

SMALLHOLDERS' SATISFACTION TOWARD THE
PURCHASING SERVICES OF SABAH RUBBER
INDUSTRY BOARD: THE STUDY IN THE
DISTRICT OF KOTA BELUD.

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MASTER OF BUSINESS ADMINISTRATION

ASIA E UNIVERSITY MALAYSIA

JANUARY 2011

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2011

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By

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**Project Paper Submitted in Partial Fulfillment of the Requirement for the Degree of
Master of Business Administration at Asia e University Malaysia**

January 2011

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Abstract

Today's business world is completely based on customers' needs, wants and demands. That is the reason why many researchers and academicians have continuously emphasized on the importance of customer satisfaction. Most business organizations are now focusing on customer satisfaction to attain their goals and objectives. Their all efforts are to increase the value of customers and therefore growth and development of the business. In addition, the increasing level of competition compels the businesses to focus on the satisfaction of the customers toward their product or services.

The purpose of this study is to gauge the level of satisfaction of rubber smallholders in the district of Kota Belud particularly the purchasing services provided by the Sabah Rubber Industry Board(SRIB) based on rubber price offering, purchasing schedules, attitudes of the Board's purchasing officers and the dissemination of rubber technology-related information to smallholders. At the same time, demographic factors are also found to have determine the smallholders' interest towards the rubber industry. To achieve this purpose, the researcher has developed a questionnaire based on related variables. The researcher hope that the findings of this study will help the management of the Sabah Rubber Industry Board(SIRB) to take necessary steps in increasing smallholders' satisfaction towards establishing a long term synergistic and profitable relationship between these two entities.

ACKNOWLEDGEMENTS

My all praises to Almighty God, who blessed me with sufficient strength, health, courage and capacity to carry out this study. Being aware of my limitations and shortcomings it was not possible for me to accomplish this work without His help.

I would like to thank the management of the school of Asia e University, particularly to the Dean of the School of Management cum the Academic Facilitator of the Project Paper, Professor Dr Mohd Adam Bakar, for his untiring guidance towards the completion of this Project Paper. His comments, advices, and words of encouragement gave me hope and confidence to be fully committed to undertake and complete this Project Paper. I also would like to convey my sincere thank, gratefulness and appreciation to Mr Themothy A. Joikon, Mr Dasau Hasan, the Administrative Officer and Account Officer of the Sabah Rubber Industry Board (SRIB) respectively who gave full cooperation and information. My course mates for sharing knowledge, guidance and support during the preparation of this paper. Last but not least, I pray that the Almighty God will shower His abundance blessing to all parties who had directly or indirectly contributed to the completion of this paper.

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CHAPTER ONE

INTRODUCTION

1.1 Background of The Study

Kota Belud, located on the West Coast-North of Sabah and approximately 70 kilometer from the State Capital, Kota Kinabalu, is a quaint rural town full of life. It is also renowned for its people, the **Bajau** “cowboys” who are Sabah’s only horseman and famed for their rearing and handling of horses.

With a land-size of approximately 1,385.6 km², Kota Belud is divided into three (3) State Constituencies and one (1) Parliamentary Constituency and the demographic composition is made up of the Kadazan-Dusun, Bajau, Iranun, Ubian, Chinese and a small number of numerous other races. The main economic activities carried out by the population of Kota Belud are agricultural, cattle rearing, fishing, small time businesses and others. Rubber planting is one of the main agriculture activities in Kota Belud and is a major contributor to the economic and social well-being of the rubber planters in the district.

The rubber industry first started in the district of Kota Belud roughly around late 1950s whereby planting programs were done on an individual basis. In 1985, SRIB introduced a block basis planting program whereby individual smallholders were grouped under numerous rubber planting projects. This block concept requires smallholders to carry out rubber tapping and basic processing of latex in a group. Ultimately the sales of the rubber produce, of which this research is all about, would ideally be to the Board’s District Purchasing Unit.

1.1.1 History of Rubber Industry in Sabah

Baker M.H.(1965) stated that Rubber plants were first brought to Sabah (formerly North Borneo) in 1882 from the Singapore Botanical Gardens, but they were greeted with indifference. The first serious commercial planting was of seventy five acres by the Mortgage, Investment and Contract Corporation on the Labuk River in 1892. It was not until the first decade of the 20th century that the boom commenced, especially after Cowie, at the annual dinner of the Chartered Company on December 12, 1905, stated that the Government would guarantee 4% on their investment for six years to all companies formed to plant rubber in North Borneo, and freedom from any tax from exported rubber for fifty years. Between 1905 – 1917 the area under rubber rose from 3,226 to 34, 828 acres, and exports from 2 tons to 2, 444 tons. By 1920 there was 23 companies in the state and 4,105 tons were exported. Then came the slump, and prices plummeted from five dollars or so to a few cents per pound. The twenties and thirties were a time in which various schemes to restrict production were tried, without much success. Conditions improved gradually in the immediate prewar years and in 1940 17, 640 tons were exported.

He further stated that the state of rubber industry has been source of anxiety to the Government since World War II, especially in view of its dominant place in the Colony exports. Because of the ever present threat from synthetic rubber it has been considered that, in order to compete successfully, natural rubber must be produced in the most economic fashion from high yielding material. In 1947 only a fraction of the area under rubber, even on the European estates, was planted with high-yielding clones.

The problem involved in replanting is the lost income from area replanted for some six or seven years until it comes into production again, and this problem especially severe for the smallholders. A commission of enquiry was set up in 1948, and visited the Colony early in 1949, with the task of examining the economy and prospects of the rubber industry, and making recommendations on methods of improving the production and marketing of rubber in respect of both the estates and the smallholders.

1.1.2 Sabah Rubber Industry Board (SRIB)

The Sabah Rubber Industry Board is a Sabah state government agency entrusted to manage the rubber industry in Sabah. Baker M.H.(1965) in his book entitled "Sabah, The First Ten Years as a colony, 1946-1956, stated that, the Sabah Rubber Industry Board, (which was formerly called Rubber Fund Board of North Borneo) was constituted in 1950 under the title of Rubber Fund Ordinance 1950, its early main objective being to raise money to finance research and advisory services to the Rubber Industry in the country and for the establishment of budwood nurseries and clonal seed gardens. Later, after a decade, the Board reviewed its objective to widen its scope particularly to enhance productivity of smallholders through various technology based programmes in the rubber industry which include Planting, Training, Basic Processing and Marketing.

He further reported that, it was estimated that there were approximately 122,000 acres of land under rubber in 1946, all old unselected seedling trees apart from some 4,000 acres of selected improved clonal rubber planted exclusively on estates.

One of the main factors responsible for this was the Rubber Restriction Act in force during the slump years of the 1930's.

He further stated that between 1947 and 1954 the reported acreages of new and replanting by estates and smallholdings was 2,769 acres by the former and 860 by the latter although it is known that smallholders newplanted a considerable acreage with unselected low yielding material mainly in the Penampang, Kiulu and Tuaran districts of the West Coast Residency. The Rubber Industry Replanting Fund Ordinance which was promulgated in 1954 came into force on 1st April, 1955, its objective being to encourage the intensive replanting of senescent rubber with modern high yielding clones.

1.1.3 Management of the Sabah Rubber Industry Board

The management of the rubber industry in Sabah is solely under the purview and jurisdiction of the Sabah Rubber Industry Board. In the context of management, the Board adopted the Quality Management System which is in accordance to International Standard ISO 9001, Third Edition, 2000-12-15, Reference Number: ISO 9001:2000(E). Sabah Rubber Industry Board has been registered to MS-ISO 9001: 2000 since July 16, 2004. The Certificate of Registration was issued and is valid until July 15, 2010 whereas the scope of ISO Registration was Smallholders Rubber Industry Development (Planting, Training, Basic Processing and Purchasing).

- **Terms and Definitions**

Wherever the term “product” occurs, it can also mean “service” and vice-versa.

- **Management Responsibility**

The management of the SRIB is committed to the development and implementation of Quality Management System based on MS-ISO 9001:2000 and for the continuous improvement of the quality system within the ambit of the Board.

Amongst steps or actions to be taken are:

- a) To ensure all staff of SRIB understood and be sensitive to the importance of customers need and satisfaction as provided for in the system;
- b). To create and endorse Quality policy and objective of SRIB;
- c). To ensure staff understand Quality policy and objective of SRIB;
- d). To carry out Management Review at least twice a year, and;
- e). To ensure adequate resources are provided for the effective implementation of the Board’s activities.

For customer focus, the management of the Board shall ensure that smallholder requirements and expectations are determined and are met with the aim of enhancing smallholders satisfaction. The organization shall determine the following:

- a). Continuous reminder to the staff of SRIB, on the need to fulfil customers requirement and expectation through regular meeting, discussion, dialogue with smallholders, memos and circulars.

b). Continuous revision of customers' need within the confines of the Board's regulations and affordability;

c). Prompt actions on customers' feedbacks and complaints consistent with the Board's Client Charter.

● **Monitoring and Measurement**

Customer satisfaction is one of the critical element which measures the performance of an organization, primarily it monitors informations relating to customer perception as to whether the organization has met customer requirements.

The method for obtaining and using this information shall be determined.

● **Quality Policy**

The management of the Sabah Rubber Industry Board(SRIB) commits to meeting or exceeding all applicable corporate policies, smallholder requirements and applicable standards while producing high quality products and services.

The Board strives for continuous improvement by:

- Understanding, fulfilling and exceeding customer needs and expectations by operating to the highest standards of quality at each and every opportunity.
- Providing our customers timely and innovative solutions through process improvement and technical excellence.
- Regularly establishing measurable goals to continuously improve quality performance.
- Encouraging and training all employees to take personal responsibility for continuously improving performance to meet Quality program goals and objectives.

- Maintaining an ethical, value-based working relationship with customers.

- **Quality Commitment**

Sabah Rubber Industry Board(SRIB) is committed to providing good services to smallholders, committed to timely delivery of services, innovative solutions in accordance with the principles of process improvement, teamwork and customers satisfaction.

- **Vision**

The SRIB vision is to be a Modern, Progressive and Dynamic Rubber Industry .

- **Mission**

Development of an Integrated Rubber Industry through efficient management of smallholder sector, increase commercial production and diversification of downstream industries for a competitive Global Market.

Specifically, the Quality System that was adopted and implemented by the Board is an indications of the seriousness of the Board to provide services to smallholders that are satisfactory beyond their expectation. Within the context of providing satisfaction of smallholders with regards to the Purchasing Services of the Board, the **Client Charter of the Purchasing Services of Sabah Rubber Industry Board** was duly established with the introduction of the MS ISO 9001: 2000.

Basically, the Client charter aims are:

- To provide marketing facilities for rubber produces from the smallholders;
- To ensure proper implementation of purchasing schedules in the villages;
- To officially announces the rubber prices by Sabah Rubber Industry Board based on Rubber International prices index;
- To ensure cash payments are immediately upon sales of rubber produces from the smallholders; and
- To provide purchasing services efficiently.

1.2 Problem Statement

Despite the untiring efforts by the Board to deny allegations by smallholders and certain parties with vested interest, that the Board is short-changing the smallholders on raw rubber prices, inefficiencies, and erratic schedules, the Board has still not ridden the bad paymaster tag. Most prominent in the problem statement is the widespread allegation which state that it takes several weeks to a month for a smallholder to receive his payment from the sales of his rubber produce as compared to cash payment on the spot in the past. The Board has accepted the fact that these allegations are true and that the Board is facing financial difficulties in as far as revolving capital is concerned. The contention of the Board is that the price of raw rubber material has shot up tremendously in a short period of time.

The Board has not been able to cope fast enough financially to the increase in rubber price internationally which was made worst by the Board's social obligation to buy raw rubber from smallholders. There is also allegations that smallholders are not satisfied at the manner and the frequency the transactions were carried out.

As shown in **Table 1**, based on the year ending 31st December 2006, the Board recorded a collection of rubber raw material of 7,707.129 metric tonne. As at 31st December 2007, the total amount collected was 5,906.872 metric tonne, a decrease of about 23.35%. As at 31st December 2008, the total amount collected drastically decreased further to 2,616.129 tonne. However, as at 31st December 2009, the total amount collected increased slightly by about 1.1% to 2,901,829 metric tonne. Overall, the purchase of rubber by the Board, shows a substantive drop in volume in the district of Kota Belud. However in the year 2010, there has been an increasing trend in the volume of raw rubber purchased by the Board. As at 31st December 2010, the total amount collected increased to 3,060,460 metric tonne. Several assumptions can be made from the above trend. Can this be interpreted as a sign that smallholders are not satisfied with the Board's purchasing system in general or the district purchasing unit in Kota Belud in particular? Or is the increasing volume purchased in 2010 a sign of confidence amongst the smallholders with the Board?

**Sabah Rubber Industry Board
District of Kota Belud
Rubber Yield Collection Report
10th Malaysia Plan(2006 – 2010)**

Year	Unsmoked Sheet (USS) Kgs	Cup lump(CL) Kgs	Total Kgs
2006	5,809,830	1,897,298	7,707,128
2007	4,242,688	1,664,184	5,906,872
2008	1,665,814	950,315	2,616,129
2009	2,008,006	893,823	2,901,829
2010	1,990,667	1,069,793	3,060,460
		Total	22,192,418

Table 1: Rubber Yield Collection

Based on the given situation, a research paper is needed to identify the sources of grouses by the smallholders. This study is also carried out to find ways and avenues to improve the services presently rendered by the Board and to get back the confidence of the smallholders.

1.3 Research Objective

The objective of this research is to find out the reasons which causes dissatisfaction among the smallholders in the district of Kota Belud with regard to the services provided by the Sabah Rubber Industry Board. This paper also seek to find ways and means to improve the performance of the Board in line with the needs of the smallholders and the aspiration of the government, both of which is to uplift the living standard of rubber smallholders.

1.3.1 General Objective

This research aims to identify key problems and to find out recommendations toward the improvement of rubber purchasing services in order for Sabah Rubber Industry Board to remain relevant in the rubber industry.

1.3.2 Specific Objective

- i) To identify factors that contribute to smallholders dissatisfactions toward the purchasing services of Sabah Rubber Industry Board;
- ii) To identify services that requires improvement;
- iii) To analyze the feedbacks from smallholders and make recommendations to the Board where necessary.

1.4 Research Questions

1.4.1 What can be the reason behind the low level of satisfaction by the smallholders?

1.4.2 can it be that the services rendered by the Board were not adequate enough to fulfill customer satisfaction?

1.4.3 are the prices offered by the Board fluctuates too much to the disadvantages of the smallholder?

1.4.4 are the private rubber entrepreneurs have anything to do with the sway of allegiance to their benefits?

1.5 Scope of the Study

Focus of study is on the smallholders who have participated in SRIB planting program within the district of Kota Belud. For the year ending 31st December 2010, a total of 1,453 are registered smallholders with a total of 3,501.55 hectares of rubber planted.

Basically, the Board previously enjoyed monopoly on the purchasing rubber produce from the smallholders; individual and block participants. Recently, with rubber produce fetching high price in the international markets, the raw rubber produce has experienced unprecedented high price in the State of Sabah. Therefore this research came about to gauge the satisfaction level of the rubber smallholders in the district of Kota Belud based on price offering, purchasing schedule, attitude of the Board's purchasing officers and the dissemination of rubber technology-related information to smallholders.

1.6 Limitation of Study

1.6.1 Questionnaires are distributed to respondents by simple random sampling at the selected blocks of the district of Kota Belud only.

1.6.2 Some data, either primary or secondary, are classified as confidential by the Board.

1.6.3 Reluctance of Qrespondents to answer certain variables in the questionnaire is another factor that constraint the study.

1.6.4 Due to time constraint the study is done only within a period of three (3) months.

1.7 Glossary

1.7.1 Board

“**Board**” refers to Sabah Rubber Industry Board (SRIB), an organization entrusted to manage the rubber industry in Sabah

1.7.2 Smallholders

Smallholders are interpreted as smallholders who are participants of the rubber planting programs implemented by the Board. They are customers of the Board.

1.7.3 Block

Block refers to a definite area of land in a village whereby a group of rubber smallholders come together as participants of a rubber planting project approved by the Board. Specifically, the land area is 40 hectares at the minimum and 120 hectares at the maximum.

1.7.4 Private Rubber Entrepreneur

Private business enterprises who are either freelance rubber buyers and as such, are competitors of the Board.

1.7.5 Rubber Agents

Business entity(ies) who deals specifically with rubber and were duly appointed by the Board under terms and conditions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Rubber industry in the past ten (10) years has been a great contributor to the State coffer in general and to the smallholders in Kota Belud in particular. Through the government efforts, particularly through Sabah Rubber Industry Board, smallholder's income has increased substantially from less than RM1,000.00, which is still considered in the poverty level in Sabah, to RM2,000.00 per hectare a month. Most smallholders in Kota Belud in particular, have an average of three to four hectares of rubber holdings.

In the midst of experiencing a high price of the rubber commodity, the euphoria is suddenly sent crashing as smallholders were crying foul over the system the Board had established all these while. Apparently with the high demand for the commodity, it has brought about high price for the commodity and with the mushrooming of middlemen and associations who were dissatisfied with the Board.

Peter F. Drucker (1999) stated that satisfying customers is not a new idea. At the turn of this century, Neiman-Marcus, one of the great retailers of all time, changed the doctrine on caveat emptor or "let the buyer beware" to "let the buyer decide if he is satisfied".

Leornad L. Berry, A. Parasuraman (1991) who did the study found out that a zone of tolerance separates desired service from adequate service, and considerable variation was found in customers' tolerance zones. Level of adequate service was influenced by:

- (a) Transitory service intensifiers;
- (b) Perceived service alternatives;
- (c) Customer perceived service roles;
- (d) Situational factors;
- (e) Predicted service.

Desired service and predicted service were influenced by explicit and implicit service promises and word of mouth communications.

2.2 What is Customer Satisfaction?

Gitman, Lawrence J., Carl D. McDaniel (2005) defined customer satisfaction as a measure of how products and services supplied by a company meet or surpass customer expectation. It is seen as a key performance indicator within business and is part of the four of a Balanced Scorecard. They further stated that, where businesses compete for customers in a competitive marketplace, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. However, when a firm has increased its bargaining power, however, the importance of customer satisfaction diminishes. For example, cell phone plan providers, such as AT&T and Verizon, take part in an industry that is an oligopoly, where only a few suppliers of a certain product or service exist. As such, many cell phone plan contracts have a lot of fine print with provisions that they would never get away if there were, say, a hundred cell phone plan providers,