

## **5 A CASE STUDY ON JOHOR CORPORATION (FORMERLY KNOWN AS JOHOR STATE ECONOMIC DEVELOPMENT CORPORATION-JSEDC)**

### **5.1 Introduction**

In order to prove public enterprises can in fact be economically efficient, Johor Corporation is chosen as my case study, with emphasis on its success in the development of resource- based industries and dealing with the 1997 financial crisis.

### **5.2 History and Development of Johor Corporation**

JSEDC started its operation on 1<sup>st</sup> August 1970 without any form of assets, whether property or asset, as it did not get any grant from the state government. The corporation's only financial resources were RM 10 million loan from the state government. JSEDC was established as a public enterprise to achieve the objectives of the New Economic Policy. It was established to be the visible hands of the state government to intervene to correct imbalances which occurred consequent upon a long history of preceding laissez faire policy framework.

Since its operation, the organization structure of the company has practiced a system whereby only one member in the board of directors has background of politics, that is the chief minister of the state as the chairman of the corporation. This has enabled the corporation to maintain a positive relationship with the state government, but at the same time minimizing political interference.

The corporation's early strategy was to involve in a basic and not so complicated field, that was in agricultural sector. This was because the

corporation did not have enough experience and specialists to carry out big projects other than that in agriculture sector. In addition, Malaysia's status as the biggest oil palm exporter during that period made the corporation sure that it would be profitable to involve in agriculture sector. The fact that the corporation was short of capital also made it impossible to venture into other projects that needed bigger capital.

During the 1980s, the corporation has concentrated its efforts in developing industrial areas amounting to 678.58 hectares in Pasir Gudang, Tanjung Agas, Tongkang Pechah, Senai, Segamat, Parit Raja and Sri Gading. These industrial areas have provided a good base for Johor to become one of the fastest growing industrialization state in the country.

In the 1990s, other than continuing its efforts in the development of industrial estates, the corporation has also ventured into other business such as professional health, tourism, aquaculture and manufacturing industry.

On November 21, 1995, the JSEDC changed its name to Johor Corporation, under a Bill passed unanimously by the Johor State Legislative Assembly in October 1995.

### **5.3 JSEDC's Experience in The Development of The Resource- Based**

#### **Industries**

JSEDC's experience and involvement in the Rubber, Palm Oil, Food Processing and Wood- based industries in mid 1980s is to highlight Johor State

Government's influences, perspectives, attitudes and approaches towards the development of this sector.

The development of resource-based industries in Johor was given the highest priority in mid 1980s because it could produce more favorable consequences in terms of the country's balance of payments as compared to non-resource base industries. This is due to the fact that resource-based industries tend to be less dependent on imports of raw materials and components. Furthermore, resource-based activities, especially in Rubber, Palm oil, Food and Wood-based industries, have a greater linkage impact to the rural and agricultural sector. These linkages are essential to strengthen further the state's economic base as well as eradicating the remnants of dualism and its entailing vulnerabilities to the economic structure that was inherited from the past. In addition, resource-based industries are relatively less vulnerable to shifts in investments from one country to another as comparative advantages are usually structurally founded on inherent natural resources and not footloose.

JSEDC, as the principal development arm for the Johor State Government, has given high priority to the development of resource-based industry in the state, in line with the state and federal government's overall development strategies in the mid 80's and early 1990s. At the end of 1987, JSEDC's total development expenditure and investment<sup>1</sup> in the four sectors amounted to RM528.3 million or 81 percent out of total outlay of RM652.1million. However, since then the

importance of food processing and rubber has declined while palm oil and wood processing still remained as an important industry.

The high priority and commitment to the resource-based industry sector was based on the Corporation's assessment that this sector is not only vital to economic growth and employment creation, but also offers attractive returns on investments. On top of that, it offers tremendous scope for long-term expansion and has substantial advantages in terms of risk structure as compared with other alternatives.

Johor, being a resource-rich state, is one of the most important state in terms of production, processing and export of resource-base products. The oil palm sector has been identified as the most important contributor to growth in industrial output and export. When coupled with the benefits from linkages and savings in foreign exchanges, the palm oil sector becomes more important and stands out above all other sectors in its contributions. In fact, prospects for palm oil are still promising. Not only are the crude palm oil prices always attractive vis-a-vis soya bean oil, there is a sharp growth in world consumption of vegetable oils, particularly among developing countries where again palm oil has an advantage.

**Table 20 Malaysia: Crude Palm Oil Production (tonnes), 1986 & 1987**

| States      | 1986      | 1987      | Differences % |
|-------------|-----------|-----------|---------------|
| Johor       | 1,321,422 | 1,339,515 | +1.37         |
| Selangor    | 540,580   | 495,003   | -8.43         |
| Pahang      | 1,002,880 | 977,711   | -2.51         |
| Perak       | 570,049   | 568,223   | -0.32         |
| N. Sembilan | 258,592   | 243,077   | -6.00         |
| Trengganu   | 224,637   | 244,806   | +8.24         |
| Kalantan    | 61,233    | 75,919    | -23.98        |
| Penang      | 74,111    | 60,675    | -18.13        |
| Malacca     | 27,936    | 23,923    | -14.36        |
| Kedah       | 36,230    | 51,067    | +40.95        |
| Sabah       | 367,519   | 396,257   | +7.82         |
| Sarawak     | 57,060    | 57,144    | +0.15         |
| total       | 4,542,249 | 4,533,320 | -0.20         |

Source : PORLA

**Table 21 Malaysia: Palm Kernel Oil Production (tonnes)**

| States      | 1986    | 1987    | Differences |
|-------------|---------|---------|-------------|
| Johor       | 223,897 | 216,347 | -3.37       |
| Selangor    | 217,139 | 193,929 | -10.69      |
| Penang      | 60,442  | 51,805  | -14.29      |
| Perak       | 22,346  | 22,103  | -1.09       |
| Others      | 56,203  | 79,726  | +41.85      |
| P. Malaysia | 580,026 | 563,909 | -2.78       |

Source: PORLA

Malaysia was the world's largest producer of palm oil, accounting for an estimated 59.5 per cent share of the total world production of 7.6 million tonnes in 1987. Johor, is in the dominant position in the palm oil sector, as illustrated in Tables 20 & Table 21. From the above tables, it is noted that Johor is the most important state and leads all other states in terms of crude palm oil production and palm kernel oil production. Johor also has the largest single concentration of palm oil refining and storage facilities in the world that is located in Pasir Gudang.

Besides palm oil, Johor was also the leader in terms of planted areas under rubber and has long been as important producer of coconut, pineapples, cocoa, pepper, fruits and vegetables. Johor was in fact the largest single contributor with RM1.4 billion or 16 per cent of the country's value of agriculture output in 1985<sup>2</sup>.

The JSEDC's involvement in the rubber industry was at two levels, namely as a producer of latex and raw rubber from its group plantations, and as a manufacturer of rubber products. Over time, however, the group rubber acreage have declined and was replanted with oil palm.

Meanwhile, the JSEDC's involvement in the food processing industry was to diversify the land use in an effort to reduce dependency on rubber and oil palm. The emphasis was on aquaculture and tea plantation. The aquaculture project which comprises of the rearing and processing of tiger prawns for sale in the export market was carried out through a joint venture company in which the JSEDC owned 50 per cent. The tea project was also established as a joint venture company with JSEDC holding 70 per cent equity.

The JSEDC had been involved in the timber business since its early days of incorporation. A subsidiary company, Sindora Berhad was formed in 1972. With a forest concession of 92,000 acres, the company began with logging and expanded its activities into sawmilling, timber preservation, kiln drying, moulding, and the manufacturing and trading of laminated timber scantling and timber boards. The total sales of timber and wood products exceeded RM 22.4 million in 1987.

Johor's success in the resource-base industries was further aided by the success recorded by the Johor Port at Pasir Gudang since its commencement of operations in 1977. The port has recorded double-digit growth rates in terms of cargo throughput handled for many years. In 1987, a total of 5.7 million tons of all cargoes were handled by the Johore Port Authority, an increase of 16.3 per cent over 4.9 million tons handled in 1986. This is actually one of the state's efforts to attract investment and promote industrialization. It is also a good indicator of the Johor hinterland growth and prospects where Pasir Gudang port has also become an important port handling cargo shipments between East and West Malaysia.

Johor has an added advantage which is unmatched by any other location is the fact that in many areas Johor can offer the investor, both local and foreign, access to the best from both Singapore and Malaysia. This advantage is never more obvious than for the resource-based industry, as well as for operation that is land and labor intensive. Johor's rich natural resources, well developed

infrastructure, well established managerial and technical capabilities, at least in many of the resource-based industrial activities, when complemented with Singapore's standing as a financial, trade service and communication center, offers the prospective investor with a very formidable packages.

Other than natural resource endorsement, both political commitment and industrial support have played an important role in the success of the resource-based industries. Both the Federal and Johor State Government are deeply committed to the cause of industrialization. National and state policy statements on this subject are unequivocal and fully complemented by a highly developed policy framework. Strategic supports such as fiscal incentive packages, highly conducive rates and charges, coupled by strong institutional support from various department and agencies are all aimed at servicing the needs of investors.

At the state level, as mentioned before, JSEDC plays a vital role as the principal investment arms as well as the promotional and coordinating agency for the Johor State Government. JSEDC serves as a contact point, facilitator and general advisor on all aspects of investments, from general information to help resolve specific problem. JSEDC is also the most important developer of industrial land with the full complement of infrastructure and utilities. In some instances, it further complements with housing and township development as well as providing public and social amenities for workers and the ensuing industrial community.



For the largest and more important estate for the resource-based industry in Johor, namely Pasir Gudang, the JSEDC is also an effective and efficient full-fledged 'one-stop agency' wherein it is equipped with the full authority to approve building and factory plans and issue certificates of fitness for occupancy of factory and office premises.

The JSEDC also assists investors and industrialists in overcoming problems that they may encounter particularly with respect to their dealings with government authorities, departments and agencies.

In fact, the JSEDC is an investor in its own right and is a commercially oriented corporate organization. Among others, it provides promotional services with free undertaking of the prospective investor values, needs and expectations. Also, it serves as a prospective local partner for investors. However, it tends to be quite selective in its involvement.

JSEDC involvement in resource-based industrial sector activities can be generally classified into 3 phases, commencing from August 1970 when JSEDC first started operations.

- (i) Establishment period (1970-1975)
- (ii) Growth and Expansion (1975-1980)
- (iii) Diversification and pioneering into new areas (1980-early 90s)

### **5.3.1 Establishment Period**

During the establishment period, top priority was deliberately given to JSEDC's involvement in plantation agriculture. The first investment undertaken by the JSEDC was the acquisition from the private sector of 3894 acres of rubber and oil palm estate at Tebrau.

The strategic considerations given at the time was to restructure the ownership of plantations in Johor. Prior to 1970, the plantation industry in Johor was generally dominated and controlled by foreign-owned interests. Another considerations is to generate a faster rate of economic growth and create employment opportunities based on existing foundations, considering the fact that there were large tracts of land still underdeveloped at that time.

With the limited financial resources then, emphasis was given to the procurement of land from the state. The acquisition of Tebrau estate from the private sector at market price was a strategic move given the fact that it provided the Corporation with immediate access to know how, skills and operational systems for plantation management. Furthermore, the acquisition actually generated profits and cash flows for the Corporation that was critical to its growth in the early years.

### **5.3.2 Growth and Expansion**

The phase was characterized by the acquisition and development of larger acreage based on land alienated by the state. There were also efforts to restructure

plantation and resource-based companies in Johore. The most significant development that has a long-lasting impact was the acquisition and control of Kulim (M) Bhd<sup>3</sup>. in 1975 and Eastern Plantation Agency (Johore) Sdn. Bhd. in 1976. The acquisition and taking over of control of the Kulim Group of companies was particularly notable because the acquisition was commercially undertaken through the market and thus gave JSEDC a much-needed boost in its reputation as an important player in the market.

Also, Kulim's restructuring was fully in line with the objective of economic restructuring within the context of growth in the New Economy Policy. Meanwhile, the restructuring and acquisition of Eastern Plantation Agency (EPA) was significant as JSEDC came to possess valuable managerial and technical skills particularly for plantation operations. EPA was well-known as leading plantation management and agency houses for more than two decades in this country. Other than offering the traditional services of a plantation agency house, it also offered technical and management consultancy services for development, sales and marketing services as commodity broking, well equipped agro-product laboratory services, hardware supply and software system for plantation agriculture application.

### **5.3.3 Diversification and Pioneering into New Areas**

The 1980's envisaged a change in JSEDC corporate strategy in its resource-based involvement. With the strong foundations already in its activities in the traditional rubber, oil palm and wood based industries, the Corporation shifted its strategy towards pioneering into aquaculture (prawn farming) and lowlands cultivation of tea on plantation basis. These steps were taken because it was thought critical in the long run for Johor to diversify its resource-based industries beyond the familiar mentioned industries. In addition, the new areas identified had high export potential, especially for tiger prawns as they have been regarded as having vast scope for growth and expansion in terms of world demand. It is also vital for Johor and Malaysia to obtain the necessary technology and know-how in these new areas so as not to be left out in competition with its neighbors in the cultivation and export of such high growth products.

### **5.3.4 Johor Corporation's Experience in Dealing With The 1997 Financial Crisis**

The Asian economic crisis that started in early July 1997, deepened in 1998 and extended beyond the financial sector, has badly affected the real economy with sharp declines in corporate business performance and the drying up of cashflows. Johor Corporation, without exception, was faced with the sudden change. Fortunately, not all companies and business within the Group were affected to the same extent by the economic crisis. The deliberate strategic choice

made in the past of building the Corporation into a highly diversified conglomerate has minimized the Corporation's loss during the crisis.

The crisis has highlighted weaknesses and shortcomings in many aspects of its structure, systems and past management practices. Realizing these facts, and contrary to those who argued that public enterprises are inefficient and slow in reacting to changing circumstances, the Corporation has not hesitated to take tough measures, to totally review entrenched perceptions, to restructure, to reorganize existing system, structure and architecture so as to suit the demands of a 'new' corporate climate.

First and foremost was the need to change the mindset, from the pre-crisis expansionist context in tandem with the Malaysian economy's tremendous pace of growth, to that of greater caution, professionalism and discipline. The group has reversed the past practice of highly geared growth strategy and adopted a more careful approach, which has taken a back seat prior to the crisis.

The closing down of its subsidiaries such as Orion Tours Pte Ltd, Saujana Jaya Sdn. Bhd, Restoran Sari Minang, Asia Pacific Seafoods Sdn. Bhd, Johor Aluminium Processing Sdn. Bhd, Tiram Air Sdn. Bhd, Rely-On-Us Sdn Bhd, and Kok Lian Marketing Sdn. Bhd. depicted the single-minded drive of the Corporation not to tolerate failures and non-performing companies.

At the same time, restructuring and downsizing exercises were carried out throughout the Group, involving 672 employees being terminated between January 1998 to June 1999. However, there have been efforts to reassign staff

from companies that require lesser number of employees to those offering new positions as a result of business expansion<sup>1</sup>.

The initiatives taken to restructure its corporate set up and downsizing has started at the head office itself, with the closure of five divisions, namely Foods, Paper and Publishing, Tourism, International Business and Hotels. The restructuring program resulted in the Corporation's organization being focused on three strategic business divisions, namely Core Business Division, Intrapreneur Business Division and Corporate Services Division.

In order to enhance efficiency, attention was also given towards streamlining decision- making and improving the communication infrastructure by reducing the layers of bureaucracy. The establishment of Jawatankuasa Teraju Korporat (TERAJU) or Group Corporate Top Management Committee signals a marked shift in approach, i.e. from entrepreneurial to professional management mode.

One point worth mentioning here is, crisis notwithstanding, the Group has gone on record to be able to totally honor all its obligations and avoid non-payment on interest or principal repayment over all its loans. The avoidance of disaster was as much due to improvements in the business climate arising from highly effective measures taken by the Malaysian government, as well as the internal corporate adjustment highlighted above.

Nonetheless, the crisis experience was clearly a wake- up call showing how fragile and vulnerable the Group is in the light of fast pace of change and

**extremely challenging reality surroundings. Hence, the Group is now retooled and re-equipped, in many respects, to gear for the more uncertain and turbulent times ahead.**