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ELRR

Organisational change and success in a government enterprise: Malaysia's Federal Land Development Agency

The Economic and Labour Relations Review
2017, Vol. 28(2) 234–251

DOI: 10.1177/1035304617706847
journals.sagepub.com/home/elrr
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Abstract

This article charts and analyses the change path and various transformations of Malaysia's state-owned enterprise, the Federal Land Development Agency, from its establishment in the 1960s to the present. The analysis supports arguments that the model of the developmental state, based on planned public/private cooperation, provides an alternative policy prescription to that of sole reliance on the self-regulating market. The Federal Land Development Agency is shown not only to have survived but also to have thrived as an economic development arm of the Malaysian state, successfully adapting to the changing environment in which it operates. To delineate the changes, a framework of punctuated equilibrium is utilised as it best captures the instances of rapid discontinuous change and the periods of incremental change and relative stability.

JEL Codes: L73; O13; O21; P41; Q15

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Keywords
Developmental state, economic development, FELDA, land settlement, Malaysia, punctuated equilibrium, state-owned enterprises

Introduction

At independence, all developing countries faced the huge challenge of how to develop their economies, raise their populations out of poverty and pay for the public goods which citizens were expecting. The enormity of the task plus the intellectual climate and international actors encouraged and legitimated not only government steering of economic development but also direct participation in the economy (Organisation for Economic Co-operation and Development (OECD), 2015; Turner et al., 2015). Thus, developing country governments set up state-owned enterprises (SOEs), statutory bodies and other instrumentalities to direct and participate in economic development. Many SOEs failed to live up to expectation and were privatised or disbanded in accordance with the dictates of neoliberalism which displaced 'big government' as the orthodoxy in thinking about economic development.

Nevertheless, in some countries there were government organisations set up for direct involvement in the economy which have proved to be more enduring. They have weathered the storms of changing intellectual fashion and have been successful in achieving organisational and government objectives that have been subject to considerable modification. Malaysia's Federal Land Development Agency (FELDA) is one of these organisations. Established in the 1960s, FELDA has not only survived but it has also thrived. It has changed and prospered over the decades, transforming itself from its initial purpose as an experimental poverty alleviation scheme to become a multinational business conglomerate.

The aim of this article is to chart and analyse FELDA's change path and transformation. How has FELDA adapted to changing times and what has been the role of government policy and planning in its adaptations? To answer these questions, we adopt an analytical framework derived from theories of organisational change. As we are looking at organisational change over a substantial period of time, rather than a specific change episode, we are concerned with a series of changes: how they were initiated, issues of implementation and what results they produced. How does a government enterprise sustain success?

Theory and hypothesis

One of the persistent themes of management theory is how business organisations survive and prosper (Andriopoulos and Dawson, 2009; Laloux, 2014; Myers et al., 2012). Much of the literature focuses on the challenges posed by rapid environmental change and how organisations must constantly realign their strategies, activities, structures and processes to fit with those changes. This is the principal concern of open systems theory and also of the biological metaphor for organisations. These complementary perspectives still either explicitly or implicitly dominate management thinking (Bolman and Deal, 2008; Graetz et al., 2011; Lawrence and Lorsch, 1967; Morgan, 2006).

Open systems theory sees organisations as systems of inter-related elements that are embedded within larger systems and able to avoid entropy by adjusting to changing environmental circumstances (Hayes, 2007). For this they need feedback to regulate and guide their transformation in their search for dynamic equilibrium. The system itself is composed of both internal and external elements, changes to any of them precipitating the need for changes in other component parts (Hayes, 2007). Kotter (1980) provides a convenient and comprehensive classification of these parts. First, there is the external environment which comprises the immediate task environment and the wider environment. Second are the internal elements, some of which may straddle the internal–external divide. They include employees and other tangible assets, formal organisational arrangements, technology and the dominant coalition (those who control policy-making).

The focal question in this case study is the form taken by FELDA's change history. Was it incremental, discontinuous or one of punctuated equilibrium? All three modes are evident in the biological metaphor for organisational change. The incremental view argues that even fundamental organisational transformation 'can occur through a process of continuous adjustment' without the need for revolutionary or discontinuous change (Hayes, 2007: 9). Small steps taken over many years can transform an organisation through an accumulation of adaptations (Dunphy et al., 2007; Weick and Quinn, 1999). There is constant adjustment to the environment as organisations respond to new circumstances (Dessein and Santos, 2006). However, change may also be revolutionary or discontinuous, with some organisational managers perceiving the need to take 'the transformational path' (Dunphy et al., 2007). Such radical alteration in structure and operation occurs when there have been major changes in organisational environments or where persistent resistance to change in organisations has prevented adaptive action. In such circumstances, dominant coalitions embark on radical change programmes.

A third notion is that of punctuated equilibrium, which rejects the gradualist idea of evolution in favour of 'a world punctuated with periods of mass extinction and rapid origination among long stretches of relative tranquility' (Gould, 1978: 15). Transferred to the organisational setting, this process involves organisations experiencing relatively long periods of stability in which incremental change takes place, punctuated by 'bursts of discontinuous change, in turn, laying the foundations for new periods of equilibrium' (Myers et al., 2012: 40; Romanelli and Tushman, 1994). It will be contended that the punctuated equilibrium model is the best fit for characterising and explaining the change trajectory of FELDA. We argue that FELDA is a successful example of the punctuated equilibrium model, and that this trajectory has enabled the organisation to survive and prosper.

Method

A qualitative research approach was adopted for this study as it aimed at 'building a complex holistic picture' of a phenomenon – FELDA – 'in a natural setting' (Creswell, 1994: 1–2). The natural setting is the changing environment in which FELDA has operated over the six decades of its existence. A historically oriented case study method was employed. This method involves investigating 'a contemporary phenomenon in a real-life context' (Yin, 2003: 13), exploring the interacts whereby it both influences and is influenced by its environment. Such a research orientation fits well with the theoretical perspective of punctuated equilibrium that is being tested through a case study tracing the history of FELDA over more than five decades, with a focus on understanding the relations between the organisation and its environment and the strategic decisions made on its behalf by politicians, directors and senior staff.

The case study approach can provide 'thick description' of the object of study and its context (Guba and Lincoln, 1989). It requires a systematic approach, providing rigour to assure the reliability of the findings and conclusions. Case studies do not address the issue of empirical generality, in that findings from one case cannot be applied to populations or universes (Yin, 2003). Context cannot be held constant, and one organisation's situation will not be the same as another's. But case studies may be generalisable to theoretical propositions. For example, the FELDA case might provide evidence from which to identify the conditions under which a SOE trajectory based on punctuated equilibrium is a viable one.

The data for this case study are drawn mostly from secondary sources comprising reports, statistics and planning documents of government organisations; cross-referenced to academic literature, including journal articles, monographs and book chapters; and with context supplied by sundry other sources such as media and the publications of international organisations. Also, three of the authors, while never working in FELDA, have been long-term observers of the organisation from both practical policy and academic perspectives.

A short history of FELDA

The context of FELDA's establishment

In the 1950s, the Malaysia's economic structure was divided between a modern and a traditional sector. The modern sector was largely owned and controlled by foreign and overseas Chinese capital (Drabble, 2000; Rudner, 1994). It had attracted high levels of investment, and advanced technology and high productivity were seen in plantations, timber production, mining and mercantile activities. The traditional sector was characterised by low productivity and simple technology. It was mainly populated by indigenous Malays (*Bumiputera*) who were small-scale farmers and fishing families engaged in the production of rice, coconuts, food crops and marine products. Poverty levels exceeded 50% into the 1960s, with poverty especially concentrated in rural areas where the traditional economy prevailed (Jomo, 1986).

At independence in 1957, out of the 6.5 million people who lived in Peninsular Malaysia, 73.4% of the population lived in rural areas. Of this figure, 60.2% were Malays, 28% Chinese and 10.5% Indians and others (Hirschman and Yeoh, 1979; Ngah, 2010). Although all rural groups experienced poverty, the Malay majority tended to have lower standards of living than the Chinese whose methods of farming were more productive and who had better access to markets (Aziz, 1964). The rural Malays, who constituted the majority of the population, perceived political independence as an opportunity to achieve improved socio-economic standing. However, when their expectations remained unfulfilled, strong criticism emerged from them against the government. Non-Malays also began to oppose government's efforts to advance the political position and economic welfare of Malays. Rising ethnic tensions led to riots in 1964 and 1969, for which the relative deprivation of the Malays was seen as the principal cause (Abdullah, 1997). There was also the threat of a communist insurgency that had started to penetrate the poverty-stricken rural areas, another indication of the Malay population's feelings of neglect.

In this context of poverty, inequality, political upheaval and rural Malay voting power, the government recognised the need to address rural concerns. The First 5-Year Plan of 1956–1960 had paid little attention to agricultural and rural development but the Second 5-Year Plan 1961–1965 began to take rural matters seriously and the Third 5-Year Plan 1966–1970 paid particular attention to rural development, focusing on infrastructure, agricultural modernisation and diversification, and opening up new lands to resettle landless peasants. This resettlement was FELDA's role (World Bank, 1985). Thus, FELDA can be seen as a government's initiative aimed at defusing political tensions by improving the economic welfare of poor rural dwellers. The creation of the new organisation to address rural poverty can be seen as a significant but initially modest response to a major policy issue and the commencement of the trajectory of punctuated equilibrium.

An interesting parallel to FELDA is the Saemaul Undong (SU) Movement that was introduced across Korea in the 1970s (Asian Development Bank (ADB), 2012; Park, 2009). As in Malaysia, the driving forces for SU were rural poverty and increasing rural/urban inequality. While land settlement was not a feature of SU, its broad objectives were similar to those of FELDA. Thus, SU sought to raise incomes, develop the living environment and basic rural infrastructure, and build capacity and change attitudes, notably the creation of a 'can-do' spirit (ADB, 2012; Park, 2009). The successful trajectories of both FELDA and SU reflect rural development policy choices, fitting with specific environments.

FELDA: The policy climate

Despite an urban policy bias in the early post-independence years (Mohd Arshad and Shamsudin, 1997), the government started to build an institutional framework for rural development (Chee, 1975). In addition to the Ministry of Rural and Regional Development, various specialist agencies were established. These included FELDA in 1956, the Federal Agricultural Marketing Authority (FAMA) in 1965, the Federal Land Consolidation and Rehabilitation Authority (FELCRA) in 1966, the Agricultural Bank Malaysia (BPM) in 1969 and the Malaysia Agricultural Research and Development Institute (MARDI) also in 1969 (World Bank, 1985). The establishment of these organisations in combination with the 5-year national planning regime gave clear indication of the government's intention to both direct and become actively involved in the rural economy.

FELDA was set up for 'land development', which, in Malaysia, refers to the new development of previously uncultivated land (MacAndrews, 1978). This was one of the strategies identified by government to realise its aims of eradicating poverty, restructuring society and reducing political tensions (Mohd Mamat et al., 2016; Ngah, 2010; Economic Planning unit, Prime Minister's Department, 2017). Land development was targeted at raising the income-earning capacity of rural Malays and at reducing income inequalities between rural and urban areas (Gosling, 1982). Land was considered to be the missing factor of production among the rural poor. The development of large, expatriate-dominated private estates was no longer politically acceptable (Talib, 2009). Government believed that regulation and implementation of land development were best organised by the state rather than by the market.

Phase 1: FELDA as a financier (1956–1961)

FELDA started small. The first scheme opened up directly by FELDA was Lurah Bilut in the state of Pahang in 1958 (Bahrin, 1977). The first batch of 28 settlers arrived in August 1959 from Datuk Keramat, a suburb of the capital, Kuala Lumpur. At the time, FELDA had only 10 staff.

FELDA's initial responsibility was to channel federal funds to state governments to develop land. As land fell under decentralised state jurisdiction, it was up to each state to set up its own land development board to execute and manage the state land schemes. It seemed a good arrangement as it facilitated state/federal cooperation. FELDA acted purely in an advisory capacity and as a dispenser of loans to the state governments that were responsible to open up and manage their state land schemes through their own land development boards and were very protective of their land rights. However, the arrangement was subject to organisational inefficiencies.

During the formative years, progress was slow and the settlers became restless, with a very high rate of settler attrition. The states had other more important matters on their hands and lacked the expertise for managing land settlement schemes. However, the experience provided FELDA with the basis to formulate guiding principles for land development and also for the creation of planned communities for the settlers. These included the need for careful planning, preparation of the settlement sites by FELDA and attention to community development.

The settlers, although accustomed to hard work in the villages, were unprepared for the work waiting for them on the settlement schemes, such as building their own houses. They simply lacked the experience for tasks that were very challenging and sometimes beyond their physical prowess and skills. There was also constant danger from wild animal attacks. The loneliness of being away from their families was another hazard. Progress was thus rather slow.

In response to these difficulties, the government reviewed the original state land scheme model. In 1960, following the review, the Land Development Ordinance was amended, and FELDA was directed to manage all the land schemes, taking over the whole process of land development in the country (MacAndrews, 1978). This centralisation empowered FELDA and enabled it to proceed more rapidly with the land settlement process, bypassing time-consuming dealings with the state authorities.

In the early days, FELDA relied heavily on expatriate and Malaysian staff recruited from the commercial estates to work in jobs and places where local skills were unavailable (Bahrin, 1977). To overcome the shortage of personnel, a number of advisory committees consisting of Malaysians from the private and public sectors were set up. For instance, the FELDA board during the 1960s included at least two government representatives from relevant ministries, namely the Ministry of Finance and the Ministry of Natural Resources and Environment (formerly known as the Ministry of Land and Mines). FELDA was thereby able to tap both domestic and foreign expertise and experience, necessary for its ensuing expansionary phase.

Phase 2: FELDA as a developer of land resettlement programmes (1961–1990)

Realising the problems faced by FELDA under its original charter and the slow progress of state-administered schemes, the government decided to re-evaluate performance and the whole concept of land schemes, with the view of expanding the scope of authority of FELDA. The pioneering concept where settlers came in and had to carry out land clearing and build their own houses was found unfeasible (Bahrin, 1977). Hence, post-1961, settlers were only brought into the schemes after all major land clearing works had been completed. Although this approach led to higher costs of development that the settlers would subsequently be required to repay, it had a higher success rate. Basic infrastructure was made available, such as water supply and rural roads. Other social amenities were built, such as rural clinics, security services, provisions shops and primary schools. Settlers now came in only when the crops had been planted, their individual houses were ready and most of the basic amenities were in place (Mehmet, 1982). Thus, the male family heads were relieved of some very hard physical work. As their families now accompanied them, it was much easier for the settler households to cope: they only had to maintain the planted areas and subsequently harvest the tree crops. The wives also participated as secondary workers in the maintenance of the smallholdings.

Selection of participants for the project was stringent. Candidates were required to be between 20 and 45 years old, and already married (Bahrin, 1977). These criteria were seen as essential for building communities on the land settlement schemes. Other criteria included physical fitness, previous working experience and skills, especially those relevant to agriculture. Priority was given to those who did not own any land and possessed the motivation to work hard to achieve success.

As in Phase 1, each participant was allocated around 2.4–4 hectares of agricultural land (and another half an acre for housing with an additional acre for a private orchard; Mehmet, 1982). In this new model, settlers were organised into groups of 20 for cooperative work, with each cooperative operating a block of 80 hectares of palm oil or rubber plantation. Each block was provided with housing and had its own basic infrastructure. Profits from the block sale of plantation produce were divided equally among members. In terms of finances, each participant was provided financial assistance for land clearing expenses, which they were required to repay within 15 years. Settlers received land title only when they had fully repaid the loans. In this way, FELDA successfully transferred land titles to over 84,000 settler families (Kamaruddin, 2013). Settlers who joined the scheme after 1984 no longer qualified to receive land titles but were given shares in the ownership of the settlement schemes instead. This ownership model provided incentives to the owner workers to maximise production. Thus, it was adopted by the government,

Table 1. Land resettlement areas developed by FELDA.

	Target (hectares)	Achieved (hectares)
First Malaysia Plan, 1966–1970	141,000	179,000
Second Malaysia Plan, 1971–1975	159,856	162,711
Third Malaysia Plan, 1976–1980	202,350	214,392
Fourth Malaysia Plan, 1981–1985	149,798	161,600
Fifth Malaysia Plan, 1986–1990	175,500	175,745

Source: Various Malaysia plan documents, Economic Planning Unit, prime minister's department and FELDA.
FELDA: the Federal Land Development Agency.

which then set very challenging development targets for FELDA under its various 5-year plans, as shown in Table 1. It is notable that FELDA exceeded the set target for each 5-year plan from 1966 until 1990.

In its quest to increase productivity and settler incomes, FELDA experimented with the introduction of oil palm as a mode of crop diversification. Rubber had been the mainstay of commercial agriculture in Malaysia but FELDA saw a more profitable future coming from oil palm. It was a more resilient crop than rubber, easier to maintain and with growing demands on the world market. By 1967, the acreage of oil palm was double that of rubber. Sugarcane cultivation was confined to settlement schemes in Perlis due to the suitability of terrain and weather, while cocoa was found to be difficult to maintain. Thus, oil palm became the golden crop for FELDA. Land development based on oil palm was adopted until 1990, when the government made a decision to stop further intake of settlers (Orsato et al., 2013: 448). This decision was due to the growth of alternative job opportunities, especially in urban areas and the radical reduction of rural poverty, leading to decreasing demand for land settlement.

FELDA's activity grew considerably after 1961, with 179,000 hectares covered in the First Malaysia Plan 1966–1970, 162,711 hectares covered in the Second Malaysia Plan 1971–1975 and 214,392 hectares in the Third Malaysia Plan 1976–1980. This massive expansion of activity, and of settlements to manage, led FELDA to adopt a more decentralised organisation structure by giving more authority to the regional offices from where the land schemes could be closely monitored (Bahrin and Lee, 1988; Mehmet, 1982). In 1961, the first regional operation was established in Johor. In 1962, another five regional offices were established. As the process of decentralisation took full effect over the years, more regional offices were set up.

Phase 3: FELDA as a developer of commercial plantations and settler development projects (1990–present)

By the early 1990s, the incidence of rural poverty had declined. In the 1950s and 1960s, up to 60% of the rural population lived in poverty. In 1992, only 12.4% of the population were below the poverty line, while by 1995 the figure had reduced further to 8.7% (World Bank, 2015). The number of poor people coming forward to be resettled on new settlements had declined steadily. In view of the declining demand for land among rural villagers, the government decided, in 1990, to stop the intake of new settlers. Existing developed land would thenceforth be managed by FELDA as commercial estates (Orsato et al., 2013). FELDA had to develop a new model for these commercial activities, while safeguarding the socio-economic well-being of its settlers from volatile commodity prices. Workers undertaking the land clearing and planting received commercial wages and benefits, and were allowed to hold 49% equity shares in the scheme. Where plots on established schemes were not being run efficiently, settlers were paid a fixed sum and FELDA took over the management and operation. By 2000, the traditional settler sector was separate from the commercial plantation section, which now constituted almost 40% of FELDA's crop lands (Fold, 2000). The environment in which FELDA had operated for over 30 years had changed dramatically, forcing the organisation to undertake discontinuous change to realign itself to the new circumstances. The era of equilibrium had come to an end, and radical change was necessary for survival and future prosperity.

As the plantations matured and operations of FELDA grew in size, there was the need to provide downstream services, such as milling, processing, marketing, transport and related services. At that time, there were not many entrepreneurs providing these services, so FELDA had to undertake these commercial activities. Later, these services were further diversified through the establishment of upstream and downstream commercial subsidiaries through joint ventures with either local or foreign partners (Fold, 2000).

One of the unique features of FELDA development model during this phase was that the settlers, who were the primary beneficiaries of its services, not only owned their agricultural holdings but, collectively, they also owned the commercial enterprises of FELDA through their investments in the *Kumpulan Peneroka FELDA (KPF)*, which in turn was the principal shareholder of *FELDA Holdings Berhad*, an investment holding company of FELDA. More than 90% of the membership of the KPF comprises settlers, who contributed more than 80% of the KPF capital which was mainly channelled into investment projects related to palm oil activities. However, in later years, there has been considerable diversification of KPF's investment portfolio. According to KPF's chief executive, the income streams from these investments are intended 'to safeguard the interests of its [FELDA's] workers' (interview).

Currently, the FELDA Group operates as a partnership between four main interconnected entities, namely FELDA, KPF, FELDA Global Ventures Holdings Berhad (FGV) and FELDA Holdings Berhad (FELDA Holding; FELDA, 2017; FGV, 2017a). The original FELDA remains as a government body responsible for the continuous improvement of the socio-economic well-being of the settler communities. KPF is managed by a board comprising both FELDA staff and leaders of the settlers (KPF, 2016). FGV is a commercial entity and wholly owned by FELDA, while FELDA Holdings is an investment holding company with a 49% equity held by FELDA, another 51% being owned by KPF.

Today, FELDA has expanded dynamically to become the owner of profitable agriculture-related businesses worth billions of dollars. Its commercial arm, FGV, for example, employs more than 19,000 people and a range of active companies. These are involved in a wide range of industries mainly in agribusiness and including palm oil plantations, palm oil refining and marketing, rubber, cocoa, sugar, fertilisers, cattle and estate management. It also has investments in information technology, agro-tourism, engineering, construction property development, security and logistics. Many of their operations are international businesses, such as in China, Indonesia, Pakistan and Thailand (FGV, 2017a).

Straddling Phases 2 and 3: Settler development

During Phase 2, FELDA began to look beyond new land development and looked to the long term with its existing settlers and how their welfare might be improved to sustain development in the communities that had been created through agricultural settlement. The planners looked for new or expanded activities that would encourage economic growth and welfare gains in the settlements. These changes were of an incremental nature rather than discontinuous and represented that component of punctuated equilibrium where actions are designed to achieve steady progress in changing and sometimes unpredictable environmental conditions. Many of the initiatives from the later years of Phase 2 were carried over into Phase 3, further developed and institutionalised.

The settlers and their dependents have been encouraged to undertake subsidiary economic activities to supplement household incomes and boost welfare. These activities included agricultural projects, livestock, miscellaneous businesses and handicrafts as small industries sometimes developing into medium-sized concerns.

To encourage investment activities amongst settlers, FELDA Investment Cooperative (KPF) was established on 1 July 1980 under the Cooperative Ordinance 1948. Every settler was automatically a member of KPF and was issued an initial parcel of free shares, with further shares and interest-free loans offered on completion of repayments, as well as loan facilities with commercial banks (Khor et al., 2015; KPF, 2016).

Besides farm-based activities, FELDA also carried out programmes that included the provision of public amenities in health and education, enhancing rural community development and the family institution, providing skills training programmes, emphasising economic activities and entrepreneurship to supplement settlers' incomes, and building a new generation of FELDA communities. All these programmes contributed to producing a higher quality of life for the settlers and their families. For example, the economic development programmes carried out by FELDA have provided additional incomes to the settlers and their families. For example, under FELDA's entrepreneur development programme, till 2014 up to 25,700 settlers had been involved in various businesses with a turnover of RM1.3 billion (US$ 396.6 million; FELDA, 2014a). The settlers are been encouraged to save in the FELDA Investment Co-operative (KPF or *Koperasi Permodalan Felda*), which was set up in 1980 with the primary objective of encouraging the settlers to adopt a culture of saving and thrift. From its inception in 1980, KPF has yielded an average rate of dividends ranging from 10% to 15% per year from its investments (1-million-dollar blog, n.d.).

The establishment of the FELDA Foundation, a corporate social responsibility arm of the FELDA group, has also contributed to uplifting the standard of living of the settlers, especially in education and healthcare (FELDA, 2017). Every year, the Foundation disburses about 80% of its total funds on education, training and healthcare initiatives. Basic education and skills training in areas such as food catering and tailoring, information technology, healthcare and entrepreneurship are offered at various FELDA

Foundation college campuses. The Foundation has also provided scholarships, enabling FELDA children to pursue further education in universities, locally and overseas. Healthcare initiatives have included providing settlers with financial aid for the purchase of medical equipment (FELDA, 2017a).

Challenges faced by FELDA

Aside from the numerous challenges faced by FELDA in opening up new lands and achieving settler success in the schemes, they faced other issues that impeded the implementation of the land settlement schemes. During the early days, the push for developing more land and settling more people became a mantra for FELDA's administration. The overemphasis on the area of land to be opened led to the relegation of planting and agricultural considerations to secondary concerns (Mehmet, 1982). Moreover, in trying to fulfil its main objective of poverty eradication and land for the landless, FELDA often had to settle for marginal land that could not produce the desired output (Guyot, 1971; World Bank, 1995). FELDA was in an awkward situation trying to meet its land development targets. As it was a latecomer in land development compared to the commercial estates, much of the fertile lands had already been acquired. Furthermore, as land was under state jurisdiction in Malaysia's federal system of government, there was little FELDA could do to obtain good land, for which there was stiff competition. The states controlled the land market rather than the federal authorities to whom FELDA was responsible. Physical environmental impacts emerged as an issue for the palm oil export industry after 1997, when haze from land-clearing fires became an issue among urban and international communities, and more recently the global palm oil supply chain has been challenged by environmental sustainability organisations highlighting the biodiversity impacts of plantations (Orsato et al., 2013).

Many believe that FELDA could have done better in terms of its agricultural performance (Bahrin and Lee, 1988; Sutton and Buang, 1995) and have argued that while FELDA has been a well-administered organisation (Fong, 1985), it was not an entirely well-managed plantation business (World Bank, 1995). However, it is undeniable that the settler families became much better off on economic and welfare measures compared to their lives before the schemes. As shown earlier, rural poverty decreased substantially in Malaysia from 60% of the rural population in the 1950s and 1960s to only 8.7% in 1995. While this achievement is not simply a result of FELDA activities, FELDA did make a significant contribution by resettling over 112,000 families and raising their incomes well above the poverty level (Food and Agriculture Organization (FAO), 2012; World Bank, 2015). In any development plan, social objectives at times triumph over purely economic ones, and in the case of FELDA, there were various occasions when planting or agricultural objectives had to take a back seat to social considerations, such as ensuring adequate health provisions and housing for settlers.

For FELDA as a development agency, the early problems provided valuable lessons for the organisation when it was directed to take full responsibility for the opening up of land and the placement and development of settler communities in the schemes. At the point FELDA took over the whole management of the schemes, it was ill-equipped as there were inadequate staff and expertise and most of all, there was no model to emulate.

A number of former estate managers used to dealing with estate labour were employed to draw on their experience. But management of FELDA in the early days was based on trial and error.

Discussion: Policy results

FELDA's success is a striking example of the transformation of a public enterprise. Over the span of 60 years, it has grown from being a small 10-person financing agency for a cooperative land scheme set up by the government to eradicate rural poverty to become an influential global player in the palm oil industry. FELDA's leaders have monitored and interpreted the organisational environment and made informed strategic decisions based on their interpretations. The organisation has made major realignments on two occasions but otherwise used incremental change where needed to manage the relative equilibrium between the discontinuous changes. The trajectory of FELDA can be divided into three phases.

In Phase 1, the early years, there was slow progress as FELDA sought to establish a framework and set processes for land development. It was a new organisation pursuing the new phenomenon of land development. In its function, it was largely restricted to channelling federal funds to state governments to develop land. This was the politically expedient thing to do as state governments were very protective of their land rights. Changes to FELDA were incremental in nature with staff numbers low and suitably skilled personnel in short supply. Budget was also relatively low. Thus, achievements under the First Malaya Plan 1956–1960 were modest and well below the target, a reflection of a new organisation finding its feet.

Phase 2 began with the crucial decisions to make FELDA entirely responsible for managing land development and to place it under the Ministry of Rural and Regional Development, a move which indirectly increased FELDA's support and powers. In the Second Malaya Plan 1961–1965 and subsequent ones, land development was awarded high priority resulting in massive resources being allocated to FELDA. Staff numbers grew enormously to over 8000, 70.4% of whom were located on the schemes. Structures and processes were securely established as was the organisation's expertise, professionalism and effectiveness. As a result, FELDA consistently exceeded government targets for land development.

Phase 3 commenced with the major decision to get out of the previously core business of land development. Equilibrium was punctuated by discontinuous change. FELDA realigned itself with the new environmental realities, which included a lack of demand for land settlement among rural Malaysians and a dramatic and ongoing reduction in rural poverty in the context of sustained economic growth. Furthermore, FELDA was already able to operate from its own resources without state support and had demonstrated its ability to generate income to support a variety of businesses. This process had commenced in Phase 2 but became the main focus of Phase 3 with private corporate entities set up to control the complete value chain of its now core business activities in commercial agriculture. Among the biggest of these private corporation entities are FELDA Cooperative, FELDA Investment Corporation (FIC) and FGV. Today, the FGV is the third largest palm oil operator in the world. The listing of FGV on the Malaysia

Stock Exchange in June 2012, where it successfully raised RM104 billion (US$ 3.5 billion), was another historic milestone. By 2014, the whole FELDA group employed about 19,000 staff across all its organisations and activities (FELDA, 2014a).

However, FGV has not been without controversy or disappointment. Fraud was discovered in its 50%-owned unit in Turkey in 2016, leading to substantial losses, and the organisation has been criticised by the Auditor-General for ‘poor planning and execution of projects’, and the stock price had declined dramatically from its outstanding opening (from RM4.68 in July 2012 to RM1.85 in February 2015 (Hafidz Mahpar, 2016; Ngui and Koswanage, 2012; Wong, 2016).

A new challenge has emerged in the need to respond to urban and global environmental activists’ campaigns against the effects of palm plantation practices on biodiversity. FELDA was one of the initiators of the Roundtable on Sustainable Palm Oil (RSPO) production (FELDA, 2017b), whose environmental commitment Orsato et al. (2013) critically evaluate. In 2016, FGV issued a response to a strong environmentalist campaign (FGV, 2017b) and established a Sustainability Response Team which, in 2017, addressed the issue of high conservation value land clearing in Kalimantan, Indonesia (FGV, 2017c; see also Khor et al., 2015).

FELDA has restructured to become a diversified manager of commercial agriculture in both Malaysia and overseas. Either on its own or through strategic alliance, its business ventures have turned FELDA into a highly integrated conglomerate. Beginning with simply managing settler resettlement schemes, FELDA has expanded and diversified dynamically into upstream oil palm plantations and downstream activities worth billions of ringgit. However, FELDA has not abandoned its settlers and continues to provide modern facilities on the schemes to ensure that the next generation of scheme residents is educated and enabled to improve their socio-economic status. Indeed, following a questioning of the appropriateness of diversification into the international property market by FIC, a restructure was undertaken in early 2017, with a view to giving renewed priority to welfare initiatives (Isa, 2017).

Implications for theory

The case study of FELDA provides support for the model of punctuated equilibrium as an account of organisational survival and success. Without having universal applicability, it does show the theory’s utility for explaining why some organisations can survive and thrive over relatively long periods of time – in FELDA’s case 60 years.

It can be seen that FELDA has had two critical junctures when radical change punctuated the relative equilibrium and three periods when incremental changes were the dominant mode of organisational development. The first few years of FELDA’s existence were a time of incremental change when the then small government organisation tried to find its feet as a financing agency in the relatively new field of land development. This steady progression was radically altered by several events around 1961 that propelled FELDA onto a new path with a vastly increased responsibilities and size of operation. Spurred on by the political necessity of addressing widespread rural poverty, the most important decision was to make FELDA the implementer of land development, responsible for setting up and managing the settlements. The seriousness of the poverty issue for government led to its decision to scale up land development and make FELDA an extremely important organisation with a greatly increased budget and burgeoning staff numbers. Through trial and error, FELDA learned what processes worked best for land development and institutionalised these across all schemes. There were constant incremental changes in crop production and processing technology, marketing and social development but the basic structures and processes of the FELDA land development model held firm.

Equilibrium was yet again punctuated by another critical juncture in 1990 with the decision to cease developing new land, the organisation's core business for over three decades. This had been precipitated by the decline in poor rural families wishing to join settlement schemes. Thus, the original rationale for FELDA had been removed as the environment in which it operated had been transformed. Again, FELDA chose discontinuous change, reorienting its core business to the management of commercial agriculture. This involved both existing domestic land development schemes and newer and expanding international opportunities. It also meant that FELDA transformed from a fairly traditional divisional structure characteristic of bureaucratic organisations into a modern business conglomerate of inter-linked specialist companies with multiple owners. It was not simply an arm of government.

The changes following the 1990 decision were at first radical departures from familiar practice but incremental change became the norm after a few years. However, the increments have varied according to environmental changes and shocks, such as the Asian Financial Crisis in 1997 and the Global Financial Crisis in 2008. In more recent years, the decline of commodity prices, concerns about deforestation and threats to biodiversity and the emergence of inefficiencies and corporate governance failings have necessitated constant attention to continued organisational reform, even at some stages, threatening further punctuation of equilibrium (Khoo, 2016; Ngui and Koswanage, 2012; Wong, 2016).

Conclusion

The FELDA case study has demonstrated that SOEs are not inevitably negative exemplars of the bureaucratic mode of organising. Neoliberal and other critiques of SOEs see them as inefficient organisations engaging in business but sheltered from the changing and often threatening conditions of the market. The received wisdom is that they innovate as little as possible and rely on state largesse to subsidise their operations. The example of FELDA demonstrates on the contrary that SOEs can be efficient, effective, willing and able to embrace radical organisational change when environmental conditions necessitate it. FELDA combined this capacity for the radical realignment to changing environmental conditions with an ability to engage in incremental change during the periods of relative equilibrium.

FELDA cannot be seen as a case that could apply to all or even many SOEs in developing countries. For example, it would not have solved Korea's problems of rural poverty and rural–urban inequality. That needed a different institutional solution – the integrated rural development model of SU – that fitted with the different socio-economic and political conditions of Korea. There have been numerous cases of poor management, over-reliance on the government purse, overstaffing and other organisational pathologies among SOEs. However, the FELDA case does have lessons for a wider SOE audience.

The first is the model of the planned developmental state, based on public/private cooperation, provides a viable alternative policy prescription to that of sole reliance on the self-regulating market. The second is the need to accept that government-sponsored organisations may reach critical junctures where they need to engage in radical change to survive and perform well. For all organisations that have been around for decades, it is likely that environments will at some stages change dramatically. Successive incremental changes will have placed the organisation in disalignment with its environment. In such situations, radical transformation is the only option. Simply providing ongoing financial support for established structures and practices will be a drain on government coffers and diminish resources for investments with better returns. Privatisation has been the dominant mode of radical transformation for SOEs but the FELDA example shows how a government organisation can successfully transform itself through a combination of incremental and radical changes in the mode of punctuated equilibrium. However, as commodity prices have softened in recent years, ecological sustainability issues have arisen and business success has been harder to come by, it has become again apparent for FELDA that success is by no means assured. More realignment to changed environmental conditions is inevitable but whether these will be discontinuous or incremental remains to be seen.

Funding

This work was supported by a grant from the Academy of Korean Studies funded by the Korean Government (MOE; AKS-2010-DZZ-3101).

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