



Oil Palm Smallholder's Engagement In Business Activities

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Abstract

Involvement of oil palm smallholders in business activities is a strategy to increase the household income of the farmers affected by the collapse in the price of palm oil in the global market. This study aims to identify the status of oil palm smallholder's involvement and identify the driving factors to their involvement in business. A total of 70 oil palm smallholders in Batu Pahat, Johor and Miri, Sarawak has been involved as respondents in this study. The finding shows the involvement of oil palm smallholders in business activities was due to the interest to increase their income level. The form of most widely implemented business is retailing. The study also outlines a number of strategic actions that need to be implemented by the authorities and relevant government agencies in the development process of entrepreneurs among oil palm smallholders. Examples are training facilities and guidance, financial support and as well as business networking.

INTRODUCTION

The main driver of Malaysian agricultural sector is palm oil involving the use of two-thirds of the total agricultural land in the country. As of 2009, there were a total of 305,380 people of oil palm smallholders engaged in oil palm cultivation across the country with a land area of 513,030 hectares (Ministry of Rural and Regional Development, 2015). From the total, 160,000 people are private farmers with an average size of oil palm land for each family of 3.9 hectares (ETP, 2010). The size of a small land ownership and the rise and fall of the price of the palm is the main benchmark to the determination of the total household income of oil palm smallholders. In 2012, the demand for palm oil had declined among major importing countries. Consequently, the average price of crude palm oil (CPO) was at RM2, 764.00 per metric ton. While in 2013, CPO prices decreased to RM2, 371.00 per metric ton. Prices continued to further declined, where in 2014 and 2015, the CPO price had decreased from RM2, 383.50 (2014) to RM2, 101.50 (2015) for one metric ton (MPOB, 2012, 2013, and 2014; Malaysian Palm Oil Board, 2015). This situation has resulted in a significant fall in revenue by oil palm smallholders. Therefore, it is a necessity for oil palm smallholders in Malaysia to go into the other side of economic activities as strategy to increase revenue, specifically to encounter the impact of changes in market prices. One of the strategies identified was the involvement of oil palm smallholders in business activities. Therefore, this study was conducted to look at the status of oil palm smallholder's involvement in business activities, the impetus of their involvement in business and identify the forms of facilities and support needed by the smallholders to reinforce their progress in conducting their business.

LITERATURE REVIEW

Business is a strategy that can improve the diversity of the local community economy (Steiner & Atterton, 2014). Involvement in business activities provides an opportunity for community members to generate employment opportunities, increase family income and contribute to the diversification of the economy in the community. For this purpose, Fereidouni, *et al.*, (2010) explained that the business environment is a key factor in determining the involvement of community members in conducting the business. This is because the prospective trader will need to analyze the current economic environment and identify the needs of potential customers. Potential entrepreneurs may take advantage of the current economic environment and exploit market opportunities (Watsone, *et al.*, 1998).

In particular, there are few factors that encourage the participation of an individual in business. Pihie, *et al.*, (2004) noted that those involved in business because of the feeling of dissatisfaction with previous career, inherit family tradition or loss of employment. According to Watsone, *et al.*, (1998), involvement in the business is to derive income or to support their daily lives. A study done by Morris, *et al.*, (1996) found out that respondents make their involvement in business as a family business. The findings were also supported by Pihie, *et al.*, (2004).

In terms of the continuity of the business, the organization should have strength of leadership. Sorenson (2000) stated that entrepreneurs who are engaged in business are those who have great leadership skills. A leadership characteristic affects business results as well as to achieve satisfaction in the career embarked. Among the nature and behaviour of traders identified is self-confidence, strong determination and able to measure self-capabilities (Sorenson, 2000). A study by Jasra *et al.*, (2011) also found that entrepreneurial skills and leadership have positive impact on the success of a business.

In addition, external factors such as financing support from the government and financial system also guarantee the entrepreneurial success (Ahmad Rafli *et al.*, 2009). In addition, Jasra *et al.*, (2011) also stated that government support such as financial assistance, advice services, and assistance in skills are essential in business start up. Therefore, external environmental factors particularly in the forms of assistance and support from governmental institutions and financial institutions are vital in determining the success of the small entrepreneur ventures especially in rural areas.

METHODOLOGY

This study collected the data via questionnaires which were distributed among the oil palm smallholders in two selected locations namely Batu Pahat, Johor and Miri, Sarawak. Both districts are identified to have many oil palm smallholders who are guided by Malaysian Palm oil Board (MPOB). Sample selections were done through stratified random sampling. The total was determined based on the justification that it is deemed sufficient to represent a population of oil palm smallholders in each district. In this way, the distribution of the respondents was more comprehensive and able to provide an assessment of the factors of involvement in business. Overall, a total of 285 respondents participated in this study. However, only 70 respondents were currently involved in business.

The questionnaire has three parts. The first part is related to demographic information of oil palm smallholders. The questions include gender, race, marital status, number of children, permanent occupation, educational background, and gross monthly income. The second part is related to business profiles of oil palm smallholders. The questions cover the number of years involved in business, type of business and the type of business registration. Finally, the third part relates to the incentive involvement of the respondents in doing business. The incentive involvement are broken down into seven main factors such as interest/opportunity, family, income, knowledge and skills, the risks/challenges management, leadership skills and external support. All of the factors are taken based on the arguments in past research and modified in relevance with the location and objectives of the study. All of the questions use five (5) points Likert scale which range from 1 means "very unimportant" to points 5 means "very important".

Data analysis is performed by using descriptive analysis covering the value of frequency, percentage, mean and standard deviation. Mean is the average value that represents a various value and is a method of measurement for central tendency. The mean value is used to explain the level of agreement with the respondents and read in conjunction with standard deviation to determine the level of consensus on the items raised in the questions. For the scale of five points, the mean scale of below 2.5 is considered disagreed while scale of above 2.5 is considered agree (Salleh, *et al.*, 2010).

Reliability analysis is used to measure the accuracy of the measurements made in the research instrument. The lower degree of error for certain instruments, the higher reliability of the instruments where the test reliability assessment of between 0.1 to 0.49 is consider weak, 0.5 to 0.69 is moderate and 0.7 to 1.0 is strong (Hair, *et al.*, 2007). All data is analyzed using Statistical Package for Social Science version 22.0 (SPSS 22.0).

FINDINGS AND DISCUSSION

Demographics of Respondents

This study has received the support and feedback from 70 oil palm smallholders who are involved in small businesses. Based on Table 1, a total of 84.3 percent of the respondents were males and 15.7 per cent is female. From the aspect of race, a total of 62.9 percent made up of Malays and 22.9 percent are Ibans. Meanwhile, Chinese and Bugis make up 11.4 per cent and 2.9 percent respectively. From the analysis, 54 of them are married and 16 are single.

In terms of children, most of the respondents have between 4-6 children which represents 48.6 percent. In educational, majority of respondents (71.4 percent) have secondary school education. In terms of employment, 59 of the smallholders are self-employed (85.3 per cent). About 47.6 percent of the respondents have a monthly income range of between RM100-RM1000. This is followed by income group of between RM1001 – RM2000 which contributes 31.1 percent. Hence, the study shows that majority of the oil palm smallholders are under the poverty level if they do not engaged in business activities (see Table 1).

Table 1
Demographic Profiles of Oil Palm Smallholders

Information	Total	Percentage (%)
Gender:		
Men	59	84.3
Female	11	15.7
Race:		
Malay	44	62.9
Chinese	8	11.4
Iban	16	22.9
Bugis	2	2.9
Marital status:		
Single	16	22.9
Married	54	77.1
Number of children:		
None	7	10.0
1-3 people	27	38.6
4-6 person	34	48.6
7-9 people	2	2.9
Level of education		
No formal education	2	2.9
Primary school	14	20.0
Secondary school	50	71.4
Diploma	2	2.9
Degree	2	2.9
Permanent jobs		
Self-employed	59	84.3
Private Sector	7	10.0
Public Sector	4	5.7
Average monthly income (other than palm):		
100 - 1000		
1 001 – 2000	30	47.6
2 001 – 3000	26	31.1
3 001 – 4000	6	8.6
4 001 – 5000	6	9.5
	2	3.2

Business Profiles of Oil Palm Smallholders

Table 2 shows the business profiles of the oil palm smallholders. There are 6 types of business activities done by the smallholders. Food and drink business is the most business type with 19 people and follows by retail

business activity with a total of 16 people. Majority of the oil palm smallholders are involved in business more than 5 years. From the respondents surveyed, only 31 people had their business registered.

For business capital, most of them obtained their initial capital through their own savings (56 people). While six (6) other respondents got bank loans. Also, some of the respondents borrowed from Majlis Amanah Rakyat (MARA) and from their respective family members which contribute to 2 and 6 people respectively. A total of 18 people allot about RM 2 001 to RM 4 000 as initial capital. From the study, 18 respondents said that their estimated net income is between RM 2 001 – RM 3 000 per month while another four person earn between RM 9 001 – RM 11 000 per month (refer Table 2).

Table 2
Business Profiles of Oil Palm Smallholders

Information	Total
Type of Business:	
Food and beverage-related	19
Retail business-related	16
Farming-related	4
Agriculture-related	14
Apparel-related business	6
Palm products-related	11
Years engaged in business:	
Less than 5 years	28
Over 5 years	42
Type of registration:	
Not registered	39
Registered	31
Initial capital resources:	
Personal savings	56
Bank borrowings	6
MARA Loan	2
Loans from family	6
The amount of initial capital:	
RM400 – 2 000	17
RM2 001 – 4 000	18
Rm4 001 – 6 000	16
RM6 001 – 8 000	13
RM8 001 – 10 000	4
Estimated net profit of the business:	
RM250 – 1 000	16
RM2 001- 3 000	18
RM3 001 – 7 000	17
RM7 001 – 9 000	13
RM9 001 – 11 000	4

Incentive Involvement in Business Activities

Based on Table 3, there are four main factors that encourage the oil palm smallholders to engage in business activity such as not satisfied with previous job, family tradition, loss of employment and increase income level. The study found that the majority of respondents engage in business as a result of interest to increase their income level. Secondly, the respondent were unsatisfied with the career before they engage in business. This is due to the rate of payment received does not commensurate with the work involved (see Table 3).

Table 3
Incentive Involvement to be in Business Activity

Information	Total	Percentage (%)
Dissatisfaction with previous work	39/70	57.4
Family tradition	27/70	66.2
Loss of employment	27/70	39.7
Interest to increase their income level	62/70	91.2

Determinants for Smallholders Involvement in Business

Table 4 shows the mean test and reliability test Cronbach's Alpha of seven (7) determinants, namely interest/opportunity, family, income, knowledge and skills, risks/challenges management, leadership skills and external support. Factors of

incentive involvement are measured by eight independent variable items showed high score of agreement between 4.11 to 4.67. Item that recorded the highest mean is “own a business” while the second highest is “seek experience” (4.63). On the other hand, economic variables which recorded the lowest mean score is “to be free to make decision” (4.11) and “does not wish to be bound by office working hour” (4.40).

The next 5 items with factor variables show the means ranging from 3.23 to 4.67. Individually, the level of agreement with the highest mean variable is to “inherit business to their children” (4.67). Variable items of family which recorded the lowest mean is “continue family business” (3.23). Six items of variable that describes the income factor have mean values of between 4.06 and 4.86. Oil palm smallholders are found to agree that their purpose in involving in business is “to increase family income” (4.87) and “to accommodate the needs of children's education” (4.74).

Variable items showing culture with the lowest level of agreement is “for the purpose of savings for hajj or umrah” (4.06) and “expect high profits from business” (4.11). Mean value of items regarding knowledge and skills range from 2.87 to 4.57. The majority of smallholders agree that they need “to know the position of the related financial and capital” (4.57).

Risk management factors or challenges give the mean value of between 4.07 and 4.49. The items include smallholders do engage in business is in a way to learn its own responsibility (4.49) and to understand the potential in business activities (4.47). Cultural variables showed the lowest level of agreement. Next, the leadership factor is represented by eight variables with all of them having the mean values of an agreement (> 2.5) by oil palm smallholders. The highest mean variable is self-confidence (4.69). Second, they have strong determination character (4.64). Another determinant in doing business is external support factors which consist of five (5) items and the values of agreement are between 2.34 to 3.16. Recorded the highest variable mean is “get help from government” (3.16) while, variable for “getting financial assistance from the bank” (2.34) is the lowest mean.

Reliability test results of Cronbach's Alpha determinants on oil palm smallholders engaging in the business show the value of reliability ranging from 0.623 to 0.902. This indicates that all items and each factor can be used and become variables (see Table 4).

Table 4
Determinants for Smallholders Involvement in Business

Factors/Items	Min	Standard Deviation	Cronbach's Alpha
Interest and Opportunity:			0.897
1. Interest in dealing	4.50	0.79	
2. Free to make decision	4.11	0.99	
3. Taking advantage of the good economic climate	4.59	0.63	
4. Do not want to be bound by office working hour	4.40	0.91	
5. Have the opportunity to do business	4.60	0.62	
6. Have a site/business premises	4.61	0.80	
7. Seek experience	4.63	0.82	
8. Fulfill their own business	4.67	0.81	
Family:			0.635
1. Encouragement from friends	3.96	1.03	
2. Family provides for business	3.63	1.34	
3. Family encouragement to do business	3.44	1.62	
4. Continue family business	3.23	1.77	
5. Inherit business to children	4.67	0.72	
Income:			0.623
1. Increase household income	4.86	0.35	
2. Expect high profit	4.11	0.94	
3. Earn additional income	4.57	0.50	
4. To cover children's education	4.74	0.58	
5. Saving for old days/future day	4.53	0.81	
6. Savings for hajj/umrah	4.06	1.51	
Knowledge and Skills:			0.635
1. Aware of financial and capital position	4.57	0.73	
2. Have the knowledge/skills in business	4.03	1.12	
3. Apply entrepreneurial courses	3.61	0.77	
4. Have experience in business	3.26	1.36	
5. Have specific skills in a particular field	2.87	1.52	

Risk/Challenges Management:			0.902
1. See risk as a business opportunity	4.14	1.07	
2. Willing to take big challenges in business	4.11	0.84	
3. Able to analyze business position	4.07	1.09	
4. Understand the potential in business activities	4.47	0.91	
5. Use the strength of the business opportunities in the market	4.46	0.88	
6. Learn to carry own responsibility	4.49	0.72	
Leadership Skills:			0.871
1. High teamwork spirit	4.41	0.97	
2. Less dependent of another person	4.07	0.98	
3. Be able to interact well with employees	4.30	0.84	
4. Ensure employees follow the instructions	4.30	0.89	
5. Leadership skills that help in business	4.26	0.81	
6. Have self confidence	4.69	0.47	
7. Have strong determination	4.64	0.48	
8. Measuring self capabilities	4.61	0.49	
External Support:			0.879
1. Easy to get help from the government	3.16	1.52	
2. Easily get financial assistance from the bank	2.34	1.41	
3. Pledging family's asset such as land to ease me collecting business capital	2.66	1.61	
4. Easily get a quality workforce	2.66	1.44	
5. Easily get supplies/materials for trade	3.12	1.38	

Mean Scale: 1 = Strongly Disagree, 2 = Agree, 3 = Less Moderate 4 = Disagree, 5 = Strongly Agree, S. D =Standard deviation

Comparative analysis of the average mean factors is shown in Table 5. It shows that external support factors had the lowest mean factor of 2.78. It is followed by the factor of knowledge and skills of 3.66. Factor of interest/opportunity recorded the highest average mean (4.52).

Table 5
Comparison of the Mean Average Factor

Factors	Average Mean
Interest/Opportunity	4.52
Family	3.79
Income	4.47
Knowledge and Skills	3.66
Risk/Challenges Management	4.29
Leadership Skills	4.41
External Support	2.78

Mean Scale: 1 = Strongly Disagree, 2 = Agree, 3 = Less Moderate Agree, 4 = Disagree, 5 = Strongly Agree

DISCUSSION AND CONCLUSION

Review on the socio-economic aspects of oil palm smallholders found that most Malaysian smallholders face the problem of lack of income from their plantation yields caused by some macroeconomic factors such as the volatility of the oil palm price in the market, rising cost of farming and size of the land is not economic. Accordingly, the respondent's involvement in business is seen as a progressive opportunity towards their efforts to increase their income level and venturing into a new career.

This study shows that the involvement of small farmers, in particular palm oil is because of their interest in entrepreneurship and business. It is also another effort to increase their personal and household income. Their persistence in carrying out business activities are supported by strong leadership skills and capabilities. The findings of this study shows correlation with the past research in the context of small and medium enterprises in developing countries.

Leadership ability and respondent's own capability have directly strengthened their domination in venturing into the business. Leadership not only forms the basis in the management of business operations, it is even beneficial for business expansion in the future. Other than that, the level of knowledge or basic skills in conducting business even though at low levels, had helped these farmers spur interest in doing businesses. This in particular is due to the experience owned by them. Nonetheless, the standard of education among smallholders is low and difficult access to training on entrepreneurial skills opportunities can be deterrent to the success of this community. This is due to their position in rural areas which are away from opportunities to obtain an effective education and training.

However, this study found that external support, whether from the government or the entrepreneurial development agency to respective business success is not a priority in determining the involvement of small farmers in business. This is most likely due to the locations of respondents that are far from the city centre that houses many business support institutions such as government departments, entrepreneurial development agency and financial institutions. Thus, respondents have to be independent in the success of their respective businesses.

In conclusion, the involvement of oil palm smallholders in business is a proactive step to increase their income and standard of living. However, a few key aspects that should be highlighted in order to strengthen the business activities and entrepreneurship is the capability of financial and technical support from the government and private agencies as well as encouragement or motivation given by community as a whole. In this regard, organizations such as MPOB, Agriculture Department and Ministry of Rural and Regional Development can play an important role collectively to support and encourage entrepreneurial activities among the oil palm smallholders in Malaysia.

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