CHAPTER 5

FELCRA'S FUTURE : TOWARDS THE TWENTY-FIRST CENTURY

5.1 INTRODUCTION

FELCRA was established in 1966 and has evolved its own unique land development programme, that is its land rehabilitation and consolidation programme. In the thirty years since its inception, it has developed an area of 267,689 hectares of land for a total of 70,369 settler families through its land and rural development programmes. In the process, FELCRA has gained experience and expertise in the field of land and settler development. It has also gained some experience in the business and commercial fields through its involvement in both economic projects and small-scale industries. These are FELCRA's strengths which will come in handy in the future.

It should be noted that many changes are taking place in the national, regional and international levels and due to this, the Government must also modify the national development programmes to cater for these changes. Before 1987, the agriculture sector was the main contributing sector to the economy in terms of GDP but since then, there has been a structural shift from the agriculture sector to the manufacturing sector. In line with this structural shift and the fact that Malaysia could not be over dependent on its primary commodities due to uncertainties in the world market and price fluctuations, the Government had to modify national development programmes and strategies to cater for these changes.

This structural shift is one of the reasons why FELCRA must redefine its role and function to prepare itself for the future. Besides that, in these last few years, there has been a shortage of land available for agriculture development purposes and whatever land that is available is subject to intense competition by the various government and private agencies.
Due to this, FELCRA must consider a change in its role and function for the future. FELCRA must continue its social responsibilities and obligations to the settlers in the future but at the same time, it must venture into various commercial and business activities to move forward and suit itself in the very competitive economy of the twenty-first century. Corporatization is one way FELCRA can redefine itself to keep up with the changes in time. With corporatization, FELCRA can take on a more multifaceted role and freely venture into commercial and business activities without having to adhere to rigid Government bureaucratic procedures.

This chapter discusses matters pertaining to the future of FELCRA and the changes in its role from that of a land and rural development agency to that of a corporate body venturing into economically-viable industrial based businesses in line with structural transformation that Malaysia has undergone over the years from an agriculture-based economy to a manufacturing and industrial-based economy.

5.2 **FELCRA’s Corporatization.**

The idea of corporatization and privatization of government agencies was emphasised ever since our present Prime Minister ascended to power in 1981. The Prime Minister was keen on the privatization of government agencies to make them more efficient and effective so as to increase productivity and income.

The privatisation policy was first announced as a national policy in 1983 and in 1991, the Privatisation Masterplan (PMP) was drawn up to provide a guideline on the privatization of government departments and agencies. (PMP, 1991) According to the PMP, the privatization of government departments or statutory bodies is carried out through three stages, that is the commercialisation stage, the corporatization stage and finally the privatization stage.

In the commercialisation stage, the entity will introduce user charges followed by commercial accounting and commercial performance objectives (PMP, 1991). In the
corporatization stage, a process involving a change in the legal status of the entity from a department or a statutory body into a company governed by the Companies Act, 1965 is undertaken. This stage involves the transfer of Government assets and liabilities from the government department or statutory body to a company still owned by the Government but operating on commercial lines. The entity goes through several changes to enhance productivity and efficiency. These changes include replacing bureaucratic administration with commercial management, introducing clear financial and operational performance targets and commercial accounting and replacing production-oriented decisions with consumer and market-driven decisions. (PMP, 1991)

The last stage in the privatization process is the divestiture stage which involves the transfer of ownership of the corporation from the public to the private sector. (PMP, 1991)

With this in view, FELCRA must be corporatized first before any plans of privatizing it can take place. With corporatization, FELCRA would be subjected to standard commercial, tax and labour laws, accounting criteria and competitive rules. It would also be less susceptible to Government interference (World Report 1994). The proposal to corporatize FELCRA must be given serious thought and careful planning in order to succeed.

5.2.1 Reasons for FELCRA's Corporatization.

There are many reasons as to why FELCRA should be corporatized. The Government has given FELCRA two choices with regards to its future, that is, to merge with RISDA and FELDA\textsuperscript{13} or to be corporatized. In view of this, FELCRA must consider the best possible choice to look after the best interest and needs of not only its settlers but also its employees. Corporatization would therefore be considered the best possible choice for FELCRA in the interest of its settlers and employees.
As stated previously, ever since our Prime Minister ascended to power in 1981, he was keen on the privatization of government agencies with the objectives of improving efficiency and productivity and reducing the Government's financial and administrative burden. Therefore, the corporatization of FELCRA is in line with the Government's Privatization Masterplan.

FELCRA's unique land development programme has been successful in that it generates income and other benefits to the settlers but these benefits are not maximised because FELCRA's operations must adhere to rigid Government procedures. There is a need for FELCRA to be given a wider scope to expand commercially without having to constantly adhere to the Government's rigid procedures and this can be done through the corporatization of FELCRA.

Act 398 of the National Land Rehabilitation and Consolidation Authority (Incorporation) Act 1966 specifically allows FELCRA, with the approval of the Ministry of Rural Development and in concurrence of the Minister of Finance, to enter into a partnership, joint-venture, undertaking, co-operation in any manner, an arrangement for sharing profits or otherwise, with any person, body, public authority, corporation or company incorporated under the Companies Act, 1965, carrying on or engaged in or about to carry on or engage in any such activities, and to take or otherwise acquire shares and securities of any such person, body, public authority, corporation or company, and to sell, hold or reissue with or without guarantee such shares and securities or otherwise deal with them. (Laws of Malaysia, 1989). Although the establishment of joint-ventures, partnerships, corporations and companies are allowed, FELCRA cannot do so on its own volition as it has to be done through FELCRA's settler institutions as required by the Act.

13 The idea to merge FELCRA, RISDA and FELDA as an entity was proposed as a possible choice due to the duplication of some of their functions.
FELCRA has embarked on various commercial and business activities through the scheme co-operatives (KPRs) and their umbrella body, the KPFB and its holding company, the KPFB Holdings Sdn. Bhd. However, the success of the holdings company has been minimal because of the constraints and regulatory conditions imposed by the Co-operative Act which limits the growth of its business. Due to this, there is a need to corporatize FELCRA to ensure that it be given the freedom to undertake business and commercial activities without having to adhere to the Government's rigid procedures and the Co-operative Act's regulatory conditions. With corporatization, rigid and burdensome rules and regulations are thus discarded to be concomitant with an ever-changing global business environment.

The proposal to corporatize FELCRA is also due to the fact that FELCRA has the potential, using the plantation as its core business, to become a giant business entity given the right push and direction. So far, FELCRA's settlers have only been producing raw materials in the form of oil palm, latex and scrap, paddy, cocoa beans and others. These settlers do not gain maximum benefits from the production of raw materials because no value is added to the raw materials. The higher the value added to the raw materials, the higher will be the profits made. In order to derive maximum profits, the raw materials must be sold at a time, place and form in line with the requirements of the buyer or consumer (Bahrain and Lee, 1988). Therefore, the raw materials must go through a string of services such as processing, bulking, financing, packaging, shipping and selling in order to add value to it. These services are considered the downstream activities of the plantation sector. The further downstream FELCRA goes, the higher will be the value added and the greater will be FELCRA's effectiveness in its marketing and in accruing profits in financial terms to be passed on to the settlers (Bahrain and Lee, 1988). Presently, the only downstream activity that FELCRA handles is the processing of oil palm into crude palm oil. The other raw materials are sold in their original form without any value added.
Therefore, in the future, FELCRA must take control of its vast pool of potential downstream activities and this can only be done if it is given the freedom to set up corporations or joint-ventures to undertake these activities.

FELCRA is also not involved in any upstream activities in the plantation sector such as the production of fertilisers, agro-chemicals and plant seedlings. A large amount of money is spent yearly to purchase these agricultural inputs which further increases scheme development costs and hence reduces profits accrued to the settlers. Therefore, there is justification for FELCRA to be involved in both upstream and downstream activities that constitutes a form of vertical integration. Firstly, downstream activities raises the share of value-added to the schemes' primary outputs hence raising profitability which is accrued to FELCRA's settlers in the form of higher incomes. The vertical integration of upstream and downstream activities also ensures more stable returns to the settlers because it offsets instability of their incomes arising from price fluctuations.

The reasons that have just been discussed above provide the basis for justifying the need to corporatize FELCRA in the near future to enable it to operate in the best interest of its target group, that is, its settlers.

5.2.2 FELCRA's Corporatization Plan - A Proposal.

Section 5.2.1 discusses a number of important and compelling reasons as to why FELCRA should be corporatized. In this section, a proposal of FELCRA's corporatization plan is discussed. As discussed in the earlier section, FELCRA has the potential, with the experience and expertise it has accumulated in the past three decades, to expand its business opportunities especially in the various upstream and downstream activities of the plantation sector that it is involved in. So far, FELCRA has not fully ventured into these activities and its high time that it does so. Since FELCRA has complete control over its schemes' produce, it
should invest more time and energy in the downstream activities that follow. In order for FELCRA to undertake and control all its upstream and downstream activities, it needs to set up several corporations or strategic business units and form joint-ventures to do so.

5.2.2.1 **Strategic Business Units (SBU).**

There are important reasons as to why FELCRA must establish various strategic business units (SBUs) or corporations to undertake its many upstream and downstream activities. First and foremost, FELCRA has many diverse functions and objectives, with land consolidation and rehabilitation as its core business. With these diverse functions and objectives, FELCRA as a single entity will not be capable to provide services as effectively and efficiently as possible. It would be a tedious task to be efficient and effective because of its size. Therefore, with corporatization, the functions of the entity can be carried out by smaller business units or corporations and joint-ventures established by the corporate body.

Each SBU that will be established is somewhat like a corporation in that it must have a clear and single objective and its operational procedures must commensurate with this objective. Multiple objectives would be distracting and lead to a misallocation of financial and manpower resources (Bahrain and Lee, 1988).

Each SBU established must be of an adequate size to operate efficiently and to yield adequate returns. Due to the smaller size of the business units as compared to the corporate body, it would be easier to identify which section of the business unit is performing poorly, hence ensuring maximum efficiency is maintained.

Various proposed SBUs can be established once FELCRA is corporatized such as the Plantation SBU, Agriculture Services SBU, Construction SBU, Refineries SBU, Haulage SBU, Marketing SBU, Computer Services SBU, Hydrophonic SBU, Dairy Farm SBU, Training Services SBU, Trading SBU and many others. These strategic business units are proposed
because of the diverse nature of FELCRA’s various upstream and downstream activities. A summary of the objectives and functions of some of these SBU’s are discussed below.

5.2.2.1.1 **Plantations Strategic Business Unit.**

The Plantations SBU will be responsible for all activities concerned with the main crops grown in FELCRA’s schemes. These activities include development and opening of new schemes and the maintenance of existing schemes. So far, FELCRA has incurred huge expenses for activities such as jungle clearing, levelling of land and other such activities. Besides that, with the pool of experience and expertise of FELCRA’s plantation staff, agricultural consultancy services can also be provided to domestic as well as international agencies undertaking similar development programmes such as agencies in Vietnam, Indonesia and South Africa.

5.2.2.1.2 **Refinery Strategic Business Unit.**

As stated in Section 5.2, the downstream activity that FELCRA presently undertakes involves only the processing of oil palm into crude palm oil (CPO). FELCRA has thus far set up four palm oil processing mills for this purpose but it does not have any refineries. To further expand its downstream activity after FFB is processed and crude palm oil is extracted, FELCRA must set up several refineries to refine CPO to produce olein, stearin, kernel oil and packaged products which include cooking oils and margarine which increases the value added component to crude palm oil. Therefore it is important to set up the Refinery SBU to undertake the establishment and maintenance of the proposed refineries to be set up in the various parts of the country close to FELCRA’s schemes.
concerned. With the large quantities of rubber, oil palm, kernel, paddy and cocoa that have been produced, it is not difficult to identify the marketing function and isolate it as a self-accounting entity. Therefore, the Marketing SBU must be set up to control the overall marketing of FELCRA’s scheme produce. It must also be responsible to establish its own bulking and storage facilities around the regions to store the schemes’ produce.

5.2.2.1.6 **Haulage Services Strategic Business Unit.**

The transport function is an integral part of the overall marketing function. It is a very expensive and large function and therefore requires to be isolated as a self-accounting entity. The large quantities of oil, kernel, rubber and paddy that are being produced must be transported to the bulking and storage facilities to be marketed to the various users. Besides transporting FELCRA’s scheme produce, the Haulage SBU can also undertake transporting of goods for private users.

5.2.2.1.7 **Computer Services Strategic Business Unit.**

Information Technology has become an integral part of the business world. With today’s growing demand for computer peripherals and services, various computer companies are being established in growing numbers. FELCRA’s information technology needs have also grown in volume over the past three decades. With its corporatization, several strategic business units and joint-ventures will be set up, each having its own computing needs. It is therefore important to improve the provision of computing and data processing services, information communication and other associated computer services to the various self-accounting entities. Therefore, a Computer Services SBU must be set up to consolidate the

\[14\] The production of oil palm and planting materials are considered upstream activities.
management of computer services provided to the various strategic business units and joint-ventures under the corporate body.

In conclusion, the proposed SBUs discussed above are some of the business units that can be established by FELCRA upon its corporatization. There are many more such units that can be set up which require detailed studies before implementation. If given the right co-ordination and management, these strategic business units will flourish and become potential growth and profit-making centres which will increase revenue and profits received by the settlers hence improving their standards of living in the long run.

5.2.2.2 Joint-Ventures.

The rationale for the establishment of joint-ventures are similar to that relating to the formation of the strategic business units except that the activities of the joint-ventures are concentrated on tertiary upstream and downstream processing. FELCRA can, in its efforts to further engage itself in downstream activities, process and market its scheme produce as end-user products rather than to sell them as mere raw materials.

In order to further engage in downstream activities, FELCRA requires the experience and technical know-how in order to process and manufacture its raw scheme produce into end-products to reap maximum profits. Where FELCRA lacks in experience and technical know-how, it can form joint-venture associations with companies that have established themselves in their selected fields. Therefore, once FELCRA is corporatized, it can look into the possibility of forming various joint-venture associations to further boost its growth as a corporate body for the best interest of the settlers.

15 The further downstream FELCRA goes, the higher will be the value added and therefore the greater will be FELCRA’s effectiveness in its marketing and in accruing profits in financial terms to be passed to the settlers.
5.3 **Conclusion.**

Faced with the present state of affairs in a very competitive economy, it is of prime importance that FELCRA redefines its role and function to move forward and survive in the twenty-first century. However, the redefining of its role and functions must not alter its core business of land rehabilitation and consolidation. FELCRA must now actively venture into commercial and business activities and promote industrial development rather than agricultural development alone. This is due to the shift in the economy from one based on agriculture to one based on manufacturing.

Although FELCRA has succeeded in developing an area of 287,689 hectares of land for a total of 70,369 settler families through its land and rural development programmes, it should not be satisfied with this achievement and become complacent. There is much more to be done in order to safeguard the interest of its settlers and their families.

FELCRA has, at present, full control of its scheme produce and very little control of its downstream activities. As mentioned earlier, the further downstream FELCRA goes, the higher the value-added to its raw materials and hence the higher the profits accrued to its settlers. FELCRA needs to undergo major shifts in its role and functions to undertake and fully control all its upstream and downstream activities.

Corporatization is seen as the best option available to FELCRA in the wake of changes happening in the economy. With corporatization, FELCRA would be subjected to standard commercial, tax and labour laws, accounting criteria and competition rules. It would also be less susceptible to Government interference (World Report, 1994). Corporatization would also improve efficiency and productivity and relieve the Government of its financial and administrative burden.
Although the corporatization of FELCRA is proposed, it will not be an easy task to undertake. The setting up of the various strategic business units and joint-ventures proposed must be followed suit with a complete paradigm shift of FELCRA's senior management and employees from complacent Government employees to performance-oriented and proactive corporate employees. The senior management must always be alert, innovative and experimental and not just wait for opportunities to come their way. It is also important that middle-management and front-line employees be given the authority and resources to proceed with their work and not have to conform to rigid work procedures. There is also a need to develop strategic performance measurement tools which must concentrate on key strategic and profitability drivers that will really push the corporate body forward. Finally, it is also important for both senior management and the subordinates of the corporate body to widen their knowledge base and be innovative so as to carve a competitive edge over others in a very competitive business world.

Hence, if FELCRA is to be corporatized, it must do so with careful thought and planning and not just jump the privatization bandwagon because other government agencies are doing so. It must always bear in mind its social responsibilities towards its target group, that is, its settlers and choose a future that would safeguard their best interest.