002) concludes her study that managing alliances is much more than business as usual. Draulans, Ard-Pieter and Volberda (2003) suggested that special management techniques have to be implemented in order to strengthen the organisation's alliance capabilities. Eddie, Heng, Peter and Zahir (2004) introduce a long-term commitment model that can support the long existing change process of a strategic alliance in construction and embraces components that help to stimulate the level of employees and management commitment.

As far as the Malaysian Farmers' Organisations Strategic Alliance Sustainable Competitiveness Development Model is concerned, it has been divided into three (3) stages, namely, The Start-up Period, Adaptation Process and Transformation/ Termination of alliance. The Start-up comprises four sets of criteria: 1) Situation Analysis, 2) Partner Selection Criteria 3) Strategy Analysis and 4) Management of alliances with only factors that have significant association to alliance effectiveness have been taken into account. Meanwhile the second stage, the Adaptation Process will include factors such as Assessment, Alliance Capability, Change in Internal & Environmental Factor and a propose Competitive Strategies. The third stage will deal with Transformation/Termination of alliances.

CHAPTER 4

RESEARCH METHODOLOGY

SUMMARY

This chapter explains the methodologies that have been used in this thesis in order to get a better understanding of the Malaysian Farmers' Organisations strategic alliances for the period 1975-1998. The research methodology are divided into seven parts, namely, the choice of multi-method approach, the scope and layout of the statistical analysis, questionnaire & interview design, case study, census plan and data collection, customer satisfaction, and data analysis. In addition to that, this chapter also has made a comparison on method and analysis between this thesis and the International Strategic Alliances study by David Faulkner (1995).

This study has adopted a multi-method approach in its bid to comprehend what actually took place in the development of the farmers' organisations strategic alliances. It has described the purpose, process and outcome of the research. The purpose of the research is to test the hypothesis and this is accomplished through the Exploratory, Descriptive, Analytical and Predictive type of research, the results of which are discussed in Chapters 5 to 8. Meanwhile the process of research is based on the quantitative (close and open-ended structured mail questionnaire) and qualitative (documentary sources, direct observation and in-depth, open-ended interview) method of data collection as well as through case studies. As a result, the overall outcome of this research can be classified more towards Applied Research that may be used in solving specific problems relating to farmers' organisation strategic alliance activities.

The scope and layout of the statistical analysis gives an account of the multiple statistical approaches such as qualitative and quantitative methods as well as the case study that was applied to gather data. The questionnaire and interview design explain the gist of questionnaires and interview guide that have been used in data collection. The application of the case study using the Predictive type of research is aimed to bring about a positive change in productivity and efficiency in order to achieve/maintain sustainability and competitiveness of the project. Questionnaires were forwarded to all 230 farmers' organisations in West Malaysia and sixty three (63) percent responded, out of which only 51.3% were accepted and 11.7% rejected.

When analysing the results, all the accepted forms are coded and keyed-in according to classification. Based on the strength/degree of their agreement, having been converted to numerical code, frequency distribution method is then applied to cite the most popular agreements chosen by the farmers' organisations.

In Chapter 5, using the Descriptive and Analytical approach, the task at hand is only to achieve objectives 1 and 2. It is to review all strategic alliances arrangements in farmers' organisations as at 30th June 1998 and to identify projects that have been implemented. It also examines the impact of relevant, and where appropriate, related projects on the income generation activities of participating members.

In Chapter 6, using the statistical package of SPSS, the numerical score of each agreement is then computed to get the frequency distribution in order to determine the level of the reason cited. Specific level of measurement is used to analyse the result of the score in an effort to establish which factors, in the opinions/feeling/knowledge of the farmers' organisations, really influence the Formation, Management and Evolution of their strategic alliances. Using the Analytical Research Approach, this Chapter also determines factors that influence the effectiveness of the joint venture and consortium type of alliance as they may differ from the factors quoted by the respondents.

The farmers' organisations strategic alliance's effectiveness is defined as any positive

returned produced by the strategic alliance activities for the benefit of the alliance themselves, their partners (the organisations, managers and workers), their members as well as the environment (including customers). This includes the intended result, impressive and striking movements, as well as the ability to adjust to their environment. Therefore, the effectiveness of the Farmers' Organisations Strategic Alliance can be examined through dependent variables namely a single culture development, its reputation among themselves as well as within that industry, achieving the intended result of alliance objectives, and adaptive to change. "One-way ANOVA" test was used to identify the association between Effectiveness and Type of alliance whilst "Correlation" test was used to identify the association between Effectiveness and Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors.

In Chapter 7, using the Analytical approach, the objective is to identify the characteristics of Profitable Strategic Alliance (winning alliance) from the perspective of their parent organisations'. Data gathered in **Part B** of the questionnaire (A) are classified into two main categories, namely, Profitable and Non-profitable Alliances. From the 234 strategic alliances, only 112 of them are found to be profitable while the balance of 122 is Non-indicated/Lost Alliances.

Using the Predictive type of research, Chapter 8 analyses the possible evolutionary pattern of the consortium type of alliance under the Umbrella Broiler Scheme. The Dynamic Model of the Transformation Process is applied to convert consortium to the joint venture type of alliance using the emerging Competitive Challenge and Opportunity for the betterment of the whole scheme. Through the Adaptation Process, right competitive strategies are formulated to create competitive strength that will enable the strategic alliance to achieve a new level of Sustainability/ Sustainable Competitive Advantage.

4.1 INTRODUCTION

The aim of this research methodology is to gain a better understanding, among others, as to why the Malaysian Farmers' Organisations are involved in strategic alliances, the type of alliances they are in, how they managed them and if need be, to assist them to have a worthy chain of sustainable competitive alliances in the future. The answers to the above will be obtained through the five (5) objectives of the research as detailed in Chapter 1. The objectives of the research will be achieved by using several types of research approach, namely, Exploratory, Descriptive, Analytical and Predictive¹⁰³. According to Hussey:

- i. Exploratory research is a research aimed to look for pattern, ideas or hypotheses, rather than testing or confirming a hypothesis.
- ii. Descriptive research is a research, which describes phenomena as they exist.
- iii. Analytical or Explanatory research is a continuation of descriptive research that aims to understand phenomena by discovering and measuring causal relation among them.

¹⁰³ Jill Hussey & Roger Hussey, *Business Research, Understanding Research*, 1997, pp.10-11.

- iv. Predictive research goes even further than explanatory research. It establishes an explanation for what is happening in a particular situation and also a forecast of which variable should be changed in order to bring about a change, for example, in the productivity levels. It makes generalisation from the analysis by predicting certain phenomena on the basis of hypothesised, general relationship.

The research methodology is designed to have seven parts, namely, 1) the choice of multi-method approach, 2) the scope and layout of the statistical approach, 3) questionnaire & interview design, 4) case study, 5) census plan and data collection 6) customer satisfaction and 7) data Analysis. From database that was developed through fieldwork, Exploratory, Descriptive, Analytical and Predictive¹⁰⁴ type of research were applied in analysing the results of the research.

In designing the questionnaire and statistical analysis, reference was made to the study on International Strategic Alliances¹⁰⁵ (Faulkner, 1995) with appropriate modification and adjustment to suit the research model and objectives of farmers' organisations strategic alliances. A substantial part of the questionnaire was based from four models namely, Brander and Pritzi (1992), Lorange and Roos (1993), Pekar and Allio (1994) and Faulkner (1995). The other models, El-Hajjar (1991), Whipple and Frankle (1998), Koza and Lewin (1999,2000) while model from 2000-2004 were mainly dealing with the management of the strategic alliances. The questionnaire under Environmental factors however was created following the current economic situation and the researchers own observation.

4.2 CHOICE OF MULTI-METHOD APPROACH

For the purpose of this study, a multi-method approach was adopted to get a better understanding of what actually transpired in the development of farmers' organisations. They are presented by way of purpose, process and

¹⁰⁴ Ibid. Jill Hussey & Roger Hussey, *Business Research, Understanding Research*, 1997, pp. 12. According to Hussey, Predictive research is a forecast of which variable should be changed in order to bring about a change in the productivity levels.

¹⁰⁵ David Faulkner, *International Strategic Alliances*, 1995, pp. 183-211

the outcome of the research. The purpose of the research is synonymous with the objectives of the research, which can be achieved through the Exploratory, Descriptive, Analytical and Predictive types of research. These are explained above and the results are presented in Chapters 5 to 8. Meanwhile the process of research is based on quantitative (close and open-ended structured mail questionnaire) and qualitative (documentary sources, direct observation and in-dept, open-ended interview) methods of data collection. As a result, the overall outcome of this research could be considered closer to that of Applied Research and this may be useful in solving specific problems relating to farmers' organisation strategic alliance activities.

As far as data collection is concerned, the quantitative method makes it possible to measure the reaction of numerous people/organisations to a limited number of questions that facilitate comparison and statistical aggregation of the data. For example, in the case of farmers' organisations, 234 alliances gave their opinion to the same questions that were presented to them. From the feedback gathered, it has been possible to identify the strategic alliance business opportunities as at 30th June 1998 and the impact of project on income generation of participating members, as prescribed in Chapter 5, through Exploratory and Descriptive types of research approach.

Chapter 6 gives an account of the Analytical or Explanatory approach of this research where it identifies the Formation, Motivation, Partner Selection Criteria, Management, Environmental and Evolution Factors of farmers' organisations strategic alliance and their relationship to alliance effectiveness. When dealing with the characteristic of Profitable Strategic Alliances (winning alliances) from the perspective of their parent organisations, which appears in Chapter 7, the study again used the quantitative method to analyse and explore the relevant criteria. Although this method alone can only explains the facts but not to ascertain the reasons why a given event takes place.

With this in mind, the qualitative method is therefore needed to explain

further the underlying reasons or human factors that may be involved. This method also allows the researcher to study selected issues in depth and in detail. The case studies in this research (Chapter 8) are fine examples of using qualitative method of inquiry such as documentary sources, direct observation, in-depth and open-ended interview that represent the Exploratory and Predictive type of research approach. Most of the documentary sources related to the case studies were gathered direct from the two organisations, NAFAS (for the Umbrella Broiler Scheme) and Syarikat Perniagaan Peladang MADA (as at 30th June 1998). Meanwhile, direct observation and the interviews conducted by the researcher were done at the related places such as farmers' houses, offices and locations of the projects.

During the various interviews, although issues were presented to both farmers and officials as interview guides, they were encouraged to explore those issues that were of most concern to them. Interviews of this nature typically produced a wealth of detailed information from smaller number of people and cases. Even though it increases better understanding of related cases and situations, it reduces generalisation. The researcher's involvement in the poultry industry for more than 15 years (direct and indirect) provides sufficient background and qualification to act as the research instrument to this nature of qualitative inquiry. However, most of the outcome of the above research can be classified as Applied Research¹⁰⁶, which is designed to apply its findings to solving specific/existing problems duly stated in Chapters 6, 7 and 8.

¹⁰⁶ Ibid. Jill Hussey & Roger Hussey, *Business Research, Understanding Research*, 1997, pp.13.

4.3 THE SCOPE AND LAYOUT OF THE STATISTICAL ANALYSIS.

In developing the database, the multiple statistical approaches were adopted. Both the qualitative and quantitative methods were used to gather data. Through the qualitative method, three kinds of data collection were undertaken, namely, documentary sources, direct observation and in-depth, open-ended interview¹⁰⁷. Meanwhile, close and open-ended structured mail questionnaire was initiated for the quantitative method. Generally, the data are gathered through questionnaire and interviews on the people's awareness, opinion, feeling and knowledge¹⁰⁸ of the farmers' organisations strategic alliance projects. Their feedback, apart from those based on their working experiences could also be their perception of the strategic alliance projects. Either way, it is important to have them. In Chapter 8, a case study was done to gather data and to help understand the realities of the business environment. A business plan¹⁰⁹ was also developed including proposed changes, in an effort to create a better future. The categories of questionnaire, interview and a business plan are as follows:

Table 4.1
CATEGORIES OF STATISTICAL APPROACH

CATEGORIES	PURPOSE
Questionnaire (A)	Need to be answered by related farmers' organisations (as attached in <u>Appendix 4a</u>)
Questionnaire (B)	Need to be answered by participating farmers (as attached in <u>Appendix 4b</u>)
Interview guide	Need to be answered by people outside the farmers' organisations strategic alliance projects but who have interests or influence over the activities of the organisations such as the Director General of Farmers' Organisations Authority (as attached in <u>Appendix 4c</u>)
Business Plan Format ¹¹⁰	A Business Plan has been developed to build business strategies, projected cash flow and profit/loss statement. An interview with reliable experienced people

¹⁰⁷ Michael Quinn Patton, *Qualitative Evaluation and Research methods*, The Nature of Qualitative Inquiry, 1990, pp.10.

¹⁰⁸ Ibid. Michael Patton, *Qualitative Evaluation and Research Methods*.....pp.10

¹⁰⁹ The business plan format is obtained from the MBA Programme of The University of Wales, Aberystwyth. This format has been used in their dissertation programme.

¹¹⁰ Ibid. The business plan format is obtained from the MBA Programme of The University of Wales, Aberystwyth. This format has been used in their dissertation programme.

	in related industry has been held from time to time. All related formats are attached in <u>Chapter 8</u> together with information gathered.
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The above scope and layout of the statistical approaches was vigorously explored in order to gain as much data and information as possible.

4.4 QUESTIONNAIRES AND INTERVIEW DESIGN

The design of the questionnaires and interviews are as follows:

4.4.1 QUESTIONNAIRE (A) FOR FARMERS’ ORGANISATIONS

This questionnaire is to achieve objectives one (1) to fourth (4). It is to analyse the overall Malaysian Farmers’ Organisations strategic alliance development. The analysis is divided into two (2) parts as follows:

PART A

Some of the questions for alliance Formation Factors, Partner(s) Selection Criteria, Management and Evolution were adopted from the International Strategic Alliances study¹¹¹. Even though the questions were based on international strategic alliance, those questions are universal in nature. For example, we need the right partner to form a strategic alliance and it does not matter whether that alliance is domestic or international in nature. Every business, either domestic or international alliance, needs a strategic plan and good management practice for their business to prosper. Based on the experience of the researcher, some modifications to the sections and questions were made to suite the domestic alliance of the farmers’ organisations. Briefly, the gist of the questionnaire is as follows:

Table 4.2
**CATEGORIES OF QUESTIONNAIRE (A) AND
 ITS INDEPENDENT VARIABLES**

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¹¹¹ Ibid, David Faulkner, International Strategic Alliances, Appendix A: The questionnaire, 1995, pp 189-198.

CATEGORIES	INDEPENDENT VARIABLES
The formation of alliance	
i. Situation Analysis	Q1 -Forms of alliance. Q2 -External motivation factors Q3 -Internal motivation factors
ii. Partner Selection Criteria	Q4 -Reason for partner(s) selection criteria (fundamental, strategic and cultural fit). Q5 -Positive attitude.
iii. Strategic Plan	Q6 -Initial strategic plans formulation.
The Management of Alliance	
Strategic Management	Q7 - Type of management Q8 -Details on workable organisation arrangement. Q9 -Details on Integrative Strategic management.
The Role of Environmental Factors	
Environmental factors	Q10 - The alliance partner (s) Q11 - The alliance customer (s). Q12 - The alliance supplier (s). Q13 - Supplier to the related farmers. Q14 - The related farmers Q15 - Government policies.
The Evolution of Alliance	
Evolution Variables	Q16 - Evolution factors. Q17 - Evolution events. Q18 - Way of receiving alliance objectives. Q19 - Type of evolution. Q20 - Alliance reputation

PART B

This part is targeted towards getting data on strategic alliance's business opportunities. The detail information is about:

- i. Projects Details
- ii. Customers of the Strategic Alliance Projects
- iii. Financial Benefits
- iv. Source of capital
- v. Issues and challenges.

Concurrently, a specific supplementary form was sent to all farmers' organisations that participated in the Umbrella Broiler Scheme projects (see Appendix 4b). The intention was to get detailed information on their Profit / Loss Accounts during the five-year period 1993-1997.

4.4.2 QUESTIONNAIRE FOR PARTICIPATING FARMERS (GROWERS)

Meanwhile, questionnaire "B" (Appendix 4b) is designed to achieve objective two (2) of the research. It needs to be answered by participating farmers under the Umbrella Broiler Scheme. Using semi-structured method of interview¹¹², direct interviews were conducted with 16 farmers who were involved in the Umbrella Broiler Scheme project at Area Farmers' Organisation in Kuantan Utara. The purpose of this interview, among others was to determine the reasons why the members of Malaysian Farmers' Organisations got themselves involved in strategic alliances projects, the benefit they have gained, and their views about the whole scheme. This nature of interview often leads to discussion on areas which have not been previously considered. One example is their aspiration.

In the interviewing process, the researcher tried to remove personal involvement in the phenomena (at hand) as dictated by Phenomenology or Non-Positivism approach of research¹¹³. However, since the semi-structured

¹¹² Dr. Mark Saunders, Philip Lewis and Dr. Adrian Thornhill, *Research Methods for Business Students, Collecting Primary Data Using Semi-structured and In-depth Interviews*, 1997, pp. 210-242.

¹¹³ Dan Remenyi, Brian Williams, Arthur Money & Ethn'e Swartz, *Doing Reseach in Business and*

interview method was applied to gather information, such involvement was difficult to avoid. The researcher had to draw on her working experience¹¹⁴ as tacit knowledge¹¹⁵ during the process of interview in order to encourage the participants to express their true feeling and opinion. These issues however only serve as a guide and farmers were encouraged to explore on issues that they felt most dear to them. The following issues/questions have been formed as the basis of the interview.

- The Initial process of involvement.
- The project details.
- The financial benefits such as value of contract, actual income.
- Source of capital
- The Management of the farm such as labour, input, payment, marketing arrangement and technical support.

4.4.3 INTERVIEW GUIDE

An interview guide was also prepared for the people outside the strategic alliance projects, who have the interest or influence over farmers' organisation activities (Appendix 4c). This set of interview guide attempts to capture other people's opinions, feeling and knowledge¹¹⁶, as earlier explained, towards the farmers' organisations strategic alliance projects. In the first place, the researcher would very much like to interview the suppliers, creditors, and those others who are indirectly involved with the strategic alliance projects. This however proved to be an exercise of futility as from the first few interviews conducted, it was apparent that they did not really understand the subject matter and were quiet reluctant to give their opinion on these matters.

It should however be noted that, due to time constrains, the interviews were

Management, Phenomenology: The Non-Positivist Approach, 1998, pp. 98.

¹¹⁴ The researcher was the head of unit that design and overseeing the first poultry contract with NAFAS and later overseeing the Farmers' Organisation Authority. In the Ministry of Agriculture, from 1993-1997, she was the head of unit that responsible for overseeing the development of Farmers' Organisation Authority.

¹¹⁵ Ibid. Dan Remenyi, Brian Williams, Arthur Money & Ethn'e Swartz, Doing Reseach in Business and Management, Phenomenology: The Non-Positivist Approach, 1998, pp. 100-101.

¹¹⁶ Ibid. Michael Patton, Qualitative Evaluation and Research Methods.....pp.10

only conducted with senior officials who were directly responsible to the development of the farmers' organisations, such as, The Director General of Farmers' Organisations Authority, Director General of Agriculture Department and several other related officers. The main issues that were discussed include the following:

- The present performance of the farmers' organisations strategic alliance projects.
- Future direction.
- Related issues.

In almost all interviews, the researcher had to use her working experiences¹¹⁷ as tacit knowledge¹¹⁸ to extract the true opinion, views and perception of the candidate. This method had also been used by other researchers such as Oakley (1981) and Gummesson (1991)¹¹⁹ that regard this as a vital preparation for researchers in order to be better equipped to understand and explain processes within the research setting.

4.5 CASE STUDY

Visits were made to Syarikat Perniagaan Peladang MADA (SPPM) and a few of its associates and subsidiary companies as well as NAFAS, which is responsible for the development of the Umbrella Broiler Scheme. Interviews with the managing directors¹²⁰ of both strategic alliance projects were also conducted to get detailed information about the projects including income received by participating farmers and Bumiputra entrepreneurs under the Pasaraya Peladang.

¹¹⁷ The researcher was the head of unit that design and overseeing the first poultry contract with NAFAS and later overseeing the Farmers' Organisation Authority. In the Ministry of Agriculture, from 1993-1997, she was the head of unit that responsible for overseeing the development of Farmers' Organisation Authority.

¹¹⁸ Ibid. Dan Remenyi, Brian Williams, Arthur Money & Ethn'e Swartz, *Doing Reseach in Business and Management, Phenomenology: The Non-Positivist Approach*, 1998, pp. 100-101.

¹¹⁹ Ibid. Dan Remenyi, Brian Williams, Arthur Money & Ethn'e Swartz, *Doing Reseach in Business and Management, Phenomenology: The Non-Positivist Approach*, 1998, pp. 99-100.

¹²⁰ Ibid. Dr. Mark Saunders, Philip Lewis and Dr. Adrian Thornhill, *Research Methods for Business Students, Collecting Primary Data Using Semi-structured and In-depth Interviews*, 1997, pp. 215 whereby, they suggested that managers are more likely to agree to be interviewed rather than complete a questionnaire, especially where the interview topic is seen to be interesting and relevant to their own current work.

In this study, the above two projects (Umbrella Broiler Scheme and SPPM) were chosen as case studies because of extensive participation by member farmers spread over wide geographical areas. These scenarios clearly represent the topology or relationship of Co-operative Strategic Alliances as mentioned in Chapter 2. In other alliance projects, the participants are mostly from the same area of farmers' organisations and the numbers are quite limited.

In addressing this subject, the case study¹²¹ approach has been selected because it allows the researcher to retain a more holistic perspective as compared to other methods of approach such as the cross-sectional or longitudinal studies. It also allows a meaningful exploration of the characteristics of real-life events, such as, the managerial process, maturation of industries or power struggle in organisations. This case study has attempted to introduce Predictive type of research with a view to identify which variables, such as any system / factor / policy / task / others, that should be modified in order to bring about a positive change in productivity and efficiency to attain / maintain sustainability and competitiveness of the project.

According to Remenyi (1998), a case study can be used in establishing valid and reliable evidence that may be analysed through a positivistic or a phenomenological (non-positivism) perspective. Positivistic approach is more appropriate to physical and life sciences while phenomenological (non-positivistic) approach is more suitable to cope with problems of people (and their behaviour) and organisations. From a teaching-learning point of view, a case study may be defined as a technique for presenting ideas, concept or evidence. In writing a case study, as Remenyi (1998) pointed out, the intention is to stimulate readers to identify the important issues and problems and to guide them in their search for a solution. It can provide a rich multi-dimensional picture of the situation being studied and it tries to illuminate a

¹²¹ Ibid. Dan Remenyi, Brian Williams, Arthur Money & Ethn'e Swartz, *Doing Research in Business and Management, The Case Study*, 1998, pp. 162.

decision or a set of decisions. Case studies that are being used by master and doctoral students in business and management research as an evidence-collection approach which does not in itself commit them to either a positivistic or a phenomenological strategy.

4.6 CENSUS PLAN AND DATA COLLECTION

During the fieldwork, Questionnaire (A) was sent to all farmers' organisations under the supervision of the Farmers' Organisation Authority in West Malaysia, Muda Agricultural Development Area (MADA) and Kemubu Agricultural Development Area (KADA). All together, mail questionnaire were sent out to 230 farmers' organisations in West Malaysia. The response rate was 63% and nearly 300 forms were received from the respondents (farmers' organisations). There are 114 questions in each questionnaire. The forms were then sorted out and 51.3% of them (from 119 farmers' organisations) were accepted and fully processed. On the average, each farmer's organisation has been involved in two (2) strategic alliances and they were required to fill in separate form of questionnaires for each of those alliances. It was decided that each questionnaire should represent one strategic alliance because each alliance may have different reasons for its Formation, Motivation and Partner (s) Selection Criteria as well as being managed by different sets of people, even though they may belong to one farmers' organisation. As a result, 234 questionnaires that represent 45 alliances (in which, 29 of them are amongst farmers' organisations and 16 with outside farmer' organisations) were accepted and recognised as representing 234 alliance involvements of farmers' organisations in strategic alliance. The reasons for excluding the 11.7% of the respondents were:

- i. Strategic Alliance project in operation is between farmers' organisations and individual farmers (eleven forms) whereas by definition of a strategic alliance it is between an organisation and other organisation (s).
- ii. State Farmers' Organisations cannot qualify as strategic alliance projects (4 forms). This is because the formation of State Farmers' Organisation is provided in section 18B of the Farmers' Organisations (Amendment) Act, 1983. Therefore, they cannot be considered as business alliances.

- iii. Strategic Alliance projects have not been established (2 forms). It is still in the planning process.
- iv. Eight (8) forms from the equity holder of Pasaraya Peladang Sdn. Bhd. cannot be considered because the company's equity has already been merged with that of the holding company (Syarikat perniagaan Peladang MADA).
- v. Nine (9) forms have been rejected because the respondents did not answer more than 20 questions (out of 114 questions).

4.7 CUSTOMERS SATISFACTION

Customers to the strategic alliance projects has been categorised as follows:

External customer	- A customer who is outside the organisation.
Internal customer	- Is the owner of the organisations (AFO's member) and participants that receive direct benefit from the strategic alliance projects as well as other farmer's organisations that buy products/services produced by these strategic alliance projects.

As far as external customer satisfaction is concerned, an interview was conducted with a Treasury officer who is overseeing the Poultry Central Contract (Umbrella Broiler Scheme) performance.

As for the internal customers, face-to-face interviews were conducted with 16 participants of the poultry project in Kuantan, Pahang. Among other things asked, was whether they are satisfied with the whole project and the income generated from it.

In order to remain impartial, no research was conducted to acquire information from the third group of customers, i.e. the farmer's organisations that buy products / services from other farmer's organisations through strategic alliance projects.

4.8 ANALYSIS OF RESULTS

The main analysis of the results comes from data collection of primary research such as Questionnaire, interviews (in-depth and open-ended interview), case study, direct observation and secondary resources such as

documentary and reports. The main information for the database was gathered from mail questionnaire and face-to-face interviews during the fieldwork. These are presented in Chapters 5, 6, 7 and 8.

All the accepted forms were coded and the data keyed-in according to classification such as project, type of alliance, partners, profit/loss and others. The coding system was done through strength/degree of respondents' agreement / disagreement on every statement that they answered. In the questionnaire, the farmers' organisations have been given strength/degree of their agreement/disagreement against each statement, such as Strongly Disagree (SD), Disagree (DA), Difficult to Decide (DD), Agree (A), Strongly Agree (SA). Frequency distribution¹²² method was used to establish the most popular agreement chosen by farmers' organisations. Frequency distribution enables us to monitor the frequency by which the values of the variables are nominated in a data set. The strength / degree of all agreements will have to be converted to numerical codes¹²³. By doing this, the data can be entered quickly and with fewer errors. In this study, the numerical codes used are as follows:

¹²² Jon Curwin and Roger Slater, *Quantitative Methods for Business Decisions, Presentation of Data*, 1996, pp. 71, 101-102.

¹²³ Ibid. Dr. Mark Saunders, Philip Lewis and Dr. Adrian Thornhill, *Research Methods for Business Students, Analysing Quantitative Data*, 1997, pp. 293-294.

Table 4.3
NUMERICAL CODES

Agreements	Numerical Code
Strongly Disagree (SD)	1
Disagree (DA)	2
Difficult to Decide (DD)	3
Agree (A)	4
Strongly Agree (SA)	5

4.8.1 STATISTICAL METHODS ON CHAPTERS 5.

In Chapter 5, using the Descriptive and Analytical approach, the prime intention is only to achieve objectives 1 and 2. It is to review all strategic alliances arrangements, which exist between farmers' organisations as at 30th June 1998 and to identify projects that have then been implemented. It also examines the impact of relevant, and where appropriate, related projects on the income generation activities of participating members. In this case, information from direct interviews that were conducted with 16 farmers involved in Umbrella Broiler Scheme project at Area Farmers' Organisation in Kuantan Utara were referred to. The available data will need to be analysed into information and only then could intelligent interpretation be drawn from.

The **strategic alliance value is based on the monetary value of the alliance's agreements**. The value of collaboration and consortium type of alliances has to be based on the agreeable business values/volume in the agreements. As far as joint ventures are concerned, the strategic alliance value is based on the equity participation in the new company.

Out of 45 strategic alliance projects, 26 of them were amongst the farmers' organisations themselves. Therefore the value for strategic alliance projects include all the values that belongs to every equity holder (joint venture) / overall. Meanwhile for collaboration and consortium type of alliances, the value of strategic alliances is the total volume of the business turnover.

Meanwhile, for strategic alliance projects between farmers' organisations and outside farmers' organisations, the value for strategic alliances only represent the value of equity / business turnover that belongs only to farmers' organisations.

4.8.2 STATISTICAL METHODS ON CHAPTERS 6.

Chapter 6 discusses on the Formation, Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors of farmers' organisations strategic alliances and their relationship to alliance effectiveness. This is to achieve objective three (3) of the study. Simple frequency distribution was used to analyse the level of cited reasons. Additionally, sort cases, cross tabulation as well as case summaries were used to verify its accuracy. Using the statistical package of SPSS, the score of each agreement will be computed to get the frequency distribution (in term of percentage) in order to determine which agreement/factor gets what score. In placing the sequence of the factors, the factor that gets the highest percentage of score will be placed on the top of the list. If the scores are the same, the answer that gets more scores of five (5) is given priority and will be mentioned first. If all scores (4 and 5) are the same, the factor that appears first in the questionnaire will be listed first on the list.

When analysing the result of the score, the various agreements need to be measured. The following table has therefore been developed in order to determine the acceptance level of the agreements. Wherever appropriate, the following level has been used to measure the agreements.

Table 4.4
ACCEPTENCE LEVEL OF AGREEMENTS

Score (%)	Level of Agreements
90-100	Very satisfy/valid/agreeable/effective/reasonable/vital/ others*.
80-89	Satisfy/valid/agreeable/effective/reasonable/vital/others*
70-79	Fairly satisfy/ agreeable/effective/reasonable/vital/others*.
60-69	Less satisfy/agreeable/effective/reasonable/vital/others*
59-less	Not satisfactory/agreeable/effective/reasonable/vital /others*

Note:

Others* - any other agreements that is suitable for the factors that have been analysed.

For example, if the answer to a question/statement is being agreed or gained scores more than 90 % of the respondents, that agreement could be concluded as very agreeable / valid / satisfactory / others. Meanwhile, if the score is less than 59%, it could be considered as not valid / satisfactory / others. These agreements on factors / statements were only based on the opinions or feeling or knowledge of the farmers' organisations. Using the Analytical research approach, this chapter also determines factors that influence the effectiveness of the joint venture and consortium type of alliance as it may differ from the factors that have been cited by the respondent.

Effectiveness is defined in Oxford Business Dictionary as being able to produce intended result, impressive, striking, actual, existing and operative. Consequently, this study defines the farmers' organisations strategic alliance's effectiveness as any positive result produced by the strategic alliance activities for the benefit of themselves and their partners (the organisations, managers and workers), their members as well as the environment (including customers). This includes the intended result, impressive and striking movements, as well as the ability to adjust to their environment. Factors such as Formation, Management and Evolution of alliances are independent variables that can stand on their own. Effectiveness is a dependent variable that resulted from the action of all

independent variables.

The effectiveness of the Farmers' Organisations Strategic Alliance can therefore be examined through, a single culture development, its reputation among themselves as well as within the industry, achieving the intended result of alliance objectives, and adaptable to change. These factors are represented as dependent variables in the following questions:

Table 4.5
QUESTIONS FOR STRATEGIC ALLIANCE EFFECTIVENESS

Q16aii	-Strong bonding factors have developed in the alliance. The partners have developed a single culture comprising the best (culture) from all the partner (s).
Q16aiii	- Strong bonding factors have developed in the alliance. The partners have developed good reputation among them.
Q17c	- The alliance is constantly adjusting to change.
Q18a	- The partners are achieving their alliance objectives to a degree acceptable to them in direct quantifiable terms.
Q18b	- The partners are achieving their alliance objectives to a degree acceptable to them in more indirect spin-off terms.
Q20	-The reputation of the alliance is good and well accepted by the industry.

Note:

Q16aii = Question 16aii and so on.

Therefore, in Chapter 6, in order to achieve objective 3 i.e. to establish factors that describe the Formation, Motivation, Partners Selection Criteria, Management, Environmental and Evolution factors of these strategic alliances and their relationship to alliance effectiveness, Null Hypothesis has been developed and tested as follows:

- i. Ho: There is no significant association between alliance form and alliance effectiveness.
- ii. Ho: There is no significant association between the selected motivation of alliance formation and alliance effectiveness.
- iii. Ho: There is no significant association between the identified partner selection criteria and alliance effectiveness.

- iv. Ho: There is no significant association between the identified management process and alliance effectiveness.
- v. Ho: There is no significant association between the evolution variable and alliance effectiveness.

The result of **Part A** (Appendix 5) was averaged out in order to produce an overall value of effectiveness rating. In doing so, zero rating has been placed in all empty boxes that have been left unanswered by farmers' organisations. Without taking into consideration Questions 8 and 9, the number of empty boxes is very few, giving SPSS no problem to calculate the value of effectiveness of those factors.

However, if Questions 8 and 9 are taken into account and using the same principle, more empty boxes will be left empty as some of related farmers' organisations are not supposed to answer them. Without giving zero rating, SPSS will not be able to compute the value of effectiveness for the related strategic alliances. From 234 strategic alliance projects only 104 of them managed by Integrative Strategic Management and, among others, they need to answer Question 9, which has 16 questions in all. Meanwhile another 130 of alliance projects, which are managed through Workable Organisation Arrangement, need to answer Question 8, which has only five (5) questions. Therefore, each of the 130 strategic alliance projects will have 16 empty boxes from Question 9, which they did not have to answer.

As mentioned earlier, because of too many empty boxes, SPSS was unable to compute the value of effectiveness for the related strategic alliances. To overcome this setback, zero rating was given to all the empty boxes. Similar treatment was also given to the 104 strategic alliances that answered Questions 9, as well as the five (5) boxes of Question 8. Only by so doing could SPSS compute the value of "Effectiveness" for all the alliances in the same output table.

To verify its accuracy, the value of Effectiveness was been separately run for strategic alliances that only answered either Question 8 or Question 9. The

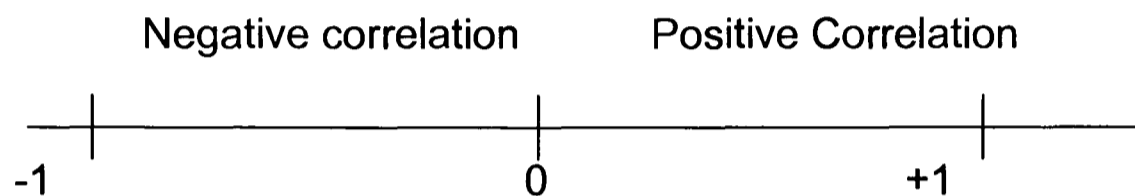
results show that the value of “Effectiveness” for all the alliances matches that of the earlier findings. Given this affirmation, it is therefore acceptable to use the earlier SPSS output as evidence in the related appendix (Appendix 5).

In the association analysis, the following method was explored in order to determine the strength and direction (nature) of the relationship between the independent and dependent variables:

“One-way ANOVA” test was used to identify the association between Effectiveness and Type of alliance. It is because the respondents are large enough that normal distribution can confidently be made (please refer Appendix 4(a)). At the same time, the data for Effectiveness is an interval data whilst the data for Type is nominal.

“Correlation” test was used to identify the association between Effectiveness and Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors. This is due to the fact that all the independent variables are interval data. In analysing the association between Effectiveness and Motivation factors (questions 2 and 3) only the identified factors that have 4 and 5-recorded score on the Likert Scale were averaged out for Q2 and Q3. This is because only certain factors are suitable to motivate the formation of strategic alliance. Question 20 has not been averaged out because it has no operational question. The same was also applied to Question 5a as only 2 projects have national cultural differences.

In analysing the correlation between Independent variables and effectiveness (dependent variables), we are actually measuring how strong the two variables are associated. The measure to be calculated is called the Coefficient of Correlation¹²⁴. The relationship of a correlation coefficient is actually between +1 (when all the point of relationship lie on a straight line) and -1 (where there is no relationship between the variables, the coefficient of correlation would be equal to zero). Therefore, plus one (+1) and minus one (-1) implies a perfect correlation between the two variables. Three relations have been named based on the strength of the relationship as follows:



Note:

Anything above 0	= Significantly Positive
Anything 0	= Not Significantly from 0
Anything below 0	= Significantly Negative

In this study, the effectiveness of customer's satisfaction was not dealt through with this questionnaire. Impartiality is essential as, amongst farmers' organisations, they are encouraged to help each other, for example, buying up products produced by other farmers' organisations. Additionally, the personnel internal morale regarding the alliance has also been left out because most of the AFO staffs are government officers. It is likely that their grievances and internal morale will be influenced by their satisfaction / dissatisfaction to the parent organisation and not by the farmers' organisations or strategic alliance activities they were involved in. Better career development for them has also not been considered because these were directed only to strategic alliances that practice full Integrative Strategic

¹²⁴ Jon Curwin and Roger Slater, *Quantitative Methods for Business Decisions*, Correlation, 1996, pp. 352-361.

Management.

4.8.3 METHOD OF ANALYSIS ON CHAPTER 7

In order to carry out comparative analysis in achieving the fourth (4) objective i.e. to identify characteristic of Profitable Strategic Alliance (winning alliance) from the perspective of parent organisations, data appearing in **Part B** of the questionnaire was grouped into two main categories, Profitable and Non-profitable Alliances. From 234 strategic alliances, only 112 of them are Profitable while the balance of 122 is Non-indicated / Lost alliances. This is the result of one set of answers from 116 alliances, which provide their profit / lost results whilst the other 118 alliances prefer not to comment. Of the 116 alliances which announced their financial position, four (4) admitted losses.

An alliance which enjoys at least one-year of profitability and which does not admit to suffering losses in the preceding years is considered a Profitable Alliance. It is however noted that some of the projects, for example the plantation projects, although having been in operation for several years only begin to become a Profitable Alliance in 1995, the year when they last declared their financials (at the time of this research). Properties of the 234 strategic alliances are as follows:

Table 4.6
STRATEGIC ALLIANCE PROPERTIES

PROPERTIES OF 234 STRATEGIC ALLIANCES		
1	Type of alliance	Collaboration (8.9%), Consortium (17.8%) and Joint venture (73.3%)
2	Position of alliance	From 234 strategic alliances, 112 are Profitable Alliance, 118 Non-indicated Alliance and 4 Loss Alliance.
4	Profitable Alliance (project-based)	From 67 Project-based alliances, 48 are joint venture and 19 non-joints venture.
5	Profitable Alliance (non-project-based)	45 non-projects based (dealing exclusively on stocks and shares and 100% joint venture).
6	Non-indicated Alliance	From 118 strategic alliances: i. 106 joint venture and 12 non-joints venture alliances, ii. 9 Non-project based which preferred not to divulge their financial status. iii. 109 project based alliances, which also did not wish to divulge their financial status.

7	Lost Alliance	4 alliances, which confirmed losses during 1993-1997.
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Based on the above properties and for the purpose of analysing information in **Part B**, data for the 234 strategic alliances have been grouped into four (4) categories as follows:

i. ***Project-based Profitable Alliance:***

67 strategic alliances obtained their profit from project-based activities, amongst others, from marketing of agriculture produce and managing oil palm estates.

ii. ***Non Project-based Profitable Alliance:***

45 non-projects based alliance dealing exclusively on stocks and shares and 100% joint venture.

iii. ***Non-indicated Alliance:***

118 strategic alliance projects, which did not wish to divulge their financial status.

iv. ***Lost Alliance:***

4 alliances, which confirmed losses during 1993-1997.

Using the analytical research approach, the current study attempts to identify some of the characteristics in term of what makes a Profitable Strategic Alliance within the context of farmers' organisations, but most importantly, from the perspective of their parent organisations. It is increasingly evident that several factors such as the Source of Capital, Market Outlet, Partner Selection Criteria, Management of Alliance and the success of the Evolution process lead to satisfactory growth. The role and the successful application of Environmental factors (including external factors) also play a part in the positive performance of the alliances. Simple frequency distribution (in term of percentage) and graft presentation are widely used to make comparisons and explain the differences/similarities.

4.8.4 METHOD OF ANALYSIS ON CHAPTER 8

By using the Predictive type of research approach, this chapter attempts to evaluate the operating system under the Umbrella Broiler Scheme in terms of its robustness / resilience to be a Sustainable Competitive Alliance. The evaluation is based on the strength and weaknesses of the system and the evolutionary pattern of the consortium type of alliance under the Umbrella Broiler Scheme. These include policies implementation, management of contract and information system as well as business competitiveness that proffer challenges and opportunities to the whole scheme.

During the implementation of the Umbrella Broiler Scheme, it is normal practice for the Ministry of Finance, NAFAS and the consortium members of farmers' organisations to conduct performance assessments at the end of each contract period. The assessments were carried out, amongst others, on the basis of contract performance, socio-economic objectives and operational system.

The related farmers' organisations, from time to time have expressed their assessment on the operating system of the whole contract operation. In a major operational system assessment in September 1996, they agreed that even though the system has been workable for nearly 20 years, it warrants a re-examination to make it more efficient. This could be done by assessing emerging challenges and opportunities consequent to outcome of the operation.

A business plan¹²⁵ was also developed to recommend the setting up of a proposed Corporate Competitive Strategy for the integrated Umbrella Broiler Scheme. It includes suggestion on a new / amended corporate mission, goal, objective, structural, implementation, control mechanism and a reward system. It also suggests a Logical Incrementalism strategy for the business development approach of a proposed new joint-venture company. Among

¹²⁵ *Ibid.* The business plan format is obtained from the MBA Programme of The University of Wales, Aberystwyth. This format has been used in their dissertation programme.

important subject areas covered in the business plan are:

- Mission and objectives
- Discussion of the industry
- Products and services
- Technology and skills required
- Market and marketing
- Competitive Analysis
- Offensive marketing strategies
- Design and development
- Manufacturing and Operation
- Management and operation
- Financial highlight (cash flow)

Other related matters suggested include a New Input Output Chain and a Dynamic Model of Transformation Process. This model is used to explain the transformation process from a consortium to a joint venture type of alliance through emerging Competitive Challenge and Opportunity for the betterment of the whole scheme. Through Adaptation Process, Competitive Strategies are formulated to create Competitive Strength that will enable the strategic alliance to achieve a new level of Sustainable Competitive Advantage / Sustainability.

4.9 THE DIFFERENCES IN METHOD AND ANALYSIS BETWEEN THIS THESIS AND INTERNATIONAL STRATEGIC ALLIANCES STUDY BY DAVID FAULKNER, 1995.

Table 4.7

THE DIFFERENCES IN METHOD AND ANALYSIS BETWEEN THIS THESIS AND INTERNATIONAL STRATEGIC ALLIANCES STUDY BY DAVID FAULKNER (1995)

No	Subject	International Strategic Alliances	Farmers' Organisations Strategic Alliances.
1	Area of study	67 alliances (a close look at 10 established alliances)	234 alliances (a close look at 2 out of 3 types of alliances).
2	Hypothesis	Alliance can be effective, potentially long-term, organisational arrangement between companies, and can lead to sustainable competitive	The strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward toward wealth creation and socio-economic development".

		advantage that is not easily achievable by the partners separately.	
3	Definition of Strategic Alliances	As a co-operative arrangement between organisation in which the partners make substantial investment in developing a long-term collaborative effort and common orientation.	Any short or long term collaboration that are developed for strategic reasons with the view to gain mutual benefits”
4	Factors been analysed	Formation, Partner Selection Criteria, Organisational Arrangement and Alliance’s Evolution (uncompleted example)	Formation, Partner Selection Criteria, Management of Alliances, Environmental Factors and Alliance’s Evolution.
5	Statistical Analysis: - Likert Scale	Has combined <u>Likert scale</u> 1 and 2 as 1(disagreed) and 3-5 as 2 (agreeable)- because of limited sample size and large number of variable.	No combination of Likert scale for 1,2 and 3 has been done. Only used 4 and 5 as agreeable. Sample size and variables are considerably large.
	- Analysis of “Type”		<u>One-way ANOVA</u> has been used because the data is Nominal.
	- Associational Analysis	- For <u>associational analysis</u> , “ <u>Chi-square</u> ” test has been used because the sample was relatively small, the data were ordinal, the total population was not known and normal distribution could not confidently be made.	<u>Correlation test</u> has been used because the sample was considerably large, interval data, total population was known and normal distribution was confidently made.
	- Comparative Analysis		Is between the Joint venture and Non-joint venture type of alliance.
	- Interpretation of frequency distribution analysis.		Used Scale to differentiate degree of result such as very satisfied, satisfied, fairly satisfied, less and not satisfied
6	Analysis	Using the overall data as found in the questionnaire	Has brake-up the data according to formation year of the alliances such as for formation and motivation factors.
7	PART B		Gathered information regarding alliance’s market outlet, source of fund, financial benefit, customers and others.

4.10 LIMITATION OF THE STUDY

Farmers’ Organisations in East Malaysia are not included in the study.

CHAPTER 5

IDENTIFYING FARMERS' ORGANISATIONS STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES AS AT 30TH JUNE 1998 AND EXAMINING THE IMPACT OF RELATED STRATEGIC ALLIANCE PROJECTS ON INCOME GENERATION ACTIVITIES OF PARTICIPATING MEMBERS.

SUMMARY

This Chapter is divided into two (2) parts. The first part is to fulfil the first objective of the research that attempts to identify business opportunities originated by strategic alliance projects, types and trends of those projects. The analysis is based on three periods of times i.e. 1975-1990, 1991-1994 and 1995-1998. The study discovers that the projects formed between 1975-90 had more farmers' participation and started to form a base for domestic supply chain. Projects formed between 1991-94 involved actively in diversification and high-value added products. Commercially managed projects in order to increase output and efficiency have become important characteristic of projects implemented between 1995-98. It clearly shows that Environmental factors such as Government policies and international events have strong influenced in generating innovation on Malaysian Farmers' Organisations strategic alliance projects.

The second part is to fulfil the second objective of the study attempts to highlight the positive impact of strategic alliance projects on income generation activities of participating members. It is based on two strategic alliance projects, namely, the Umbrella Broiler Scheme and Pasaraya Peladang Sdn. Bhd. Comparison of profits earned by farmers and commercial operation that involved in poultry industry has also been accomplished in order to identify any room for improvement.

5.1 INTRODUCTION

All strategic alliance models (except that of Whipple and Frankle's model (1998)) are based on international companies. The first part of this Chapter highlights the type of business ventured by the Malaysian Farmers' Organisations through their strategic alliance projects, which includes profile and trend of those alliances. The second part of the Chapter focuses on the income generating of the participating members.

From the fieldwork, the researcher received 300 forms, which are equivalent to 63% of farmers' organisations that have responded to the Questionnaire (A). The forms were sorted out and only 51.3% of them, which contained of 234 questionnaires from 119 farmers' organisations were accepted and fully processed. On the average, each farmer's organisation has two (2) strategic alliances and because of this, they had to fill separate questionnaires for each alliance. This is because, for example, each alliance may have different

reasons for its formation, motivation and partner (s) selection criteria as well as their management is being done a by different set of people. As a result, 234 questionnaires that represent 45 strategic alliances (in which 29 of them are amongst farmers' organisations and 16 with outside organisations) were accepted and recognised as representing 234 involvements of farmers' organisations in strategic alliances. The fully answered Questionnaire is tabled in Appendix 5 and all analysis regarding Malaysian Farmers' Organisations Strategic Alliance in this research is based on these figures unless mentioned otherwise.

Table 5.1(a) represents the overall farmers' organisations strategic alliances business activities for the period 1975-1998. Meanwhile Table 5.1(b), Table 5.1(c) and Table 5.1(d) represent farmers' organisations strategic alliances business activities for the period 1975-1990, 1991-1994 and 1995-1998 respectively. All the data represented in those tables are drawn from the author's survey.

A. TO REVIEW ALL FARMERS' ORGANISATIONS STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES AS AT 30TH JUNE 1998 AND EVALUATE THE TYPE AND TREND OF THE PROJECT IMPLEMENTED.

5.2 THE OVERALL BUSINESS OPPORTUNITIES FOR THE PERIOD BETWEEN 1975-1998.

Following this screening exercise, a list is compiled summarising the business activities and related details of the relevant projects, Table 5.1(a).

Table 5.1 (a)

MALAYSIAN FARMERS' ORGANISATIONS STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES AS AT 30TH JUNE 1998.

Pro. No	Projects	Project Brief	Project Classification	Year Begin	Strategic Alliance Value
1	Permodalan Peladang Berhad	As an investment entity to Farmers' Organisations.	Investment	94	2,958,000*
2	Peladang Gemilang (Perak)	To expand business activities.	Investment	96	85,000*
3	PASFA Ternak	Beef vertical integration project.	Production	98	1,050,000*
4	Peladang Eksklusif	Oil palm plantation.	Production	90	11,000,000*
5	PASFA Bersih	Cleaning services.	Services	98	100,000*
6	Acta prop. Sdn. Bhd	Housing and industrial property developer.	Property Development	94	2,400,000
7	Skim Payung Ayam Daging	Developing small Bumiputra entrepreneur in poultry industry.	Production	85	160,000,000*
8	Gabungan Peladang Sdn Bhd.(Penang)	To invest in new projects.	Investment	92	61,000*
9	Syarikat Perladangan Peladang Johor Sdn. Bhd.	Involved in oil palm industry (plantation)	Production	96	6,500,000*
10	Consortium Peladang Johor	To develop oil palm estates (plantation)	Production	94	100,000*
11	Peladang Southsilk	Importing second hand lorries and developing properties.	Trading	97	800,000
12	Medan Juara Sdn. Bhd.	Producing day old chicks.	Production	93	632,000*
13	Lembayung Saujana Sdn. Bhd.	Producing vegetable using high-tech for local market.	Production	94	600,000*
14	Pengurusan Ladang Kelapa Sawit Gagasan Sdn. Bhd (Selangor)	Involved in developing oil palm estates.	Production	97	2,000,000*
15	KPT Peladang Sdn. Bhd.	Trading in agricultural input.	Trading	96	670,000*
16	Syarikat Perladangan LUTH Sdn. Bhd.	Oil palm estates.	Production	85	5,652,000
17	Consortium Pengawitan Tembakau P.P Perlis	Tobacco curing activity among small producers.	Processing	97	400,000*
18	Jelebu Homestead Sdn. Bhd.	Developing the farmers' organisations lands to the optimum level.	Property Development	97	(formation stage)
19	Pengawitan Tembakau (Kelantan)	Tobacco curing activity.	Processing	92	500,000
20	Peladang Teguh Sdn. Bhd.	Chicken and orchid projects.	Production	92	158,000*
21	Projek Mulpha-PPNS Sdn. Bhd.	Developing commercial, housing and industrial	Property Development	94	(formation stage)

		properties.			
22	Projek PPNS-Salak Park JV Sdn. Bhd.	Developing mixing housing, commercial and industrial projects.	Property Development	94	(formation stage)
23	Percetakan Peladang (M) Sdn. Bhd.	Printing activities.	Services	97	123,000*
24	Pasar Mini Peladang	To expand market for farmers produce.	Marketing	96	105,169*
25	Perniagaan Input	Trading in agricultural input	Trading	83	50,000*
26	Pemasaran Buah Kelapa Sawit Bersepadu	Marketing oil palm fruits.	Marketing	88	8,900,000*
27	Syarikat Jasmin Travel & Tours (Perak) Sdn. Bhd.	Dealing with travel and leisure activities.	Services	93	17,000
28	Kilang Kapor Pertanian	Producing lime for agricultural activities	Processing	80	60,000
29	Nafas T.G. Breeding Farm Sdn. Bhd.	Producing day old chicks.	Production	96	875,000
30	P.T. Ubertra Co.	Developing oil palm estate in Indonesia.	Production	96	23,750,000
31	Konsortium Pasar Borong Sdn. Bhd.	Involved in wholesale marketing activities.	Marketing	95	137,500
32	P.K. Resources Bhd.	Property and supply of fertiliser	Trading	90	200,000
33	BERNAS	Sole importer of rice.	Trading	97	20,000,000
34	Skim Payong Ayam Telor	To develop small Bumiputra entrepreneur in poultry industries.	Production	84	40,000,000*
35	Ternakan Udang Harimau	To farm tiger prawns.	Production	97	400,000*
36	Syarikat Perniagaan Peladang KADA	Supply of agricultural input, contract work, nursery and others.	Trading	80	877,003*
37	Syarikat Kilang Padi SKATA	Rice processing.	Processing	93	244,683*
38	Projek Seni Taman	Landscaping.	Services	85	30,000*
39	SPPM (Syarikat Perniagaan Peladang MADA)	To invest on behalf of the MADA's farmers in commercial, trade and industry projects.	Holding company	75	5,400,000*
40	Muda Selatan Sdn. Bhd.	To invest in public issues of shares and commercial project.	Investment	87	490,000*
41	SPPM Perabot	Wood based projects.	Processing	85	125,000*
42	Bekalan Sayuran ke Carrefour Hypermarket	Supplying vegetables.	Production	94	1,500,000*
43	Mini Estate Getah	Estate management.	Production	83	321,700
44	Projek Tanaman Herba	Herb plantation	Production	96	60,000
45	Jelapang Megah Sdn. Bhd	Chicken project	Production	87	210000*
	Total Amount				RM300,000,000

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Note:

- * - 29 strategic alliance projects are amongst the farmers' organisations, whereby the value for strategic alliance are included all values that belong to every equity holders (joint venture) /overall. Meanwhile for collaboration and consortium type of alliances, the value of strategic alliances is the total volume of the business turnover.
- For 16 strategic alliance projects between farmers' organisation and outside organisations, the value for strategic alliances only represents the value of equity / business turnover that belongs only to farmers' organisations.

Table 5.1 is best discussed in terms of three time periods i.e. 1975-1990, 1991-1994, and 1995-1998. These mark the periods of specific Government Policy/ policy changes/environmental changes. For example, 1975-1990 was the early period of the New Economic Policy, 1991-1994 signalled the beginning of the Second Outline Perspective Plan (1991-2000). Meanwhile, 1995 was the year when the World Trade Organisation came into operation. As a result, future challenges in the Seventh Malaysia Plan¹²⁶, among others, include "encourage a global approach to industrialisation" to enable firms to venture into large-scale operations so that the benefits of economies of scale can be enjoyed through increase production for export to the world market.

The development trusts of the Seventh Malaysian Plan also emphasised on enhancing competitiveness such as reinforce its competitive industry cluster, enhance the supportive institutional setting, expand and intensify global marketing network. It also encouraged industrialisation for the future whereby Malaysian manufacturers were encouraged to adopt new strategies that would enable them to target production for the global market.

A total of 18 out of 45 projects (i.e. 40%) are classified under production. These projects produce primary products such as vegetable, poultry (meat and egg), day old chicks and palm oil. Other projects include trading (7projects), investment (4 projects), processing (5 projects), services (4

¹²⁶ Ibid. The Government of Malaysia, Seventh Malaysia Plan, Policy Objectives and Framework, 1996, pp. 16 and 17.

projects), property development (4 projects) and marketing activities (3 projects).

When Compared to Malaysian Farmers' Organisations that have several types of project under one area/state farmers' organisation, the Danish co-operatives enterprises are single-purpose co-operatives that concentrate on their main purpose and do not spread their activities to several branches. In Malaysia, an area farmers' organisation may have more than one alliance with several other farmers' organisations while in Denmark, commercial collaboration between co-operatives is limited¹²⁷.

Commercial collaboration takes place only when several co-operatives jointly own corporation or co-operative enterprises. For example, several co-operative slaughterhouses jointly own ESS-Food, which is a commercial trading enterprise. ESS-Food buys and sells meat internationally, including meat from slaughterhouses outside Denmark. ESS-Food buys meat from the individual co-operative slaughterhouses on market terms and also buys meat from private slaughterhouses in different countries. It is up to the slaughterhouses how much or how little meat they sell through ESS-Food. However, these alliances have comparable objectives i.e. to get better deal and price for their members and organisations. Based on Malaysian and Denmark experiences, most of the alliances formed by farming groups are domestic alliances but their business has already reached out internationally (especially Denmark).

5.3 STRATEGIC ALLIANCES BUSINESS OPPORTUNITY BETWEEN 1975-1990

The business opportunities for Malaysian Farmers' Organisations strategic alliances between 1975-1990 are listed in Table 5.1(b) below:

Table 5.1(b)

FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS BETWEEN 1975-1990.

¹²⁷ Report from The Federation of Danish Co-operatives and The Agricultural Council of Denmark (1993).

	No	Projects	Project Brief	Project Classification	Year Begin	Strategic Alliance Value
1	39	SPPM (Syarikat Perniagaan Peladang MADA)	To invest on behalf of the MADA's farmers in commercial, trade and industry projects.	Trading (JV)	75	5,400,000*
2	36	Syarikat Perniagaan Peladang KADA	Supply of agricultural input, contract work, nursery and others.	Trading (JV)	80	877,003*
3	28	Kilang Kapur Pertanian	Producing lime for agricultural activities	Processing (JV)	80	60,000
4	7	Skim Payung Ayam Daging	Developing small Bumiputra entrepreneur in poultry industry.	Production (Consortium)	85	160,000,000*
5	16	Syarikat Perladangan LUTH Sdn. Bhd.	Oil palm estates.	Production (JV)	85	5,652,000
6	34	Skim Payong Ayam Telor	To develop small Bumiputra entrepreneur in poultry industry.	Production (Consortium)	84	40,000,000*
7	43	Mini Estate Getah	Estate Management	Production (Collaboration)	83	321,700
8	25	Perniagaan Input	Trading in agricultural input	Trading (JV)	83	50,000*
9	41	SPPM Perabot	Wood based project	Processing (JV)	85	125,000*
10	38	Projek Seni Taman	Land scaping.	Services (JV)	85	30,000
11	45	Jelapang Megah Sdn. Bhd	Chicken project	Production (Consortium)	87	210000*
12	40	Muda Selatan Sdn. Bhd.	To invest in public issues of shares and commercial project.	Investment (JV)	87	490,000*
13	26	Pemasaran Buah Kelapa Sawit Bersepadu	Marketing oil palm fruits.	Marketing (Collaboration)	88	8,900,000*
14	4	Peladang Eksklusif	Oil palm plantation	Production (JV)	90	11,000,000*
15	32	P.K. Resources Bhd.	Property and supply of fertiliser	Trading (Collaboration)	90	200,000

Fifteen (15) strategic alliance projects (out of 45 total strategic alliance projects) started operation between 1975-1990 period to take advantage of the Government's New Economic Policy that was launched at the beginning of 1970's. They followed the basic philosophy for growth and equity, which transpired in the Second Malaysia Plan¹²⁸ (1971-1975) with the New

¹²⁸Ibid, Economic Planning Unit, Malaysian Experience in Economic Development, unpublished

Economic Policy embodied within it. If seeking opportunity for change¹²⁹ can be considered as part of innovation, the initiation of these projects, therefore, can be considered as the first emergence of innovation in the life of the farmers' organisations movement in Malaysia through the new economic paradigm. It focused on various programmes to eradicate poverty and restructuring of society. The main strategies used under the New Economic Policy were:

- Increasing the productivity and income of those in low productivity occupations through the adaptation of modern techniques to suit their needs and better use of facilities e.g. to use direct seeding method instead of traditional way of paddy planting in order to increase yearly circles and better use of irrigation facilities.
- Encouraging positive attitude and the nurturing of a self-reliant community among the poor through the implementation of human resource-based programmes e.g. through the Amanah Ikhtiar Projects and Kampong Based Project.
- The formulation and implementation of special rules and arrangements, whereby the involvement and participation of Bumiputra¹³⁰ group was assisted and facilitated over a time period.
- The provision of concessional fiscal and monetary support as part of the package towards entrepreneurial development.
- The use of wide-ranging administrative support measures such as preferential treatment in contracts, encouragement in securing licenses and permit and quota system e.g. for Bumiputra organisations such as Farmers' Organisations and other Bumiputra entrepreneurs.
- Encouraging positive attitude and the nurturing of a self-reliant community among the poor through the implementation of human resource-based programmes

During 1975-1990, 40% (6 out of 15 projects) of the strategic alliance projects were production projects, 26.6% (4 projects) on trading, 13.3% (2 projects) were processing projects and one project each for service (6.7%), marketing (6.7%) and investment (6.7%). Around 67% of the projects were the strategic alliances between farmers' organisations themselves. Nine (60%) out of fifteen projects were joint venture type of alliance while consortium and collaboration were represented by three (20%) projects of each type (40% for both types).

Out of the six production projects, three were involved in poultry. Two of the latter had direct farmers participation under the Skim Payung Ayam Daging

material.

¹²⁹ Jane Henry and David Walker, *Managing Innovation, Strategic Innovation*, 1991, pp. 9-17.

¹³⁰ The Term Bumiputra refers to the indigenous Malay population.

and Telur (Umbrella Broiler and Egg Schemes). Both of these projects have generated around RM200 millions worth of business volume (2002). The underlying principle behind such project is to eradicate poverty and restructure society. Hence, these projects are for growth and equity/wealth distribution.

Figure 5.1



UMBRELLA BROILER SCHEME PROJECT IN
SEBERANG PRAI SELATAN, PULAU PINANG

The Umbrella Broiler and Egg Scheme projects were initiated when the Government awarded NAFAS¹³¹ a Central Contract to supply chicken meat (broiler) and egg to all government departments and agencies. The first broiler contract started from 1st November 1987 and ended on 31st June 2002¹³². The contract again has been continued until 31st June 2004. The contracts was implemented through a consortium type of arrangement whereby, several farmers' organisations helped their members to set up farmers to grow broilers so that they could supply poultry meat to all government departments and agencies in their area through the central contract.

¹³¹ NAFAS is the National Farmers' Organisation.

¹³² National Farmers' organisation, Laporan Kemajuan Skim Payong Ayam Daging Berakhir Disember 1999, 2000, unpublished material.

Three projects are involved in producing primary base materials for industrial products such as oil palm and rubber. Besides producing food, farmers' organisations are also involved in industrial crops such as oil palm.

Figure 5.2



FARMERS HAVING SIDE VISIT TO A COMMERCIAL OIL PALM PLANTATION DURING THEIR TRAINING PROGRAMME

Pemasaran Buah Kelapa Sawit is an integrated marketing effort to help members market their oil palm fruits efficiently and this sort of activity will later on offer opportunities for farmers' organisations to build their own refinery. Umbrella Broiler and Egg Schemes have helped the farmers' organisation to become poultry integrators. Building domestic supply chain has become one important characteristic of domestic strategic alliance while in international strategic alliance models'; the supply chain is located in different countries.

In the beginning, almost all-trading projects were related to agricultural input supply. Expansion or diversification into other projects came later. For example, Syarikat Perniagaan Peladang MADA, was initially involved in importing fertiliser and distributing chemical, pesticide and agricultural appliances. It is now involved in distributing consumer goods, landscaping, rental property as well as supplying treated water for industrial and domestic

use. By the middle and late 1980's, farmers' organisations through the formation of strategic alliances started their involvement in service, marketing and investment projects.

This study saw the development and trend of the strategic alliances projects by farmers' organisations whilst no such study, on the other hand, was conducted in the international strategic alliances model. It explains the development with regards to type and value of strategic alliance projects ventured by the Malaysian Farmers' Organisations during the period 1975-1998 i.e. in food and non-food products. The study also revealed the trend of project types preferred by farmers' organisations when setting up more joint venture type of alliance as compared to consortium and collaboration type of alliance. As far as value of projects are concerned, a switch on project concentration by farmers' organisations from that of food to non-food sector, such as property development and industrial crops, was also evident.

Figure 5.3



SERVICES TO FARMERS THROUGH "KEDAI PELADANG"

There has been no specific impact study, at that point of time, in relation to the farmers' organisations strategic alliance activities for the year between 1975-1990. Nevertheless, the overall incidence of poverty in Peninsular Malaysia declined from about 43.9 % in 1975 to about 36.6% in 1978¹³³ and further declined from 20.7% in 1984 to 19.3% in 1987¹³⁴. Even though this result was the efforts of all rural programmes under the Third, Fourth and Fifth Malaysia Plans, however, farmers' organisations were one of the many types of rural organisations that have contributed to the success. For example, Farmers Organisations Authority (through state and area farmers' organisations) has been very active in promoting better technique of production and in improving the marketing and processing of farm outputs¹³⁵. Meanwhile in Fifth Malaysia Plan, farmers' organisations had played an important role in establishing group farming and mini-estates within the areas of Integrated Agriculture Development Programmes and developed commercial and financial skills among the members¹³⁶.

¹³³ Government of Malaysia, Mid-term Review of the Third Malaysia Plan, 1976-1980, The New economic Policy: Eradication of Poverty, 1979, pp.27

¹³⁴ Government of Malaysia, Mid-term Review of the Fifth Malaysia Plan, 1986-1990, The New Economic Policy, 1989, pp. 47.

¹³⁵ Ibid. Government of Malaysia, Mid-term Review of the Third Malaysia Plan, 1976-1980, The New economic Policy: Eradication of Poverty, 1979, pp.30

¹³⁶ Ibid. Government of Malaysia, Mid-term Review of the Fifth Malaysia Plan, 1986-1990,

As a result, the mean income of rural household has increased in 1987 as compare to 1984 such as RM2,043 (top 20%), RM749 (middle 40%), RM290 (bottom 40%) in 1984 to RM2,062 (top 20%), RM 783 (middle 40%) and 318 (bottom 40%) in 1987 respectively¹³⁷ (it is based on current price and 1978 price in parentheses). Therefore, the decline in poverty shows that more rural people obtained higher income as a result of the rural programmes implemented by the Government during the period of 1975-1990. Among them were the projects of Skim Payung Ayam Daging and Telur (Umbrella Broiler and Egg Schemes from farmers' organisations) as mentioned above which has generated around RM200 millions worth of business volume (2002).

It indicates that the strategic alliances projects do give positive contribution to the restructuring of the socio-economic reform and directly to wealth distribution. The second part of this chapter examines the impact of strategic alliance project i.e. Umbrella Broiler scheme on the income generation of participating members.

5.4 STRATEGIC ALLIANCES BUSINESS OPPORTUNITY BETWEEN 1991-1994

The business opportunities for farmers' organisations strategic alliance projects for the period of 1991-1994 are as follows:

Agriculture, 1989, pp. 146-147.

¹³⁷ Ibid. The Government of Malaysia, Mid-term Review of the Fifth Malaysia Plan, 1986-1990, Table3-3, pp.42.

Table 5.1(c)

**FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS
BETWEEN 1991-1994**

	No	Projects	Project Brief	Project Classification	Year Begin	Strategic Alliance Value
1	20	Peladang Teguh Sdn. Bhd.	Chicken and orchid projects.	Production (Collaboration)	92	158,000*
2	8	Gabungan Peladang Sdn Bhd.(Penang)	To invest in new projects.	Investment (JV)	92	61,000*
3	19	Pengawitan Tembakau (Kelantan)	Tobacco curing activity.	Processing (Collaboration)	92	500,000
4	27	Syarikat Jasmin Travel & Tours (Perak) Sdn. Bhd.	Dealing with travel and leisure activities	Services (JV)	93	17,000
5	37	Syarikat Kilang Padi SKATA	Rice processing.	Processing (JV)	93	244,683*
6	12	Medan Juara Sdn. Bhd.	Producing day old chicks.	Production (JV)	93	632,000*
7	13	Lembayung Saujana Sdn. Bhd.	Producing vegetable using high-tech for local market.	Production (JV)	94	600,000*
8	10	Consortium Peladang Johor	To develop oil palm estates (Plantation)	Production (Consortium)	94	100,000*
9	42	Bekalan Sayuran ke Carrefour Hypermarket	Supplying vegetables.	Production (Collaboration)	94	1,500,000*
10	21	Projek Mulpha-PPNS Sdn. Bhd.	Developing commercial, housing and industrial properties.	Property Development (JV)	94	(formation stage)
11	22	Projek PPNS-Salak Park JV Sdn. Bhd.	Developing mixing housing, commercial and industrial projects.	Property Development (JV)	94	(formation stage)
12	6	Acta prop. Sdn. Bhd	Housing and industrial property developer.	Property Development (JV)	94	2,400,000

During the 91-94 periods, twelve strategic alliance projects were implemented. It included five production projects, two processing, one

service, one investment and three property development projects. Nine of the projects were formed under Joint venture, three of collaboration and one project under consortium type of alliance. Projects implemented during 1991-1994 period mostly involved in diversification and high-value added products. These include investment in property and commercial projects, developing large-scale oil palm plantations, integration and high-tech projects, wholesale marketing and others. This also coincided with the year 1991 being the beginning of the Second Outline Perspective Plan drawn up by the Government. Amongst its main aims, this Plan not only emphasises on the eradication of hardcore and relative poverty but it also places great importance on the need for:

- i. Rapid development of active Bumiputra Commercial and Industrial Community (BCIC); and
- ii. Be more responsive to market forces and to exploit opportunities through increased participation by the private sector in industry.

It calls for the development of efficient export-oriented and high-value added products. It also encourages the development of Small and Medium Industries (SMIs), particularly through strengthening of linkages with larger establishment via the umbrella concept. The plan also includes the need for strategically important core process technology such as information technology, resource-based technology, environmentally sound technology, so as to ensure that Malaysia maintains a competitive edge in these production technologies within the context of an open, liberal economy.

It is significant that, by this period diversification is more apparent within production projects notably into vegetables, orchids and day old chicks, the latter being the up-stream project for the poultry industry. An integrated commercial beef project has also been started within this period, which involved farmers with commercial approach. Vegetables are grown using high technology methods besides vegetables grown conventionally. The vegetables supplied to Carrefour hypermarkets are all very high quality.

Figure 5.4



VEGETABLE PROJECT IN JOHORE

Figure 5.5



ORCHID PROJECT

The oil palm projects are clearly for long term and required estate management expertise. They managed either member lands or farmers' organisations own properties or contract management for other organisations such as Lembaga Urusan Tabung Haji. Overall, the approach adopted within farmers' organisations to projects in the 1990's, which were relatively more commercial, had a higher level of management expertise and

contained technological advancement mainly in the processes used. The percentage of production type of projects was more or less the same as in 1975-90 period i.e. 40% in 1975-90 and 41.6% between 1991-94.

No trading project was formed during this period. Three-property development projects have been established which will normally bring faster and higher returns on investment. Two processing projects that have been established which involved direct farmers participation in supplying tobacco leave and paddy. The service project includes travel and tourism activity, which contrasts greatly from agricultural activities, was designed to exploit the tourism sector. Activities here have been further encouraged by the Government through their policy and support for a "visit Malaysia year" which takes place almost every recent year.

5.5 STRATEGIC ALLIANCES BUSINESS OPPORTUNITY BETWEEN 1995-1998

It is important to note that, during the establishment of the World Trade Organisation (WTO), 1995, all member countries have agreed, among others, that internal market should be opened to allow a healthier international competitive environment. This is to be achieved by replacing the non-tariff measures affecting agricultural imports with normal custom duties that would be reduced progressively. This would offer cheaper and wider choice of competitive agricultural goods, which will benefit low-income groups. Malaysia also agreed to the provision that encourages less trade distortion. It implies that many imported products (including agricultural products) will have free entry into the Malaysian markets. These imported products will compete on certain criteria against locally produced goods such as cheaper in cost, higher in quality, better appearance, new taste, more varieties etc.

Therefore, the products produced by strategic alliance projects must be equally competitive as their foreign competitors. This period also marks the

period of the Seventh Malaysia Plan¹³⁸ that outlines the new challenges, which have emerged as a result of economic success since 1988, the two main points relevant to this study are:

- A global approach to industrialisation to enable firms to venture into large-scale operations so that the benefits of economies of scale can be enjoyed through increased production for export to world market.
- Need for a more integrated process of production through strengthening inter-industry linkages in particular, increasing production of selected intermediate and capital goods to reduce dependent on imports as well as expand into export markets.

The farmers' organisations strategic alliances business opportunities for the period of 1995-1998 are presented in Table 5.1(d):

Table 5.1(d)
FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS
BETWEEN 1995-1998

No	Pro. No	Projects	Project Brief	Project Classification	Year Begin	Strategic Alliance Value
1	1	Permodalan Peladang Berhad	As an investment entity to Farmers' Organisations.	Investment (JV)	96	2,958,000*
2	2	Peladang Gemilang (Perak)	To expand business activities.	Investment (JV)	96	85,000*
3	3	PASFA Ternak	Beef vertical integration project.	Production (JV)	98	1,050,000*
4	4	PASFA Bersih	Cleaning services.	Services (JV)	98	100,000*
5	9	Syarikat Perladangan Peladang Johor Sdn. Bhd.	Involved in oil palm industry (plantation).	Production (JV)	96	6,500,000*
6	11	Peladang Southsilk	Importing second hand lorries and developing properties.	Trading & land development (JV)	97	800,000
7	14	Pengurusan Ladang Kelapa Sawit Gagasan Sdn. Bhd (Selangor)	Involved in developing oil palm estates.	Production (JV)	97	2,000,000*
8	15	KPT Peladang	Trading in agricultural	Trading	96	670,000*

¹³⁸ The Government of Malaysia, The Seventh Malaysia Plan, 1996-2000, Policy Objectives and Framework, pp. 3-10

		Sdn. Bhd.	input.	(JV)		
9	17	Consortium Pengawitan Tembakau P.P Perlis	Tobacco curing activity among small producers.	Processing (Consortium)	97	400,000*
10	18	Jelevu Homestead Sdn. Bhd.	Developing the farmers' organisations lands to the optimum level.	Property Development (JV)	97	(formation stage)
11	23	Percetakan Peladang (M) Sdn. Bhd.	Printing activities.	Service (JV)	97	123,000*
12	24	Pasar Mini Peladang	To expand market for farmers produce.	Marketing (JV)	96	105,169*
13	29	Nafas T.G. Breeding Farm Sdn. Bhd.	Producing day old chicks.	Production (JV)	96	875,000
14	30	P.T. Ubertra Co.	Developing oil palm estate in Indonesia.	Production (JV)	96	23,750,000
15	31	Konsortium Pasar Borong Sdn. Bhd.	Involved in wholesale marketing activities.	Marketing (Consortium)	95	137,500
16	33	BERNAS	Sole importer of rice.	Trading (JV)	97	20,000,000
17	35	Ternakan Udang Harimau	To farm tiger prawns.	Production (JV)	97	400,000*
18	44	Projek Tanaman Herba	Herb plantation	Production (JV)	96	60,000

Eighteen strategic alliance projects have been formed during 1995-1998 period. It can be seen that farmers' organisations became more involved in large-scale activities, such as managing large oil palm plantations including a joint venture in Indonesia. This marked the operation and expansion of these domestic alliances at a regional level. While still catering for small farmers' interests, their concern to increase productivity and to operate as viable and efficient organisations in order to gain competitive advantage¹³⁹ have forced them to become involved in more profitable activities that can lead to cost leadership. About 61.5% of farmers' organisations in the current survey responded that the influence of deregulation and liberalisation policy under WTO have been important influences in redirecting their organisations.

¹³⁹ Michael E. Porter, *The Competitive Advantage of Firm in Global Industry*, 1980, pp.34-35

A breakdown of the projects initiated during this period shows that there are seven (7) production projects, two (2) projects each for investment, service, and marketing, three (3) projects for trading and one (1) project each for processing and property development. Out of the eighteen projects, sixteen of them fall under joint venture type of alliances, with the two remaining projects under consortium type of alliances.

Two of the production projects i.e. oil palm plantation and integrated beef projects, are managed on normal commercial basis, aiming to increase efficiency and to achieve cost saving from economies of scale. An integrated commercial beef project requires farmers to become commercially astute. The company formed by the alliance encourages this by supplying farmers with young cattle for rearing and fattening within a specified period of time. When ready, farmers will sell them back to the company, which in turn will sell them in the open market to be retailed as fresh meat or process into value added products. Hence, farmers who are efficient in both cattle breeding and management will be able to achieve higher returns from this arrangement with the alliance company. This is one of the flagship co-operative projects that emphasise growth and equity (wealth distribution).

Farmers' organisations have also diversified their service projects into printing and maintenance activities. In marketing, they moved one step ahead by becoming involved in wholesale activities and expanding to market imported products such as rice and used lorries.

Figure 5.6



BEEF INTEGRATED PROJECT

Typically, the proposed strategic alliances regional projects between most of the farmers' organisations in Asian countries during 1996 and which had been postponed because of the Asian financial crisis has now been revised, in March 2000. Changes in Government's investment policies and incentives to promote private sector participation have given strong impetus to their organisations to engage in new activities such as through Permodalan Peladang Berhad (1996), which enabled farmers' organisations to engage in risk management activity in the Stock Exchange. Further activities in achieving financial strength and producing commercial farmers have also been encouraged on several projects i.e. Pasaraya Peladang, PASFA Ternak (beef project) and Tiger Prawns.

Permodalan Peladang Berhad is an investment company belongs to the majority of farmers' organisations. It engages in stock market activities. Even though it was formed in 1994, membership enrolment would continue until all farmers' organisations become members. By the end of 1997, shareholder equity amounted to RM2,957,854.37. The amount of dividend paid to farmers' organisation in 1994, 1995 and 1996 are RM33, 923.75, RM162, 431.85 and RM141, 548.16 respectively.

Hence, if innovation¹⁴⁰, amongst others, can mean changes or taking new opportunity from new ideas, technology or environmental changes (and others), it shows that innovation has occurred during the formation of strategic alliance projects. In this case, the innovation for farmers' organisation can be divided into the macro and micro level. At macro level, the innovation is initiated by environmental changes such as government policies and international events. At micro level, the source of change is based on the projects itself. In the case of Umbrella Broiler Scheme, the

¹⁴⁰ Ibid. Jane Henry and David Walker, *Managing Innovation*, 1991.

competitive challenges and opportunities resulted from the changes of internal and environmental factors of the project itself shall influence the innovation of the project (it has been illustrated in chapter 8).

Therefore, it can be concluded that environmental factors have strong influenced in generating innovation in strategic alliance projects. These typically led to improve efficiency, as in the case of Syarikat Perniagaan Peladang MADA¹⁴¹ which managed to expand their activities to become distributors for consumers' goods, supplier of treated water and importer of fertilisers. These activities give a higher chance of achieving the organisational objectives. Clearly, without appropriate Government supports during the difficult condition endured in the early 1980's the latter would have been difficult to achieve.

¹⁴¹ Syarikat Perniagaan Peladang MADA (SPPM), Profil Syarikat, pp.2-4, 1998

5.6 ANALYSIS OF FARMERS' ORGANISATIONS' STRATEGIC ALLIANCE BUSINESS OPPORTUNITIES

The overall distribution of projects and value percentages formed from 1975-1998 are listed in Table 5.2:

Table 5. 2

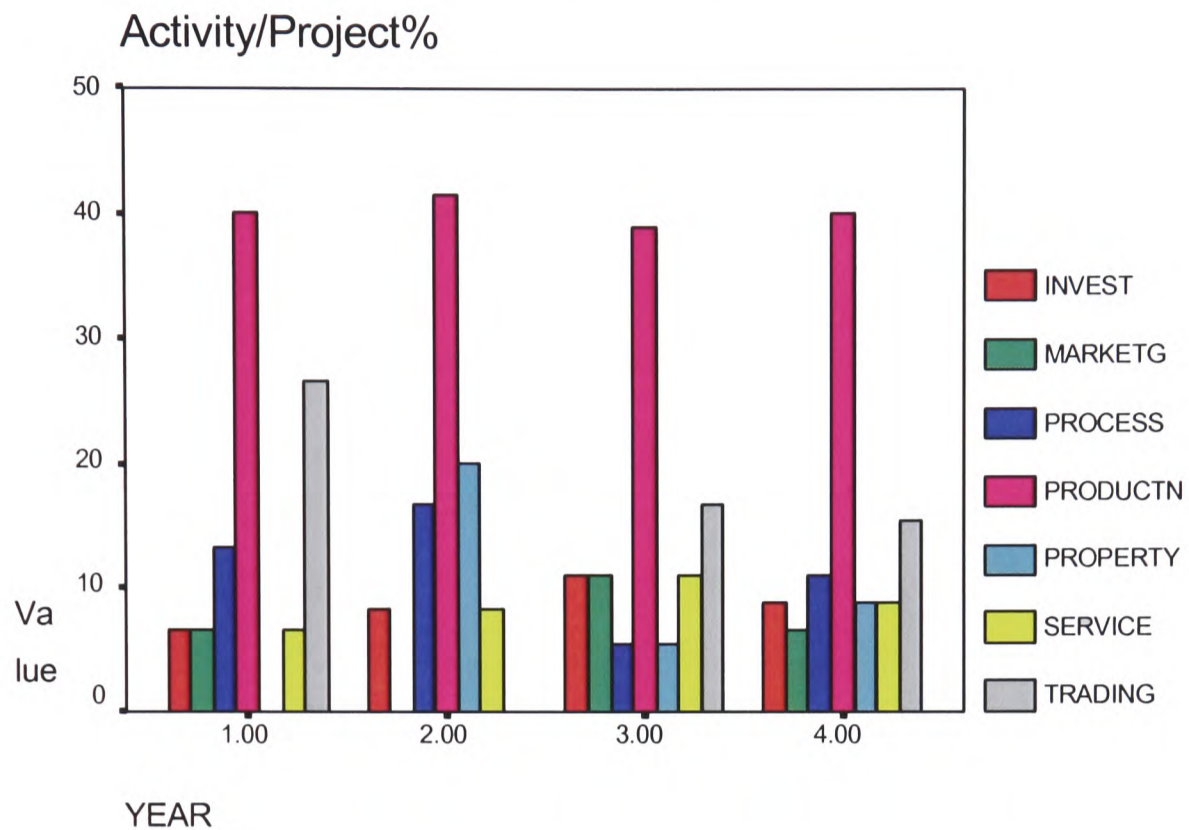
THE SUMMARIES FOR NUMBER OF PROJECTS AND VALUE OF STRATEGIC ALLIANCES BUSINESS OPPORTUNITIES FROM 1975-JUNE 1998.

Year	Production	Trading	Invest	Processing	Service	Prop. Dev	Marketing	No. of project
75-90								
Project	6 (40%)	4 (26.7%)	1 (6.7%)	2 (13.3%)	1 (6.7%)	-	1 (6.7%)	15
Value (RM)	217,183,700 (93.1%)	6,527,003 (2.8%)	490,000 (0.2%)	185,000 (0.1%)	30,000 (0.01%)	-	8,900,000 (3.81%)	233,315,703
91-94								
Project	5 (41.6%)	-	1 (8.3%)	2 (16.67%)	1 (8.3%)	3 (20%)	-	12
Value (RM)	2,990,000 (48.13%)	-	61,000 (0.98%)	744,683 (11.98%)	17,000 (0.27%)	2,400,000 (38.6%)	-	6,212,683
95-98								
Project	7 (38.89%)	3 (16.67%)	2 (11.1%)	1 (5.5%)	2 (11.1%)	1 (5.5%)	2 (11.1%)	18
Value (RM)	34,635,000 (57.7%)	21,470,000 (35.7%)	3,043,000 (5.07%)	400,000 (0.67%)	223,000 (0.37%)	-	242,669 (0.4%)	60,013,696
75-98								
Project	18 (40%)	7 (15.5%)	4 (8.89%)	5 (11.1%)	4 (8.89%)	4 (8.89%)	3 (6.67%)	45
Value (RM)	254,808,700 (85.0%)	27,997,003 (9.35%)	3,594,000 (1.2%)	1,329,683 (0.44%)	270,000 (0.09%)	2,400,000 (0.80%)	9,142,696 (3.05%)	299,542,082

Based on the Table 5.2 above, a good deal of information could be gathered about farmers' organisations strategic alliance business opportunities. Below are two bars charts that represent percentage and values of projects, Figures 5.7 and 5.8.

Figure 5.7

DETAIL OF ACTIVITIES AND PROJECT PERCENTAGES



Note:

- Year 1 = Project between 1975-90
- Year 2 = Project between 1991-94
- Year 3 = Project between 1995-98
- Year 4 = Total project between 1975-98

It clearly shown from Figure 5.7 above that distribution of strategic alliance projects that have been established between 1975-1990 are more on production (40%) and trading (26.6%) with little diversification on investment (6.7%), processing (13.3%), services (6.7%) and marketing (6.7%). Nevertheless, the diversification projects on property development (20%) have started quite actively during 91-94 even though 41.6% projects are still on production. More diversification projects have started during 1995-98 period i.e. investment (11.1%) and services (11.1%) projects. During that period, production projects consist only 38.8%.

Overall, between 1975-90, 1991-94 and 1994-98 periods, production project is around 40% of the total project. There are slight increases in percentages wise for service and investment projects. Nevertheless, during this period trading and processing projects have slight decrease in percentage as to give way to more projects for property development and marketing activities. Detail percentages are presented in Table 5.2 above.

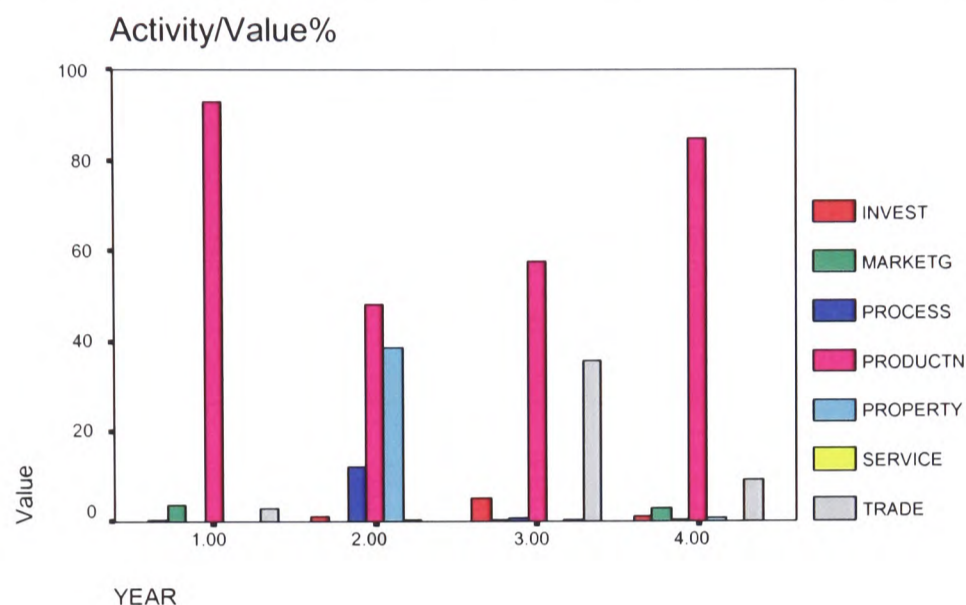
The diversification and integration project developments have always been encouraged from time to time. It will lead to increase on technological betterment, value-added and skilled manpower in strategic alliance projects. At the same time, farmers are encouraged to be actively involved in production projects and supply their produce to farmers' organisations. Farmers' organisations should actively involve in processing activities in order to increase value-added to farmers' produce. Even though marketing activities can become one of the main functions of the farmers' organisations through alliances/on their own but it should be based on the competitive price and not as a buyer of last-resource.

This study has made an attempt to study the development of strategic alliance projects by farmers' organisations based on trend of projects' types and values. Almost all studies on the development of international strategic alliance did not touch about these matters. For examples, El-Hajjar (1991), had studied twenty-nine strategic alliances by British firms with foreign partners (from 1980 to 1989) focused among others on alliance motivation factors, partner selection criteria, and management of alliance. The vast majority of these alliances were concentrated in high-tech sectors and other industries like construction and engineering, services and food. The study did not touch on development of type and value of alliance project by British firms. Christoph Bronder and Rudolf Pritzl's model (1992) in presenting their four step ways to developing and managing strategic alliances had studied, among others, the European Alliance Airbus Industries, Glaxo plc and Swissair without touching their development over the years. While David Faulkner's model (1995) based on 67 alliances of international reputation

such as ICI Pharmaceuticals, Land Rover, Honda, Nippon Paint, The Royal Bank of Scotland and the Cable and Wireless consortium to identify, among others, the formation of alliance (alliance form, motivation, partner selection criteria and external forces), the management and the evolution of alliance.

Figure 5.8

DETAIL OF ACTIVITIES AND PERCENTAGE OF PROJECT VALUES

**Note:**

Year 1	= Project between 1975-90
Year 2	= Project between 1991-94
Year 3	= Project between 1995-98
Year 4	= Total project between 1975-98

Figure 5.8 above shows that, even though percentage of production projects were around 40% throughout 1975-98 period but the percentage value had decreased significantly from 93.1% in 1975-90 to 48.13% and 57.7% in 1991-94 and 1995-98 respectively. The high percentage of production project values during 1975-90 period were due to the huge amount of contract value of the Umbrella Broiler and Egg Schemes for the last 18 years period that consists 85.7% of the total project values for this period. Other than Peladang Eksklusif and SPPM (Syarikat Perniagaan Peladang MADA) projects that valued at RM11.0 million and RM5.4 million respectively, the rest of the projects was relatively small in value i.e. less than RM1.0 million.

During 1991-94, except for supplying vegetables to Carrefour Hypermarket valued at RM1.5 million to the strategic alliance, the rest of the production

project were relatively small in value. During this period, three (3) property development projects were formed, nevertheless, by June 1998, only one project was implemented, which covered 38.6% of the total project value.

However, production projects between the periods of 1995-98 show a significant difference in values as compared to previous periods (excluded Umbrella Broiler and Egg Scheme). Each of four (4) production projects were valued at more than RM1.0 million such as PASFA Ternak (RM1.05 million), Syarikat Peladangan Peladang Johore (RM6.5 million), Pengurusan Ladang Kelapa Sawit Gagasan Sdn. Bhd (RM2.0 million), and P.T Ubertra Co. (RM23.75 million). It is important to note that most of the big production projects during this period of time were on industrial crops.

As far as trading projects are concerned, most of the activities were on agricultural related activities such as supply of agricultural input, importer of rice and others. Even though the percentage of trading project fell from 26.7% during 1975-90 to 16.67 in 1995-98 but the projects' values had increased from 2.8% to 35.7%. This was because of the National Farmers' Organisation (NAFAS) had been given 5% (RM20.0 million) equity in BERNAS (a statutory body that has right to sole importer of rice for Malaysia). There were no trading and marketing projects during 1991-1994 periods instead; relatively a huge value of property development project (38.6%) had been carried out during the same period.

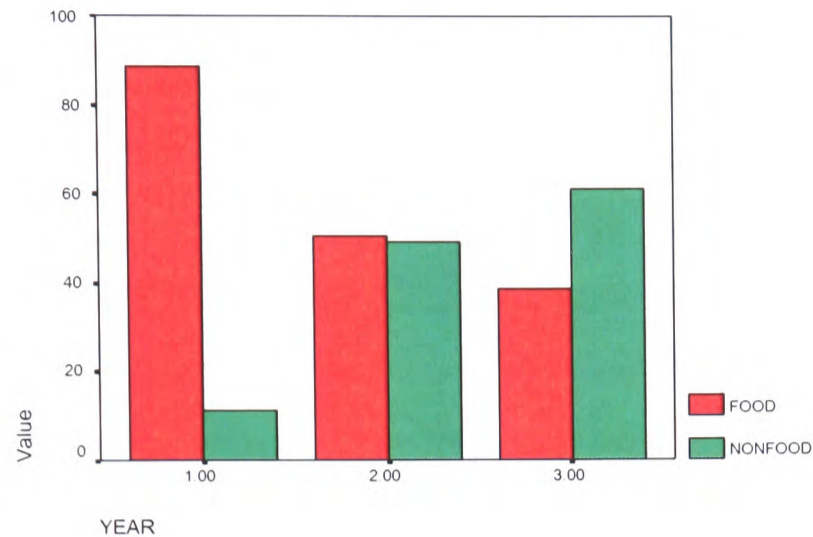
Processing project values had increased from 0.1% (1975-90) to 11.98% (1995-98). The same pattern occurred to the property development projects where the value increased to 38.6% during 1991-94 as compared to 0% during 1975-90. Marketing project values, however, had declined from 3.81% (1975-90) to 0.4% (1995-98) even though the project percentage had increased from 6.7% to 11.1% during the same periods. It indicated the two latest projects were smaller in value as compared to the earlier project.

As far as the value of projects was concerned, there was a switch on project concentration by farmers' organisation from food to non-food¹⁴² sector such as property development and industrial crops. A close analysis shows that the switching to the non-food project had doubled the value from 21.2% during 1975-90 (15 years) to 41.5% during 1991-94 (5 years). Further increase in the non-food sector's value to 61.0% during 1995-98 (4 years) made the investment in the non-food sector much bigger than the food sector. This is a significant movement; within 4-year period (1995-98), more than 61% investment has been made into the non-food sector as compared to only 21.2% investment in that sector within the last 15-year period from 1975-90. These changes are clearly shown in the bar chart below, Figure 5.9.

¹⁴² Non-food sector includes industrial projects such as rubber and oil palm plantation, tobacco curing and other projects such as property development projects, printing, gas station and others.

Figure 5.9

VALUE PERCENTAGES BETWEEN FOOD AND NON-FOOD SECTORS

Note

Year 1	= Period between 1975-90
Year 2	= Period between 1991-94
Year 3	= Period between 1995-98

The above situation is quite different from the corporate plan of the Farmer Organisation Authority that **“BY THE YEAR 2000, FARMERS’ ORGANISATIONS WILL BE A STRONG MOVEMENT AND STABLE BUSINESS ENTITY WITH A MEMBERSHIP OF MODERN FARMERS WHO ARE THE NATION’S MAIN PRODUCER OF FOOD”**¹⁴³.

As far as investment policies are concerned, there is not much of conflict. It is because the investments made on the non-food projects by the farmer’ organisations were mostly from open market and with commercial rates. As far as investment in food sector is concerned, there is always soft loan available from the Agricultural Bank to finance the food sector development. Nevertheless, it might imply that farmers are encouraged to be involved in food sector that has high risk and lower returns on investment as compared to the non-food sector especially property development that commonly known to have high and quick returns.

¹⁴³ Malaysia Country Paper for ACEDEC Meeting in Langkawi on March 2000, Farmers’ Organisations Authority and its Role in Rural Development Through The Farmers’ Organisations, 2000, pp. 1-10.

Farmers' organisations choose to be involved in non-food sectors in the effort to create stable business entities that belong to farmers. It is believed, without government support through difficult phases of growth, farmers' organisations will still go for commercial projects because they can see and learn from other private sectors' commercial projects around them that give higher return within relatively shorter time period. At the same time, more commercial banks are ever willing to give loans on commercial projects. However, the development phase of the commercial projects might be slower because they will have to use these resources to develop the food sector as well. Even though this indicates the increasing entrepreneurial characteristics for farmers and their organisations, until and unless the benefits/profits from those projects are being used to finance farmers' movement to become nation's main producer of foods, the conflict of interest between farmers' organisations business activities and their corporate plan is unavoidable.

5.7 ANALYSIS OF TYPE AND STRATEGIC ALLIANCES TREND

A close analysis of the strategic alliances formed until June 1998 reveals an increasing interest of farmers' organisations to form joint venture type of alliances, Table 5.3.

Table 5.3

TYPE OF STRATEGIC ALLIANCE TREND

Year	Joint venture	Consortium	Collaboration	Total
75-90	9 (60.0%)	3 (20.0%)	3 (20.0%)	15
91-94	8 (66.6%)	3 (25.0%)	1(8.3%)	12
95-98	16 (88.8%)	2 (11.1%)	-	18
Overall	33 (73.3%)	8 (17.8%)	4 (8.9%)	45

At the same time, there is an opposite trend on preferences for consortium or collaboration type of alliances. This may due to the increase in confidence amongst farmers' organisations that joint ventures are both more relevant and reliable. Nevertheless, it may also imply that joint venture strategic alliances concentrate more on growth than on equity. Profits from alliances

were refunded to the related farmers' organisations, in accordance to co-operative principles; they are required by law to distribute only a portion as net income to their members¹⁴⁴. Since farmers' organisations are allowed to use profits that derive from the joint venture activities for other purposes such as salary payments to management teams, therefore, less profit will go to farmers.

As it has been answered in the questionnaire, among other reasons as to why joint venture strategic alliances are more preferable to other type of alliances:

- (a) As parent, 78.7% of them agreed to an arrangement for jointly strategic value through a common organisation. Strategic value is defined as a value created (in term of profit, increase of share value or others) as a result of having a strategic alliance as compared if they go alone. This is clear in the case of scale strategic alliances such as alliances between car manufacturers, which the aim is to achieve economies of scale.
- (b) 77.3% of farmers' organisations with joint venture strategic alliances believed there is necessary to tie the partners. This may due to the reason to get full co-operation and commitment from the partners, and;
- (c) 68.8% of farmers' organisations are in viewed that the performance of an alliance in relation to the utilisation of assets could be clearly measured by having joint venture projects. For example, it is easier to measure utilisation of assets in a joint venture company such as per unit labour cost, over-head cost and others as compared to collaboration and consortia type of alliances.

However, job opportunities are created by ventures into trading, processing, services, marketing, and property development projects. These offer considerably more direct incomes to farmers and even better than when they are compared to agricultural projects, which are normally associated with

¹⁴⁴ Ibid. David Barton – What is a Co-operative Principle, Co-operative in Agriculture, Edited by David Cobia, 1989, pp. 22-33.

high risk. This is evident in the Malaysian Farmers Survey (1990)¹⁴⁵ that 72% of the West Malaysian farmers' income comes from non-agricultural sector.

The experience shows that the non-agricultural projects based such as manufacturing, services, trading, property development and other projects are able to create more jobs opportunities. They will continue to generate good incomes for farmers' organisations and their members. Although they appear to have fewer projects that farmers can participate directly but if they work as employees in the strategic alliances projects, this can give them additional income besides guaranteed profits, they are likely to earn as members of farmers' organisations.

B. TO EXAMINE THE IMPACT OF RELEVANT AND, WHERE APPROPRIATE RELATED STRATEGIC ALLIANCE PROJECTS ON INCOME GENERATION ACTIVITIES OF PARTICIPATING MEMBERS.

Two Projects were chosen to evaluate the impact of strategic alliance projects on income generation of participating members. The projects are as follows:

1. The Umbrella Broiler Scheme
2. Pasaraya Peladang Sdn Bhd.

In this study, as mentioned in Chapter 4, the two above mentioned projects (Umbrella Broiler Scheme and SPPM) were chosen for the case studies because these projects have the largest number of participating members who are from wide geographical areas and clearly representing the topology or relationship of Co-operative Strategic Alliances as mentioned in Chapter 2. Many other strategic alliance projects that are profitable but the farmers'

¹⁴⁵ Malaysian Agricultural Department, Perangkaan Asas Petani (Farmers Basic Statistic), Table 143 and 144 - Pendapatan Petani Dari Bidang Pertanian Dan Bukan Pertanian Mengikut Negeri Bagi Semenanjung Malaysia, 1990, PP. 144-145.

participation mostly comes from the same area of farmers' organisations and the numbers are rather limited.

5.8 CHICKEN (BROILER) CONTRACT WITH FEDERAL GOVERNMENT.

Poultry meat production in Peninsular Malaysia as at 1997 was 631.40 ('000 metric tonne)¹⁴⁶. However, on average, the poultry meat produced by AFOs (area farmers' organisations) and members is only about 6,722 metric tonne a year. Therefore, they only contribute around 1 % towards the country's total production. Since Malaysia has been self sufficient in poultry products, it is quite difficult for small farmers (on their own) to penetrate the open market, which has long been monopolised by large producers.

The government of Malaysia, in the effort to increase income for poor rural farmers, has awarded NAFAS (National Farmers' Organisation) a central contract to supply poultry meat to all Government departments and agencies. NAFAS through SFOs (state farmers' organisations) and AFOs have organised small farmers to rear poultry meat to supply to Government departments and agencies. The strategic alliance took place when NAFAS, SFOs and AFOs established joint marketing agreements to market the chicken produced by small farmers. As from March 1998, NAFAS together with fifty-one (51) farmers' organisations is involved in developing the integrated poultry production scheme and they are now formulating a scheme to obtain the status of being a significant player in the poultry industry.

¹⁴⁶ Jabatan Perkhidmatan Haiwan, Kementerian Pertanian Malaysia, Livestock Statistic 1997, Output of Livestock Products 1988-1997, pp. 5

Table 5.4

**THE CENTRAL CONTRACT POULTRY MEAT PERFORMANCE
(IN TERMS OF VOLUME AND VALUE) FOR THE PERIOD 1991-2000**

YEAR	METRIC TONNES	VALUE(RM)
1991	2398	13,135,000
1992	4733	16,416,000
1993	1738	14,753,000
1994	3987	18,446,000
1995	6722	23,351,000
1996	4905	19,983,771
1997	6290	25,251,349
1998	3380	16,612,226
1999	3647	15,008,981
2000	3941	19,259,214

Source:

- National Farmers' Organisation (NAFAS) for 1991-1995
- Farmers' Organisation Authority from 1996-2000.

During the period 1991-95, growth in turnover has been significant, Table 5.4. The small farmers supplied 6,722 metric tonnes poultry meat to central contract in 1995. This means that the supply had increased by 4,324 metric tonnes or 180 % compared to 1991 when they first started. The amount of chicken produced had decreased especially from 1998 to the year 2000. It may due to the economic recession and most of the student residential halls have been privatised.

Two methods were used to get information on the profit/loss position of participating members. They were as follows:

1. Face-to-face interview with selected farmers.
2. From a specific form that had been sent to all farmers' area/state organisations with chicken contract project in operation.

**5.8.1 FACE TO FACE INTERVIEW WITH RELATED FARMERS IN KUANTAN
UTARA, PAHANG.**

A total of 17 farmers were interviewed as part of the field research in

Malaysia. They were all from the Kuantan Area Farmers' Organisation. Five (5) of the participants were from within the hard-core poverty group which comprises mainly women with no immediate family. Their average income before joining this project was around RM50.00 per month. The government, which has allocated some financial provision for population that meet the citizen hard-core poverty criteria decided to use this project as a mean of generating stable and continuous income for those who are able to participate. Instead of giving cash, the government through area farmer's organisations has initiated training programmes and advisory support to help them grow chicken and supply to the central contract.

The project has been successful and has helped to increase the growers' income between RM125.00-RM150.00 per month. Even though the poultry project has not yet succeeded in pulling them out of the hard-core poverty group, they now have a more stable and constant source of income that can make them proud of themselves. In addition, the government also provided houses and some area to grow food. According to the General Manager of Kuantan Utara Area Farmers' Organisation (1998, personal communication) there is a possibility in the long run, the amount of chicken per batch will be increased until their income reach not only above the hard-core poverty line (RM255.00) but also above the general poverty line (\$510.00 per month)¹⁴⁷.

Another twelve (12) participants interviewed were ordinary farmers who had to provide their own capital in order to participate in the project. Most of the farmers grow chicken between 800-1200 birds per cycle. They grow 4-5 batches a year. They need fixed capital between RM4,000-RM6,000 to build barns (using second hand wood), to get ready with feeding and drinking equipment, fencing and water supply (mostly from well). Besides electricity supply, some farmers used gas and kerosene to supply light to the chicken barns. Meanwhile, the other variable costs such as feed, day old chicks,

¹⁴⁷ Ibid. The Government of Malaysia, The Economic Planning Unit, The Eighth Malaysia Plan 2001-2005, 2001, pp.58.

medicine and others were supplied by farmers' organisations on credit basis.

When fully-grown chicken are scheduled for consumption, the farmers' organisations will collect and transport them to processing centres and the farmers then will be paid on ex-farm price. The transportation and processing cost will be borne by the farmers' organisations that will invoice the government agencies based on price of processed chicken. The government agencies will then make payment to NAFAS. NAFAS, in turn will pay the farmers' organisations concerned that will subsequently pay the concerned growers. In most cases, farmers' organisations will make advance payments to the growers after 2 to 3 weeks following the collection dates.

From the information gathered in Table 5.5, generally, the project had created additional income/profit for the participating farmers. However, the number of participants had declined from forty-seven (47) participating members in 1995 to nineteen (19) in 1997. This was due to the depreciation of the Malaysian Ringgit, which declined sharply in 1997. Twenty-eight (28) of the farmers could no longer afford the price increase on some of the inputs and so pulled out of the scheme. In particular, the price of imported feeds increased significantly that the profitability of the project eluded the farmers. It left only the most efficient farmers to continue with the project. The feed alone makes up 57.6% of the production cost per broiler (it is RM2.96 from RM5.14). Latest production figures for 1998 to 2000 have been updated recently.

Table 5.5

ANNUAL INCOME EARNED BY FARMERS IN KUANTAN UTARA FROM THE UMBRELLA BROILER SCHEME PROJECT

	NAME OF PARTICIPANT	BIRDS IN ONE CYCLE BROILER	PROFIT/LOSS (MALAYSIAN RINGGIT)		
			1995	1996	1997
	AFO Kuantan Utara				
1	Md. Surian Deris	800	1,649	218	586
2	Md. Amin Bakar	800	504	2,263	399
3	Hj. Salleh Ali	1200	2,055	(15)	2,599
4	Junus Lembek	1500	2,315	(1239)	4,636
5	Zainuddin Kassim	1500	2,370	1,638	NA
6	Saiyah Omar (HCP1) ^Σ	1200	5,153	1,020	3034
7	Melah Abdullah (HCP1)	1200			
8	Minah Jais (HCP2)	1200	3,984	1,246	3222
9	Namiah Omar (HCP2)	1200			
10	Mhd. Tahil Sulaiman HCP3)	1200	741	(610)	547
11	Mohd. Buang Sulaiman	1200	(1,564)	2,150	1,520
12	Abd. Rahman Hassan	1300	2,477	777	4382
13	Mat Tahar Jusoh	1500	603	3,489	NA
14	Yunus Ismail	1800	(3160)	4517	1727
15	Zulkifli Abd. Rashid	2400	1,446	(2,958) ¹⁴⁸	1,809
16	Mat Sahat Bachik	3000	5,026	1,201	NA
17	Yusof Karim	3000	3,414	(4,471)	NA
18	Mohd. Daud Jusoh	NA	6,597	1,662	1,317
19	Kalsom Awang	NA	(876)	1,146	1,790

Note:

- A cycle refers to one batch of broiler flock.
- In one year farmers normally rare 4-5 cycles of birds.
- HCP^Σ stands for hard-core poverty.
- NA stands for Not Available.

Besides increased income and higher savings, positive developments on the part of the farmers were also much in evidence from the interviews held. They appear to be more disciplined, open minded and in control of their life. Providing good/higher education for the children is no longer difficult to endure. They are positive to their tasks and to the project. Having developed entrepreneurial flair, they are more receptive to taking calculated risks following well thought of strategies. This paradigm shift has generally improved quality of life.

¹⁴⁸ Sell on his own.

**5.8.2 FARMERS' INCOME FROM OTHER PARTICIPATING FARMERS'
ORGANISATIONS IN UMBRELLA BROILER SCHEME.**

As in June 1998, there were seventeen (17) farmers' organisations involved in supplying poultry meat to the government's central contract. Kuantan Utara Area Farmers' Organisation is one of them. In addition to the above figures provided by the Kuantan Utara's Area Farmers' Organisation, there are four (4) other area farmers' organisations involved in the Umbrella Broiler Scheme that provided the same information (farmers' income) as required by Questionnaire B. They are the area farmers' organisations from Jasin (Melacca), Pokok Sena (Kedah), Tasek, (Penang), and Selangor State Farmers' Organisation, Table 5.6. However, only two of them offered actual detailed information by typing their names in separate sheets of paper. The other two area farmers' organisations only filled the information in the space provided by the form (3 lines). The names of the participated farmers' from the four said area farmers' organisations are as follows, Table 5.6.

Table 5.6**INCOME EARNED BY OTHER PARTICIPATING MEMBERS
IN OTHER FARMERS' ORGANISATIONS**

NO	NAME OF PARTICIPANT	NUMBER OF BROILER/ CIRCLE IN 1993-97 ('000)	PROFIT/LOSS (MALAYSIAN RINGGIT)				
			1993	1994	1995	1996	1997
AFO JASIN, MELAKA (1993-97)							
1	Rahim Ahmad	15, 20, 27, 22, 40	19,384	12,281	(4,275)	9,699	(4,161)
2	Nordin Mamat	3, 4.5, 12, 25, 27	3295	4370	12,376	18,054	15,405
3	Abd Karim Johan	8, 11, 9, 12, 8	6,683	3,974	3,351	(4,200)	327
4	Md.Zahari Hassan	20, 20, 20, 27, 11	10,661	5,098	4,692	2,443	648
5	Jaya Ahmad	4, 6.5, 12, 9, 9	3,149	5,170	7,923	132	2664
7	Majid Sabtu	11, 15, 18, 14.5, 23	4,707	6,076	13,460	1846	330
8	Mohd. Sabri Jamin	2.9, 4, 10, 19, 15	2191	3124	6,271	5,789	(388)
9	Mazlan Walimin	3, 4.9, 6, 6, 4.4	2322	3861	5,232	2,807	(728)
10	Omar Jantan	2.5, 10.8, 24	Not yet started		2,471	3,758	10,686
SFO¹⁴⁹, SELANGOR (1995-97)							
11	Yahaya Mohd Zain	5(E)	NA	NA	3,052	13,818	19,707
12	Hajuri Sidek	20 (E)	NA	NA	21,811	19,764	12,642
13	Ahmad salimon	24 (E)	NA	NA	12,532	56,935	50,914

¹⁴⁹ State Farmers' Organisation.

14	Ramli Tahir	25 (E)	NA	NA	24,567	29,910	24,886
AFO POKOK SENA, KEDAH (1993-97)							
15	Morad Samsu	5, 6, 7.7, 7.7, 10	7,286	1501	2,074	2,074	2,838
16	Ayob Ibrahim	4, 5.9, 17.6, 30, 14	3,145	2119	9,594	4,889	(920)
17	Fadhil Teh	7, 8, 8.9, 14, 7.5	5,783	2,680	2,861	(5,137)	(352)
AFO TASEK, PENANG (1993-97)							
18	Idris Md.Tan	4, 4, 8, 8	4,300	4,700	(2,300)	(4,250)	SP
19	Habib Marican	2, 4	Not yet started			2,600	4,600
20	Ahmad Sirat	4, 4	Not yet started		3,100	(11,200)	(3,600)
21	Abd. Rahim Rahman	2.4, 2.4	NS	2,700	(3000)	SP	SP

Note:

- In a year farmers normally grow 4-5 batches of broiler
- SP stands for Stop Production.
- NS stands for Not Started.
- NA stands for Not Available.

Analysis of the figures in Table 5.5 and Table 5.6 above indicates that, farmers with excess of 10,000 broilers at one cycle tend to have better chance to obtain good profits from the operation. This is due primarily to the economies of scale, where it is possible to reduce production cost per bird. However, it is shown that farmers from hard-core poverty that grown only 1200 birds at one time still managed to make profits. It is because the fixed cost for the hard-core poverty projects was borne by the government.

5.8.3 ANALYSIS OF THE FARMERS' PROFIT/LOSS

From the figures in Table 5.5 and Table 5.6 it is clearly shown that profit earned by farmers that grown chicken between 2,000 to 10,000 broilers per cycle is very negligible and some of them actually incurred heavy losses. Participants who grown more than 10,000 broilers per cycle are stated in Table 5.7 below:

Table 5.7

NAME OF PARTICIPANTS GREW ABOVE 10,000 BROILERS PER CYCLE.

No	NAME OF PARTICIPANT	ONE CIRCLE BROILER IN 1995-97 ('000)	PROFIT/LOSS (MALAYSIAN RINGGIT)		
			1995	1996	1997
1	Nordin Mamat	12, 25,27,	12,376	18,054	15,405

2	Majid Sabtu	18, 14.5, 23	13,460	1846	330
3	Mohd. Sabri Jamin	10, 19, 15	6,271	5,789	(388)
4	Omar Jantan	2.5, 10.8, 24	2,471	3,758	10,686
5	Ahmad salimon	24 (E)	12,532	56,935	50,914
6	Ramli Tahir	25 (E)	24,567	29,910	24,886
7	Hajuri Sidek	20 (E)	21,811	19,764	12,642
8	Ayob Ibrahim	17.6, 30, 14	9,594	4,889	(920)
9	Md. Zahari Hassan	20, 27, 11	4,692	2,443	648

Note:

- The above list consist name of farmers that rear broilers more than 10,000 per cycle. The name of farmers that rear broilers less than 10,000 per cycle is not included here.
- Based on the Seventh Malaysia Plan¹⁵⁰, in 1995 Poverty Line Income is RM425 per month for a household size 4.6 in Peninsular Malaysia or RM5100 per year.

Under normal circumstances, farmers who grown more than 10,000 chickens per cycle seem to have higher profit level as compared to those who grown less than 10,000 birds. Table 5.5 shows that farmers grown more than 20,000 birds per cycle have extremely good profit margin. Table 5.7 shows of profit figures in 1993, 1994, 1995 and 1996 were more reasonable as the economy then were more stable compared to 1997, where the prices of imported feeds were little affected by the depression of Malaysian Ringgit. Since not all the above farmers' organisations provided profit figures for 1993 and 1994, further analysis will only be based on profit figures for the year of 1995-97.

A costing to produce broilers at economic size using the present system was obtained from the Manager of Ayam NS. Sdn Bhd, who helped to gather this information from other integrators in the industry as well as from his own experience. This estimated costing is believed to be used by the government to fix the ex-farm price at RM3.40/kg (2002). It is normally around RM3.00/kg and this is the amount of price paid by Kuantan Utara Area Farmers' Organisation to its growers. The estimated costing of economic size of broiler production (2002) is as follows:

Economic Size of Birds Per Contract Grower (as at December 1999).

¹⁵⁰ Ibid. Seventh Malaysia Plan, Poverty Redressal, Restructuring of Society and Income Distribution, Table 3-1, pp 72, 1996.

No of day old chicks/cycle (Using a 34' x 340' chicken house)	= 7450
Mortality within 45 days 6%	
No of broiler finished	= 7000
No of month per cycle	= 3 months

Production Cost (Inputs from integrator) Per Broiler

Cost of a day old chick	= RM0.80	
Cost of feed	= RM2.96	
Cost for medication	= <u>RM0.25</u>	= RM4.01
Labour cost	= RM0.23	
Utility cost	= RM0.20	
Maintenance	= <u>RM0.39</u>	= <u>RM0.82</u>
		=

M4.83/broiler

Cost of production per broiler	= <u>RM4.83 x 7450</u>	=
<u>M5.14/broiler</u>		
	7000	
Profit per broiler = RM5.14- RM4.83		= <u>RM0.31</u>

Total Cost of Production per cycle

	<u>Per Cycle (RM)</u>
Day old chicks	= 5960.00
Feed	= 22052.00
Medical	= <u>1852.50</u>
	= <u>29864.5</u>
Labour	= 1610.00
Utility	= 1400.00
Maintenance	= <u>2730.00</u>
	= <u>5740.00</u>

Total Cost 7,000 broilers: RM35604.5

Total income: RM3.00 x 1.8 kg x 7000
= RM37800.00 - RM35604.5
= RM2195.5 per cycle

In one year = RM2195.5 x 4 cycles
= RM8782.00 \ 12
= RM731.8

Monthly income = RM732.00 per monthPenalty

If mortality rate more than 6% - every broiler lost will cost the grower RM4.83

If average weight less than 1.8 kg

1.8 kg = RM2.68 (cost per kg)

1.7 kg = RM2.84 (cost per kg)

The difference (loss) = RM0.16 per broiler

Therefore 7000xRM0.16 = RM1120 will be deducted from grower income

The problems may relate to:

Chicks' quality bad

Feed quality bad

Medication delayed
Delayed in catching the broilers.

This amount of income is way above the poverty line (RM425.00 per month). From the above calculation, average profit per broiler is around RM0.31. Based on the selected figures from Table 5.7 above, an average profit per broiler achieved by contract growers is as shown in Table 5.8 below:

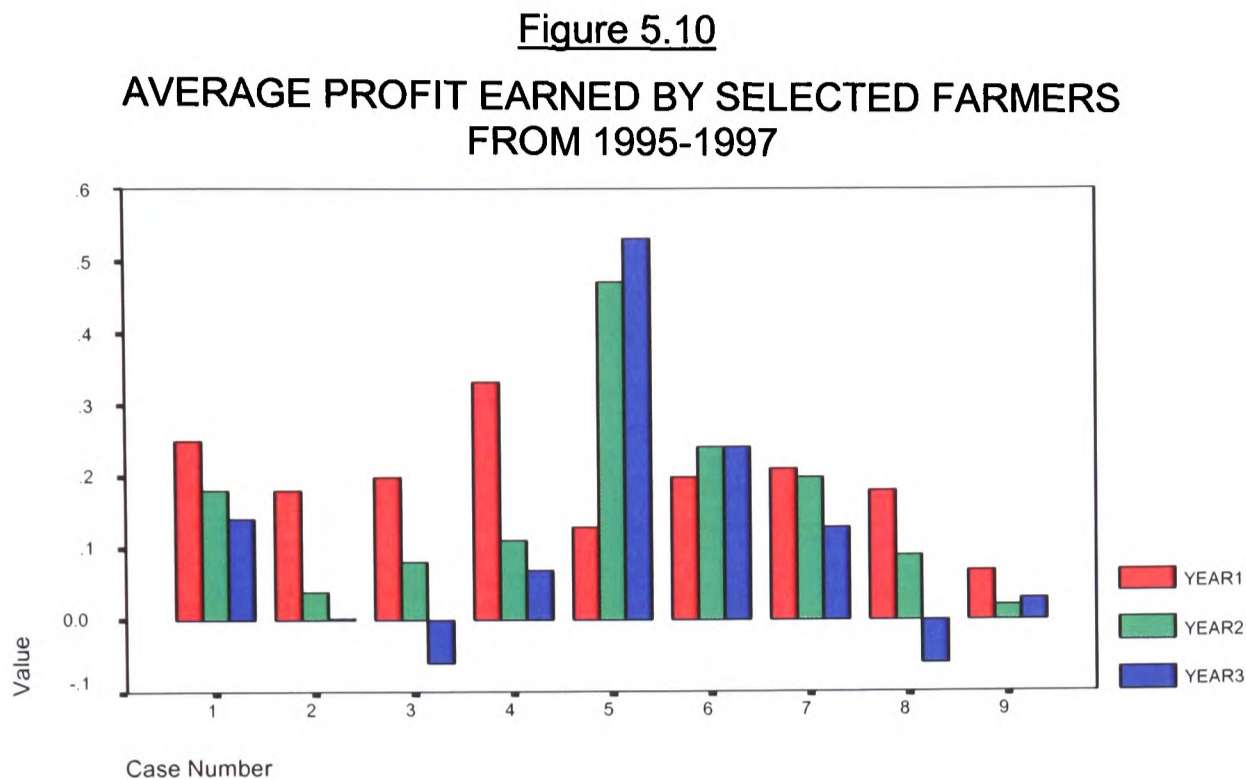
Table 5.8
AVERAGE PROFIT FOR SELECTED FARMERS THAT REAR
MORE THAN 10,000 BIRDS PER CYCLE

No	NAME OF PARTICIPANT	AVERAGE PROFIT		
		1995	1996	1997
1	Nordin Mamat	0.25	0.18	0.14
2	Majid Sabtu	0.18	0.04	0.003
3	Mohd. Sabri Jamin	0.20	0.08	-0.06
4	Omar Jantan	0.33	0.11	0.07
5	Ahmad salimon	0.13	0.47	0.53
6	Ramli Tahir	0.20	0.24	0.24
7	Hajuri Sidek	0.21	0.20	0.13
8	Ayob Ibrahim	0.18	0.09	-0.06
9	Md. Zahari Hassan	0.07	0.02	0.03

Note:

- The above calculation is based on the estimation that a farmer rears 4 batches of chickens in one year.
- The profit figures are obtained by dividing the total profit earned with the amount of reared chicken in that particular year.

The relation of the above average profit is better represented in the bar chart below:

**Note:**

- No1-9 represents farmer 1 - farmer 9 as shown in Table 5.7
- Year 1 represents 1995
- Year 2 represents 1996
- Year 3 represents 1997

Figure 5.8 shows that, 2 out of 9 farmers achieved higher average profit than the standard costing above. It was achieved by farmer no.4 during 1995 and farmer no.5 in 1996 and 1997. On average most of the selected farmers during 1995-1997 achieved between RM0.07-RM0.25 (average profits) per bird. Close observation shows that only two farmers (farmer no.5 and no.6) have increased their average profit per bird from 1995-97 and both of them grown around 24,000 (estimated) and 25,000 (estimated) chickens per cycle respectively. The rest of the farmers had decreased their average profit from 1995-97 and farmers' no.3 and no.8 had incurred losses in their operation in 1997. The decline of profit/losses incurred in chicken production is due primarily to the increase in the feed cost as a result of the Ringgit depreciation in 1997.

However, if the costing of the economic size of broilers above is taken as a standard costing that an efficient grower could still make profit, as there is a lot of room for efficiency improvement in the Umbrella Broiler Scheme.

Farmer no.5 gets better profit per broiler (RM0.47 and RM0.53) as compared to the standard cost (RM0.31). The average profit per broiler that is achieved by farmer no.6 (RM0.24) is still acceptable. Both of these farmers can be considered as efficient growers. Meanwhile farmer's no.1, no.2, no.4, no.7 and no.9 should be able to increase their average profit by becoming more efficient. The other two farmers (no.3 and no.8), even though they still gained some profit but, on the average, they incurred losses, are in a very risky position. If any unforeseen circumstances were to occur, it is very difficult for them to rescue themselves.

5.8.4 ANALYSIS OF PER CAPITA INCOME

As far as per capita income are concerned, the following table shows the increase of income level of twelve farmers who were interviewed in Kuantan Utara's Area Farmers' Organisation, Pahang, Table 5.9 and Figure 5.11.

Table 5.9

FARMERS' INCOME BEFORE AND AFTER THE IMPLEMENTATION OF THE UMBRELLA BROILER SCHEME PROJECT

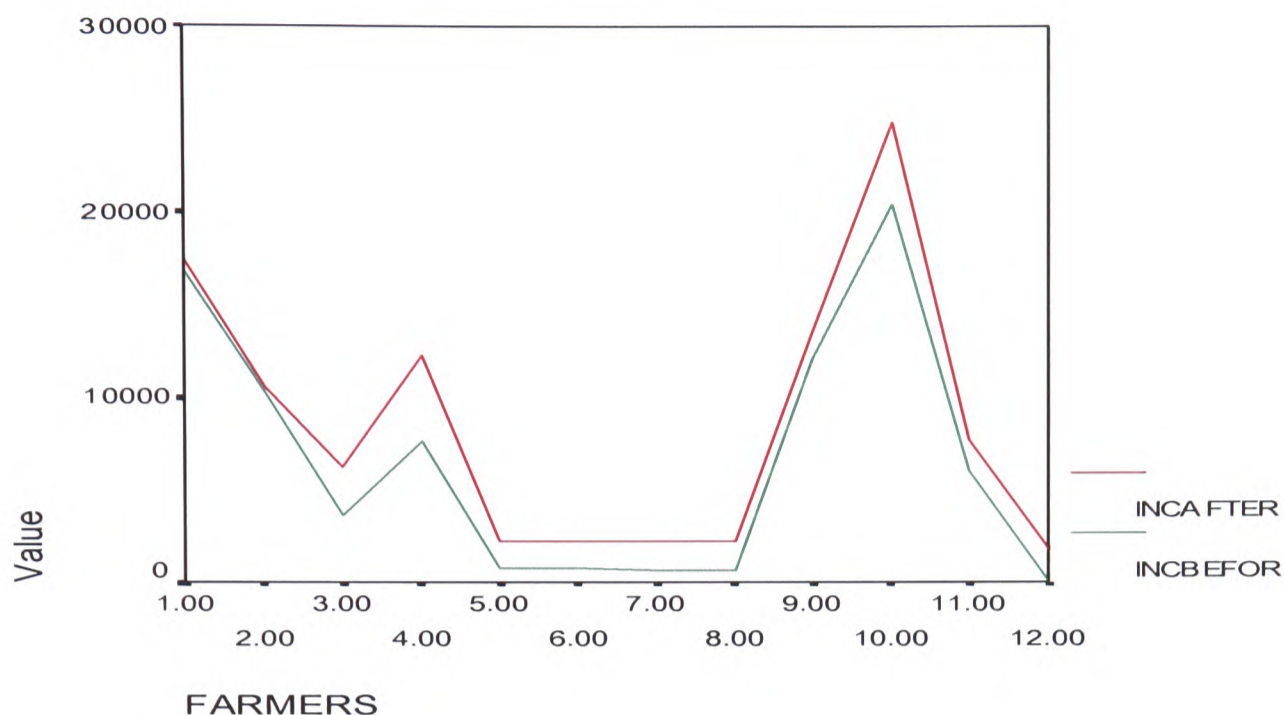
	NAME OF PARTICIPANT	INCOME BEFORE PROJECT (YEARLY) RM	PROJECT INCOME 1997 (RM)	INCOME AFTER PROJECT 1997 (RM)	% OF INCREASED
	AFO Kuantan Utara				
1	Md. Surian Deris	16,800	586	17,386	3.5%
2	Md. Amin Bakar	10,200	399	10,599	3.9%
3	Hj. Salleh Ali	3,600	2,599	6,199	72.2%
4	Junus Lembek	7,608	4,636	12,244	61.0%
5	Saiyah Omar (HCP1) Σ	720	1,516	2,236	210.0%
6	Melah Abdullah (HCP1)	720	1,516	2,236	210.0%
7	Minah Jais (HCP2)	600	1611	2,211	268.0%
8	Namiah Omar (HCP2)	600	1611	2,211	268.0%
9	Mohd. Buang Sulaiman	12,000	1,520	13,520	12.7 %
10	Abd. Rahman Hassan	20,400	4382	24,782	21.5%
11	Yunus Ismail	6,000	1727	7,727	28.8%
12	Zulkifli Abd. Rashid	0	1,809	1,809	100.0%

Source:

Face-to-face interview with participating farmers in Kuantan Utara, Pahang.

Figure 5.11

INCREASE OF FARMERS INCOME IN UMBRELLA BROILER SCHEME AT KUANTAN UTARA, PAHANG



It shows, from Table 5.9 that the percentage increased of income varied as far as from 3.5% to nearly 270%. The big variation is due to the different levels of income before project that were earned by the farmers. The increased in income figures is presented in graph form in Figure 5.11 above.

5.8.5 INCOME GENERATED FOR FARMERS' ORGANISATIONS

Based on detail analysis of the Umbrella Broiler Scheme Project, an interesting observation was found in Table 5.10 below:

Table 5.10

INCOME GENERATED FOR FARMERS' ORGANISATIONS FROM THE UMBRELLA BROILERS SCHEME

YEAR	PROFIT/LOSS POULTRY TRADING BY FARMERS' ORGS.	OTHER INCOME EARNED BY FARMERS' ORGANISATIONS FROM THE PROJECT		
		A DAY OLD CHICK	FEED	MEDICAL
AFO Tasek				
1993	16,118	54,700	176,043	4,500
1994	(4,886)	74,160	239,547	5,191
1995	(26,838)	136,860	442,076	9,580
1996	(21,642)	175,600	444,300	12,292
1997	(10,031)	87,300	220,894	6,110
Total	(47,279)	528,620	1,522,860	37,673
AFO JASIN				
1993	67,105	135,900	452,164	20,062
1994	74,128	220,190	758,015	28,167
1995	122,507	245,606	729,809	24,295
1996	53,783	244,397	977,291	28,899
1997	54,057	265,182	916,138	36,739
Total	371,580	1,111,275	3,833,417	138,165

Table 5.10 shows that, even though the AFO Tasek incurred losses (RM47,297) in dealing with the chicken contract project from 1993-1997, they make a lot of side income (amounted to RM2,067,153) from the same project. The same situation goes to AFO Jasin, besides profitable business collaboration, the organisation also gained more than RM5,000,000 side income from the same project. For both farmers' organisations, profit from feed alone contributed more than 70 % of the total profit. Even though the above are still gross figures (because they have not deducted financial and administration cost), but that amount of money is good enough to offset the project loss and at the same time generate good incomes to the said organisations.

It is advisable for the government (the department concerned) to see the project from the total perspective to ensure that the related farmers get better profit sharing as well. Farmers will gain more profit, if the high profit margin on chicken feed is reduced by the related farmers' organisations. After nearly 20 years in operation, it is high time for the management of the

project, besides creating more farmers participation, to put greater emphasis on developing commercial farmers from the existing growers. A program should be drawn to up grade the present fixed cost facilities for farmers to grow chicken in economic size and later to install modern equipment in order to increase efficiency and reducing cost. The financial source should come from the overall profit of the project or other soft loans that available.

5.9 PASARAYA PELADANG SDN. BHD.

Pasaraya Peladang Sdn Bhd has been established on 28 February 1988 with RM1.5 million authorised and RM1.0 million paid-up capital. It used to be one of the associate companies under Syarikat Perniagaan Peladang MADA (SPPM), nevertheless, now it becomes directly under SPPM. During the fieldwork, an interview was conducted with the Managing Director of Pasar Raya Peladang in order to know further details about the company's activities. The company is involved in a chain of retailing activities for several supermarkets with retail house hold products including fabric material, jewellery, electrical goods, grocery, fresh and cooked food. The company has also a number of bakeries supplying bread and cakes to all the supermarkets chain. In 1997, this company had 938 Bumiputra and non-Bumiputra individuals and companies as suppliers. Information was gathered through the manager of the company as to how many purchases were made by Pasaraya from their entire supplier list for the year of 1997. Some record of Bumiputra individuals and companies that sold goods to Pasaraya Peladang is listed in Table 5.11:

Table 5.11**PART OF BUMIPUTRA INDIVIDUALS AND COMPANIES THAT SUPPLY GOODS TO PASARAYA PELADANG.**

Vendor Number	Vendor Name	Amount of Goods Sold
T03133	Hasnah Hashim	1,491.50
T03136	Olah Enterprise	13,847.00
T03179	Fatimah Mat	13,053.00
T03223	Che Rohani Shafie	11,220.80
T03227	Jejak Mega Enterprise	16,513.25
T03253	Ahmad Azizi	2,757.00
T03269	Haji Zakaria Sdn Bhd	44,340.00
T03282	Nordin and Asriah	4,580.00
T03311	Siti Safiah	10,850.64
T03357	Sykt. Kilang Kopi Pancaran	6,212.00
T03401	Wan Julinatul Aswani	8,048
T03422	Zainon Food Industry	17,575.00
T03465	Roshadah Mahmud	19,649.70
T03475	Mashuri Muhammad	31,077.56
T03537	Baktisan Pertama Sdn. Bhd	79,168.85
T03671	Hajjah Maznah	1,947.00
T03783	Siti Nor Batek	54,208.00
T03795	Ahmad Fauzi	54,495.79

Source:

Pasaraya Peladang, Summary Creditor Aging as at 31st December 1997.

Bumiputra individuals and companies in Table 5.11 supplied various types of products to Pasaraya Peladang. It ranged from food items like sauces, pickles, biscuits, cake, fresh vegetables, coffee etc. In addition, they also supplied furniture, textile, traditional medicine and other such products. However, income figures that received by chicken growers are the net income, whilst incomes received by suppliers of Pasaraya Peladang are amount of goods sold. In both cases, the strategic alliance projects do help to generate income to the participating members.

5.10 CONCLUSION

1. The first part of this Chapter is able to capture the value of strategic alliance projects under the Malaysian Farmers' Organisations as at 30th June 1998, which is amounted to RM300.0 million. The property of the strategic alliances activities from 1975-98 consist of 45 projects in which out of that 18 (40%) projects are on production, 7 (15.5%) trading, 4 (8.9%) investment, 5 (11.1%) processing, 4 (8.9%) services, 4 (8.9%) property development and 3 (6.6%) marketing projects.
2. As far as values of projects are concerned, the production project values have significantly decreased from 93.1% in 1975-90 to 48.13% and 57.7% in 1991-94 and 1995-98 respectively. Even though the percentage of trading project fell from 26.7% during 1975-90 to 16.67 in 1995-98 but the projects' values have increased from 2.8% to 35.7%. Processing project values have increased from 0.1% (1975-90) to 11.98% (1995-98). The same pattern goes for the property development project, which the value has increased to 38.6% during 1991-94 as compared to 0% during 1975-90. However, marketing project values have decreased from 3.81% (1975-90) to 0.4% (1995-98) even though the project percentage has increased from 6.7% to 11.1% during the same periods. It indicates the two latest projects are smaller in value as compared to the previous project.
3. During 1975-90, taking advantage of the Government's New Economic Policy with basic philosophy for growth and equity, 15 strategic alliances projects was established. 40% (6 projects) of the project on production and 26% (4 projects) on trading. The rest were processing (13.3%) whilst investment, service and marketing projects have taken 6.5% on each portfolio. Out of the six production projects, three were involved in poultry with under pinning principle to

eradicate poverty and restructure society. Three other projects were concerned with producing primary base materials for industrial products such as oil palm and rubber. Embarking on non-food projects, which is relatively higher value compared to foods projects. This shows evidence of commercial acumen and astuteness, and is also consistent with the national goal of achieving Vision 2020. During this period, most of the trading projects were related to agricultural input supply and diversification into other projects came later. By the middle and late 1980's, the strategic alliances projects already started their involvement in service, marketing and investment projects. Building on domestic supply chain has become clear characteristic of these domestic strategic alliance projects. This period also witnesses the declined on the overall incident of poverty in Peninsular Malaysia and as a result, the mean income of rural household has increased. It indicates that the strategic alliance projects did give a positive contribution to the restructuring of the socio-economic reform and directly to wealth distribution since farmers' organisations were one of the many rural organisations that contributed actively to the development of farmers.

4. During the period of 1991-94, twelve (12) strategic alliance projects were formed. Using knowledge management, both tacit and explicit knowledge, to leverage their resources more effectively and to exploit new opportunities, the projects development was concentrated on efficient export-oriented and high-value added products. It also encourages the development of Small and Medium Industries (SMIs) becoming more involved with innovation and value adding. Although production project still 41% of the total projects but property development had captured 20% of the projects that had been established with more than 38% value of investment. It follows by processing projects 16.7% and the balance was equally divided by investment and service projects with 8.3% each. No trading project was formed during this period. This period marked as an active

period of alliance project diversification such as on non-agricultural projects (property development) as well as service sector (management expertise).

5. During the period of 1995-98, eighteen (18) strategic alliance projects were formed. As a result of the establishment of WTO, farmers' organisations became more involved in large-scale activities while still catering for small farmers' interests. This period demonstrates changes in the implementation of strategic alliance project. Several projects have started to be managed on commercial basis, aiming to increase efficiency and to achieve cost saving from economies of scale. Their concerned were more to increase productivity and to operate as viable and efficient organisations in order to gain competitive advantage. Even though production projects still maintain 39% share of the implemented projects but percentage on investment, services and marketing projects had captured 11.1% each, leaving 16.7% on trading and 5.5% on processing and property development projects.
6. It is evident that environmental factors such as Government policies and international event have strong influences in generating innovation on Malaysian Farmers' Organisations strategic alliance projects. Government policies also have influenced on the present structure of their alliance, not only policy related to domestic affair i.e. New Economic Policy but also policy associated to regional business expansion i.e. AFTA. National Farmers' Organisation is already moving into regional alliances with Indonesia and planning to do so with other Asian countries. Export opportunities are beginning to become significant part of the total net contribution.
7. A close analysis could show that there is a switch on project concentration by farmers' organisation from food to non-food sector such as property development and industrial crops. The switching to

non-food project evident from value of projects being implemented i.e. 21.2% during 1975-90 (15 years) to 41.5% during 1991-94 (5 years) and further increased in non-food sector's value to 61.0% during 1995-98 (4 years). These make investments in non-food sector is bigger than food sector. This is a significant movement; within 4-year period (1995-98), more than 60% investment was on non-food sector as compared only 21.2% investment within 15-year period from 1975-90. This move could be seen as a positive action by farmers' organisations through strategic alliance projects to gain more profits for the organisations in order to support farmers' activities for the betterment of wellbeing and social development of members. It provides an increasing evidence of system approach where economy, efficiency and effectiveness are pursued to gain competitive advantage. This trend may also indicate that the traditional agriculture sector needs to be modernised and commercial in order to attract more investment from the private sector. Therefore, they need to understand the value chain involved and make better use of it in order to maximise returns on investments.

8. A close analysis of the strategic alliances formed until June 1998 shows an increasing interest in joint venture type of alliances. It grows from 60% (1975-90) to 66% between 1990-94 period and further increased to 88.8% during 1995-98. A clear preference for JV arrangements could be due from commitment of both parties for their effectiveness and market returns. Even though joint venture is more associated to growth as compare to equity distribution, job opportunities created by venture in trading, processing, services, marketing, and property development projects offer considerably more direct income to farmers. It is proved that these job opportunities bring better income to farmers when compare to agricultural projects, which are more associated with high risk.
9. Overall, both projects i.e. the Umbrella Broiler Scheme and Pasaraya

Peladang Sdn. Bhd. do generate income to farmers and/or Bumiputra entrepreneurs that participating in the strategic alliance projects as proved by information gathered during the fieldwork. As far as per capita income is concerned, the farmers' income under the Umbrella Broiler Scheme has increased between 3.5% to nearly 270%. The big variation in percentage is due to the different level of income before project that earned by farmers. It is clear that the farmers (and farmers' organisations) are taking more risk and have displayed competence in managing commercial operation but the smaller operators in particular are still vulnerable to unexpected events such as disease wiping out their flock of birds and consequently their livelihood and ability to continue.

10. Some positive results were noted from the interviews held with participants / farmers. They are positive on the project and have developed into a more disciplined outfit. This paradigm shift is a welcome change and with increased financial rewards, quality of life has improved.
11. As far as Umbrella Broiler Scheme is concerned, as shown in Chart 5.3, profit performance is better in 1995 and 1996 as compared to 1997. Calculation from Table 5.8 shows that the average profits per broiler for 1995, 1996 and 1997 were RM0.19, RM0.16, and RM0.11 respectively. If compare to the standard costing, in term of efficiency, there are still a lot of room for improvement in order for the farmers to get more profit for every broiler that they sold.
10. The profit performance is less satisfactory in 1997. It was commonly known due to the depreciation of Malaysian Ringgit as a result of Asian financial crisis. It increased the price of poultry feeds. Many ingredients that required in preparing poultry feeds are imported from overseas, therefore, the price of poultry feed are actually depending on the price of raw materials purchased from foreign sources of

supply. Therefore, even though the selected farmers were among the efficient growers, the effect of increased in feed prices still paramount to them.

11. The amount of side income generated from the Umbrella Broiler Scheme, as shown in Table 5.8, is considered big. With little help from farmers' organisations by reducing certain percentage of profit margin from their business dealing with farmers may grant an enormous help to increase average profit per broiler for the participating farmers. It is the responsibility of the related farmers' organisations and the Farmers' Organisation Authority to ensure that certain amount of this side income is invested back into the scheme in order to further increase the efficiency and income of the participating farmers.

CHAPTER 6

ESTABLISHING FACTORS FOR START-UP PERIOD OF STRATEGIC ALLIANCE AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS.

SUMMARY

This Chapter is to achieve objective three (3) of the research. A Positivist Methodology through survey and cross-sectional studies have been applied to obtain information on significant variables applied to farmers' organisations strategic alliances i.e. Formation, Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors of farmers' organisations strategic alliances and their relationship to alliance effectiveness. Cross-sectional studies take a snapshot of an ongoing situation and do not explain why a correlation exists only that it does or does not. The effectiveness of strategic alliance relating to farmers' organisations is defined as any positive result produced by the strategic alliance activities for their benefit and that of their partners. It could be examined through a single culture development, reputation among them as well as industry, achieving the intended result of alliance objectives, and adaptive to change. This study will only focus on joint venture and consortium type of alliances that have been chosen by farmers' organisations in implementing their strategic alliance projects.

Simple frequency distributions have been used to analyse the level of cited reasons given. For the association analysis, "One-way ANOVA" test was used to identify the association between Effectiveness and Type of alliances whilst the "Correlation" test was applied to identify the association between Effectiveness and Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors.

A sustainable strategic alliance model that has been uniquely developed represents the strategic alliance model based on domestic alliances within and with organisations outside the farmers' organisations. This model comprises three important stages, namely, the Start-up Period which has been largely drawn in from models (1991-1995) on strategic alliances mentioned in Chapter 3 (with certain additions and modifications), the field works of the current study and the farmers' organisations strategic alliances effectiveness analysis. The second and third part i.e. the Adaptation Process and Termination/Transformation of alliances will be explained and deliberated in Chapter 8.

It can be concluded that almost all factors under Motivational (internal and external), Partner Selection Criteria and Evolutionary factors are significantly associated with the effectiveness of the joint venture type of alliance although only several of those factors are significantly associated with the effectiveness of the consortium type of alliances. However, both joint venture and consortium types of alliance have mostly different types of environmental factors that influence their effectiveness

In order to cater for the farmers' organisations that represent small and medium size organisations, the domestic model has incorporated the Integrative and Non-integrative Strategic Management process in the management portfolio of the Start-up Period. Overall, almost all of the factors under Integrative Strategic Management Process are significantly associated with the effectiveness of joint venture and consortium types of alliance and that none of their effectiveness is associated with the Non-integrative Strategic Management Process.

The Start-up Period of domestic alliance is characterised by four sets of criteria: 1) Situation Analysis, 2) Motivation, 3) Partner Selection and 4) Management of alliances. The interaction between these factors has played an important role in setting up the scene of the strategic alliance adopted by Malaysian Farmers' Organisations to date.

The overall Statistical Significance to Farmers' Organisations Strategic Alliance's Projects (to the effectiveness of the joint venture and/or consortium type of alliances) which has altogether 69 control factors is attached in Appendix 6c. However, both joint venture and consortium type of alliances have mostly different types of environmental factors that influence their effectiveness

6.1 INTRODUCTION

A Domestic Strategic Alliance Sustainable Competitiveness Development Model was devised based on the fieldwork (through questionnaire and interviews) of the Malaysian Farmers' Organisations and a detailed analysis conducted on the Umbrella Broiler Scheme. The Start-up model has been drawn from the nine models on strategic alliances mentioned in Chapter 3, with certain additions and modifications. It uniquely represents the strategic alliance model based on domestic alliances from within and with organisations outside the farmers' organisations. This chapter explains the Start-up Period of the Malaysian Farmers' Organisations model, while the second and third part i.e. the Adaptation Process and Transformation/ Termination of alliance will be explained and deliberated in Chapter 8.

A Positivistic methodology (designed to obtain information on variables in different contexts, but at the same time)¹⁵¹ through cross-sectional studies has been applied to obtain information on significant variables applied to farmers' organisations strategic alliances i.e. Formation, Motivation, Partner Selection Criteria, Management, Environmental and Evolution Factors of farmers' organisations strategic alliances and their relationship to alliance effectiveness. Cross-sectional studies take a snapshot of an ongoing situation and do not explain why a correlation exists between strategic alliance variables and its effectiveness.

In order to determine which factors are significant in the effectiveness of strategic alliances under the Malaysian Farmers' Organisation, association

¹⁵¹ Ibid, Jill Hussey & Roger Hussey, Business Research, Understanding Research, 1997, pp.59.

analysis has been applied to all of the related factors mentioned above. The Start-up Period includes the Formation and Management of strategic alliance. The Environmental and Evolutionary aspect of alliance, however, form the second stage of Malaysian Farmers' Organisations model i.e. Adaptation Process.

6.2 ALLIANCE EFFECTIVENESS AND ASSOCIATIONAL ANALYSIS

The effectiveness of strategic alliance relating to farmers' organisations is defined as any positive result produced by the strategic alliance activities that benefits them, their partners (the organisations, managers and workers), members as well as the environment (including customers). This includes the intended result, impressive striking movements¹⁵², as well as the ability to adjust to their environment.

Therefore the effectiveness of the Farmers' Organisations Strategic Alliance is based on the dependent variables and could be examined through a single culture development, their reputation among them as well as the industry, achieving the intended result of alliance objectives and adaptability to change¹⁵³. These factors are represented in the following questions.

- Q16aai - Strong bonding factors have developed in the alliance. The partners have developed a single culture comprising the best (culture) from all the partner (s).
- Q16aiii - Strong bonding factors have developed in the alliance. The partners have developed good reputation among themselves.
- Q17c - The alliance is constantly adjusting to change.
- Q18a - The partners are achieving their alliance objectives to a degree acceptable to them in direct quantifiable terms.

¹⁵² Striking movement refers to a strategic alliance's outstanding ability to manage and exploit on any occurrence of circumstances to their advantage.

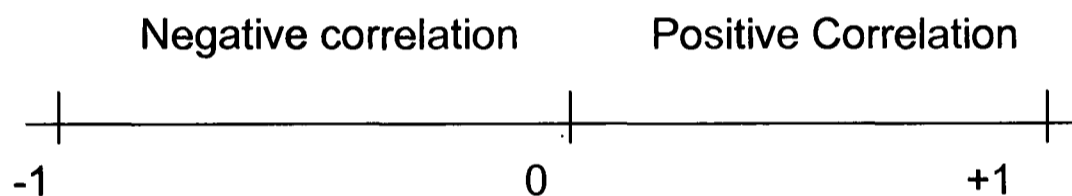
¹⁵³ Ibid, David Faulkner, International Strategic Alliances, Appendix A: The questionnaire, 1995, pp 189-198.

- Q18b - The partners are achieving their alliance objectives to a degree acceptable to them in more indirect spin-off terms.
- Q20 - The reputation of the alliance is good and well accepted by the industry.

Part A of the completed questionnaire in Appendix 5 has been used in analysing the correlation between Independent variables and their effectiveness (Dependent variables). Three (3) situations of relations have been named based on the strength of the correlation as follows:

Figure 6.1

THE STRENGTH OF CORRELATION



Note:

- | | |
|------------------|----------------------------|
| Anything above 0 | = Significantly Positive |
| Anything 0 | = Not Significantly from 0 |
| Anything below 0 | = Significantly Negative |

Simple frequency distributions, sort cases, cross tabulation as well as case summaries have been used to analyse the level of the cited reasons given. For the association analysis, "One-way ANOVA" test was employed to identify the association between Effectiveness and Type of alliance. This was made possible because the respondents were large enough and thus, the normal distribution curve could be drawn confidently (please see **Appendix 6(a)**). Also the data for Effectiveness was an interval data whereas the data for Type was a nominal. To identify the association between Effectiveness and Motivation, Partner Selection Criteria, Management, Environmental and Evolution factors, "Correlation" test was applied since all of the independent variables were of the interval type of data (for details please refer chapter 4).

According to Curwin and Slater (1997)¹⁵⁴, having a high correlation does not necessarily mean there is a cause-and-effect relationship. It is merely an indication (rather than a sufficient one) for a businessman to control the related variables in the light of such correlation. If no correlations exist, he or she might reduce efforts to control those variables.

6.3 REASONS FOR SELECTING SPECIFIC TYPE OF ALLIANCE FORMS

The analysis is based on periods in which projects were initiated i.e. 1975-1990, 1991-1994, and 1995-1998). As deliberated in Chapter 5, more than 73% of strategic alliances formed by farmers' organisations are in the form of joint ventures, 17.8% and 4.9% are consortiums and collaborations type of alliance, respectively. However, out of the 234 completed questionnaires that were accepted, 85.4% (200 respondents) were from joint venture type of alliances, 11.1% (26 respondents) and 3.4% (8 respondents) were from consortium and collaboration types of alliances respectively. Since there is no specific arrangement for the collaboration type of alliance in terms of system implemented by farmers' organisation (normally on the need basis) this study will only focus on reasons why joint venture and consortium type of alliances were been chosen by farmers' organisation in implementing their strategic alliance projects. Even though consortium type of alliance is only 11.1% of the 234 respondents, it is still considered important due to a large number of farmers participating in this type of project.

¹⁵⁴ Ibid. Jon Curwin and Roger Slater, *Correlation, Quantitative Methods for Business Decisions*, 1997, pp.352-377.

6.3.1 REASONS WHICH LEAD TO THE FORMATION OF A CONSORTIUM.

Six main reasons were cited as to why a consortium arrangement had been chosen in certain strategic alliance projects. They are as follows:

- Small number of partners could not on their own provide sufficient resources to meet the needs of a large-scale opportunity (based on Faulkner, 1995)¹⁵⁵
- A large sized enterprise is more credible to potential customers, e.g. government (Faulkner, 1995)¹⁵⁶.
- Extensive geographical coverage is needed to achieve strong market presence, which is achieved by providing better distribution channel through alliance partners (Faulkner, 1995¹⁵⁷ as well as the conclusion of the current study).
- To provide the opportunity for more people to become involved and thereby achieve better wealth distribution (conclusion from current study).
- The partners wish to retain flexibility, and therefore do not wish to create a new legal entity, at least for the time being (conclusion from the current study).
- There is a need to spread and limit the financial risk to each partner (Faulkner, 1995)¹⁵⁸.

During the formation of Farmers' Organisations in 1973, Malaysia was in the process of a major shift in the focus of its development policies. This was due to the wide prevalence of poverty and income disparities, which emerged as very serious problems as they were, identified along racial lines that, on 13 May in 1969, erupted into rioting and civil unrest. As a result, the Second Malaysia Plan¹⁵⁹ (1971-1975), with the New Economic Policy embodied in it, set the stage for dramatic and structural changes to follow in terms of social and economic reforms. Its twin objectives were to eradicate poverty and restructure society to better reflect the ethnic composition of the nation and to ensure a united, socially just, economically equitable and progressive society. The basic philosophy was growth, with equity and national unity as the underpinning objective.

¹⁵⁵ Ibid. Faulkner (1995), pp. 192.

¹⁵⁶ Ibid. Faulkner (1995), pp.192

¹⁵⁷ Ibid. Faulkner (1995), pp. 192

¹⁵⁸ Ibid, Faulkner (1995), pp. 192.

¹⁵⁹ Ibid, Economic Planning Unit, Malaysian Experience in Economic Development, unpublished material.

The above objectives were also incorporated within the *raison detre*' of establishing the Farmers' Organisations to promote the economic and social interest of its member or member units through their direct participation in all activities undertaken by the organisations. This goes with the principle that viable groups of farmers will have better bargaining power than individuals. While operating within co-operatives principles, Section (5) of The Farmers' Organisations Act 1973 has recognised all agricultural co-operatives as corporate entity. In the early days, the activities of farmers' organisations were concentrated more on input supply such as supplying fertiliser and planting material, land mechanisation, marketing as well as technical services with the intention that these strategic alliance activities would increase the income of the farmer and thereby contribute to eradication of poverty.

In Malaysia, growth-distribution of wealth is based on and linked to the expansion of the rural and national economy. However, Uma Lele (1981)¹⁶⁰ found that in other parts of the world alternative approaches have been adopted to solve the growth-distribution conflict, for example, in China and Cuba, structural changes and redistribution of assets were carried out while Japan and Taiwan instituted land reform.

Therefore, when the Umbrella Broiler and Egg Scheme projects were initiated, both contracts were implemented through a consortium type of arrangement. With the large-scale opportunity given by the Government through such central contracts, the farmers' organisations needed to collaborate with each other. Given that the commodities here i.e. poultry meat and eggs, are perishable goods and the coverage area is wide, alliances among certain area farmers' organisations were crucial in order to form sufficient and efficient distribution channels. Participation of members from supply areas close to the customer

¹⁶⁰ Uma Lele, *Co-operatives and the Poor: A comparative Perspective*, The World Bank, Washington, 1981, pp. 56.

were needed in order to provide fresh products and to minimise transportation costs. By June 1998, seventeen area farmers' organisations had become involved in one of the central contracts to supply poultry meat, the Umbrella Broiler Scheme. The consortium arrangement had not only enabled them to limit financial risk but also gave them the leeway and option to withdraw from the consortium should the need arises.

6.3.2 REASONS TO SELECT JOINT VENTURE TYPE OF ALLIANCES

Analysis of the completed questionnaires came to the conclusion that there are eight reasons (mostly based on Faulkner, 1993) as to why joint ventures are preferred over other types of alliances:

- The parent organisations having agreed to an arrangement for the purpose of gaining strategic value through a common organisation (conclusion of the current study).
- There is need to tie in the partner(s) (Faulkner, 1995)¹⁶¹.
- Specific assets are allocated to the projects that need to be managed jointly (Faulkner, 1995)¹⁶²
- The performance of the alliance in achieving its objectives could be clearly measured in relation to the utilisation of the joint assets (Faulkner, 1995)¹⁶³.
- The joint venture is cost effective (cost must be broadly interpreted, including direct and indirect cost) (Faulkner, 1995)¹⁶⁴
- To fulfil legal requirement (Faulkner, 1995)¹⁶⁵
- From Open Ended Questions (OEQ) on survey of current study (Appendix 4a), Question Q1cvii (overall, to increase capital and to gain complementary expertise)

As discussed in Chapter 5, there have been increasing interests in setting up joint venture ever since farmers' organisations first became involved in strategic alliance projects. It is accepted that joint ventures provide strategic values through a common organisation. It is also agreed that there was a need to tie the partner as an indication of commitment and to manage the asset together. By so doing, this strategic alliance project could achieve cost effectiveness and its performance can be clearly measured in relation to the utilisation of alliance

¹⁶¹ Ibid. Faulkner (1995), pp. 191.

¹⁶² Ibid. Faulkner (1995), pp. 191.

¹⁶³ Ibid. Faulkner (1995), pp. 191.

¹⁶⁴ Ibid. Faulkner (1995), pp. 191.

¹⁶⁵ Ibid. Faulkner (1995), pp. 191.

assets. In response to the open-ended questions, overall, the respondents agreed that synergy in joint venture organisations is indeed beneficial and suggested that joint venture organisations could help to increase their capital base and to gain complementary expertise. This is the principle finding from the current study.

Most of the factors mentioned by Faulkner (1995)¹⁶⁶ are suitable for his case study. For example, in the ICI Pharma joint venture case study, Faulkner (1995)¹⁶⁷ found out that it was legally necessary for ICI Pharmaceuticals to form a joint venture with Japanese partners in order to obtain some presence in the distribution system. ICI provided the product specification and raw materials while Sumitomo handled the registration, manufacturing and distribution. Therefore, specific assets are allocated to the projects and require joint management. In the case of farmers' organisations, the formation of joint ventures started early when, in 1975, as part of the New Economic Policy, Farmers' Organisations in MADA¹⁶⁸ started their first strategic alliance activity i.e. a joint venture company called Syarikat Perniagaan Peladang MADA. It was formed to fund and offer farmers in MADA the opportunity to be involved in agricultural commercial investment in relation to their field. The profit will be shared. This only happened when the parent organisations have agreed to create a strategic value through a common organisation. Therefore, it was proven that this strategic alliance could catalyse the formation of other joint ventures between farmers' organisation in MADA. As a result, many joint venture projects under strategic alliances have been established by farmers' organisations all over the country such as Syarikat Perladangan LUTH Sdn Bhd. Terengganu (1985). Regional alliance i.e. P.T. Ubertra Co., Indonesia (1996), which is involved in oil palm plantation, have also been established.

¹⁶⁶ Ibid. Faulkner (1995), pp. 191

¹⁶⁷ Ibid. Faulkner (1995), International Strategic Alliances, ICI Pharma, pp.138-145

¹⁶⁸ MADA: Muda Agriculture Development Authority.

Even though the national economy suffered from the second crude oil price increase in 1979 and prolonged recessions of the world economy, the New Economic Policy still adhered to the main thrust of the development policy. However, this was becoming increasingly unsustainable and beginning 1983, the government instituted major structural adjustments to the economy¹⁶⁹. This included restraining public sector expenditure, adopting a private sector-led growth, introducing economic liberalisation and deregulation and improving investment policies and incentives to promote private sector participation. In the early 1990's, Medan Juara Sdn Bhd. (1993), one of the joint venture projects formed were involved producing day old chicks but later became an up-stream vertically integrated project. In 1994, Lembayung Saujana Sdn Bhd. was formed to produce high-tech vegetable for local as well as the export market.

Beginning 1991, the Malaysia's development efforts was guided by "Vision 2020"¹⁷⁰ which articulated the national aspiration to become an industrialised nation by the year 2020. It embodies the National Development Policy (NDP) to replace the New Economic Policy. It envisions Malaysia achieving an "industrialised and a fully developed nation" status by sustaining growth at 7 per cent per annum and initiating structural changes in the economy as well as within the manufacturing sectors. In order to increase meaningful participation of Bumiputeras in the modern sectors of the economy, the focus is on employment strategy and more rapid development of the active Bumiputera Commercial and Industrial Community (BCIC). There will be greater reliance on the private sector involvement in the restructuring process. The major rationale for the shift in strategy is the Government's confidence that the eradication of the remaining incidence of poverty and the restructuring of society can be achieved through growth and expansion of the private sector, a strategy

¹⁶⁹ Ibid. Economic Planning Unit of Malaysia, *Malaysian Experiences in Economic Development*, 1993 (unpublished materials), pp.9-20.

¹⁷⁰ Ibid. Economic Planning Unit of Malaysia, *Malaysian Experiences in Economic Development*, 1993 (unpublished materials), pp. 20-23.

assisted by the Government while sustaining the growth momentum.

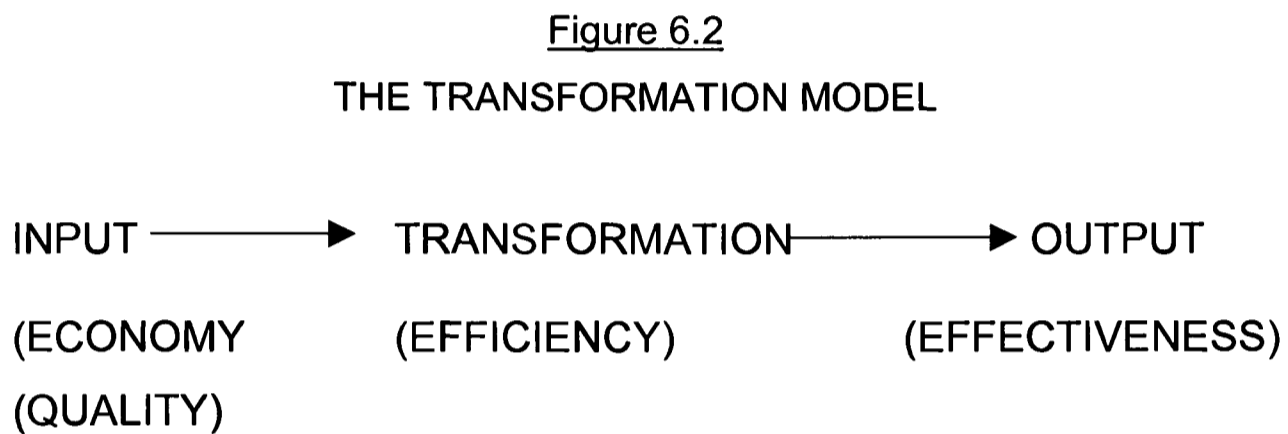
Based on the revised policy above, there is a stated need to develop an active BCIC more rapidly. Since most of the members within farmers' organisations qualify as "100 percent Bumiputra" they have taken the opportunity to develop more business ventures, including, becoming involved in strategic alliances, mainly as joint ventures. As a result, more than 65% of the strategic alliance projects were conceived after 1990, and as at 30th June 1998, out of 45 strategic alliance projects, more than 85% were joint ventures. A total of 83% of farmers' organisations have agreed that the package programme to develop a viable, competitive and resilient BCIC had strongly influenced the policy changes of their organisations in achieving financial strength and producing commercial farmers.

Projects implemented from 1991-98 were mostly in diversification and higher value-added, such as investments in property and commercial projects, developing large-scale oil palm plantations, integration and high-tech projects and wholesale marketing. These projects need to be efficiently managed by the partner (s) involved to become competitive. From the type of strategic alliances available, a joint venture is the best way to manage the activities efficiently. Furthermore, through a joint venture company, more capital could be pooled, and complementary expertise¹⁷¹ could be gained. These criteria are suitable in the effort to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC).

¹⁷¹ Open Ended Questionnaires (Appendix 6(a), Question Q1c, answer Q1cvii).

6.4 STATISTICAL TEST TO TYPE OF ALLIANCE

Based on One Way ANOVA (Analysis of Variance) test (please see detail test in Appendix 6(b)), types of alliances' forms are not significantly associated to alliance effectiveness. According to the Transformation Model below, effectiveness is a result of transformation of input into output:



The quality of input and transformation process will therefore determine the quality of effectiveness (output). As mentioned earlier, government policies have influenced the types of alliance being formed in order to achieve certain objectives. The types of alliances alone however, cannot guarantee the desired result, as it will also depend on the quality of input allocated as well as how these input were transformed in order to get maximum result of output.

It is reasonable to assume that effective management would achieve efficient and effective output. In most instances of this study, effectiveness is deemed to be a function of marketing. It is about giving both internal and external customers what they want or need. Meanwhile, efficiency is about successfully transforming resources and materials at lowest unit cost. Therefore, efficient management should be able to transform quality input into effective output. Based on the questionnaires, below are input factors (significant variables) i.e. Internal and External Motivation Factors, Partner Selection Criteria, Alliance Management, Environmental and Evolution Factors that believed to be associated with the effectiveness of farmers' organisations **strategic alliance** projects.

6.5 SIGNIFICANT VARIABLES APPLIED TO FARMERS' ORGANISATIONS STRATEGIC ALLIANCES.

From 234 responses received from those participating in this strategic alliance projects, it can be seen that 8 projects (3.4%) were collaboration oriented, 26 (11.1%) consortium and 200 (85.4%) of joint venture types of alliance. In the analysis only correlation coefficients for joint venture and consortium type of alliances that have 61 control factors had been examined closely. Since motivation, partner (s) selection, management, environmental and evolution factors are interval data; Correlation Tests have been applied to test the correlation coefficient for the above factors.

6.6 MOTIVATIONAL FACTORS AND THEIR RELATIONSHIP TO EFFECTIVENESS

Motivational factors are represented by external and internal motivation factors of strategic alliances and this is presented in Table 6.1 and Table 6.2.

6.6.1 EXTERNAL MOTIVATION FACTORS

The external motivation factors that have been tested are as follows:

Table 6.1

EXTERNAL MOTIVATION FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS

	FORMATION OF ALLIANCE	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 1% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q2	External Motivation Factors/Industrial Factors (M1)		0.209 (SP)		NS
(a)	to achieve economies of scale that will enable large producers to obtain minimum cost.	66.5	0.221 (SP)	65.4	NS
(b)	to penetrate markets that previously closed	72.0	0.184 (SP)	57.7	NS
©	fast technological change – increase need for new investments	75.0	NS	57.7	NS

Note:

Q2 = Refers to question 2

SP = Significantly Positive Correlated

NS = Not Significantly Correlated

Based on the frequency test, the external formation factors that influenced the formation of strategic alliance for the period of 1975-90 were firstly (i), to penetrate markets that were previously closed and secondly (ii), to increase new investment in order to cater for fast technological changes.

Through special packages and programmes to help Bumiputra as mentioned in Chapter 5, the uses of wide-ranging administrative support measures were undertaken. One of which was preferential treatment in contracts where Syarikat Perniagaan Peladang MADA (SPPM) was given the opportunity to supply NAFAS with input for fertilisers. This can be seen as an effort to explore and capture certain percentage of market share within the fertiliser industry, which were previously handled by other parties and was considered closed to them. Other strategic alliance projects such as providing agricultural input i.e. farm mechanisation services and production of quality seed needed new investments to increase productivity and improve quality of agricultural produce in order to achieve increased income for the rural communities. During the 1975-90 period, the question on economies of scale was not in the equation as yet.

However, during the first half of the 1990s, the Second Agricultural Policy (1992-2010) was launched to address issues of productivity, efficiency and competitiveness within the context of sustainable development of the agricultural sector and linkages with other sectors in the economy. The policy also outlined both medium and long-term strategies for expanding food production, increasing the role of the private sector, bringing in marketing reform and accelerating agro-based industrial development. Indeed, during this period, the need for new investment to cope with the technological advancement cannot be denied and this awareness serves as the first external motivation for the formation of alliances. Several high-tech projects, such as producing vegetable for local and niche market, were also undertaken.

In order to increase productivity and efficiency, farmers' organisations had begun to commercialise and expand their scope of projects i.e. developing land into commercial, housing, estate and industrial properties. It is therefore not surprising that they chose achieving economies of scale¹⁷² as the third (iii) reason for the establishment of their strategic alliances. By then however, much of the domestic market was already open to them, thereby making it less of a priority.

Provisions incorporated under the World Trade Organisations (WTO) and the Common Effective Preferential Tariff (CEPT) Scheme of the ASEAN Free Trade Area (AFTA) have created greater competition for Malaysian agriculture products. Main export commodities such as rubber and palm oil faced increasing competition from emerging low cost producers such as Indonesia. Malaysian products might be continued to face discriminatory tariff and non-tariff barriers. Farmers' organisations therefore have no choice but to now manage their plantation in the most efficient means possible.

Whilst exercising caution, following the financial crisis¹⁷³, which affected most businesses all over the world, between 1995-1998, it was recognised that the first external motivation factor for their strategic alliances was the need to achieve economies of scale. This would enable them to minimise cost with respect to inputs and transportation costs, especially, it was found out; for projects that were involved in commercial crops. These include the establishment of an oil palm estate in Indonesia on a joint venture basis by NAFAS, Syarikat Perladangan Peladang Johor (palm oil industry), Pengurusan Ladang Kelapa Sawit Gagasan Sdn. Bhd and other projects. The emphasis then was to achieve greater economies of scale by becoming efficient managers and during that period (1995-1998), it became evident that the

¹⁷² Ibid. Faulkner (1995), External Forces, pp. 60

¹⁷³ Bank Negara Malaysia, Bank Negara Malaysia Annual Report 1999, The Real Economy, Monetary and Fiscal Development, Outlook and Policy, pp. 1-131 (including Foreword by the Governor).

domestic market has become less important.

Other external motivating factors that influenced the farmers' organisations to form strategic alliances with external partner (s) is the opportunity / ability to gain access to new technology. It enabled them to achieve economies of scale as well as the ability to penetrate new markets that were once off limits. These factors were undoubtedly instrumental in persuading the farmers' organisations to form overall strategic alliances with outside partners.

It is noted that during the formation period only domestic joint venture projects were seen to be significantly associated to the external factors i.e. to achieve economies of scale and market penetration (Table 6.1). During this period too, rapid technological changes that had increased the need for new investment was however, not a significant factor associated to joint venture effectiveness as most of the alliances were still producing primary and secondary agricultural products. These factors also did not contribute to the effectiveness of consortium type projects as nearly 70% of them were under the Umbrella Schemes. In most cases, the farmers' organisations that were involved in these schemes have had guaranteed markets (which offered to them by NAFAS) and the required technology, which they obtained from each other. However, Faulkner (1995) indicates that, overall, only globalisation and economy of scale and / or scope were significantly associated to the effectiveness of international strategic alliance projects.

6.6.2 THE INTERNAL MOTIVATION FACTORS.

The internal motivation factors that influenced the formation of alliance are presented in Table 6.2

Table 6.2
INTERNAL MOTIVATION FACTORS AND THEIR RELATIONSHIP TO EFFECTIVENESS

	FORMATION OF ALLIANCE	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q3	Internal Motivation Factors (M2)		0.277 (SP)		0.544 (SP)
(a)	technology improved	67.0	0.253 (SP)	53.9	0.547 (SP)
(b)	Increased know-how	90.0	0.168 (SP)	65.4	0.417 (SP)
©	managerial skills	96.0	0.205 (SP)	96.1	NS
(d)	skilled labour	86.0	0.162 (SP)	84.6	NS
(e)	raw materials	67.5	0.149 (SP)	84.6	NS
(f)	marketing skills	89.0	NS	80.8	NS
(g)	distribution channel	87.5	NS	84.6	NS
(h)	proportionate spread financial risk	85.0	0.168 (SP)	65.4	0.457 (SP)
(i)	Good reputation and image	91.5	0.270 (SP)	84.6	NS
(j)	To fulfil legal requirement	69.5	0.170 (SP)	42.3	0.520 (SP)

Note:

Q3 = refers to Question 3 in Appendix (b), Chapter 4

For the purpose of clarity, the internal motivational factors during the formation period have been divided into three time periods i.e. 1975-1990, 1991-1994, and 1995-1998. For easier understanding, the analysis has been divided into three priorities as shown in Table 6.3.

Table 6.3
THE DEGREE OF INTERNAL MOTIVATION FACTORS DURING THE FORMATION OF STRATEGIC ALLIANCES.

ANSWER			
Overall	(75-90)	(91-94)	(95-98)
First Priority			
Q3c (95.3%)	Q3c (96.15%)	Q3I (94.12%)	Q3c (96.19%)
Q3I (90.2%)	Q3I (91.02%)	Q3c (92.15%)	Q3g (89.52%)
Second Priority			
Q3f (88.1%)	Q3g (89.6%)	Q3d (86.27%)	Q3f (89.52%)
Q3g (87.2%)	Q3f (88.46%)	Q3b (84.3%)	Q3b (88.57%)

Q3d (85.5%)	Q3d (82.05%)	Q3f (84.3%)	Q3l (87.62%)
Q3b (85.1%)	Q3b (80.76%)	Q3g (78.43%)	Q3d (87.62%)
Q3h (81.6%)	Q3h (79.48%)	Q3h (74.5%)	Q3h (86.67%)
Third Priority			
Q3e (68.8%)	Q3e (76.92%)	Q3j (68.6%)	Q3e (66.67%)
Q3j (65.4%)	Q3j (64.10%)	Q3a (64.7%)	Q3j (64.76%)
Q3a (64.1%)	Q3a (64.10%)	Q3e (60.78%)	Q3a (63.8%)

Note:

Please refer to Appendix 4(a): Questionnaire form, Q3.

Q3a	- Technology improvement	Q3b	- Increased know-how
Q3c	- Achieve managerial skills	Q3d	- Develop skilled labour
Q3e	- Access raw material	Q3f	- To increase marketing skills
Q3g	- Access distribution channel	Q3h	- To spread financial risk
Q3l	- Desire for good reputation and image	Q3j	- To fulfil legal requirement

First Priority indicates that the factors are considered **most important**

Second Priority indicates that the factors are considered **important**

Third Priority indicates that the factors are considered **fairly important**

Based on the Frequency Test, the first overall priority needs for strategic alliances formed between 1975-1994 was to have better managerial skills (more than 96% respondents indicated this) and to up-hold their reputation and image (more than 91% respondents). These tendencies were due to the lack of business managerial skills possessed by the managerial group at the grassroots, since at that point of time; most of them were new government officers.

In contrast, the need to obtain distribution channels (first priority) as well as to increase marketing skills and know how (second priority) has become the main objective for strategic alliance projects formed between 1995-1998. This came as no surprise as they have been involved in bigger projects and therefore, effective distribution channels, good marketing skills and technology know how are needed in their efforts to attain business efficiency under the new globalised economy. This was consistent with The Second Agricultural Policy (1992- 2010)

that focuses on the need to address productivity, efficiency and competitiveness in the context of sustainable development of the agricultural sector. The need to uphold reputation and image had now moved further down in their list of priorities.

Generally, the second group of internal motivation priorities can be grouped together as the reasons to form strategic alliances (Table 6.3). These priorities are to gain marketing skills, to have access to more distribution channels, to have skilled labour, to spread financial risk and to increase know-how. It would appear that acquiring technological improvement has become the third priority (the least priority) in the formation of strategic alliances of the farmers' organisations as compared to good reputation and image. This could be due to the fact that most of the strategic alliance projects were still in its infancy and they were heavily involved in food production with minimum value-added activities.

The legal adviser of the Farmers' Organisations Authority has confirmed (in a face-to-face interview) that the enactment of The Act (Act of 109) in 1973 has removed all barriers concerning the formation of strategic alliances. This would explain the need to fulfil legal requirement becoming third in priority. Finding raw materials also fall within this category since most of the strategic alliance activities were involved in producing agricultural products.

The internal motivation factors that influenced the farmers' organisations when entering into strategic alliances between them are found to be similar when they allied themselves with outside organisations. These are evident from the information gathered through the 8.5% strategic alliances formed with outside organisations, Table 6.4.

Table 6.4

INTERNAL MOTIVATION FACTORS FOR STRATEGIC ALLIANCES AMONGST FARMERS' ORGANISATIONS AND OUTSIDE PARTNERS

Internal Motivation Factors		
Overall	Amongst FO's	With Outsiders
Q3c (95.3%)	Q3c (95.4%)	Q3c (95%)
Q3l (90.2%)	Q3l (90.6%)	Q31 (85%)
Q3f (88.1%)	Q3f (88.8%)	Q3b (85%)
Q3g (87.2%)	Q3g (88.7%)	Q3f (80%)
Q3d (85.5%)	Q3d (86.5%)	Q3d (75%)
Q3b (85.1%)	Q3b (85.1%)	Q3g (70%)
Q3h (81.6%)	Q3h (83.6%)	Q3h (60%)
Q3e (68.8%)	Q3e (70.6%)	Q3a (50%)
Q3j (65.4%)	Q3j (67.3%)	Q3e (50%)
Q3a (64.1%)	Q3a (65.4%)	Q3j (45%)

Note:

Please refer to Appendix 4(a): Question Q3.

Q3a	- Technology improvement	Q3b	- Increased know-how
Q3c	- Achieve managerial skills	Q3d	- Develop skilled labour
Q3e	- Access raw material	Q3f	- To increase marketing skills
Q3g	- Access distribution channel	Q3h	- To spread financial risk
Q3l	- Desire for good reputation and image	Q3j	- To fulfil legal requirement

When examined closely, increased know how and good reputation and image factors in the strategic alliances with outsiders have the same score. Even though the figure is slightly lower compared to strategic alliances between farmers' organisations, it shows that acquiring know-how has become an important factor when forming strategic alliances with outside partner(s). Improving one's technology plays a more important role in such alliances compared to strategic alliances between farmers' organisations. Hence, it is clearly evident that the formation of strategic alliance with outside partners places the need to increase know-how and to achieve technological

advancement high in their list of priorities.

As far as correlation coefficient is concerned, Table 6.1 and 6.2, at 5% significant level and above, almost all external and internal motivational factors for joint venture (M1 and M2) have significantly positive association to the alliance effectiveness. Nevertheless, some of the M2 factors have stronger relationship/association to the effectiveness as compared to M1. As for the consortium projects, even though only internal motivational factors have significant association to the formation of alliances, nevertheless, it has stronger association to the alliance effectiveness as compared to joint venture projects.

Marketing skill and distribution channels seem to have no significant association to the success of both consortium and joint venture type of alliances. Since, nearly 300 farmers' organisations are situated all over the country, they inadvertently contribute and play an active role in marketing and providing the necessary distribution network to all alliance projects. In this case, the marketing and distribution factors do not appear as a prerequisite to the success of the alliances.

As for the rest, almost all factors under internal motivation factors have shown some correlation to the success of joint venture type of alliances. In this study, the highest frequency test, good reputation and image (91.5%, Table 6.2), also have the highest correlation with the alliance effectiveness. Meanwhile, the lowest frequency test, technology improved, 67.0%, has the second highest correlation to effectiveness. When examined closely, it has mixed results. There is therefore no clear relationship or pattern between the frequency test score and degree of correlation to alliance effectiveness.

This mixed results are also evident in the consortium type of alliances. The strong motivational factors under the frequency test, indicates that having good reputation and image, to achieve managerial skill, to develop skilled labour and

improve marketing skill turned out to be of no great significance to alliance effectiveness. At the same time, the lowest frequency scores such as technological advancement (53.9%) and to fulfil legal requirement (42.3%) however have good (strong) correlation to alliance effectiveness. This is because the Umbrella Scheme for Broiler and Egg was specifically geared to improve wealth distribution to rural farmers through technology and increased know-how to small Bumiputra farmers as well as to spread financial risk among the participating farmers' organisations.

The mixed result which show no clear relationship between motivational factors and alliance effectiveness, for both joint venture and consortium types of alliances are in contrast with the finding of David Faulkner¹⁷⁴ in his study of International Strategic Alliances. His findings show that the identification of strong motivational factors for alliance formation was generally a poor predictor of alliance effectiveness. The difference between David Faulkner's findings and the current study is the apparent diversity of objectives of these joint venture and consortium types of alliances and the different approaches by which to achieve their objectives. For example, The Umbrella Scheme for Broiler and Egg are meant to achieve wealth distribution through technology improvement and risk distribution while that of joint venture projects such as oil palm plantations are to achieve maximum profit through economies of scale.

David Faulkner's conclusion was based on the overall frequency and correlation test. The same result also shows that when overall frequency and correlation test had been applied to the current study, the strong motivational factors for alliance formation were generally found to be a poor predictor of alliance effectiveness, Table 6.5.

¹⁷⁴ Ibid. David Faulkner (1995), *International Strategic Alliances ,Co-operating to Compete*, pp. 206.

Table 6.5**THE OVERALL STATISTICAL SIGNIFICANCE OF MOTIVATIONAL FACTORS**

	RELATED FACTORS	FREQ. TEST (%)	CORRELATION COEFFICIENT
		OVERALL	OVERALL
	FORMATION OF ALLIANCE		
Q2	External Motivation Factors/Industrial Factors		0.228 (SP)
(a)	to achieve economies of scale that will enable large producers to obtain minimum cost	64.6	0.205 (SP)
(b)	to penetrate markets that were previously closed i.e. very high barriers to entry	70.65	0.202 (SP)
(c)	fast technological change – increased need for new investments	72.20	NS
Q3	Internal Motivation Factors		0.304 (SP)
(a)	technology improved	64.1	0.293 (SP)
(b)	Increased know-how	85.1	0.208 (SP)
(c)	Managerial skills	95.3	0.206 (SP)
(d)	Skilled labour	85.5	0.166 (SP)
(e)	Raw material	68.8	0.148 (SP)
(f)	Marketing skills	88.1	0.136 (SP)
(g)	distribution channel	87.2	NS
(h)	proportionate spread financial risk	81.6	0.186 (SP)
(i)	Good reputation and image	90.2	0.239 (SP)
(j)	To fulfil legal requirement	65.4	0.195 (SP)

Note:

Q2 = Refers to question 2
 SP = Significantly Positive

Q3 = Refers to question 3
 NS = Not Significant

From the overall figures in Table 6.5, most of the “internal motivation factors” have a significantly positive association to alliance effectiveness. The strongest association factor is “technology improved” that has the lowest frequency test. At the other end of the scale “good reputation and image”, “managerial skill” and “increased know-how” that have a high frequency test. Generally, the least scored of frequency test to internal motivation factors during the formation of alliances turned out to have the strongest relationship/association to alliance effectiveness.

Only the overall motivational factors on formation of alliances confirmed the findings of David Faulkner that the identification of strong motivational factors for alliance formation was a poor predictor of alliance effectiveness. However, detail findings on domestic alliances (based on joint venture and consortium types of alliance) shows that there is no clear relationship or set pattern between the identification of strong motivational factors for the formation of alliances and factors that influenced the effectiveness of the alliances.

6.7 THE COMMON PARTNER SELECTION CRITERIA AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS

The common partner selection criteria could be discussed based on 1) the reason why partner (s) select each other, 2) positive attitude towards the partners and 3) strategic plan that has been laid out during the formation period of alliances.

6.7.1 REASONS WHY PARTNERS SELECT EACH OTHER (PARTNERS COMPATIBILITY)

There are several reasons why partner(s) select each other’s such as in Table 6.6 below:

Table 6.6

REASONS FOR PARTNERS SELECT EACH OTHER (PARTNERS COMPATIBILITY)

	PARTNER SELECTION CRITERIA	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q4	The partner (s) select each other mainly because:				
(a)	the partner(s) have compatible visions	87.5	0.198 (SP)	84.6	NS
(b)	all partners perceive that they will have mutual gain and balance benefits	93.5	0.264 (SP)	84.6	NS
©	the partner(s) are of approximate / similar size and strength	58.0	0.147 (SP)	57.7	0.474 (SP)
(d)	they have complementary resources	81.5	0.250 (SP)	96.2	0.410 (SP)
(e)	they posses complementary core competencies	67.5	0.269 (SP)	80.7	NS
(f)	there are synergies in working together	75.5	0.312 (SP)	73.1	NS

(g)	their culture compatible with each other	78.5	0.364 (SP)	76.9	NS
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The joint venture projects of farmers' organisations strategic alliances have selected mutual gain and balance benefits as well as compatibility in visions and complementary resources (including assets) as important criteria when choosing partner(s) to form strategic alliances. It is followed by cultural compatibility and perceived synergies in working together.

Possession in complementary core competencies and similarity in size and strength are less important criteria for Partner Selection in joint venture projects. This is due to the fact that more than 50% of farmers' organisations strategic alliance joint venture projects (26 projects out of 45) are between themselves and most of them are also approximately similar in size. Complementary core competencies, (in term of technology and know-how) are not the main priority as most of the projects are still in production of primary products with limited value added activities.

David Faulkner¹⁷⁵ when discussing the key criteria for partner (s) selection has suggested that the most common factors for selecting each other are i) complementary assets/resources, ii) the existence of synergy between the companies', iii) approximate balance in size and strength and iv) compatible cultures. However, these are deemed to be the general criteria for partner (s) selection because his study did not identify reasons based on type of alliances.

Based on the frequency test, it is found that in addition to David Faulkner's first point, the following two factors are also to be important to joint venture type of alliance: i) to have mutual gain and balance benefit and ii) to have compatible

¹⁷⁵ Ibid. David Faulkner, *International Strategic Alliance*, pp. 63-64.

vision. Both these factors are vital to ensure all alliance projects will benefit not only the organisations involved but also member farmers. Even though, culture compatibility, perceived synergies in working together and complementary core competencies also have significant association to joint venture effectiveness, David Faulkner’s last three factors do not seem to be that significant for farmers’ organisations to choose their alliances’ partners.

Only approximate/similar size and strength as well as having complementary resources have contributed well (significantly associated) to alliance effectiveness for consortium type of alliance. This is due to participants in the scheme were selected only from capable small Bumiputra farmers’ and all broilers produced by them can be counted as complementary to each other to bring about the success of the scheme.

This study also revealed that several farmers’ organisations had also stated other factors when choosing their strategic alliance partners. They are; trust in each other, willingness to share responsibility, accept criticism and to work together (commitment).

6.7.2 PARTNER POSITIVE ATTITUDE AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS.

Only 4 out of 5 factors of positive attitude had been analysed. National cultural differences (question 5(a)) had not been analysed because only one strategic alliance project has that criterion. The analysis is presented in Table 6.7:

Table 6.7

POSITIVE ATTITUDE AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS

	PARTNER SELECTION CRITERIA	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q5	Positive Attitude				
(a)	a sensitive attitude to national cultural differences	-	-	-	-
(b)	a sensitive attitude to corporate cultural	51.5	0.365 (SP)	69.2	NS

	differences				
©	strong commitment by top management	84.5	0.270 (SP)	76.9	0.413 (SP)
(d)	strong commitments at staff levels	78.5	0.176 (SP)	80.8	0.525 (SP)
(e)	mutual trust	85.0	0.277 (SP)	73.1	0.450 (SP)

Even though the main selected reasons for joint venture to be formed is positive attitude towards the partner(s) are mutual trust and strong commitment by top management, the sensitive attitude towards corporate culture differences appears to have the strongest association to alliance effectiveness. This finding is like David Faulkner's conclusion that an attitude of understanding of cultural differences, and willingness to compromise in the face of cultural problems, may well be vital to alliance effectiveness. Meanwhile, Bronder and Rudolf (1992)¹⁷⁶, suggest using a cultural profile as an analysis that could identify potential areas of conflict.

Mutual trust and strong commitment by top management also have contributed significantly to joint venture effectiveness. Farmers' organisations should value these as an asset that they possess as it is commonly known that mutual trust is a rare commodity in many alliances. Mutual trust at senior management level has saved Xerox's venture through some turbulent times.¹⁷⁷

Positive Attitude is needed for consortium type of alliances to achieve alliance effectiveness and they are; strong commitment by top management and staff level as well as mutual trust. These Positive Attitude ingredients would ensure that special arrangement under consortium projects are workable and will benefit all related farmers' organisations even though specific market areas for which they are responsible have been allocated to them.

¹⁷⁶ Ibid. Christoph Bronder and Rudolf Pritzl, *Developing Strategic Alliance: A Conceptual Framework for Successful Co-operation*, *European Management Journal*, 1992, vol.10, pp.412-421.

¹⁷⁷ The Economist Intelligence Unit, *Best Practices: Strategic Alliances*, *Managing Alliances*, pp 83.

These commitments from top management and staff level entails co-ordinating projects, commencing from convincing the farmers to join the project until such stage when the products are received by the end consumers (mainly government departments). In the case of Umbrella Schemes however, all the participants operate on their own account and to a certain extent they can work independently within the overall consortium framework.

It is important for consortium type of projects to pay more attention to sensitive issues of corporate cultural differences, even though most of the top management and staff level come from the same cultural background (government servants) as in the long run, the situation could deteriorate. Different background, race and religion can influence the working culture of every organisation. Furthermore, it cannot be disputed that mutual trust and sensitive approach towards corporate cultural differences are two important factors for alliance effectiveness under joint venture type of alliances.

According to Economist Intelligence Unit ¹⁷⁸(Best Practices: Strategic Alliances), most of multi-national companies (MNCs) have agreed that what they need for Partner Selection Criteria are what can be termed as the three Cs'. They are Compatibility, Capability and Commitment. From the above findings, farmers' organisations strategic alliances as a whole have compatibility in vision and corporate culture apart from having strong commitment and trust from top management and staff level. The partner's(s) capability in fulfilling his responsibilities has been discussed in Management of Alliance, page 211 of this Chapter.

¹⁷⁸ Ibid.,The Economist Intelligence Unit (E.I.U), Best Practices: Strategic Alliances, Partner Selection-The Three Cs, pp11-15.

6.7.3 STRATEGIC PLAN AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS.

In this section, information was gathered to show how far the necessary preparation has taken place before the establishment of the alliances and how effective the plan has been carried out. Strategic Plan and their relationship to alliance effectiveness are presented in Table 6.8.

Table 6.8
STRATEGIC PLAN AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS

	PARTNER SELECTION CRITERIA	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q6	Strategic Plan				
(a)	Business plan has been agreed to.	89.0	0.246 (SP)	92.3	NS
(b)	Business plan has been implemented accordingly.	69.5	0.209 (SP)	80.8	0.455 (SP)
©	Main competitors have been established.	72.5	0.306 (SP)	73.1	0.429 (SP)
(d)	Market potential has been identified.	86.0	0.406 (SP)	100.0	NS
(e)	The alliance was projected to achieve competitive edge.	73.5	0.268 (SP)	73.1	NS

Bronder and Rudolf (1992)¹⁷⁹ stated that strategic fit is also an important factor in the success of an alliance. It includes the harmonisation of business plans, (strategic goals concerning value potentials, products, markets and regions), joint specification of appropriate configuration and common time frame for achieving goals. In this study, it clearly shows that most of the alliances under joint venture and consortium have had their business plans well prepared and this include market potential. Their main competitors were also identified during the formation of alliances.

¹⁷⁹ Ibid. Christoph Bronder and Rudolf Pritzl, Developing Strategic Alliance: A Conceptual Framework for Successful Co-operation, European Management Journal, 1992, vol.10, pp.412-421.

In a joint venture, even though it is agreed that the business plan has been implemented accordingly, it is rated last and has the lowest correlation to alliance effectiveness. It is implied that, during the project implementation business plan under joint venture need to be modified to suit external and environmental challenges and prevailing opportunities that came along. It is not uncommon to see that in a real business world, no plan was fully implemented without any form of amendment or diversion. It is therefore important to prepare a business plan that can produce a win-win situation before alliances between partners are formed and concluded.

Under a consortium type of alliance, business plans that have been implemented accordingly have the highest correlation to alliance effectiveness besides the identified competitors. These factors are essential not only to the success of the special arrangement of the consortium projects but also to the future development of the schemes that have very severe competition in the open market. Other factors however, such as agreed business plan identified market potential and achieving competitive edge are of no significance to consortium effectiveness. These is due to the fact that 70% of the consortium projects under the Umbrella Schemes have had their agreed business plans and identified market potential stipulated under a central contract. It should be noted that since the projects are for small farmers, achieving a competitive edge is as yet secondary until such time when they can prove to be relatively competitive.

While the overall Partner Selection Criteria under the International Strategic Alliance's study (David Faulkner, 1995)¹⁸⁰ shows no association with alliance effectiveness, this study proves that all the above factors have been significantly associated to joint venture effectiveness. However, under Partner

¹⁸⁰ Ibid. David Faulkner, Appendix B: the statistical findings, Quantitative implication, International. Strategic Alliance, 1995, pp. 206.

Selection Criteria, only certain factors contributed to the consortium type of alliance effectiveness i.e. they select partners that are of almost similar size and strength with complementary resources. They also display Positive Attitude towards their partners because of the strong commitment by top management and staff level, as well as mutual trust. Meanwhile, in terms of strategic fit, the effectiveness of consortium type of alliance was influenced only by the business plan that has been accordingly implemented and that main competitors have been identified.

6.8 TYPE OF ALLIANCE MANAGEMENT AND THEIR RELATIONSHIPS TO ALLIANCE EFFECTIVENESS.

6.8.1 TYPE OF ALLIANCE MANAGEMENT

A conclusion drawn from a study¹⁸¹ conducted in a Dutch medium sized company supports the view that the majority of such companies are still in the early phase of strategic management. At the same time, the education system is not geared towards solving problems of medium-sized companies but places too much emphasis on the more advanced techniques applicable in the phase of integrative strategic management. They experienced many obstacles to improve themselves.

Therefore, according to Philip Waalewijn and Peter Segaar (1993) Strategic Management can be divided into four phases and the numbers of farmers' organisations in each category are as follows:

Category (i)	- Financial Planning – 42 (18%)
Category (ii)	- Forecast Based Planning – 34 (14.5%)
Category (iii)	- Environmental Planning – 54 (23%)
Category (iv)	- Integrative Strategic Management – 104 (44.4%)

¹⁸¹ Philip Waalewijn and Peter Segaar, *Strategic Management: the key to profitability in small companies*, *Long Range Planning*, vol. 26, No.2, 1993, pp.24-30.

Table 6.9
CATEGORY OF ALLIANCE MANAGEMENT

Category	ANSWER			
	Overall	(75-90)	(91-94)	(95-98)
i	42 (18.0%)	12 (15.4%)	14 (27.5%)	16 (15.2%)
ii	34 (14.5%)	8 (10.3%)	13 (25.5%)	13 (12.4%)
iii	54 (23.0%)	26 (33.3%)	6 (11.8%)	22 (21.0%)
(ii+iii)	88 (37.5%)	34 (43.6%)	19 (37.5%)	35 (33.4%)
iv	104 (44.4%)	32 (41.0%)	18 (35.3%)	54 (51.4%)

Based on Table 6.9, projects established between 1995-98 (as listed in Chapter 5-Table 5.1(d)) have the highest percentage in using the Integrative Strategic Management and the lowest percentage in using Financial Planning to manage their strategic alliance projects. However, projects established between 1991-94 (as listed in Chapter 5-Table 5.1(c)) have the lowest percentage in using Integrative Strategic Management and the highest percentage in using Financial Planning in managing their alliances.

Nevertheless, projects established between 1975- 90 (as listed in Chapter 5-Table 5.1(b)) have the highest percentage type of management in progress from Financial Planning to Integrative Strategic Management. Therefore, more attention need to be given to projects established between 1991-1994 since these projects have the lowest percentage in using Integrative Strategic Management but the highest percentage in using Financial Planning to manage their alliances.

Table 6.10

TYPE OF ALLIANCE MANAGEMENT FOR JOINT VENTURE AND CONSORTIUM PROJECTS

	MANAGEMENT OF ALLIANCE	JOINT VENTURE	CONSORTIUM
		FREQ. (%)	FREQ. (%)
Q7	Type of Management		
(a)	<u>Financial Planning</u> (budget setting which is based on cost and profit)	32 (16.0%)	7 (26.9%)
(b)	<u>Forecast Based Planning</u> (Financial Planning that is supplemented by long term planning)	30 (15.0%)	1 (1.0%)
(c)	<u>Environmental Planning</u> (long term planning with special attention given to macro-economics, socio-demographic and technological trends)	47 (23.5%)	5 (19.2%)
(d)	<u>Integrative Strategic Management</u> (which covers not only long term and environmental planning but also formulating ideas and taking appropriate action which can lead to a sustainable competitive advantage)	91 (45.0%)	13 (50.0%)

As indicated in Table 6.10, joint venture and consortium projects, both have quite a high percentage in using integrative strategic management in managing their alliance i.e. at 45% and 50% respectively. Nevertheless, more than 23% and 26% of joint venture and consortium type of projects are still inclined to use environmental and financial planning respectively. In order to attain a better future in terms of business expansion and market penetration, all types of strategic alliance projects should be encouraged to adopt integrative strategic management, which can lead to Sustainable Competitive Advantage.

6.8.2 ESTABLISHING ANY POSSIBLE RELATIONSHIP BETWEEN NON-INTEGRATIVE STRATEGIC MANAGEMENT AND ALLIANCE EFFECTIVENESS.

All factors under Organisational Arrangements (management variables) under Faulkner (1995)¹⁸² are called Non-Integrative Strategic Management. Some of them can actually fall under the Partial Integrative Strategic Management

¹⁸² Ibid. David Faulkner (1995), *International Strategic Alliances*, pp. 195.

factors as mentioned above, such as, an appropriate alliance form, which is suitable to its task. Overall, more than 50% of farmer’s organisations strategic alliances’ management fall under this category. Their relationship to alliance effectiveness is presented in Table 6.11 below:

Table 6.11
NON-INTEGRATIVE STRATEGIC MANAGEMENT AND THEIR RELATIONSHIP TO ALLIANCE MANAGEMENT

	MANAGEMENT OF ALLIANCE	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG LEVEL
Q8	Non-Integrative Strategic Management				
(a)	In a joint venture project, the managing director is having/given complete authority to manage/develop the alliance	45.5	NS	11.5	NS
(b)	an appropriate alliance form which is suitable to its task	51.5	NS	46.1	NS
(c)	information concerning the alliance is disseminated widely in the company	45.0	NS	38.4	NS
(d)	the strategic alliance having an effective dispute resolution mechanism in place	40.0	NS	30.8	NS
(e)	the Strategic Alliance having an agreed divorce mechanism in place	31.0	NS	34.6	NS

The above figures show that all factors under the Organisational Arrangements (David Faulkner, 1995) have negative correlation to farmers’ organisations strategic alliances effectiveness. They are also not significantly associated to the success of both types of alliances as compared to international strategic alliances (David Faulkner, 1995) that show some association to international strategic alliance effectiveness.

6.8.3 DETAIL RELATIONSHIP OF FULL INTEGRATIVE STRATEGIC MANAGEMENT PROCESS AND ALLIANCE EFFECTIVENESS

Detail relationship of full Integrative Strategic Management Process and the alliance effectiveness is presented in Table 6.12 below:

Table 6.12**INTEGRATIVE STRATEGIC MANAGEMENT AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS**

	MANAGEMENT OF ALLIANCE	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q9	Integrative Strategic Management				
(a)	Objectives setting				
i	broad representation from all the relevant sections of the organisation	37.5	0.188 (SP)	42.3	0.443 (SP)
ii	active participation by top management	36.5	0.154 (SP)	42.3	NS
(b)	Strategic programming,				
i	Formulated with great care.	42.5	0.149 (SP)	42.3	0.462 (SP)
ii	Receiving strong support and co-operation by all executives concerned.	40.0	0.153 (SP)	46.1	0.426 (SP)
(c)	Strategic Budgeting				
i	competent managers	39.0	0.163 (SP)	50.0	0.423 (SP)
ii	Suitable technology	35.5	0.156 (SP)	50.0	0.405 (SP)
iii	sufficient funds	40.5	0.149 (SP)	46.1	NS
(d)	Strategic Control				
i	active participation in planning	36.0	0.190 (SP)	46.2	0.456 (SP)
ii	board representation	39.0	0.156 (SP)	42.3	0.462 (SP)
	Human Resource				
(e)	Competent personnel	37.0	0.191 (SP)	50.0	0.423 (SP)
(f)	Appropriate personnel	39.0	0.164 (SP)	50.0	0.423 (SP)
(g)i	sufficient human resources	38.0	0.147 (SP)	50.0	0.417 (SP)
(g)ii	sufficient time allocated	37.5	NS	50.0	0.415 (SP)
(h)	Key employees loyalty for project based is to strategic alliance organisations	36.0	0.156 (SP)	38.5	NS
(i)	Key employees loyalty for non-project based is to the parent organisation	31.0	0.147 (SP)	38.4	0.429 (SP)
(j)	Strategic alliance can offer better career development.	38.0	NS	38.5	0.436 (SP)

As clearly stated in Table 6.12 above, at 5% significant level and above, almost all Integrative Strategic Management factors are significantly associated to the effectiveness of joint venture type of alliances except for the sufficient time allocated and better career development. Under Human Resource, sufficient

time allocated is not a significant factor to the effectiveness of joint venture projects. Instead, the quality of time allocated to the project is more meaningful and contributes positively to alliance effectiveness. Meanwhile, under Strategic Control perspective, if partner (s) need to protect their interest in terms of core competency/financial/non-financial control, active participation in planning has stronger association to alliance effectiveness as compared to board representation in the alliance. However, since all variables have significant association to overall alliance effectiveness, there is a need to control these variables efficiently.

As far as consortium projects are concerned, most of the Integrative Strategic Management factors are significantly associated to project effectiveness. Only active participation by top management, during the objective setting and having sufficient funds under Strategic Budgeting as well as key employee loyalty for project based, have no significant association to the effectiveness of the consortium projects. The Government has decided to implement the Umbrella Schemes in order to help small farmers; therefore, there was no need for the active participation by top management during the objective setting exercise. In the case of the Umbrella Broiler Scheme, working capital (such as day old chicks, chicken feed and medicines) is provided by NAFAS on credit basis, hence the need to have sufficient funds is well taken care of. There is no question of key employee loyalty to the consortium type of alliance because under the Umbrella Schemes no organisations have been formed.

6.9 ENVIRONMENTAL FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS.

In this study, environmental consideration is duly incorporated in order to examine which factors thereto are significantly associated to the effectiveness of domestic strategic alliances. In this analysis, environmental consideration includes external factors that have direct relation with the daily business of an organisation. The international strategic alliance model under Faulkner (1995)

had external factors such as globalisation being identified to have influenced the motivational factor in the formation of alliances and contributed significantly to alliance effectiveness. The environmental factors have been expanded to include Government policies, input to alliance, partner(s) full co-operation, amongst others.

For easier reference, the related environmental factors, which have the potential to influence the effectiveness of domestic strategic alliances under farmers' organisations, are herewith listed in Table 6.13.

Table 6.13
ENVIRONMENTAL FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS

	ENVIRONMENTAL FACTORS	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q10	Partner (s) full/maximum co-operation	75.0	0.372 (SP)	77.0	0.579 (SP)
Q11	Regular payment of customers				
(a)	government institutions	64.9	NS	77.0	0.388 (SP)
(b)	non-government institutions	54.2	NS	57.7	0.413 (SP)
(c)	open market	60.3	0.232 (SP)	53.8	NS
Q12	Suppliers provided inputs to alliances				
(a)	regularly	71.4	NS	76.9	NS
(b)	right quality	70.6	NS	50.0	NS
(c)	adequate quantity	74.6	NS	53.8	NS
Q13	Suppliers Provided Inputs to Farmers				
(a)	regularly	57.2	NS	77.3	NS
(b)	right quality	42.8	NS	50.0	NS
(c)	Adequate Quantity	61.9	NS	81.8	NS
Q14	Related farmers provided their outputs to alliances with:				
(a)	the right quality	42.1	NS	50.0	0.513 (SP)
(b)	the right quantity	36.9	0.516 (SP)	50.0	0.506 (SP)
(c)	the right time	47.3	NS	63.6	0.438 (SP)
Q15	Government Policies & International Events				
(a)	Restraining public sector expenditure (including less subsidies) to reduce budgetary deficits	60.5	0.277 (SP)	73.0	NS
(b)	Introducing economic liberalisation and commitment	62.5	0.399 (SP)	53.9	0.444 (SP)

	in market access (under World Trade Organisation) as well as improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan.				
(c)	Adopting a private sector led growth	73.0	0.449 (SP)	84.6	NS
(d)	Package programmes to develop a viable, competitive and resilient Bumiputra Industrial Community (BIC).	84.5	0.332 (SP)	84.6	NS

Among the environmental variables cited to have influenced the development and direction of farmers' organisations strategic alliances are; customers, suppliers, farmers, government policy and international event. As far as joint venture projects are concerned, out of seventeen (17) factors (plus operational factors) only nine (9) factors/variables are proven to have been significantly associated to alliance effectiveness. They are as presented in Table 6.14:

Table 6.14

ENVIRONMENTAL FACTORS THAT SIGNIFICANTLY ASSOCIATED TO ALLIANCE EFFECTIVENESS.

Q10	The full/maximum co-operation given by the partner(s).
Q11(c)	The payment made regularly by open market
Q14(b)	The related farmers (if applicable) have provided to the strategic alliance their product with the right quantity.
Q15(a)	Restraining public sector expenditure (including less subsidies) to reduce budgetary deficits.
Q15(b)	Introducing economic liberalisation and commitment in market access (under World Trade Organisation) as well as improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan.
Q15c	Adopting a private sector led growth.
Q15d	Package programmes to develop a viable, competitive and resilient Bumiputra Industrial Community (BIC).

In discussing environmental forces/variables, partner(s) full/maximum co-operation does contribute significantly to the effectiveness of both types of the strategic alliances i.e. joint venture and consortium types of alliance with the latter proving to be more successful than the former. Regular payments made

by government and non-government institutions are important factors, which need to be monitored by the management of the consortium type of alliance. Meanwhile, regular payments made by open market are only significant to joint venture type of alliances. Suppliers that provide inputs to alliances and farmers have no significant association to the effectiveness of both joint venture and consortium types of project. This is due to member farmers and farmers' organisations themselves who supplied most of the input under the Umbrella Schemes, farmers' supermarket and shops, oil palm and other projects with minimal involvement from outside suppliers.

Besides the right time, farmers providing alliances with the right quality and quantity of output have strong association to the success of consortium type of alliance. This is because the success of the Umbrella Schemes under the central contracts are strongly dependent on the ability of farmers to supply the right quality and quantity of broilers and eggs as stipulated in the contract specifications. Nevertheless, only the right quantity is strongly associated to the joint venture type of alliance with farmers mostly supplying them with raw material or semi-finished products. Even though statistically, the right quality and time are not significantly associated to the effectiveness of a joint venture, but in reality, these factors i.e. the right quality and time, are amongst the most vital business aspects that need to be carefully handled in order to maximise profits.

All the aforementioned factors under the government policies and international events are significantly associated to the effectiveness of joint venture type of alliance. However, only Introduction of economic liberalisation, commitment in market access (under World Trade Organisation) and improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan are factors significantly associated to the success of consortium type of alliance. These policies and events are correlated to alliance effectiveness as they provide them future directions on how to be more

competitive and less dependent on Government support. Bumiputra entrepreneurs must now be independent and play a vital role in the economic development of the country.

6.10 THE EVOLUTION FACTORS AND THEIR RELATIONSHIPS TO ALLIANCE EFFECTIVENESS.

In the evolution of farmers' organisations' strategic alliances, several important factors have emerged such as developed strong bonding factors, a philosophy of constant learning, balanced benefits, good reputation and achieving alliance objectives. These are presented in Table 6.15.

Table 6.15
THE EVOLUTION FACTORS AND THEIR RELATIONSHIP TO ALLIANCE EFFECTIVENESS

	ALLIANCE EVOLUTION	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q16(a)	Strong bonding factors help the partners to:				
i	successfully overcome external challenges	74.0	0.633 (SP)	76.9	0.543 (SP)
ii	developed a single culture comprising the best (culture) from all the partner (s)	85.5	0.752 (SP)	88.4	0.738 (SP)
lii	developed good reputation among them	88.0	0.752 (SP)	80.7	0.677 (SP)
(b)	The partner(s) are adopting a philosophy of constant learning and agreed that they have learned / benefited from the alliance.	79.0	0.441 (SP)	84.6	0.426 (SP)
(c)	In balanced benefits, one partner has not:				
i	Gained strategic advantage over the other(s)	73.0	0.402 (SP)	57.7	NS
ii	Gain greater benefit than the other (s)	66.5	0.353 (SP)	38.4	NS
iii	Become over-dependent on the other (s)	48.5	0.365 (SP)	46.2	NS
Q17	The alliance is constantly evolving, it can be seen through the following event:				
(a)	The partners are regularly coming up with new projects.	54.5	0.450 (SP)	50.0	0.429 (SP)
(b)	Additional responsibilities are	65.5	0.431 (SP)	73.1	NS

	placed on the alliances.				
(c)	The alliance is constantly adjusting to change	83.0	0.651 (SP)	69.2	0.599 (SP)
Q18	The partner (s) are achieving their alliance objectives to a degree acceptable to them:				
(a)	In direct quantifiable terms	76.0	0.596 (SP)	84.6	0.694 (SP)
(b)	In more indirect spin-off terms	61.0	0.620 (SP)	76.9	0.639 (SP)
Q20	The reputation of the alliance is good and well accepted by the industry	63.0	0.624 (SP)	61.6	NS
Q21	The future direction of farmers' organisations strategic alliance can be perceived as follows:				
(a)	Multi-domestic*	58.5	0.293 (SP)	65.4	0.470 (SP)
(b)	Regionalisation**	44.5	0.177 (SP)	26.9	NS
(c)	Transnational***	41.0	NS	19.2	NS

Note:

- *Multi-domestic - big industry that have only domestic focus.
- ** Regionalisation - big industry that have regional business co-operation (e.g. within ASEAN countries).
- *** Transnational - big industry that have multi- business cross border co-operation.

Strong bonding factors developed by alliances to successfully overcoming external challenges, developing a single culture comprising the best from all partners and developing good reputation, amongst others, have strongly been associated to the success of both types of alliances. Adaptation to a philosophy of constant learning also has contributed to this success. Only joint venture type of alliance has significant association to the balanced benefits factors gained by the partners. Except for the future direction of farmers' organisations strategic alliance, all the above-mentioned factors are actually proposed by David Faulkner (1995). However, both types of alliances owe their success and the effectiveness to their ability to constantly adjust themselves to change.

As far as future direction is concerned, joint venture type of alliance will progress and expand their business beyond the Malaysian border, to the regional countries of ASEAN. The consortium type of alliance however is only confined to do business at multi-domestic level, i.e. big industry with a domestic focus. The perception of the future direction has also been included as a factor in the evolution of alliance in an effort to capture the alliance present expansion

capability. This is a new factor that has been added to the evolution of alliance.

The overall Statistical Significant to Farmers' Organisations Strategic Alliance's Projects (to the effectiveness of the joint venture and/or consortium type of alliances) which has all together 69 control factors is attached in Appendix 6c. However, both joint venture and consortium types of alliance have mostly different types of environmental factors that influence their effectiveness

6.11 SUSTAINABLE COMPETITIVESS MODEL FOR MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE:

STAGE 1: START-UP PERIOD

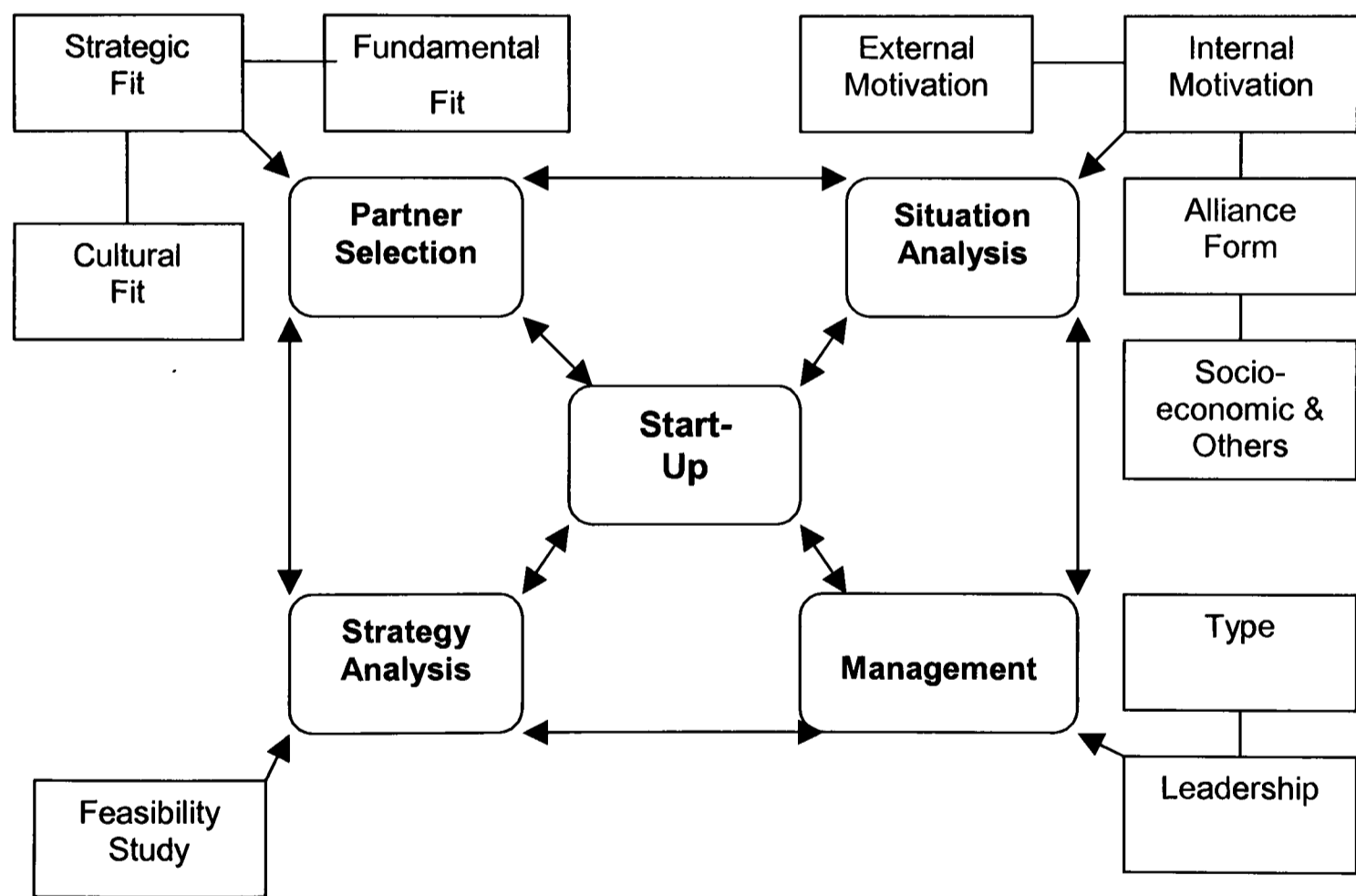
The start-up period of alliance is characterised by four sets of criteria: 1) Situation Analysis, 2) Motivation, 3) Partner Selection and 4) Management of Alliances. It has been drawn in large part from the nine models of the strategic alliances mentioned in Chapter 3, the field work of the current study and as mentioned above, the farmers' organisations strategic alliances effectiveness analysis.

Four factors have influenced the start-up (formation) of strategic alliances by Malaysian Farmers' Organisations: Situation Analysis, Partner Selection Criteria, Strategy Analysis and Type of Alliance Management. The interaction of these factors plays an important role in setting the scene of the Malaysian farmers forming strategic alliances to date.

Most of the factors under Situation Analysis have been drawn from David Faulkner's (1995) model, such as type of alliance, external and internal motivation factors. Based on information gathered from the fieldwork, socio-economic factors, such as better income distribution to the rural population, has been identified as one of the factors that influenced the type of alliance projects being formed during a given period of time. Socio-economic factors therefore, is

included as one of the factors in situation analysis, not to mention of its having direct influence on government policies. It should be noted that factors such as shareholders blessing and internal support were excluded from the questionnaire in the survey because the subject of this study (the farmers' organisations strategic alliances) have already been in existence for quite sometime. These two aforementioned factors should be included only if the strategic alliances are at formation stage.

Figure 6.3
STAGE 1: START-UP



Note:

- **Situation Analysis**
- External motivation
- Internal motivation
- Form of alliance
- Socio-economic
- Others.

- **Partner selection Criteria**
- Fundamental fit
- Strategic fit
- Cultural fit

- **Strategy Analysis**
- Business plan/ Feasibility study
- **Management**
- Type
- Leadership

It can be deduced that external and internal motivation factors have significantly contributed to alliance effectiveness. Among other factors that have been indicated by farmers' organisation on reasons why alliances are formed were, to achieve economies of scale and market penetration (external factors), to develop good reputation and image, to improve technology, to acquire managerial and marketing skills amongst others.

Variables under Partner Selection Criteria were mainly adopted from Bronder & Pritzl's (1992) model. It consists of fundamental fit, strategic fit and cultural fit. Fundamental fit deals with compatible vision, mutual gain and balance benefits. This is to ensure the win-win match situation. Strategic fit such as complementary resources and core competencies is to ensure that the combined value chain of the partners could achieve sustainable competitive advantage.

Cultural fit however, deals with partner's positive attitude towards alliances. It specially deals with sensitive attitude to national/international culture, corporate culture, and commitment by top management and staff levels, mutual trust and others. One of the ways to minimise this problem is to study the cultural profile for both partners such as partner's orientation towards employees, customers and others that could be used to identify gap and differences as well as similarities in culture between both parties. Flexible attitude toward cultural differences, an eagerness to learn from a partner with different procedures, strong commitment and mutual trust between partners are vital ingredients to success. All those elements mentioned above are significant to the effectiveness of the farmers' organisations strategic alliances.

All authors give special emphasis on Strategy Analysis that includes a more in-depth study on the information needed in order to prepare the analysis for a feasibility study. Both partners should work together to examine how viable the strategic alliance is when translated into a business plan. They have to take into account the configuration of the alliance through a feasibility study/business plan that includes, among others, assessment on market potential, identification of key competitors, projection of revenue level, sensitivity analysis in order to ensure sustainable competitive advantage of strategic alliances. This exercise should also assess the position of the potential business in terms of its role in the parent's overall business portfolio and its strength relative to its competitors. This section is applicable for farmers' organisations strategic alliances.

During the formation period, partner (s) must determine the type of management they perceived could successfully manage the alliances. Lorange and Roos's (1993) model on alliance management emphasises on Integrative Strategic Management¹⁸³ Process through the twin challenges of Planning and Control as well as Human Resource Development. Meanwhile, management of alliance under David Faulkner's (1995) model runs by the means of very Workable Organisational Arrangements i.e. full authority for the managing director to developing the alliances, appropriate form of alliances, information dissemination, dispute and divorce mechanism and others.

A study¹⁸⁴ conducted in a medium sized Dutch company supports the view that the majority of such companies are still in early phase of strategic management.

¹⁸³ John L. Thompson, Strategic Management (second edition), Exploring Strategic Management and A Strategic Management Framework, 1993, pp.5-44. According to Thompson Strategic Management involves the following features:

- A clear awareness of environmental forces and the way in which they are changing.
- An appreciation of potential and future threats and opportunities.
- Decision upon appropriate products and services for clearly defined markets.
- The effective management of resources to develop and produce these products for the market – achieving the right quality for the price at the right time and the right place.

¹⁸⁴ Philip Waalewijn and Peter Segaar, Strategic Management: the key to profitability in small companies, Long Range Planning, vol. 26, No.2, 1993, pp.24-30.

Therefore, Strategic Management was divided into four phases of evolution, namely, Financial Planning, Forecast Based Planning, Environmental Planning and Integrative Strategic Management as reflected in Table 6.10.

Within the context of the current study, strategic alliance management's model is divided into Workable Organisational Arrangements and Integrative Strategic Management. Strategic alliance activities that are not fully managed by the full phase (fourth phase) of integrative strategic management will fall under the workable organisational arrangement type of management. The Workable Organisational Arrangement consists of full authority of managing director, appropriate form of alliance, widely information dissemination, good dispute resolution mechanism and congruent goals.

In the case of Malaysian farmers' organisations strategic alliances, 44.4% of them are adopting full Integrative strategic Management whilst 55.6% of the alliances are still in first, second or third phase of Integrative Strategic Management. The latter is grouped into Management by Workable Organisational Arrangements. This was done in order to identify between groups that have fully implemented Integrative Strategic Management from those which have not. The division of groups is necessary in order to measure the level of performance between groups in relation to their management practice. As far as the alliance effectiveness is concerned, only Integrative Strategic Management has significantly contributed to the running of both joint venture and consortium.

The main elements under Integrative Strategic Management¹⁸⁵ are Strategic Awareness, Situation Assessment, Situation Analysis (including SWOT analysis i.e. the strength, weaknesses, opportunity and threat analysis), Strategic

¹⁸⁵ Ibid. John L. Thompson, Strategic Management (second edition), Exploring Strategic Management and A Strategic Management Framework, 1993, pp.5-44.

Change, Objective Setting, Strategic Alternatives, Strategic Choice, Strategic Implementation plus Measurement and Control System.

In this case study, it has been simplified in order to suit the initial type of management arrangement in the form of Objective Setting, Strategic Programming, Strategic Budgeting, Strategic Control and Human Resources Allocation as suggested by Lorange and Roos's model (1993). Meanwhile, the management of control involves the control of core competency, financial and non-financial. Human resource development will deal with assignment of manager, clarity of authority, time spending, loyalty and career planning. The full elements of Integrative Strategic Management are normally being used in dealing with sustainability challenge (such as resetting of alliance objectives) of alliance development.

Management Style¹⁸⁶ is focussed on leadership style that is suitable for different type of industries such as autocratic, participative or that of consultative styles. As far as Ayam Peladang (a new joint venture company that has been proposed in Chapter 8 to manage the Umbrella Broiler Scheme with broader scope of activities) is concerned, it is propose that participative and consultative style of management is more appropriate and this is in contrast to say, the defence industry that favours discipline and autocratic style of management.

6.12 CONCLUSION

1. As far as external motivation factors are concerned, only two, i.e. (i) to penetrate markets that were previously closed and (ii) to increase new investment in order to cater for fast technological change, are significantly associated to joint venture effectiveness and none of them can be said of consortium type of alliance.

¹⁸⁶ Cliff Bowman and David Faulkner, *Strategy and Culture, Competitive and Corporate Strategies*, 1997, pp. 143-145.

2. Consortium type of alliances has significant linkage only to internal motivation factors i.e. technological improvement, to fulfil legal requirement, increased know-how and spreading financial risk. Unlike those of joint ventures, almost all external and internal motivational factors (with the exception of fast technology change, marketing and distribution channels) are significantly associated to alliance effectiveness. However, in terms of internal motivation factors priorities, the strategic alliance formed between 1975-1994 was to acquire better managerial skills and to enhance their reputation and image. In contrast, projects formed between 1995-1998 sought to attain access to distribution channels as well as to nurture marketing skills and know how.
3. Indeed, all the stipulated variables under Partner(s) Selection Criteria such as the selection of partners, positive attitude and strategic planning are significantly associated to the success of joint venture type of alliances. However there are certain variables, which contribute to the effectiveness of consortium type of alliances such as the approximate size and strength, complementary resources, mutual trust, strong commitment by top management and staff level. Also included business plan that has been implemented accordingly as well as main competitors has been established.
4. To cater for small and medium size organisations like farmers' organisations, the domestic model has incorporated Integrative and Non-integrative Strategic Management Process in the management portfolio of the Start-up Period. Overall, almost all factors under Integrative Strategic Management are found to be significantly associated to the effectiveness of joint venture and consortium types of alliance as opposed to Non-integrative Strategic Management Process, which do not appear to impart similar consequence.

5. Both joint venture and consortium types of alliance have almost different types of environmental factors that influenced their effectiveness. Even though both of them need partner(s) full co-operation, it has stronger association to the effectiveness of the consortium type of alliance. Regular payment from the open market is beneficial to the effectiveness of joint venture whilst regular payment by government and non-government institutions is needed by the consortium type of alliance. The right quality and quantity input from farmers are crucial to consortium type of alliance. On the other hand however, only the right quantity (as opposed to the right quality) is important to joint ventures. Although this is statistically significant to them, to ignore quality is certainly not in their best interest. It is imperative for joint venture type of alliance to carefully deliberate on this matter.
6. Equally, where government policies and international events are concerned, only the effect of World Trade Organisation and improving investment policy are significant ingredients to the effectiveness of the consortium type of alliance whereas in as far as the effectiveness of the joint ventures are concerned, all those factors including restraining public sector expenditure, adopting a private sector led growth and package programmes to develop a viable, competitive and resilient Bumiputra Industrial Community (BIC) are relevant. Different types of policies and incentives are therefore required to promote consortium and joint venture types of strategic alliance projects.
7. Almost all factors under evolution of alliance are significantly associated to joint venture type of alliance. Nevertheless, only certain factors under evolution of alliance are significantly contributed to the effectiveness of consortium type of alliance, namely, amongst others, successfully overcome external challengers, developing a single culture and good

reputation with partner(s), and the partner(s) are achieving their objectives to a degree acceptable to them.

8. The start-up period of domestic alliances is characterised by four sets of criteria: 1) Situation Analysis, 2) Motivation, 3) Partner Selection and 4) Management of alliances. The interaction of these factors has played an important role to set the scene of the Malaysian Farmers' Organisations strategic alliances to date.
9. The overall Statistical Significance to Farmers' Organisations Strategic Alliance's Projects has 69 control factors. Both joint venture and consortium types of alliance however, have mostly different types of environmental factors that influence their effectiveness

CHAPTER 7

IDENTIFYING THE CHARACTERISTIC OF DOMESTIC PROFITABLE STRATEGIC ALLIANCES (WINNING ALLIANCES) BY MALAYSIAN FARMERS' ORGANISATIONS FROM THE PERSPECTIVE OF PARENT ORGANISATIONS.

SUMMARY

This Chapter examines the characteristic of Malaysian Farmers' Organisations' Profitable Alliance (1993-1997) from the perspective of their parent organisations. In doing so, the Strategic Alliance has been divided into four (4) categories namely, Project-based¹⁸⁷ and Non Project-based Profitable Alliances¹⁸⁸, Non-indicated¹⁸⁹ and Lost Alliances¹⁹⁰. The only factors that have been taken into consideration are those that have shown significant association with the effectiveness of the alliance projects. It needs to have a frequency score of 80% and above and frequently it will be based on the case-by-case basis (except for capital structure and market outlets). From the 234 alliances, only 112 were profitable, 4 admitted losses, while 118 preferred not to divulge their financial status. The Profitable Alliance comprises 83% of joint venture projects of which 71.6% of them are project-based activities.

This chapter also discusses profit structures of Profitable Alliances such as the overall and average profits earned between 1993-1997. 59 significant characteristics to alliance effectiveness have been tested to Profitable Domestic Alliance through several categories such as Partner Selection Criteria (determines on suitable partner(s) decisive factor). Other factors include Management of Profitable Alliance (mostly deals with Integrative Strategic Management Phases), Evolution (explains about evolutionary patterns on strong bonding factors, organisational learning and reputation of Profitable Alliance) and Role of Environmental Factors (including External) in influencing the future direction of Profitable Alliance. Characteristic of Profitable Alliance to Capital Structure (mainly deals with debt to capital ratio), Market Outlets (examine market outlets i.e. government and open market) has also been tested. Only 33 alliance effectiveness factors applicable to become characteristic of the Profitable Alliance while only 14 factors valid to Lost Alliance.

7.1 INTRODUCTION

Most of literature reviews (Peters and Waterman, 1982¹⁹¹, Rothwell and Gardiner, 1984¹⁹²) on what makes a winning company, normally refers to the

¹⁸⁷ Project-based Profitable Alliance is a profitable strategic alliance project (based on project, not on stocks) such as oil palm plantation and poultry farming.

¹⁸⁸ Non Project-based Profitable Alliance is a profitable strategic alliance project, based on stocks, such as "Amanah Saham Peladang".

¹⁸⁹ Non-indicated alliance is a strategic alliance project that did not disclose their business position (profit / lost account between the years 1993-97) to the researcher.

¹⁹⁰ Lost Alliance is a strategic alliance project that disclosed their business position (profit / lost account between the years 1993-1997) to the researcher.

¹⁹¹ Peter, T.J, and Waterman, R.H, In Search of Excellence, 1982, Harper & Row, New York.

¹⁹² Rothwell, R. and Gardiner, P. "Design and Competition in Engineering", Long Range Planning, vol. 17, no. 3, pp. 78-91.

qualities of the company itself. James Pilditch¹⁹³ listed a bias for action, close to customer, autonomy and entrepreneurship, productivity through people, hands on, value driven, simple form and lean staff. However, Stuart Sanderson (1998)¹⁹⁴ has quoted that "customer driven" organisation characteristics should include entrepreneurial, learning-oriented, collaborative, focus on core skill, fast to innovate, incorporating new knowledge, flexible in the use of people and friendly in reaching out to partners. Meanwhile, Stewart (1997)¹⁹⁵ believes that the active management of Intellectual Capital i.e. Human Capital, Structural Capital and Customer Capital would determine the success of any enterprise.

The current study seeks to identify some of the characteristics in terms of what makes profitable strategic alliances within the context of the Malaysian Farmers' Organisations, most importantly, from the perspective of the parent organisations. It is apparent that the present models of international strategic alliance do not directly touch the characteristics of profitable strategic alliances especially from the perspective of their parent organisations.

7.2 PROFITABLE STRATEGIC ALLIANCES

Malaysian Farmers' Organisation strategic alliances can be considered as one of the limited type of business, which the parent organisations operate on co-operative principles while the alliances are registered under the Companies' Act 1963. This gives these second organisations the right to operate and conduct their activities like any other business organisations. This is due to the Malaysian Co-operative Legislation Act 109 (1973), which recognises a co-operative as a corporate entity. It has the power to hold property; to invest, to do and transact business as well as have a willingness to bring prosperity to

¹⁹³ James Pilditch, *Winning Ways, What makes a winning company?*, 1987, pp. 235-238.

¹⁹⁴ Stuart M. Sanderson,, *New Approaches to Strategy: New Ways of thinking for the Millennium*, *Journal of Management Decision* vol. 36, 1998, pp.9-13.

¹⁹⁵ Stewart, T.A, *Intellectual Capital*, Nicholas Brearly Publishing, London, 1997.

rural farmers. Having 45 strategic alliance projects in operation, valued at approximately RM300 million, should provide significant means for farmers' organisations in Malaysia to expand their business and achieve goals entrusted to them by the Act.

However, of the 234 farmers' organisations, which answered the questionnaire, only 112 were profitable during the period 1993-1997. The Profitable Alliance can be categorised under two types of projects:

- (a) 45 alliances: Non-project Based i.e. dealing exclusively on stocks and shares, and
- (b) 67 alliances: Project based.

The remaining, 122 alliances are further categories into three types:

- (c) 9 Non-project Based which chose not to divulge their financial status
- (d) 4 alliances which confirmed losses during 1993-1997
- (e) 109 project based alliances, which also did not wish to divulge their financial status.

The profitability of the alliances is gathered from the profit column of **Part B** of the Questionnaire (A) as attached in Appendix 5. Two specific types of information are evident, i.e. one set from a group of 116 alliances, which were willing to state their profit/lost results and a group of 118 alliances, which preferred not to comment. Of the 116 alliances, which announced their financial position, 4 admitted losses. For the purpose of this study, an alliance which had enjoyed at least one-year of profit, and which did not admit to suffering any losses in preceding years is considered a profitable alliance. It is noted that some of the projects, like plantation projects, although already in operation for several years may have just begun to become profitable in 1995, the year when they last declared their financial figures (at the time of this research).

7.3 DETAILS OF STRATEGIC ALLIANCE PROFITS FROM 1993-97

From 1993-1997, several farmer' organisations reported profits in their strategic alliance activities. The types of strategic alliance projects that brought profits to farmers' organisations can be divided into project-based and non-project based (stock exchange) activities. Stock exchange activities are labelled as project 1 (one) and other Project-based activities as project 2 to project 45. The overall profit is tabulated in Table 7.1 below:

Table 7.1
PERCENTAGE OF ALLIANCES INDICATED PROFIT
BETWEEN 1993-1997

YEAR	NUMBER OF FARMERS' ORGNS.	AMOUNT OF PROFIT/LOSS (RM)	% INCREASE	AV. PROFIT PER FARMERS' ORGNS. (RM)	% INCREASE
1993	48 (42.8%)	2,358,215		49,129.48	-
1994	48 (42.8%)	2,526,208	7.12%	52,629.33	7.12%
1995	91 (81.2%)	4,610,968	82.52%	50,669.98	-3.72%
1996	83 (74.1%)	4,087,810	-11.3%	49,250.72	-2.80%
1997	52 (46.4%)	3,040,268	-25.6%	58,466.69	0.187%
Overall		16,623,469			

Note:

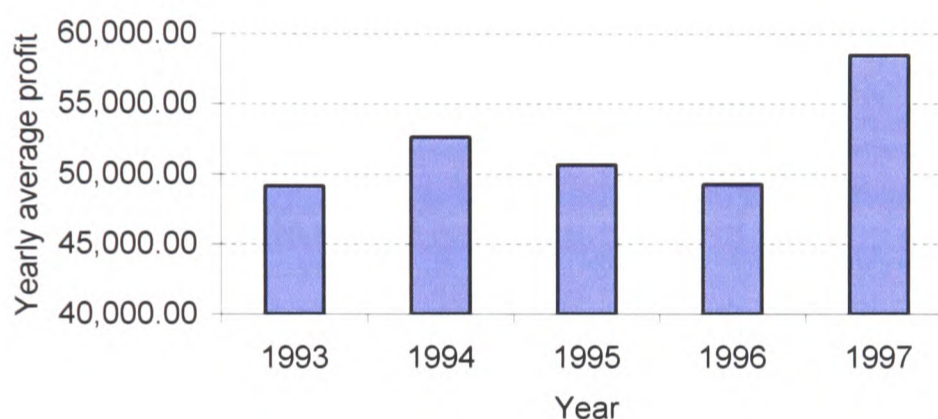
- The above profit figures were based only on the available information through Part B of the Questionnaire (B) and the-controlling organisations such as MADA and Permodalan Peladang Berhad.
- The 1996 and 1997 profits for 26 Farmers' Organisations under MADA were obtained through telephone conversations with the Director of Agricultural Division in MADA, the division that was responsible for the development of these farmers' organisations.
- The above figures did not take into account losses incurred by the four (4) farmers' organisations because they had been grouped into non-profitable alliance.

From the above figures, total profit increased by 7.12% and 82.5% in 1994 and 1995 but decreased by 11.3% and a further 25.6% in 1996 and 1997 respectively. The big jump in profit in 1995 was due to more farmers' organisations' participation in the alliance projects. However, the average profit for every strategic alliance projects fell by 3.72% from 1994. In 1996, both

overall profit and profit per farmers' organisation fell slightly. In 1997, even though the overall profit dropped by 25.6% from that of 1996, the average profit for farmers' organisations strategic alliance projects increased by 0.187%. These trends could clearly be seen as presented in Figure 7.1:

Figure 7.1

YEARLY AVERAGE PROFIT FOR PROFITABLE FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS DURING 1993-1997



There was an increase in the average profit earned by all farmers' organisation involved in the strategic alliance projects in 1997 as compared to those from 1993-1996. The increase in profit could also be seen in the overall financial performance (Profit/Loss) of overall farmers' organisations as tabulated in Chapter 2 (Table 2.10). The high increase in profits from 1997-1998 (20.4%), was on account of the contribution of the strategic alliance projects. The total and average profits earned by MADA, NAFAS and by the ten states are summarised in Table 7.2:

Table 7.2
TOTAL AND AVERAGE PROFIT FOR TEN STATES, MADA AND NAFAS DURING 1993-1997

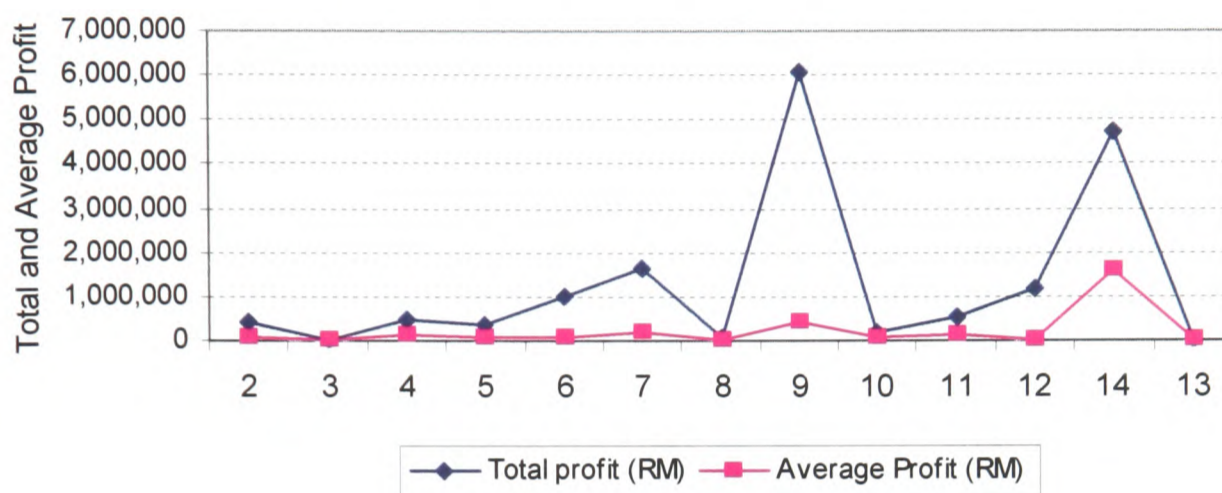
	State	Total profit (RM)	Frequency of Profits	Average Annual Profit (RM)
2	KEDAH	433,119.0	5	86,623.80
3	P. PINANG	15,950.0	3	5,316.67
4	PERAK	462,317.0	4	115,579.25
5	SELANGOR	355,657.0	7	50,808.14
6	N. SEMBILAN	1,001,938.0	2	50,096.90
7	JOHOR	1,616,259.0	10	161,625.90
8	PAHANG	57,422.0	12	4,785.17
9	TERENGGANU	6,080,188.0	15	405,345.87
10	KELANTAN	164,888.0	3	54,962.67
11	MELAKA	502,820.0	4	125,705.00
12	MADA	1,195,794.0	44	27,177.14
14	NAFAS	4,737,116.0	3	1,579,038.70
13	KADA	No Profit	0	-
	Total	16,623,469.0		

Note:

The above figures are summarised from the Part B of the Questionnaire (A) and the details are attached in [Appendix 5](#).

The total profit for every state shows that the State of Terengganu had the highest overall profit for this five-year period. It was followed by NAFAS, the State of Johor, MADA and Negri Sembilan respectively. However, the figures for average profit show that NAFAS had the highest average profit earned followed by Negri Sembilan and Trengganu.

Figure 7.2
TOTAL AND AVERAGE PROFIT EARNED BY FARMERS' ORGANISATIONS STRATEGIC ALLIANCES DURING 1993-1997



Note:

The number indicated identifies the following states:

Kedah	= 2	P.Pinang	= 3	Perak	=4
Selangor	= 5	N.Sembilan	= 6	Johor	=7
Pahang	= 8	Terengganu	= 9	Kelantan	= 10
Melaka	= 11	MADA	= 12	KADA	= 13 (missing)
NAFAS	= 14				

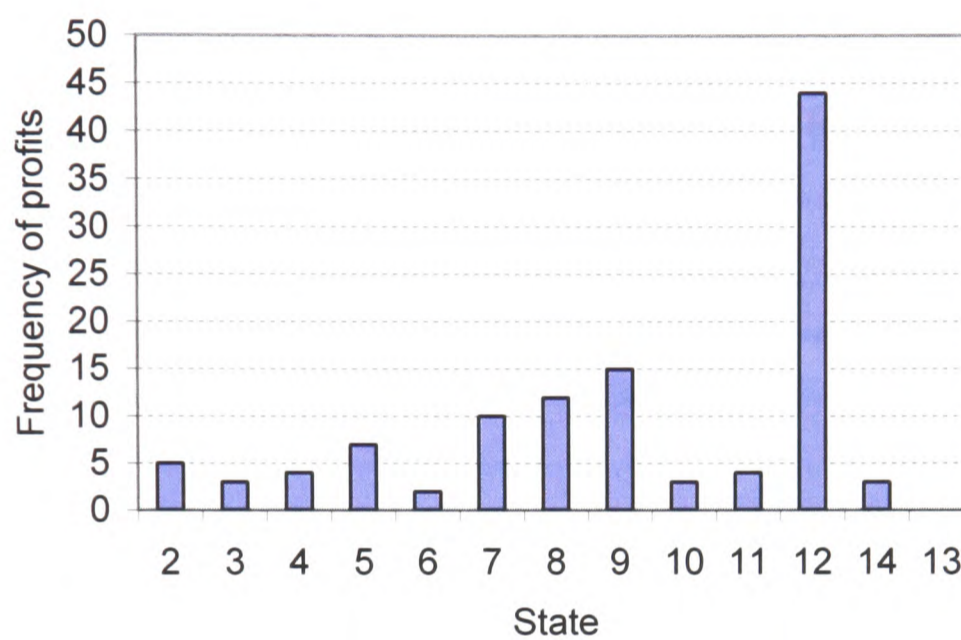
*The above profit does not include retained profit of the related farmers' organisations.

The difference in total and average profit is due to the amount and frequency of profits received by these organisations. NAFAS had only two profitable projects from 1993-1997 but the amount of profit was significant compared to MADA, which had 44 but the values were very much smaller.

Below is the chart that represents the frequency of profits declared by area farmers' organisations in each state for their strategic alliance projects. It appears that farmers' organisations in MADA have received, on the overall, 44 times profit whereas farmers' organisations in Terengganu received 15 times profit even though they had 7.8 times higher profit than MADA's.

Figure 7.3

TOTAL PROFIT FREQUENCY FOR ALL AREA FARMERS' ORGANISATIONS IN EACH STATE DURING 1993-1997



Note:

The number indicated identifies the following states:

Kedah	= 2	P.Pinang	= 3	Perak	=4
Selangor	= 5	N.Sembilan	= 6	Johor	=7
Pahang	= 8	Terengganu	= 9	Kelantan	= 10
Melaka	= 11	MADA	= 12	KADA	= 13 (no profit)
NAFAS	= 14				

The above situation represents the total profit frequency received by all farmers' organisations in every state as a result of their profitable alliance activities. For example, almost 100% of the profit received by farmers' organisations in Terengganu came from Syarikat Perladangan LUTH (Lembaga Urusan Tabung Haji) Sdn Bhd. This joint venture project is between Tabung Haji and Terengganu State Farmers' Organisation as well as several area farmers' organisations within the same state. All partners were directly involved and received benefit (in term of profits) from the same project.

In the case of farmers' organisations in MADA, they were the shareholders of SPPM (Syarikat Perniagaan Peladang MADA) that acted as a holding company to their various subsidiaries and associate companies, it is noted that most of the profits earned by the subsidiaries/associate companies are kept in the holding company, in this case, the SPPM, for future investment. This is normal practice and only a small percentage will be distributed to all shareholders. Therefore, the above profit values can only be used in making relative comparison on the amount of profits earned by farmers' organisations as a result of their strategic alliance activities but not in terms of absolute shareholders market value.

7.4 GENERAL INFORMATION ON THE PROFITABLE ALLIANCE

Overall, more than 73% of all strategic alliances projects are in the form of joint ventures. Even though 83% of the profitable alliances come from joint venture, the project-based activities only account for 71.6%. The rest are stock exchange activities through Permodalan Peladang Berhad. Although the consortium type of alliance represents only 17.8% of the overall strategic alliance activities, 19.4% of profitable alliances are from the consortium's type of arrangement (mainly from the Umbrella Broiler Scheme Projects). More than 95% of the profitable alliances are multi-partner alliances. However, 87.7% of Non-indicated/lost strategic alliance projects are also in the form of joint venture.

7.5 SIGNIFICANT CHARACTERISTICS APPLIED TO DOMESTIC PROFITABLE STRATEGIC ALLIANCE PROJECTS.

Based on the correlation analysis that has been run for every factor in Chapter 6, only suitable factors, which were significantly associated to the success of strategic alliance projects, both to joint ventures and consortium projects, have been taken into consideration. All together 59 factors have been considered under Partner Selection Criteria, Management of Alliance, Environmental factors and Evolution of Alliance. In picking up a factor to be considered as a

characteristic of Profitable Alliances, generally, it needs to have a frequency score of 80% and above (there are several factors with frequency score of above 70% have also been taken into consideration) and frequently it will be based on a case-by-case basis (except in discussing capital structure and market outlet, frequency score does not apply). Below are some of the characteristics possessed by the Profitable Alliances under Malaysian Farmers' Organisations strategic alliances:

7.5.1 CAPITAL STRUCTURE

Eakins (1999)¹⁹⁶ defines capital structure as the mix of debt, equity and preferred stock. Nevertheless, preferred stock is part of a shareholder's equity. In the case of farmers' organisations, the overall capital structure for debt equity ratio of the strategic alliance projects is as follows:

Table 7.3
CAPITAL STRUCTURE OF
FARMERS' ORGANISATIONS STRATEGIC ALLIANCES

Criteria	Overall (RM)	Profit		Non-indicated (RM)	Lost (RM)
		Project-based (RM)	Non-project Based		
Own Capital	57,000,000 (51.2%)	32,000,000 (90.2%)	25,000,000 (87.7%)	24,000,000 (34.3%)	330,000 (6.2%)
Borrowed Capital	54,393,283 (48.8%)	3,486,700 (9.8%)	0	45,945,000 (65.7%)	4,961,583 (93.9%)
Ratio Loan: Capital	0.95 : 1.0	0.10 : 1.0	0 : 1.0	1.9 : 1.0	15.0 : 1.00

¹⁹⁶ Stanley G. Eakins, Finance Investment, Institutions, Management, The Theory of Capital Structure, 1999, pp. 309-323.

The overall debt-equity/debt-capitalisation ratio (the ratio between borrowed and own capital) is **0.95:1.0**. This is almost 1 to 1 ratio. However, if closely examined, both Profitable Alliances have very low debt to capitalisation ratio i.e. **0.10:1.00** for Project-based Profitable Alliance and **0:1.00** for the Non-project Based. These give them the opportunity to operate with low gearing. Meanwhile, both Non-indicated and lost Alliances have higher debt to capitalisation ratio i.e. **1.9:1.0** and **15.0:1.00** respectively.

In discussing the target capital structure for firms, Eakins developed the idea that the goal of a financial manager/management is to maximise firm value through optimal capital structure. The value of the firm is the present value of the cash flow. Therefore, he concluded that, the goal of management included finding the combination of debt, equity and preferred stock that minimises the weighted average cost of capital after tax. The optimal combination was presumed to be the firm's target capital structure. Nevertheless, he mentioned in a survey of Fortune 1,000 firms, financial managers reported that their firm's target long-term debt to total capitalisation¹⁹⁷ ratio ranged between 26% and 40%. Most had targeted ratio between 26% and 30%. In most cases, the normal accepted ratio are 50% debt and 50% capitalisation or commonly known as 1:1 ratio basis.

In the case of farmers' organisations, even though the overall ratio for debt to total capitalisation is nearly 1.0:1.0, but for both Profitable Alliances the ratio for debt to total capitalisation is much lower than the normal and acceptable ratio of capital structure by most firms as discussed by Eakins. In the case of Non-indicated and Lost Alliances, the ratio of debt to total capitalisation is much higher than the normal ratio, although according to Eakins, it may not cost the firm very much if a firm has the wrong capital structure. This is because most

¹⁹⁷ Ibid. Eakins (1999), Total Capitalisation is defined as Long-term debt + Preferred Stock + Common equity.

experts believe that the relationship between capital structure and firm value is flat. Eakins also mentioned that Merton Miller and Franco Modigliani¹⁹⁸, in their theory of capital structure, carefully explained that the value of the firm would not be changed by how assets are distributed between bondholders and stockholders. Rather, the value of the firm is based on the earning power of its assets.

However, at some point the increase of debt causes investors to perceive the firm as high risk because the cost of debt and equity both rise. Since among others, gross profit, net margin, profitability, earning and dividend per share are the measurement of a firm's value, the ability of firms to churn maximum profit with the right capital structure is very important. Based on his analysis, Eakins did suggest that the Optimal Capital structure is 40% debt and 60% equity (2:3) because at this point it provides the lowest possible weighted average cost of capital after tax. Based on the Optimal Capital Structure suggested by Eakins, the Non-indicated and Lost Alliances are on the high side of debt to capitalisation ratios.

7.5.2 MARKET OUTLETS

Market outlets for farmers' organisations strategic alliances can be divided into two (2) categories i.e. government and open markets.

7.5.2.1 GOVERNMENT MARKET

¹⁹⁸ Ibid. Stanley G. Eakins (1999), Finance Investment, Institutions, Management, The Theory of Capital Structure, pp. 315.

Table 7.4
**PERCENTAGE OF GOVERNMENT MARKET OUTLETS
 FOR STRATEGIC ALLIANCE PROJECTS**

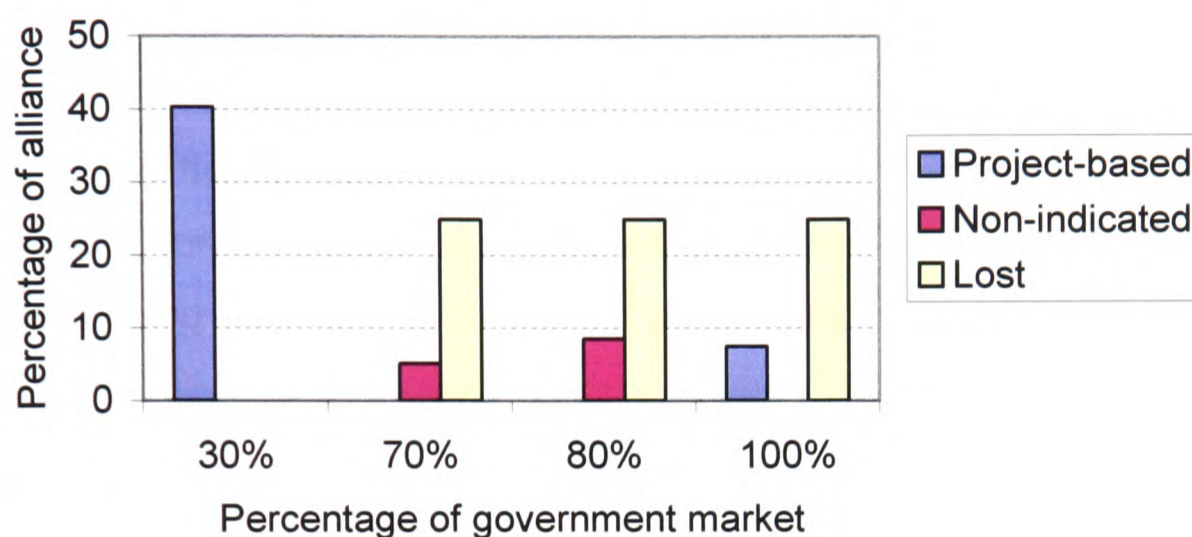
Types of alliances	Percentage of Government Market.			
	30%	70%	80%	100%
Project-based	40.3	-		7.5
Non-indicated	-	5.1	8.5	-
Lost	-	25.0	25.0	25.0

Note:

- I. Only percentages that have value of around 5% and above are taken into consideration.
- II. PB = Project-based Profitable Alliance (67 alliances) and Non Project-based Profitable alliance (45 alliances), NI = Non-indicated Alliance (118 alliances), Lost = Lost Alliance (4 alliances).
- III. Non Project-based Profitable alliance (45 alliances) is dealing exclusively on stocks and shares and 100% on open market.

Table 7.4 shows that 40.3% and 7.5% of Projects-based Profitable Alliance sold their products through 30% and 100% government market outlets respectively. Lost alliance also relies heavily on Government market with 25% of them each selling their product through 70%, 80% and 100% of that market. More than 76% the Project-based Profitable Alliance were formed before the 1990's (Umbrella Broiler Scheme was formed in 1985) and this backdrop that gave them the privilege to receive assistance from the Government through the implementation of the New Economic Policy. In the case of Non-indicated Alliance only 5.1% and 8.5% of them sold their product to 70% and 80% Government market. Bearing in mind that nearly 85% of them were established after 1990, it shows that projects formed after 1990 were more independent in as far as choosing their market outlets are concerned. The percentage of Government market outlets for strategic alliance projects can be better viewed in Figure 7.4.

Figure 7.4
PERCENTAGE OF GOVERNMENT MARKET FOR STRATEGIC ALLIANCE PROJECTS



These are the result of Government effort in helping small farmers in rural areas to increase their level of income. It is therefore reasonable to deduce that the success of the Project-based Profitable Alliance depends a great deal on the help of the government market as opposed to that of the Non-indicated Alliance.

7.5.2.2. OPEN MARKET

Table 7.5
PERCENTAGE OF OPEN MARKET OUTLETS FOR STRATEGIC ALLIANCE PROJECTS

	Percentage of Open Market.			
	20%	30%	70%	100%
Project-based	-	-	38.8	26.9
Non Project- based	-	-	-	100.00
Non-indicated	8.5	5.1		56.8
Lost	25.0	25.0	-	25.0

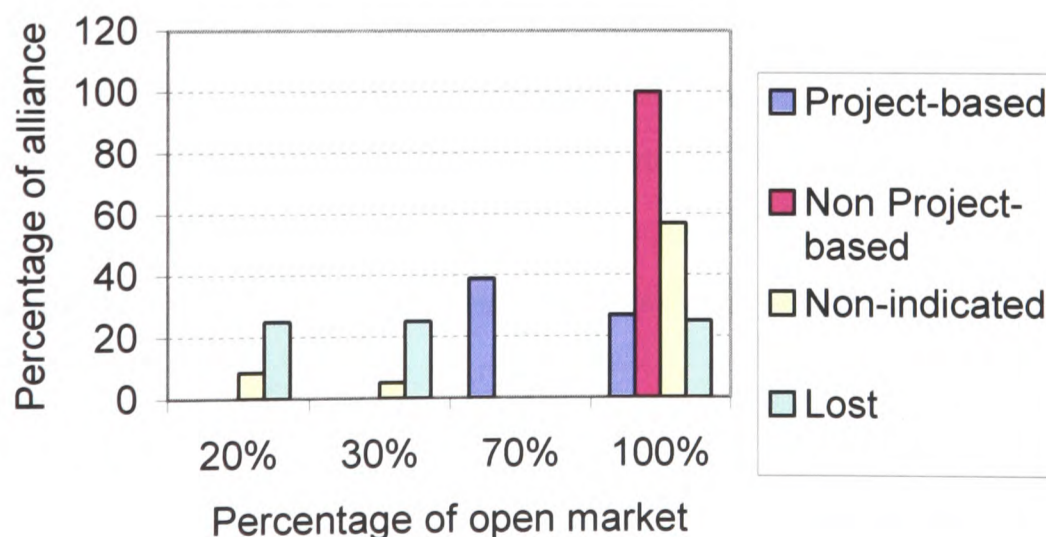
Note:

- I. Only percentages that have value of 5% and above are taken into consideration.
- II. PB = Project-based Profitable Alliance (67 alliances) and Non Project-based Profitable Alliance (45 alliances), NI = Non-indicated Alliance (118 alliances), Lost = Lost Alliance (4 alliances).
- III. Non Project-based Profitable Alliance (45 alliances) is dealing exclusively on stocks and shares and 100% on open market.

Table 7.5 shows the various categories of alliance that market their products to open market. Non Project-based Alliance tops the list with 100% of their customers coming from the open market as it deals exclusively on stock and shares. This is followed by Non-indicated Alliance at 56.8%, Project-based and Lost Alliances make up the rest of 26.9% and 25.0% respectively to have 100% their products for open market outlets. The success of the Non Project-based and Non-indicated Alliances, however, depends a great deal on their achievement to penetrate and sustain in the open market. Details of open market percentage for strategic alliance projects are better viewed in Figure 7.5 below:

Figure 7.5

OPEN MARKET OUTLETS FOR STRATEGIC ALLIANCE PROJECTS



Reliance on 100% open market outlets for total sales provides companies with great marketing challenges albeit higher business risks, especially for the less experienced. This is typical for the Non Project-based and Non-indicated Alliance (of which 100% and nearly 85% of them respectively) that were formed in the 1990's. Both of them have low percentage on government market as opposed to the open market. This poses a real test and challenge to the parent organisations (farmers' organisations) to become competitive private institutions with less/without government's safety net. It is through broad exposure on business culture as well as sharing experience amongst management since the establishment of farmers' organisations more than 25 years ago, which are contributing to the success of their strategic alliances.

Additionally, since 1976 (except for 1985, 1986, 1998 and 2001) Malaysia's Growth Domestic Product (GDP) at purchasers' value (constant price) started to exceed more than 5% per annum. This provides additional and increased purchasing power to the people, which in turn lead to increase demand on goods and services. Nearly 800,000 farm families (as at August 1999¹⁹⁹) acted not only as producers but also as consumers in supporting farmers' organisations business venture including their strategic alliance projects. As producers, they participate in farmers' organisation projects as smallholders, orchid producers, padi planters, food processors and distributors amongst others. However, these farm families also possess consumer purchasing power that help purchase most of the products produced by farmers' organisations thereby creating a favourable spill over effect out of these activities.

¹⁹⁹ Ibid. Farmers' Organisation Authority, Briefing to The Minister of Agriculture, 2000.

7.5.3 PARTNER SELECTION CRITERIA

With the type of capital structures and market outlets for the Profitable Alliance mentioned above, below are some of the Partner Selection Criteria that are preferred by the strategic alliances' parent organisations in choosing their alliance partner(s), Table 7.6.

Table 7.6

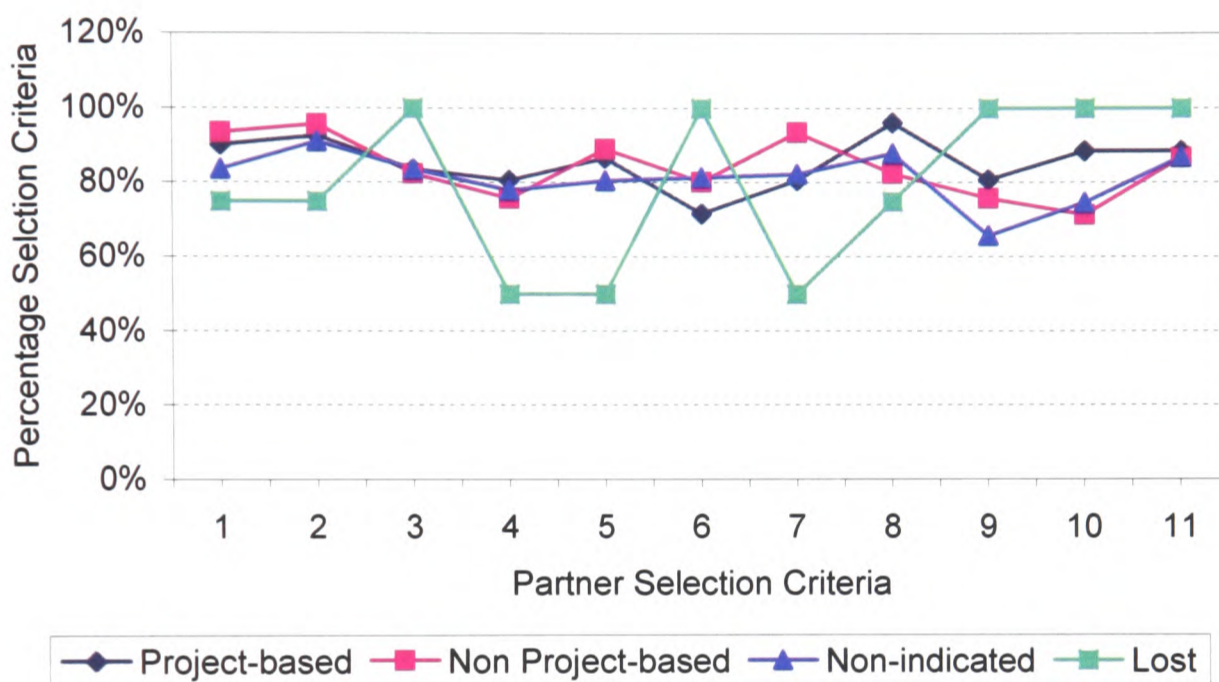
**PARTNER SELECTION CRITERIA OF PROFITABLE ALLIANCES
DURING THE FORMATION PERIOD**

	PARTNER SELECTION CRITERIA	Profitable		Non-indicated	Lost
		Project-based	Non Project-based		
Q4	The selection of partner(s)				
(a)	the partner(s) have compatible visions	90.1%	93.3%	83.6%	75%
(b)	all partners perceive that they will have mutual gain and balance benefits	92.5%	95.5%	91.0%	75%
(c)	they have complementary resources	83.6%	82.3%	83.6%	100%
(d)	there are synergies in working together	67.2%	77.7%	79.6%	100%
(e)	their culture compatible with each other	80.6%	75.6%	77.9%	50%
Q5	Positive attitude				
(c)	strong commitment by top management	86.6%	88.9%	80.5%	50%
(d)	strong commitments at staff levels	71.6%	80.0%	81.4%	100%
(e)	mutual trust	80.6%	93.3%	82.2%	50%
Q6	Strategic Plan				
(a)	Business plan has been agreed to.	96.1%	82.3%	87.8%	75%
(b)	Business plan has been implemented accordingly.	80.7%	75.6%	65.6%	100%
(c)	Main competitors have been established.	88.4%	71.2%	74.6%	100%
(d)	Market potential has been identified.	88.4%	86.6%	86.9%	100%

The above table can be better viewed in Figure 7.6 below:

Figure 7.6

PARTNER SELECTION CRITERIA FOR PROFITABLE ALLIANCES DURING FORMATION OF ALLIANCE



Note:

Partner Selection Criteria:

- 1 = The Selection of partner(s) (the partner(s) have compatible visions).
- 2 = The Selection of partner(s) (all partners perceive that they will have mutual gain and balance benefits).
- 3 = The Selection of partner(s) (they have complementary resources).
- 4 = The Selection of partner(s) (their culture compatible with each other).
- 5 = Positive Attitude (Strong commitment by top management)
- 6 = Positive Attitude (Strong commitments at staff levels)
- 7 = Positive Attitude (Mutual trust)
- 8 = Strategic Plan (Business plan has been agreed to)
- 9 = Strategic Plan (Business plan has been implemented accordingly).
- 10 = Strategic Plan (Main competitors have been established).
- 11 = Strategic Plan (Market potential has been identified).

The above chart shows that the parent organisations for Profitable (Project-based and Non Project-based) and Non-indicated alliances generally have the same pattern of opinions on Partner Selection Criteria during the formation

period whilst Lost Alliance have a contrasting opinion pattern regarding the same matter. The above situations were due to several reasons as discussed below:

Almost all groups i.e. 90% and above frequency score, agreed that having the right reason to select a partner(s) is a vital factor and this is translated when they perceive they can have mutual gain, balance benefits and compatible visions. More than 80% of them however agreed that complementary resources and cultural compatibility are important factors when choosing their partner(s). A "win-win" situation is needed for all strategic alliance to achieve fundamental fitness²⁰⁰. Nevertheless, the Lost Alliance i.e. 75% frequency score (of which 75% of them are from consortium type of alliance projects) are inclined to believe that their partners in business do not necessarily bring them mutual gain and balance benefits. They also do not need compatible vision. This is because all related farmers' organisations in the Umbrella Schemes need to serve different supply areas; therefore, they have to perform their best, individually.

Furthermore, this could be seen through the implementation of the Umbrella Broiler Schemes, which as claimed by consortium members, were implemented differently in different states by Farmers' Organisations Authority. There is no uniformity in the contract system of farm input and buying of chickens and at the same time, the system is not based on profit maximisation due to failures in reducing operational and management costs. It is also noted that NAFAS (National Farmers' Organisation) has no direct authority to supervise and manage all the activities as discussed in greater detail in Chapter 8.

Profitable Project-based and Non Project-based as well as Non-indicated Alliances chose strong commitment by top management and mutual trust as

²⁰⁰ Ibid. Christoph Bronder and Rudolf Pritzl, Developing Strategic Alliance, European Management Journal, 1992, vol. 10, pp.412-421.

their Partner Positive Attitude i.e. more than 80% frequency test, but needed less strong commitment at staff levels. The lost alliances have chosen strong commitment at staff level i.e. 100% frequency test, more than the need of strong commitment by top management (only 50% frequency test). This is because 75% of the lost alliances are involved in the Umbrella Scheme that need full co-operation and commitment from staff levels in order to make the scheme work. All alliances have a positive attitude towards mutual trust except the lost alliances, which to a certain extent can work independently from the consortium members. They have their own farmers and specific areas to supply their product.

The Project-based Profitable Alliance strongly believes that a business plan must be agreed upon at the beginning of the partnership. From interviews conducted during the fieldwork, it became evident that these organisations had realised the need for careful preparation be made before a Project-based Alliance could be formed. This includes conducting a thorough feasibility study, identifying project location, choosing suitable technology amongst others. Besides that, as an example, Project-based Alliance that have 38.8% of the projects fall under Syarikat Perniagaan Peladang MADA (SPPM), that was initially involved in importing fertilisers and distributing chemicals, pesticide and agricultural appliances. It is now active in distributing consumer goods, landscaping, rental property as well as supplying treated water for industrial and domestic use.

It is indeed appropriate that the need to have a business plan (being implemented accordingly) and market potential identified under a Strategic Plan, obtain high frequency scores. The Non Project-based Alliance that deals exclusively on stocks and shares, however, will have to rely more on current and future direction of the world economy. If we carefully observe, even Lost Alliance also subscribe to the strong belief that Strategic Plan is important to

them, which only goes to show that having a Strategic Plan is a must to all business entities.

Selection of Partner(s) as reflected in the Partner Selection Criteria should be based on compatible visions, mutual gain and balance benefits, complementary resources and cultural compatibility. Strong commitment by top management and mutual trust represents Positive Attitude whilst agreed business plan during the formation period, right implementation of the business plan, identification of competitors and market potential are important characteristics complementing the Strategic Plan. It is suggested that all twelve factors under the Partner Selection Criteria appear to mirror the characteristics of the Domestic Profitable Alliances by Malaysian Farmers' Organisations. That notwithstanding, David Faulkner²⁰¹ is however of the opinion that the most common factors for selecting each other are i) complementary assets/resources, ii) the existence of synergy between the companies', iii) approximate balance in size and strength and iv) compatible cultures, as discussed in Chapter 6.

7.5.4 ALLIANCE MANAGEMENT

Within the context of the current study, strategic alliance management model is divided into Workable Organisational Arrangements and Integrative Strategic Management (as explained in Chapter 6). Since only factors under the Integrative Strategic Management had significantly been associated to alliance effectiveness, the analysis will therefore focus only on these related factors. The Integrative Strategic Management normally involves four phases of evolution as stipulated in Table 7.7:

²⁰¹ Ibid. David Faulkner, *International Strategic Alliance*, pp. 63-64.

Table 7.7
INTEGRATIVE STRATEGIC MANAGEMENT PHASES
AND GROUP OF ALLIANCE INVOLVED

Q7	Type of Alliance Management	Profitable		Non-indicated	Lost
		Project-based	Non Project-based		
(a)	Financial Planning (budget setting which is based on cost and profit)	14 (20.9%)	6 (13.3%)	21 (17.8%)	1 (25.0%)
(b)	Forecast Based Planning (Financial Planning that is supplemented by long term planning)	7 (10.4%)	11 (24.4%)	16 (13.6%)	-
(c)	Environmental Planning (long term planning with special attention given to macro-economics, socio-demographic and technological trends)	20 (29.8%)	6 (13.3%)	28 (23.7%)	-
(d)	Integrative Strategic Management (which covers not only long term and environmental planning but also formulating ideas and taking appropriate action which can lead to a sustainable competitive advantage)	26 (38.8%)	22 (48.8%)	53 (44.9%)	3 (75.0%)

Note:

To determine the percentage of the sub-heads in the Integrative of Strategic Management, all the figures have been divided by the amount of strategic alliance involved in that particular group. For example, frequencies for Project-based Alliance figures have been divided by 67 alliances before the percentages were derived. The same method was also applied to ascertain the percentages for the Non Project-based, Non-indicated and lost Alliances whereby each of them has been divided by 45, 118 and 4 alliances respectively.

The statistical difference, in percentage terms, between the management phases experienced by each of the four strategic alliance groups is minimal. Only Lost Alliance has a relatively high percentage on Integrative Strategic Management. Meanwhile, the Project-based Profitable Alliance has lower percentages in Forecast Based (7%) and Financial Planning (14%) but quite reasonable percentages in Integrative Strategic management (38.8%) and

Environmental Planning (20%). Nearly 50% of the Non Project-based Alliance practices Integrative Strategic Management and less than 15% of them in each category carry out Financial, Environmental and Forecast Based Planning. Meanwhile, nearly 50% of Non-indicated Alliance practices Integrative Strategic Management whilst the other 50% practices Financial, Environmental and Forecast-based Planning. As for Project-based and Non-indicated Alliances almost 30% of them pursue Environmental Planning but will soon graduate to Integrative Strategic Management style of management because Environmental Planning is in essence, entail long term planning with special attention given to macro-economic, socio-demographic and technological trends. It can then move to the Integrative Strategic Management Phase if appropriate actions, which can lead to a sustainable competitive advantage²⁰² are taken. This however depends on the capacity of the firms to achieve, amongst others, improved quality and / or greater efficiency.

7.5.5 INTEGRATIVE STRATEGIC MANAGEMENT

Several components of Integrative Strategic Management that are significantly associated to strategic alliances effectiveness are listed in Table 7.8 below:

²⁰² Michael E. Porter, *The Structural Analysis of Industry, Competitive Advantage of Nations*, 1990, pp.1-6 defines Sustainable Competitive Advantage as the ability to attain a high and rising level of productivity in the industries in which it competes.

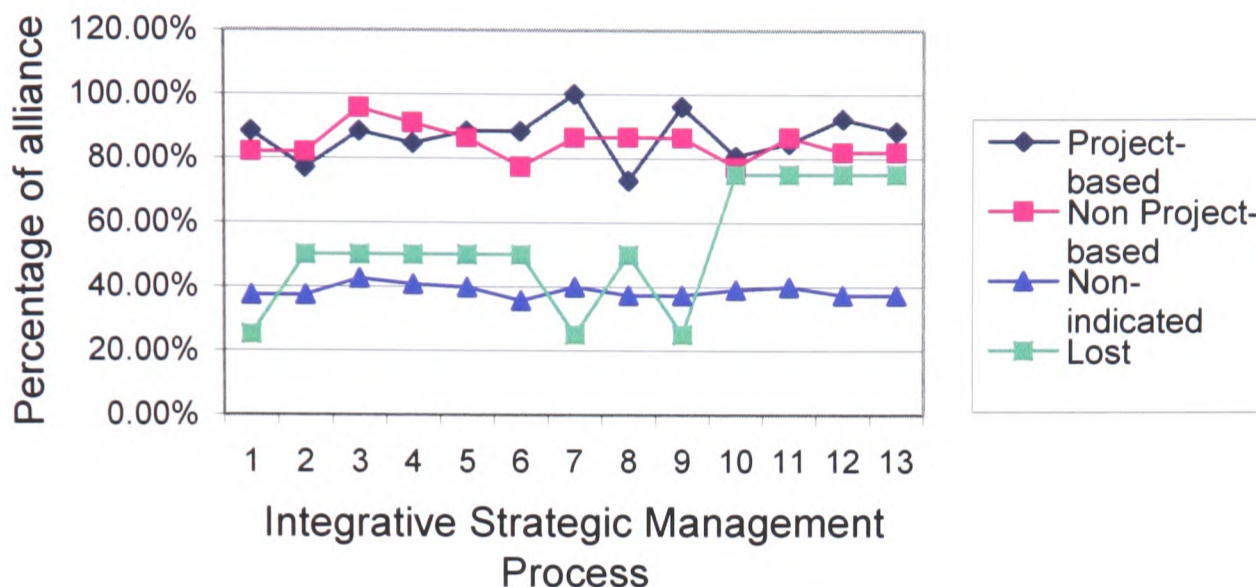
Table 7.8
INTEGRATIVE STRATEGIC MANAGEMENT VARIABLES THAT HAVE CONTRIBUTED TO THE SUCCESS OF PROFITABLE ALLIANCE

Q9	Integrative Strategic Management	Profitable Alliances		Non-indicated	Lost
		Project-based	Non Project-based		
(a)	Objectives setting				
i	broad representation from all the relevant sections of the organisation	88.4%	81.8%	37.3%	25.0%
ii	active participation by top management	76.9%	81.8%	37.3%	50.0%
(b)	Strategic programming ₁				
I	Formulated with great care.	88.4%	95.5%	42.4%	50.0%
ii	Receiving strong support and co-operation by all executives concerned.	84.6%	90.9%	40.7%	50.0%
(c)	Strategic Budgeting				
I	competent managers	88.4%	86.3%	39.8%	50.0%
li	suitable technology	88.4%	77.3%	35.6%	50.0%
iii	sufficient funds	100%	86.3%	39.9%	25.0%
(d)	Strategic Control				
I	active participation in planning	73.0%	86.4%	37.3%	50.0%
ii	board representation	96.1%	86.3%	37.3%	25.0%
(e)	Competent personnel have been assigned to appropriate tasks.	80.7%	77.3%	39.0%	75.0%
(f)	Appropriate personnel have been assigned to appropriate tasks.	84.6%	86.4%	39.9%	75.0%
(g)	The following are made available to implement the development of the strategic alliance:				
I	sufficient human resources	92.3%	81.8%	37.3%	75.0%
ii	sufficient time allocated	88.4%	81.8%	37.3%	75.0%

The above table is better viewed through the chart in [Figure 7.7](#) below:

Figure 7.7

THE IMPLEMENTATION OF INTEGRATIVE STRATEGIC MANAGEMENT PROCESS ON STRATEGIC ALLIANCE PROJECTS



Note: Integrative Strategic Management factors that have significant association to alliance effectiveness are as follows:

- 1 = Objective Setting (Broad representation from all the relevant sections of the organisation).
- 2 = Objective Setting (Active participation by top management)
- 3 = Strategic Programming (Formulated with great care).
- 4 = Strategic Programming (Receiving strong support and co-operation by all executives concerned).
- 5 = Strategic Budgeting (competent managers).
- 6 = Strategic Budgeting (suitable technology).
- 7 = Strategic Budgeting (sufficient funds).
- 8 = Strategic Control (active participation in planning).
- 9 = Strategic Control (board representation)
- 10 = Competent personnel have been assigned to appropriate tasks.
- 11 = Appropriate personnel have been assigned to appropriate tasks.
- 12 = Human Resources (sufficient human resources are made available)
- 13 = Human Resources (sufficient time allocated).

The above chart shows that the Project-based and Non Project-based Profitable Alliances have the same Integrative Strategic Management Process with the percentage ranging between 73%-100% as opposed to the Non-indicated and Lost Strategic Alliances, which have very low implementation level. It is evident from the above figures, that the implementation of the Integrative Strategic Management Processes is quite instrumental to the success of strategic alliance projects under the Profitable Alliance.

Both Project-based and Non Project-based Profitable Alliances have more than 80% score in broad representation from all the relevant sections to set the objectives of the alliances. In this case the Project-based Profitable Alliance has a higher score at 88.4% to that of 81.8% for the Non-project Based alliances. In order to feel that the project belongs to them, it is important to have broad representation from all relevant sections during the process of objective setting. From the beginning, a sense of responsibility has to be created in order for them to realise that the success or failure of the projects depends entirely on them. At this juncture however, both types of Profitable Alliances feel that strong commitment of top management during the objective setting is more important than their active participation in Partner Positive Attitude during the formation period.

Project-based and Non Project-based Alliance place Strategic Programming as indeed important process as indicated by the frequency score, which are in excess of 80% and 90%, respectively. Specific programmes need to be formulated with great care and must receive strong support and co-operation by all executives concerned. It seems that the Non-indicated and Lost Alliances do not really place a strong emphasis on this process.

In Strategic Budgeting, Both Profitable Alliance managers emphasise more on the importance of suitable technology (88.4%) as compared to the Non-indicated (35.6%) and Lost Alliances (50%). The same pattern is noted to having sufficient funds. The Project-based Profitable Alliance gives 100% support to the importance of having sufficient funds being allocated for proper project implementation. Having sufficient human resources (92.3%) is also highly rated, as they are needed to implement and manage chosen projects although advance technology is expected to reduce human contribution. Their competency will be developed through working experience, attending suitable

courses and hands-on training. Meanwhile, the Non Project-based Profitable Alliance (which involved in stock exchange activities) prefers appropriate personnel (86.4%) and competent managers (86.3%). This implies that alliances in the 1990's have to speed up efforts to have and place the right people in the right places, be efficient and competitive in order to meet challenges ahead.

Both Profitable Alliances have their Strategic Control through the representation of board of directors and active participation in planning. It is quite normal for the more stable alliances (Profitable Alliance) to have their Strategic Control through representation on the board of directors. It is not only the question on votes that matters but also the ability of the representative to influence other board members on important issues²⁰³. However, this approach may not be suitable for long-term evolution of alliances especially to overcome external challenges that may occur from time to time. In the long run, a more pragmatic approach may be necessary to resolve urgent matters and make quick business decisions. It is also important for Profitable Alliance to get more involved in important management activity of alliances such as through active participation in planning. This will make the parent organisations more aware of any problem that needs immediate attention, be more responsive, and whenever required, directly involved in important matters of day-to-day running of the alliances.

In the case of joint venture companies, Jean (1988)²⁰⁴ however recommended several ways to minimise potential problems in management, such as by having clear policies governing parental intervention, being diplomatic, having governance of the manager and arrangements for resolving disagreements.

²⁰³ Jean-Louis Schaan, How to Control a Joint Venture Even as a Minority Partner, *Journal of General Management*, 1988, vol.14, No.1, 435-446.

²⁰⁴ Ibid. Jean –Louis Schaan (1988), How to Control a Joint Venture Even as a minority partner

Given the aforementioned, it is therefore suggested that these processes are the characteristic of the Domestic Profitable Alliance under the Malaysian Farmers' Organisations.

7.5.6 THE EVOLUTION OF ALLIANCE

The important evolution variables of Profitable Alliances could be examined through Table 7.9:

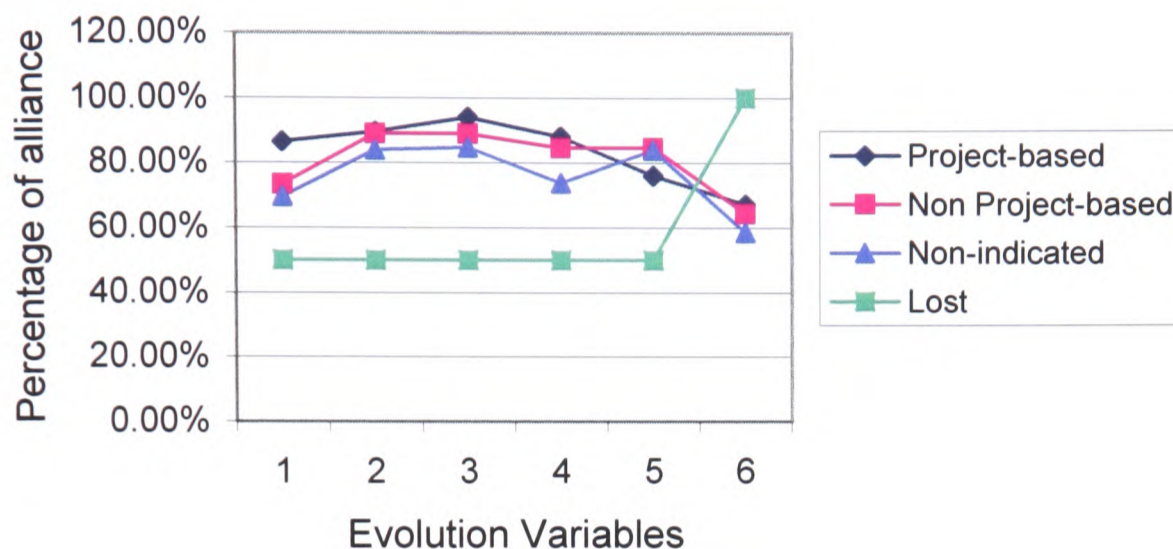
Table 7.9

THE EVOLUTION VARIABLES OF STRATEGIC ALLIANCE

	THE EVOLUTION OF ALLIANCE	Profitable Alliance		Non-indicated	Lost
		Project-based	Non Project-based		
Q16	Evolution Factors				
(a)	Strong bonding factors help the partners to:				
i	successfully overcome external challenges	86.5%	73.3	69.5%	50%
ii	developed a single culture comprising the best (culture) from all the partner (s)	89.5%	88.9	83.9%	50%
iii	developed good reputation among them	94.0%	88.9	84.7%	50%
(b)	Organisational Learning				
	The partner(s) are adopting a philosophy of constant learning and agreed that they have learned / benefited from the alliance	88.0%	84.5	73.8%	50%
Q17	The alliance is constantly evolving, it can be seen through the following event:				
(c)	The alliance is constantly adjusting to change	76.1%	84.5	83.9%	50%
Q20	The reputation of the alliance is good and well accepted by the industry	67.2%	64.4	58.5%	100 %

The above figures can be better viewed in Figure 7.8 below:

Figure 7.8
THE EVOLUTION OF ALLIANCE



Note:

Characteristic of profitable alliance evolutionary pattern could be examined through the following factors:

- 1 = Bonding Factor (successfully overcome external challenge).
- 2 = Bonding Factor (developed a single culture comprising the best (culture) from all the partner(s)).
- 3 = Bonding Factor (developed good reputation among them).
- 4 = Organisational Learning (the partner(s) are adopting a philosophy of constant learning and agreed that they have learned / benefited from the alliance).
- 5 = Constantly Evolving (the alliance is constantly adjusting to change).
- 6 = The reputation of the alliance is good and well accepted by the industry

The above chart shows that both Project-based and Non Project-based Profitable Alliances have almost similar evolutionary pattern. The frequency score for evolution variables ranges from 73.1% to 94.0% (except for the reputation of alliance within the industry whereby the frequency score is less than 70%). However, a slightly lower range of frequency score i.e. 58.5% to 84.7% occurred in Non-indicated Alliance. It is in contrast with evolutionary variables pattern for Lost Alliance where the frequency scores jumped from 50% for factor 1-5 to 100% for factor 6. On this basis, it is therefore reasonable to regard Profitable Alliances' evolutionary patterns as mentioned above, as a characteristic of Profitable Alliance. This includes the ability of Profitable Alliance to constantly adjust to change even though the Non-indicated Alliance

has a higher score as compared to the Project-based Profitable Alliance. It is deemed that the 84.5% and 76.1% frequency scores earned by both Non Project-based and Project-based Profitable Alliances respectively are fairly satisfactory (strong reflection) as a strong characteristic of Profitable Alliance.

Incorporated in the success characteristics of the Profitable Alliance are the bonding factors i.e. successfully overcoming external challenges, developing a single culture and developing a good reputation among them as well as organisational learning i.e. adopting a philosophy of constant learning. Both Profitable Alliances have strong bonding factors that help them successfully overcome external challenges especially in the Project-based Alliance (86.5%) as compared to Non-indicated and Lost Alliances (68.8% and 50% respectively). As a result, they have developed good reputation among themselves.

Both of the Profitable Alliances (88.0% for Project-based and 84.5% for Non Project-based Alliances) also adopt a stronger philosophy of constant learning as compared to the Non-indicated and Lost Alliances (73.8% and 50% respectively). Stuart (1998)²⁰⁵ in discussing the new ways of thinking for the millennium stated that the learning organisation as an organisation, places a high premium on innovation. Innovation has been seen as a major basis of competitive advantage and it is now recognised that innovation needs to be continuous and to be done quickly in order to reduce time from thought to customer satisfaction.

In the evolution process, when compared to the Non-indicated Alliance, the Project-based Profitable Alliance and the Lost Alliance have less flexibility as far

²⁰⁵ Ibid. Stuart M. Sanderson, *New Approaches to Strategy: New Ways of thinking for the Millennium*, *Management Decision*, vol. 36, 1998, pp.11.

as the constantly adjust to change is concerned. This is due to the fact that most of the agricultural project-based (including the Lost Alliance projects) take a long time to achieve maturity period and is therefore is not sensitive to change within a short period of time.

7.5.7 ROLE OF EXTERNAL FACTORS

Normally, external factor is a part of the environmental factors but just for the purpose of easier understanding by the farmers' organisations managers', the external factor is defined as outside factors that have day-to-day business dealings with the alliances, such as input suppliers and customers. Environmental factors are defined as factors that, from time to time, will influence the policy and alliance business direction such as government policies, international events, political and technological advancement.

It should be noted that external and environmental factors take the same meaning as microenvironment and macro environment factors as defined by Kotler (1987)²⁰⁶. He defines that Microenvironment consists of factors in the company's immediate environment that affects its ability to serve its market such as suppliers, market intermediaries, customers, competitors, the public and others. The macro-environment consists of the larger social forces that affect all the actors in the alliances microenvironment such as economic, political, technological and cultural forces. Below are views / opinions of parent organisations on the performance of some external factors that may influence the overall performance of certain group of alliances, Table 7.10:

²⁰⁶ Philip Kotler, Marketing Management: Analysis, Planning and Control, Nine Edition, The Marketing Environment, 1987, pp.76-120.

Table 7.10
ROLE OF EXTERNAL FACTORS IN INFLUENCING
THE PROFITABLE STRATEGIC ALLIANCES

	Role of External Factors	Profitable Alliance		Non-indicated	Lost
		Project-based	Non Project-based		
Q10	Partner (s) full/maximum co-operation	80.5%	73.4%	72.9%	50%
Q11	Customers Regular Payment				
(a)	government institutions	73.1%	-	62.8%	75%
(b)	non-government institutions	52.2%	-	54.2%	75%
(c)	open market	53.7%	-	62.7%	75%
Q14	Related farmers provide output to alliances:				
(a)	the right quality	73.3%	-	37.9%	66.7%
(b)	the right quantity	73.3%	-	37.9%	66.7%
(c)	the right time	86.6%	-	48.2%	66.7%

Note:

- Figures for Q11-Q14 only cover Project-based Profitable Alliance because the Non Project-based Alliance (project 1) is not required to answer the above questions. It is because project one (1) is dealing with stock exchange activities and therefore it does not have suppliers or Government departments to deal with. Therefore, only figure from Q10 will be discussed for the Non Project-based Profitable Alliance.

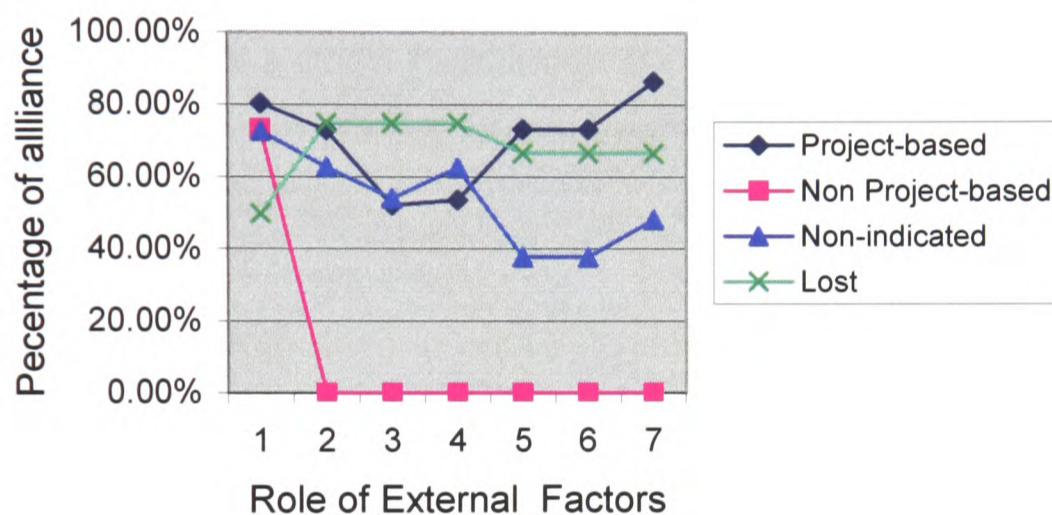
Environmental factors (micro and macro) are not a characteristic of the Profitable Alliance. Nevertheless, it does help to influence the business performance of alliances. It is recognised that no alliance could exist alone but will act as part and parcel of one purchasing and supply chain²⁰⁷ for certain products in a given industry. This notwithstanding, an alliance is a buyer of certain inputs as well as a seller of certain out-puts that become inputs to other alliances. It means, improvement of alliances' relation and commitment to their environment will help to enhance and develop better co-operation amongst them, which will lead them to become good paymasters (when acting as

²⁰⁷ John Ireland), Introduction to Purchasing and Supply Chain Management, The Chartered Institute of purchasing & Supply, 1998, pp. 1-5.

customers) as well as reliable suppliers.

The above figures are represented in the following chart, Figure 7.9:

Figure 7.9
ROLE OF EXTERNAL FACTORS IN INFLUENCING THE PROFITABLE STRATEGIC ALLIANCES



Note:

Role of External Factors

- 1 = Partner (s) full/maximum co-operation
- 2 = Customers Regular Payment (government institutions).
- 3 = Customers Regular Payment (non-government institutions).
- 4 = Customers Regular Payment (open market).
- 5 = Output (the right quality).
- 6 = Output (the right quantity).
- 7 = Output (the right time).

In the case of farmers' organisations, better co-operation received by both Profitable Alliances especially Project-based Alliance (80.5%) from their partner(s) as compared to Non-indicated (72.9%) and Lost Alliances (50%) was a vital factor for them to become a profitable and successful alliance. Since Project-based Profitable Alliance depends a great deal on the help of the government market and coupled with better payment performance by government departments, they were able to successfully sustain their business activities and performance. Be that as it may, the low payment performance of

open market for Profitable Alliance has been identified as a critical area that requires immediate corrective measures.

All things considered, payment performance of open market for Profitable Alliance is not very encouraging. Without remedial action, this situation will affect the running of business' cash flow and it can become an expensive affair to the related organisations. In an open market, this matter needs to be seriously looked into, as a good paymaster will bring cheer to entire alliances. On a better note, the open market customers for the Non-indicated and Lost Alliances are good paymasters.

Farmers have good performance in providing output to Project-based Profitable Alliance. It includes right quality, quantity and time. Unfortunately, this scenario is absent in the Non-indicated and Lost Alliances. This only helps to reinforce the notion that reliable suppliers are also vital ingredients to the success of alliances.

Undeniably, several microenvironment factors (external factors) do play an important role in up-holding the performance of Profitable Alliance. These include good co-operation from partner(s), reliable customers (only in government sector) and good support from performing farmers. It only goes to show that external factors could certainly determine the good / bad performance of alliances.

7.5.8 ROLE OF ENVIRONMENTAL FACTORS

The focus of the macro-environmental factor in this thesis is the government policies and international events. Below are the opinions of farmers' organisations on changes in government policies and international events in relation to their achieving satisfactory financial position and producing commercial farmers, Table 7.11:

Table 7.11

ROLE OF ENVIRONMENTAL FACTORS IN INFLUENCING THE PERFORMANCE OF PROFITABLE STRATEGIC ALLIANCES

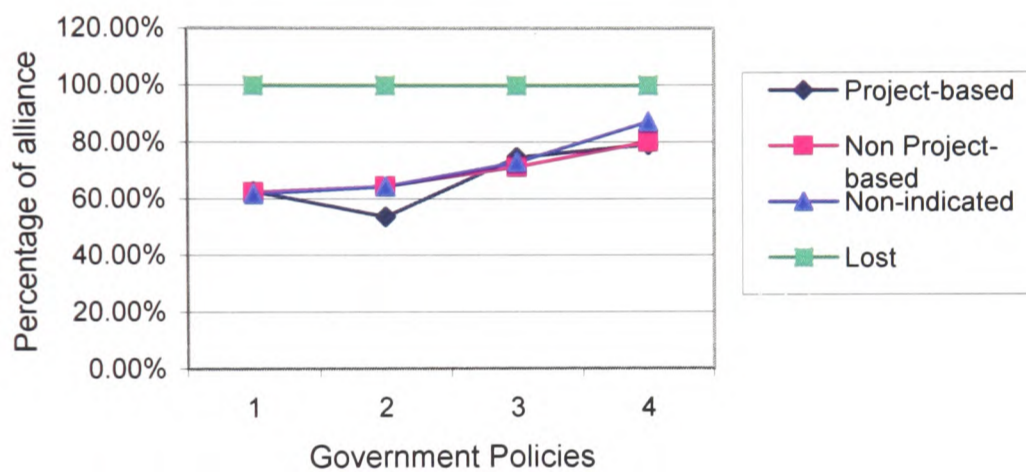
	Role of Environmental Factors	Profitable Alliance		Non-indicated	Lost
		Project-based	Non Project-based		
Q15	The following government policies have given strong impact to the policy changes of your organisation (farmers' organisations) in achieving financial strength and producing commercial farmers:				
(a)	restraining public sector expenditure (including less subsidies) to reduce budgetary deficits	62.6%	62.2%	61.8%	100.0%
(b)	introducing economic liberalisation and commitment in market access (under World Trade Organisation) as well as improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan	53.7%	64.4%	64.4%	100.0%
(c)	adopting a private sector led growth	74.6%	71.1%	72.9%	100.0%
(d)	package programmes to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC)	79.1%	80%	87.2%	100.0%

Not much difference is evident in as far as restraining of public sector expenditure is concerned. Project-based Profitable Alliance has minimum impact on their policy changes in achieving strength and producing commercial farmers by the introduction of economic liberation and commitment in market access. In the short term, the investment policy and incentive to promote private sector participation is also less effective. This was due to the fact that agricultural projects are less flexible as compared to industrial production in terms of maturity period. Furthermore, those changes may only take effect on them in the medium term (5 to 10 years ahead). It needs to be said that, inflexibility to response to environmental changes must be reduced and positive response facing changes that could affect business environment in the future must be encouraged. The willingness and the capability to positively respond to

environmental changes are deemed to be an essential asset to every business to ensure a better future.

The above figures can better be viewed as presented in Figure 7.10:

Figure 7.10
ROLE OF ENVIRONMENTAL FACTORS IN INFLUENCING THE PERFORMANCE OF PROFITABLE STRATEGIC ALLIANCES



Note:

The Government policies in achieving financial strength and producing commercial farmers:

- 1 = Restraining public sector expenditure (including less subsidies) to reduce budgetary deficits.
- 2 = Introducing economic liberalisation and commitment in market access (under World Trade Organisation) as well as improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan.
- 3 = Adopting a private sector led growth
- 4 = Package programmes to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC).

The implementation of the package programme that sees to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community by Profitable, Non-indicated and Lost Alliances nonetheless have some negative effect on their financial strength and attempts to producing commercial farmers. These programmes would inadvertently require finance such as buying land, building/renting business premises and investing on venture and working

capitals. Resources (finance) for Farmers' Organisations are normally generated from their own source (return on business activities) and annual budget allocation from the Government. Indeed, the Government policy on restraining public sector expenditure does provide a negative impact on producing commercial farmers especially in a private sector-led growth as implied by the frequency scores above (agreeable by more than 70% alliances)

As a result of the establishment of the World Trade Organisation (1995), the reaction or response displayed by the Non-indicated and Lost Alliances to international events such as the emergence of potential competitors in the international business scene is more positive. This augurs well for alliances planning to stay competitive. As mentioned earlier, nearly 85% Non-indicated Alliances were formed in 1990's and more than 50% of them are on 100% open market. This new breed of alliances will determine the future of resilient Bumiputra Commercial and Industrial Commodity. With more than 100 alliances facing a bleak future, it is essential to look more seriously on the managerial skill of the alliance managers especially in the Non-indicated and Lost Alliances. They have cited this need as one of the main internal motivation factor why those alliances were formed.

As far as the Lost Alliance is concerned, it would seem that they responded very well (100%) to all environmental changes around them. However, as 75% of them are involved directly / indirectly with the Umbrella Broiler Scheme, they may wish to revise their external policies and only make changes on a step-by-step basis i.e. to develop resilient chicken growers before adopting other policies. This is because they are dealing with small farmers that are relatively poor and need a longer gestation period before entering the open market competition under the economic liberalisation policy.

7.6 CONCLUSION

The above analysis identifies several characteristics that belong to Profitable Alliance and they are as follows:

1. Both Profitable Alliances i.e. Project-based and Non-project Based Alliances have very low debt to capitalisation ratio i.e. 0.10:1.00 and 0:1.00 respectively. These give them the opportunity to operate in low gearing situation. Comparatively, both Non-indicated and Lost Alliances have higher debt to capitalisation ratio i.e. 1.9:1.00 and 15.0:1.00 respectively. Since the relationship between capital structure and firm value is flat and the value of the firm would not be changed by how assets are distributed between bondholders and stockholders but is based on the earning power of its assets, no specific capital structure is therefore suggested for Profitable Alliance under the Malaysian Farmers' Organisations strategic alliances.
2. As much as 40.3% and 7.5% of Project-based Profitable Alliance sold their products through 30% and 100% government market outlets respectively. Lost alliance also depends a great deal on government market with 25% of them holding on to each 70%, 80% and 100% of this market. Meanwhile, only 5.1% and 8.5% of Non-indicated Alliance offload their product to 70% and 80% of government market respectively. The Non Project-based Alliance that dealing exclusively on stock and shares has 100% its customers from the open market. Meanwhile the Non-indicated, Project-based and Lost alliances have 56.8%, 34.3% and 25% open market outlets respectively. Since there is no specific market structure for Profitable Alliance, no specific percentage of market outlets is therefore suggested for Profitable Alliance under the Malaysian Farmers' Organisations strategic alliances.

3. One of the characteristic of Profitable Alliance, which in this case is Project Based, were those alliances established before 1990s' have a tendency to have a higher percentage of government market outlets i.e. Project-based Profitable Alliance (more than 76%). This is in contrast to those alliances formed in the 1990's i.e. the Non Project-based (100%) and Non-indicated (more than 56%) Alliances, which mostly sell their products to the open market. However, the policy to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community that have been launched beginning of 1991 through Vision 2020²⁰⁸ seems to be truly effective with more alliances selling their products in the open market.
4. From 59 effectiveness factors that have been tested, 33 (56%) factors have been recognized as the characteristic of the Profitable Alliance. Only 14 (24%) factors out of 59 control factors under alliance effectiveness is related to the characteristic of Lost Alliance.
5. Both Profitable Alliances chose partner(s) from which they perceived would provide mutual gain and balance benefit. During the formation process, both top managements have strong commitment and mutual trust between them. Additionally, they strongly believe that a business plan must be agreed upon at the beginning of the partnership, business plan must be implemented accordingly, main competitors and market potential need to be identified. These three factors mentioned under Partner Selection Criteria i.e. Reason for Partner Selection, Positive Attitude, and Strategic Plan should therefore be recorder as important characteristics of Profitable Alliances which are in tandem with the finding of earlier researchers by El-Hajar Sawsan Yehia's model (1991),

²⁰⁸ Ibid. Economic Planning Unit of Malaysia, Malaysian Experiences in Economic Development, 1993 (unpublished materials), pp. 20-23.

Christoph Bronder and Rudolf Pritzi's model (1992) as well as David Faulkner's Model (1995). El-Hajar Sawsan Yehia (1991)²⁰⁹ believes that during the formation stage the alliance's management team should rely on a clearly tailored plan besides having clear division/allocation of accountability and responsibilities. Christopher Bronder and Rudolf Pritzi (1992)²¹⁰ however consider mutual gain (fundamental fit) and harmony business plan (strategic fit) as an important Partner Selection Criteria whilst David Faulkner (1995)²¹¹ agrees that besides Cultural Fit, Strategic Fit is an important factor to an alliance success. Under Strategic Fit, partners must see potential synergies (such as mutual gain and balance benefits) as one of the factors to achieve sustainable competitive advantage through complementarities of their resources endowments and core competencies.

6. Factors under Integrative Strategic Management Processes that have contributed to the success of the Profitable Alliance are as follows:
 - a. Having broad representation from all the relevant sections of the organisation and active participation by top management must be seen to be made during Objectives Setting.
 - b. Practising Strategic Programming through formulated plan with great care by receiving strong support and co-operation from all executives concerned.
 - c. Accomplish Strategic Budgeting through competent managers, suitable technology and having sufficient funds (especially for project-based profitable alliances).

²⁰⁹ Ibid. El-Hajjar , Strategic Alliances, Motivation, Management & International Competitiveness, 1991, pp. 91-98. (Ph.D Thesis).

²¹⁰ Ibid. Christoph Bronder and Rudolf Pritzi, Developing Strategic Alliances: A Conceptual Framework for Successful Co-operation, European Management Journal, Vol. 10, 1992, pp. 412-421.

²¹¹ Ibid. Ibid. David Faulkner, The Formation of an alliance, Internal Strategic Alliance, 1995, pp. 33-38.

- d. Implementing Strategic Control through active participation in planning and board representation.
 - e. In order to pursue the development of Profitable Strategic Alliances, competent and appropriate personnel are assigned to appropriate tasks as well as timely provision of sufficient human resources.
 - f. As mentioned above, a large portion of the key factors under Integrative Strategic Management Processes by Lorange and Roos²¹² have been chosen as factors that have been significantly associated to the effectiveness of the Profitable Malaysian Farmers' Organisations Strategic Alliances. These include, amongst others, Objective Setting, Strategic Programming, Strategic Budgeting and strategic Control. It should therefore be included as part of the Profitable Strategic Alliance's characteristics.
7. During the evolution, the Profitable Alliance developed strong bonding factors that helped the partner(s) to successfully overcome external challenges and developed a single culture comprising the best (culture) from all the partners (s). As a result, they developed into an alliance possessing good reputation. They also adopt a philosophy of constant learning and as a learning organisation they place a high premium on innovation. The Profitable Alliance is also able to constantly adjust to change. This finding is similar to that of David Faulkner's (1995)²¹³.

212 Ibid. Peter Lorange & Roos, Planning and Control Consideration, Strategic Alliance, Formation, Implementation and Evolution, 1993, pp. 105-147.

²¹³ Ibid. David Faulkner, The Formation of an alliance, Internal Strategic Alliance, 1995, pp. 117-128.

8. Even though Environmental Factors (including External Factors) are not the characteristic of the Profitable Alliance, they also serve to influence their success, such as:
 - a. Full co-operation from the related partner(s) in their operation.
 - b. Customer regular payment (by government institutions).
 - c. Reliable farmers in providing output to profitable alliances with right quality, quantity and time.
 - d. Adapting to Government policies i.e. adopting a private sector-led growth and package programmes to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC) in achieving financial strength and producing commercial farmers.

9. It is evident that the Malaysian Farmers' Organisations that operate under co-operative principle run their alliances successfully as other non-co-operative organisations. Integrative Strategic Management is applied to manage their alliance while environmental factors like government policy and international events also influence their business direction especially those formed after 1990's i.e. the Non-indicated Alliance are less dependent on government market outlets.

CHAPTER 8

TO EVALUATE THE EVOLUTION OF STRATEGIC ALLIANCE SYSTEM UNDER CONSORTIUM TYPE OF ALLIANCE REPRESENTED BY THE UMBRELLA BROILER SCHEME AND SUGGESTIONS TO ASSIST THEM TOWARD SUSTAINABLE COMPETITIVENESS DEVELOPMENT.

SUMMARY The Exploratory and Predictive types of research were employed to conduct qualitative method of inquiry such as documentary sources, direct observation, in-depth and open-ended interviews. This Chapter attempts to develop **Stage 2 and Stage 3** of the Malaysian Farmers' Organisation Strategic Alliance Sustainable Competitiveness Development Model, namely, The Adaptation Process and Transformation / Termination of Alliance respectively. The Umbrella Broiler Scheme's case study (a consortia type of alliance) was chosen to give an alternative evolution perspective from consortium to joint venture and to full-blown. Several internal and external issues have been identified to pose Competitive Challenge and Opportunity to the alliance. Adaptation Process was applied to create Competitive Strength with the hope to push the alliance to a new Sustainable Competitiveness Level.

In developing the **Stage 2** of the model, the Adaptation Process, several mechanisms were developed to capture the right perspectives of the process, namely, a small business plan, an Input and Output Chain for the new joint venture company and the Dynamic Model of Transformation Process. The Dynamic Model of Transformation Process explains how interaction of project Assessment, Internal & External Changes, Partners Capability and Competitive Strategy could take place to create Competitive Strength by going through an Adaptation Process in order to face Competitive Challenge before an alliance could achieve a new Sustainability Level. **Stage 3** of the model, Transformation / Termination of Alliance has also been developed.

The Sustainable Competitiveness Cycle is derived from the Adaptation Process has also been discovered. It explains Competitive Cycle that can take place in a lifespan of an alliance. From the Umbrella Broiler Scheme's case study, two phases of Competitive Challenge faced by the alliance were generated from Internal & Environmental Changes. Through project Assessments, alliance partner(s) (Partner(s) Capability) are forced to develop strong Competitive Strategy to create Competitive Strength that will move the alliance to a new level of sustainability.

8.1 INTRODUCTION

In this research, Strategic Alliance has been divided into three main types of systems, namely, collaboration, consortium and joint venture. The nature of the evolutionary patterns of alliance under Lorange and Roos (1993), who, after examining alliance development over a period of time, concluded that, depending on the economic and business situation as well as other environmental factors, strategic alliances could also evolve from one archetype to another (namely ad-hoc pool, consortium, joint venture and full-blown joint

ventures). Amongst others, they contended that, in the consortium type of strategic alliance, even though they have unlimited resources and that the businesses are important to the partners, the partners are only followers within the particular business area. This will allow each party to carry out its complementary role within the consortium. If the intended results are achieved, the next step of evolution will be the formation of a new consortium.

As mentioned previously in Chapter 5, only 17.8% of farmers' organisations strategic alliance projects fall within the consortium type of alliance. Most of them are in the Umbrella Broiler Scheme which has distinct system in which several farmers' organisations had their members subjected to poultry farming and supply them to all government departments and agencies in their area through the Umbrella Broiler Scheme's central contract.

Meanwhile, it is found that more than 73.0% of farmers' organisations strategic alliance falls under project-based joint ventures. This nature of alliance requires both parties to put in resources and agree to an arrangement for jointly creating strategic value through a common organisation. From interviews and discussions held during visits to MADA, SPPM's head office and a few of its subsidiary companies, no important issues were brought up against the present system of alliances. They seem to be satisfied with the system of the whole operation. The report is attached in Appendix 8(a).

Collaboration is the most flexible type of alliance. Only 8.9% of alliance falls within this category. It can be formed when the parent(s) put in a minimum set of resources and allow the enterprise to develop over a period of time. There is no specific system under this kind of alliance because it relies on the agreements sanctioned by all parties. Given this circumstance and for the purpose of this research, a detailed study for the possible evolutionary alliance pattern is only confined to the consortium type of alliance under the Umbrella

Broiler Scheme.

8.2 SCENARIOS AND PROSPECT OF POULTRY INDUSTRY IN MALAYSIA

In 1995, the poultry industry contributed RM3.1 billion (poultry meat RM2.1 billion and eggs RM1.0 billion)²¹⁴ or 67.1% of the ex-farm output value of the livestock industry in Malaysia. During the 1985-95 period, the production of broilers experienced tremendous growth with an average rate of 10.1 per cent²¹⁵ per annum. Seven (7) integrators²¹⁶ collectively produced 75%²¹⁷ of total production of broiler chicken in the market. In terms of marketing, wet market (live and processed birds market) takes approximately 60%²¹⁸ of the supplied broiler although the dry market (i.e. mini market and supermarket for dressed chicken) outlets are on the increase. Per capita consumption has increased at an average annual growth rate of approximately 7.5 %²¹⁹ during the last decade. In 1997, per capita consumption for poultry meat is 32.33 kg²²⁰. In 1995, a small quantity of 75,100 tonnes of poultry meat valued at RM283.0 million was exported to Singapore.

The potential to further develop the livestock industry to cater for the needs of the nation (domestic) as well as to make a niche in the export markets is bright²²¹. With the increase of per capita income, consumption of livestock products is anticipated to increase, Table 8.3. For poultry, the competitive price, acceptability and preference for white meat has made it the most widely consumed meat in the country. With changing consumer preference and

²¹⁴ The Ministry of Agriculture Malaysia, Livestock, The Third National Agricultural Policy (1998-2010), 1999, pp. 57.

²¹⁵ Ibid. The Ministry of Agriculture Malaysia, The Third National Agricultural Policy (1998-2010), pp. 59.

²¹⁶ The Ministry of Agriculture, Scenario and Prospective of Poultry Industry, 1996, pp. 2.

²¹⁷ Ibid. The Third National Agricultural Policy (1998-2010), 1999, pp.58.

²¹⁸ Ibid. The National Agricultural Policy (1998-2010), 1999, pp. 58.

²¹⁹ Ibid. The National Agricultural Policy (1998-2010), 1999, pp.64.

²²⁰ Ibid. Jabatan Perkhidmatan Haiwan, Kementerian Pertanian Malaysia, Livestock Statistics 1997, Per Capita Consumption of Livestock Products 1988-1997, 1998, pp.34

²²¹ Ibid. The National Agricultural Policy (1998-2010), 1999, pp.64

lifestyles, it is expected that there will be an expanding demand for special cuts, ready-to-eat, easy-to-prepare, ready-to-cook as well as speciality meat products such as those low in fat and salt content.

Table 8.1
PROJECTED DEMAND AND SELF-SUFFICIENCY LEVEL
OF POULTRY PRODUCTS, 1995-2010

Item		1995	2000	2005	2010	Average Annual Growth Rate (%)			
						1995 - 2000	2000 - 2005	2005 - 2010	1995 - 2010
Poultry	Projected Total Demand ('000 tonnes)	621.2	821.8	928.1	1044.4	5.8	2.5	2.4	3.5
	Per Capita Consumption (kg)	30.0	35.3	35.9	36.8	3.3	0.3	0.5	1.4
	self-sufficiency Level (%)	110.7	126.6	125.6	128.4	2.7	-0.2	0.4	1.0

Source: Ministry of Agriculture, Malaysia, Third National Agricultural Policy (1998-2010), 1999, pp.65

Note: Demand in million units and per capita consumption in units/year.

In terms of market share, as at December 1997²²², farmers' organisation produced around 4.193 million birds with around 3.092 million birds under central contract and the balance of around 25% of production, for the open market. However, as at December 2000²²³, farmers' organisation produced around 2.627 million birds and around 2.244 million birds were under central contract and leaving the balance of only 15% for the open market. As mentioned in Chapter 5, this was due to the economic recession (1998), which

²²² National Farmers' Organisation (NAFAS), Laporan Kemajuan Skim Payong Ayam Daging Berakhir Disember 1997, Bilangan Penternak dan Ternakan Skim Payong Ayam Daging Disetiap Negeri Bagi Bekalan 1998, pp. Lampiran E

²²³ Ibid. National Farmers' Organisation (1998), Laporan Kemajuan Skim Payong Ayam Daging Berakhir Disember 1997, pp. Lampiran E

led to the privatisation of food preparation in most student residential halls in the universities and colleges and most of the student residential halls have been privatised. It is anticipated that production will be increased as the economy is projected to be in a better position by 2002-2003.

Nevertheless, for the purpose of future development of the Umbrella Broiler Scheme and the business plan for the new joint venture company, it is estimated that within the next eleven years farmers' organisations will be able to supply and capture around 5% of the domestic poultry market. If per capita consumption is 32.33 kg/year²²⁴ and one chicken can give 2 kg of poultry meat, it would mean that every person will consume approximately 16 chickens a year. To satisfy this demand, Malaysia would need to produce around 400 million chickens (including 2-4% mortality rate) annually. Without taking into account the annual increase of 2% in the country's population, Ayam Peladang needs to produce around 20.0 million broilers in order to capture 5% of the domestic market.

With Government intervention (through central contract) for almost 15 years, the small farmers are only able to capture approximately 1% share in the domestic market. There are many suppliers of live and processed birds (wet market) and each has own clientele and they work very closely with regard to mobility of broilers and payments. As a consequence their close relationship makes it very difficult for another supplier to penetrate such a clientele and without Government intervention, the chances for the small farmers to penetrate the market are indeed negligible. Competitions to supply dressed chicken to supermarkets or cold storage is quite severe. Supermarkets emphasise on pricing, quality and packaging and this implies that they have an open policy in as far as suppliers are concerned.

²²⁴ Ibid. Jabatan Perkhidmatan Haiwan (1998), Livestock Statistics 1997, pp.34.

8.3 ORIGINS AND HISTORY OF THE UMBRELLA BROILER SCHEME

The Umbrella Broiler Scheme was implemented when the Government awarded NAFAS a central contract to supply poultry meat to all government departments and agencies. The first contract was awarded to commence on 1st November 1987 and expiring on 31 May 2000²²⁵. The objective of this contract was only to develop competitive and viable small Bumiputra growers in order to increase their income and thereby reducing poverty in the rural areas. However, with the later contract, NAFAS and related farmers' organisations have expended their objectives as follows:

- To develop a series of competitive and viable small Bumiputra chicken growers.
- To establish a group of Bumiputra poultry growers that can capture 20% of all upstream and downstream chicken industry activities in the country by year 2000.
- To develop alternative out-lets for chicken products to consumers.

The success in achieving the above objectives²²⁶ as at December 1997 is as follows:

1. The scheme succeeded in establishing 225 small Bumiputra poultry entrepreneurs who can supply chicken to 238 government agencies all over the country.
2. In 1995, 100% of day old chicks are supplied by open market. Now, the scheme has managed to attain 80% of their day-old chicks requirement by acquiring a hatchery project in Seberang Perai Selatan, Penang. At the same time, they still manage their present hatchery in Kota Tinggi, Johor.
3. Secured a piece of land in excess of forty acres when they purchased Kheng Seng farm in Seberang Prai Selatan, Pulau Pinang for consideration sum of RM4.9 million. The area has a capacity to rear between 7-9 million chickens a year.

²²⁵ National Farmers' organisation, Laporan Kemajuan Skim Payong Ayam Daging Berakhir Disember 1997,1998, unpublished material.

²²⁶ National Farmers' Organisation, the Development of Umbrella Broiler Scheme ended by December 1997, Appendix A, unpublished material.

4. Built chicken processing plants in Klang Valley, Seberang Prai and Manjung.
5. In 1997, farmers produced 25%²²⁷ more chicken than was needed by the central contract and this has given them a good opportunity to approach and penetrate the open markets. The increase in productivity is also reflected by improvement in quality and the commitment displayed by the farmers.
6. Besides that, NAFAS as an integrator of the scheme has restructured the whole production machinery and as a result, total income from the scheme came to RM20.9 million a year. The 25% extra production of chicken has added a further RM3.5million to the annual income. In 1997, the average profit per farmer has increased to RM9,020 as compared to only RM5,000 in 1994.

As far as the operation of the system is concerned, The Government of Malaysia has awarded the Broiler Central Contract to National Farmers' Organisations (NAFAS). NAFAS then identified suitable farmers' organisations to work hand-in-hand with them and ensure that good quality chickens are supplied to the respective government departments and agencies.

Figure 8.1



TWO HARD-CORE POVERTY PARTICIPANTS
 IN THE UMBRELLA BROILER SCHEME

²²⁷ Ibid. National Farmers' Organisation's Report on the Development of Umbrella Broiler Scheme ended by December 1997, unpublished material.

Figure 8.2



A FARMER PARTICIPANT OF THE UMBRELLA BROILER SCHEME IN HIS SEMI-AUTOMATED CHICKEN SHED

Both figures 8.1 and 8.2 are typical example of semi-modern poultry rearing at farm level. As mentioned in Chapter 5, the participants from within the hard-core poverty group (figure 8.1) comprise mainly of single women with no immediate family. The project in Kuantan Utara for instance has successfully increased their monthly income by almost threefold. The achievement makes them proud of themselves.

Parallel to this arrangement, NAFAS and several farmers' organisations were involved in infrastructure support in terms of day old chicks and poultry feed supply to most of the consortium members. The day-old chicks and poultry feeds are supplied to the participating farmers as inputs to the project.

Figure 8.3



POULTRY FEED IS BEING DELIVERED TO ONE OF THE CONSORTIUM MEMBERS BY HIS FARMERS' ORGANISATION.

The above picture, figure 8.3 shows poultry feeds being supplied to one of the growers. All along, as part and parcel of the system, farmers' organisations supply poultry feed and medication to participating farmers on credit basis. Since the running of this operation by related farmers' organisation involved costs, the farmers would only received their payment after all these costs are duly deducted.

As far as technical advice on poultry is concerned, farmers will contact and obtain them from related farmers' organisations/veterinary departments. When the chicken reach marketing age, the related farmers' organisations will collect them for delivery to processing centres.

Figure 8.4



THE PRESENT TECHNIQUE OF PROCESSING CHICKEN
UNDER THE UMBRELLA BROILER SCHEME

Figure 8.4 above shows a processing activity in a processing centre. This process is largely handled manually. The dressed chicken will be distributed by farmer' organisations to various government departments/agencies that have placed their order earlier. On behalf of the NAFAS, the farmers' organisations will bill the respective government departments/agencies (using NAFAS invoice) and the Government departments/agencies will pay directly to NAFAS within 30 days of delivery. In practice, they will pay NAFAS on a monthly basis and NAFAS will in turn pay the respective farmers' organisations. The participating farmers will generally receive their payment within 2-3 weeks after the chicken have been collected.

The Umbrella Broiler Scheme has provided opportunities for selected small farmers to acquire new skill and expertise on poultry farming systematically. They are taught the day-to-day best practise of growing broiler such as applying the right feeding and drinking system, good hygiene and sanitation. They are also made aware the importance of satisfying the provision of the contract.

They had become more responsible and organised and will always ensure their chickens remain healthy and ready as scheduled.

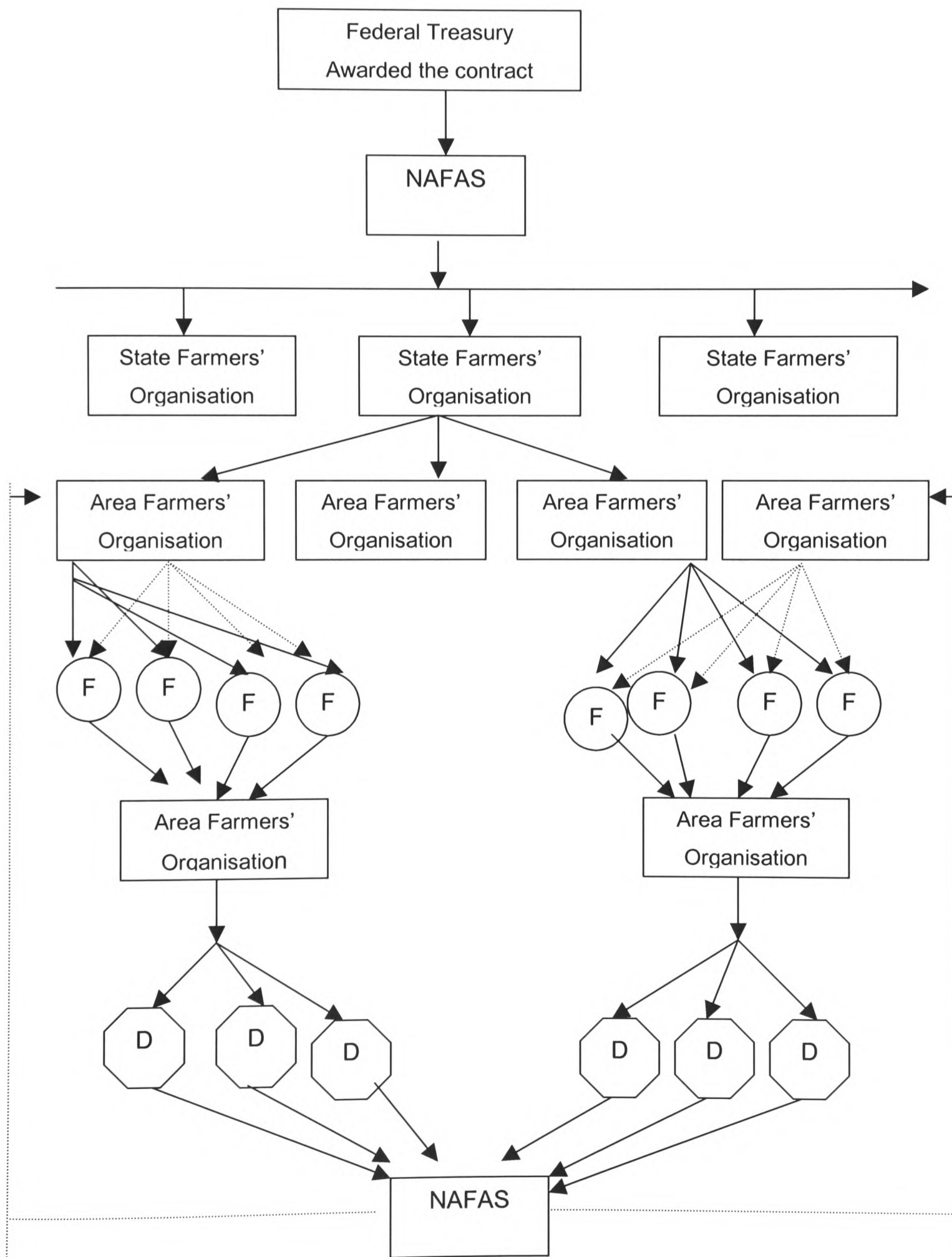
As far as technology is concerned, this scheme has also introduced a semi-automatic system in growing broiler. The growers need to have chicken houses, feeding and drinking system ready before joining the scheme. They normally use their savings or obtain a soft loan to fund these requirements. Usually, the participants will need to attend appropriate courses before being accepted in the scheme. During the fieldwork, the participants revealed that they would help each other so that the new growers will learn quickly and succeed in the new venture.

This scheme is built on good support being provided “by various parties”. There is close working relationship between organiser (farmers’ organisations) and participant (farmers) of the scheme. Other organisations like the veterinary department and financial institutions involved in providing advisory services and financial assistance also have strong ties with the scheme. All parties’ work closely to make sure the scheme continues to have good support in order to successfully accomplish its objectives.

The above process can be illustrated as follows:

Figure 8.5

THE FLOW CHART OF UMBRELLA BROILER SCHEME UNDER THE CENTRAL CONTRACT DURING THE PERIOD 1985-2002



Note

- F - Farmers
- D - Government Departments/Agencies.
- In certain states, like the Selangor State Farmers' Organisation, they handle direct the contract farmers themselves without having to involve any area farmers' organisations.

The above system is in operation throughout the country. Each state will organise the activities of their respective area farmers' organisations. Even though the farmers get organised, each state appears to be operating independently of each other within the same scheme, organiser of each state seems to be operating independently. NAFAS is only involved in acquiring the contract and distributing the allocation to the respective states apart from monitoring and accepting payment from government departments and agencies.

8.4 PROBLEMS ENCOUNTERED WITH THE UMBRELLA BROILER SCHEME

As any other projects, the Umbrella Broiler Scheme is also subjected to internal, external as well as environmental changes. It develops competitive challenge and offers opportunities that could prove beneficial to the project.

8.4.1 COMPETITIVE CHALLENGE AND OPPORTUNITY

Assessment on contract is conducted throughout the duration of the contract period. The Assessment can be divided into three types, as follows:

- i. Assessment on contract performance.
- ii. Assessment on socio-economic objectives.
- iii. Assessment on operational system.

8.4.1.1 ASSESSMENT ON CONTRACT PERFORMANCE

At the end of every contract period, Treasury officials will assess the performance of the farmers' organisations in serving the contract for the information of the Hon. Minister of Finance. These assessments covered

performance achievement in terms of quantity and quality of poultry meat supplied. The information are gathered from reports and complaints received by the Treasury from government departments that bought the poultry meat under this contract. During the fieldwork, a face-to-face interview was arranged with the desk officer from The Treasury (Ministry of Finance) who is responsible for overseeing the running of the poultry contract. According to the officer, the overall performance of the contract for the period 1st June 1995 to 31st May 1998 was not very satisfactory. It was because, the Treasury had received 26 complains regarding “late supply”, “unable to supply” and “low quality of supply”. Among them, “unable to supply” was relatively few but the main bulk of the complaint is “late supply”. Late supply will inadvertently lead to low quality because fresh chicken will decay if too long a time is taken between processing and cooking. NAFAS has been fined RM24, 000 because of this late supply.

8.4.1.2 ASSESSMENT ON SOCIO-ECONOMIC OBJECTIVES

The report to the Hon. Minister of Finance also includes the ability of farmers' organisations to develop Bumiputra growers in poultry industry. For the contract period of 1st June 1995 to 31st May 1998, it is found that the farmers' organisations achieved the overall socio-economic objectives as an effective mechanism to help Bumiputra poultry entrepreneurs. The scheme has managed to develop 225 Bumiputra growers, supplied poultry meat to 238 agencies and marketed the balance of 25% to open market²²⁸. The 25% extra poultry meat has created opportunities for the scheme and encouraged the farmers' organisations to explore open market prospect. The assessment also contains efforts that have been taken by NAFAS and farmers' organisations to improve themselves as an active player in the poultry industry for sustainability purposes such as the buying over of Kheng Seng chicken farm in Penang and the construction of chicken processing plants in the Klang Valley.

²²⁸ Ibid. National Farmers' Organisation's Report on the Development of Umbrella Broiler Scheme ended by December 1997, Appendix A, unpublished report.

Further evidence of socio economic growth came from direct (face-to-face) interviews carried out with 16 chicken growers in Kuantan within Pahang State. During the study, five of the sixteen farmers showed the writer the extension done to their residences, which they claimed as testimony of higher earnings from the broiler projects. The remaining eleven were of the view that they had been able to enjoy a slightly improved living standard and more stable quality of life. Besides that, excluding the hard-core poverty group, eight out of the twelve farmers have had satisfactory level of savings in Lembaga Urusan dan Tabung Haji²²⁹ and/or Amanah Saham Nasional²³⁰. Increase of per capita income its related issues have been discussed in Chapter 5.

At the same time, NAFAS has also done their own assessments on contract performance every time before the central contract is further renewed. This assessment will be forwarded to the Board of Farmers' Organisations Authority for consideration and endorsement. These reports can be assessed through the papers and minutes of the Board meetings.

8.4.1.3 ASSESSMENT ON THE OPERATIONAL SYSTEM.

The consortium members of farmers' organisations had, from time to time, additionally given their assessment on the operating system of the whole contract operation. These reports, normally on state basis, were tabled and discussed at the board meeting of state farmers' organisation meetings²³¹. States assessment reports were presented and discussed by the Board of Directors of Farmers' Organisations Authority during their visits to the various states from time to time. Finally, the operational system assessment was held

²²⁹ Lembaga Urusan dan Tabung Haji is an institution set up by the government to assist Muslims in this country to perform annual Haj. Apart from managing the pilgrimage itself, it also helps the Muslims to save their money for this purpose.

²³⁰ Amanah Saham Nasional is a trust fund set up and managed by the Malaysian Government to assist the Bumiputras to save/ invests their money for their future.

²³¹ For example, during the Perak and Selangor Farmers' Organisations' Board of Directors monthly meetings.

at a Poultry Industry Workshop at the Hotel Vistana, Kuala Lumpur in September 1996 after the alliances have been in operation for about 20 years. Based on working papers presented, many issues relating to the implementation of the Umbrella Broiler Scheme Contract were discussed, Table 8.2.

Table 8.2

ISSUES RAISED BY FARMERS PARTICIPATING IN THE POULTRY CENTRAL CONTRACT RELATED TO OPERATIONAL SYSTEM OF THE UMBRELLA BROILER SCHEME

ISSUES	PRESENT STATUS (1996)	AGREED ACTION BY THE DELIGATES
The Integrated System	Disintegration of the integrated system, such as:	
	The Farmers' Organisation Authority (FOA) has implemented the Umbrella Broiler Scheme differently in different states.	Clearer implementation policy has to be devised in order to increase efficiency.
	No uniformity in contract system of farm input and buying of chicken.	To establish organisation such as:
	The system is not based on profit maximisation because inefficient in reducing operational and management cost	- Livestock Trust Fund - National Consortium - Joint Venture Company - "Regional set-up"
	NAFAS has no authority to supervise and manage the whole activities.	
Supply of Input	<u>Day Old Chick:</u> Min – 150,000 /year Ave - 250,000 /year Max – 380,000 /year	
	Less capability to control the quality of the Day Old Chick (DOC).	To enforce buying from own hatchery, unless not enough capacity
	Has no updated information	FOA should co-ordinate overall purchasing information of DOC.
	<u>Poultry Feed:</u> Min – 7,200 metric tone/year Ave – 12,000 metric tone/year Max – 18,000 metric tone/year	To enforce central buying and supply from tender. FOA to give rolling capital to buy cash feed in bulk in order to increase bargaining power.
	Small farms through out scatted area	FOA has to compile detail information about purchasing of poultry feed under the umbrella scheme.
	Less bargaining power	
	Brand conscious favour	
	Depending on near by miller.	

Production	Poultry meat: 4,200 mt/year	
	Day Old Chick: 250,000/month	
	Grow chicken in small quantity.	Poultry farms have to be consolidated under one management.
	Farm management still need improvement in: Record keeping Profit/loss account Facilities to obtain right antibiotic, vaccine and other medicine.	It has to be managed by single layer management after NAFAS. Over-lapping management will increase cost and reduce profit.
	No fix circle for each farmer.	The minimum amount of chicken in one circle has to be fixed, e.g. 2,000 per circle. Each grower has to do four-(4) circles a year. Right schedule for going in and out of the chicken.
	A lot of chicken barns are not in satisfactory condition.	Need to give enough loans to restore the barns.
Processing	Processing of chicken is handled by: AFO/SFO Farmers Sub-contractor	To build a processing centre involving nearby AFOs. To centralise processing in order to gain maximum capacity.
Marketing and Distribution	<u>Distribution:</u> Small quantity of order Wide coverage of distribution areas. To make refrigerator available in the related institutions.	To make available suitable and economical size of cold truck.
	<u>Marketing</u>	To acquire place to market chicken from Local Government.
Finance	Working Capital	
	<u>NAFAS</u> Internal fund Bank overdraft Accumulated profit from the project.	To establish a Livestock Trust Fund that is managed by a committee.
	<u>AFO/SFO</u> Internal fund Working capital from FOA Bank overdraft Profit from the project	
	<u>Farmers</u> Loan from Agriculture Bank Own capital Profit from the project Input credit facility from AFO	
	Billing system	
	Central billing system Using NAFAS's document, AFOs acted	

	as branches. Contra billing system is used for supplied input.	
	Payment	
	Credit facility between 30-40 days. Contra to supplied input. Payment from NAFAS to farmers' organisations between 14-30 days. Payment is made through cheque or T.T as required.	
	Collection	
	NAFAS receives payment between 30-60 days. Payment from user department is made through AFO/SFO.	
Data	Data Centre	FOA needs to ensure that details information from AFO/SFO/farmers are available.
Competitors	Internal Negotiation with suppliers Project co-ordination	NAFAS needs to participate in all planning related to chicken project by AFO/SFO.
	External Change in Government policy Cooked food tender. Cut chicken	Need to take suitable action such as: Central kitchen Up to date processing centre.

It is found that, the system that appears to have been workable for nearly 20 years needs to be re-examined particularly the challenges and opportunities created. The fact that the government had to impose the contract agreement and that NAFAS had to pay a penalty of about RM24, 000 (because of the late supply) shows that problems are abound and corrective measures are indeed necessary. As recommended by Arino (2000)²³² managers can rescue their alliance if they develop the right mindset, among others, to understand all the interest that your partner may have in the alliance as well as the value that your partner attributes to intermediate outcomes. In doing so, it requires understanding and communication between partners, which allow for joint problem solving. Farmers' organisations have taken a positive, constructive and

²³² Ibid. Africa Arino, Yves Doz, European Management Journal, Rescuing Troubled lliances.....Before it's too Late, vol. 18, No. 2, 2000, pp.173-182

right action to rescue the Umbrella Broiler Scheme by having open discussion through a two-way communication to solve the present problems as recommended by Arino (2000).

It should be noted that, NAFAS has no direct control over the entire operation. It is only responsible in acquiring the contract from the government and making payments to the respective farmers' organisations that supplied chicken under the terms of the contract. It also has to pay any penalty to the government for any breach of contract. Each of the area farmers' organisations manages its own operation, which include quality control. Even though NAFAS together with some of the farmer' organisations posses their own hatcheries, farms and processing centres/plants, it is unfortunate these are not part of input and output chain of the scheme. All of these entities need to be involved comprehensively in order for the whole consortium to become an efficient integrator in the poultry industry as other integrators i.e. Kentucky Fried Chicken and Leong Hup.

The above situation is a healthy sign of evolving alliances. Alliances change for the better from time to time or from one stage to another based on internal and/or external (environmental) forces. The internal forces are the outcome of the learning process during the implementation of alliance that represents the effort put in to strengthen the alliances and overcoming weaknesses, whilst the environmental forces will influence future opportunity and threat of the alliance. The changes of alliance feature from the above forces should improve productivity and efficiency and inevitably will turn the alliance into a dynamic and sustainable competitive alliance.

In this light, the effort of farmers' organisations to maintain the Government contract can be seen as one of the dynamic action to strengthen their position in the poultry industry. Additionally, more changes will have to be considered

and carefully implemented to incorporate environmental changes such as technological advancement and Information & Communication Technology (ICT). As can be seen, the main concern identified by farmers' organisations themselves is to get their house in order, improve management and be an efficient venture to farmers' organisations and their members. Hence, a summary of challenges and opportunity faced by farmers, in particular the proposed Ayam Peladang's joint venture company are summarised in Table 8.3.

Table 8.3

COMPETITIVE CHALLENGES AND OPPORTUNITIES FACED BY UMBRELLA BROILER SCHEME

1. To have clearer and unanimous policy applied and implemented through out the whole scheme in order to obtain better efficiency and reduce operational and management cost.
2. To have the whole system united and managed by one efficient body.
3. The present function of NAFAS needs to be seen and felt.
4. All input needs to be bought or produce collectively (opportunity).
5. All farms need to be consolidated under one management
6. Need to improve service to customers.
7. Need to expand market-open market (opportunity).
8. Suitable processing and storage facilities are needed urgently.
9. Scattered sources of funds should be pooled and managed by a trust fund.
10. All required system such as information, data, billing, payment and others should be updated, centralised and made available when needed.

When comparing these findings with those of other researchers, Koza & Lewin (1999)²³³ did remark on the competitive challenges faced by those involved in

²³³ Ibid. Mitchell P. Koza & Arie Y. Lewin , The Co-evolution of Network Alliances: A Longitudinal Analysis of an International Service Network , Journal of Organisation Science, , 1999, pp. 638-653.

“non-equity” alliances. In their studies of alliance evolutionary process, Koza and Lewin (1999) examine the longitudinal analysis of the co-evolutionary framework of an alliance referral (communication/interaction) network in the global accounting industry. They are of the view that these case studies as both unique opportunities for empirical and theoretical interpretation and a means of developing an evolutionary understanding of alliances. The objective of the case analysis is to elaborate and interpret the co-evolution of an alliance network with a view to exploring the dynamics of alliances over time.

It is intended to portray the simultaneous evolution of several factors external to the nexus (link) of interaction between a member firm and the Nexia International network (a non-equity alliance) with 106 independent members. It also illustrates the loose coupling between member firms and the network and the ongoing exchanges that taken place. The model is intended as a summary of the incident (event) actions of member firms and the new interaction with the network. The case study focused, amongst others, on Alliance Network, A Co-evolutionary Perspective on Network Alliances, Type of Membership in the Network, Membership Benefits, Membership Selection Process and Criteria, Governance and Administrative Structure, Integrating the Network and Emerging Tensions. It is evident that the creation of Nexia served to dissolve certain issues for the network members. However, the creation of the network immediately gives rise to a new class of tensions i.e. Opportunistic behaviour and Defection, involving the relationship of the members with the network and to one another.

It should be noted that Koza & Lewin’s case study has no further adaptation process as it has been suggested for the Umbrella Broiler Scheme to form the Ayam Peladang. Since The Network system of the Nexia International (the apex body) is efficient, Koza & Lewin’s case study does not reflect the detailed observation on overall operational system made by the current study as

stipulated in Table 8.3. An important reason for this variation is that their study relates primarily to simple accountancy network in the service sector as opposed to that of the Umbrella Broiler Scheme, which is actively involved in purchasing and supplies chain activities.

The detailed comparison on the co-evolution perspective between this study (the Umbrella Broiler Scheme) and the Network Alliances by Koza & Lewin is stipulated in Table 8.4:

Table 8.4

**DETAIL COMPARISON OF CO-EVOLUTION PERSPECTIVE BETWEEN THE
CURRENT STUDY AND THE NETWORK ALLIANCES BY KOZA & LEWIN (1999)**

	THIS STUDY	KOZA & LEWIN
Case study	The Umbrella Broiler Scheme is related to poultry industry with 17 farmers' organisations and 225 growers.	A single longitudinal case on service network in the public accounting industry represent by Nexia International with 106 independent members.
Objective of case analysis	To suggest a better future for the existing consortium type of alliance by adapting competitive challenge through creating competitive strength in order to become a sustainable competitive alliance. At the same time, observe the alliance live spent/circle.	The objective of the case analysis is to elaborate and interpret the co-evolution of an alliance network with the objective of exploring the dynamics of alliances over time
Type of organisations	A consortium type of alliance (non-equity) that every member is responsible to serve certain portion of the contract. Due to emerging tensions, they planned to form a joint venture company.	A non-equity alliance with independent members firms practice locally under their own partnership's name.
First Alliance Objectives	Consortium: i. To increase income of rural farmers ii. To create Bumiputra entrepreneurs iii. To serve the contract efficiently.	Network: i. To provide residual referral commissions. ii. To extend the members' international reach.
Second Alliance Objectives	Proposed Joint-venture: i. To become an efficient and effective integrator in the poultry industry ii. To increase quantity and quality of poultry meat and value Added products produce by viable Bumiputra Entrepreneurs. iii. By the year 2010 the Bumiputra farmers/ farmers' organisations will	

	be able to supply 5% of poultry meat and related value added products that are required by West Malaysia population.	
Methodology	<p>Result of assessment- by the consortium members.</p> <p>Questionnaire- answered by alliance managers to obtain information on type, internal and external motivation factors for joining the alliance, partner selection, alliance management and role of environmental factors.</p> <p>Proposed Business Plan- suggests how to achieve sustainable competitive advantage.</p>	<p>First interview- the influential network managers to explore motivation for joining the network, the organisation of the network, its benefit and problems.</p> <p>Second interview (open-ended)- focusing on events in the network's evolution.</p>
Portfolio	<p>Horizontal- 17 related farmers' organisations (under consortium)</p> <p>Vertical- An integrator supply chain includes feed mill, hatchery, chicken farms and marketing outlets (under joint venture)</p>	<p>Horizontal-A single parent firm enters into individual alliances with multiple other firms (106)</p> <p>Vertical- Nexia International as a network of those independent public accounting firms.</p>
Situation and challenges in the First Phase	<ul style="list-style-type: none"> - Closed domestic poultry market to small growers. - Poverty in rural areas. - Wide geographical coverage if want to serve government contract. - Poultry industry is being controlled by the Chinese and became a real problem for indigenous group to penetrate the market. 	<ul style="list-style-type: none"> - International firms. - Globalisation is driving the restructuring of the industry and reorganisation of individual accounting firms. - Internationalisation of corporate clients. - Saturation in home audit market. - Others.
Situation and challenges in the Second Phase	<ul style="list-style-type: none"> - Facing productivity challenge due to weaknesses of the internal system such as disintegrated operational system and non-adequate facilities and excess production, domestic competitions. - Globalisation and liberalisation increase imported goods competition from neighbourhood country such as cheap poultry from Thailand. - Others 	<p>Emerging tension such as:</p> <ul style="list-style-type: none"> - Opportunistic behaviour - Defection
Industry	Agricultural-production (poultry), manufacturing (feed mill), services (marketing-local and export market)	Service- accounting services such as auditing, consulting and corporate finance.
Adaptation Strategy (1)	<ul style="list-style-type: none"> i. Exploitation- Consortium. ii. Exploration-e.g. Economies of scale, 	<ul style="list-style-type: none"> i. Exploitation-Nexia International ii. Exploration-e.g. Technological and market co-development
Adaptation Strategy (2)	<ul style="list-style-type: none"> i. Exploitation- Ayam Peladang ii. Exploration- value added product, new market domain. iii. Exploitation within the Exploration- 	

	Feed mill, hatchery.	
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The above table shows that the Umbrella Broiler Scheme is already facing the second stage of alliance co- evolutionary process, when Nexia is still in the first stage of evolution. Even though both alliances are from different type of industry, during the co-evolutionary process they need to undergo the same process of strategy adaptation i.e. Exploitation and Exploration²³⁴. In this regard, the Umbrella Broiler Scheme provides a better choice for a model of adaptation process.

Faulkner (1995) also studied a consortium type of alliance (a non-equity alliance) in the Telecommunication (service) industry. In telecommunication industry, he studied about Japanese telecommunication consortium, International Digital Communication (IDC), led by Cable and Wireless plc (C&W). The consortium members consist of C. Itoh, Toyota, Pacific Telesis plus 13 smaller Japanese “sleeping” shareholders. In order for C&W to bid for a Japanese telecom licence, it had no option but to form an alliance with a Japanese company. They chose to form a consortium type of alliance that would stimulate the necessary size to achieve credibility with the Japanese Government. The internal motivation for the consortium was the need to put together a credible team in term of size, technological experience and Japanese substance, to take advantage of the opportunity provided by the tender for the licence for the second international carrier.

The alliance is rated as being successful despite current lack of major profits, both internally and within the industry. As mentioned by Faulkner, “ as with most consortia, observers with sceptical temperaments can see possible seeds of disquiet (trouble) that may grow from the fact that, for most of the partners, an

²³⁴ Ibid. Mitchell Koza and Arie Lewin (2000), pp. 146-151.

alliance with C&W is not crucial once the telecom business has been learned". The key to the success was due to the correct mix of skill and the partners' objectives are not necessarily congruent i.e. C&W provided the technology and international experience outside Japan with the aim of becoming established in Japan in a significant way; C. Itoh, a strong trading partner, wants to expand into telecom. Besides that, power and influence as well as bonding that have taken place as a result of the fight for acceptance with the Ministry of Telecommunication and Post. The alliances did therefore face external and internal challenges. They faced environmental challenges from the Ministry of Telecommunication and Post but have yet to face serious internal challenges, besides the current lack of major profits. Therefore, no details or action has been proposed in this study to go through an adaptation process to remedy the situation. However, it is evident in the case study that environmental challenges (Government policies) do influence the performance of an alliance.

In the current study, the partners themselves have analysed in detail on internal and external challenges faced by the Umbrella Broiler Scheme. Coupled by other assessments, new/modified corporate strategies as well as the alliance capabilities, the adaptation process needs to be done.

8.5 PROSPECT FOR CHANGE – POTENTIAL BENEFIT OF STRUCTURAL CHANGE AND TECHNOLOGICAL ADVANCEMENT

1. The study has led to important conclusions. The Malaysian Farmers' Organisations are now facing the critical period of alliance development. Change is imminent.
2. Activities of farmers groups have started to include increase in risk taking (as seen in their investment in stock market activities, i.e. Permodalan Peladang Berhad.)
3. Alliance based operation have extended beyond the domestic to regional level e.g. investment in plantations in Indonesia i.e. P.T. Ubertra Co.
4. Government policy and intervention have enabled these alliances to operate within

a safe environment and to gain expertise, commercial skills and strategic resources. However, the Seventh Malaysia Plan stipulated that these groups have to now become viable in their own right. Small farmers need to prepare themselves in case the Government decides to do away with the negotiated tender and invite open tender bidding. Growers under the Umbrella Broiler Scheme must prepare themselves to be as competitive as other poultry growers in the country. Furthermore, under the Third Outline Perspective Plan²³⁵, efforts will be focussed on tackling pockets of poverty in remote areas and among the *Orang Asli* and other Bumiputra minorities in Sabah and Sarawak as well as those in the lowest 30 per cent group.

5. Some evidence of vertical integration is evident in some alliances i.e. Umbrella Poultry Scheme e.g. processing plant, feed mill and ownership of hatchery.
6. Increase in socio-economic standing of the stakeholders, leading to increased confidence and aspiration i.e. Syarikat Perniagaan Peladang MADA.
7. Banks becoming more amenable to request for financial assistance by farmer groups whose business is considered to be sufficient collateral especially under the "Fund for Food" (3F) programme of the Agricultural bank.

The above scenarios indicate those farmers' organisations need to make a move to achieve the next goal in order to fill stakeholders aspiration and become competitive business ventures. In the case of Umbrella Broiler Scheme, the scheme needs to become an efficient poultry integrator and a competitive player within the poultry sector. It needs to win significant increase in the market share from currently around 1% volume of share through year-on-year growth of 5% increase over 11 years. In order to achieve that, a number of important criteria and steps have to be met and undertaken. In doing so, the scheme needs to undergo important adaptation process under alliance evolutionary process in order to shift from the present condition to the other situation that is more efficient and promising.

²³⁵ Ibid. The Government of Malaysia, The Third Outline perspective Plan (2001-2010), Sustainable Growth With Resilience, 2001, pp. 12.

In the Umbrella Broiler Scheme, the issues and challenges (as well as opportunities) came from productivity challenge due to the weaknesses of the internal system such as the disintegrated operational system and non-adequate facilities and excess production. Globalisation and liberalisation increase imported goods into the country, therefore it increases competition from neighbouring country such as cheap poultry from Thailand.

8.5.1 PILOT TESTING OF PROPOSED CHANGES

The Exploratory and Predictive type of research approaches using qualitative method of inquiry such as documentary sources, direct observation, in-dept and open-ended interview were applied in this case. In order to assess the merits of the conclusions reached, and in order to recommend appropriate proposal, a small business plan was developed. The plan took into account the feedback received during the current study, the conclusion reached by other researchers as well as an assessment of the poultry sector and relevant market issues.

The proposed business plan for Ayam Peladang is attached in Appendix 8(b). The first stage is as a joint venture company and will be developed to a full-blown joint venture during the second stage. The proposed business plan is a brief plan that could be extended with further details based on the topic provided or adding up another topic as required and appropriate for project implementation. The brief plan is needed in order to see the cash flow position when making important business decision. Based on the proposed business plan, the suggested Corporate Competitive Strategies for Umbrella Broiler Scheme has been developed as presented in Table 8.5:

Table 8.5

SIMPLIFIED SUGGESTION OF COMPETITIVE CORPORATE STRATEGIES

Mission	To Become an Efficient and Effective Integrator in Poultry Industry.
Goal	To Increase Quantity and Quality of Chicken Meat and Value Added Products produced by viable Bumiputra Entrepreneurs.
Objectives	By the eleven-year implementation of the project, the Bumiputra Farmers/ farmers' organisations will be able to supply 5% of poultry meat and related value added products that are required by West Malaysia population.
Structural Adjustment	To form a new joint venture company.
Structural type	The first stage development will be based on Multidivisional Structure while the second stage will be on holding company formation.
Shareholders	All related parties such as NAFAS, related farmers' organisations and farmers. If possible, it is good if some portion of the share (equity) is also offered to a supermarket group going for vertical integration, feed millers and other parties that could help future business expansion.
Source of Funds	From profits generated from Umbrella Broiler Scheme Project and financing from banks
Business Strategies (Incrementalism Approach)	<p>First Stage: Consolidate the present operation under a new joint venture company and expanding open market share through down stream activities based on high quality and varieties of value added products.</p> <p>Second Stage: Move toward a holding company operation through expansion on up-stream activities by acquiring more equity in hatchery and feed mill. Form subsidiary companies to gain control over the input and output of the entire system</p>
Actions/tasks	<p><u>For the whole project:</u></p> <ul style="list-style-type: none"> - To own/become a major equity holder in hatchery and parent stock company. - To own/become a major equity holder in feed mill. - To emphasise on staff training. - To build an effective Information & Communication Technology and Management Information System for the whole operation. - To implement an effective Integrated Purchasing and Supply Chain Management. - To build a good Corporate Governance²³⁶.

²³⁶ Nigel Kendall, The Institute of Chartered Accountant, Accountancy Books in Business, Good Corporate Governance-An Aid To Growth For The Smaller Company, 1995, pp. 2-4. According to Nigel, Good Corporate Governance by the board of directors consists of establishing a system of structuring, operating and controlling a company. It is to achieve:

1- Good Business Management

	<p><u>For Central contract:</u></p> <ul style="list-style-type: none"> - To increase production of birds per farmer (at least their income above poverty line). - To develop new farmers and upgrade the present farmers - To construct hygiene processing centres. - To build suitable cold storage facilities in the processing centres. <p><u>For Open Market (Including Export Market):</u></p> <ul style="list-style-type: none"> - To own/become major equity holder of processing plants. - To have suitable moveable cold storage. - To develop new/expand farmers organisations capacity on chicken production.
Control	<ul style="list-style-type: none"> - To install an efficient monitoring and evaluation system to reinforce objectives. - To develop indicators to measure efficiency and effectiveness in order to monitor productivity.
Reward	<ul style="list-style-type: none"> - The same quality but reduces in price for all products to all customers or better quality with the same price – increased productivity. - Better pay and incentives to employees - Better return on investment to shareholders.

8.5.2 THE DYNAMIC MODEL OF TRANSFORMATION PROCESS FROM CONSORTIUM TO JOINT VENTURE TYPE OF ALLIANCE BASED ON THE UMBRELLA BROILER SCHEME

The idea to develop the Dynamic Model of Transformation Process²³⁷ from a consortium to a joint venture type of alliance is based on the model by Kathryn Rudie Harrigan in her book, “Motive for Joint-Venture Formation and Termination, Managing for Joint Venture Success” foreword by William H. Newman, 1986. In her model, Harrigan explains that when a joint venture is formed, owners receive benefit from it that aids their respective strategic mission. Environmental changes as well as success alliance attained by the joint ventures may shift the relative bargaining powers of the partners necessitating the need to have new strategic mission by the owners of the joint venture. Meanwhile, among others, the stability of a joint venture agreement will

-
- 2- Good Relationship with shareholders
 - 3- Good consideration for staff
 - 4- Good relationship with trading partners. 5.Good behaviour regarding the environment
 - 6. Good compliance.

be affected by changes in owners' strategic mission and changes in the strategic importance owners attached to the venture. Venture change forces will occur when industry success requirement and competitors' strategies, change. This dynamic model explains the change forces that will impact on joint ventures in relation to the owner change forces, owners-venture change forces and lastly, if venture change forces which lead to the reconfiguration of the joint venture in terms of its organisational form, its scope and mission or its demise, among others. Harrigan had focussed on what changes and impact can take place to the owners/partners of the joint ventures that have become successful or those that, not by choice, have to face the changing environment.

A modified Dynamic Model of Transformation Process has been applied to explain forces created by partners and impact that can take place through an Adaptation Process in order to face Competitive Challenge that rises from time to time in a life of strategic alliance. In this case study, the first force came from partners to deal with challenges as a result of the domestic poultry market being closed to small Bumiputra growers. Using Competitive Strategy, the Umbrella Broiler Scheme has been formed to establish and develop small Bumiputra growers to supply poultry meat to government departments/agencies.

As the second Competitive Challenge rises, as a result of Globalisation & Liberalisation as well as weaker internal strength of the present consortium, new forces from partners emerged with a desire to adopt new competitive strategy, which among others, is to establish a new joint venture company to handle various challenges for the better future of the new company as well as small Bumiputra growers.

Harrigan's model is more focused on the shift of owners bargaining power as a result of the joint venture becoming successful. The stability of a joint venture agreement will be affected by changes in owners' strategic mission and

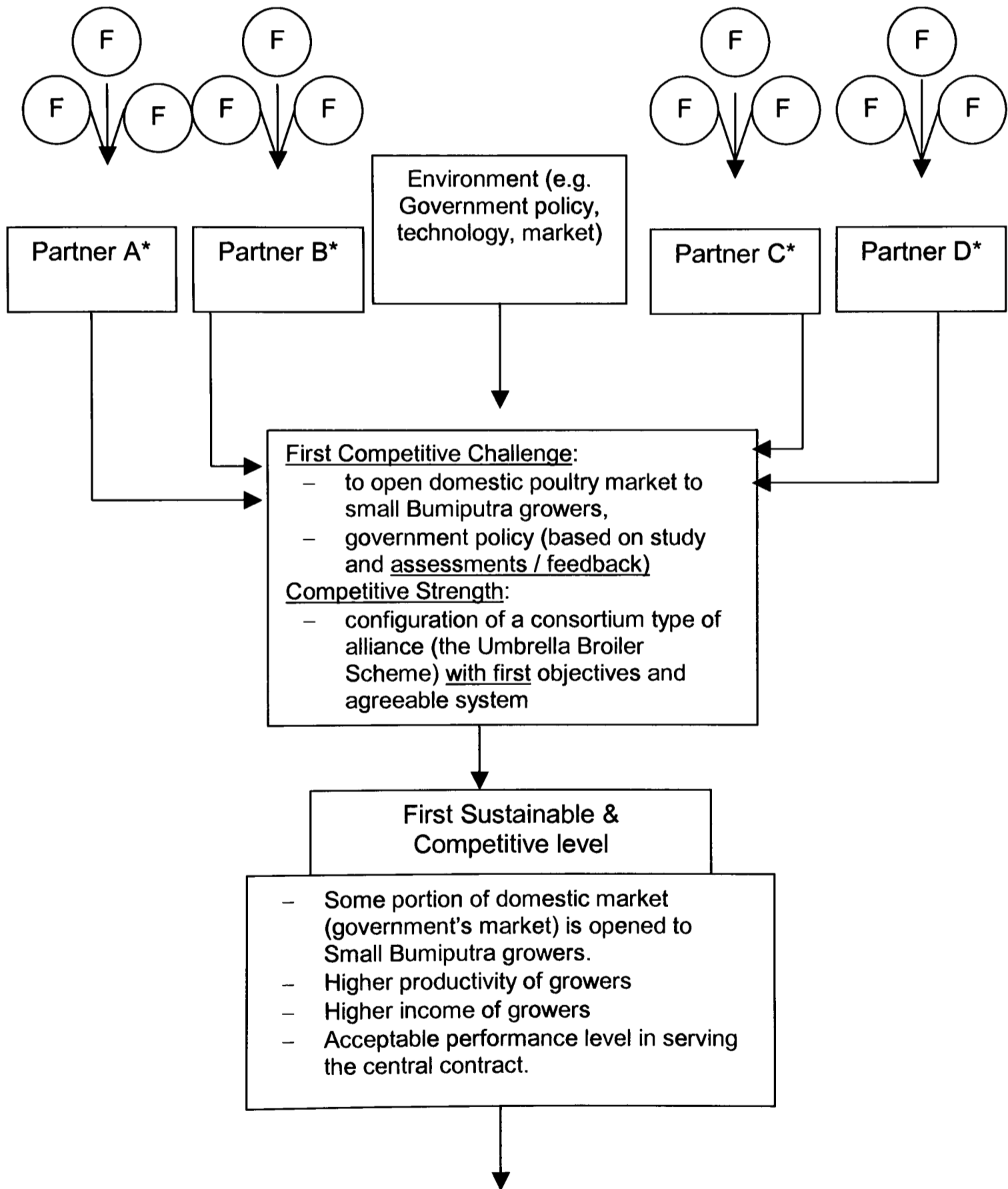
changes in the strategic importance owners attached to the venture. Therefore, her model deals more on changes and impact that can take place to the owners/partners if the joint venture is successful or otherwise. This model does not identify what actions to be taken by a business entity when facing with Competitive Challenge nor the process by which this challenge could be successfully adapted to move to a better sustainability level.

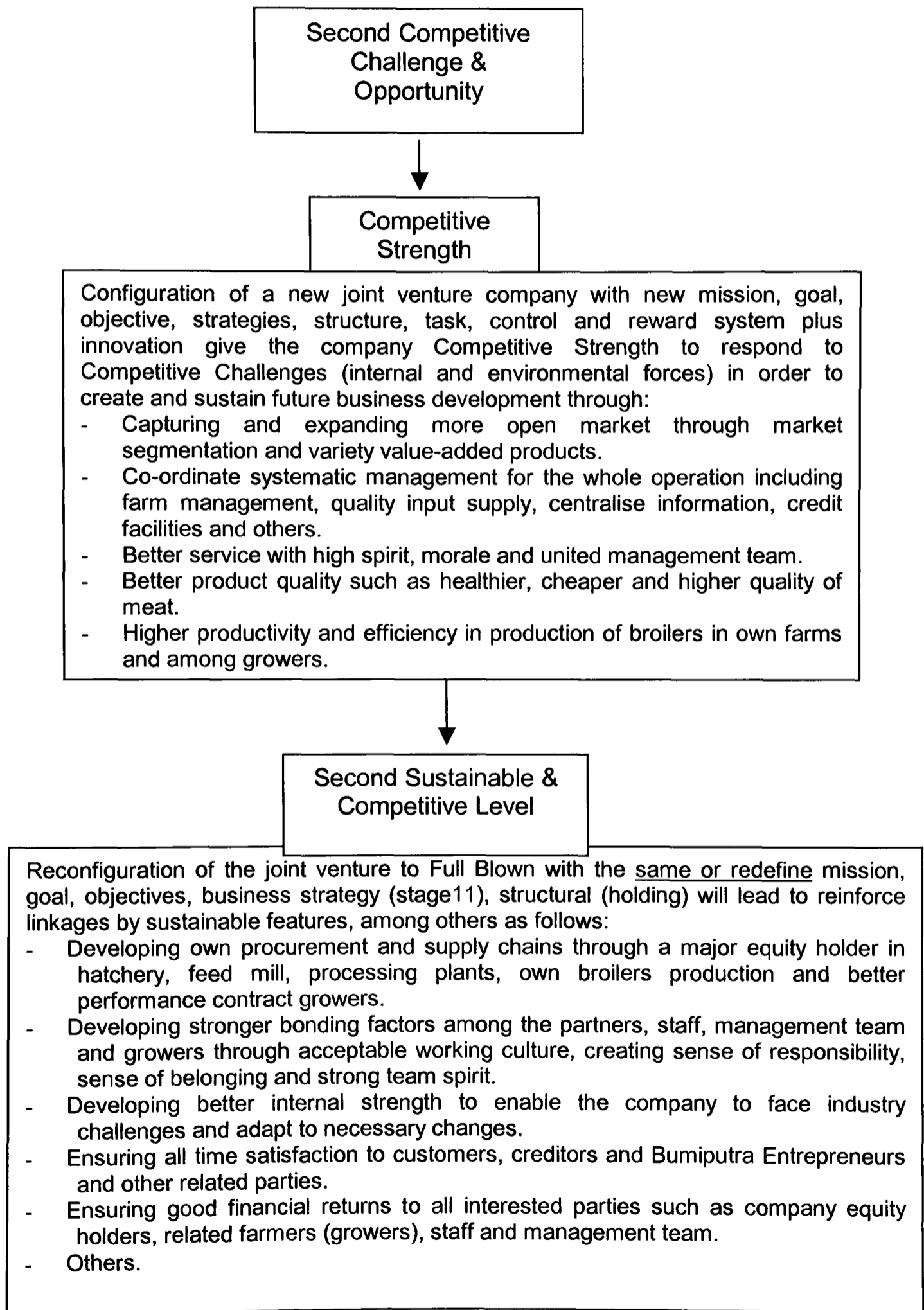
In this study, the modified Dynamic Model of Transformation Process has been used to guide a business entity to accept the Competitive Challenge (if possible, turn it to opportunity). Additionally, through assessment process, partners will act together using Competitive Strategy to build Competitive Strength and move the entire business to a new and better Sustainability Level.

The Dynamic Model of Transformation Process²³⁸ from a consortium to a joint venture type of alliance is as follows:

Figure 8.6

THE DYNAMIC MODEL OF TRANSFORMATION PROCESS FROM CONSORTIUM TO JOINT VENTURE TYPE OF ALLIANCE BASED ON PROPOSED BUSINESS PLAN OF UMBRELLA BROILER SCHEME PROJECT





It is clearly shown from the above Dynamic Model of Transformation Process from Consortium to Joint Venture that internal and external factors (environmental forces) can cause Competitive Challenge (including exploring of opportunities) for changes to take place in the whole operation. To enhance internal strength in order to face environmental forces/challenges or to capture opportunities is a must. In this case study, it is done through strengthening the company's internal operational system, become a poultry integrator, expand market domain, provide better service and product quality as well as increased productivity and efficiency to create and develop Competitive Strength through Competitive Strategies.

Factors that are normally considered under Competitive Challenges and Opportunities are roughly the same factors, which were considered in Strategic Analysis under Strategic Market Management²³⁹. However, under normal circumstances, Competitive Challenges and Opportunities **only consider changes and new issues development** that occur in the internal and external factors of an existing business entity/arrangement that may require changes or adjustment of other factors as well. Strategic Analysis under Strategic Market Management covers overall guidelines and factors that have to be analysed in its creation, change or retention of a strategy.

Competitive Strategies are formulated to create Competitive Strength based on Competitive Challenges and Opportunities faced by an alliance. In planning Competitive Strategies, several strategic dimensions, incrementalism and structural adjustment approaches have been applied as important strategies to create Competitive Strength. With right Competitive Strategy (coupled with Alliance Capability and continuous assessment) an alliance could generate significant Competitive Strength that would propel it to its new Sustainable

²³⁹ David A. Aaker, Strategic Market Management, 1998, pp.18-27.

Competitive Advantage/ Sustainability Level within the different environmental condition (internal and/or external).

8.5.3 THE INPUT AND OUTPUT CHAIN FOR THE NEW JOINT VENTURE COMPANY

In the effort to become an efficient integrator in the poultry industry, a holding company is expected to develop an effective procurement and supply chain. John Ireland (1998)²⁴⁰ in discussing the Purchasing and Supply Chain Management (PSCM) has emphasised the important function of PSCM and is being regarded as a major contributor to the efficiency and effectiveness of an organisation. The value-added activities in the PSCM are seen as a profit centre within the corporate profit/loss account. The PSCM has been based on the input-output diagram below. The PSCM deals with Supply Chain Concept²⁴¹, Material Management²⁴², Contribution of Purchasing²⁴³ and Logistic Management. Martin Christopher (1998)²⁴⁴ wrote that the scope of logistic management process spans the organisation, from the management of raw materials through to the delivery of the final product. According to Christopher, Logistic management is primarily concerned with optimising flows within the organisation whilst supply chain management build upon this framework and seek to achieve linkages and co-ordination between processes of other entities in the pipeline such as suppliers and customers, and the organisation itself. The input and output chain for Umbrella Broiler Scheme's joint venture company can

²⁴⁰ John Ireland, Introduction to Purchasing and Supply Chain Management, The Chartered Institute of purchasing & Supply, 1998, pp. 1-5. According to John, the Purchasing and Supply Chain Management includes The Supply Chain Concept, Materials Management and Logistic.

²⁴¹ Ibid. John Ireland (1998), Supply Chain comprises such as specification of requirement, sourcing and acquisition of materials and services, quality assurance, storage and distribution to the point of need and others.

²⁴² Ibid. John Ireland (1998), Material Management includes material planning and control, production scheduling, inventory control, incoming quality control and others.

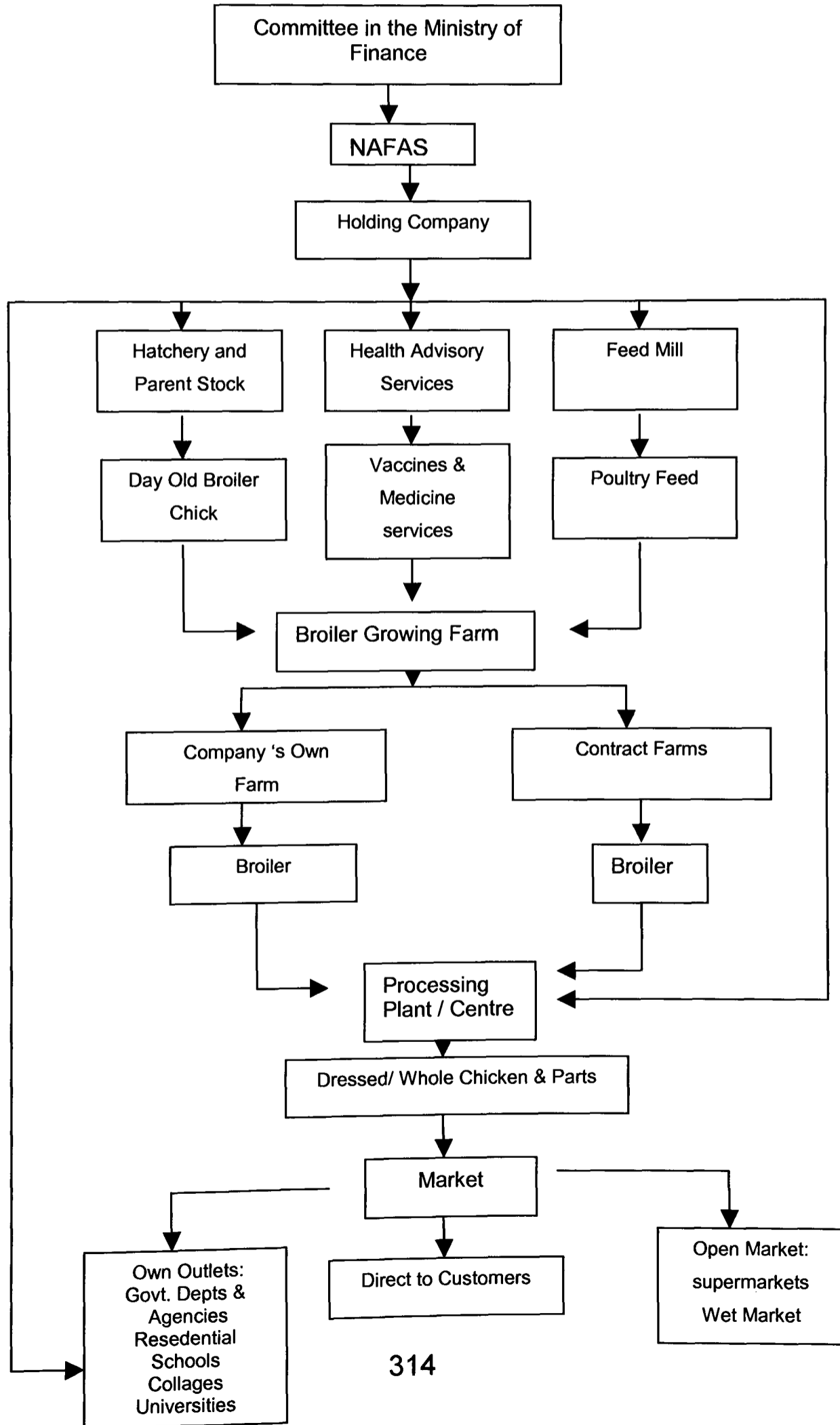
²⁴³ Ibid. John Ireland (1998), Contribution of Purchasing could include continuity of supply, examination of technological development in supply market, negotiating on value for money criteria, improving administrative procedures.

²⁴⁴ Martin Christopher, Logistic and Supply Chain Management, Logistic and Competitive Strategy, 1998, pp. 12-17.

be presented as below:

Figure 8.7

THE FIRST AND SECOND STAGE OF INPUT AND OUTPUT CHAIN FOR THE UMBRELLA BROILER SCHEME JOINTVENTURE COMPANY



The Integrated Purchasing and Supply Chain Management for Ayam Peladang will start from the procurement of parent stocks until the chicken reach consumers in the contract and open market. It involves parent stocks, hatchery, feed mill, processing centres/plants and distribution channels in open markets such as wet and supermarket as well as customers. It develops a two-way relationship e.g. Ayam Peladang's own farm is a customer to its feed mill and hatchery but at the same time it is also a supplier to the open market. In order for this system to work efficiently, effective communication through information and communication technology (ICT), experience, committed and trained personnel are vital ingredients. In the present Umbrella Broiler Scheme's system, farmers' organisations only entail in supplying day old chicks and chicken feed at the beginning of the project and collecting all matured chicken to send them to related government departments/agencies (dressed or undressed) at the end of the project cycle. They therefore need to develop their own effective and efficient supply chain in order to increase productivity and efficiency so that they can offer cheaper but better quality products to consumers.

Through a new holding company, strong bonding factors are also expected to develop through an acceptable working culture that can create a sense of responsibility and belonging as well as strong team spirit. These will enable the company to face industry challenges from time to time and provide satisfaction to its external and internal customers (such as consumers, equity holders, management, growers and others).

However, in an effort to maximise its returns and remain competitive, the new company needs to be able to successfully respond to its other Competitive Challenges and Opportunities such as challenges in reducing cost of production and to explore opportunities in expanding new market domain and value added products. Amongst others, these could be done by adapting new technology

that is available in its environment. The new technology such as the modern method of growing chicken is an environmental factor under external Competitive Challenge and Opportunity that could create Competitive Strength for the future sustainable competitive development of a strategic alliance. It is for the Integrated Umbrella Broiler Scheme/Ayam Peladang Sdn. Berhad. to consideration its merit.

8.5.4 FACTORS INVOLVED TO INCREASE COMPETITIVE STRENGTH

Several factors are involved to increase Competitive Strength of Ayam Peladang in the light of its Sustainable Competitive Development. Amongst others are structural changes and technological improvement. Technological improvement including such as efficient broiler management and new method of growing chicken as mentioned below:

8.5.4.1 BROILER MANAGEMENT

It involves a lot of little things many of which, though seem insignificant, yet can add up to economical production. Actually, broiler management is nothing more than what is known as mini-management and the caretaker needs to observe certain details to achieve success.

Light Management for Broilers

The amount of light for a growing broiler is only the amount required to enable the bird to move about, to see, to eat and drink. Activity is to be reduced to a minimum. Too much light will induce cannibalism, activity and piling. One approach to reduce or restrict some of the natural daylight is to have wider and lower roof of the house. Broilers require about 14 hours of light to provide sufficient time for the consumption of adequate amount of feed and water. On exceptionally hot weather a 16 hour day lights is to be provided in order to give additional time for feeding. Blue or red lights are used when catching the bird.

Feeding Broilers

Broilers should be full-fed from start to finish. They should be induced to eat as much as possible, for the more they eat, the faster they grow and the faster they grow, the better the feed conversion. Feed is the major item of cost in producing a broiler. Therefore, the price of feed and the feed conversion are important factors especially to economical production. This is particularly so in Malaysia when 80% of the ingredients required for making the poultry feeds are imported and feed alone constitutes more than 50% of the cost of production. Feed

conversion is dependent on the quality of feed and this quality factor can be determined through feed analysis.

A comparative evaluation²⁴⁵ of the advantages of having modern approach to growing broilers to that of the conventional method currently practised widely in the country is given due consideration in this study as an environmental factor that can influence the future Sustainable Competitive Development of the strategic alliance projects.

8.5.4.2 FACTORS AFFECTING COST OF BROILER PRODUCTION

The main factors are as follows:

Price of Day-old Chicks

The price of a day-old chick can go as high as RM1.50 when there is a shortage or as low as RM0.20 when there is a surplus. The normal price is around RM0.80 per day-old chick.

Feed Price

Many ingredients required for preparing poultry feeds are imported and the price of the poultry feed are dependent on the price of the raw materials purchased from the foreign sources of supply. With the improvement of the economic situation and the strength of the Ringgit, the current high price of animal feeds in the country is expected to come down. The cost of poultry feeds constitutes more than 50% of production cost of a broiler. If local food material can substitute the imported ingredients, then it may be possible to further reduce feed cost.

Labour Cost

In the conventional method of producing broilers, the cost of labour is a significant factor. It is also difficult to get people to work in the farm. Under the conventional method, a worker can look after to 10,000 broilers. However, with the modern method a worker can manage up to 50,000 broilers. The capital cost for adopting the modern method is substantial and the result justify the cost involved. It improves the labour cost, feed cost, feed conversion, mortality and flock density in the chicken house.

High Average Live Weight

Any method that can improve the feed conversion in the birds will enable the birds to attain a heavier body weight at a lower feed cost.

Hygiene and Sanitary Condition.

The practice of good hygiene and sanitation in the management of the birds will help to reduce mortality and improve the total live weight of the flock.

²⁴⁵ The Comparative Evaluation is based on the cost gathered from Mr. Gan Joo Kong, the Manager of Ayam NS.

Lighting and Ventilating Condition

The maintenance of proper lighting and ventilation in the chicken house will improve liveability of the flock and enhance the body weight of the broilers. The growing cycle of the flock can be shortened by a few days.

Production Cycle

Growing	= 45 days	
Catching	= 2-5 days	
Cleaning	= 14 days	
Contingency	= <u>6 days</u>	
Per cycle	= <u>70 days</u>	
No. of cycle per year		= 365/70 days = <u>5 cycles</u>

8.5.4.3 PRICE OF INPUTS FOR THE PRESENT PRODUCTION OF BROILERS (AS AT JULY 2001)

- The price of the a day-old broiler chick = RM0.80
- The cost of feed: Starter: RM0.85/kg and Finisher: RM0.81/kg
- Feed conversion ratio (45 days) = 2
- Average live weight = 1.8 kg
- Therefore feed consumption per broiler = 3.6 kg
- Starter Feed = 1/3 of 3.6 kg = 1.2 kg x RM0.85 = RM1.02
- Finisher Feed = 2/3 of 3.6 kg = 2.4 kg x RM0.81 = RM1.94
- RM2.96 = RM2.96
- The cost of electricity, water & gas per broiler = RM0.20
- The cost of medication per broiler = RM0.25
- The maintenance cost covers the cleaning and disinfecting of the chicken house and equipment in preparation to receive the next batch of chicks; purchase of wood shavings replacement of some parts or equipment and repairs to the chicken house. = RM0.39
- The cost of direct labour:
at RM540.00 per month (inclusive of EPF & SOCSO)/worker,
for 3 months per cycle, the labour cost = RM1, 620.00.
Therefore, labour cost per broiler in the conventional method
is equivalent to = RM1, 620.00/ 7000 = RM0.23

8.5.4.4 HOUSING CAPACITY PER CHICKEN HOUSE of 34' x 340' or 11,560 SQ. FEED

Under conventional methods, a broiler is given a floor area of 1.5 sq. ft to grow until 45-50 days. A house of a floor area of 11, 560 sq. ft. is capable of growing up to 7707 broilers based on 1.5 sq. ft. per broiler. Normally, the number of broilers to be housed is 7450 chicks at day old in order to attain 7000 broilers (economic size) after 45 days with a 6% mortality rate. However, under the

modern method a floor space of 1 sq. ft. is allocated to a bird for the same growing period. The same chicken house can accommodate 11560 chicks at day old. In this exercise the number of chicks to be housed is 11,460 with the expectation to have 11,000 broilers at the end of 45 days with a 4% mortality rate. Since the ex-farm controlled price cannot exceed RM3.40/kg (it normally around RM3.00/kg) and with supply exceeding demand most of the time, the broilers growers would not get the best price for their broilers unless they can improve production costs.

8.5.5 WHAT IS INVOLVED TO MODERNISE A CHICKEN HOUSE.

The conventional method that is commonly used by most of the growers in the country is shown in Figure 8.8. In the conventional method, the feeding system consists of plastic tube feeders into which a worker puts in the poultry feed daily. The drinking system is made up of bell-shape plastic drinkers, where the water flows to a trough at the base of the round drinker and the water level in the trough is maintained by adjusting the valve level at the top of the drinker.

Figure 8.8



CONVENTIONAL METHOD OF GROWING CHICKEN

The drinkers are cleaned frequently to remove feed particles. The feeding and drinking system have to be regularly attended to and cleaned manually. Ventilating fans may or may not be used. Lighting is provided at night.

Figure 8.9 and Figure 8.10 below shows a modern method of growing chicken:

Figure 8.9



THE ENTIRE MODERN METHOD OF GROWING CHICKEN

Figure 8.10



MORE CHICKEN COULD BE GROWN USING THE MODERN METHOD

Figure 8.9 shows various apparatus and equipment installed in a chicken house under the modern method of growing chicken whilst Figure 8.10 shows the automatic feeding system and nipple drinking system in operation. This feeding system enables feed to be drawn from the holding bin and distributed to the feeding pans. It allows the birds to have total freedom in feeding as the system draws in more feed into the feeding pans whenever they are empty. As for the drinking system, there is no necessity to clean the nipples at all. Proper ventilating fans are fixed for air circulation and sufficient lighting is accordingly provided to enable the birds to see, eat and drink.

8.5.5.1 CAPITAL COST ON EQUIPMENT PER CHICKEN HOUSE (34' x 340')

i. Conventional Method

- Plastic tube feeders : 33 per 1000 x 7 = 231 x RM10.0	= RM2310
- Drinkers (Plasson type): 18 per 1000 x 7 = 126 x RM30.0	= RM3780
- Brooding equipment: 2 per 1000 x 7 = 14 x RM350.0	= RM4900
- Ventilating fans : 12 per house x RM500.0	= RM6000
- Lighting and fixtures	= RM2500
- Spares & contingency	= <u>RM1500</u>
	= <u>RM20,990</u>

Most of the equipment is produced locally. The plastic feeders need to be replaced frequently. The valve of the drinkers requires regular replacement.

ii. Modern Method

- Automatic auger feeding system	= RM32000
- Nipple drinking system	= RM22000
- Brooding system	= RM4900
- Ventilating fans	= RM6000
- Lighting and fixtures	= RM2500
- Other costs (freight charges, insurance etc)	= <u>RM30000</u>
	= <u>RM97400</u>

Note:

The 34' x 340' chicken house can equip 7,000 broilers under conventional method or 11,000 broilers using new method of chicken growing.

The cost for a modern method is about 5 times more expensive than the conventional method. The feeding and drinking system have to be imported either from Australia or USA and additionally more expensive due to the strong exchange rate of the UD dollar over currencies such as the Malaysian ringgit. The feeding system is "made to work, built to last". The button nipple drinking system is said to be ideal for broilers of any age or size, provides better bird starts, easy to operate and manage and reduce maintenance costs and headaches. For 40 chicken houses, it will cost at least RM4.0 million to have the modern method installed.

8.5.5.2 COMPARISON OF PRODUCTION COSTS PER BROILER

ITEM	CONVENTIONAL METHOD (RM)	MODERN METHOD (RM)
- Cost of a day-old chick	0.80	0.80
- Cost of feed	2.96	2.66
- Medication	0.25	0.25
- Water and electricity	0.20	0.10
- Contingency (maintenance)	0.39	0.19
- Labour	<u>0.43</u>	<u>0.30</u>
• Production cost	5.03	4.30
- Adjustment for mortality cost	<u>0.35</u>	<u>0.18</u>
• Ex-farm Price of a 1.8 kg broiler	<u>5.38</u>	<u>4.48</u>
- Transportation & catching cost per bird	0.20	0.20
- Processing and packaging costs	0.60	0.60
- Storage	0.20	0.20
- Admin expenses*	<u>0.34</u>	<u>0.22</u>
-		
• Cost per processed broiler	<u>6.72</u>	<u>5.70</u>

It can be seen that the ex-farm price (to the nearest RM0.05) for life birds using the traditional method is RM5.40/bird and RM4.50/bird for the modern method whilst cost per processed birds is RM6.75 and RM5.70 for the modern method respectively.

Note:

ΣAdministration expenses:

The total administration expenses for 4 years (as attached in Appendix 8c (note 2) is as follows:

Year	1	22056 (RM)
	2	278441
	3	341473
	4	<u>380100</u>
		1220270

Therefore, the average administration expenses per broiler produced:

(A) Conventional method = $1220270/3570000 = \text{RM0.34}$

(B) Modern method = $1220270/5610000 = \text{RM0.22}$

Adjustment for Losses on per Broiler Finished

	Conventional Method	Modern Method
No. of broiler housed	7450	11460
Mortality rate	6%	4%
Liveability	94%	96%
Average flock weight per broiler	1.8 kg	1.8kg
Cost of production per broiler	$\frac{5.17 \times 7450}{7000}$	$\frac{4.32 \times 11460}{11000}$
	= <u>RM5.50</u>	= <u>RM4.50</u>
Cost of production/kg live weight	= $\text{RM5.50}/1.8 \text{ kg}$	= $\text{RM4.5}/1.8\text{kg}$
	= <u>RM3.06</u>	= <u>RM2.50</u>
Therefore, Mortality loss on per broiler finished	$\frac{\text{RM3.06} \times 1.8 \times 450}{7000}$	$\frac{\text{RM2.5} \times 1.8 \times 460}{11000}$
	= <u>RM0.35</u>	= <u>RM0.18</u>

8.5.6 FINANCIAL HIGHLIGHT FROM THE PROJECTED CASH FLOW

Based on the disbursement of fund as shown in the Projected Cash Flow on the Proposed Business Plan, Appendix 8c, the brief closing cash balance position is stipulated in Table 8.6:

Table 8.6

**AYAM PELADANG'S CASH FLOW POSITION-WITH AND WITHOUT
 CAPITAL INJECTION**

Year	Cash Flow Without Capital Injection			Cash Flow With Capital Injection			
	Net Cash Balance	Opening Cash Balance	Closing Cash Balance	Net Cash Balance	New Opening Cash Balance	Capital Injection	New Closing Balance
1	(2658.9)	0.0	(2658.9)	(2658.9)	0.0	2800.0	141.1
2	(1159.3)	(2658.9)	(3818.2)	(1159.3)	141.1	1100.0	81.8
3	(454.5)	(3818.2)	(4272.7)	(454.5)	81.8	400.0	27.3
4	(1541.4)	(4272.7)	(5814.1)	(1541.4)	27.3	1800.0	285.9
5	1457.0	(5814.1)	(4357.1)	1457.0	285.9	0	1742.9
6	1055.7	(4357.1)	(3301.4)	1055.7	1742.9	0	2798.6
7	234.0	(3301.4)	(3067.4)	234.0	2798.6	0	3032.6
8	3668.8	(3067.4)	601.3	3668.8	3032.6	0	6701.3
9	3070.3	601.3	3671.6	3070.3	6701.3	0	9771.6
10	5964.2	3671.6	9635.8	5964.2	9771.6	0	15735.8
11	6671.9	9635.8	16307.6	6671.9	15735.8	0	22407.6

The above figures show that, without capital injection, Ayam Peladang's cash flow will only show a positive figure at the end of eight year of operation. However, if the company is willing to inject capital from the first till the fourth year of operation i.e. at RM2.8 million, RM1.10 million, RM0.4 million and RM1.8 million respectively, the company's projected cash flow will be in a strong position after the fourth year of operation.

From the closing balance of the cash flow, the company is going to have negative net cash balance until the seventh year of the operation if no capital injection takes place. The company will only start to show gross profit from the eight year of operation. Even though this trend is acceptable, for the sake of expediency, it is better if adequate capital injection is seriously considered and satisfied.

The upgrading of the technology (environmental factor) in the management of growing broilers is indeed necessary in order to increase productivity, improving

quality of the broilers produced and achieving cost efficiency. This is very much in evidence as a means to attain company competitiveness and sustainability especially when the farms keep getting bigger. The potential to increase the density of the flock of broilers grown in the chicken house by 63.8% in the modern method is perhaps the most discerning. Although capital investment towards this end is considerable, the return in the long term certainly justifies such a move.

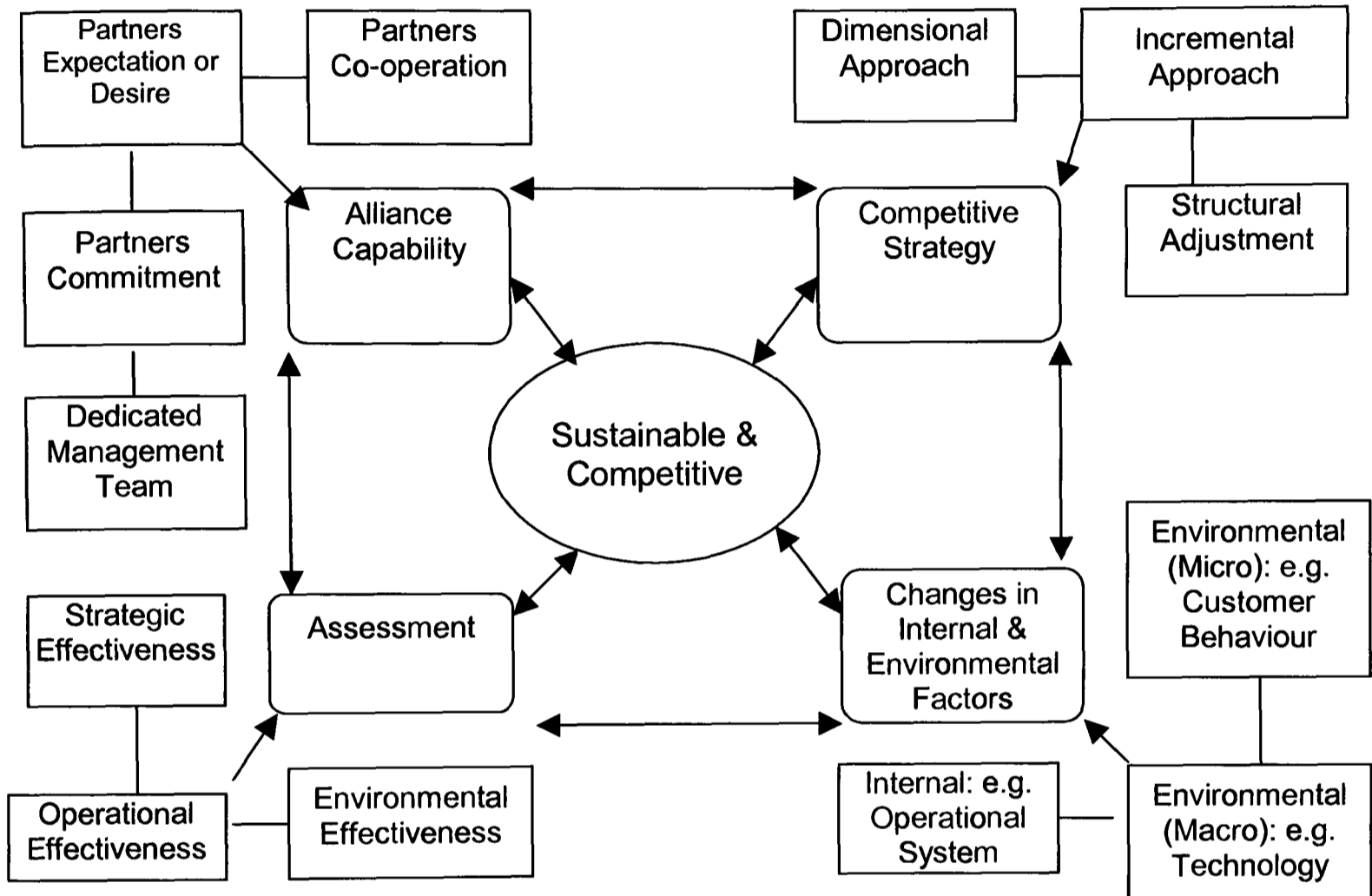
Ayam Peladang should seriously consider seeking financial assistance from banks to install chicken houses under this modern method. Whatever profits they obtain from this project could be used to help expended to help the contract growers improve their broiler production in order to become competitive Bumiputra entrepreneurs.

8.5.7 SUSTAINABLE COMPETITIVENESS MODEL FOR MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE:

STAGE 2: ADAPTATION PROCESS

This Adaptation Process intends to portray the simultaneous evolution of several factors, namely, changes in Internal and Environmental factors, continuous project Assessment, Alliance Capability combined with business Competitive Strategy. Based on Umbrella Broiler Scheme's case study, this process shows that parent company intervention on adaptation process would make it possible for the alliance to reach new Sustainable Competitiveness Level from time to time. The proposed sustainable competitiveness context and their adaptation process are as follows:

Figure 8.11
PROPOSED SUSTAINABLE COMPETITIVENESS CONTEXT FOR ALLIANCE ADAPTATION PROCESS UNDER UMBRELLA BROILER SCHEME



- Assessment
- Strategic Effectiveness
 - Operational Effectiveness
 - Environmental Effectiveness

- Alliance Capability
- Partner Expectation
 - Partner Commitment
 - Partners Co-operation
 - Dedicated Management Team

- Competitive Strategies
- Strategy Dimensions
 - Incremental Approach
 - Structural Adjustment

- Changes in Internal & Environmental Factors
- Internal: Internal strength
 - Environmental (Macro): Government Policies
 - Environmental (Micro): Competitors

Since its formation in 1975, the Umbrella Broiler Scheme, which has been in operation for more than 20 years, is now subjected to competitive challenge that came as a result of changes in internal and environmental factors. The Umbrella Broiler Scheme has gone over two stages of situations and

challenges as follows:

First phase of situation and challenges faced by the Umbrella Broiler Scheme during its formation:

- Closed domestic poultry market to Bumiputra small growers.
- Poverty in rural areas.
- Wide geographical coverage if want to serve government contract.
- Poultry industry was controlled by the Chinese and it was a real problem for indigenous group to penetrate the market.

Second phase of situation and challenges faced by Umbrella Broiler Scheme now:

- Facing productivity challenge due to weaknesses of the internal system such as disintegrated operational system and non-adequate facilities and excess production, domestic competitions.
- Globalisation and liberalisation. Increase competition from imported goods from neighbouring country such as cheap poultry from Thailand.

During the formation period of the Scheme, the adaptation process as mentioned in Figure 8.11, had already taken place. From the farmers' organisations assessment, they had identified the difficulty of small Bumiputra growers to penetrate the domestic poultry market (challenge from environmental factor). Through commitment and co-operation of all the related farmers' organisations, they chose to form the strategic alliance (the Umbrella Broiler Scheme) as a competitive strategy to create competitive strength by penetrating the government's market and become a sustainable and competitive strategic alliance.

As for now, new challenges have already been in existence for the Umbrella Broiler Scheme. It is facing second phase of situation and challenges i.e.

productivity challenge due to weaknesses of the internal system. Globalisation and liberalisation are also additional factors that brought about increase competition from imported goods especially those from neighbouring countries. These new challenges need process of adaptation in order to create competitive strength and become a sustainable and competitive strategic alliance again. Part of the adaptation process (Changes in Internal & Environmental Factors, Assessment and Alliance Capability) are already in place and therefore, only Competitive Strategy is being proposed by the business plan (Appendix 8(b)). Based on Figure 8.11 above, the adaptation process for the second phase challenges is examined in detail as follows:

8.5.7.1 INTERNAL AND ENVIRONMENTAL CHANGES

Internal and environmental (external) changes are important factors that drive the competitive challenges and opportunities. The changes could be due to weakness or success of a project. For example, in this case study, the weakness of the system has created disintegration within the integrated system but on the other hand, the scheme has successfully produced more broilers than required by the present contract market. Both results need to be seriously considered. A right strategy to control the present productivity level is needed but not to the point of losing good business opportunity to the company.

Among other changes in internal factors that could influence the establishment of competitive challenges are internal strength, operational system and productivity. Environmental (external) factors however, could be divided into micro (such as competitor movement, change in customers' behaviour, product innovation and others) and macro (government policy, occurrence of international event, technology etc.) factors.

The outcome of the assessments made, following internal and environmental changes as well as partners' expectation will trigger competitive challenges and

opportunities to alliance life. Through various approaches of competitive strategies (such as strategic dimensions, structural adjustment and incrementalism), competitive strength will be created to push the alliance into another level of sustainability level, which incidentally will not last as other competitive challenges and opportunities will occur from time to time.

As mentioned above, the process of sustainability being lifted to another level had already taken place during the formation of the Scheme. The small farmers' poultry business under the Umbrella Broiler Scheme has achieved their first Sustainable Competitive Advantage²⁴⁶, that enable them to attain a high level of productivity in the industries/market place in which they compete, when the Scheme managed to open some portion of domestic market (i.e. government market) that was previously closed to them. Through this scheme, the small farmers raised their productivity by growing more economical number of broilers, applied a measure of scientific method of raring chicken, which brought them better price for the broilers supplied to the central contract.

Globalisation and liberalisation of the world economy have brought new challenges to the Umbrella Broiler Scheme. This phenomenon has seen structural changes taken place and competition is growing incessantly due to increasing demand on innovative and higher quality of products and services. This led to the scheme facing its second phase of challenges i.e. productivity challenge due to weaknesses of the internal system and increase competition from imported goods, especially from neighbouring Thailand. These new Competitive Challenge needs to undergo an Adaptation Process to create Competitive Strength. In the case of Umbrella Broiler Scheme, the

²⁴⁶ Based on Michael E. Porter definition on Sustainable Competitive Advantage in Competitive Advantage of Nations, 1990, pp.1-6. Sustainability Level is define as "The level where a firm obtains its sustainable Competitive Advantage that enable it to attain a high and rising level of productivity in the industries/market place in which its compete".

implementation of new technology in growing chicken will make it competitive. This is expected to move the company (including the small farmers) sustainability to another level.

By the eleven-year implementation of the Ayam Peladang project, it is envisaged that the Bumiputra Farmers/ farmers' organisations will be able to supply 5% of poultry meat and related value added products required by the West Malaysia population. This is a tall order. Even though there is a need to be step-change in strategy but a paradigm shift is needed to achieve the above task. There cannot be considered as an evolutionary strategy for the farmers' organisations to achieve the 5% market share within the prescribe timescale. Radical change is needed.

8.5.7.2 ASSESSMENT

During the contract period, several assessments have been carried out in order to assess the effectiveness and efficiency of the scheme. The assessments can be categorised into Operational Effectiveness Measure²⁴⁷, Strategic Effectiveness Measure²⁴⁸ and Environmental Effectiveness. In this study, Operational Effectiveness Measure incorporates matters related to the management of the integrated system, alliance evolution, organisational learning, information dissemination, and financial matters. Meanwhile, the Strategic Effectiveness Measure involves policies i.e. on input supply and marketing strategy. It is also useful to assess Environmental Effectiveness that concern benefits received by the community such as through creating employment opportunities, responsive to government policies (New Economic

²⁴⁷ Ibid, Whipple & Frankle (2000), *The Alliance Formation Process*, pp.347, defines Operational Effectiveness as an assessment of the extent to which each partner is adhering to the agreed-upon operating practise and procedures of the alliance.

²⁴⁸ Ibid. Whipple & Frankle (2000), *The Alliance Formation Process*, pp. 342, defines Strategic Effectiveness Measure based on the definition of "perceived effectiveness" as "the extent to which firms are committed to the alliance and find it to be productive and worthwhile".

Policy) and sensitive to local needs (such as environmental conservation).

The Umbrella Broiler Scheme's assessments consist of contract performance assessment (Strategic Effectiveness Measure), socio-economic objectives (Environmental Effectiveness) and operational system (Operational Effectiveness Measure). Each assessment is carried out by the respective group whose responsibility it is to deliver specific outcomes. For example, NAFAS will do an assessment on contract performance and socio-economic achievement as to fulfil conditions that have been agreed upon before the Minister of Finance could consider the extension of the contract. At the same time, Treasury will also make an assessment on contract performance based on reports and complaints received from government departments and agencies that purchased poultry under the central contract.

From time to time, every state farmers' organisations that have area farmers' organisations involved in this scheme will assess the efficiency of the operational system in serving the contract. Papers that were presented in Hotel Vistana (1996), had addressed the overall issues/problem facing the implementation of the whole scheme. Among state farmers' organisations that presented their papers were Johor, Sabah, Selangor, Kelantan, Perlis, Kedah and Melaka.

The overall and continuing assessments do help to identify the strength (such as successfully developed 225 Bumiputra growers and have 25% extra production of poultry meat then required by the contract) and weaknesses (disintegration of the integrated scheme) of the scheme. As a result, the Competitive Challenge faced by the alliance and prevailing opportunity were identified. Besides assessing the present contract, the partners have also suggested to form a joint venture company that they believe could handle the operation of the scheme more effectively.

8.5.7.3 ALLIANCE CAPABILITY

In this case study, the alliance capability such as partner (s) expectation, commitment, co-operation and dedicated management team are important factors as compared to ordinary joint venture. Partner expectation or desire deals with strategic intent of an alliance such as to have efficient integrated system in order to increase productivity by reducing operational and management costs, to become an integrator in the poultry industry. The Umbrella Broiler Scheme's Members have expressed their desire for the Scheme to be operated on profit maximisation approach in order to reduce operational and management costs. They also wanted to develop good bargaining power in obtaining input supply such as poultry feed, day old chicks and medicine for the whole scheme.

Partners Commitment/Co-ordination examines the alliance partners working relationship by evaluating each firm's strategic level commitment. Partner commitment requires availability of resources. It focuses not only on solution orientation and competence-based trust (how partners manage day-to-day problems) but also on how both parties share or support each other's long term business goal. In this case study, shareholders (all related parties such as NAFAS, related farmers' organisations and farmers) of Ayam Peladang will play an important role by providing services and functions that are needed to become an efficient and effective Integrator in Poultry Industry. Related area farmers' organisations will continue organising their farmers to grow the amount of required poultry by Ayam Peladang in order to expand its open market. Simultaneously, the management of Ayam Peladang needs to provide hygienic processing centre/plant to ensure good quality chicken meat are produced. Bulk buying of chicken feed and day old chicks will ensure good quality products will be supplied at very competitive price.

Partners Co-operation Relationship²⁴⁹ deals with information exchange and responsiveness. Information exchange is especially concerned with mutual exchange of pertinent information in the alliance that may occur in formal/or informal manner. Responsiveness refers to the capability and willingness of organisations and individuals to adapt to all (including the unexpected) operating conditions. This case study has clearly shown that all related partners have willingly co-operated to present papers on various problems and offer suggestions on how to strengthen the scheme.

A dedicated management team is a valuable and a must-to-have asset to any corporation/alliance if they want to be successful in any dealing/venture. Their dedication needs to be built and maintained through effective reward system and right motivation such as better pay and incentives (for example recognition and better career development) to employees' as well right style of management. Under the Umbrella Broiler Scheme, each and every area farmers' organisations have been given their own area of responsibility; so much so, it does not create real competition among them. Most of the present managers under this scheme would do with more exposure to open market way of dealing before being given responsibility to lead the management team of Ayam Peladang.

As a new joint venture company, Ayam Peladang, which need to develop and focus more on open market, is going to acquire different types of clients and market scenario that call for different approach and strategy. A dedicated management team should therefore be lead by a person(s) with vast experience in dealing with poultry open market system and the stiff competition that come with it (normally, as a CEO, he will be offered some share of the company). Personnel with appropriate technology/experience should be

²⁴⁹ The definition is based on the Whipple and Frankle (2000) definition on Relationships Commitment, The Alliance Formation Process, pp. 350-352.

appointed as other members of the team. Additionally, dedicated area farmers' organisations managers/officers should also be appointed to understudy the whole operation with a view to sit as board members/lead the whole operation in the future. A dedicated management team together with partners of alliance will plan the company competitive strategies, co-ordinate its implementation (do what ever necessary changes according to the new prevalence factors), monitor the progress, exercise controlling measures and initiate continues assessments.

Partner(s) Capability creates forces to the alliance. The first force came from partners to deal with challenges as a result of the domestic poultry market being closed to small Bumiputra growers. As the second Competitive Challenge rises, as a result of Globalisation & Liberalisation as well as weaker internal strength of the present consortium, new forces from partners emerged with a desire to adopt new competitive strategy, which among others, is to establish a new joint venture company to handle various challenges for the better future of the new company as well as small Bumiputra growers. With this in mind partner capabilities have been specially assigned to have their own boxes in the model to emphasise the importance of their function in the strategic alliance's joint venture.

8.5.7.4 COMPETITIVE STRATEGY

Competitive Strategy is formulated to create Competitive Strength based on the Competitive Challenge faced by an alliance. In planning Competitive Strategy, it involves the consideration of four key factors that determine the limits of what a company can successfully accomplish. These are company strength and weaknesses, industry opportunities and threats (economic and technical), personal values of key implementers and broader societal expectations (Porter,

1980)²⁵⁰

Also, Competitive Strategy dimensions have been identified as an important strategy to create Competitive Strength. In this study, it includes Strategy Dimensions, Incremental Approach and Structural Adjustment. Different industry/product will have different strategy dimensions. This study also proposed the new joint venture company to opt for an incremental approach in its development phases. This is to balance with the financial performance of the company. The need for structural adjustment is clearly explained to strengthen the internal strength of the company to respond to its functions.

There are however two schools of thought regarding competitive strategy. Caves & Porter (1977), Caves (1980), Porter (1980) theories based on market structure that play a vital role in determining firm profitability. Firms need to ensure strategic fit between their internal characteristic (strength and weaknesses) and external environment (opportunities & treats). However, Das & Teng (2000)²⁵¹ are in favour of Resource-Based view that stresses the internal aspect of a firm. According to this approach, a firm's competitive strategies are critically influenced by its accumulated resources i.e. what a firm possess would determine what it accomplishes. However, Bowman and Faulkner (1997)²⁵² view that in reality, it is important to understand both the competitive structure of market and the firm's resource-based in order to formulate viable and sustainable strategies. This research supports the last view. The competitive structure of market and partner (s) availability required resources are therefore important factors in planning the Competitive

²⁵⁰ Ibid. Porter (1980), Structural Analysis Within Industries, Competitive Advantage of a Firm in Global Industry, pp.xvi-xviii.

²⁵¹ T.K Das and Bing-Sheng Teng, Journal of Management, A Resource-Based Theory of Strategic alliances, 2000, pp. 31-61

²⁵² Ibid. Cliff Bowman and David Faulkner, Strategy and Culture, Competitive and Corporate Strategies, 1997, pp. 143-145.

Strategies.

Given that, the joint venture has not been set-up, the Competitive Strategies have to be completed by the writer through a proposed business plan. In the business plan, the Competitive Strategies for the new joint venture company are devised through new mission, goal and objectives, structural adjustment as well as business strategies, action/tasks, control and reward as simplified in Table 8.5 above.

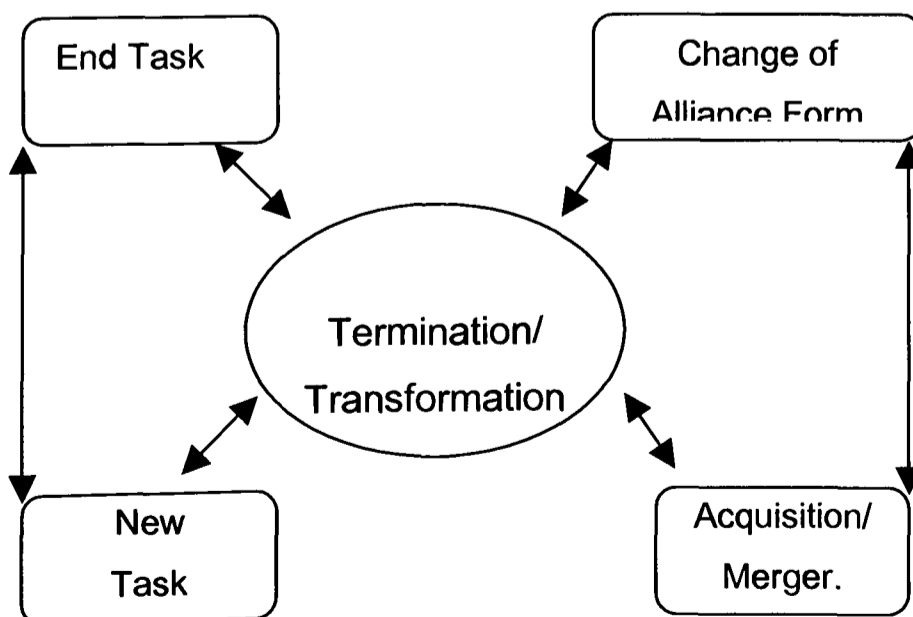
8.5.8 SUSTAINABLE COMPETITIVENESS MODEL FOR MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE:

STAGE 3: TRANSFORMATION/ TERMINATION OF ALLIANCE

Based on the Umbrella Broiler Scheme case study and literature reviews on alliances, alliance life span would not necessarily end through termination of the alliance. An alliance can undergo a transformation process as illustrated in Figure 8.12 below:

Figure 8.12

TRANSFORMATION/ TERMINATION OF ALLIANCE



The alliance operation might be terminated if it has already achieved whatever objectives it was meant to do. For example, a joint research alliance will be terminated after the intended result has been obtained. In the case of Umbrella Broiler Scheme, by changing the mission, goal and objectives, the partner's intend to give new tasks to the alliance (future joint venture). They intend to change the objectives of the alliance from merely increasing the income of rural farmers to creating Bumiputra entrepreneurs to become (among others) an efficient and effective integrator of the poultry industry.

An alliance also ceased its operation if one firm acquires the venture from the partners; well over 80%²⁵³ of international joint ventures end their alliance in this way. As we are aware, a wave of corporate acquisitions²⁵⁴ swept across Europe as a result of liberalisation and formation of the European Union. Although globally, alliances are primarily formed on complementary between the partner firms, most alliances formed within Europe to gain benefits from increased economies of scale. Contrary to alliance formation in Europe, as earlier stated, inter-continental alliances uniting US and Japanese Firms, European and US firms or Japanese and European firms are mainly on complementary. Therefore, in order to avoid culture and organisational shock caused by acquisition, it is not possible for some scale alliances to be formed²⁵⁵ in the future as a first step toward a merger rather than an acquisition.

Be that as it may, it is possible for an alliance to transform itself into another type of alliance. In the case of Umbrella Broiler Scheme, the consortium type of alliance will transform into a joint venture type of alliance if the proposed business plan is accepted (with or without modification) and implemented. If an

²⁵³ Ibid. Reuer & Zollo (2000), *Managing Governance Adaptations in Strategic Alliances*, pp. 166

²⁵⁴ Bernard Garette and Pierre Dussauge, *Alliance Versus Acquisitions: Choosing the Right Option*, *European Management Journal*, 2000, Vol. 18, No. 1, pp. 63-69.

²⁵⁵ Ibid. Garette & Dussauge, 2000, pp. 66-67.

alliance were taking a new role or being transformed to another type of alliance, the new image of alliance would have to adjust itself through part/whole stages of formation and sustainability process all over again. In the real business world, where firm corporate strategies move together with organisational learning, it is possible for the alliance life cycle to take place several times before the alliance decides to cease operation.

8.5.9 SUSTAINABLE COMPETITIVENESS CYCLE

The above process can be simplified in the Sustainable Competitiveness Cycle/Competitiveness Cycle that can be observed in Figure 8.13 below:

Figure 8.13
COMPETITIVENESS CYCLE

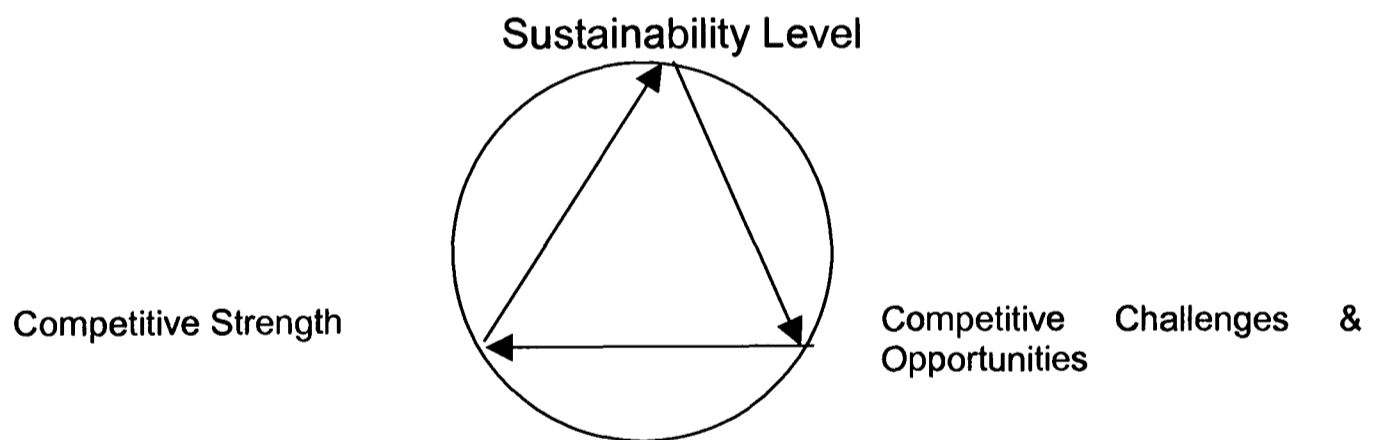


Figure 8.13, The Sustainable Competitiveness Cycle is derived from the Adaptation Process. It explains Competitive Cycle that can take place in a lifespan of an alliance. Based on Michael E. Porter’s definition of Sustainable Competitive Advantage²⁵⁶, the Sustainability Level is defined as “The level where a firm obtains its Sustainable Competitive Advantage that enable it to attain a high and rising level of productivity in the industries/market place in

²⁵⁶ Based on Michael E. Porter definition on Sustainable Competitive Advantage in Competitive Advantage of Nations, 1990, pp.1-6. Sustainability Level is define as “The level where a firm obtains its sustainable Competitive Advantage that enable it to attain a high and rising level of productivity in the industries/market place in which its compete”.

which its compete". The Competitiveness Cycle can occur from time to time in a lifespan of a business entity (e.g. a joint venture) or in a business arrangement such as strategic alliance. It shows that a business entity needs to face Competitive Challenge and explore opportunity from time to time and develop Competitive Strength in order to move to another Sustainability Level. In order to remain competitive, this process should not stop and continue until the business decides to cease entirely for whatever reason.

In the case of the Umbrella Broiler Scheme, the first Competitive Challenge was when small Bumiputra farmers' wanted to open the poultry domestic market that was previously closed to them. This request had created forces for the Government to award central contract to NAFAS through the Umbrella Broiler Scheme. Through this scheme, the small farmers raised their productivity by growing larger number of broilers, applied more scientific way of raring chicken and get better price for the chicken supplied under the central contract. The Adaptation Process (Changes in Internal & Environmental Factors, Assessment, Alliance Capability and Competitive Strategy) that they undertook has developed Competitive Strength to meet the challenge. Only then, did the small Bumiputra farmers reach their first Sustainable Competitive Advantage that enable them to attain a high and rising level of productivity.

Now, the scheme is facing the second phase of challenge i.e. productivity challenge due to weaknesses of the internal system and increase competition from imported goods as a result Globalisation and liberalisation of the world economy. This phenomenon accelerates structural changes and competition is ever growing due to increasing demand on innovative and higher quality of products and services. As mentioned before, this new Competitive challenge has created forces for the Umbrella Broiler Scheme to undergo an Adaptation Process again in order to develop strong Competitiveness Strength. Among others, the formation of a joint venture company (Ayam Peladang), structural

changes, the implementation of new technology in growing chicken will create internal strength and reduce production cost that will increase productivity and place the new company in a better position to compete with its competitors. Interaction of all the factors is expected to move the company's (including the small farmers) sustainability to another level.

The new Sustainability Level can occur many times in the life of a business entity. It shows that a business entity is a dynamic organisation that needs to face Competitive Challenges and Explore Opportunities. These will force the business entity to undergo an Adaptation Process to develop creditable and effective Competitive Strength. Only then, the business entity would be able to reach a new Sustainability Level. In order to stay competitive this process should not be stopped but must continue until the business decides to cease operation entirely.

8.6 CONCLUSION

1. In an attempt to increase income of their farmers, farmers' organisations through NAFAS had applied for central contract to supply poultry meat to Government departments/agencies. They formed a consortium type of alliance called the Umbrella Broiler Scheme comprising all farmers' organisations/state farmers' organisations that are involved in serving the contract together with NAFAS. Government representatives from Ministry of Finance and other related ministries and departments supervise the running of this contract. Only with government intervention, the farmers' organisations are able to break into the poultry trade. Further development or growth beyond the current 1% market share requires a step change in business process and alliance arrangement.

2. There is a need for a more aggressive business plan which provide for stronger management and visionary leadership, improved capitalisation to attain organic growth and to push for further modernisation of the poultry production operation for better return.
3. Partner selection should be highly selective in that the partner should be in a position to offer farmers' organisations access into significant share of retail and catering outlets. Partners must be highly committed towards the long-term strategic objective of becoming major stakeholders in the poultry industry through substantial ownership and market share.
4. The increased activity of the joint venture in the poultry sector should come from winning market share away from competitors. Equally, increase in turnover should also come from acquiring more business, which arises from growth in the sector.
5. **Stage 2 of the Sustainable Competitiveness Development Model, Adaptation Process** has been developed. In developing the Stage 2, several mechanisms were developed and deployed in order to capture the right perspectives of the Process, namely, the business plan, the Input and Output Chain for the new joint venture company and the Dynamic Model of Transformation Process from consortium to joint venture type of alliance. It explains how interaction of project Assessment, Internal & External Changes, Partners Capability and Competitive Strategy could take place to create Competitive Strength by going through an Adaptation Process in order to face Competitive Challenge before an alliance could achieve a new Sustainability Level.

6. **Stage 3 of the Sustainable Competitiveness Model, Transformation/ Termination of Alliance** was developed based on the Umbrella Broiler Scheme case study and experiences of international alliances. It includes Change of Alliance Form and Merger/ acquisition factors that influenced the Transformation of Alliance. The alliance will be terminated if its objectives are achieved.
7. The Malaysian Farmers' Organisations Sustainable Competitiveness Model takes the view that alliances have dynamic features. It responds accordingly to strategic intent of the owners, internal and external environments in order to sustain the business. As a means to an end, strategic alliance would be used as much as possible to achieve the long-term goals of the partners in terms of value potential (such as profit) and, as far as possible, together with social enrichment (such as wealth creation for the poor). In doing so, alliances have no choice but to strive for excellence and creditable performance through alliance's Sustainable Competitiveness Cycle perspective.
8. **The Sustainable Competitiveness Cycle/Competitiveness Cycle** is an advanced model from the Second Stage of the Sustainable Competitiveness Model for Malaysian Farmers' Organisation Strategic alliance, Adaptation Process. It explains Competitiveness Cycles that take place in a lifespan of an alliance. From the Umbrella Broiler Scheme's case study, the two phases Competitive Challenge faced by the alliance were generated from Assessments and Internal & Environmental Changes that forced the alliance partner(s) (Partner(s) Capability) to develop strong Competitive Strategy. The interaction of all factors will generate Competitive Strength for the alliance to face and overcome the challenges and move itself to a new level of sustainability.

Since a business entity is a dynamic organisation that needs to face Competitive Challenge and Explore Opportunity from time to time, it is possible for this new Sustainability Level to positively change several times in the lifespan of an alliance/a business entity.

CHAPTER 9

CONCLUSIONS

9.1 INTRODUCTION

The aim of this research is to support the main **research question** that “The strategic alliance route offers Malaysian Farmers’ Organisations a reliable and realistic way forward, towards wealth creation and socio-economic development”.

To enhance the above research question, this research covers several objectives i.e. reviewing all farmers’ organisations strategic alliance business opportunities as at 30th June 1998 and assessing the type and trend of projects implemented, evaluating the impact of relevant and, where appropriate, related projects on the income generation activities of participating members, establishing factors that describe the formation, motivation, partners selection criteria, management, environmental and evolution factors of these strategic alliances and their relationship to alliance effectiveness, identifying the characteristic of profitable strategic alliance (winning alliances) from the perspective of parent organisations and taking the Umbrella Broiler Scheme as a typical example of the consortium type of strategic alliance, its strength and weaknesses are carefully examined as well as its resilience to be a sustainable competitive alliance.

Malaysia’s development policies from pre-1970 to post 2000, as explained in Chapter 2 create a setting for the formation and development of Malaysian Farmers’ Organisations. The establishment of those organisations with membership, share capital, assets, reviewing all Farmers’ Organisations strategic alliance business opportunities as at 30th June 1998 and assessing the type of projects implemented, evaluating the impact of relevant and, where appropriate, related projects on the income generation activities of participating members, establishing factors that describe the formation, motivation, partners

selection criteria, management, environmental and evolution factors of these strategic alliances and their relationship to alliance effectiveness, identifying the characteristic of profitable strategic alliance (winning alliances) from the perspective of parent organisations and taking the Umbrella Broiler Scheme as a typical example of the consortium type of strategic alliance, its strength and weaknesses are carefully examined as well as its resilience to be a sustainable competitive alliance.

Malaysia's development policies from pre-1970 to post 2000 as explained in Chapter 2 create a setting for the formation and development of Malaysian Farmers' Organisations. The establishment of those organisations with membership, share capital, assets, development programmes and business activities are determined to improve the economic and social well-being of member farmers. This chapter also briefly explains the set-up and activities of the Malaysian Farmers' Authority including its strategic alliance activities as well as the future direction of the regional strategic alliance amongst ASEAN countries. It also highlights some experience of selected co-operative movement of other countries. Additionally, the relationship (topology) of Co-operative Strategic Alliance has also been established.

Chapter 3 explains the three main phases of international strategic alliance development models i.e. Formation, Management and Evolution of Alliance. These models have been proposed during 1991-2004 by thirteen researchers from El-Hajjar, Sawsan Yehia's model (1991) until Eddie, Heng, Peter and Zahir (2004). Most of them provide the definition of strategic alliance and the background of their case study on international strategic alliance. Based on the models of the international strategic alliances, a comparative study was conducted to establish the differences and similarity of those models in relation to Formation, Partner(s) Selection Criteria, Management and Evolution of Alliances. The Malaysian Farmers' Organisation Sustainable Competitiveness Development Model comprising three stages model was also highlighted.

The research methodology in Chapter 4 has been organised into seven parts, namely, 1) the choice of multi-method approach, 2) the scope and layout of the statistical approach, 3) questionnaire & interview design, 4) case study, 5) conducting census and data collection 5) customer satisfaction and 7) data analysis. In analysing the objectives of the research, from Chapter 5-8, this study has adopted a multi-method approach in order to get a better understanding of what actually took place in the development of farmers' organisations strategic alliances. The Exploratory, Descriptive, Analytical and Predictive²⁵⁷ types of research have been applied for database gathered during the fieldwork. When analysing the results, all the accepted forms were coded and keyed-in according to classification. Using the statistical package of SPSS, the score of each agreement was computed and based on the strength/degree of their agreement, having been converted to numerical code; frequency distribution method was applied in order to arrive at the most popular agreement preferred by the farmers' organisations. As a result, the overall outcome of this research would appear to be more relevant to that of Applied Research that could be used in solving specific problems relating to farmers' organisation strategic alliance activities.

In Chapter 5, using the Descriptive and Analytical approach, the first part endeavours to identify business opportunities originated by strategic alliance projects, their types and trends of those projects. The analysis is based on three periods i.e. 1975-1990, 1991-1994 and 1995-1998. The study reveals that the projects formed between 1975-90 had extensive farmers' participation and they started to form a base for domestic supply chain. Projects formed between 1991-94 were however actively inclined towards diversification and high-value added products. Commercially managed projects driven by the need to

²⁵⁷ Ibid. Jill Hussey & Roger Hussey, *Business Research, Understanding Research*, 1997, pp. 12. According to Hussey, Predictive research is a forecast of which variable should be changed in order to bring about a change in the productivity levels.

increase output and efficiency were seen to be the norm of projects implemented between 1995-98. It is indeed apparent, that environmental factors such as Government policies and relevant international events have strong influence in bringing about innovation on Malaysian farmers' organisations' strategic alliance projects. The second part of this Chapter highlights the positive impact of strategic alliance projects on income generation of participating members. Comparison of profits earned by farmers and commercial operation was also examined to identify areas for improvement.

Using analytical or Explanatory Approach of research, Chapter 6 analyses the significant variables applied to farmers' organisations strategic alliances i.e. Formation, Motivation, Partner(s) Selection Criteria, Management, Environmental and Evolution Factors and their relationship to alliance effectiveness. In this study, the effectiveness of strategic alliance is defined as any positive result produced by the strategic alliance activities for their own benefit as well as that of their partners. The effectiveness of the strategic alliance could be examined through a single culture development, reputation among them as well as industry, achieving the intended result of alliance objectives, and adaptability to change. Four main factors have been significantly associated to the Start-up Period (formation) of strategic alliances by Malaysian Farmers' Organisations. They are, Situation Analysis, Partner(s) Selection Criteria, Strategy Analysis and Type of Alliance Management. In all, 69 control factors of Statistical Significance to Farmers' Organisations Strategic Alliance Projects have been identified

The Start-up model is drawn largely from 1991-1995 models on strategic alliances mentioned earlier in Chapter 3. The interaction of these factors plays an important role in setting the scene of the Malaysian farmers forming strategic alliances to date. Meanwhile, models from 1999-2000 were used to develop stage two of the Malaysian Farmers' Organisation Sustainable Competitiveness Development Model, the Adaptation Process. It should be noted that this study

is only focussed on joint venture and consortium type of alliances, which are preferred by farmers' organisations in implementing their strategic alliance projects.

Chapter 7 describes the characteristic of Malaysian Farmers' Organisations' Profitable Alliance (1993-1997) from the perspective of their parent organisations. Only those factors, which are significantly associated to the effectiveness of the alliance projects, are taken into consideration. Significant characteristics applied to Profitable Domestic Alliance are examined through several categories such as Capital Structure, Market Outlets and Partner Selection Criteria. Other factors include Management of Profitable Alliance, Evolution and Role of Environmental Factors in influencing the future direction of Profitable Alliance. From the 234 alliances, 112 were profitable, 4 admitted losses, while 118 chose not to divulge their financial status. The Profitable Alliance comprises 83% of joint venture projects of which 71.6% are project-based activities.

With the Exploratory and Predictive type of research approaches, Chapter 8 attempts to develop Stage 2 and 3 of the Malaysian Farmers' Organisation Strategic Alliance Sustainable Competitiveness Development Model, namely, The Adaptation Process and Transformation/Termination of Alliance respectively. The Stage 2 and 3 of the model are drawn largely from information gathered in the fieldwork and case study quoted from the farmers' organisations own experiences.

Additionally, this chapter also offers an alternative evolution perspective for consortium type of alliance, from consortium to joint venture and later to full-blown joint venture. The Umbrella Broiler Scheme case study was deployed to set a scene for an arrangement under consortia type of alliance to face its future development challenges. Through assessment processes, several internal and external issues have been identified to pose Competitive Challenge

and Opportunity to the alliance. Competitive Strategy was brought into motion to create Competitive Strength and inspire the alliance to move to a new Competitiveness Level. As a result, Stage 2 and Stage 3 of the Sustainable Competitiveness Development Model (domestic model) was developed. The Sustainable Competitiveness Cycle (Competitiveness Cycle) is an advance model derived as a result of Adaptation Process under the Sustainable Competitiveness Development Model. It explains Competitive Cycle that can take place in a lifespan of an alliance.

9.2 RESEARCH FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section is dedicated to perform a comprehensive summary of the research finding and conclusion will be drawn subsequently. Some findings reveal factors, which are typical to domestic strategic alliances while others show similarities with international alliances. There are also other findings, which indicate a distinct approach is needed for Adaptation Process that requires industry analysis and business plan to be formulated. The results of this research have been presented in Chapter 5, 6, 7 and 8. These chapters give a comprehensive picture on types and trends of projects involved in farmers' organisations strategic alliances as well as the effect on income generation of farmers. They also show the interaction of factors such as Situation Analysis, Partner(s) Selection Criteria, Strategy Analysis and Type of Alliance Management that are instrumental in setting-up the criteria for Start-up Period of the Malaysian Farmers' Organisations Strategic Alliance Sustainable Competitiveness Development Model (Domestic Alliance Development Model) and their relationship to alliance effectiveness. The study also identifies the characteristics of Profitable Alliances from the perspective of their parent organisation. Predictive evolution by the Umbrella Broiler Scheme, from consortium to joint venture type of alliance, through Adaptation and Transformation / Termination Processes to become a sustainable competitive alliance was also explored.

A series of findings are derived as a result of the research that reflect the objectives of the study and presented under five main headings:

9.2.1. THE FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS FROM 1975- 30th June 1998.

Farmers' organisations strategic alliance projects from 1975-98 consist of 45 projects of which 18 (40%) were in production, 7 (15.5%) were doing trading, 4 (8.9%) were in investment, 5 (11.1%) involved in processing, 4 (8.9%) were providing services, 4 (8.9%) were in property development and 3 (6.6%) is involved in promoting marketing projects. The total value of these projects was nearly RM300 million.

Even though the percentage of projects involved in production activities was maintained around 40% in each period (1975-90, 1991-1994 and 1995-98), the values of projects saw significant reduction from 93.1% in 1975-90 to 48.13% and 57.7% in 1991-94 and 1995-98 respectively. The types of projects implemented also took a shift from that of an equity distribution during 1975-90 to that of a growth and commercial approach by 1995-1998 (with 16 joint venture and 2 consortium projects). As was established in Chapter 6, these changes were primarily due to environmental factors, namely, Government policies and international events. Farmers' organisations had become more inclined to embark in large-scale activities, such as managing large oil palm plantations, like a joint venture in Indonesia. This marked the launch, growth and expansion of these domestic alliances at a regional level and in this regard more than 60% of the farmers' organisations acknowledged the positive influence of deregulation and liberalisation policies of the WTO in redirecting the progress of their organisations. These policies and events are correlated to alliance effectiveness in that they provide favourable directions and organisational strength to be more competitive in the global market.

The percentage value of projects under trading saw a creditable increase from 2.8% during 1975-90 to 35.7% in 1994-98 whilst the percentage number of projects decreases from 26.7% to 16.7% during the same period. The increase in value was due to the founding and participation of NAFAS (National Farmers' Organisation), which has been chosen as one of the partners in a privatisation project of Lembaga Padi dan Beras Negara. The trading activities have undergone refined changes from that of trading only on basic agricultural input during the early period, to a more complex environment such as becoming a partner of a wholesale market consortium and sole supplier of treated water for industrial and domestic use in the states of Kedah and Perlis.

Meanwhile, the number of projects under marketing increases from 6.7% to 11.1% between the period of 1975-90 and that of 1994-98, respectively, but the percentage value declines from 3.81% to 0.4% during the same period. The marketing activities have entered into new areas e.g. from marketing of oil palm fruits and mini market concern to that of wholesale market activities. This indicates the emergence of independent Bumiputra entrepreneurs in the related areas and playing a vital role in the development of the national economy.

By diversifying, it is clear that farmers and farmers' organisations are taking more risk in their strategic alliance activities. They have gone into property development in 1991 and by 1994 they set up Permodalan Peladang Berhad, which deals with stock exchange activities.

The evident shift on project concentration by farmers' organisation from food to non-food²⁵⁸ sector such as property development, industrial crops and services is manifested in the value of project investment implemented i.e. 21.2% during 1975-90 (15 years) to 41.5% during 1991-94 (5 years) and further increased to 61.0% during 1995-98 (4 years). This development signals a new era of

²⁵⁸ Non-food sector includes industrial projects such as rubber and oil palm plantation, tobacco curing and other projects such as property development projects, printing, gas station and others.

farmers' organisation participation in commercial and large scale business ventures that requires astute management skills (using knowledge management, both tacit and explicit knowledge to leverage their resources more effectively and to exploit new opportunities). This is clearly reflected in their efforts to commercially manage oil palm plantations e.g. Syarikat Perladangan Peladang Johor Sdn. Bhd, property development projects e.g. Projek PPNS-Salak Park JV Sdn. Bhd, as well as to become a more efficient poultry integrator in the country. This shows evidence of commercial acumen and astuteness, and is also consistent with the national goal of achieving vision 2020.

Farmers' organisations also begin to appreciate the benefits of value chain activities and begin to make better use of it. Even though, a simple technology is still being used by most farmers to produce value-added products (except for rice mill and chicken processing plants), a lot of farmers' produce and projects under farmers' organisations can be processed into more sophisticated value-added products that could fetch higher market price such as food items e.g. ready and easy to cook food. Although these types of product can easily be done by rural entrepreneurs, advisory services, capital and marketing arrangements should be provided by strategic alliance projects. In MADA for example, SPPM (Edar) Sdn Bhd as a distributor for local rice and cooking oil, provides input requirements to the bakeries, which in turn supply bread and cakes to Pasaraya Peladang and its five supermarket chains. By having a well-organized value chain operation, it will ensure reliability of supply, quality of goods as well good pricing to their members and the public.

The management of strategic alliance projects has displayed a measure of competence in managing its commercial operation e.g. supplying fertilisers and agricultural chemicals, property development, managing oil palm plantation and wholesale marketing activities. However, small operators, especially those that are directly involved in agriculture based projects such as poultry farming are

more vulnerable to external factors such as outbreak of diseases that could wipe out their flock and putting them out of business. Through the current research presented here an important conclusion reached is that, in addition to seeking assistance from the Veterinary Department concerning healthcare provision, smaller operators must enter into strategic alliances with other similar operators which enables them to become stakeholders (through equity holding) in the hatchery, feed mill and processing plant. This will then ensure they engage fully with the process of Purchasing and Supply Chain Management and thereby cushion them from epidemics and other external factors which would otherwise affect their only source of livelihood. This will then give them the resources to focus on downstream activity i.e. quality control and quality assurance, and adding variety (e.g. whole and cut chicken parts) and value to poultry based products for their markets. This will contribute towards increased income for these growers (entrepreneurs) in line with personal aspirations and government policy.

Malaysian Farmers' Organisation have made a positive move by entering into a regional strategic alliance with P.T. Ubertra Co. from Indonesia by way of reverse investment the like of which is encouraged by the Government. Cheap labour and availability of considerable acreage of land in Indonesia are plus factors and this move has also offered the National Farmers' Organisation (NAFAS) with a golden opportunity to try out and improve their management skills and expertise on a commercial plantation project. It is their intention that in the near future, this venture could become a supplier of crude palm oil to their refineries. This up-stream activity will also facilitate farmers' organisations to be more involved on down stream activities in the future. In the case of Umbrella Broiler Scheme, it initiated the establishment of a poultry processing plant by State Farmers' Organisation of Selangor. The above provides increasing evidence that system approach, where economy, efficiency and effectiveness are pursued to gain competitive advantage.

Meanwhile, a close analysis of the strategic alliances formed until June 1998 shows an increasing inclination towards joint venture type of alliances. It grows from 60% (1975-90) to 66% between 1990-94 and further intensified to 88.8% during 1995-98. Joint venture is always associated with growth of development while consortium is associated with equity distribution. At the same time, however, it can be seen that there is a declining trend in preference for consortium and collaborative type of alliances. Job opportunities created by joint venture in trading, processing, services, marketing, and property development projects offer considerable direct income to farmers. A clear preference for joint venture arrangement as compared to consortium demands a high degree of commitment is required from all parties involved in joint ventures for its effectiveness and market return.

To be in line with the growing complexity of running the various projects, it is indeed necessary for farmers' organisation, through Farmers' Organisation Authority, to establish and organise special research and application programmes on the requirements of farmers and farmers' organisation to be in a position to handle their business activities including that of strategic alliances. These should include market potential, value-added products, customer preference, appropriate level of managerial skill and human resource, amongst others. This programme however, need not be unilaterally done by farmers' organisations but relevant input can also be gathered from other departments of the Ministry of Agriculture, other interested ministries as well as private institutions. Needless to say, special budget allocation and human resource should be allocated for this purpose annually.

9.2.2 IMPACT OF PROJECTS ON INCOME GENERATION OF PARTICIPATING MEMBERS

From information gathered during the fieldwork and based on selected projects e.g. the Umbrella Broiler Scheme and Pasaraya Peladang, it is found that they do generate reasonable level of income to participating farmers and Bumiputra entrepreneurs. In the case of Umbrella Broiler Scheme in Kuantan Utara, it

generates income even to the very poor (although they still remain below the poverty level) and continues to be profitable to other participating farmers from various farmers' organisations. As far as per capita income is concerned, the farmers' income has increased between 3.5% to nearly 270%. The big variation in percentage term is due to the vastly different level of farmers' income before the project.

Even though the profit performance in 1995 and 1996 is better when compared to 1997 (the profit decline in chicken production is due primarily to the increase in the feed cost and the weak Ringgit in 1997), there is still room for improvement. The overall performance could be improved by implementing several strategies such as investing back certain amount of profit by farmers' organisation from this project and providing soft loan to growers. The farmers' profit margin could also be improved by reducing service charges that have been imposed to farmers when getting supply of input on credit basis i.e. supply of chicken feed and day old chick. With production efficiency and economies of scale in mind, related farmers' organisations should also arrange soft loans from other sources e.g. Fund for Food Scheme under Agricultural Bank, so that small growers could increase the number of chicken grown per cycle (as it was proven that farmers with excess of 10,000 broilers at one cycle tend to be in a better position of achieving good profits from the operation) and adopt the new method of growing chicken.

9.2.3 THE RELATIONSHIP BETWEEN THE CRITERIA FOR START-UP, ENVIRONMENTAL AND EVOLUTION FACTORS TO THE EFFECTIVENESS OF STRATEGIC ALLIANCES

The criteria for Start-up Period of the domestic alliance model were developed in Chapter 6. It is characterised by four sets of criteria: 1) Situation Analysis, 2) Motivation, 3) Partner Selection and 4) Management of alliances. Only factors that are significantly associated to alliance effectiveness have been considered as criteria to this model. The effectiveness of strategic alliance relating to farmers' organisations could be examined through the ability to develop a single

culture and strong bonding factors, constantly adjusting to change, to achieve alliance objectives to a degree acceptable to them in direct quantifiable and in more indirect spin-off terms. Besides that, good reputation and well accepted by the industry were also effective qualities identified. This study only focuses on criteria that emanates from joint venture and consortium type of alliances that were adopted by farmers' organisations in implementing their strategic alliance projects.

As far as joint venture type of alliances are concerned, from 69 control factors that were mentioned in Appendix 6(b), 90% of them were significantly associated to their effectiveness. All external factors and most of internal factors (except for fast technology change, marketing skill and distribution channel) also have significant association to joint venture effectiveness. The same could also be said of all control factors under Partner Selection Criteria (Selection of Partner, Positive Attitude and Strategic Plan). However, Partial Integrative Strategic Management is not contributory to joint venture effectiveness while almost all variables under Integrative Strategic Management (except sufficient time allocated under strategic control) are significantly associated with this type of alliance.

Environmental factor is not a criterion for Start-up Period of domestic alliance model but it does influence the effectiveness and business performance of the alliance. For example, full co-operation of partners and regular payment by customers from the open market are factors that are significantly associated with joint venture effectiveness. However, only 65.0% of the joint venture type of alliance received regular payment from open market customers. In this context, more serious efforts need to be directed to improve payment collection from the open market. In relation to farmers providing output to the alliance, only right quantity has strong association to joint venture effectiveness while right quality and time are not critical factors. Supplier provided inputs to alliances are not significant factors to the joint venture effectiveness. However,

all variables under government policies and international events contribute significantly to joint venture effectiveness.

Consortium type of alliance has fewer control variables to alliance effectiveness as compared to joint venture. Its effectiveness is only influenced by internal motivation factors such as significant association to technological improvement and to fulfil legal requirement, acceptable relation to increase know-how and spreading financial risk. External factors have no significant association to its effectiveness as more than 50% of the consortium types of projects that fall under Umbrella Broiler Scheme are small scale and are oblivious to changes in technology.

As far as Partner Selection, Positive Attitude and Strategic Plan are concerned, only certain variables contribute to the success of the consortium type of alliance. They are approximate size and strength, complementary resources, mutual trust, strong commitment by top management and staff level, business plan that has been well implemented as well as main competitors having been established. Partial Integrative Strategic Management is not a significant factor to the effectiveness of consortium type of alliance but most of the variables under Integrative Strategic Management (except active participation by top management and sufficient funds) are significantly associated with consortium's effectiveness.

Under consortium type of alliance, environmental variables such as regular payment by government and non-governmental Institutions, right quality and quantity of output from farmers are important control factors to its effectiveness. However, only policy changes (as a result of the establishment of the World Trade Organisation) and improving investment policy are important ingredients to the effectiveness of consortium type of alliances on achieving financial strength and producing commercial farmers.

Like Environmental, Evolution variables are also not a criterion for Start-up Model but they have a measure of influence to the effectiveness and business performance of the alliance. Almost all factors under evolution of alliance are significantly associated to joint venture type of alliance. Nevertheless, only certain factors under evolution of alliance are significantly contributed to the effectiveness of consortium type of alliance, namely, amongst others, successfully overcome external challengers, developing a single culture and good reputation with partner(s).

There is evidence that consortium type of alliance has been used as a means to tackle growth-wealth distribution conflict while joint venture is more geared to accumulate growth for Bumiputra entrepreneurs in economic development programmes. Using type of alliances to help rectify economic imbalance is a unique characteristic of domestic strategic alliances for a country like Malaysia. Nevertheless, type of alliances alone could not guarantee the desired result since efficient management is needed to transform quality input (economic factors) to become effective out-put (such as the effectiveness of strategic alliance) of any policy.

9.2.4 THE CHARACTERISTIC OF PROFITABLE, NON-INDICATED AND LOST ALLIANCE FROM THE PERSPECTIVE OF PARENT ORGANISATIONS.

In Chapter 7, Farmers' Organisations Strategic Alliance projects have been divided into four (4) categories namely, Project-based and Non Project-based Profitable Alliances, Non-indicated and Lost Alliances.

The study shows that both type of profitable alliances have very low debt capitalisation (equity) ratio i.e. 0.11:1.00 and 0.0:1.00 respectively while for both non-indicated and lost alliance the ratios are much higher i.e. 1.9:1.00 and 15.0:1.00 respectively. No specific capital structure is however suggested for Profitable Alliance under the Malaysian Farmers' Organisations strategic alliances because the relationship between capital structure and firm value is

considered flat.

As far as government market is concerned, out of 47.8% of Project-based Profitable Alliance, 40.3% sells their products through 30% of government outlets whilst the remaining 7.5% do so to 100% government market. Meanwhile, a total of 75% of Lost Alliance sold their products to government market with 25% of them, each selling 70%, 80% and 100% of their products to that market respectively. It is expected that the Project-based Profitable and Lost alliances would rely extensively on government market since more than 75% of them were formed between 1975-1990. During this period, the Government was implementing the New Economic Policy (NEP) whose twin objectives were to eradicate poverty and restructure society. Towards this end, much of the government markets were opened to them.

However, only 5.1% and 8.5% of Non-indicated Alliance sell their product to 70% and 80% of government market as 80% of them were formed after 1990. As mentioned in Chapter 2, the reason why only a small number of alliances depended on government market was due to the shift of government policies during their formation period, for example, in 1991, The National Development Policy (NDP) under the First and Second Outline Perspective Plans had designed the direction by which Malaysia's development efforts of growth will be guided by what is termed as Vision 2020²⁵⁹.

During the Seventh Malaysia Plan (1996-2000), the thrust of poverty eradication was directed at reducing the incident of poverty among Malaysians to 5.5 percent by the year 2000. Anti-poverty programmes, among others, will focus on income generating projects to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC). The various chambers of commerce and trade associations are expected to persuade their

²⁵⁹ Ibid. Economic Planning Unit of Malaysia, *Malaysian Experiences in Economic Development*, 1993 (unpublished materials), pp. 20-23.

members to participate fully in BCIC programmes and **co-operative movement i.e. Malaysian Farmers' Organisations is expected to play an active role in the development of Bumiputra entrepreneurs**. The whole approach is bring about independent Bumiputra entrepreneurs able to penetrate and sell their products to the open market leaving only a small percentage still relying on government market.

The Non Project-based Alliance, which were all formed after 1996, have 100% of their customers from the open market followed by the Non-indicated Alliance with 56.8%. Meanwhile, 34.3% of Project-based Alliance and 25.0% of Lost Alliance sell all their products to the open market. One can observe that Project-based Profitable Alliance and Non-indicated Alliance are capable in selling 100% and more than 50% of their products respectively to the open market. It is a characteristic of most alliances that were established before 1990s' to have a higher percentage of their outlets from government market i.e. Project-based Profitable Alliance and Lost Alliance, whilst alliances formed after 1990s' i.e. the Non-indicated Alliance mostly sell their products to the open market.

From **59** effectiveness factors that have been tested, **33** (56%) factors have been recognized as the characteristic of the Profitable Alliance. Only **14** (24%) factors out of 59 control factors under alliance effectiveness is related to the characteristic of the Lost Alliance.

The three factors under Partner Selection Criteria i.e. Reason for Partner Selection, Positive Attitude, and Strategic Plan are deemed to be important characteristics of Profitable Alliances. This is because all partners in a Profitable Alliance would have perceived compatible visions, mutual gain and balance benefit, complementary resources and cultural compatibility as essential assets to start a partnership. During the formation process, both top managements must have strong commitment and mutual trust. They also strongly believe that a business plan must be agreed upon at the beginning of

the partnership, business plan must be implemented accordingly, main competitors and market potential need to be identified.

Most of the Integrative Strategic Management factors are contributing to the success of the winning alliance. These include Objectives Setting, Strategic Programming, Strategic Budgeting, Strategic Control and Human Resource Development.

Role of External Factors such as full co-operation from related partner(s), reliable farmers providing right quality, quantity and time of output to profitable alliances and able to taking advantage of government policies which encourage private sector led growth and package programmes to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC) are positive factors to influence the performance and business conduct of Profitable Alliances.

The Profitable Strategic Alliance believes that they have developed strong bonding factors that help the partners to successfully overcome external challenges. They also agree to adopt a stronger philosophy of constant learning enabling them to adjust to change and developing good reputation in the industry.

Both Profitable Alliances as well as Non-indicated Alliance provide minimum impact on policy change i.e. to achieve in-dept strength and producing commercial farmers following the introduction of economic liberation and commitment in market access. Nevertheless, they have reacted reasonably well to the notion of a private sector led growth and BCIC (Bumuputra Commercial and Industry Community) programmes. Only Lost Alliance responded satisfactorily to all government's policy changes and international events such as the anticipated increased competition especially in the international business scene. Given the circumstance, the Loss Alliance group seemed to have the

right business attitude of being more sensitive to environmental changes as compared to the Profitable and Non-indicated Alliances.

The above information could be useful to the Government. The Farmers' Organisations Authority should re-orientate the present pattern of strategic alliances towards preparing them to meet the challenges of globalisation. For example, the Project-based Profitable Alliances that are too dependent on government market should be asked to plan and move their market concentration towards more open market penetration. This group of alliances should also be made to plan and exercise better management and control of their projects through competence personnel.

Equally, the Profitable, Non-indicated and Lost Alliances should also be encouraged, where possible, to increase bonding factors and organisational learning in order to be more responsive to overcome external challenges and simultaneously develop a good reputation within the industry. These factors, which are clearly lacking in Non-indicated and Loss Alliance groups, have proved to be factors that determined the success of international strategic alliances²⁶⁰.

As far as preparing themselves to be more receptive to a globalise economy, both Profitable, Non-indicated and Lost Alliances can learn a lot from each other. The Profitable alliance should free themselves from being too dependent on government market and build a stronger open market position as well as to be more sensitive to environmental changes. Besides having the right attitude, the Non-indicated and Lost Alliances should also try to give as much direct benefit to the farmers who acted as suppliers to their projects.

²⁶⁰ Ibid. David Faulkner, *The Growth of Co-operation and the Formation of Alliances*, International Strategic Alliance, 1995, pp.1-20 and 60-63.

As can be seen from the Partner Selection Criteria, Lost Alliance generally has the same belief and conviction as Profitable Alliance. However, they prefer strong commitment at the staff level rather than from the top management. They have a weakness in strategic management approach and do not place partners' full cooperation as really necessary. Additionally, alliance evolution factors do not appear as significant control factors to their success. It can be said that the characteristic of the Lost Alliance is indeed unsuitable, if not naïve for an alliance business entity to be competitive in the business world of today. Apart from the need of full cooperation of all partners to make quick business decisions, they also have to choose effective / efficient management team to undergo the right alliance evolution process in order to develop strong bonding factors. Even though environmental factors are way beyond their control, decisive preparatory steps are essential to enable them to turn threat into opportunity

9.2.5 THE UMBRELLA BROILER SCHEME AS A TYPICAL EXAMPLE OF THE CONSORTIUM TYPE OF ALLIANCE, IT'S STRENGTHS AND WEAKNESSES IN LINE WITH EARLIER OBJECTIVES AS WELL AS IT'S RESILIENCE TO BE A SUSTAINABLE COMPETITIVENESS ALLIANCES.

Through exploitation activity, farmers established farmers' organisations to improve their general well being. In an exploratory effort to improve farmers' income, farmers' organisations through NAFAS obtained a central contract to supply chicken meat to Government departments / agencies. The consortium type of alliance called the Umbrella Broiler Scheme comprise all farmers' organisations / state farmers' organisations that are committed to serve the contract together with NAFAS and this activity is supervised by related ministries and departments. The central contract has opened market that was previously closed to small farmers and this has increased farmers' productivity to a certain level of competitive advantage. This consortium type of alliance provides them with an opportunity to explore some other potential businesses

that are related to the central contract. Exploration activities would continue as the Government from time to time expanded the central contract by adding more states under its cover. The Umbrella Broiler Scheme have gone through several phases and changes as follows:

1. For the last 15 years, various assessments had been conducted by various related parties on this project. Not only does it cover matters relating to performance of the contract but also to the socio-economic objectives and efficiency of the operational system. The success and weakness of the scheme have brought about several Competitive Challenges to the alliance, which includes availability of opportunities, transpired from internal and external environment.
2. The internal Competitive Challenge and Opportunity created by the Scheme can be seen in several ways. It includes, among others, the implementation of the Umbrella Broiler Scheme tailored to the requirement of each state. The system is not oriented to profit maximisation because they lack the ability to reduce operational and management costs as well as the absence of uniformity in contract system. Meanwhile, there exist the opportunity of having better bargaining power if input needed by the project could be bought or produced collectively. Besides that, there is also an urgent need to expand open market strength and providing suitable processing and storage facilities. The environmental factors that create the Competitive Challenge and Opportunity to this alliances includes a new method of poultry farming that is cost efficient and will increase productivity.
3. In an effort to overcome their immediate problems, the related farmers' organisations lead by NAFAS have made known their desire and commitment to expand the objectives of the central contract to become an efficient poultry integrator. This means, the business activities of the scheme will not only cover rearing of chicken and supplying them to the consumers

(government department / agencies) but will also include up-stream (such as having equity in hatchery and feed mill) and down-stream (including processing activity and penetration of open market out-let) activities of the poultry industry. This aspiration could only be translated into reality through having competitive strategies from a well-prepared business plan.

4. The Competitive Corporate Strategies through a business plan are prepared using several approaches such as structural adjustment, strategic dimensions and incrementalism. The strategies will also include human resource development such as having dedicated management team.
5. The interaction of all factors that have been mentioned i.e. Assessments, Internal and Environmental Competitive Challenge and Opportunity, Partners Capability as well as Competitive Strategy would bring about Competitive Strength which would inevitably place the alliance to a new Sustainable Competitive Advantage/Sustainability Level.

Through the Dynamic Model of Transformation Process (Chapter 8, sub-chapter 8.5.2, page 299-305), a Domestic Sustainable Competitiveness Development Model (Adaptation Process, Chapter 8, Sub-chapter 8.5.7, page 318-329, and Transformation / Termination of Alliance, Sub-chapter 8.5.8, page 329-331) and a Sustainable Competitiveness Cycle (Chapter 8, Sub-chapter 8.5.9, page 331-333) of Strategic Alliance have been developed.

9.3 IMPLICATION AND CONTRIBUTION

The implication and contribution of this research are divided into four categories (1) Policy and direction of Malaysian Farmers' Organisation strategic alliance projects, (2) The theory of Strategic Alliance, (3) The Domestic Sustainable Competitiveness Development Model of Strategic Alliance and (4) The Sustainability Competitiveness Cycle of Alliance.

9.3.1 POLICY AND DIRECTION OF MALAYSIAN FARMERS' ORGANISATION STRATEGIC ALLIANCE PROJECTS.

The finding of chapters 5, 6 and 7 are those concerned about Malaysian Farmers' Organisations. They can be of assistance to give a clearer picture on the development and direction of farmers' organisations strategic alliance projects from which, the correct policies and actions could be formulated to prepare them face the expected competition in the world of globalisation.

Entrepreneur farmers need relevant education, skills and personal development in order to engage successfully with the dynamics of their industry, be it with internal systems and operational management or with external factors such as environmental influences or market factors including customers and competitors. The education prescribed can be one which is highly vocational or highly academic or somewhere along the continuum between the two. Farmers need a combination of technical, managerial and business skills. Hence, Malaysian Farmers' Organisations should pro-actively seek to work in close collaboration with the Ministry of Human Resource to influence current delivery as well as to develop appropriate programmes matching the needs of their members. This should not only take into consideration the content but also process of disseminating education and training.

Most of the participants in the sample group(s) were elderly farmers (aged between 40-60) and with low educational background. It is therefore imperative that more vocational type institutions, or/and experienced on-site field workers

are needed to disseminate, amongst others, relevant information and guidance on new technology, farming method and financial management.

The Ministry of Agriculture should provide better awareness and training in health, hygiene and safety issues. Certification on exportation / importation of food products has become a global issue. Out-going and in-coming food products from / to any country need to have certain acceptable global market standard. To attain and maintain this standard, a special on-going training and monitoring system is needed to complement the whole food supply chain system. Besides that, the Ministry of Agriculture must be seen to be serious in helping farmers and their organisations to help reduce risk of disease outbreak, which can wipe out a fledgling poultry business.

The Malaysian Government Policy on agriculture need to be more supportive towards expansion of farmers' organisations activities particularly when they are able to participate in joint venture projects with the commercial sector. Extra incentives and support mechanism should be made available through appropriate new spending policies, such as more sources and easier access for soft loan and better tax relief on new investments. The study shows that different type of policies, incentives and reward are needed to promote and sustain consortium and joint venture type of strategic alliance business projects. For example, technology improvement has strong association to consortium type of alliance effectiveness. Consequently, if the Government wants the farmers' projects under Umbrella Broiler Scheme to succeed through changes in technology, more tax relief for expenditure on technology improvement will certainly give positive impact to the industry. At company level, introducing bonus and reward system, based on work performance will increase staff commitment and this can go a long way towards consortium effectiveness.

In the case of joint venture type of alliance, providing the right training and specialised courses could effectively enhance managerial skill. This is essential

since it is one of the important internal motivation factors cited by the farmers' organisations as to why they have entered into strategic alliances. In addition, providing marketing skill and skilled labour through intensive hands-on training programmes could help motivate and increase all round efficiency on joint venture type of alliances.

Malaysian Farmers' Organisations need to examine their strategic alliance projects thoroughly, examine all factors related to them, either through types of alliance or their profitability.

9.3.2 THEORY OF STRATEGIC ALLIANCES

Strategic Alliance is not a new business arrangement but Domestic Strategic Alliance Theory has not been fully developed especially strategic alliance between co-operative organisations, like farmers' organisations. This kind of alliance is more of the rural entrepreneurs type of alliance as compared to international strategic alliance, which are mostly lead by Multinational Companies. In addition, international alliances are apparently more concerned with growth development while domestic alliances also concern about wealth distribution.

This research enriches the strategic alliance theories, in that the findings in chapter 6 and 8 will be useful ingredients for the strategic alliance theory especially that of domestic alliance. In other words, the findings highlighted significant Start-up conditions, what transpire during Adaptation Process throughout the evolution period and the Transformation / Termination Process if the alliance need to cease operation for whatever reason. The research implication here calls for extending of the strategic alliance theories to incorporate the Domestic Sustainable Competitiveness Development Model of Strategic Alliance and the Sustainability Competitiveness Cycle of Alliance. The domestic strategic alliance model explains how domestic strategic alliance work and it is an important structure in national economic development.

9.3.2.1 THE DOMESTIC SUSTAINABLE COMPETITIVENESS DEVELOPMENT MODEL OF STRATEGIC ALLIANCE

The need to have dynamic alliances model has been discussed by researchers. Koza and Lewin (1999) in their paper applied and extended the co-evolutionary framework of the longitudinal analysis of an alliance referral (communication/interaction) network in the global accounting industry. The objective of the case analysis is to elaborate and interpret the co-evolution of an alliance network with the objective of exploring the dynamics of alliances over time. It is evident that the creation of Nexia served to dissolve certain issues for the network members. Nexia is an umbrella organisation formed in 1990 for the international network of independent public accounting firms. It was created to provide new incremental revenue opportunities, as well as expanded global reach beyond what any of the member firms could achieve on their own, while still maintaining their autonomy. However, the creation of the network immediately gives rise to a new class of tensions involving the relationship of the members with the network and to one another.

However, the current study (2000) takes the finding further, the co-evolutionary perspective of the strategic alliance project until the development of the Sustainable Competitiveness Development Model. The important conclusions reached here are that (i) organisations must adapt and evolve as market and internal conditions change (ii) the role of environmental factors, particularly Government policy (particularly intervention strategies within it), international events and innovation in technology are highly influential in determining change, and (iii) the internal operating system requires close monitoring and timely adjustments to ensure sustainability.

The Sustainable Competitiveness Development Model of Strategic Alliance, which was developed for Malaysian Farmers' Organisation is unique for domestic strategic alliance. It comprises three important stages, namely, Start-up Period, Adaptation/Sustainability Process and Transformation / Termination

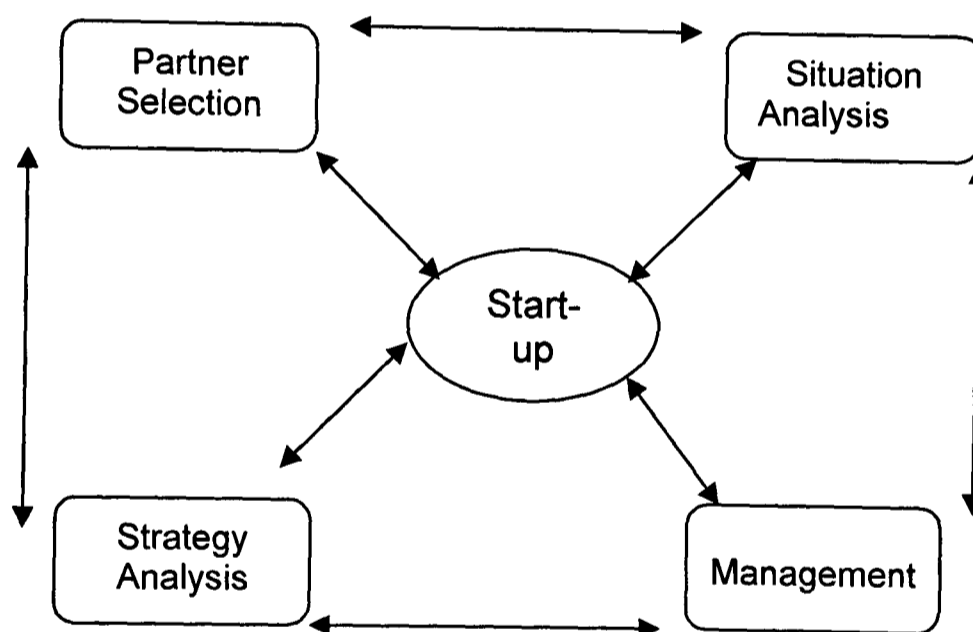
of alliance.

STAGE 1: START-UP PERIOD

Factors that influenced the start-up/formation of Malaysian Farmers' Organisations strategic alliances can be divided into four main factors. They are Situation Analysis, Partner Selection Criteria, Strategy Analysis and Alliance Management. The interaction of these factors has played an important role in setting up the Malaysian farmers strategic alliances to date.

Figure 9.1

STAGE 1: START-UP PERIOD



Note:

- | | |
|--|---|
| <ul style="list-style-type: none"> - Situation Analysis - External motivation - Internal motivation - Form of alliance - Socio-economic - Others. | <ul style="list-style-type: none"> - Partner selection Criteria - Fundamental fit - Strategic fit - Cultural fit |
| <ul style="list-style-type: none"> - Strategy Analysis - Business plan/ Feasibility study | <ul style="list-style-type: none"> - Management - Type - Leadership |

All the above-noted factors are significantly associated to alliance effectiveness even though when examined closely, different factors will influence different

types of alliances i.e. joint venture or consortium type of alliance. Only certain external factors contribute significantly to joint venture effectiveness e.g. to increase investment to cater for fast technological change. On the other hand, none of the external factors that have been cited are of significance to consortium type of alliance but the reverse is true to internal motivation factors i.e. technological improvement and increased know-how and spreading financial risk. Almost all Internal Motivation factors, Partner(s) Selection Criteria and Evolution factors are significantly associated to the success of joint venture type of alliance.

Unlike Non-integrated Strategic Management Process, almost all factors under Integrative Strategic Management Process are significantly associated not only to the effectiveness of joint venture but also to consortium types of alliance. Whilst both alliances have different types of environmental factors that could influence their effectiveness, they also believe that an effective strategic plan must be in place at the beginning of their alliance.

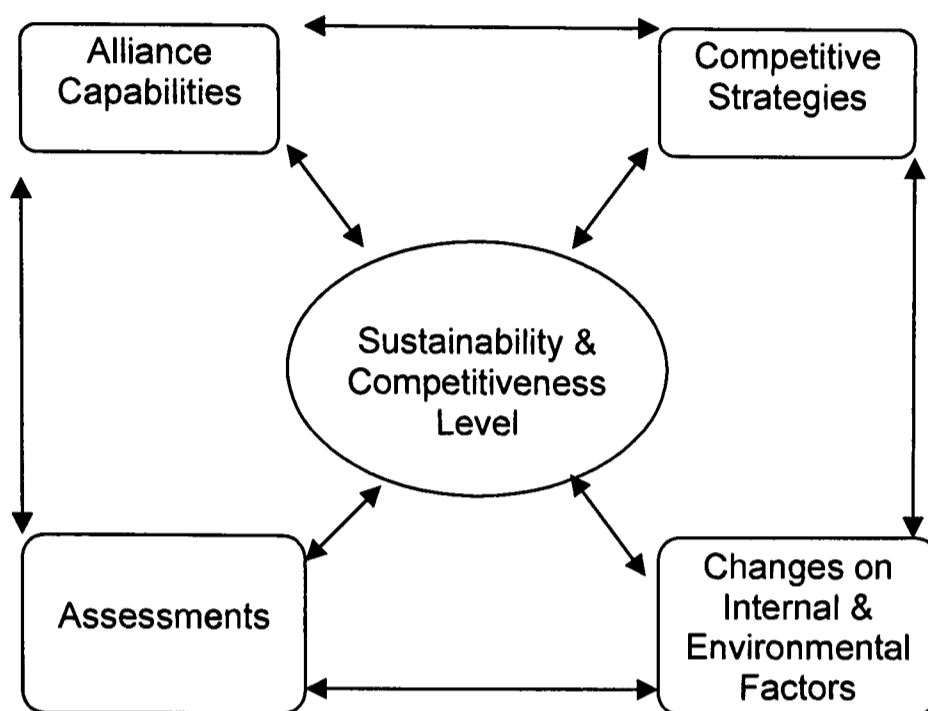
The interplay of the above factors is needed to start an effective strategic alliance project. With suitable partners, right situation and good management style/team, a strategic alliance project could commence on a strong footing. However, depending on the objectives of the alliance, different types of policies and incentives are required to promote effective consortium and joint venture types of alliances.

STAGE 2: ADAPTATION/ SUSTAINABILITY PROCESS

After alliances are formed, the agreed business plan will be implemented and during the evolution process, occurrences of internal and environmental changes are inevitable and they would pose **Competitive Challenge and Opportunity** to the operating alliance. The Adaptation/Sustainability Process must then take place to bring the alliance to a new Sustainability Competitiveness Level as shown in Stage 2 below:

Figure 9.2

STAGE 2: ADAPTATION/SUSTAINABILITY PROCESS



Note:

- Assessment
- Strategic Effectiveness
 - Operational Effectiveness
 - Environmental Effectiveness

- Alliance Capability
- Partner Expectation
 - Partner Commitment
 - Partners Co-operation
 - Dedicated Management Team

- Competitive Strategies
- Strategy Dimensions
 - Incremental Approach
 - Structural Adjustment

- Changes in Internal & Environmental Factors
- Internal: Internal strength
 - Environmental: Government Policies (Macro)
 - Environmental: Competitors (Micro)

The Umbrella Broiler Scheme had already faced two phases of Competitive Challenge. The first phase was actually the various factors behind the formation of the Umbrella Broiler Scheme itself. As mentioned in Chapter 8, they are, the domestic poultry market was closed to Bumiputra small growers, there was poverty in the rural areas and the need to cover wide geographical area to serve the government contract. The second phase of this Competitive Challenge is related to this case study i.e. productivity challenge due to weakness of the internal system, globalisation and liberalisation that calls for innovative minds and higher quality of products and services.

For the duration of the contract periods, several assessments are carried out in order to assess the effectiveness and efficiency of the scheme. The assessments can be categorised into Operational Effectiveness Measure²⁶¹ (operational system), Strategic Effectiveness Measure²⁶² (contract performance assessment) and Environmental Effectiveness (socio-economic objectives). The assessments on Environmental Effectiveness concerned about benefits received by the community such as employment opportunities, sensitive to government policies (New Economic Policy) and local needs (such as environmental conservation) amongst others. These on going assessments do help the Scheme to identify its strength and weaknesses as well as the Competitive Challenge (including prevailing opportunity) of the alliance.

In the above model, alliance capability includes factors such as partner (s) expectation, commitment and co-operation as well as dedicated management team. It is recognised that Internal (such as operational system, productivity) and Environmental (micro and macro factors) changes are important factors that pose Competitive Challenge and Opportunity to the Umbrella Broiler Scheme.

The Competitive Strategy that is chosen comprises several important strategies. They are vertical integration, channel selection, product quality and cost position. In order to be in tandem with its future financial performance, this study also proposes the new joint venture company to opt for an incremental approach in its development phases. Structural adjustment is needed to enhance the internal strength of the company to meet its function as an effective poultry integrator. Besides that, in planning Competitive Strategy, four key factors that determine the limits of what a company can successfully

²⁶¹ Ibid, Whipple & Frankle (2000), The Alliance Formation Process, pp.347, defines Operational Effectiveness as an assessment of the extent to which each partner is adhering to the agreed-upon operating practise and procedures of the alliance.

²⁶² Ibid. Whipple & Frankle (2000), The Alliance Formation Process, pp. 342, defines Strategic Effectiveness Measure based on the definition of “perceived effectiveness” as “the extent to which firms are committed to the alliance and find it to be productive and worthwhile”.

accomplish should also be given due consideration. These are, the company's strength and weaknesses, industry opportunities and threats (economic and technical), personal values of key implementers and broader societal expectations (Porter, 1980)²⁶³.

In this case study of the Umbrella Broiler Scheme's, the Adaptation Process portrays the simultaneous evolution of four main factors, namely, changes in Internal and Environmental factors, continuous project Assessments, Alliance Capability combined with business Competitive Strategy. This process will create forces to develop Competitiveness Strength following which, the alliance will move to a new Sustainability Competitiveness Level. Evolutionary variables such as bonding factor and constant learning will undoubtedly be developed along with the process to enable the alliance to successfully overcome external challenges. However, in normal circumstances the new Sustainability Level will not last forever, as it is inevitable that Competitive Challenge and Opportunity will occur from time to time.

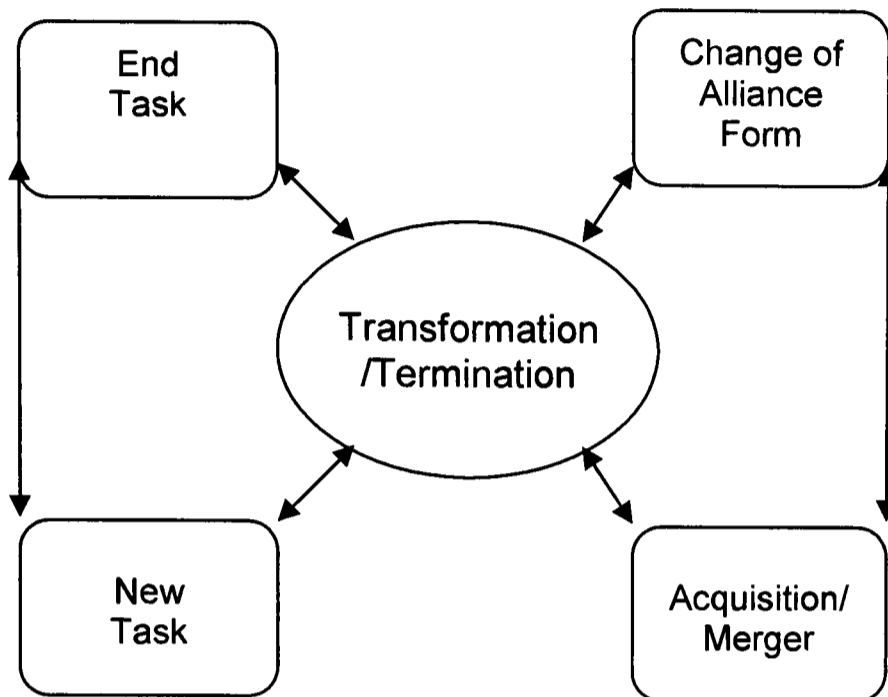
STAGE 3: TRANSFORMATION/ TERMINATION OF ALLIANCE

The lifespan of an alliance would not necessarily end by termination of the alliance, as there is always the possibility for an alliance to undergo a transformation process as specified in Figure 9.3:

²⁶³ Ibid. Porter (1980), *Structural Analysis Within Industries, Competitive Advantage of a Firm in Global Industry*, pp.xvi-xviii.

Figure 9.3

STAGE 3: TRANSFORMATION/ TERMINATION OF ALLIANCE



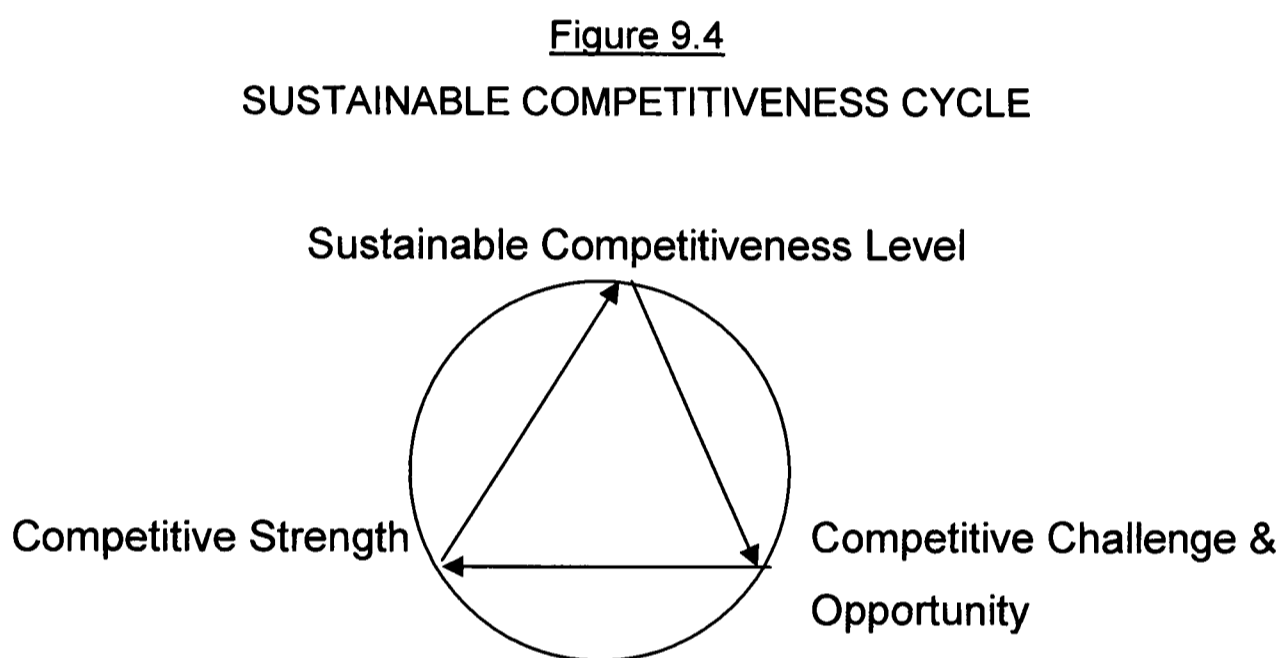
The operation of an alliance may be terminated if it has fully achieved its objectives or if it is given a new task as a result of new competitive challenge. An alliance could also cease its operation if a firm acquires the venture from the partners or a merger has taken place. Due to operational requirement, a new type of alliance may need to be formed in order to achieve new/modified objectives e.g. re the Umbrella Broiler Scheme case study.

9.3.2.2 SUSTAINABLE COMPETITIVENESS CYCLE

The Sustainable Competitiveness Cycle/Competitiveness Cycle is a model derived from the Adaptation/Sustainability Process of Malaysian Farmers' Organisations strategic alliance case study, the Umbrella Broiler Scheme. It explains Competitive Cycles that can take place in a lifespan of an alliance. It is developed on the premise that a Sustainable Competitiveness Level will not last indefinitely. It is because the Malaysian Farmers' Organisations Sustainable Competitiveness Development Model takes the view that alliances have dynamic features and it is expected that other competitive challenge will occur from time to time and force the alliances to conduct their performance

assessments, reassessed their capabilities and develop new/modified competitive corporate strategies in order to create the necessary Competitive Strength and move the company/business entity to a new Sustainable Competitiveness Level.

This process could be illustrated as follows:



The Sustainable Competitiveness Cycle can occur from time to time in to a business entity (e.g. a joint venture) or in a business arrangement such as strategic alliances. It shows that a business entity/activity needs to face Competitive Challenges and Explore Opportunities from time to time. It would need to develop Competitive Strength to achieve a new Sustainable Competitiveness Level. In order to remain competitive this cycle will not stop but will continue until the business decides, for whatever reason, to cease its operation entirely.

9.4 OVERALL CONCLUSION

As one that operates on co-operative principle, Malaysian Farmers' Organisations are responsible to serve and unite their members in an effort to improve their economic and social well-being. Impact studies had proved that many countries have successfully developed agricultural co-operatives e.g. the

Anand Co-operative in India that was able to increase the farmers' income through its various activities like producing butter, milk powder and other dairy products. In the case of Malaysian Farmers' Organisations, the annual income of farmers come from yearly profit on capital investment and profit earned from doing business with area farmers' organisations. They are generated from activities such as development of farmer entrepreneurs on various sectors of the economy like agriculture, manufacturing and services sectors, food production, small and medium industries and others. As at 31 December 2000, nearly RM80 million of share capital in farmers' organisations belong to the farmers themselves. Total volume traded by farmers' organisations (including strategic alliance projects) had reached nearly 1.8 billion by the year 2000.

Entering into strategic alliance projects would favour farmers' organisations in getting complementary resources to further enhance their economic activities. From 1975-1998 (as at 30th June 1998), around RM300 million worth of 45 strategic alliance projects have already been operational throughout the country. The various types of projects include production (40%), Trading (15.5%), Investment (8.89%), Processing (11.1%), Property Development (8.89%) and Marketing (6.67%). During 1970-90 periods, the country has witness a declined on the overall incidence of poverty in Peninsular Malaysia from 43.9% in 1975 to 19.3% in 1987. The mean income of rural household has also increased from RM2,043 (top 20%), RM749 (middle 40%), RM290 (bottom 40%) in 1984 to RM2,062 (top 20%), RM 783 (middle 40%) and 318 (bottom 40%) in 1987 respectively²⁶⁴ (it is based on current price and 1978 price in parentheses). It cannot be denied that the strategic alliance projects provide the impetus and positive contribution to the restructuring of the socio-economic platform of the rural inhabitants especially the farmers. This is made possible since farmers' organisations were one of the many rural organisations that contributed actively to the development of their members.

²⁶⁴ Ibid. The Government of Malaysia, Mid-term Review of the Fifth Malaysia Plan, 1986-1990, Table3-3, pp.42.

This study has also examined the development and trend of the strategic alliances projects by farmers' organisations. It explains the development of type, value and trend of strategic alliance projects towards property development and industrial crops undertaken by the Malaysian Farmers' Organisations between the years 1975-1998 i.e. a shift from that of food to non-food sectors.

The establishment of the WTO, saw farmers' organisations becoming more involved in large-scale activities while still catering for small farmers' interests. This period has brought about some changes in the implementation of strategic alliance projects whereby several projects have started to be managed strictly on commercial basis. All round efficiency is the order of the day. Embarking on non-food sector through diversification into projects which are relatively of higher value such as property development, industrial crops, management services and investment has become evident of strategic alliance projects after 1990. From 1995-98, the switch to non-food project has made investments in non-food sector comparatively bigger to that of the food sector i.e. 21.2% during 1975-90 (15 years) to 41.5% during 1991-94 (5 years) and further increased the non-food sector's value to 61.0% during 1995-98 (4 years).

If innovation²⁶⁵, amongst others, can mean changes or taking new opportunity from new ideas, technology or environmental changes (and others), it shows that this phenomenon is very much evident in Malaysian Farmers' Organisations during the formation of strategic alliance projects. Amongst others, it was initiated by environmental changes, such as government policies and international events. In the case of the Umbrella Broiler Scheme, the competitive challenges and opportunities following changes in internal and environmental factors of the project itself have prompted innovation to be a

²⁶⁵ Ibid. Jane Henry and David Walker, *Managing Innovation*, 1991.

factor of the project.

Even though joint venture is more associated to growth rather than equity distribution, statistics show an increasing interest in joint venture type of alliances, from 60% (1975-90) to 66% between 1990-94 and further progressing to 88.8% during 1995-98. This scenario means more direct income to farmers and farmers' organisation especially through business venture and creation of job opportunities. The changes on projects concentration and types of projects preferred by farmers' organisations only goes to show that they now pay more attention on "growth" rather than distribution of wealth (equity).

On the strength of income earned by the Umbrella Broiler Scheme participants and suppliers of Pasar Raya Peladang, it is evidently clear that strategic alliance is indeed a factor to the increase in farmers' income. Farmers now draw their income not only from profits of area farmers' organisations business activities (as shareholders) but also from participating / working in the various strategic alliance projects. Admittedly, there is no doubt that "strategic alliance route offers Malaysian Farmers' Organisations a reliable and realistic way forward, towards wealth creation and socio-economic development". Profits earned by farmers, as shareholders is to satisfy the function of wealth distribution and activities performed by strategic alliance projects is a means to acquire growth development for the benefit of co-operative organisations like Malaysian Farmers' Organisations. They will certainly be in a better position to confidently participate in Malaysia's economic progress and simultaneously contribute to poverty eradication and bridging the income disparity in the country.

However, farmers' organisations need to re-examine their strategic alliance projects profile more closely. Projects formed before 1990's, such as the Project-based Profitable Alliance, need to be more independent and systematically leave the government safety net in controlled phases. More

effective strategy to penetrate the open market needs to be formulated and pursued vigorously. Meanwhile, the characteristic of Profitable Alliance needs to be carefully understood and where applicable, they should be adopted on a case-by-case basis.

The study also brings about a dynamic Domestic Sustainable Competitiveness Development Model of Strategic Alliance which the Malaysian Farmers' Organisations must be aware when formulating their strategic alliance projects. It constitutes of three parts, namely, the Start-up Period, the Adaptation Process and the Transformation/Termination of alliance. The Start-up Period will guide the formation process and provide significant factors that need to be seriously considered for the new alliance to be effective. The Adaptation Process would assist implementers of strategic alliance projects consider action to be taken in order to be sustainable, reliable and competitive in the era of globalisation whilst, the Transformation/Termination of strategic alliance is a decision for the policy makers to consider for the good of the alliance.

Sustainable Competitiveness Cycle was derived from the Adaptation Process. It explains Competitive Cycle that can take place in a lifespan of an alliance. As dynamic business entities, it is highly likely that strategic alliance projects will face Competitive Challenge every now and then. Through performance Assessments, reassessment of Partners' Capabilities and developing a new / modified Competitive Strategies, Competitive Strength will undoubtedly emerge and will alleviate the strategic alliance/business entity to a new Sustainable Competitiveness Level. With certain modification, this model may also be applied to other business entities as all of them aspire to be sustainable and competitive.

All findings in this study should help sustain the present and future of strategic alliance projects. That re-accomplished, the strategic alliance could become the effective route offered to Malaysian Farmers' Organisations towards wealth

creation and socio-economic development of their member farmers.

9.5 SUGGESTION FOR FUTURE RESEARCH

The Domestic Sustainable Competitiveness Development Model of Strategic Alliance is a model based on co-operative organisations strategic alliance's case study. It will be useful if other sectors develop their own strategic alliance development models covering small and medium size industry, export sector and others. Those deemed essential towards the continued economic progress of Malaysia.

APPENDIX 4(a)

THE MALAYSIAN FARMERS' ORGANISATIONS STRATEGIC ALLIANCES
QUESTIONNAIRE FORM

The aim of this questionnaire is to gain a right understanding of why the Malaysian Farmers' Organisations are involved in strategic alliances and how they run them. Each questionnaire is only for one strategic alliance project.

A Strategic Alliance is defined as "any short or long term collaboration between firms and other organisations that are developed for strategic reasons with the view to gain mutual benefits".

1. The Collaboration type of strategic alliance occurs without any joint venture to give it "boundaries". It is the most flexible type of alliance. It can be formed when the parents merely put in a minimum set of resources to see how the enterprise develops over a period of time. The resources generated within the strategic alliance is disbursed back to the parent
2. The Consortium is a distinct form of strategic alliance. It has a number of partners and normally set-up for large-scale activities and for a very specific purpose. The resources generated within the strategic alliance are disbursed back to the parent.
3. The Project-based joint venture normally takes place when the parent put in minimum resources, agreeing to an arrangement for jointly creating strategic value through a common organisation. The resources generated are retained in the particular organisation except for financial return in term of dividends, royalties, etc.
4. The Full - blown joint venture will acquire both parties to put in resources in abundance and allowing the resources that are generated in the strategic alliance to be retained in the alliance itself (except for dividends, royalties, fees, etc). This situation normally occurs when long - term co-operation between partners wishing to develop an entirely new business.

Information About Respondent

Name of Alliance executive completing Questionnaire:

Position : _____

Address : _____

Telephone number : _____

Date : _____

Name of the strategic alliance project: _____

Purpose of alliance : _____

For the above strategic alliance's project, please tick [4] the appropriate type of alliances as mentioned below:

- (A) Collaboration []
- (B) Consortium []
- (C) Joint venture company []
- (D) Full-blown joint venture []

- (A) Two-partner alliance or []
- (B) Multi-partner alliance []

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PART A

Please record the strength/degree of your agreement or disagreement against each statement as:

- Strongly disagree = SD
- Disagree = DA
- Difficult to decide = DD
- Agree = A
- Strongly agree = SA

Please answer Q1(a), Q1(b) or Q1(c), depending on which basic form was chosen for the alliance.

Please provide your answer from the viewpoint of the alliance as you perceive it, and not from the viewpoint of just one partner. Please tick [4] in the appropriate box.

		SDA	DA	DD	A	SA
SITUATION ANALYSIS						
Q1a	The alliance was set up as collaboration because:					
i.	the parents wish to retain flexibility					
ii.	it allows the alliance to develop over time before further commitment can confidently be made					
iii.	the parent(s) put in a minimum set of resources, which, along with income/profit will be ploughed back to the parent(s) on the completion of the project					
iv.	Other reason(s): _____ _____					

		SDA	DA	DD	A	SA
Q1b	The alliance was formed as consortium because:					
i.	small number of partners could not provide sufficient resources to meet the needs of large-scale opportunity					
ii.	to provide good opportunity to more people to get involved for better wealth distribution					
iii.	it needs a large size enterprise to be credible to potential customers, e.g. government					
iv.	extensive geographical coverage is needed to achieve strong market presence by providing better distribution channel through existing alliances					
v.	there is a need to spread and limit the financial risk to each partner					
vi.	the partners wish to retain flexibility, and therefore do not wish to create a new legal entity, at least for the time being					
vii.	legal requirement					
viii.	other reasons(s): _____ _____					
Q1c	The alliance is concluded as a form of joint venture company because:					
i.	the parents having agreed to an arrangement for jointly strategic value through a common organisation					
ii.	there is necessity to tie in the partner(s)					
iii.	specific assets are allocated to the project that needs to be jointly managed					
iv.	the performance of the alliance in achieving the objectives could be clearly measured in relation to the utilisation of the alliance assets					
v.	the alliance is cost effective (cost must be broadly interpreted, including direct and indirect cost)					
vi.	to fulfil legal requirement					
vii.	other reasons: _____ _____					
Q2	The following factors are external factors/industrial factors that contribute to the formation of the strategic alliance.					
(a)	to penetrate markets that previously closed					
(b)	to achieve economies of scale that will enable large producers to obtain minimum cost					
(c)	fast technological change – increase need for new investments					

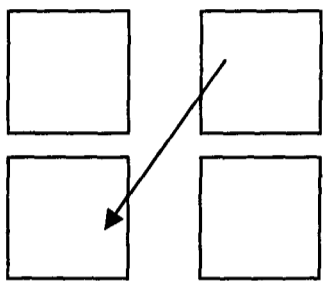
		SDA	DA	DD	A	SA
(d)	other factors: _____ _____					
Q3	The following are internal factors that motivate the formation of strategic alliance in order to achieve:					
(a)	technology improved					
(b)	Increased know-how					
(c)	managerial skills					
(d)	skilled labour					
(e)	raw materials					
(f)	marketing skills					
(g)	distribution channel					
(h)	proportionate spread financial risk					
(i)	Good reputation and image					
(j)	To fulfil legal requirement					
(k)	other reasons: _____					
PARTNER SELECTION CRITERIA						
Q4	The partner(s) select each other mainly because of the following factors:					
(a)	the partner(s) have compatible visions					
(b)	all partners perceive that they will have mutual gain and balance benefits					
(c)	the partner(s) are of approximate / similar size and strength					
(d)	they have complementary resources					
(e)	they possess complementary core competencies					
(f)	there are synergies in working together					
(g)	their culture compatible with each other					
(h)	Other reason(s): _____ _____					
Q5	The partner(s) have positive attitude towards the alliance especially in the following matters:					
(a)	a sensitive attitude to national cultural differences					
(b)	a sensitive attitude to corporate cultural differences					
(c)	strong commitment by top management					
(d)	strong commitments at staff levels					
(e)	mutual trust					
Q6	The strategic plan laid down during the formation period have included the following factors:					
(a)	Business plan has been agreed to.					
(b)	Business plan has been implemented accordingly.					
(c)	Main competitors have been established.					
(d)	Market potential has been identified.					

		SDA	DA	DD	A	SA
(e)	The alliance was projected to achieve competitive edge.					
THE MANAGEMENT OF ALLIANCE						
Q7	The evolution of management of alliance can be divided into four (4) phases of Strategic Management process. Please choose one that is appropriate to your alliance. <u>If you choose (a) or (b) or (c) please answer Q8. If you choose (d) please answer Q9.</u>					
(a)	<u>Financial Planning</u> (budget setting which is based on cost and profit)					
(b)	<u>Forecast Based Planning</u> (Financial Planning that is supplemented by long term planning)					
(c)	<u>Environmental Planning</u> (long term planning with special attention given to macro-economics, socio-demographic and technological trends)					
(d)	<u>Integrative Strategic Management</u> (which covers not only long term and environmental planning but also formulating ideas and taking appropriate action which can lead to a sustainable competitive advantage)					
Q8	The alliance is run by means of very workable organisational arrangements, especially in:					
(a)	In a joint venture project, the managing director is having/given complete authority to manage/develop the alliance					
(b)	an appropriate alliance form which is suitable to its task					
(c)	information concerning the alliance is disseminated widely in the company					
(d)	the strategic alliance having an effective dispute resolution mechanism in place					
(e)	the Strategic Alliance having an agreed divorce mechanism in place					
(f)	Other arrangements: _____ _____					
Q9	As strategic alliance is part and parcel of strategic management, the following are the main element of strategic management process that can help in implementation of the alliance's activities:					
(a)	The <u>objectives setting</u> of the alliance has resulted in:					
i.	broad representation from all the relevant sections of the organisation					
ii.	active participation by top management					
(b)	The <u>strategic programming</u> , outlining how to carry out the various objectives, and who should carry them out has been :					
i.	Formulated with great care.					
ii.	Receiving strong support and co-operation during					

		SDA	DA	DD	A	SA
	the implementation by all executives concerned.					
(c)	All partner(s) have full filled their responsibility in <u>Strategic Budgeting</u> by having allocated the necessary resources such as:					
i.	competent managers					
ii.	suitable technology					
iii.	sufficient funds					
(d)	<u>Strategic Control</u> is practised by partner(s) to protect their interest in term of core competency/ financial/non-financial control through:					
i.	active participation in planning					
ii.	board representation					
(e)	Competent personnel have been assigned to manage the alliance by the respective partner(s).					
(f)	Appropriate personnel have been assigned to appropriate tasks.					
(g)	The following are made available to implement the development of the strategic alliance:					
i.	sufficient human resources					
ii.	sufficient time allocated					
(h)	Key employees in the project-based joint venture have unquestionable loyalty to the strategic alliance organisation.					
(i)	Key employees in the non-project-based joint venture continue to maintain loyalty to the parent organisations.					
(j)	Strategic alliance can offer better career development.					
(k)	Other elements: _____ _____					
ROLE OF ENVIRONMENTAL FACTORS (INCLUDING EXTERNAL FACTORS)						
Q10	The alliance partner(s) have given their full/maximum co-operation in dealing with the alliance activities.					
Q11	The following customers have made regular payment to the alliance as required by their regulations / contract agreements:					
(a)	government institutions					
(b)	non-government institutions					
(c)	open market					
Q12	The suppliers have provided input to the alliance projects (such as, fertilisers, seed and others) as follows / on the following basis:					
(a)	regularly					
(b)	right quality					
(c)	adequate quantity					
Q13	The suppliers have provided input to the related farmers (such as day-old chick, poultry feed and others) as follows / on the following basis:					
(a)	regularly					

VII

		SDA	DA	DD	A	SA
(b)	right quality					
(c)	Adequate Quantity					
Q14	The related farmers (if applicable) have provided to the strategic alliance their products, with:					
(a)	the right quality					
(b)	the right quantity					
(c)	the right time					
Q15	The following government policies have given strong impact to the policy changes of your organisation (farmers' organisations) in achieving financial strength and producing commercial farmers:					
(a)	restraining public sector expenditure (including less subsidies) to reduce budgetary deficits					
(b)	introducing economic liberalisation and commitment in market access (under World Trade Organisation) as well as improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan					
(c)	adopting a private sector led growth					
(d)	package programmes to develop a viable, competitive and resilient Bumiputra Industrial Community (BCIC)					
THE EVOLUTION OF ALLIANCE						
Q16	During the evolution of the alliance, several important factors have emerged. Among others are as follows:					
(a)	Strong bonding factors have developed in the alliance. The partners have:					
	successfully overcome external challenges					
	developed a single culture comprising the best (culture) from all the partner (s)					
	developed good reputation among them					
(b)	The partner(s) are adapting a philosophy of constant learning and agreed that they have learned / benefited from the alliance.					
(c)	In balanced partner benefits, one partner has not:					
	Gained strategic advantage over the other(s)					
	Gain greater benefit than the other (s)					
	Become over-dependent on the other (s)					
Q17	The alliance is constantly evolving, it can be seen through the following event:					
(a)	The partners are regularly coming up with new projects for the alliance					
(b)	Additional responsibilities are placed on the alliance by the partner(s)					
(c)	The alliance is constantly adjusting to change					
Q18	The partners are achieving their alliance objectives to a degree acceptable to them:					
(a)	In direct quantifiable terms					
(b)	In more indirect spin-off terms					
Q19	The evolution of the alliance can be seen either:					
(a)	Within the same type of alliance					

		SDA	DA	DD	A	SA
(b)	To different type of alliance as shown by an arrow below:					
	<div style="display: flex; flex-wrap: wrap; justify-content: space-around;"> <div style="border: 1px solid black; padding: 5px; margin: 5px;">COLLABORATION</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">CONSORTIUM</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">PROJECT-BASED JOINT VENTURE</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">FULL-BLOWN JOINT VENTURE</div> </div>	Note: Please indicates the evolution by connecting the boxes with an arrow .e.g. 				
(c)	No evolution as far as type of alliance is concerned.					
Q20	The reputation of the alliance is good and well accepted by the industry.					
Q21	The future direction of farmers' organisations strategic alliance can be perceived as follows:					
(a)	Multi-domestic - (big industry that have only domestic focus).					
(b)	Regionalisation - (big industry that have regional business co-operation (e.g. within ASEAN countries).					
(c)	Transnational - (big industry that have multi-business cross border co-operation).					

PART B**INFORMATION ON THE ABOVE STRATEGIC ALLIANCE PROJECT**

(PLEASE SUPPLEMENT WITH ADDITIONAL PAPER IF THE SPACE PROVIDED IS NOT SUFFICIENT).

PROJECT DETAILS

Name of alliance partners	Type of alliance	Date of commencement	Ending date of alliance	Monetary value of alliance (RM)

CUSTOMERS OF THE ABOVE STRATEGIC ALLIANCE PROJECT

The customers of the alliance are as follows:	Percentage (%)
Government institutions	
Non-government institutions	
Open market	

FINANCIAL BENEFIT FROM THE ABOVE STRATEGIC ALLIANCE PROJECT

Name of the project	Financial Returns (Profit / Loss) (RM)				
	1993	1994	1995	1996	1997

SOURCE OF CAPITAL FOR THE ABOVE STRATEGIC ALLIANCE PROJECT

Name of the project	Amount of capital invested	Source of capital (RM)	
		Own capital	Loan*

*Please indicates either the loan is from Farmers' Organisations Authority (FOA) (1), Bank Pertanian Malaysia (BPM) (2), Commercial Bank (CB) (3), or others (Oth) (4).

ISSUES AND CHALLENGES

THANK YOU

INTERVIEW GUIDE FOR UMBRIOLER BROILER SCHEME PARTICIPATING FARMERS.

The aim of this interview is to gain a right understanding of why the Malaysian Farmers' Organisations members involved in strategic alliances projects and what benefits they get from them. The following issues/questions would form the basis of interview. These acted as guide and farmers will be encouraged to explore issues that they felt to be of most concern to them.

- Initial process of involvement.
- The project details.
- Financial benefits such as value of contract, actual income.
- Source of capital
- Management of the farm such as labour, input, payment, marketing arrangement and technical support.

INTERVIEW WITH UMBRELLA BROILER SCHEME GROWERS

NAME OF AREA FARMERS' ORGANISATIONS:

NAME OF GROWERS :

FAMILY MEMBERS :

PROJECT INFORMATION

HOW DID YOU FIRST GET INVOLVED WITH THIS PROJECT?

.....
.....
.....

NUMBER OF BROILERS :

Yearly circles :

AMOUNT OF CAPITAL :

(Own capital) :

(Loan) :

PROJECT COSTS

FIXED COST

- Land :

- Chicken House

VARIABLE COSTS

-Day-old chicks :

- Feed :

-Medicine :

-Water :

-Electricity :

PROJECT SUITABILITY:

LOCATION (weather it follows the council requirements).

.....
.....

INFRASTRUCTURE (road, utility supply and others)

.....
.....
.....

TRAINING

.....
.....

QUALITY DAY-OLD CHICKS THAT HAVE BEEN SUPPLIED

.....
.....

QUALITY OF FEED THAT HAVE BEEN SUPPLIED

.....
.....
.....

QUALITY OF MEDICINE

.....
.....

MAN POWER

.....
.....

CO-OPERATION AMONG GROWERS

.....
.....

ANY COMPLAIN?

.....
.....
.....

NORMAL PERIOD OF PAYMENT BEING MADE BY FARMERS' ORGANISATION

.....
.....

INCOME BEFORE AND AFTER PROJECT.

.....
.....

PROFIT/LOSS

.....
.....

FINANCIAL BENEFITS

.....
.....

QUALITY OF LIVE

HOUSE

- Concrete/wood/others
- Bedroom
- Living room
- Family room
- kitchen
- Toilet
- Bathroom

FURNITURE

- Settee
- Dinning set
- Study table
- Refrigerator
- Beds
- TV
- Radio

TRANSPORTATION

- Car
- Motor
- Bicycle

CHILDREN EDUCATION

- Primary education
- Secondary education
- High education

SAVING

.....
.....

OVERALL OPINION ON PROJECT

.....
.....

RESEARCHERS' CONCLUSION

.....
.....
.....
.....
.....

APPENDIX 4(c)**INTERVIEW GUIDE FOR OUTSIDE PEOPLE THAT HAVE INTEREST OR INFLUENCE OVER THE FARMERS' ORGANISATIONS STRATEGIC ALLIANCE PROJECTS.**

This set of interview guide attempts to capture other people opinions toward the farmers' organisation strategic alliance projects. This semi-structured interview is be divided into two (2) sections as follows:

1. Operational level

- The present farmers' organisations strategic alliance projects that they have linked with.
- The future deals.
- Related issues

2. Policy maker

- The present performance of the Farmers' Organisations strategic alliance projects.
- The future direction.
- Related issues such as:
 - i. The role of government in encouraging the development of Farmers' organisation strategic alliances.
 - ii. The availability of resources to support the strategic alliance projects such as financial package, managerial capability.
 - iii. What are the efforts made by the Ministry in order to integrate the available resource within the ministry such as technical and research support to help promote the alliances?

Below is as an example of interview that has been conducted with the Director General of Farmers' Organisations Authority.

During the fieldwork, an interview has been conducted with the Director of the Farmers' Organisations Authority. Among the questions and answers are as follows:

Question 1. The present international trade policy such as trade liberalisation and deregulation under World trade Organisation has great influenced on our present government policies such as:

- Reduction/elimination of import duties
- Reducing the government subsidies.
- To create Bumiputra entrepreneurs
- To create commercial farmers.

How Dato' perceives the role of Farmers' Organisations in handling this?

Answer 1. Trade liberalisation should benefit small country like us, over all we should take the opportunity to more commercialise our activities, become more productive and increase our skill. Nevertheless, we need time to change those things. What we have to do is to move together. Farmers' organisations are very flexible organisation. How you run them is important. Further more, it is a unique organisation.

- First, the organisations unite farmers into a movement. This will give them bargaining power.
- Second, The organisations practising co-operative principles. Besides self- help, they help each other.
- Thirdly, Our organisations are recognised as corporate body. In management, board of directors have full authority

Question 2. Dato', in your opinion, what is the role of Farmers' Organisation Authority to encourage the development of Strategic alliance for farmers' organisations?

Answer 2. Our main role is to mobile and organises the farmers. We are responsible to develop the farmers' organisations together with the members. Farmers' Organisations must be viable. The best way is through strategic

alliances. Work in integration to serve the farmers' need such as education, management agent, providing input, capital, market, consumer items and saving facility within and amongst farmers' organisations as well as external partners.

Questions 3. In Dato' opinion, what is the future direction of the farmers' organisations strategic alliances?

Answer 3. For a time being, it is enough at the Multi- Domestic Level (big industry that have only domestic focus). It is because the food production, milling and by products still consider small but our vision by 2020, 5% farmers will produce 95% of our requirement. We will increase our poultry production as it is now we only have 1% of the total market in the country. Our market share in palm oil also is still small around 5%-10%, but now we export crude palm oil through Boustaed (they get 2% commission), fruit star through FAMA, On our own, we export fruit and vegetable to Singapore. We also import anions from India with palm oil as counter trade. We import tractors and fertiliser such as Urea and Phosphate. Now we already move to have strategic alliance with Indonesia whereby NAFAS already has joint venture with Obitraco in oil palm plantation.

APPENDIX 4(d)

**DETAILS PROFIT/LOSS EARNED BY FARMERS' ORGANISATIONS AND
PARTICIPATED FARMERS UNDER UMBRELLA BROILER SCHEME DURING FIVE YEAR
PERIOD (1993-1997)**

**A. PROFIT/LOSS EARNED BY FARMERS' ORGANISATIONS DURING 1993-1997
PERIOD.**

YEAR	PROFIT/LOSS	SIDE INCOME FROM PROJECT		
		DAY-OLD CHICKS	FEED	MEDICINE
1993				
1994				
1995				
1996				
1997				

B. PROFIT/LOSS EARNED BY GROWERS DURING 1993-1997 PERIOD.

YEAR	NAME OF GROWERS	NO. OF BROILERS	INCOME	PROFIT/LOSS
1993				
1994				
1995				
1996				
1997				

NOTE: Please use extra papers if space provided above is not enough.

OPINION

THANK YOU

	siri	state	ppk	project	type	partner	yearbgn
1	1.00	10.00	1002.00	1.00	3.00	2.00	96.00
2	2.00	4.00	402.00	1.00	3.00	2.00	94.00
3	3.00	4.00	402.00	2.00	1.00	2.00	96.00
4	4.00	8.00	802.00	3.00	3.00	2.00	98.00
5	5.00	8.00	802.00	4.00	3.00	2.00	90.00
6	6.00	8.00	802.00	1.00	3.00	2.00	97.00
7	7.00	8.00	802.00	5.00	3.00	2.00	98.00
8	8.00	5.00	502.00	6.00	3.00	1.00	94.00
9	9.00	3.00	302.00	7.00	2.00	2.00	93.00
10	10.00	3.00	302.00	1.00	3.00	2.00	97.00
11	11.00	3.00	302.00	8.00	3.00	2.00	92.00
12	12.00	10.00	1001.00	1.00	3.00	2.00	94.00
13	13.00	7.00	702.00	1.00	3.00	2.00	94.00
14	14.00	7.00	702.00	9.00	3.00	2.00	92.00
15	15.00	7.00	702.00	10.00	2.00	2.00	94.00
16	16.00	8.00	801.00	4.00	3.00	2.00	90.00
17	17.00	8.00	801.00	5.00	3.00	2.00	98.00
18	18.00	8.00	801.00	3.00	3.00	2.00	98.00
19	19.00	7.00	701.00	9.00	3.00	2.00	96.00
20	20.00	7.00	701.00	11.00	3.00	1.00	97.00
21	21.00	7.00	701.00	12.00	3.00	2.00	93.00
22	22.00	7.00	701.00	13.00	3.00	2.00	94.00
23	23.00	5.00	503.00	14.00	3.00	2.00	97.00
24	24.00	5.00	501.00	7.00	2.00	2.00	87.00
25	25.00	7.00	703.00	1.00	3.00	2.00	94.00
26	26.00	7.00	703.00	9.00	3.00	2.00	96.00
27	27.00	9.00	901.00	15.00	3.00	2.00	96.00
28	28.00	9.00	901.00	16.00	3.00	2.00	85.00
29	29.00	1.00	101.00	17.00	2.00	2.00	97.00
30	30.00	6.00	602.00	18.00	3.00	1.00	97.00
31	31.00	1.00	102.00	17.00	2.00	2.00	97.00
32	32.00	10.00	1004.00	19.00	1.00	1.00	92.00
33	33.00	11.00	1102.00	7.00	2.00	2.00	87.00
34	34.00	11.00	1102.00	1.00	3.00	2.00	94.00
35	35.00	11.00	1102.00	20.00	1.00	2.00	92.00
36	36.00	8.00	803.00	7.00	2.00	2.00	85.00
37	37.00	8.00	803.00	1.00	3.00	2.00	95.00
38	38.00	8.00	803.00	3.00	3.00	2.00	97.00
39	39.00	8.00	803.00	4.00	3.00	2.00	92.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	yearend	q1ai	q1aii	q1aiii	q1bi	q1bii	q1biii
1	.	.	.	.	.	.	.
2	.00	.	.	.	.	.	.
3	.00	2.00	4.00	2.00	.	.	.
4	.00	.	.	.	.	.	.
5	.00	.	.	.	.	.	.
6	.00	.	.	.	.	.	.
7	.00	.	.	.	.	.	.
8	.00	.	.	.	.	.	.
9	98.00	.	.	.	4.00	5.00	4.00
10	.00	.	.	.	.	.	.
11	.00	.	.	.	.	.	.
12	.00	.	.	.	.	.	.
13	.00	.	.	.	.	.	.
14	.00	.	.	.	.	.	.
15	.00	.	.	.	5.00	4.00	5.00
16	.00	.	.	.	.	.	.
17	.00	.	.	.	.	.	.
18	.00	.	.	.	.	.	.
19	2016.00	.	.	.	.	.	.
20	.00	.	.	.	.	.	.
21	.00	.	.	.	.	.	.
22	.00	.	.	.	.	.	.
23	2027.00	.	.	.	.	.	.
24	.00	.	.	.	2.00	5.00	4.00
25	.00	.	.	.	.	.	.
26	.00	.	.	.	.	.	.
27	.00	.	.	.	.	.	.
28	.00	.	.	.	.	.	.
29	98.00	.	.	.	5.00	4.00	4.00
30	.00	.	.	.	.	.	.
31	.00	.	.	.	4.00	1.00	4.00
32	.00	3.00	4.00	2.00	.	.	.
33	2000.00	.	.	.	2.00	5.00	5.00
34	.00	.	.	.	.	.	.
35	.00	3.00	4.00	1.00	.	.	.
36	.00	.	.	.	5.00	5.00	5.00
37	.00	.	.	.	.	.	.
38	.00	.	.	.	.	.	.
39	.00	.	.	.	.	.	.

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q1biv	q1bv	q1bvi	q1bvii	q1ci	q1cii	q1ciii
1	4.00	3.00	3.00
2	2.00	3.00	4.00
3
4	5.00	4.00	4.00
5	5.00	4.00	4.00
6	3.00	4.00	4.00
7	5.00	4.00	4.00
8	4.00	3.00	5.00
9	4.00	2.00	4.00	3.00	.	.	.
10	4.00	4.00	4.00
11	4.00	4.00	4.00
12	4.00	3.00	4.00
13	5.00	4.00	2.00
14	5.00	4.00	3.00
15	5.00	5.00	5.00	4.00	.	.	.
16	5.00	1.00	5.00
17	5.00	2.00	5.00
18	5.00	2.00	5.00
19	5.00	4.00	5.00
20	5.00	4.00	1.00
21	5.00	5.00	1.00
22	5.00	3.00	4.00
23	5.00	5.00	5.00
24	5.00	3.00	4.00	2.00	.	.	.
25	2.00	4.00	2.00
26	5.00	5.00	5.00
27	5.00	5.00	2.00
28	5.00	1.00	1.00
29	4.00	5.00	4.00	2.00	.	.	.
30	4.00	4.00	4.00
31	4.00	4.00	4.00	1.00	.	.	.
32
33	5.00	5.00	5.00	5.00	.	.	.
34	1.00	1.00	1.00
35
36	5.00	4.00	5.00	4.00	.	.	.
37	5.00	5.00	5.00
38	4.00	4.00	4.00
39	5.00	5.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q1civ	q1cv	q1cvi	q2a	q2b	q2c	q3a
1	3.00	3.00	4.00	.00	4.00	4.00	4.00
2	4.00	3.00	2.00	.00	4.00	4.00	.00
3	.	.	.	.00	4.00	.00	.00
4	4.00	3.00	4.00	5.00	.00	4.00	4.00
5	4.00	4.00	4.00	4.00	4.00	4.00	5.00
6	5.00	4.00	4.00	4.00	4.00	5.00	4.00
7	4.00	3.00	4.00	5.00	.00	4.00	4.00
8	5.00	4.00	4.00	.00	4.00	4.00	4.00
9	.	.	.	.00	4.00	.00	4.00
10	4.00	4.00	4.00	4.00	4.00	4.00	4.00
11	4.00	4.00	.00	4.00	4.00	4.00	4.00
12	2.00	5.00	1.00	4.00	.00	4.00	5.00
13	4.00	4.00	3.00	5.00	5.00	5.00	5.00
14	5.00	4.00	3.00	4.00	5.00	4.00	5.00
15	.	.	.	.00	5.00	4.00	5.00
16	3.00	5.00	5.00	.00	5.00	.00	.00
17	5.00	5.00	1.00	4.00	5.00	.00	4.00
18	5.00	5.00	2.00	4.00	5.00	.00	4.00
19	5.00	5.00	3.00	.00	5.00	.00	5.00
20	.00	.00	.00	5.00	.00	.00	.00
21	4.00	3.00	5.00	5.00	4.00	4.00	.00
22	4.00	4.00	4.00	.00	.00	.00	5.00
23	5.00	5.00	5.00	.00	4.00	4.00	4.00
24	.	.	.	5.00	.00	.00	.00
25	4.00	3.00	4.00	4.00	.00	5.00	.00
26	4.00	3.00	2.00	.00	4.00	.00	.00
27	3.00	5.00	.	.00	5.00	.00	.00
28	1.00	1.00	1.00	.00	.00	.00	.00
29	.	.	.	.00	5.00	4.00	.00
30	4.00	4.00	4.00	4.00	4.00	4.00	.00
31	.	.	.	4.00	.00	.00	.00
32	.	.	.	.00	.00	4.00	.00
33	.	.	.	5.00	5.00	5.00	5.00
34	1.00	1.00	1.00	.00	.00	.00	.00
35	.	.	.	.00	5.00	.00	.00
36	.	.	.	5.00	.00	.00	4.00
37	5.00	5.00	5.00	5.00	5.00	5.00	5.00
38	4.00	4.00	4.00	.00	5.00	.00	4.00
39	5.00	5.00	5.00	4.00	5.00	4.00	4.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q3b	q3c	q3d	q3e	q3f	q3g	q3h
1	5.00	4.00	4.00	.00	4.00	4.00	4.00
2	4.00	4.00	.00	4.00	.00	4.00	5.00
3	.00	4.00	4.00	.00	.00	.00	4.00
4	4.00	4.00	4.00	4.00	4.00	4.00	4.00
5	5.00	5.00	5.00	5.00	5.00	5.00	4.00
6	4.00	4.00	4.00	4.00	4.00	4.00	.00
7	4.00	4.00	4.00	4.00	4.00	4.00	4.00
8	4.00	4.00	4.00	.00	4.00	4.00	4.00
9	4.00	5.00	5.00	5.00	4.00	4.00	.00
10	4.00	4.00	4.00	4.00	4.00	4.00	.00
11	4.00	4.00	4.00	4.00	4.00	4.00	4.00
12	5.00	5.00	5.00	4.00	5.00	4.00	.00
13	5.00	5.00	5.00	5.00	5.00	5.00	5.00
14	5.00	5.00	5.00	5.00	5.00	5.00	5.00
15	5.00	5.00	5.00	5.00	5.00	5.00	5.00
16	5.00	5.00	5.00	5.00	5.00	.00	5.00
17	4.00	5.00	4.00	4.00	4.00	5.00	5.00
18	4.00	5.00	4.00	4.00	4.00	5.00	5.00
19	5.00	5.00	5.00	5.00	5.00	5.00	.00
20	4.00	4.00	.00	.00	.00	4.00	.00
21	4.00	4.00	.00	.00	4.00	5.00	4.00
22	5.00	5.00	4.00	.00	.00	.00	5.00
23	5.00	5.00	5.00	4.00	4.00	4.00	5.00
24	.00	4.00	4.00	4.00	4.00	5.00	.00
25	4.00	4.00	4.00	.00	.00	.00	4.00
26	.00	5.00	4.00	4.00	5.00	4.00	4.00
27	.00	4.00	.00	.00	4.00	5.00	5.00
28	.00	4.00	.00	.00	.00	.00	.00
29	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30	4.00	4.00	4.00	.00	4.00	4.00	5.00
31	.00	4.00	4.00	4.00	5.00	4.00	.00
32	.00	.00	.00	.00	4.00	4.00	.00
33	5.00	5.00	5.00	5.00	5.00	5.00	5.00
34	.00	.00	.00	.00	.00	.00	.00
35	.00	4.00	4.00	4.00	4.00	4.00	5.00
36	4.00	4.00	4.00	4.00	4.00	4.00	4.00
37	5.00	5.00	5.00	5.00	5.00	5.00	5.00
38	4.00	4.00	4.00	4.00	4.00	4.00	4.00
39	5.00	5.00	4.00	.00	5.00	5.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q3i	q3j	q4a	q4b	q4c	q4d	q4e
1	.00	4.00	5.00	5.00	3.00	4.00	3.00
2	4.00	.00	5.00	5.00	4.00	5.00	5.00
3	.00	.00	2.00	4.00	2.00	3.00	3.00
4	4.00	4.00	4.00	4.00	4.00	4.00	3.00
5	4.00	4.00	4.00	4.00	4.00	4.00	4.00
6	4.00	4.00	4.00	4.00	3.00	4.00	3.00
7	4.00	4.00	4.00	4.00	4.00	4.00	3.00
8	5.00	4.00	4.00	4.00	2.00	4.00	2.00
9	4.00	.00	3.00	2.00	4.00	4.00	2.00
10	4.00	4.00	4.00	4.00	2.00	3.00	2.00
11	4.00	4.00	4.00	4.00	4.00	4.00	4.00
12	4.00	.00	4.00	5.00	2.00	4.00	4.00
13	5.00	5.00	5.00	5.00	3.00	5.00	4.00
14	5.00	4.00	5.00	5.00	3.00	4.00	4.00
15	5.00	4.00	5.00	5.00	5.00	5.00	5.00
16	5.00	5.00	5.00	5.00	5.00	5.00	5.00
17	5.00	.00	3.00	5.00	2.00	5.00	2.00
18	5.00	.00	3.00	4.00	2.00	4.00	2.00
19	4.00	4.00	3.00	5.00	2.00	2.00	3.00
20	4.00	.00	4.00	4.00	4.00	4.00	3.00
21	4.00	4.00	4.00	4.00	1.00	5.00	2.00
22	5.00	4.00	5.00	5.00	3.00	5.00	5.00
23	5.00	4.00	4.00	4.00	4.00	4.00	4.00
24	4.00	.00	4.00	4.00	2.00	5.00	4.00
25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
26	4.00	.00	4.00	5.00	5.00	3.00	4.00
27	5.00	.00	5.00	5.00	3.00	5.00	5.00
28	4.00	.00	5.00	5.00	1.00	5.00	3.00
29	4.00	.00	4.00	5.00	4.00	4.00	4.00
30	4.00	.00	4.00	4.00	2.00	4.00	3.00
31	.00	.00	4.00	4.00	2.00	4.00	4.00
32	4.00	.00	4.00	4.00	2.00	4.00	4.00
33	5.00	5.00	5.00	5.00	5.00	5.00	5.00
34	.00	.00	1.00	1.00	1.00	1.00	1.00
35	5.00	5.00	5.00	5.00	5.00	5.00	1.00
36	4.00	5.00	5.00	5.00	5.00	5.00	5.00
37	5.00	5.00	5.00	5.00	4.00	5.00	5.00
38	5.00	4.00	5.00	5.00	4.00	4.00	4.00
39	5.00	5.00	5.00	5.00	5.00	5.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q4f	q4g	q5a	q5b	q5c	q5d	q5e
1	3.00	3.00	.00	4.00	5.00	5.00	5.00
2	4.00	5.00	.00	2.00	4.00	3.00	4.00
3	.00	4.00	.00	3.00	2.00	2.00	3.00
4	4.00	4.00	.00	3.00	3.00	3.00	3.00
5	4.00	4.00	.00	3.00	3.00	4.00	3.00
6	3.00	4.00	.00	3.00	3.00	3.00	4.00
7	4.00	4.00	.00	3.00	3.00	3.00	3.00
8	4.00	3.00	.00	4.00	4.00	4.00	4.00
9	4.00	3.00	.00	4.00	3.00	4.00	3.00
10	2.00	4.00	.00	4.00	4.00	3.00	4.00
11	4.00	4.00	.00	4.00	4.00	4.00	4.00
12	4.00	5.00	.00	5.00	4.00	4.00	5.00
13	4.00	5.00	.00	5.00	5.00	5.00	5.00
14	4.00	5.00	.00	4.00	5.00	5.00	5.00
15	5.00	5.00	.00	4.00	5.00	5.00	5.00
16	5.00	5.00	.00	3.00	5.00	4.00	4.00
17	5.00	5.00	.00	2.00	2.00	2.00	2.00
18	4.00	4.00	.00	3.00	3.00	3.00	3.00
19	4.00	5.00	.00	4.00	2.00	2.00	5.00
20	5.00	4.00	.00	3.00	4.00	3.00	4.00
21	5.00	3.00	.00	4.00	3.00	4.00	3.00
22	5.00	5.00	.00	5.00	5.00	5.00	5.00
23	4.00	4.00	.00	4.00	3.00	3.00	4.00
24	4.00	4.00	.00	5.00	4.00	4.00	5.00
25	3.00	3.00	.00	3.00	3.00	4.00	3.00
26	4.00	4.00	.00	1.00	4.00	4.00	4.00
27	5.00	5.00	.00	3.00	4.00	4.00	4.00
28	4.00	4.00	.00	4.00	4.00	1.00	5.00
29	4.00	4.00	.00	3.00	4.00	4.00	4.00
30	4.00	3.00	.00	3.00	3.00	4.00	3.00
31	3.00	2.00	.00	4.00	4.00	4.00	3.00
32	4.00	4.00	.00	4.00	4.00	4.00	4.00
33	5.00	5.00	.00	5.00	5.00	5.00	5.00
34	1.00	1.00	.00	1.00	1.00	1.00	1.00
35	5.00	5.00	.00	4.00	5.00	5.00	5.00
36	5.00	5.00	.00	4.00	4.00	4.00	4.00
37	5.00	5.00	.00	4.00	5.00	5.00	5.00
38	4.00	4.00	.00	4.00	5.00	4.00	4.00
39	5.00	5.00	.00	3.00	5.00	4.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q6a	q6b	q6c	q6d	q6e	q7a	q7b
1	4.00	4.00	4.00	5.00	4.00	.	4.00
2	4.00	4.00	2.00	2.00	3.00	.	4.00
3	4.00	3.00	4.00	3.00	3.00	4.00	.
4	4.00	4.00	4.00	4.00	4.00	4.00	.
5	4.00	4.00	3.00	4.00	3.00	.	.
6	4.00	4.00	3.00	4.00	3.00	.	.
7	4.00	4.00	4.00	4.00	4.00	4.00	.
8	4.00	3.00	3.00	4.00	4.00	.	.
9	3.00	4.00	4.00	4.00	4.00	.	.
10	4.00	3.00	4.00	4.00	4.00	.	.
11	4.00	3.00	4.00	4.00	4.00	.	4.00
12	5.00	4.00	5.00	5.00	5.00	.	.
13	5.00	5.00	5.00	5.00	5.00	.	.
14	5.00	5.00	5.00	5.00	5.00	.	.
15	5.00	5.00	5.00	5.00	5.00	5.00	.
16	5.00	2.00	2.00	5.00	5.00	5.00	.
17	5.00	2.00	3.00	5.00	5.00	.	.
18	5.00	2.00	3.00	5.00	5.00	.	.
19	5.00	4.00	2.00	5.00	5.00	.	.
20	4.00	3.00	1.00	3.00	1.00	.	4.00
21	4.00	4.00	4.00	5.00	5.00	.	.
22	1.00	5.00	5.00	5.00	5.00	.	.
23	4.00	3.00	4.00	4.00	3.00	.	.
24	5.00	5.00	4.00	5.00	5.00	5.00	.
25	3.00	3.00	3.00	4.00	3.00	.	4.00
26	4.00	3.00	1.00	5.00	3.00	4.00	.
27	4.00	4.00	4.00	4.00	5.00	.	.
28	5.00	5.00	3.00	5.00	3.00	5.00	.
29	4.00	4.00	3.00	4.00	4.00	.	.
30	4.00	3.00	4.00	4.00	3.00	.	.
31	4.00	4.00	4.00	4.00	4.00	.	.
32	3.00	2.00	2.00	4.00	4.00	.	.
33	5.00	5.00	5.00	5.00	5.00	.	.
34	1.00	1.00	1.00	1.00	1.00	5.00	.
35	5.00	5.00	5.00	5.00	5.00	5.00	.
36	4.00	4.00	4.00	4.00	5.00	.	.
37	5.00	5.00	5.00	5.00	5.00	.	.
38	4.00	4.00	4.00	5.00	5.00	.	.
39	4.00	5.00	4.00	5.00	5.00	.	.

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q7c	q7d	q8a	q8b	q8c	q8d	q8e
1	.	.	4.00	4.00	4.00	4.00	3.00
2	.	.	4.00	.00	.00	2.00	2.00
3	.	.	2.00	4.00	4.00	2.00	3.00
4	.	.	4.00	4.00	4.00	4.00	4.00
5	.	4.00	.00	.00	.00	.00	.00
6	.	4.00	.00	.00	.00	.00	.00
7	.	.	4.00	4.00	4.00	4.00	4.00
8	.	4.00	.00	.00	.00	.00	.00
9	.	4.00	.00	.00	.00	.00	.00
10	4.00	.	4.00	4.00	4.00	4.00	3.00
11	.	.	4.00	4.00	4.00	3.00	4.00
12	.	5.00	.00	.00	.00	.00	.00
13	.	5.00	.00	.00	.00	.00	.00
14	5.00	.	5.00	5.00	5.00	5.00	.00
15	.	.	3.00	5.00	4.00	4.00	2.00
16	.	.	3.00	4.00	4.00	4.00	4.00
17	.	5.00	.00	.00	.00	.00	.00
18	.	5.00	.00	.00	.00	.00	.00
19	.	4.00	.00	.00	.00	.00	.00
20	.	.	3.00	4.00	4.00	4.00	4.00
21	.	4.00	.00	.00	.00	.00	.00
22	5.00	.	5.00	5.00	5.00	5.00	5.00
23	5.00	.	5.00	5.00	5.00	5.00	5.00
24	.	.	.00	5.00	5.00	5.00	5.00
25	.	.	4.00	4.00	4.00	3.00	3.00
26	.	.	3.00	4.00	3.00	4.00	2.00
27	.	4.00	.00	.00	.00	.00	.00
28	.	.	1.00	5.00	5.00	5.00	3.00
29	.	5.00	.00	.00	.00	.00	.00
30	4.00	.	4.00	4.00	3.00	3.00	4.00
31	4.00	.	2.00	4.00	4.00	3.00	4.00
32	4.00	.	4.00	4.00	4.00	4.00	4.00
33	.	5.00	.00	.00	.00	.00	.00
34	.	.	5.00	5.00	1.00	1.00	1.00
35	.	.	5.00	4.00	4.00	4.00	4.00
36	.	5.00	.00	.00	.00	.00	.00
37	.	5.00	.00	.00	.00	.00	.00
38	.	5.00	.00	.00	.00	.00	.00
39	.	5.00	.00	.00	.00	.00	.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q9ai	q9aai	q9bi	q9bii	q9ci	q9cii	q9ciii
1	.00	.00	.00	.00	.00	.00	.00
2	.00	.00	.00	.00	.00	.00	.00
3	.00	.00	.00	.00	.00	.00	.00
4	.00	.00	.00	.00	.00	.00	.00
5	4.00	4.00	4.00	4.00	4.00	4.00	4.00
6	4.00	4.00	4.00	4.00	4.00	4.00	4.00
7	.00	.00	.00	.00	.00	.00	.00
8	3.00	4.00	4.00	4.00	5.00	5.00	4.00
9	3.00	3.00	3.00	3.00	4.00	4.00	4.00
10	.00	.00	.00	.00	.00	.00	.00
11	.00	.00	.00	.00	.00	.00	.00
12	4.00	4.00	4.00	4.00	3.00	3.00	3.00
13	5.00	5.00	5.00	5.00	5.00	5.00	5.00
14	.00	.00	.00	.00	.00	.00	.00
15	.00	.00	.00	.00	.00	.00	.00
16	.00	.00	.00	.00	.00	.00	.00
17	5.00	5.00	5.00	5.00	4.00	3.00	5.00
18	5.00	5.00	5.00	5.00	4.00	3.00	5.00
19	2.00	4.00	4.00	4.00	4.00	4.00	4.00
20	.00	.00	.00	.00	.00	.00	.00
21	3.00	4.00	4.00	4.00	3.00	2.00	2.00
22	.00	.00	.00	.00	.00	.00	.00
23	.00	.00	.00	.00	.00	.00	.00
24	.00	.00	.00	.00	.00	.00	.00
25	.00	.00	.00	.00	.00	.00	.00
26	.00	.00	.00	.00	.00	.00	.00
27	4.00	4.00	4.00	4.00	4.00	4.00	4.00
28	.00	.00	.00	.00	.00	.00	.00
29	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30	.00	.00	.00	.00	.00	.00	.00
31	.00	.00	.00	.00	.00	.00	.00
32	.00	.00	.00	.00	.00	.00	.00
33	5.00	5.00	5.00	5.00	5.00	5.00	5.00
34	.00	.00	.00	.00	.00	.00	.00
35	.00	.00	.00	.00	.00	.00	.00
36	5.00	5.00	5.00	5.00	4.00	4.00	2.00
37	5.00	.00	5.00	5.00	5.00	5.00	5.00
38	5.00	5.00	4.00	4.00	5.00	5.00	5.00
39	5.00	5.00	5.00	5.00	5.00	5.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q9di	q9dii	q9e	q9f	q9gi	q9gii	q9h
1	.00	.00	.00	.00	.00	.00	.00
2	.00	.00	.00	.00	.00	.00	.00
3	.00	.00	.00	.00	.00	.00	.00
4	.00	.00	.00	.00	.00	.00	.00
5	4.00	4.00	4.00	4.00	4.00	4.00	4.00
6	4.00	4.00	3.00	3.00	3.00	3.00	3.00
7	.00	.00	.00	.00	.00	.00	.00
8	4.00	4.00	4.00	4.00	5.00	5.00	4.00
9	4.00	3.00	4.00	4.00	4.00	4.00	4.00
10	.00	.00	.00	.00	.00	.00	.00
11	.00	.00	.00	.00	.00	.00	.00
12	4.00	4.00	5.00	5.00	3.00	3.00	5.00
13	5.00	5.00	5.00	5.00	5.00	5.00	5.00
14	.00	.00	.00	.00	.00	.00	.00
15	.00	.00	.00	.00	.00	.00	.00
16	.00	.00	.00	.00	.00	.00	.00
17	5.00	2.00	5.00	4.00	4.00	4.00	5.00
18	5.00	2.00	5.00	4.00	4.00	4.00	5.00
19	.00	.00	4.00	4.00	3.00	3.00	5.00
20	.00	.00	.00	.00	.00	.00	.00
21	2.00	2.00	4.00	4.00	4.00	4.00	4.00
22	.00	.00	.00	.00	.00	.00	.00
23	.00	.00	.00	.00	.00	.00	.00
24	.00	.00	.00	.00	.00	.00	.00
25	.00	.00	.00	.00	.00	.00	.00
26	.00	.00	.00	.00	.00	.00	.00
27	4.00	4.00	5.00	5.00	4.00	4.00	5.00
28	.00	.00	.00	.00	.00	.00	.00
29	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30	.00	.00	.00	.00	.00	.00	.00
31	.00	.00	.00	.00	.00	.00	.00
32	.00	.00	.00	.00	.00	.00	.00
33	5.00	5.00	5.00	5.00	5.00	5.00	5.00
34	.00	.00	.00	.00	.00	.00	.00
35	.00	.00	.00	.00	.00	.00	.00
36	5.00	5.00	4.00	4.00	4.00	4.00	.00
37	5.00	5.00	5.00	5.00	5.00	5.00	5.00
38	5.00	5.00	4.00	5.00	5.00	5.00	4.00
39	4.00	5.00	5.00	5.00	5.00	5.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q9i	q9j	q10	q11a	q11b	q11c	q12a
1	.00	.00	3.00	.	.	.	.
2	.00	.00	2.00	.	.	.	.
3	.00	.00	3.00	4.00	2.00	2.00	4.00
4	.00	.00	4.00	4.00	4.00	4.00	4.00
5	4.00	4.00	4.00	4.00	4.00	4.00	4.00
6	3.00	3.00	3.00	.	.	.	.
7	.00	.00	4.00	4.00	4.00	4.00	4.00
8	5.00	3.00	3.00	3.00	3.00	3.00	3.00
9	4.00	4.00	3.00	4.00	4.00	4.00	3.00
10	.00	.00	4.00	.	.	.	.
11	.00	.00	4.00	.	.	.	.
12	4.00	4.00	4.00	.	.	.	.
13	5.00	5.00	5.00	.	.	.	.
14	.00	.00	5.00	5.00	5.00	5.00	.00
15	.00	.00	5.00	5.00	5.00	5.00	5.00
16	.00	.00	2.00	5.00	5.00	5.00	.00
17	4.00	4.00	3.00	3.00	3.00	5.00	3.00
18	3.00	3.00	3.00	3.00	3.00	5.00	3.00
19	5.00	5.00	3.00	.00	.00	4.00	4.00
20	.00	.00	4.00	.00	.00	4.00	.
21	4.00	5.00	2.00	.00	4.00	4.00	4.00
22	.00	.00	1.00	1.00	.00	5.00	5.00
23	.00	.00	3.00	4.00	4.00	4.00	3.00
24	.00	.00	5.00	5.00	5.00	.00	5.00
25	.00	.00	3.00	.	.	.	.
26	.00	.00	3.00	4.00	3.00	3.00	4.00
27	3.00	5.00	4.00	5.00	4.00	3.00	4.00
28	.00	.00	5.00	5.00	5.00	5.00	5.00
29	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30	.00	.00	4.00	.00	.00	3.00	.
31	.00	.00	2.00	2.00	2.00	4.00	2.00
32	.00	.00	4.00	4.00	4.00	4.00	4.00
33	5.00	5.00	5.00	5.00	5.00	4.00	.00
34	.00	.00	1.00	.	.	.	.
35	.00	.00	2.00	5.00	2.00	1.00	.
36	4.00	4.00	5.00	4.00	4.00	4.00	5.00
37	5.00	5.00	5.00	.	.	.	.
38	4.00	5.00	5.00	4.00	4.00	4.00	.00
39	3.00	5.00	5.00	.00	.00	.00	.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q12b	q12c	q13a	q13b	q13c	q14a	q14b
1	.	.	.	.	.	.	.
2	.	.	.	.	.	.	.
3	4.00	4.00	4.00	4.00	4.00	4.00	4.00
4	4.00	4.00	.	.	.	.	.
5	4.00	4.00	.	.	.	.	.
6	.	.	.	.	.	.	.
7	4.00	4.00	.	.	.	.	.
8	4.00	4.00	4.00	2.00	4.00	3.00	3.00
9	3.00	3.00	3.00	3.00	3.00	3.00	3.00
10	.	.	.	.	.	.	.
11	.	.	.	.	.	.	.
12	.	.	.	.	.	.	.
13	.	.	.	.	.	.	.
14	.00	.00	.	.	.	.	.
15	5.00	5.00	.	.	.	.	.
16	.00	.00	.	.	.	.	.
17	3.00	3.00	.	.	.	.	.
18	3.00	3.00	.	.	.	.	.
19	4.00	4.00	.	.	.	.	.
20	.	.	.	.	.	.	.
21	4.00	4.00	4.00	5.00	4.00	.	.
22	5.00	5.00	.	.	.	.	.
23	3.00	3.00	.	.	.	.	.
24	5.00	5.00	5.00	5.00	5.00	4.00	4.00
25	.	.	.	.	.	.	.
26	4.00	4.00	.	.	.	.	.
27	4.00	4.00	.	.	.	.	.
28	5.00	5.00	.	.	.	.	.
29	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30	.	.	.	.	.	.	.
31	2.00	3.00	2.00	2.00	4.00	2.00	2.00
32	4.00	4.00	3.00	3.00	3.00	2.00	4.00
33	.00	.00	5.00	5.00	5.00	5.00	5.00
34	.	.	.	.	.	.	.
35	.	.	.	.	.	.	.
36	4.00	4.00	5.00	4.00	4.00	4.00	4.00
37	.	.	.	.	.	.	.
38	.00	.00	.	.	.	.	.
39	.00	.00	.	.	.	.	.

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q14c	q15a	q15b	q15c	q15d	q16ai	q16aii
1	.	2.00	2.00	1.00	5.00	3.00	3.00
2	.	.00	.00	.00	.00	2.00	2.00
3	4.00	3.00	4.00	4.00	4.00	4.00	4.00
4	.	4.00	4.00	4.00	4.00	4.00	4.00
5	.	4.00	4.00	4.00	4.00	4.00	4.00
6	.	3.00	3.00	3.00	3.00	4.00	4.00
7	.	4.00	4.00	4.00	4.00	4.00	4.00
8	4.00	2.00	3.00	2.00	4.00	2.00	4.00
9	3.00	4.00	4.00	4.00	4.00	4.00	4.00
10	.	4.00	4.00	4.00	4.00	4.00	4.00
11	.	4.00	4.00	4.00	4.00	4.00	4.00
12	.	4.00	3.00	3.00	4.00	3.00	4.00
13	.	5.00	4.00	5.00	5.00	4.00	5.00
14	.	4.00	5.00	5.00	5.00	5.00	5.00
15	.	5.00	5.00	5.00	5.00	5.00	5.00
16	.	3.00	3.00	5.00	3.00	5.00	5.00
17	.	3.00	3.00	5.00	3.00	5.00	5.00
18	.	3.00	3.00	5.00	3.00	5.00	5.00
19	.	3.00	3.00	4.00	3.00	5.00	5.00
20	.	4.00	4.00	4.00	4.00	3.00	4.00
21	.	4.00	4.00	4.00	4.00	2.00	2.00
22	.	.00	.00	5.00	5.00	2.00	2.00
23	.	4.00	4.00	4.00	4.00	4.00	4.00
24	4.00	5.00	.00	4.00	4.00	.00	.00
25	.	4.00	4.00	4.00	4.00	4.00	4.00
26	.	5.00	5.00	4.00	4.00	2.00	3.00
27	.	3.00	3.00	4.00	4.00	4.00	3.00
28	.	2.00	3.00	4.00	5.00	4.00	4.00
29	4.00	4.00	5.00	5.00	5.00	4.00	4.00
30	.	4.00	3.00	3.00	4.00	3.00	3.00
31	2.00	4.00	2.00	5.00	2.00	2.00	4.00
32	4.00	4.00	4.00	3.00	4.00	4.00	4.00
33	5.00	3.00	2.00	4.00	5.00	5.00	5.00
34	.	3.00	3.00	3.00	3.00	3.00	3.00
35	.	5.00	5.00	5.00	5.00	4.00	5.00
36	4.00	5.00	4.00	4.00	5.00	4.00	5.00
37	.	5.00	5.00	5.00	5.00	4.00	5.00
38	.	5.00	5.00	5.00	5.00	4.00	5.00
39	.	5.00	5.00	5.00	5.00	4.00	5.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q16aiii	q16b	q16ci	q16cii	q16ciii	q17a	q17b
1	3.00	3.00	4.00	2.00	1.00	4.00	4.00
2	2.00	2.00	4.00	2.00	2.00	2.00	3.00
3	4.00	.00	4.00	3.00	3.00	2.00	2.00
4	4.00	4.00	4.00	4.00	4.00	4.00	4.00
5	4.00	4.00	4.00	4.00	4.00	4.00	4.00
6	4.00	4.00	3.00	3.00	3.00	3.00	3.00
7	4.00	4.00	4.00	4.00	4.00	4.00	4.00
8	4.00	3.00	2.00	2.00	2.00	4.00	4.00
9	4.00	4.00	2.00	2.00	2.00	2.00	4.00
10	4.00	4.00	3.00	3.00	2.00	3.00	4.00
11	4.00	4.00	4.00	2.00	2.00	2.00	2.00
12	4.00	4.00	3.00	3.00	3.00	3.00	4.00
13	5.00	5.00	4.00	4.00	4.00	4.00	4.00
14	5.00	5.00	5.00	4.00	4.00	4.00	4.00
15	5.00	5.00	5.00	5.00	4.00	4.00	4.00
16	5.00	3.00	5.00	1.00	3.00	3.00	1.00
17	5.00	3.00	5.00	1.00	3.00	3.00	1.00
18	5.00	3.00	5.00	1.00	3.00	3.00	1.00
19	5.00	.00	4.00	4.00	2.00	3.00	2.00
20	4.00	4.00	4.00	4.00	4.00	4.00	4.00
21	2.00	2.00	4.00	2.00	4.00	4.00	4.00
22	2.00	3.00	5.00	5.00	.00	3.00	5.00
23	4.00	4.00	4.00	5.00	4.00	4.00	4.00
24	.00	.00	4.00	4.00	2.00	2.00	2.00
25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
26	4.00	4.00	4.00	4.00	4.00	4.00	4.00
27	4.00	4.00	5.00	2.00	2.00	3.00	4.00
28	5.00	4.00	5.00	5.00	5.00	3.00	3.00
29	4.00	4.00	4.00	2.00	2.00	3.00	3.00
30	4.00	3.00	3.00	3.00	3.00	4.00	3.00
31	2.00	4.00	3.00	2.00	4.00	2.00	4.00
32	4.00	4.00	2.00	2.00	3.00	2.00	2.00
33	5.00	.00	5.00	2.00	1.00	5.00	5.00
34	3.00	3.00	3.00	3.00	3.00	3.00	3.00
35	5.00	5.00	1.00	5.00	5.00	1.00	5.00
36	5.00	5.00	2.00	2.00	4.00	2.00	2.00
37	5.00	5.00	5.00	3.00	3.00	4.00	4.00
38	5.00	5.00	4.00	4.00	4.00	3.00	4.00
39	5.00	5.00	5.00	5.00	4.00	3.00	4.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q17c	q18a	q18b	q19a	q19c	q20	q21a
1	4.00	4.00	3.00	.00	.00	.00	3.00
2	4.00	4.00	3.00	4.00	4.00	3.00	2.00
3	4.00	3.00	3.00	.00	.00	2.00	2.00
4	4.00	4.00	4.00	4.00	.00	4.00	4.00
5	4.00	4.00	4.00	4.00	.00	4.00	4.00
6	3.00	3.00	3.00	.00	3.00	3.00	3.00
7	4.00	4.00	4.00	4.00	.00	4.00	4.00
8	4.00	3.00	3.00	3.00	3.00	3.00	2.00
9	3.00	4.00	4.00	4.00	.00	4.00	4.00
10	4.00	4.00	4.00	.00	3.00	4.00	4.00
11	4.00	4.00	4.00	.00	3.00	4.00	4.00
12	4.00	5.00	4.00	3.00	2.00	4.00	4.00
13	4.00	4.00	4.00	4.00	3.00	5.00	5.00
14	4.00	4.00	4.00	.00	3.00	4.00	5.00
15	5.00	5.00	5.00	4.00	3.00	5.00	5.00
16	5.00	3.00	3.00	.00	5.00	5.00	5.00
17	5.00	3.00	3.00	.00	5.00	5.00	5.00
18	5.00	3.00	3.00	3.00	5.00	5.00	5.00
19	4.00	.00	5.00	.00	.00	.00	.00
20	4.00	4.00	4.00	4.00	1.00	4.00	5.00
21	4.00	4.00	4.00	4.00	4.00	4.00	4.00
22	5.00	4.00	3.00	3.00	5.00	5.00	.00
23	4.00	4.00	3.00	.00	4.00	5.00	4.00
24	2.00	4.00	4.00	.00	4.00	5.00	4.00
25	4.00	4.00	4.00	.00	4.00	4.00	4.00
26	4.00	4.00	3.00	4.00	.00	3.00	4.00
27	4.00	4.00	3.00	4.00	4.00	4.00	5.00
28	4.00	5.00	4.00	4.00	4.00	5.00	5.00
29	4.00	4.00	3.00	4.00	4.00	4.00	4.00
30	4.00	4.00	4.00	.00	4.00	3.00	4.00
31	4.00	2.00	4.00	4.00	4.00	2.00	4.00
32	2.00	4.00	3.00	4.00	4.00	4.00	4.00
33	5.00	5.00	5.00	5.00	.00	1.00	4.00
34	3.00	3.00	3.00	3.00	3.00	3.00	3.00
35	1.00	1.00	1.00	3.00	.00	1.00	1.00
36	5.00	5.00	5.00	4.00	4.00	4.00	4.00
37	5.00	5.00	4.00	.00	3.00	5.00	4.00
38	4.00	5.00	5.00	4.00	4.00	4.00	4.00
39	4.00	4.00	4.00	.00	4.00	4.00	.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	q21b	q21c	effectiv	m1	m2	psc1	psc2
1	3.00	4.00	2.63	2.67	3.30	3.63	3.80
2	2.00	2.00	2.75	2.67	2.50	4.75	2.60
3	2.00	2.00	2.88	1.33	1.20	2.75	2.00
4	4.00	4.00	3.50	3.00	4.00	3.88	2.40
5	4.00	4.00	4.00	4.00	4.70	4.00	2.60
6	3.00	3.00	3.38	4.33	3.60	3.63	2.60
7	4.00	4.00	3.50	3.00	4.00	3.88	2.40
8	4.00	4.00	3.38	2.67	3.70	3.25	3.20
9	2.00	2.00	3.88	1.33	3.50	3.13	2.80
10	4.00	3.00	3.38	4.00	3.60	3.13	3.00
11	2.00	2.00	3.38	4.00	4.00	4.00	3.20
12	3.00	3.00	4.13	2.67	3.70	4.13	3.60
13	5.00	5.00	4.63	5.00	5.00	4.50	4.00
14	4.00	4.00	3.88	4.33	4.90	4.38	3.80
15	4.00	3.00	4.38	3.00	4.90	5.00	3.80
16	5.00	5.00	3.50	1.67	4.00	5.00	3.20
17	5.00	5.00	4.00	3.00	4.00	4.00	1.60
18	5.00	5.00	3.88	3.00	4.00	3.38	2.40
19	.00	.00	3.50	1.67	4.30	3.63	2.60
20	3.00	1.00	3.38	1.67	1.60	4.00	2.80
21	2.00	2.00	3.63	4.33	2.90	3.38	2.80
22	5.00	.00	3.25	.00	3.30	4.75	4.00
23	4.00	.00	3.38	2.67	4.50	4.00	2.80
24	.00	.00	2.50	1.67	2.50	3.88	3.60
25	4.00	4.00	3.38	3.00	2.40	3.63	2.60
26	3.00	3.00	3.00	1.33	3.00	4.13	2.60
27	.00	.00	3.88	1.67	2.30	4.75	3.00
28	.00	.00	4.00	.00	.80	3.88	2.80
29	4.00	4.00	3.88	3.00	3.20	4.13	3.00
30	2.00	2.00	3.13	4.00	2.90	3.38	2.60
31	2.00	3.00	2.75	1.33	2.10	3.13	11.00
32	4.00	4.00	2.88	1.33	1.20	3.75	3.20
33	2.00	2.00	4.50	5.00	5.00	5.00	4.00
34	3.00	3.00	2.38	.00	.00	1.00	.80
35	1.00	1.00	2.38	1.67	3.50	4.50	3.80
36	.00	.00	4.63	1.67	4.10	5.00	3.20
37	4.00	.00	4.88	5.00	5.00	4.88	3.80
38	.00	.00	4.63	1.67	4.10	4.25	3.40
39	.00	.00	4.50	4.33	4.30	5.00	3.40

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	psc3	mg1	mg2	env1	env2	env3	env4
1	4.20	3.80	.00	2.60	.	.	.
2	3.00	1.60	.00	.40	.	.	.
3	3.40	3.00	.00	.	.	.	.
4	4.00	4.00	.00	.	.	4.00	.
5	3.60	.00	4.00	.	.	4.00	.
6	3.60	.00	3.56	3.00	.	.	.
7	4.00	4.00	.00	.	.	4.00	.
8	3.60	.00	4.19	.	.	.	.
9	3.80	.00	3.69	.	.	.	.
10	3.80	3.80	.00	4.00	.	.	.
11	3.80	3.80	.00	4.00	.	.	.
12	4.80	.00	3.88	3.60	.	.	.
13	5.00	.00	5.00	4.80	.	.	.
14	5.00	4.00	.00	.	.	3.55	.
15	5.00	3.60	.00	.	.	5.00	.
16	3.80	3.80	.00	.	.	2.82	.
17	4.00	.00	4.31	.	.	3.36	.
18	4.00	.00	4.19	.	.	3.36	.
19	4.20	.00	3.44	.	.	2.91	.
20	2.40	3.80	.00	.	3.00	.	.
21	4.40	.00	3.44	.	.	.	3.64
22	4.20	5.00	.00	.	.	2.91	.
23	3.60	5.00	.00	.	.	3.64	.
24	4.80	4.00	.00	.	.	.	.
25	3.20	3.60	.00	3.80	.	.	.
26	3.20	3.20	.00	.	.	3.91	.
27	4.20	.00	4.19	.	.	3.82	.
28	4.20	3.80	.00	.	.	4.45	.
29	3.80	.00	4.00	.	.	.	.
30	3.60	3.60	.00	.	2.63	.	.
31	4.00	3.40	.00	.	.	.	.
32	3.00	4.00	.00	.	.	.	.
33	5.00	.00	5.00	.	.	.	.
34	1.00	2.60	.00	2.60	.	.	.
35	5.00	4.20	.00	.	3.75	.	.
36	4.20	.00	4.00	.	.	.	.
37	5.00	.00	4.69	5.00	.	.	.
38	4.40	.00	4.69	.	.	3.36	.
39	4.60	.00	4.81	.	.	2.27	.

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	env5	env6	env	evo1	evo2	evo3	evo4
1	.	.	2.60	2.71	4.00	3.50	.00
2	.	.	.40	2.29	3.00	3.50	3.00
3	3.65	.	3.65	3.14	2.67	3.00	2.00
4	.	.	4.00	4.00	4.00	4.00	4.00
5	.	.	4.00	4.00	4.00	4.00	4.00
6	.	.	3.00	3.57	3.00	3.00	3.00
7	.	.	4.00	4.00	4.00	4.00	4.00
8	3.18	.	3.18	2.71	4.00	3.00	3.00
9	3.41	.	3.41	3.14	3.00	4.00	4.00
10	.	.	4.00	3.43	3.67	4.00	4.00
11	.	.	4.00	3.43	2.67	4.00	4.00
12	.	.	3.60	3.43	3.67	4.50	4.00
13	.	.	4.80	4.43	4.00	4.00	5.00
14	.	.	3.55	4.71	4.00	4.00	4.00
15	.	.	5.00	4.86	4.33	5.00	5.00
16	.	.	2.82	3.86	3.00	3.00	5.00
17	.	.	3.36	3.86	3.00	3.00	5.00
18	.	.	3.36	3.86	3.00	3.00	5.00
19	.	.	2.91	3.57	3.00	2.50	.00
20	.	.	3.00	3.86	4.00	4.00	4.00
21	.	.	3.64	2.57	4.00	4.00	4.00
22	.	.	2.91	2.71	4.33	3.50	5.00
23	.	.	3.64	4.14	4.00	3.50	5.00
24	4.12	.	4.12	1.43	2.00	4.00	5.00
25	.	.	3.80	4.00	4.00	4.00	4.00
26	.	.	3.91	3.57	4.00	3.50	3.00
27	.	.	3.82	3.43	3.67	3.50	4.00
28	.	.	4.45	4.57	3.33	4.50	5.00
29	4.18	.	4.18	3.43	3.33	3.50	4.00
30	.	.	2.63	3.14	3.67	4.00	3.00
31	2.59	.	2.59	3.00	3.33	3.00	2.00
32	3.65	.	3.65	3.29	2.00	3.50	4.00
33	3.71	.	3.71	3.29	5.00	5.00	1.00
34	.	.	2.60	3.00	3.00	3.00	3.00
35	.	.	3.75	4.29	2.33	1.00	1.00
36	4.29	.	4.29	3.86	3.00	5.00	4.00
37	.	.	5.00	4.29	4.33	4.50	5.00
38	.	.	3.36	4.43	3.67	5.00	4.00
39	.	.	2.27	4.71	3.67	4.00	4.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	evo5	value	govrn	prvtinst	openmkt	prof93	prof94
1	3.33	.	.00	.00	100.00	.00	.00
2	2.00	5000.00	.00	.00	100.00	.00	250.00
3	2.00	.00	.00	100.00	.00	.00	.00
4	4.00	1000.00	.00	.00	100.00	.00	.00
5	4.00	15000.00	.00	100.00	.00	.00	.00
6	3.00	5000.00	.00	.00	100.00	.00	.00
7	4.00	2000.00	15.00	25.00	60.00	.00	.00
8	3.33	855555.0	10.00	30.00	60.00	.00	.00
9	2.67	3830798	68.00	24.00	8.00	16118.00	-4886.00
10	3.67	5000.00	.00	.00	100.00	.00	.00
11	2.67	3000.00	.00	.00	100.00	.00	.00
12	3.33	15000.00	.00	.00	100.00	.00	750.00
13	5.00	20000.00	.00	.00	100.00	.00	1000.00
14	4.33	24000.00	.00	.00	100.00	.00	.00
15	4.00	100000.0	.00	50.00	50.00	.00	.00
16	5.00	215000.0	.00	100.00	.00	.00	.00
17	5.00	100000.0	15.00	25.00	60.00	.00	.00
18	5.00	50000.00	.00	.00	100.00	.00	.00
19	.00	6500000	.00	.00	100.00	.00	.00
20	3.00	800000.0	90.00	.00	10.00	.00	.00
21	2.67	632000.0	.00	100.00	.00	.00	.00
22	1.67	600000.0	.00	20.00	80.00	.00	.00
23	2.67	140000.0	.00	.00	100.00	.00	.00
24	1.33	10000000	100.00	.00	.00	-165170	-379612
25	4.00	20000.00	.00	.00	100.00	.00	1000.00
26	3.33	2500000	.00	.00	100.00	.00	.00
27	1.67	651000.0	20.00	20.00	60.00	.00	.00
28	1.67	5600000	.00	.00	100.00	725000.0	920000.0
29	4.00	400000.0	.00	.00	100.00	.00	.00
30	2.67	70000000	.00	35.00	65.00	.00	.00
31	3.00	4000000	.00	.00	100.00	.00	.00
32	4.00	500000.0	.00	.00	100.00	30000.00	30000.00
33	2.67	2000000	60.00	30.00	10.00	67105.00	74128.00
34	3.00	20000.00	.00	.00	100.00	.00	1000.00
35	1.00	24000.00	.00	.00	100.00	.00	4800.00
36	1.33	.00	80.00	10.00	10.00	9839.00	-30180.0
37	2.67	15000.00	.00	.00	100.00	.00	.00
38	1.33	1000.00	.00	.00	100.00	.00	.00
39	.00	15000.00	.00	100.00	.00	.00	.00

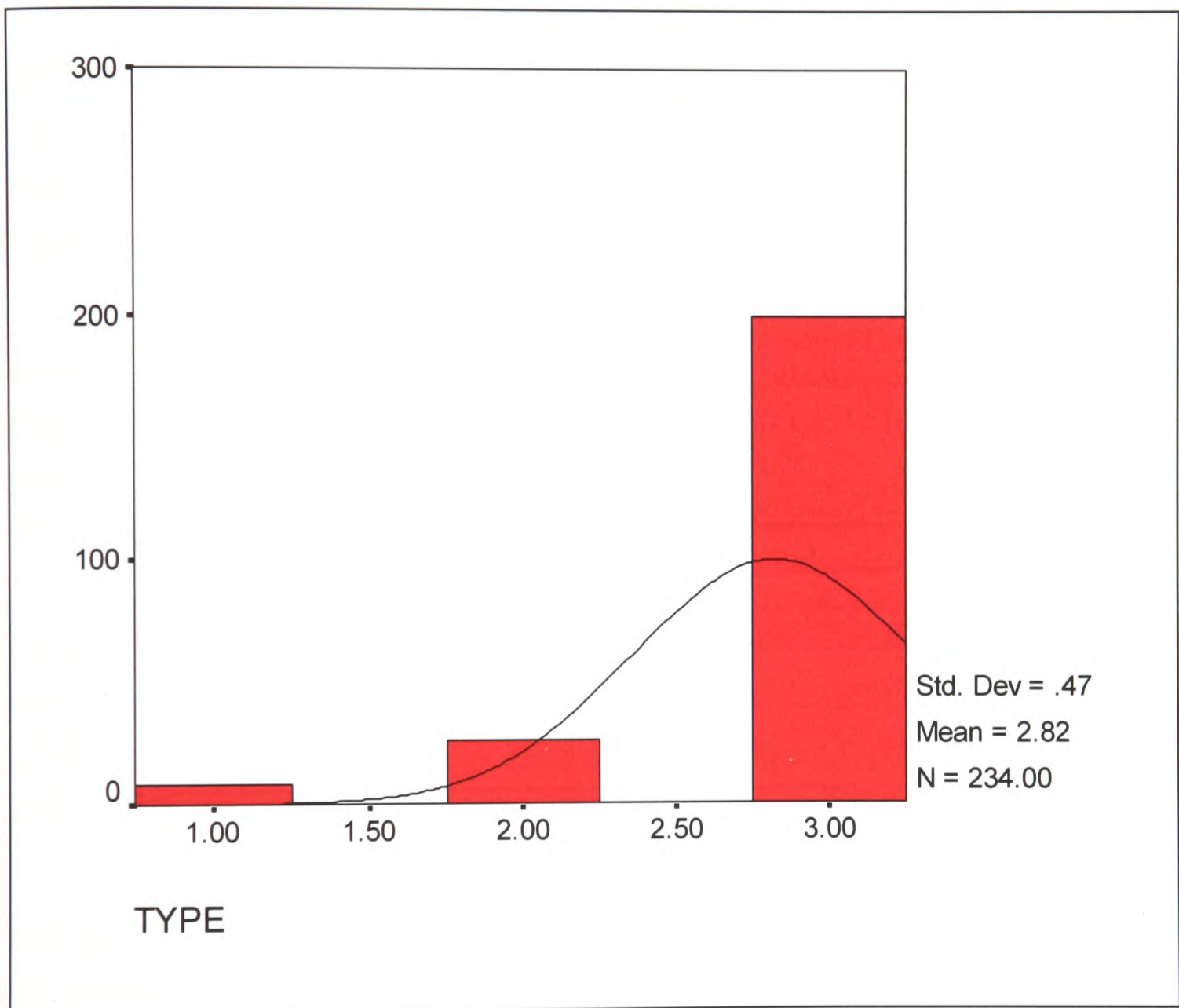
DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	prof95	prof96	prof97	totalpro	capital	owncap	borrow
1	.00	.00	.00	.00	20000.00	.00	.00
2	630.00	.00	.00	880.00	5000.00	5000.00	.00
3	.00	.00	.00	.00	.00	.00	.00
4	.00	.00	.00	.00	1000.00	1000.00	.00
5	.00	.00	.00	.00	15000.00	15000.00	.00
6	.00	.00	.00	.00	5000.00	5000.00	.00
7	.00	.00	.00	.00	2000.00	2000.00	.00
8	.00	.00	.00	.00	855555.0	855555.0	.00
9	-26838.0	-21642.0	-10031.0	-47279.0	370000.0	330000.0	40000.00
10	.00	.00	.00	.00	5000.00	5000.00	.00
11	.00	.00	.00	.00	3000.00	3000.00	.00
12	1098.00	1474.00	.00	3322.00	15000.00	15000.00	.00
13	2400.00	.00	.00	3400.00	20000.00	20000.00	.00
14	.00	.00	.00	.00	24000.00	24000.00	.00
15	.00	.00	.00	.00	500000	100000.0	500000
16	3226.00	18607.00	5427.00	27260.00	315000.0	315000.0	.00
17	.00	.00	.00	.00	100000.0	100000.0	.00
18	.00	.00	.00	.00	50000.00	50000.00	.00
19	.00	.00	.00	.00	650000	168000	600000
20	.00	.00	.00	.00	240000	80000.0	160000
21	-605841	-1129392	-2121678	-3856911	632000.0	.00	4921583
22	.00	.00	.00	.00	240000	60000.0	180000
23	.00	.00	.00	.00	140000.0	140000.0	.00
24	-172676	-129457	69824.00	-777091	.00	.00	.00
25	2400.00	2500.00	.00	5900.00	20000.00	.00	.00
26	.00	.00	.00	.00	250000	250000	600000
27	.00	99500.00	239927.0	339427.0	651000.0	651000.0	.00
28	1900000	1700000	.00	5245000	560000	560000	.00
29	.00	.00	.00	.00	400000.0	.00	400000.0
30	.00	.00	.00	.00	.00	.00	.00
31	.00	.00	.00	.00	400000.0	400000.0	.00
32	30000.00	35000.00	35000.00	160000.0	500000.0	350000.0	150000.0
33	122507.0	53783.00	54057.00	371580.0	500000.0	250000.0	250000.0
34	1380.00	1750.00	.00	4130.00	20000.00	20000.00	.00
35	9000.00	.00	.00	13800.00	24000.00	24000.00	.00
36	909.00	-55820.0	-35383.0	-110635	.00	.00	.00
37	1200.00	.00	.00	1200.00	15000.00	15000.00	.00
38	.00	.00	.00	.00	1000.00	1000.00	.00
39	.00	.00	.00	.00	15000.00	15000.00	.00

DATA OF MALAYSIAN FARMERS' ORGANISATION (OVERALL-SAMPLE)

	source	operate	overall
1	.00	2.00	2958000
2	.00	2.00	.00
3	.00	1.00	.00
4	.00	2.00	.00
5	.00	1.00	11000000
6	.00	1.00	.00
7	.00	2.00	.00
8	.00	1.00	2400000
9	1.00	2.00	.00
10	.00	1.00	.00
11	.00	1.00	61000.00
12	.00	2.00	.00
13	.00	2.00	.00
14	.00	1.00	.00
15	2.00	1.00	100000.0
16	.00	2.00	11000000
17	.00	2.00	100000.0
18	.00	1.00	1050000
19	2.00	1.00	6500000
20	3.00	1.00	800000.0
21	4.00	2.00	632000.0
22	2.00	2.00	600000.0
23	.00	1.00	2000000
24	.00	2.00	.00
25	.00	2.00	.00
26	2.00	1.00	.00
27	.00	1.00	670000.0
28	.00	2.00	5652000
29	1.00	1.00	400000.0
30	.00	1.00	.00
31	.00	1.00	.00
32	2.00	2.00	500000.0
33	2.00	2.00	.00
34	.00	2.00	.00
35	.00	2.00	158000.0
36	.00	2.00	.00
37	.00	2.00	.00
38	.00	1.00	.00
39	.00	2.00	.00

Normal Distribution for Associational Analysis Between Type and Effectiveness



TO ESTABLISH ANY POSSIBLE RELATIONSHIP BETWEEN TYPE OF ALLIANCE AND ALLIANCE EFFECTIVENESS

Ho: There is no significant association between alliance form and alliance effectiveness.

One Way ANOVA has been used to test the effectiveness. It is because, effectiveness is an Interval Data and Type is a Nominal Data. Result of the effectiveness (Mean) is as follows:

<u>Descriptive</u>	<u>Mean</u>
Effectiveness type 1	3.6667
Effectiveness type 2	3.7885
Effectiveness type 3	3.7625

It shows that the value of effectiveness is more than 3. Therefore, all types of alliances are effective but type 2 is the most effective strategic alliance. Is there any significant on effectiveness in each type so we can conclude that every type has its own different effectiveness.

From the One Way ANOVA Test shows that the Significant Value is 0.312. At 95% confident interval for mean, 0.312 is bigger than <0.05 . The value falls in Ho area. We have to accept Ho and Reject Hi. Therefore, it is no significant association between alliance form and alliance effectiveness.

APPENDIX 6(c)

STATISTICAL SIGNIFICANCE OF FARMERS 'ORGANISATIONS STRATEGIC ALLIANCES EFFECTIVENESS

	FORMATION OF ALLIANCE	JOINT VENTURE		CONSORTIUM	
		FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL	FREQ. (%)	CORRELATION COEFFICIENT AT 5% SIG. LEVEL
Q2	External Motivation Factors/Industrial Factors				
(a)	to achieve economies of scale that will enable large producers to obtain minimum cost.	66.5	(0.221)	65.4	NS
(b)	to penetrate markets that previously closed	72.0	(0.184)	57.7	NS
Q3	Internal Motivation Factors				
(a)	technology improved	67.0	(0.253)	53.9	(0.547)
(b)	Increased know-how	90.0	(0.168)	65.4	(0.417)
©	managerial skills	96.0	(0.205)	96.1	NS
(d)	skilled labour	86.0	(0.162)	84.6	NS
(e)	raw materials	67.5	(0.149)	84.6	NS
(h)	proportionate spread financial risk	85.0	(0.168)	65.4	(0.457)
(i)	Good reputation and image	91.5	(0.270)	84.6	NS
(j)	To fulfil legal requirement	69.5	(0.170)	42.3	(0.520)
Q4	Partner Selection Criteria				
(a)	the partner(s) have compatible visions	87.5	(0.198)	84.6	NS
(b)	all partners perceive that they will have mutual gain and balance benefits	93.5	(0.264)	84.6	NS
©	the partner(s) are of approximate / similar size and strength	58.0	(0.147)	57.7	(0.474)
(d)	they have complementary resources	81.5	(0.250)	96.2	(0.410)
(e)	they possess complementary core competencies	67.5	(0.269)	80.7	NS
(f)	there are synergies in working together	75.5	(0.312)	73.1	NS
(g)	their culture compatible with each other	78.5	(0.364)	76.9	NS
Q5	Positive Attitude				
(a)	a sensitive attitude to national cultural differences	-	-	-	-
(b)	a sensitive attitude to corporate cultural differences	51.5	(0.365)	69.2	NS

(c)	strong commitment by top management	84.5	(0.270)	76.9	(0.413)
(d)	strong commitments at staff levels	78.5	(1.176)	80.8	(0.525)
(e)	mutual trust	85.0	(0.277)	73.1	(0.450)
Q6	Strategic Plan				
(a)	Business plan has been agreed to.	89.0	(0.246)	92.3	NS
(b)	Business plan has been implemented accordingly.	69.5	(0.209)	80.8	(0.455)
(c)	Main competitors have been established.	72.5	(0.306)	73.1	(0.429)
(d)	Market potential has been identified.	86.0	(0.406)	100.0	NS
(e)	The alliance was projected to achieve competitive edge.	73.5	(0.268)	73.1	NS
	MANAGEMENT OF ALLIANCE				
Q9	Integrative Strategic Management				
(a)	<u>Objectives setting</u>				
i	broad representation from all the relevant sections of the organisation	37.5	(0.188)	42.3	(0.4430)
ii	active participation by top management	36.5	(0.154)	42.3	NS
(b)	<u>Strategic programming.</u>				
i	Formulated with great care.	42.5	(0.149)	42.3	(0.462)
ii	Receiving strong support and co-operation by all executives concerned.	40.0	(0.153)	46.1	(0.426)
(c)	<u>Strategic Budgeting</u>				
i	competent managers	39.0	(0.163)	50.0	(0.423)
ii	Suitable technology	35.5	(0.156)	50.0	(0.405)
iii	sufficient funds	40.5	(0.149)	46.1	NS
(d)	<u>Strategic Control</u>				
i	active participation in planning	36.0	(0.190)	46.2	(0.456)
ii	board representation	39.0	(0.156)	42.3	(0.462)
(e)	Competent personnel	37.0	(0.191)	50.0	(0.423)
(f)	Appropriate personnel	39.0	(0.164)	50.0	(0.423)
(g)i	sufficient human resources	38.0	(0.147)	50.0	(0.417)
(g)ii	sufficient time allocated	37.5	NS	50.0	(0.415)
(h)	Key employees loyalty for project based is to strategic alliance organisations	36.0	(0.156)	38.5	NS
(i)	Key employees loyalty for non-project based is to the parent organisation	31.0	(0.147)	38.4	(0.429)
(j)	Strategic alliance can offer better career development.	38.0	NS	38.5	(0.436)

	ENVIRONMENTAL FACTORS				
Q10	Partner (s) full/maximum co-operation	75.0	(0.372)	77.0	(0.579)
Q11	Regular payment of customers				
(a)	government institutions	64.9	NS	77.0	(0.388)
(b)	non-government institutions	54.2	NS	57.7	(0.413)
(c)	open market	60.3	(0.232)	53.8	NS
Q14	Related farmers provided their outputs to alliances with:				
(a)	the right quality	42.1	NS	50.0	(0.513)
(b)	the right quantity	36.9	(0.516)	50.0	(0.506)
(c)	the right time	47.3	NS	63.6	(0.438)
Q15	Government Policies & International Events				
(a)	Restraining public sector expenditure (including less subsidies) to reduce budgetary deficits	60.5	(0.277)	73.0	NS
(b)	Introducing economic liberalisation and commitment in market access (under World Trade Organisation) as well as improving investment policies and incentives to promote private sector participation in Seventh Malaysia Plan.	62.5	(0.399)	53.9	(0.444)
(c)	Adopting a private sector led growth	73.0	(0.449)	84.6	NS
(d)	Package programmes to develop a viable, competitive and resilient Bumiputra Industrial Community (BIC).	84.5	(0.332)	84.6	NS
16	ALLIANCE EVOLUTION				
(a)	Strong bonding factors help the partners to:				
i	successfully overcome external challenges	74.0	(0.633)	76.9	(0.543)
ii	developed a single culture comprising the best (culture) from all the partner (s)	85.5	(0.752)	88.4	(0.738)
lii	developed good reputation among them	88.0	(0.752)	80.7	(0.677)
(b)	The partner(s) are adopting a philosophy of constant learning and agreed that they have learned / benefited from the alliance.	79.0	(0.441)	84.6	(0.426)

(c)	In balanced benefits, one partner has not:				
i	Gained strategic advantage over the other(s)	73.0	(0.402)	57.7	NS
ii	Gain greater benefit than the other (s)	66.5	(0.353)	38.4	NS
iii	Become over-dependent on the other (s)	48.5	(0.365)	46.2	NS
(17)	The alliance is constantly evolving, it can be seen through the following event:				
(a)	The partners are regularly coming up with new projects.	54.5	(0.450)	50.0	0.429
(b)	Additional responsibilities are placed on the alliances.	65.5	(0.431)	73.1	NS
(c)	The alliance is constantly adjusting to change	83.0	(0.651)	69.2	(0.599)
(18)	The partner (s) are achieving their alliance objectives to a degree acceptable to them:				
(a)	In direct quantifiable terms	76.0	(0.596)	84.6	(0.694)
(b)	In more indirect spin-off terms	61.0	(0.620)	76.9	(0.639)
Q20	The reputation of the alliance is good and well accepted by the industry	63.0	(0.624)	61.6	NS
Q21	The future direction of farmers' organisations strategic alliance can be perceived as follows:				
(a)	Multi-domestic	58.5	(0.293)	65.4	(0.470)
(b)	Regionalisation	44.5	(0.177)	26.9	NS

Note:

Σ - These variables have Spearman's correlation, which is significant at the 0.01, or 0.05 level. Those variables only have non-linear relationship to alliance effectiveness.

All together are 69 control factors that have significant association to the effectiveness of the joint venture and/or consortium type of alliances. However, both joint venture and consortium types of alliance have mostly different types of environmental factors that influence their effectiveness

APPENDIX 7(a)

STATISTICAL SIGNIFICANCE OF FARMERS 'ORGANISATIONS STRATEGIC ALLIANCE PROFITABLE PROJECTS

	PARTNER SELECTION CRITERIA	Profitable		Non-indicated	Lost
		Project-based	Non Project-based		
Q4	The Selection of Partner(s)				
(a)	the partner(s) have compatible visions	90.1%	93.3%	83.6%	75%
(b)	all partners perceive that they will have mutual gain and balance benefits	92.5%	95.5%	91.0%	75%
(c)	they have complementary resources	83.6%	82.3%	83.6%	100%
(e)	their culture compatible with each other	80.6%	75.6%	77.9%	50%
Q5	Positive attitude				
(c)	strong commitment by top management	86.6%	88.9%	80.5%	50%
(d)	strong commitments at staff levels	71.6%	80.0%	81.4%	100%
(c)	mutual trust	80.6%	93.3%	82.2%	50%
Q6	Strategic Plan				
(a)	Business plan has been agreed to.	96.1%	82.3%	87.8%	75%
(b)	Business plan has been implemented accordingly.	80.7%	75.6%	65.6%	100%
©	Main competitors have been established.	88.4%	71.2%	74.6%	100%
(d)	Market potential has been identified.	88.4%	86.6%	86.9%	100%
	MANAGEMENT OF ALLIANCE				
Q9	Integrative Strategic Management				
(a)	Objectives setting				
i	broad representation from all the relevant sections of the organisation	88.4%	81.8%	37.3%	25.0%
ii	active participation by top management	76.9%	81.8%	37.3%	50.0%
(b)	Strategic programming.				
i	Formulated with great care.	88.4%	95.5%	42.4%	50.0%
ii	Receiving strong support and co-operation by all executives concerned.	84.6%	90.9%	40.7%	50.0%
(c)	Strategic Budgeting				
i	competent managers	88.4%	86.3%	39.8%	50.0%
ii	Suitable technology	88.4%	77.3%	35.6%	50.0%
iii	sufficient funds	100%	86.3%	39.9%	25.0%

(d)	Strategic Control				
i	active participation in planning	73.0%	86.4%	37.3%	50.0%
ii	board representation	96.1%	86.3%	37.3%	25.0%
(e)	Competent personnel	80.7%	77.3%	39.0%	75.0%
(f)	Appropriate personnel	84.6%	86.4%	39.9%	75.0%
(g)	The following are made available to implement the development of the strategic alliance:				
(g)i	sufficient human resources	92.3%	81.8%	37.3%	75.0%
(g)ii	sufficient time allocated	88.4%	81.8%	37.3%	75.0%
	ROLE OF EXTERNAL FACTORS				
Q10	Partner (s) full/maximum co-operation	80.5%	73.4%	72.9%	50%
Q14	Related farmers provide output to alliances:				
(a)	the right quality	73.3%	-	37.9%	66.7%
(b)	the right quantity	73.3%	-	37.9%	66.7%
(c)	the right time	86.6%	-	48.2%	66.7%
	ROLE OF ENVIRONMENTAL FACTORS				
Q15	The following government policies have given strong impact to the policy changes of your organisation (farmers' organisations) in achieving financial strength and producing commercial farmers:				
(c)	adopting a private sector led growth	74.6%	71.1%	72.9%	100.0%
(d)	package programmes to develop a viable, competitive and resilient Bumiputra Commercial and Industrial Community (BCIC)	79.1%	80%	87.2%	100.0%
16	ALLIANCE EVOLUTION				
(a)	Strong bonding factors help the partners to:				
i	successfully overcome external challenges	86.5%	73.3%	69.5%	50%
ii	developed a single culture comprising the best (culture) from all the partner (s)	89.5%	88.9%	83.9%	50%
lii	developed good reputation among them	94.0%	88.9%	84.7%	50%
(b)	Organisational Learning				
	The partner(s) are adopting a philosophy of constant learning and agreed that they have learned / benefited from	88.0%	84.5%	73.8%	50%

	the alliance.				
(17)	The alliance is constantly evolving, it can be seen through the following event:				
(c)	The alliance is constantly adjusting to change	76.1%	84.5%	83.9%	50%

Note:

- There are 59 effectiveness factors of joint venture / consortium type of alliance have been tested to identify the characteristic of Profitable Alliance i.e. Partner Selection Criteria, Management of Alliance, Environmental Factor and Evolution of Alliance.
- Out of that, 33 factors have been identified as the characteristic of the Malaysian Farmers' Organisations Profitable Alliance (1993-1997).
- Only 14 factors out of 59 control factors under alliance effectiveness have been the characteristic of Lost Alliance.

THE PROJECT-BASED JOINT VENTURE SYSTEM

More than 73% of farmers' organisations strategic alliances are in the form of joint venture. As it has been mentioned in the definition, this type of Strategic alliance normally takes place when the parent put in minimum resources, agreeing to an arrangement for jointly creating strategic value through a common organisation. This type of alliance can be developed to become a full-blown joint venture when both parties put in abundance resources and wishing to develop an entirely new business. Through Syarikat Perniagaan Peladang (MADA) Sdn. Bhd (SPPM), the project-based joint venture system will be analysed.

SPPM is a limited company belongs to the farmers in MADA through their thirteen-(13) farmers' organisations. It has been established on 28 June 1975. After 22 years of operation, it has over five millions paid-up capital whereby 70% hold by the 13 farmers' organisations and another 30% is belong to MADA through Syarikat Perniagaan dan Perindustrian MADA Sdn. Bhd. The objectives¹ of SPPM, among others are:

- To find and give farmers opportunity to be involved in agricultural commercial investment that related to their field and shares the profit together.
- To manage, expend and consolidate the farmers' investment portfolio through the establishment of a corporate entity, Syarikat Perniagaan Peladang MADA (SPPM).
- To give farmers opportunity to learn professional management.

During its early establishment, MADA as a more stable and experience organisation has been given a lot of support to SPPM. After almost all of the above policies have been fulfilled, MADA support has been slowly reduced. Now, the influence and right of the farmers' are higher in the equity structure.

¹ SPPM, Syarikat Perniagaan Peladang MADA, Profil Syarikat, pp.2-4, 1998.

During the early days of its establishment, SPPM activities were focused on supplying agricultural input and farm mechanisation for farmers in Kedah and Perlis to grow paddy and tobacco. Now, the SPPM activities have been expanding to include the following businesses:

- Importing fertiliser from Indonesia, Middle East and other countries for farmers' organisations and open market.
- Distributing agriculture chemical, pesticide and agricultural appliances.
- Distributing cooking gas.
- Distributor for local rice, sugar, cooking oil and other consumer goods.
- Landscape services and building contractors.
- Rental property services.
- Supply treated water to Gurun Industrial Estate and domestic use.

The subsidiary companies under SPPM, among others, are:

i. SPPM Services Sdn Bhd

This company involves in transportation and distribution of fertiliser and agriculture chemical. It also manages warehouses in Butterworth and Port Klang.

ii. SPPM Edar Sdn Bhd

This company supplies grocery products such as cooking oil, flour, rice, soups, sugar and others to local market wholesalers.

iii. SPPM Bina Sdn. Bhd

It involves in construction works and landscaping activities

iv. Pasaraya Peladang Sdn Bhd.

It deals with retail activities through 5 supermarket chains. Besides that it has its own bakeries to supply breads and cakes to all the supermarkets.

COMPANY PERFORMANCE

The performance of the company can be seen through the sale and profit/lost figures since 1990-1997² as follows:

Table 1
THE SPPM PERFORMANCE SINCE 1990-1997

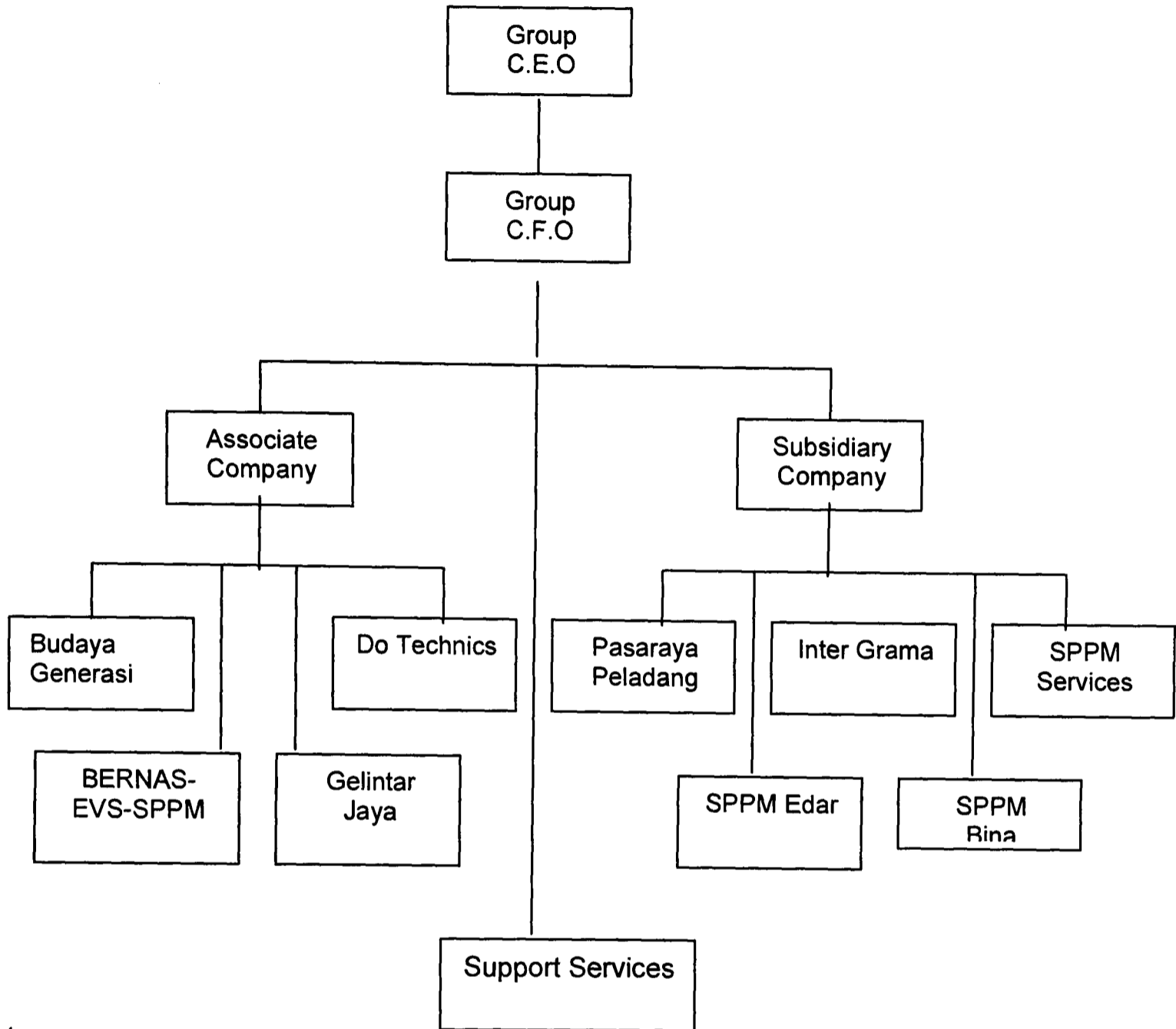
YEAR	SALE	PROFIT BEFORE TAX
1990	57,565,520	444,760
1991	110,366,853	191,733
1992	235,096,964	3,763,727
1993	188,599,474	2,531,816
1994	175,658,490	2,068,853
1995	173,071,833	2,645,669
1996	59,184,731	1,328,221
1997	65,790,347	1,037,424

If it is only based from the profit (before tax) above, SPPM can be considered as a stable company. The overall asset of the company is valued around RM70 million. It includes an eleven-storey building, industrial sites and several business premises in Alor Star and others. For daily business operation, the company is also having bank facilities such as Letter of Credit, Banker's Acceptance, Trust Receipt, Overdraft, shipping Guarantee and others from several banks amounted to RM180 million.

Organisational chart for the group is as follows:

² Ibid., SPPM, Syarikat Perniagaan Peladang MADA, Profil Syarikat, pp.5-6, 1998

Diagram 1



Note:

C.E.O. - Chief Executive Officer

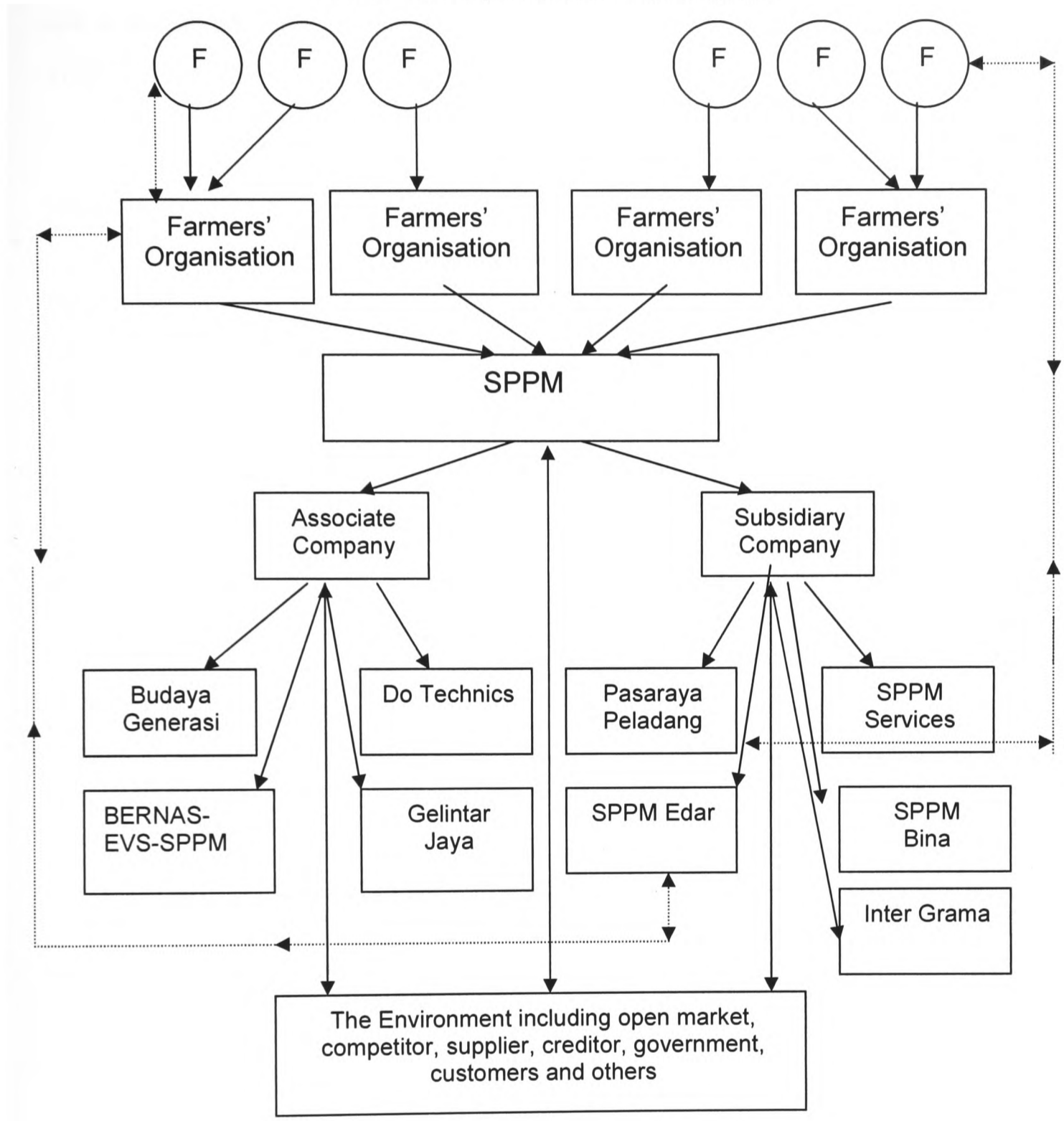
C.F.O. - Chief Financial Officer

All the above companies are under Private Limited.

The above full-blown project joint venture can be illustrated as follows:

Diagram 1

Full-blown Project Based Joint Venture



Note:

- The above dotted-line shows the second benefit that farmers get from the strategic alliance that has been established.
- The doubled-arrow line shows the interaction between organisations and their environment and vis-à-vis.

RELATED ISSUES

From the interview and discussion held during the visit to MADA, SPPM head office and a few subsidiary companies, no important issue had been rose relating to the system of the alliances. They seem to be satisfied with the whole operation.

ANALYSIS OF THE SYSTEM AND ACTIVITIES

Under the Company Act 1965, farmers in MADA through their farmers' organisations established the Syarikat Perniagaan Peladang MADA Sdn Bhd. (SPPM) in 1975 as a private limited company. The shareholder of this company is the thirteen (13) farmers' organisations in MADA. Through it expending activities, SPPM has formed several subsidiary and associate companies. In their daily business dealing, all the organisations are facing and interacting with the environment such as competitors, changing in government policies and others. This system allows the strategic alliances that has been formed in the first place through SPPM gets expending to full-blown joint venture projects through its subsidiaries and associate companies.

As far as activities are concerned, farmers as equity holders in MADA have business dealing with SPPM and its subsidiary and associate companies through the thirteen farmers' organisations. For examples, SPPM sells amongst others, fertiliser, agriculture chemical, pesticide and agricultural input to farmers via farmers' organisations. At the same time, farmers sell some of their products to Pasaraya Peladang and generate income for them as it been proved in Diagram 1 above. Meanwhile, SPPM Edar, which act as a dealer and distributor to consumers goods also sub-contracting some of their packaging activities such as packing/bottling of cooking oil to Bukit Besar Area Farmers' organisation. As a result, it creates several job opportunities to farmers and their families in that particular area. These can be seen in doted-lines also in Diagram 1 above. One of the outcomes of the full-blown joint venture under a co-operative strategic alliance is benefit being returned to the organisation and the members as well.

THE FUTURE

As for the future of the full-blown joint venture, it may lies to one of the following choices:

- Remain as it is and expand under the same system, or
- Registered under Kuala Lumpur Stock Exchange

REMAIN AND EXPEND UNDER THE SAME SYATEM

It will maintain the same equity holder i.e. under the hands of co-operative organisations and their members. Could collaborate or form another consortium type of alliances with other farmers' organisations from other countries in order to expend market out side MADA area.

REGISTER UNDER THE KUALA LUMPUR STOCK EXCHANGE

This could be the choice if SPPM has been managed properly with good governance and become a financially sound company. This will open the organisation to attract a huge amount of capital from outside the present system. Nevertheless, the legal system, social and economic implications have to be studied carefully.

AYAM PELADANG
SDN. BERHAD

A Proposed Business Plan

Introduction

This business plan has been forwarded to an independent expert, Mr. J.K Gan for comment. Mr. Gan has impeccable credentials, having worked for 29 years directly with the poultry industry in private and government sectors. He is now an independent consultant and in semi-retirement. It was important that this plan was not shown to the farmers' organisations, as it would not have reasonable to seek comments from any of the integrators who are in control of the industry, as it would alert them to the existence of the current research by the author (who is a senior Government official).

Poultry industry is not a high value nor a niche industry neither has it a seasonal demand pattern. In marketing terms, it is a commodity product. All sections of the population in the country consume poultry products. The competitive advantage of the poultry industry is to be able to offer higher competitive low pricing with high quality. This can be achieved by reducing the cost of production and increased efficiency. The farmers' organisations have to respond to the internal forces in order to get the whole system better managed. They also have to respond to the environmental forces such as technological advancement in growing chicken in order to increase productivity and efficiency. Only alliances with sustainable competitive advantage³ will effectively respond to the internal and environment forces and succeed in the longer term over its competitors.

Environmental forces such as changes in international trade scenario have accelerated competitiveness to become a world economy feature of today. The establishment of WTO (1995) and the implementation of AFTA (Asian Free Trade Area) in 2003, offers two possible benefits. First, it opens a new market in an increasingly border-less world and secondly, liberalisation and deregulation policies adopted by WTO members (including Malaysia) forces new challenges onto domestic firms to upgrade their products and services to the higher standard achieved by global competitors.

³ Based on Michael E. Porter definition on Sustainable Competitive Advantage in Competitive Advantage of Nations, 1990, pp.1-6. Sustainability Level is define as "The level where a firm obtains its sustainable Competitive Advantage that enable it to attain a high and rising level of productivity in the industries/market place in which its compete".

The implementation of knowledge-based economy (k-economy)⁴ in the day-to-day business activity will strengthen the company's capability to innovate. While traditional factors of production, that is labour, capital, raw materials and entrepreneurship, remain important, knowledge will be the key factor in driving growth, creating new value and providing the basis to remain competitive. Meanwhile, the rapid development of information and communication technology (ICT) has significantly affected and reshaped all aspects of everyday life of every sector of the economy. They are adopting ICT technology as part of their strategy to increase efficiency and competitiveness of the organisations. Advent of Internet has given rise to rapid, inexpensive and open exchange of data, information and networking. In marketing, ICT application does help in vertical co-ordination of the food distribution system, just-in-time delivery, specialised production for niche markets and others.

In the efforts to strengthen the Umbrella Broiler Scheme, NAFAS together with the 17 farmers' organisations, voiced their desire to widen the objectives of the contract through the performance report (as at December 1997) submitted to the Ministry of Finance when they applied for extension of their contract⁵.

- To develop a series of competitive and viable small Bumiputra chicken growers.
- To establish a Bumiputra poultry grower body that in the year 2000 can capture 20% of all upstream and downstream chicken industry activities in the nation.
- To develop alternative out-lets for chicken products to consumers.

The alliance partners have also shown their commitment to offer required resources to implement their desires by providing working capital to the new joint venture body. The finance will come from internal funds, accumulated profit from the project, bank loan and bank over draft and others. Their co-operation to up-hold the contract performance cannot be denied after almost 15 years together to strive to ensure farmers and Government departments get whatever they deserve as provided by the contract specifications.

⁴ Ibid. The Government of Malaysia, The Third Outline perspective Plan (2001-2010), Developing Malaysia into a Knowledge-based Economy, 2001, pp. 119-120.

⁵ National Farmers' organisation, Laporan Kemajuan Skim Payong Ayam Daging Berakhir Disember 1997,1998, unpublished material.

Based on the above situation it looks like the operators of the Umbrella Broiler Scheme need to make a very important strategic decision⁶. Amongst others, it will not only affect the long-term direction of the collaboration but also the value and expectation of those who have power and interest on the organisation. It will also involve operational decision as well as a major resource implication for an organisation.

Johnson (1993) specified that there are three different level of strategic decision such as corporate, business and operational⁷. This should come from a business plan/feasibility study. A proposed business plan has been prepared for the Umbrella Broiler Scheme with Ayam Peladang Sdn. Bhd. as the future joint venture Company. Besides articles, information and data in the business plan have been gathered from interviews with Mr. Gan Joo Kong (The Manager of Ayam NS. Sdn. Bhd), National Farmers' Organisation's officers who are directly involved and responsible for the Umbrella Broiler Scheme, the Manager of the Area Farmers' organisation, Kuantan Utara, growers, and more than 10 years experience of my own involvement direct and indirectly in the poultry industry through Ministries/Government Departments that I had worked with.

My involvement in the poultry industry started when I was required to prepare a feasibility study for the proposed establishment of feed mill under The State Economic Development of Negri Sembilan in 1979. When I joint the Administrative and Diplomatic Service (domestic), I was assigned to The Ministry of Finance in 1986 as the head of unit to design and overseeing the first poultry contract with NAFAS. I was transferred to the Ministry of Agriculture in 1992 and became the head of unit that was responsible for overseeing the Farmers' Organisation Authority from 1993-1997. I also had an opportunity for almost two terms to serve as a board member of the Farmers' Organisations Authority to represent the Minister of Agriculture.

⁶ Gerry Johnson, Kevan Scholes, *The Nature of Corporate Strategy, The Characteristic of strategic Decision*, 1993, pp. 5-10. According to Gerry, Strategic Decision are likely to do with the long term direction of an organisation as well as value and expectation who have power in hand and around the organisation. It also to do with the scope of an organisation activities, which includes matching them with the environment in which it operates and its resource capability. It also likely to affect operational decisions and major resource implication for an organisation.

⁷ Ibid. Johnson (1993), *Level of strategy*, pp.11-12. According to Gerry, Corporate level strategies is concerned about overall scope of organisation, how should it be run in structural and financial terms and how resources are to be allocated. Business level, among others, is concerned how to compete in the market, which product or service should be developed and offer to which market. Meanwhile, Operational Strategies are concerned with how different functions of an enterprise such as marketing, finance, manufacturing and others contribute to the other level of strategy.

The Proposed Business Plan

Mission Statement

Ayam Peladang will provide services and functions that are needed to become an efficient and effective Integrator in Farmers' Poultry Industry. Farmers and Farmers' Organisations will have the opportunity to take part actively in the poultry industry in government contract and open market. They also can become important chicken suppliers that offer varieties of chicken products ranging from whole and cut processed chicken parts as well as value added products. Customers will a get better choice of quality Halal chicken products at a reasonable price.

The Company and its Industry

Objectives of the Company

1. To dissolve/minimise the present lack of co-ordination issues in order to increase efficiency and effectiveness by forming a joint venture company and install Information and communication technology (ICT) facilities.
2. To develop a series of viable, competitive and resilience Bumiputra poultry entrepreneurs so that the whole scheme can capture about 5% of the nation market share in poultry industry.
3. To increase open market share in order to cater for present and future chicken products by farmers.
4. To develop multiple out-lets of chicken products in order to reach more consumers.
5. To increase value added activities on chicken produce in order to offer more choice of chicken products and to increase profit margin especially in the open market.
6. To offer good quality and reasonable price of Halal chicken products to all customers.

Discussion of the Industry

The Products and Services

Description of Products/services and Applications

The End Products: (Fresh/Frozen/Chilled)

1. Whole dressed chicken
2. Cut chicken (parts)
3. Sausages
4. Nugget
5. Seasoned chicken
6. Fried chicken
7. Others

The Intermediate Products:

1. Parent Stocks (mainly Arbor Acres, Ross, Avian and Cobb)
2. Day old chicks (broiler type)
3. Chicken feed (starter- 2 weeks, Finisher-4/5 weeks)

Distinctive Competence or Uniqueness of Product/service

Arbor Acres & Avian: The growth of day old chicks (DOC) is slower in the beginning and for the first two weeks feathers begin to cover the whole body and after which the birds begin to grow in body size.

Cobb & Ross : The opposite occurs – The chicks put on body size first and then the feathers begin to cover the body. The birds tend to be heavier than the Arbor Acres or Avian and reach the market weight by 2/3 days earlier.

Technologies and skills required in the business

1. More skill is required to rear the Cobb & Ross chicks than the Arbor Acres or Avian chicks i.e. more attention is given to breeding management of the Cobb and Rose chicks because of the late feathering. The cost of feeding is more for

the Rose & Cobb at the early stage and any loss of chicks will increase in more loss to the grower. Beside this, Cobb & Ross can be on advantage to the grower because of earlier finishing period. From the hatchery point of view, The Cobb & Ross, being heavier birds produce fewer chicks than the Arbor Acres & Avian. Something like 10-20 day old chicks' difference.

2. Colour sexing of the chicks is a useful tool to enable the two (2) sexes to be grown separately, to increase uniformity in bird size and allowing the males to be processed before the female birds. It will help to save the feed cost even to the point of providing a slightly different feed for the male birds to that of the female birds (because of their different growth rate and protein requirement).
3. Go into high technological method to produce the broilers using automatic feeds and nipple-drinking system to reduce labour cost, feed cost and housing cost per birds and loss due to mortality. On the contrary, increase feed conversion, body weight and uniformity in the flock.
4. Ventilation system will become a demanding feature of the chicken houses as modern concept of growing broiler is accepted because of the high daily temperature and humid condition of the air.
5. Lighting condition to meet the requirement for better growth of the broiler will also be installed into the chicken house to enhance better and faster growth rate and uniformity of the flock.
6. Processing technology will also be upgraded to produce cleaner & hygienic products. End products can be of fresh poultry products or cooked products that can be eaten right away.

Further potential

1. Chicken growing farms will be set up in the rural areas because they will be more efficient in terms of size and management. These farms will be integrated with some other agricultural activities like the growing of fruits trees, vegetables, fresh water fish, flower nurseries or forest plants or ornamental plant nurseries i.e. they will be more professionally operated and managed.

2. The feed producers could look into a more efficient use of local food material for making poultry feeds in order to reduce cost of food from imported materials.

Markets and Marketing

The Business Environment Analysis

Macro:

Per capita consumption has increased at an average annual growth rate approximately 7.5 %⁸ during the last decade and now is about 32.33/kg⁹. The potential to further develop the livestock industry to cater for the need of the nation (domestic) as well as niche export markets is bright because of the competitive price, acceptability and preference for white meat which has made it the most widely consumed meat in the country. Encouraging the increase of per capita consumption from 35 kg to 40 kg, has bright potential since chicken is the main contributor of cheaper protein food in the country. Chickens are consumed by all sector/races of the population.

Attitude changes

With changing consumer preference, health consciousness and lifestyles, it is anticipated that there will be expanding demand for special cuts, ready-to-eat, easy-to-prepare, ready-to-cook as well as specially meat products such as those low in fat and salt content.

Even though chicken production is operated as a joint venture company, the grower's interest must be given priority because, unless these growers can do well, the whole enterprise may not last i.e. they should be given more than adequate income and incentives in order to continue and improve on their income.

⁸ The Ministry of Agriculture, Livestock, The National Agricultural Policy (1998-2010), 1999, pp.64.

⁹ The Ministry of Agriculture, The Veterinary Department, Livestock Statistics, Per capita Consumption of Livestock Products 1988-1997, pp.34

General Economic Situation

In 1998,¹⁰ the full effect of the regional financial crisis on Malaysian economy was felt by declining of capita income in normal terms from RM12, 051 (US\$4,284) in 1997 to RM11, 835 (US\$3,018) in 1998. At the same time, the aggregate domestic demand also declined for the first time since 1986. This includes the decline of public consumption, which account 20% of total consumption.

The financial crisis had had wide-ranging effects. It adversely affected the real economy of Malaysia, weakened the financial sector and had some socio-economic implications. However, the strong macroeconomic fundamentals allowed Malaysia to avoid the potentially extreme effects of the crisis as experienced in other regional economies. The rate of unemployment, incidence of poverty and the number of bankruptcies remained relatively low. Additionally, the current account of the balance of payment turned around from a deficit to an unprecedented surplus of RM36.1 billion for 1998, for the first time since 1989.

The National Economic Recovery Plan (NERP), which was launched in July 1998, provided a comprehensive framework for economic recovery, including steps to counter the negative effects of the ringgit depreciation and stock market collapse. The recommendation included wide-ranging proposal for economic stabilisation and structural reform and also addressed socio-economic priorities and sectors affected by the crisis and part of the efforts included to easing monetary and fiscal policies. Appropriate steps were also taken to strengthen the financial sector. The Government undertook these measures to strengthen the resilience of the financial sector in order to avoid systemic risks and ensure the continued efficient functioning of the intermediation role of the banking system, which is crucial for an economic recovery.

It indicated through the recovery in the real economy, surplus in the current account of the balance of payments, increase in foreign investment, increased certainty in foreign exchange market, greater scope to introduce appropriate policies, reduction in non-performing loans, repatriation of offshore ringgit, increase in external reserved, positive response to capital market measures and increase in stock prices. Therefore, all sections of Malaysian society benefited from these measures.

However, the September 11 incident witnessed a crash in major equity markets especially in the United States, were the worst affected with stock markets in Taiwan, Thailand and Kuala Lumpur, experienced similar declines. Cost of finance and insurance will surge. Investor sentiment and consumer confidence deteriorated. With the possibility of a prolonged attack on Afghanistan, global economic prospects will undoubtedly deteriorate further. The Government responded immediately by putting in place measures to prevent further deterioration in the economy. Growth must be led by domestic sector activities and exploring new market as we cannot be overly dependent on external trade. In line with the domestic-led growth policy, the Government announced two pre-emptive fiscal packages that aim at stimulating domestic economic activities as well as alleviating the negative impact on the low-income group and the disadvantaged. It is also aimed at promoting business activities, increasing income opportunities for small entrepreneurs and assisting retail businesses.

Customer loyalty

No particular references for the breed of broiler grown in the country. Chicken is chicken to the customers.

Demographic changes

No major shift is expected at all sectors in the population consuming chicken except a small number of vegetarians.

Regional issues (ASEAN)

Chicken production has reached self sufficiency in each of the Asian countries except Singapore, which has been dependent on import of frozen chicken, and live birds (especially from Malaysia). In Malaysia, unless there is a drastic problem in the poultry industry, importation of day-old chicks or live birds or frozen chicken may be allowed by the Government i.e. in the recent Japanese Encephalomyelitis issue and during commonwealth Game. Furthermore, production of broiler and the demand for chick production in the country are imbalance; the tendency has been to over produce because of poor communication between producers, intermediaries and the markets. Nevertheless, Implementation of World Trade Organisation and ASEAN Free Trade Area (AFTA) agreements will provide world market liberalisation and

¹⁰ Bank Negara Malaysia, The Real Economy, Annual Report 1998, 1999, pp. 1.

greater market access and expose the ASEAN (Association of South-East Asian Nations) local industry to open competition.

Industry Technology

The conventional method of growing broilers by manually feeding the birds is still very much in evidence throughout the country. Only a few farms used automatic feeding system or partly done so i.e. feed is distributed into the plastic tube feeders by an auger system but this is operated manually when filling up the feeders is required.

Indirect Factors: (Includes businesses that intrude on the edge of industry territory, though they are not direct competitors)

It is difficult to identify any other livestock at this moment that can be produced as cheaply as the chicken. Duck are not widely accepted and an attempt to produce more ducks has not been significant e.g. the growing and hatching of Peking ducks in Negri Sembilan at the place called Pedas.

Government policy

Has made chicken a controlled item and enforced ex-farm price and retail price. Help consumption of chicken meat and prevented the middlemen and retailers from making excessive margin of profits especially at the festive seasons. The ex-farm price at RM3.40/kg live weight is reasonably good if the farmer can produce broiler efficiently. He can still make between 40-cent to 50-cent per/kg if he carries out direct sale to the customers.

Market Share

As at December 1997¹¹, farmers' organisation produced around 3.092 million birds a year. It is around 25% more chicken than is needed by the central contract and this has given a significant opportunity for the scheme to penetrate into open markets. Nevertheless, for the purpose of future development of Umbrella Broiler Scheme and the Propose Business Plan for the new joint venture company, it is estimated that within the next eleven years of the implementation of the new joint venture company, farmers' organisations will be able to supply and capture 5% of the nation's market.

¹¹ National Farmers' Organisation (NAFAS), Bilangan Penternak dan Ternakan Skim Payong Ayam Daging Disetiap Negeri Bagi Bekalan Dan Juga Pencapaian, Laporan Kemajuan Skim Payong Ayam Daging Berakhir Disember 1997, 1998, pp. Lampiran E

With per capita consumption of 32.33/kg, around 400 million broilers are needed yearly to meet the demand of the whole nation. Without taking into account the yearly increase of the population, Ayam Peladang needs to produce around 20.0 million broilers to capture 5% of the nation market.

Direct Factors:

Consumers

- Still prefer fresh dressed chicken/parts.
- Prefer to see the chicken still alive in the cages before making the purchase.
- Tend to buy from the same retailer because of familiarity and trust worthiness of the retailers

Competitors

There are many suppliers of live and processed birds. As for live birds, each competitor has his clientele and they work very closely and have their own arrangement with regard to mobility of broilers and payments. They seem to understand each other pretty well. As the consequence of their close relationship, it is difficult to penetrate such a clientele.

As for dressed chicken that are supplied to supermarkets or cold stores, there is much competition here. The supermarket emphasises on price, quality and packaging. This implies that they do not practise the policy to just buy from one supplier.

Pricing

Pricing is an essential factor to attract customers both in live birds markets (wet market) and supermarkets. Even though the Government controls the price of chicken, people will still bargain for a lower price.

Suppliers

Mainly, five integrated companies have processed chicken and live birds for their markets. Each has its own brand and packaging features/markings. The majority of middlemen supply live birds to wet markets in the country.

Service levels

Well organised by middlemen and integrated organisations with refrigerated trucks and vehicles both at the farm and retails levels.

Costs

Ex-farm price ranges from RM2.20 to RM3.80 even though the Government ceiling price is at RM3.40/kg live-weight. The large fluctuation in the ex-farm price is due to supply situation. In the recent Japanese Encephalomyelitis problem, the price of chicken suddenly shot up to RM3.80/kg live-weight for at least 3 to 4 months and after which the price dropped to RM2.20/kg live-weight and then gradually climbed up to RM2.60/kg & RM2.80/kg & RM3.0/kg (ex-farm). The supply situation improves very quickly because of the short life cycle of growing broilers (45 days). Supply tends to exceed demand most of the time.

Market segmentation

Wet market - 60%
Food Stalls)
Supermarket) 40%
Government Sectors)
Universities/collages)

Competitive Analysis

List of Competitors:

Leong Hup Holding Sdn. Bhd
Chareon Pophand (Malaysia) Sdn. Bhd (CP).
Sinmah
KFC/Ayamas
Dinding Poultry
Independent Integrators
Federal Flour Mills

Evaluation of Key Competitors

Direct Competitors:

Most of the above competitors, as they too have contract farmers, processing plants and outlets in Malaysia and Singapore.

Characteristics of each competitor:

The above competitors are the direct competitors for Ayam Peladang in open market. What are the competitor's relative strengths and limitations?

Table 1

COMPETITORS RELATIVE STRENGTHS AND LIMITATIONS

Establishment (name of the company)	Strengths	Limitations
Leong Hup Holding Sdn. Bhd.	Integrated in all aspects (has outlets known as A1) & diversified in the outlets	Small farmers distributed over large areas.
Sinmah	Integrated outlets (no special outlets).	Small farmers distributed over large areas.
Charoen Pophand (Malaysia) Sdn. Bhd	Integrated outlets (no special outlets).	Small farmers distributed over large areas.
Dinding Poultry	Integrated outlets	Small farmers distributed over large areas.
Federal Flour Mills	Integrated outlets except no processing plant & contract farms.	2 farms & hatchery
Gold Coint	Partially integrated (feed mill and hatchery only)	1 farm & hatchery
Kentucky Fried Chicken (KFC)/Ayamas	Integrated in all outlets plus outlets for processed broilers.	Small farmers & own farm.

What weaknesses make the competitors vulnerable?

1. Method of production is still rather conventional. Therefore greater wastage in resources i.e. birds, feed, drugs and labour cost.
2. Co-operation among them not well established, resulting more often than not over production.
3. Quite clear demarcation in terms of area of operation as follows:
 - Leong Hup in the south
 - Charoen Pophand in the centre i.e. Negri Sembilan, Selangor.
 - Dinding in the north i.e. Perak, Penang.
 - Sinmah in Malacca, Negri Sembilan and North of Johore.

- Federal Flour Mills have no specific area of operation because only have hatchery and feed mill (no contract growing).

Key Factors For Success

- Least cost of production at the farm
- Good skill personnel to manage the production centres like the farms and hatchery.
- Direct marketing of products.
- 50% of broilers to be contracted out to be grown by growers with good facilities and able to produce good broilers and another 50% to be grown by own farms.
- Has a good efficient processing plant and a good backup service team to help retain market segment captured and for long term retention i.e. for future expansion of the market segments captured and achieved.

SWOT Analysis

The SWOT analysis is a summary of the strengths and weaknesses, and of the opportunities and threats facing Ayam Peladang. This technique is the final step in the strategic groundwork; it translates the previous steps into a format that provides the basis for developing winning strategies.

Strengths:

- i. The new joint venture company should be able to increase internal strength to effectively manage the whole operation.
- ii. Have potential to increase the capacity of present 225 Bumiputra contract growers.
- iii. The present operation already has 80% of its own parent stock and hatchery.
- iv. Already has 40 acres side that had been purchased to rare between 7-9 million birds a year.
- v. A poultry processing plant (RM1.0 million) has been set-up in Klang Valley.
- vi. Already has 25% extra production from the amount needed by central contract that give significant opportunity to penetrate open market.

Weaknesses:

- i. Not all the growers have the capability to increase their capacity by themselves. Special program needs to be planned for those who needed help.
- ii. Even though new technology in production and processing are easily available,

the small contract growers have limitation to put in required resources to modernise the chicken production. On selective basis, some of the advanced farmers could be able to be helped by arranging soft loan from local banks.

- iii. The present capacity of hatchery and processing plant is not enough to cater for further expansion of the programme i.e. to produce 5% of the country requirement.

Opportunities:

- i. The new joint venture company should be able to start their own farm with modern chicken production.
- ii. By increasing the production of chicken, it put the company on more opportunity to achieve economies of scale.

Threats:

- i. The whole operation is open to sabotage if no effort has been made to have own feed mill.
- ii. As faced by other chicken producers, price instability of imported feedstuffs does give great effect to the increase of production cost.
- iii. The implementation of World Trade Organisation and ASEAN Free Trade Area agreements exposes the local chicken industry to open competition.
- iv. Introduction and outbreak of infectious diseases.

Customer Definition:

The target customer will be the Malaysian population and some for export market (mainly Singapore). The live birds are only for wet market customers. Dressed chickens (whole and cuts) are mainly for central contract, wet markets, supermarkets as well as food stalls. Meanwhile sausages, nugget, seasoned and fried chickens are for customers such as teenagers, children and working people. Overall, the Malaysian population prefer chicken meat because of the competitive prices and its good for health. Generally, all income levels can afford to buy it.

Population Target

For the purpose of future development of the Umbrella Broiler Scheme and the business plan for the new joint venture company, it is estimated that within the next eleven years farmers' organisations will be able to supply and capture around 5% of

the nation market. If per capita consumption is 32.33 kg/year¹² and one chicken can give 2 kg of poultry meat, it means, every population will consume approximately 16 chickens a year. Therefore, in one year Malaysia needs to produce around 400 million chicken (including 2-4% mortality rate) every year. Without taking into account the yearly increase of 2% population, Ayam Peladang needs to produce around 20.0 million broilers in order to capture 5% of the nation market.

The Internal Examination

The internal examination will formally be carried out once a year or every six months. The internal examination is a factual analysis of the business, which leads to knowledge and understanding of what has occurred over the past year. This examination is conducted by asking questions about past performance, attitudes, strategy and quality of execution. The answers to these questions will provide insights into the strengths and weaknesses of the products and services offered by Ayam Peladang. The five questions are based on:

- Knowledge:** -The objective is to convert facts and knowledge into understanding, through the medium of analysis.
- Performance Audit:** - Where are we winning/losing? Why?
- Attitude Audit:** - Where are we leading? Where are we following?
- Strategy Audit:** - Are we using right market sectors, clear, consistent strategies, are they winners, and how are we utilising resources?
- Execution Audit:** - What are our levels of responsiveness to change, what are our speed, efficiency, and costs?

¹² Ibid. The Ministry of Agriculture, The Veterinary Department, Livestock Statistics, Per capita Consumption of Livestock Products 1988-1997, pp.34

COMPETATIVE STRATEGY TO DEVELOP AYAM PELADANG

Eight steps will be used to develop competitive strategy for Ayam Peladang:

1. Strategic Mission
2. Setting Objectives
3. Business Strategies.
4. Structural Changes
5. Market Segmentation
6. Achieving Results
7. Monitor Results
8. Strategic Follow-up

STEP ONE: DEVELOP CORPORATE MISSION

To Increase Quantity and Quality of Chicken Meat and Value Added

Products produced by viable Bumip`utra Entrepreneurs (the details corporate mission has been mentioned in page 5)

STEP TWO: SETTING OBJECTIVES

By the eleventh year implementation of the business plan, the Bumiputra Farmers/ farmers' organisations will be able to supply 5% of poultry meat and related value added products that requires by West Malaysia population.

STEP THREE: BUSINESS STRATEGY

For the whole project

- To develop adequate parent stocks
- To own/become a major equity holder in Hatchery.
- To own/become a major equity holder in feed mill.
- To emphasise on staff training
- To build an efficient management information system for the whole operation.
- To install Information & Communication technology i.e. e- commerce.

For Central contract

- To increase production per farmers in order to increase their income to reach at least above the poverty line.
- To develop new farmers and up grade the present farmers.
- To construct hygiene processing centres
- To build suitable cold storage facilities in processing centres.

For Open Market

- To develop/buy equity of suitable processing plants.
- To have suitable moveable cold storage.
- To develop newly own/expand farmers organisations production of chicken.

Strategy will be based on:

a. Dimensional Approach

Several Dimensional Approaches have been designed for Ayam Peladang business strategies. The main dimensional approaches include **vertical integration** (to become an efficient integrator), **channel selection** (chose to maintain government market and expand open market domain through food stalls, wet and dry market etc.), **product quality** (to offer variety value-added products with reasonable price), **cost position** (to make use of new equipment in growing chicken and intensify staff training & development as well as utilise ICT facilities in managing the business).

b. Logical Incrementalism

The suggested corporate business strategies¹³ are based on the real business plan. James Brian Quinn (1980)¹⁴ in introducing the concept of *Logical Incrementalism Strategies* did a research to investigate how real companies actually arrive at their strategies changes and how that fits into acceptable formal planning and management concepts. He suggested, "*most of effective strategies of major enterprises tent to merge step by step by an iterative process in which the organisation probes the future, experiment, and learned from a series of partial*

¹³ ¹³ Ibid. Johnson (1993), Strategies are broad categories or types of action to achieve objectives

¹⁴ James Brian Quinn, *Strategies for Change: Logical Incrementalism*: Richard D. Irwin, Illinois, The total Logical Incrementalism Strategy is largely defined by the development and interaction of major subsystem strategies. Each subsystem's strategy is best formulated by following logic dictated by its own unique needs, 1980, pp. 14-59.

(incremental) commitments rather than through global formulation of total strategies”.

For example, In the case of Umbrella Broiler Scheme, Logical Incrementalism strategy seems to be appropriate. Based on limited capital availability and to give time to understand more about open market complexity as well as to search for more opportunities and minimise threat, one of the ways to achieve the needs of the consortium members is by developing the new company in two (2) stages as explained in Structural Changes below.

STEP FOUR: STRUCTURAL CHANGES

First Stage

Consolidate the present operation under a new joint venture company and expanding open market share through down stream activities based on high quality and varieties of value added products.

Second Stage

Move toward a holding company operation through expansion on up stream activities by acquiring more equity in Hatchery and feed mill. Form subsidiary companies to gain control over the input and output of the whole system.

Below is the explanation of the company Corporate Business Strategies that have been captured from the Financial Highlight of the Ayam Peladang's 11 years Projected Cash Flow (Appendix 8b):

STAGE 1 (1 TO 5 YEARS)

The Ayam Peladang will deal with the production of chicken from contract growers and its own farm. The production will increase every year until it reaches 20.0 million birds (about 5% of present nation requirement) and not 20% as desired by the consortium partners. Based on the present capacity such as the availability of capital and skilled manpower as well as stiff competition by other integrators, the 5% target of the present national requirement is quite reasonable and manageable to be handle by farmers' organisations. The company will eventually become important chicken suppliers that offer varieties of chicken products ranging from whole and cut processed chicken parts as well as value added products. However, in the cash flow, the cash receivable for the new company will only come from selling live birds and dressed chicken. It is up to the new management to decide when they want to proceed with the value-added production. For a start, the company will only sell live

birds until the fifth year of the operation. This is done so as to make full use of the processing plants that by then would be in full operation. Furthermore, this step will increase the income of the company, as the price of processed birds is higher than the live birds.

For a start, after consolidating the present operation under the new joint venture company, the company should be allowed to build up a strong position in open market through its down stream activities. In the process of setting up the own farm, the new company should be allowed to buy chicken from open market especially for value added activities such as producing nugget, sausages, fresh and seasoned (cut and whole) chicken for the open market. The company has the responsibility to ensure good quality of processed products by putting up hygienic processing centres/plants.

An allocation of RM0.5 million has been allocated in the first year of operation to develop processing centres and cold storage facilities that are required in the remote areas. This amount could be increased based on the business requirement. As practise by most businesses, it is advisable to rent/buy under hire purchase any required transportation such as cold trucks. Since the three processing plants have already been in operation, the company has two choices in enquiring its processing capacity. It can build new processing plants or buy equity in the existing one. For example, for Lembah Kelang market, Selangor State Farmers' Organisation already has in operation a processing plant with the capacity of 500 birds/hour (total cost is RM2.0 million). It is advisable for Ayam Peladang to consider investing RM2.0 million that has been reserved in the first phase of Proposed Business Plan into this processing plant in order to increase its processing capacity. The same strategy might be considered for other processing plants as mentioned in Table 2 below:

Table 2
PROCESSING PLANT CAPACITIES

Farmers' Organisations	Project Cost Million (RM)	Capacity Per hour/bird	Annual CapacityΣ Birds/million	Note	Ayam Peladang Investment	Total Capacity (million)
Selangor State	2.0	500	2.4	In operation	2.0	4.8 (1150/hour)
Macap, Johor	5.5	1500	7.2	Under Construction	2.0	9.6 (2000/hour)
Manjung Selatan, Perak	2.0	500	2.4	In operation	2.0	4.8

						(1000/hour)
Labuan, Sabah	2.5	400	1.92	Under construction	-	
Ipoh, Perak	7.0			Under construction		
Total production (not including Sabah)						19.2

Note:

ΣAnnual capacity is based on two (2) shift/day and eight (8) hours/shift.

The disbursement of fund is shown in Projected Cash Flow on the Proposed Business Plan, Appendix 8b). The company needs to have at least three (3) processing plants with a total capacity to process around 20.0 million birds a year (within 300 working days a year). Since all of the processing plants are already in existence, the Ayam Peladang should be able to arrange the equity payment based on requirement to process the birds as well as area of market demand. During the forth year of operation, for Lembah Klang's market, the two (2) million allocations should be allocated to acquire equity in Selangor State Farmers' Organisation's processing plant. The next two million is provided in the seventh year of operation to buy equity in Macap, Johor processing plant in order to support the export market. During the ninth year of operation, the last two million is allocated to buy equity in Manjung Selatan, Perak processing plant to help cover the east cost market. Nevertheless, these suggestions are subjected to change to unforeseen circumstances as identified by the management of Ayam Peladang from time to time.

During the first five years of the company operation, besides building processing centres and buying equity in processing plants, the company should have also started to buy equity in hatchery and feed mill. The equity in hatchery is bought over from NAFAS at the same price as NAFAS bought it from the private sector (RM5.0 million). Meanwhile, it is suggested that Ayam Peladang will also buy equity from the existing feed mill. This will help the company to concentrate efforts on building up their own broiler farms and still provide related services to the contract growers. It is important for the company to find a feed mill that is willing to sell the equity based on the amount of feed bought every year. This will help the company to stagger the equity payment to suit the in coming income. It is estimated that a ready feed mill that can serve around 20 million birds will cost around RM5.00 to RM10.0 million. Therefore, an allocation of RM5.0 million has been provided in order for the company to have 1:1 equity/loan ratio if borrowing of loan is needed. If this is the case,

servicing the loan will have to be included in other expenses item.

In building its own farm, for the first six years, the company has to make an allocation of RM2.3 million a year in order to install 23 chicken houses every year with modern methods of broiler production. This amount is to cater for 1.0 million increases in broiler production every year. Without increment of supply from farmers' production, the company needs to increase double investment in order to produce another 2.0 million broilers every year until it reaches 20.0 million birds/year by the end of the eleven-year period. This estimation is based on 11,000 birds per chicken house and four (4) cycles a year at 4% mortality rate. However, in this projected cash flow, the contract growers is supposed to increase their production around one million birds in year seven (7) and nine (9). The company should support farmers to increase their production by using new methods of growing chicken. In any case, the company needs to accommodate farmers' production, while its own farm will produce the balance of the requirement.

To start its own farm, it is presumed that the new company will be allowed to use the Kheng Seng farm bought by NAFAS earlier. For the second stage of development, another 297 chicken houses can be equipped with the same modern equipment, as nearly RM32.2 million has been provided from year 6-11. However, in the year eight of operation, Ayam Peladang might need to rent/buy another plot of land and build new chicken houses, as the Kheng Seng farm will be fully occupied when the chicken production reaches 7-9 million birds per year. There is no allocation provided for new purchase/rent of new chicken site and houses. It is because, at that point of time, as far as cash flow is concerned, Ayam Peladang is projected to be in a good financial position to make any new investment. The Ayam Peladang's broiler farms only need 207 chicken houses to produce another 9 million broiler from year 6 to 11. The balance equipment of 90 chicken houses is actually an allocation that could be borrowed by contract growers in order to increase another 2 million chicken production in year 7 and 9 as well as to install new equipment to the present growing system.

In managing the business, the management of the new company can make various choices of plans depending on the current situation and market needs. For example, it can go slow in expanding chicken house facilities for modern methods of broiler production or start to pay equity in hatchery/feed mill in the third year of operation. As an alternative, the company might want to go slow in paying the equity contribution to

feed mill and hatchery but set up the modern chicken farms equipment as quickly as possible because it can increase company productivity by reducing cost of production.

During the implementation period, the company's management team should be able to decide which factor is more critical to the operation. Since there is always a surplus situation in supply of day-old chicks in the country, the company may want to expand the chicken farm (to increase productivity) and acquire equity in feed mill (control of feed quality and supply) first before spending money on hatchery. Even though the management of the new company has various alternatives on how to run and direct the future of the company, they must ensure that, the company will become a competitive poultry integrator in the country.

STAGE 2 (5–10YEARS)

Without any capital injections, the company's financial position will only be in the positive toward the end of the eight-year of operation. Within the next seven (7) years, the company is expected to be in the red. With capital injections from the first to the fourth year of operation, the company will be in a strong position after the fourth year of operation. The company may start operating under *holding company* structure even in the fourth year of operation. At this point of time, the hatchery, the feed mill and all of the processing plants have already become a part of the whole system. The subsidiary companies can start looking after themselves and planning what is best for their future as an individual company and as part and parcel of the holding company. The holding company can have more programmes to help contract farmers to increase their growing capacity in order to obtain income above the poverty line (it may consider 7000 broilers per cycle as has been proposed). To those who already have a high income and have a good performance in growing chicken, the company could help them to become efficient growers by installing modern methods of broiler production equipment.

The company may also wish to increase their equity in the present feed mill and hatchery based on the broiler's present production requirement. Nevertheless, the company must always be alert to the move of present and future competitors in the poultry industry. The company must also invest some money on poultry research programmes such as on health, feed quality, product quality, marketing and other related fields that are very fond to affect their operation. It is high time for the business to install ICT facilities and invest in knowledge-based business operation in

all activities in order to achieve efficiency by innovation driven. The company may wish to introduce a special insurance scheme to protect the contract growers against diseases and natural disasters. It is important for the company to set strong upstream activities in order to become a stronger and stable integrator. At the same time, in the effort to expand the open market, the company should already be able to penetrate some export market.

As far as administration functions are concerned, during the first stage of development, the company can have multidivisional type of operational structure either by area (such as by regional, state) or functions (such as contract and open market) or others. It depends on the suitability and efficiency to provide quality poultry meat and to reach customers better. As a multidivisional structure, the entire operational accounts will be under the Ayam Peladang. During the second stage, as the company gains control over the hatchery and feed mill as well as having full operation of their own processing plant and broiler farms, Ayam Peladang should have a holding company type of structure. All related subsidiaries such as Parent Stock Farm, Hatchery, Feed mill, processing plants and poultry farms would have their own account and directly be responsible for their own operation. The holding company will prepare a combine account for the whole operation and also eventually have to be responsible for the whole operation as much as the equity held by them.

All these new subsidiary companies must be tied by certain conditions such as priority services and products to be given to farmers and farmers' organisations. For example, the department that handles open market will only be allowed to buy chicken from outside the system if farmers/farmers' organisations/own farm cannot supply the requirement. Early projection should be made and they have to work with some sort of alliance. It is no doubt that, during the early stage of implementation some co-ordination problem will occur. As the subsidiary companies become more established and are able to estimate their requirement, the co-ordination problem will be minimised. Nevertheless, in light of economic globalisation, all farmers and farmers' organisations should be urged to develop and become competitive and efficient suppliers.

Hatchery, feed mill, health and advisory services, chicken farms and processing plant/centres are components that are usually possessed by chicken integrators in Malaysia like Kentucky Fried Chicken, Leong Hup and many other integrators in other parts of the world. What make the different between them are the production

capacity of the above components, the finished products and the concentration of different market segmentation that varies from one integrator to another.

STEP FIVE: MARKET SEGMENTATION

1. Central contract (whole dressed chicken)
2. Food stalls (meaty and with abdominal fats)
3. Restaurants, hotels and clubs (mixed type of poultry sizes from 1 kg (spring chicken) to broilers of 2 kg. dressed weight and chicken parts.
4. Speciality Store/ Chains (Kentucky Fried Chicken, A&W, Roast Chicken Stores).
The Satay stores will prefer large meaty size especially 2 kg and above while Roast Chicken Store prefers dressed broilers size of 1 kg.
5. The General Market Place (various sizes and grades)
6. The Supermarket (processed and dressed poultry and poultry meats that are properly packaged and branded).

STEP SIX: ACHIEVING OBJECTIVES

For Ayam Peladang to achieve its objectives and vision by the use of a marketing strategy and market segmentation targeted for the central contract and population at large.

STEP EIGHT: MONITORING RESULTS

The monitoring schedule must be prepared and follow accordingly the given example:

Table 3
MONITORING SCHEDULE

KEY ACTIVITY	HOW TO MONITOR	WHEN	BY WHOM
Customers Service Quality	Quality management	Continuous	Quality Manager
Product Quality	Production management	Continuous	Production Manager
Direct Marketing	Cost to reach the target group	Specific period after the operation	Marketing Manager
Financial Performance	Monthly sale, profit/lost statement	Weakly/monthly	Financial manager
Market Research/New Strategies	Primary or secondary research	Continuous	Management Team.

STEP NINE: STRATEGIC FOLLOW-UP

The final step in an offensive marketing plan is: spotting strategic wear-out. Winning strategies need to be nurtured; updated and modified to meet changing consumer needs and competitive challenges, otherwise they will wear out and become losers.

Factors that have to be monitored by the business include:

- Changes in customer needs and requirements
- Changes in distribution systems
- Innovations by competitors
- Poor control of company costs
- Lack of consistent investment
- Others.

Monitoring the above factors and following every aspect of POISE (profitable, offensive, integrated, strategic) can prevent strategic wear out:

Design and Development

Difficulties and Risks

If the broilers produced are not uniform then quality problem may become an issue. The possibility to get farmers to produce quality broilers may be difficult because of diversity of farmers, places and sanitary condition or even supervision. Virus is also a high risk. The company may also face problems with the contract growers especially when the prices of live birds are higher than the contract price.

Manufacturing and Operations

Location

Contract growers will be all over the country in suitable places planned earlier. Ayam Peladang will decide the place for own farm, processing centres/plants later.

Price

Chicken has become a controlled item and the government fixes the prices for live and dressed chicken. The ex-farm price cannot exceed RM3.40/kg live-weight and the retailed price of dressed whole bird cannot exceed RM5.40/kg. However, the ex-farm price seldom reaches RM3.40/kg. It is around RM3.00/kg.

Supply Capacity

Most of the times supply exceeding demand. The broiler growers do not get the best price for their broilers unless the growers are able to lower their cost of production.

Distribution Channel

As far as central contract is concerned, the existing distribution channels through farmers' organisation will still be up hold. The open market distribution channel will be developed according to the market segmentation e.g. wet market, supermarket, food stall and others. It would be either through wholesalers/retailers system or only wholesalers or only retailer's pattern of distribution channels

Transportation Facilities

The company should minimise the holding of transportation vehicles. Since all subsidiaries companies will operate as profit centres, the transportation cost should well be undertaken as part and parcel of the operation. It is commonly known that it is more economical to have transportation on hire purchase or rent them from available transportation company.

Management and Organisation

Management

Management achievement

The whole operation of Ayam Peladang is a transformation activity from Consortium type of alliances to a private limited joint venture company operation. In the beginning (first stage), it was planned to be set-up as a multidivisional organisation and later (second stage) as a holding company. Therefore, the type of experience and amount of key personnel needed as well as their duty and functions are as Table 4 below:

Table 4

AYAM PELADANG KEY PERSONNEL, WORK EXPERIENCE AND FUNCTION.

No of Person	Key Personnel	Work Experience	Function
6*	Chief Executive	>10 years	Day to day management
3	Parent Stock Farm Manager	> 10-15 years	Manage the breeding stock
3	Hatchery Manager	> 5 years	Manage the hatchery
3	Broiler Farm Manager	> 5 years	Manage the broiler growing programmes.
3	Contract Farm Services	> 10 years	Provide exclusive service & advice to growers & monitor performance of growers
3	Processing Plant Manager	> 5 years	Manage processing plant
3	Marketing Manager	> 5 years	Sales of processed chicken
6	Veterinarians	> 5 years	Hygiene/sanitation/disease initial programme control for own and contact farms.
2	Purchasing Personnel	> 5 years	Manage the input of the operation
3	Accountant/Accounting Officer	> 5 years	Look after the account & financial aspect of the co.
2	Personnel Officer/Manager	> 5 years	Personnel matter-employment/personnel training etc.
2	Maintenance personnel	> 3 years	Machines/system.

Note:

* 6 chief executive is needed for Ayam Peladang, parent stock farm, hatchery, processing plant, broiler farm and feed mill. Each subsidiary will have one chief executive.

Management Objectives

Successful management is always the key element to put business at the top. The objectives of the management at AYAM PELADANG is to develop viable, competitive and resilience Bumiputra poultry entrepreneurs, to extent market domain especially open and export market, to offer varieties of chicken products at reasonable price. This could only be achieved by “ Least Cost in Production”.

Management Compensation

To be a popular and successful company, we need to create benefit programs for our employees. However, the benefits that have been listed below will depend on the financial performance of the company and remain as management prerogative.

- Bonus program-10%from the basic salary
- Reward system in monetary and non-monetary way

- Paid vacation for the employees who complete a year service and rated in the good level or better than good level
- Health and Dental coverage
- Educational assistance program
- Short-term disability
- Long-term disability
- Life insurance
- Accidental death and dismemberment insurance
- Leaves

We afford excellent benefits in order to keep the employees stable in the organisation. If you look after your employees, your employees will look after your business.

Organisation Structure

As far as administration functions are concerned, during the first stage the company can have a Multidivisional Structure type of operational structure either by area (such as by regional, state) or functions (such as contract and open market) or others. It depends on the suitability and efficiency to reach customers better. The multidivisional structure has advantages such as concentration on business area, facilitates measurement of unit performance, ease of addition and divestment of units, facilitates senior management's attention to strategy and encourages general management development.

During the second stage, as the company gains control over the hatchery and feed mill as well as having fully operation of their own broilers farm, Ayam Peladang can have a holding company type of structure, whereby all related subsidiaries such as Parent Stock Farm, Hatchery, feed mill and Processing Plant will be directly responsible for their own operation.

STRUCTURAL ADJUSTMENT

To form a new joint venture company.

Structural type: - First stage, will be based on Multidivisional Structure.
 Second stage, will be on holding company structure.

Shareholders: -All related parties such as NAFAS, related farmers'
 organisations and farmers.

Resource of Funds: - From profits that have been generated from Umbrella
 Broiler Scheme Project, bank loan.

FINANCIAL HIGHLIGHT

The financial highlight is based on the 11 years of Projected Cash Flow of Ayam Peladang is attached in page XC of this appendix:

The Ayam Peladang will deal with production of chicken from contract growers and own farm. The production will increase every year until it reaches 20.0 million birds as targeted. The cash receivable is from selling live birds and dressed chicken. However, the company will only sell live birds until the forth year of the operation. It is aims to make full use of processing plant that supposes to be in full operation by then. Furthermore, this step will increase the income of the company, as the price of processed birds is higher than the live birds.

During the first five years of operation the company is anticipated to start building a broiler processing centre to process chicken from contract growers. The company should have also started to buy equity in hatchery, feed mill. Equity in hatchery is bought over from NAFAS and equity in feed mill is bought over from the existing one. This will help the company to concentrate its effort to built their own broilers farm and service the contract growers. It is important for the company to find a feed mill that is willing to sell the equity based on the amount of broiler feed bought every year. This will help the company to stagger the equity payment to suit the in coming income. It is estimated that a ready feed mill that can serve around 20 million birds will cost around RM5.00 to RM10.0 million. Therefore, RM5.0 million has been provided for in order for the company to have 1:1 equity/loan ratio if borrowing of loan is needed. If

this is the case, servicing the loan will have to be included in other expenses item.

The company needs to have at least 3 processing plants with a total capacity to process around 20.0 millions birds/year (with 300 working days a year). Since all of the processing plants are already in existence, Ayam Peladang could arrange the equity payment based on requirement to process the birds as well as the areas of market demand. As suggested in the cash flow disbursement, the first 500 thousand (2001) should be allocated to build processing centres and cold storage facilities. Suitable locations are going to be determined by the management of Ayam Peladang together with related farmers' organisations. The first two million (the fourth year of operation) should be allocated for a processing plant in Selangor (for Lembah Klang market). The next two million is for Macap, Johor processing plant (year seventh) in order to support the export market and the next two million (eight year operation) for a processing plant in Manjung Selatan, Perak to help cover the east coast market. Nevertheless, those suggestions are subjected to changes in unforeseen circumstances (such as better choice of other processing plants) as identified by the management of Ayam Peladang.

In building the company own farm, RM2.3 million has been provided for until the fifth year of operation. The amount has been doubled beginning the sixth year of operation. It is presumed the company will be allowed to use the Kheng Seng farm that has been bought over by NAFAS to start its own farm. The RM2.3 million could be used to install the modern methods of broiler production for 23 chicken houses yearly during the first stage of the development period. Another 46 chicken houses will be equipped with modern equipment in year sixth onwards. The detail cost is explained in Chapter 8.

From closing balance of the cash flow show that, without any capital injection, Ayam Peladang's cash flow will only show a positive figure at the end of fourth year of operation. However, if the company is willing to put up capital injections from the first till the fourth year of operation, RM2.8 million, RM1.1 million, RM0.4 million and RM1.8 million respectively, the company projected cash flow will be in a strong position after the fourth year of operation. This is due to the company's heavy investment in processing centres/plants and preparing for own chicken farms as well as contribution to acquire equity in feed mill and hatchery. However, the company might want to go slow in paying the equity contribution but setting up the modern chicken farms equipment as quickly as possible because it can increase company

productivity by reducing cost of production.

Within the next 11 years, the company is expected to have strong accumulated cash, more than RM22.0 million. The company can start to operate under holding company structure when the entire subsidiary companies are already in good condition. By then, the subsidiary companies can start looking after themselves and begin to plan what is best for their future as an individual company and as part and parcel of the holding company. The holding company can have more programmes to help contract farmers to increase their growing capacity in order to obtain income above poverty line (it may consider 7000 broilers per cycle as has been proposed). To those whose income is already high and have good performance in growing chicken, the company could help them to become efficient growers by installing modern methods of broiler production equipment. The company may also wish to increase their equity in the present feed mill and built its own hatchery. The company must always be alert to the move of the present and future competitors in poultry industry. The company must also invest on poultry research programmes such as on health, feed quality, product quality, marketing and other related fields in order to become an efficient poultry integrator. The company may wish to introduce special insurance schemes to protect the contract growers against diseases and natural disasters.

AYAM PELADANG PROJECTED CASH FLOW FOR THE NEXT ELEVENT YEARS ('000)												
	1	2	3	4	5	6	7	8	9	10	11	
Year												
No. of broilers (million) (see note 1)	3	4	5	6	7	9	11	13	15	17	20	
Sale:												
As live birds (million)	1	0.9	0.7	0.4	0	0	0	0	0	0	0	0
As process birds (million)	2	2.1	2.3	2.6	3	3	4	4	5	5	5	5
New method growing chicken(million)		1	2	3	4	6	7	9	10	12	15	
Cash Receivable												
Live birds @ RM5.40/bird (RM' 000)	5400.0	4860.0	3780.0	2160.0								
Processed @ RM6.75/bird (RM' 000)	13500.0	20925.0	29025.0	37800.0	47250.0	60750.0	74250.0	87750.0	101250.0	114750.0	135000.0	
(11 months of total sale)	17325.0	23636.3	30071.3	36630.0	43312.5	55687.5	68062.5	80437.5	92812.5	105187.5	123750.0	
From Debtors (1 month of sale)	0.0	1575.0	2148.8	2733.8	3330.0	3937.5	5062.5	6187.5	7312.5	8437.5	9562.5	
	17325.0	25211.3	32220.0	39363.8	46642.5	59625.0	73125.0	86625.0	100125.0	113625.0	133312.5	
Projected Cash Disbursement												
Creditors (1 month of production cost)	0	1487.5	1972.25	2466.8	2971.0	3485.0	4435.0	5438.3	6388.3	7391.7	8341.7	
Cost of Production (see note 2)												
Exfarm cost/bird @RM5.17(old method)	5170.0	4653.0	3619.0	2068.0	0.0	0.0	0	0	0	0	0	0
Dressed broiler @ RM6.34(old method)	12680.0	13314.0	14582.0	16484.0	19020.0	19020.0	25360.0	25360.0	31700.0	31700.0	31700.0	
Dressed broiler @ RM5.70(new method)	0.0	5700.0	11400.0	17100.0	22800.0	34200.0	39900.0	51300.0	57000.0	68400.0	85500.0	
(11 months of production cost)	16362.5	21694.8	27134.3	32681.0	38335.0	48785.0	59821.7	70271.7	81308.3	91758.3	107433.3	
	16362.5	23182.3	29106.5	35147.8	41306.0	52270.0	64256.7	75710.0	87696.7	99150.0	115775.0	
Other expenses: (see note 3)												
Administration expenses (C+D)	156.0	171.6	187.2	202.8	218.4	234.0	249.5	265.2	280.8	296.4	312	
Service expenses (A)	186.0	204.6	223.2	331.8	359.4	387.0	558.6	600.6	642.6	684.6	726.6	
Marketing expenses (B)	132.0	145.2	158.4	207.6	224.4	241.2	294.0	314.4	334.8	355.2	376.6	
Staff training & development(E)	47.4	56.9	74.22	80.2	86.2	110.2	118.0	125.8	133.6	114.4	114.4	
Travelling & transport expenses	50.0	60.0	70.0	80.0	100.0	120.0	140.0	160.0	180.0	200.0	168	
Office & ICT facilities	200.0	200.0	50.0	50.0	41.1	56.9	74.22	80.2	86.2	110.2	118.0	
Contingency	50.0	50.0	5.0	5.0	50.0	50.0	100.0	100.0	100.0	150.0	150	
	821.4	888.3	768.0	957.4	1079.5	1199.3	1534.3	1646.2	1758.0	1910.8	1965.6	
Surplus Cash	141.1	1140.7	2345.5	3258.6	4257.0	6155.7	7334.0	9268.8	10670.3	12564.2	15571.9	
Deduct: capital/equity (see note 4)												
Hatchery	0	0	250.0	250.0	250.0	250.0	250.0	500.0	500.0	1000.0	1000.0	
Feed Mill	0	0	250.0	250.0	250.0	250.0	250.0	500.0	500.0	1000.0	1000.0	
Processing plants	500.0	0.0	0.0	2000.0	0.0	0.0	2000.0	0.0	2000.0	0.0	0.0	
Own Farm (explained in chapter 8)	2300.0	2300.0	2300.0	2300.0	2300.0	4600.0	4600.0	4600.0	4600.0	4600.0	6900.0	
	2800.0	2300.0	2800.0	4800.0	2800.0	5100.0	7100.0	5600.0	7600.0	6600.0	8900.0	
Net cash balance	-2658.9	-1159.3	-454.5	-1541.4	1457.0	1055.7	234.0	3668.8	3070.3	5964.2	6671.9	
Opening cash balance	0	-2658.9	-3818.2	-4272.7	-5814.1	-4357.1	-3301.4	-3067.4	601.3	3671.6	9635.8	
Closing cash balance(without CI)	-2658.9	-3818.2	-4272.7	-5814.1	-4357.1	-3301.4	-3067.4	601.3	3671.6	9635.8	16307.6	
CAPITAN INJECTION (CI)												
Net cash balance	-2658.9	-1159.3	-454.5	-1541.4	1457.0	1055.7	234.0	3668.8	3070.3	5964.2	6671.9	
New Opening cash balance	0	141.1	81.8	27.3	285.9	1742.9	2798.6	3032.6	6701.3	9771.6	15735.8	
Capital Injection	2800.0	1100.0	400.0	1800.0								
New Closing Cash Balance(With CI)	141.1	81.8	27.3	285.9	1742.9	2798.6	3032.6	6701.3	9771.6	15735.8	22407.6	

NOTE TO AYAM PELADANG'S PROJECTED CASH FLOW

NOTE 1

NO OF BROILER TO BE PRODUCED

The objective is to produce and supply around 5% of the poultry meat required by the West Malaysia population by the 11th year of the implementation of the project. If the per capita consumption is 32.33 kg and one chicken can produce 2 kg of poultry meat, it means, every population will consume approximately 16 chickens a year. Therefore, in one year Malaysia needs to produce around 400 million chickens (including 2-4% mortality rate). Without taken into account the yearly increase of 2% population, Ayam Peladang needs to produce around 20.0 million broilers in order to capture around 5% of the nation market. Under the present consortium system, contract growers can produce around 3 million broilers a year (1997), because this is the present strength that they have. Even though the total productions of the late 90's and early 2000 were lower than 3 million broilers a year, total production in 1997 has been used as base year for the implementation of the project. As being confirmed by NAFAS (through telephone conversation) there is not much increase/decrease in amount of broilers grown by farmers from the base year figure (1997) as the economy faced the era of financial crisis in 1997-1999 and economic slowdown from the year of 2000 until now (end of 2001). The schedule of investment in the production of broilers is shown in the Ayam Peladang's 11 years projected cash flow under the heading "No. of broilers (million)".

SALE

The sale of live broilers constitutes 25% of total production in year 1 and it declines every subsequent year. By the fifth (5) year, there will be no longer be any live broilers for sale. With the decline in the live birds for sale, more processed birds will be produced and sold as processed birds/parts. This also implies that by year 5 there will be adequate processing facilities for all birds produced by the farmers (growers). By the second year of operation, the company should already be able to produce one million broilers using the new method of growing chicken. The amount of broilers produced by the new method should increase as the investment also increases every year. The company could also rent land from farmers' organisations, if it needs new location to

built new barns with modern facilities as the Kheng Seng farm in Seberang Prai Selatan is only able to house around 7-9 million chicken a year.

NOTE 2.

THE PRODUCTION COST COMPARISON BETWEEN CONVETIONAL AND MODERN METHOD OF GROWING CHICKEN.

ITEM (RM)	CONVENTIONAL <u>METHOD (RM)</u>	MODERN <u>METHOD</u>
Cost of a day-old chick	0.80	0.80
Cost of feed	2.96	2.66
Medication	0.25	0.25
Water and electricity	0.20	0.10
Contingency (maintenance)	0.39	0.19
Labour*	<u>0.43</u>	<u>0.30</u>
Production cost	5.03	4.30
Adjustment for mortality cost	<u>0.35</u>	<u>0.18</u>
Ex-farm Price of a 1.8 kg broiler	<u>5.38</u>	<u>4.48</u>
Transportation & catching cost per bird	0.20	0.20
Processing and packaging costs	0.60	0.60
Storage	0.20	0.20
Admin expenses*	<u>0.34</u>	<u>0.22</u>
Cost per processed broiler	<u>6.72</u>	<u>5.70</u>

Note:

There is an increase around RM0.20 of labour cost as compared to the previous costing in Chapter 8.

Therefore, the ex-farm price for live birds using traditional method is RM5.40/bird and RM4.50/bird for modern method. Meanwhile, cost per processed bird using traditional method is RM6.75 and RM5.70 for modern method.

Note:

ΣAdministration expenses:

The total administration expenses for 4 years (as attached in Appendix 8c (note 2) is as follows:

Year	1	22056 (RM)
Year	2	278441
Year	3	341473
Year	4	<u>380100</u>
		<u>1220270</u>

Therefore the average administration expenses per broiler produced:

(A) Conventional method = $1220270/3570000 = \text{RM0.34}$

(B) Modern method = $1220270/5610000 = \text{RM0.22}$

Adjustment for Losses on per Broiler Finished

	<u>Conventional Method</u>	<u>Modern Method</u>
No. of broiler housed	7450	11460
Mortality rate	6%	4%
Liveability	94%	96%
Average flock weight per broiler	1.8 kg	1.8kg
Cost of production per broiler	<u>5.17×7450</u>	<u>4.32×11460</u>
	7000	11000
	= <u>RM5.50</u>	= <u>RM4.50</u>
Cost of production/kg live weight	= $\text{RM5.50}/1.8 \text{ kg}$	= $\text{RM4.5}/1.8\text{kg}$
	= <u>RM3.06</u>	= <u>RM2.50</u>
Therefore, Mortality loss on per broiler finished	<u>$\frac{\text{RM3.06} \times 1.8 \times 450}{7000}$</u>	<u>$\frac{\text{RM2.5} \times 1.8 \times 460}{11000}$</u>
	= <u>RM0.35</u>	= <u>RM0.18</u>

Farmers' Organisations Operational Cost & Profit

Contract price to grower $\text{RM2.85} \times 1.8 \text{ kg}$ = RM5.14
(Ex-farm sale at $\text{RM3.00}/\text{live cost} \times 1.8\text{kg}$) = $\text{RM5.40} - \text{RM5.14}$

Profit per live bird = RM0.26 (profit)

Transportation & catching cost = RM0.20/bird
Processing & packaging cost = RM0.60/broiler¹
Storage cost = RM0.20/broiler
Admin expenses = RM0.20/broiler
Cost of processed broiler at 1.35 kg weight (from
Live weight of 1.8 kg) = RM6.34/broiler
Therefore: cost per kg of processed bird = $\text{RM6.34}/1.35\text{kg}$
Cost per kg of processed bird = RM4.69

Profit per kg processed bird = RM0.31/kg (profit)

¹ Included RM0.20 for depreciation.

Therefore a bird of 1.35/kg
 Sale receivable RM5.00 x1.35 kg = RM6.75
 Cost of processed broiler at 1.35 kg = RM6.34
Profit per processed broiler = RM0.41 (profit)

NOTE 3

Broiler Farm Management (as attached)

Contract Farm Manager: @ RM5000/month with yearly 10% increment of the basic salary i.e. RM500/year.

Supervisors: @ RM1500/month with yearly 10% increment of basic salary i.e. RM150/year.

Year 1-3 = 5 persons + 2 = 7

Year 4-6 = 10 persons + 2 = 12

Year 7-12 = 20 persons

Marketing Executive @ RM5000/month with yearly 10% increment of basic salary i.e. RM500/year

Marketing Assistants @ RM1500/month with yearly 10% increment of basic salary i.e. RM150/year

Year 1-3 = 4 persons

Year 4-6 = 6 persons

Year 7-10 = 8 persons

Accounting Officer: @ RM3000/month with yearly 10% increment of the basic salary i.e. RM300/year.

Accounting Assistant 4: @ RM1000/month with yearly 10% increment of the basic salary i.e. RM100/year.

Administration Officer: @ RM2000/month with yearly 10% increment of the basic salary i.e. RM200/year.

Clarks 4: @ RM750/month with yearly 10% increment of the basic salary i.e. RM75/year.

Office Assistant 2: @ RM500/month with yearly 10% increment of the basic salary i.e. RM50/year.

Note 4

During the first year of operation, the amount of RM500 thousand is being allocated to build processing centres for contract growers. At the same time, another 3 processing plants with capacity to process 2000 broilers per hour and operating at least 10 hours per day (1.5 shift/day) for 300 days a year is also in the pipe line to be purchased in the forth, seventh and ninth year of operation. During the forth year of the operation, Ayam Peladang is expected to buy equity in existing processing plants from Selangor State Farmers' Organisation's, for Lembah Klang's market, and RM2.0 million allocation is already allocated for it. The next RM2.0 million allocation to buy equity in Macap, Johor processing plant has been put aside in year seven in order to support the export market. During the ninth year of operation, the last RM2.0 million is allocated to buy equity in Manjung Selatan, Perak processing plant to help cover the east coast market. Nevertheless, those suggestions are subject to changes in unforeseen circumstances as identified by the management of Ayam Peladang from time to time.

LOAN REPAYMENT SCHEDULE

Loan : RM4,000,000
 Interest : 8%
 Grace Period : 1 year
 Annuity Factor : $\frac{1 - (1/1.08)^5}{0.08} = 3.9938$
 Annuity = $4000000/3.9938 = 1001552$

Year	Annuity	Interest	Principle	Balance
0	-	-	-	2000000
1	-	160000	-	4000000
2	1001552	320000	681552	3318448
3	1001552	265476	736076	2582372
4	1001552	206590	794962	1787410
5	1001552	142993	858559	928851
6	1001552	72701	928851	0

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GLOSARY ACRONYM

ACEDAC	=	ASEAN Centre for the Development of Agricultural Co-operative
ACEDEC	=	ASEAN Centre for the Development of Agricultural Ministers and Forestry
AFO	=	Area Farmers' Organisation
AFTA	=	ASEAN Free Trade Area
ANOVA	=	Analysis of Variance
ASEAN	=	Association of South-East Asian Nations
BCIC	=	Bumiputra Commercial and Industrial Community
BIC	=	Bumiputra Industrial Community
CEPT	=	Common Effective Preferential Tariff
CSA	=	Co-operative Strategic Alliances
C & W	=	Cable and Wireless plc
EU	=	European Union
FELCRA	=	Federal Land Consolidation and Rehabilitation Authority
FELDA	=	Federal Land Development Authority
FOA	=	Farmers' Organisation Authority
FIC	=	Foreign Investment Policy
GATT	=	General Agreement on Tariff and Trade
GDP	=	Gross Domestic Product
ICT	=	Information & Communication Technology
IDC	=	International Digital Communication
IMF	=	International Monetary Fund
IT	=	Information Technology
KADA	=	Kemubu Agricultural Development Authority
MADA	=	Muda Agricultural Development Authority
MNCs	=	Multinational Companies
MNE	=	British Multinational Enterprises
NAFAS	=	National Farmer's Association
NAP	=	National Agricultural Policy

NDP	=	National Development Policy
NEP	=	New Economic Policy
NERP	=	National Economic Recovery Plan
NVP	=	National Vision Policy
PSCM	=	Purchasing and Supply Chain Management
RM 8	=	Eight Malaysia Plan
RISDA	=	Rubber Institute of Smallholder Development Authority
SANASA	=	Sri Lanka's Thrift and Credit Co-operation Movement
SCA	=	Strategic Co-operative Alliances
SFO	=	State Farmers' Organisation
SKATA	=	Syarikat Kerjasama Asas Tani
SMI	=	Small and Medium Industries
SPPM	=	Syarikat Perniagaan Peladang Mada
SPPK	=	Syarikat Perniagaan Peladang KADA
WTO	=	World Trade Organisation

