SUSTAINING COMPETITIVE ADVANTAGE IN THE OIL PALM INDUSTRY: SWOT ANALYSIS OF IOI CORPORATION

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ABSTRACT

IOI Corporation, or commonly referred to as IOI, is one of Malaysia's home grown business conglomerates which started off from humble beginnings in industrial gas manufacturing. Today IOI Group is a global organization with over 150,000 hectares of plantations where 98% are planted with oil palm; 12 palm oil mills across Malaysia; three CPO refineries with total capacity of 1.8 million MT/yr located in Peninsular and East Malaysia, and Rotterdam in the Netherlands; the largest oleochemical plants in Asia; and specialty fats plants across the world in the Netherlands, the United States, Egypt, Canada, and Malaysia (source: IOI Annual Report 2009).The Group's plantation business strong growth in a short span of 24 years since 1983 was achieved through acquisitions and distinctive plantation management practices which emphasizes on continuous improvements in yields and cost efficiencies. As a major player in the oil palm industry, which is the third biggest contributor to the Malaysian economy (,Economic Report 2007/2008), IOI corporation faces many challenges to sustain its competitiveness. What strategic moves must IOI take to remain tops in this oil palm industry? This paper seeks to provide a perspective on how IOI Corporation can sustain its competitiveness by undertaking a SWOT Analysis the corporation. A diagnosis of the corporation is made after the SWOT analysis.

Keywords: Competitiveness, SWOT Anlaysis, Oil palm industry, Case study

1. INTRODUCTION

This case study uses SWOT Analysis to determine IOI Corporation's ability to sustain its competitive advantage in the oil palm industry. A case study, as described by Sekaran (2003) is essentially:

> "*the documented study of noteworthy events that have taken place in a given situation and involves in-depth contextual analyses of matters relating to similar situations in other organizations" (p.414).*

Baxter and Jack (2008) describe a case study as an a professional practice or evidence-informed decision making at both operational and policy realms which can prove an opportunity to explore a context using a variety of data sources. According to Yin (2003), the use of the case study is used for four reasons – (1) when the focus of the study is to answer the 'how' and 'why' questions; (2) when the behavior of those involved in the study cannot be manipulated; (3) to cover contextual conditions which is believed to be relevant to the study; and (4) when the boundaries are not clear between the phenomenon and context. The case study can be categorized into two types, descriptive and instrumental whereby 'descriptive' is when the case study is used to describe a phenomenon and the real life context in which it occurred (Yin, 2003), and 'instrumental' is when it is used to provide insights into an issue and plays a supportive role, facilitating our understanding of something else (Stake, 1995). This study is both descriptive and instrumental. It is descriptive as it describes the corporation being studied (IOI Corporation). It is instrumental because the study is used to gain insight on the issues which affect IOI's ability to sustain its competitiveness.

The specific issues of interest are:

1. What are the strengths of IOI Corporation which contribute to its competitiveness?
2. What are the weaknesses of IOI Corporation which it needs to address to enhance its competitiveness?
3. What threats and opportunities does IOI face?

4. Based on the SWOT, what strategies should IOI pursue to remain competitive?

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. As the name implies, SWOT analysis is used to identify the strengths, weaknesses, opportunities and threats. It is used to decide on the actions to be taken after the elements of SWOT have been determined. Humphrey (2004) one of the founding fathers of SWOT analysis, claims that SWOT analysis is a product of a research conducted at Stanford Research Institute from 1960-1970. This research, funded by fortune 500 companies, was carried out to find out why corporate planning failed.

Luecke (2005) in his elaboration of SWOT analysis in the 'Harvard Business Essentials' series, posits that although strategy begins with goals, goals cannot stand in isolation and must draw upon insights from the sensing of the external environment and their organization's internal capabilities. He points out that practical people form goals based on what is feasible, given the environment in which they must operate their own resources and capabilities, and that strategic choices available to the enterprise comes from "looking outside and inside", a process named SWOT – an acronym for Strengths, Weaknesses, Opportunities and Threats.

Seetharaman (1990) states that the process of strategic management starts from corporate diagnosis which begins with SWOT analysis which is a diagnostic exercise to help top management to integrate the organization with its environment. SWOT analysis looks at internal forces which are essentially controllable by top management and therefore, according to Seetharaman (1993) we could identify forces by first asking whether it is an internal factor and if so we proceed to ask whether it is a favourable (strength) or unfavourable (weakness); if the answer is 'no' then the force is either an opportunity or a threat. Seetharaman argues that it is important to consciously identify strengths as future performance is reliant on these strengths. The same goes for the identification of weaknesses as they are factors which impede the company from realising its potentials. He further notes that top management must make sincere attempts to convert weaknesses to strengths as many weaknesses stem from the policies made by top management, failing which the company could succumbed to disaster due to the adverse factors.

Thompson, Gamble and Strickland (2006) link SWOT analysis to good strategy-making, arguing for its essentiality for perceptive understanding of a company's resource capabilities and deficiencies, its market opportunities and the external threats to an organisation's future well-being. They argue that SWOT analysis is more than an exercise in making four lists. Rather, the value lies in the story which unfolds from the lists and the actions needed to be carried out. They note that understanding the story involves evaluating the strengths, weaknesses, opportunities and threats as well as drawing conclusions about how the company should match its strategy to both its resource capabilities and its market opportunities; and how to correct particular resource weaknesses and safeguard itself from external threats. Thompson and Strickland also argue that to have managerial and strategy making value, SWOT analysis must be a basis for action; and that SWOT analysis not serve its purpose until the lessons about the company's situation have been distilled from the four lists.

2. METHODOLOGY

Data used to conduct the SWOT analysis is obtained the company website and the annual reports of IOI, newspaper reports and other news reports on IOI as reported in the media. These

In this study, the contents of the relevant excerpts and articles on IOI Corporation are analysed and interpreted according to the steps proposed by Sekaran (2003) i.e. by establishing the existence and frequency of concepts such as words, themes or characters. Then the relationships among the concepts are examined and used to make inferences about the messages within the texts, the effects and meanings of the message contents and effects of the contents on the receiver of the message. The information analysed is used as inputs to conduct the SWOT analysis which is carried out in the following manner:

1. Based on the content analysis of documents pertaining to IOI Corporation, the strengths of the organization are identified.
2. Then, the weaknesses of IOI Corporation is identified.
3. Once the strengths and weaknesses of IOI Corporation have been established, the next step is to identify the environment in which the corporation operates and what opportunities can the corporation exploit to sustain its competitiveness.
4. Finally, the threats facing the corporation are identified to ensure that IOI could mitigate the dangers which could affect its competitiveness and sustainability.

After the SWOT analysis is completed, the diagnosis of the corporation, in this case, IOI Corporation, is made. Then the reasons for the SWOT are identified.

3. SWOT ANALYSIS OF IOI CORPORATION

Based on information obtained from the annual reports of IOI Corporation from the Year 2003 to Year 2008 and its website, as well as other reliable secondary source of data, a SWOT analysis of IOI Corporation yielded various deductions and interpretations outlined below.

3.1 Strengths

Diversified Business Base

IOI's business structure (refer to Figure 1) shows that IOI has a diversified base and is not only dependent on one business to drive growth and earnings.

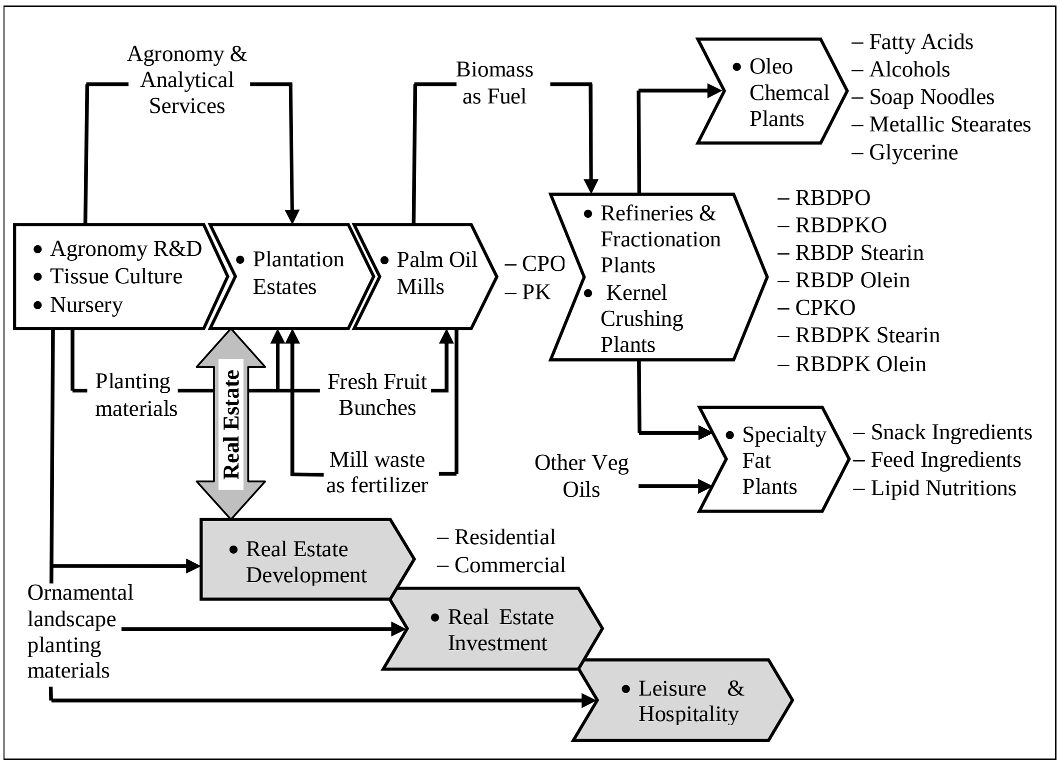

Figure 0.1 : Business Structure of IOI Corporation
(Source: Adapted from IOI Annual Report 2008)

IOI's businesses span across the palm oil industry, from the downstream sector to the upstream sector. IOI's agronomy and analytical services include plantation estates, the palm oil mills produce crude palm oil, palm kernel and biomass as fuel and its refineries and fractionation and kernel crushing plants are made up of oleo-chemical plants and specialty fats plants. In its real estate sector, IOI is involved in real estate development where it builds residential and commercial townships, real estate investment where it produces and supplies ornamental landscape planting material. Another business is leisure and hospitality.

One of the Most Efficient Palm Oil Producers

IOI is one of the most efficient palm oil producers, with yield per hectare of much higher than its rivals in the year 2008– 28.54 per mature hectare (tonne) compared to Sime Darby's 21.7 and Boustead's 17.5 (Oh, 2009). This strength stems from IOI's belief that the most efficient business model can be a very effective environmental model. Based on this model, IOI strategizes to maximize outputs from their plantations and factories while minimizing the inputs required using an efficient and effective plantation management program. The efficient use of land translates into lower fertilizer, pesticide and energy usage as well as benefits for the environment. The end result is a dramatically reduced demand for land required to produce the volumes demanded by the market. To illustrate this point, IOI's yield performance as compared to the average yield for a Malaysian plantation has resulted in a reduced demand for land by 70,000 hectares, a land area equivalent to the size of the Republic of Singapore (Oh, 2009).

In its annual reports, IOI claims that its superior performance in terms of oil yield and production cost per hectare compared to the industry's average is partly attributable to its advances in agronomy sciences which is spearheaded by its two centers of excellence: i) IOI Research Centre and ii) Tissue Culture Center – centers. IOI's strong advocate of development of agro-science and technology to improve crop and oil yields to meet increasing global demands is evidenced from the production of IOI Deli x Avros Hybrid oil palm planting material, a breed which has been proven in progeny trials, comparative trials and commercial plantations; the innovation of oil palm clones through micro-propagation, a technique which enables mass production of superior palm saplings with the advantage of faster time to maturity.

Champion of Environmental Friendly Practices

Environmentally friendly practices are taken seriously by IOI Corporation. Content analysis of its annual reports shows examples of its efforts to promote environmentally friendly practices. Some examples include its practice of returning empty fruit bunches and palm fronds to the land. This reduces the need for fertilizer by 40-50% and provides compost to enrich the soil naturally and to reduce erosion caused by rain. Another practice is the extensive use of kernel shells and fibre to provide renewable energy to produce the steam needed to extract the palm oil from the fruit. Nearly 98 percent of IOI's fuel consumption for steam generation at its mills is from these renewable resources.

In its downstream food industry IOI employs its "passion for efficiency and reduction of inputs" (source: Annual Report 2007) to its refineries across the world. In its specialty oils refinery in Wormerveer, The Netherlands, for instance, energy consumption per tonne of product produced has been reduced by 22% as at year 2007. This translates to energy savings of 150,000 GJ of energy in 2006 compared to the base year which is equivalent to 4.4 million litres of gasoline. Aside from the savings in costs, this initiative eliminates more than 8,600 metric tons of CO2 emission in the same year. Besides energy, IOI also initiates practices to minimize water consumption since 1998. The current annual savings in Wormerveer is equivalent to water consumed by 250 families in the surrounding community for one year. In its newer business expansion, for example in its Channahon USA facility, IOI is mindful of investing in energy conserving infrastructure and energy saving devices.

Some key efforts IOI uses to promote sustainable oil palm cultivation include (1) zero burning and biomass preservation, (2) integrated pest management, (3) soil management and energy saving initiatives and (4) RSPO Certification for Oil Palm Estates (Annual Report 2008).

CSR-Oriented Organization

IOI places utmost importance on corporate social responsibility (CSR). In fact, the IOI Group's Corporate Social Responsibility (CSR) principle is encoded in its 'Vision IOI' (Annual Report 2007). The emphasis of this principle is to achieve commercial success in a balanced, responsible manner by addressing the interests of all stakeholders. The key CSR initiatives currently undertaken by IOI involve maintaining good business practices and sustainable cultivation, supporting educational activities, caring for the community, enhancing employee welfare and conserving the environment and wildlife.

Supporting and promoting education is an important area of IOI's CSR initiatives. These initiatives are mainly organized by Yayasan Tan Sri Dato' Lee Cheng, a charitable foundation fully sponsored by IOI Group of Companies which was established in 1998. IOI provides scholarships, gives out Young Achievers' Award to outstanding and bright students to motivate students to excel in both academic and co-co-curriculum activities, and has a student adoption programme which provides financial assistance to help underprivileged children, sponsors schools under its School Adoption Programmes.

IOI's CSR projects also include community focused initiatives. Activities include the IOI Community Run, Rakan Cop Programme and building a police station at Bandar Puchong Jaya. Employee welfare is also a critical element in IOI's CSR initiative. IOI emphasizes safety, health and harmony among its employees. To achieve these, IOI provide recreational amenities like proper housing, schools, nurseries, places of worship, community halls, sundry shops, police stations, flood relief centres, sports and recreational facilities. IOI also emphasizes on occupational safety and health (OSH) in its estates and mills. Employees have access to or are provided with continuous training and awareness programmes on how to deal with potential hazards such as pesticides and machinery, medical treatments at clinics equipped with X-Ray and ambulance facilities, visiting medical officer visits to ensure cleanliness and hygiene, health programmes and campaigns.

The guiding principles for IOI's CSR initiative with regard the environment are to promote conservation particularly energy and other resources and to improve on environmental care in their business operations for example improving effluence treatment and waste management. IOI's efforts to care for the environment and endangered wild species include, among others, setting up a deer farm, setting up a Proboscis monkey sanctuary at Bayok Estate, Sabah, cultivating soft to semi-hard wood jungle trees in flood-prone areas to save the Orang Utan and other wildlife species, and building tree houses at Tindakon and Bayok estates in Sabah.

Professional, Dedicated and Talented Team of Human Capital with Strong Leadership

IOI's human capital comprises professional, dedicated and talented team. IOI Corporation is helmed by its Group Executive Chairman, Tan Sri Lee Shin Cheng. This 69 year old plantation magnate's reported wealth stood at RM 14.9 billion as at February 2008. Tan Sri Lee's wealth is mainly derived from his 76% stake in Progressive Holdings Sdn Bhd, the holding company for his IOI Corp flagship. He also has a 0.77% personal stake in IOI Corporation (Source: Annual Report 2008).

Tan Sri Dato' Lee Shin Cheng was first appointed to the Board on 21 July 1981. He is an entrepreneur with extensive experience in the plantation and property development industries. He was conferred the singular honour of FIABCI Malaysia Property Man of the Year 2001 Award. In 2002, he was conferred the Honorary Doctorate Degree in Agriculture by Universiti Putra Malaysia in recognition of his contributions to the palm oil industry.

Since the year 2001, IOI has been awarded numerous awards and recognition, 61 to be exact. In the year 2001, it received four awards, in the year 2002 it received nine awards, in the year 2003 it received one award, in 2004 it received nine awards, in 2005 it received twelve awards, in 2006 it received nine awards, in 2007 it received 16 awards and so far one award for the Year 2008 (Source: IOI Website).

Of these awards, the more remarkable ones are ' Commodity Industry Award (Best Factory) for Acidchem International Sdn Bhd' in 2007, Best Managed Company- IOI Corporation Bhd (2nd Place) 2007, Best Corporate Governance – IOI Corporation Berhad (3rd Place) 2007, Asia Leading Company (Top 10 in Malaysia) in 2007, Best Managed Company in Asia in 2006 and 2005, Best Managed Company in Malaysia in 2006, Best Oleochemical Plant, Best Kernel Crushing Plant, and Best Private Estate – MPOB award in 2005 and others.

High Cash Pile

As at end of 2008, IOI has amassed a high cash pile amounting to RM1.42billion (source: The Star, 28 June 2008). High liquidity provides IOI the opportunity to progressively expand plantation acreage. This expansion could be done by acquiring green fields, existing oil palm plantations and distressed planters. As interest rate is also on the downtrend, IOI could capitalize on the situation to look for leverage in its acquisition activities.

3.2 Weaknesses

Financial Vulnerability

One of the few weaknesses of IOI is its financial vulnerability. As it operates in many countries of the world and trades globally, it is subject to foreign exchange risk. Aside from that it also faces risks such as interest rate risk, price fluctuation risk, credit risk, as well as liquidity and cash flow risk (source: Annual Report 2008). Although IOI operates within an established risk management framework with clearly defined guidelines with are approved by the board, it still faces financial vulnerability due to the highly unpredictable nature of business.

In the last quarter of 2008, IOI has had a few bad experiences in its financial dealings, reflecting its weakness in handling financial matters. The debacle was its reported foreign exchange losses of over RM312 million for the quarter ending September, 2008. In fact on 1st Dec 2008 Bernama reported that Moody's Investors Service has downgraded the issuer rating of IOI to Baa1 from A3 and this affects about US$500 million of its bonds and 21 billion Yen of its loans. The ratings for senior unsecured bonds and loans issued by IOI Ventures (L) Berhad, which are guaranteed by IOI have been downgraded to Baa1. However, the outlook for all the ratings has been changed from negative to stable. Moody states that the downgrade has been driven by IOI's aggressive financial strategy of substantial share repurchases and hefty capital distributions which have reduced liquidity and its debt and consequently reduced IOI's buffer against the challenges presented by weakened palm oil and property markets.

Given the current global economic situation, IOI's financial profile is not likely to improve in the foreseeable future as the global economic woes will continue to pressure the property market and palm oil prices. This current financial woe of IOI is, according to the Moody's analysts, mitigated by favourable long-term outlook for palm oil demand, IOI's position as a global top-tier palm oil producer, efficient operations, good access to capital and bank markets and the management's strong track record in managing the palm oil business through the industry cycles. The stable ratings outlook is based on the view that IOI will continue to be prudent in its management of currency derivatives and will not embark on further major acquisitions and shares repurchases and thus, will increase its leverage, IOI's sufficient liquidity from existing cash, pre-arranged credit facilities and operating cash flows to fund its capital expenditures, dividends and debts services. The possibility of an upward rating is limited given the current economic situation and is only possible if IOI is able to reduce its overall debt level by converting the exchangeable bonds or prepaying some of its debt from operating cash flow. On the other hand, IOI could incur more financial instability if its downstream sector does not maintain its high operational performance.

Weakness in Evaluation of Asset Acquisition

Another example of its financial blunders is IOI's lack of prudence in its asset acquisition. A case in point is its recent move to acquire Menara Citibank in Kuala Lumpur for RM586.7 million through the purchase of Inverfin Sdn.Bhd. which owned the building and which is owned in turn by Citigroup unit Citi Holding (50%), Singapore CapitaLand (30%) and Amsteel Corp (20%). According to a report in The Starbiz, the deal initiated on 28 August, 2008 was *'called off inexplicably'* by IOI Corporation in less than three months i.e. on 27 November, 2008 and this aborted purchase caused IOI RM73 million in paid deposit. The fact that IOI did not make a full and fair explanation on this cancellation of plans indicates a lack of integrity on the part of its board of directors. What was once viewed as a strategic move earlier has now become an embarrassing liability. The problem escalated and on 30 January 2009, it was announced that trading in the securities of IOI Corp Bhd and its 74.44% subsidiary IOI properties will be suspended until 4th February at the companies' request (The Star, 31 Jan, 2009). This request was made because IOI properties' share price had fared badly in the year 2008 as it was de-rated for its exposure to two condominium projects in Singapore.

High percentage of family-based shareholders

As at 29 August 2008, the numbers of IOI shareholders stood at 26,562 of which 30 top shareholders are mainly private limited companies and three individuals i.e. Tan Sri Dato' Lee Shin Cheng, Lai Ming Chun @ Lai Poh Lin and Tan Kim Heung. Of these shares, Tan Sri Dato Lee Shin Cheng, his wife Puan Sri Datin Hoong May Kuan, and their two sons Dato' Lee Yeow Chor and Lee Yeow Seng hold a high percentage of interests in IOI through their interests in the progressive Holdings Sdn Bhd. As at 29 August, 2008 , three of the 26,562 shareholders control 44.32% of total holdings and presumably the top three shareholders are family members as they have large vested interest in the top shareholding companies of IOI. Thus, the power base for voting is high among family members and therefore there is more room for abuse of power. This, though not the case at the moment, could affect overall efficiency as could issues such as succession, corporate governance, transparency, etc. Thus far, IOI Corporation has diligently adhered to good corporate governance standard but nonetheless need to ensure that extra caution be exercised to ensure exemplary corporate governance in order to avoid pitfalls in this area.

3.3 Opportunities

Expansion into Indonesia

IOI's expansion into Indonesia is through the acquisitions of interest in oil palm estates in Kalimantan. In line with its strategy to grow its core palm oil business under appropriate conditions, IOI acquired the entire issued and paid-up capital of Lynwood Capital Resources Pte Ltd ("Lynwood") and Oakridge Investments Pte Ltd ("Oakridge") for a cash considerations of USD57,797,932 which collectively owned a 33% stake in PT Bumitama Gunajaya Agro group of companies ("BGA"). BGA has a total planted acreage of 35,340 hectares and unplanted land of approximately 64,000 hectares, together with three palm oils mills. It also oversees a 'plasma' scheme which covers an area of approximately 22,000 hectares. The other acquisition in Indonesia is the acquisition of the entire issued and paid up capital of Oleander Capital Resources Pte Ltd, which effectively (via two investment holding companies) owned 67% stake in a group of companies; PT Ketapang Sawit Lestari, PT Bumi Sawit Sejahtera, PT Kalimantan Prima Agro Mandiri, PT Berkat Nabati Sejahtera and PT Sukses Karya Sawit for a tentative cash purchase consideration of USD20,304,216 based on the established Hak Guna Usaha(“HGU”) land certificates of 52,704 hectares.

Growing Palm Oil Market in Europe

For IOI, the growing palm oil market in Europe has offered opportunities for expansion of its refinery in Rotterdam (source: annual report 2008). Thus, IOI’s Loders Croklaan of the Netherland undertook a project to increase its refinery capacity through an expansion of a palm-oil storage tank plant in the Port of Rotterdam with 41 new tanks and the project is expected to be completed in early 2009. Currently, its 17-tank-plant, which is Europe’s largest palm oil refinery and fractionation plant, processes 2,500 to 3,000 tonnes of palm oil daily and is supported by a large storage tank right at the company dock. This increased refinery capacity provides opportunities to serve IOI’s Europe markets better.

Expansion of Specialty Fats Plant in Johor

IOI’s expansion of specialty fats plant in Johor is indeed a wise decision and could provide opportunities for growth in this business segment. It is in line with the Malaysian government’s plan to transform Pasir Gudang in Johor into a major palm oil processing centre. Furthermore its close proximity to Singapore provides opportunities to tap into the demand of the Singapore market.

Strong Palm Oil Consumption Growth in Several Regions

There is strong consumption growth in several regions such as China, Africa and USA. According to Xiao (2008), the continued record highs from global commodity and commodity futures market is indirectly driven by the crack in the US financial market which saw weaker real estate and related financial derivatives caused by the sub-prime mortgage crisis. Xiao cited three reasons for this development. Firstly, the US dollar has been weakening continually in recent years. Secondly, greenback owners choose commodity and commodity futures market, and thirdly, the serious decline in Australian wheat production consecutively in 2006 and 2007. In China, the growth in consumption of palm oil stems from its rapidly developing economy and natural increase in population. Although the Chinese government is encouraging oilseed production nowadays, oilseed import is deemed to continue rising in the future (Xiao, 2008). In Africa, for example, Nigeria, the most populous country in West Africa with a population of 148 million, consumed about 1.8 million metric tonnes of oils and fats in 2006. Of this, 58 per cent or 1.03 million metric tonnes of the oils and fats consumed is palm oil. The breakdown in consumption is 85% is attributed to the household sector and 15 per cent to the industrial sector. Although oil palm is indigenous to Nigeria, it can only meet 81 per cent of its edible oils and fats needs and import the rest mainly from Togo and Benin. Although it may be logistically unviable to export our crude palm oil to Africa, opportunities to expand downstream and upstream operations to serve the large market is an option which IOI might want to consider.

Emerging Biofuel Market

In 2008, world biofuel production will be 1.35 barrels per day (bpd and by 2013, it will rise to 1.95 million bpd (MPOB, 2008). World oilseeds output is expanding due to advances in technology and acreage. Expansion in world demand for vegetable oils is about six millions MT demand for edible oils and two million MT is biofuel demand. Palm oil production alone can expand by more than five million MT, and even higher than expansion in demand for food in certain years. Thus, there is a need for an additional demand outlet, a vacuum which biofuel can fill. Thus, the biofuel industry plays a crucial role to ensure farmers are not marginalized due to price collapse.

The Malaysian Palm Oil Council (MPOC) predicts that palm oil will qualify as second generation biofuel in reducing carbon dioxide emission by more than 80 per cent, with a little more fine-tuning in its processing technology and by the end of 2008, Malaysia will have about 500,000 tonnes installed capacity from 10 biodiesel plants (MPOC, 2008).

3.4 Threats

Dampening Economic Outlook

The prolonged US-led global economic slowdown will continue to dampen Malaysia's exports. The dampening economic outlook has negative impacts for the oil palm industry as demand in some regions plunges. This threat to the oil palm industry, sooner or later, is bound to have a negative impact on IOI. The Star (22 Nov, 2008) quoted a source in the oil palm industry which states that defaults on Malaysian and Indonesian palm oil contracts are estimated to involve 1.5 million tonnes of crude palm oil (CPO). This situation could lead to a deferment of palm oil shipments and renegotiation of import deals especially with India and China.

Lack of Land Bank for Expansion

In the oil palm industry, the lack of land bank is a major threat to all oil palm planters including IOI. As most of the delineated land for agriculture is almost used up, IOI will need to outsource land from other countries. In the case of IOI, the sequel to its foray into Indonesia in early 2007 is not in sight at the moment. The issue of scarcity of land bank is further aggravated by NGOs high propensity to link agricultural activities with deforestation (Yusof, 2007). Aside from the physical lack of land bank, oil palm planters including IOI need to constantly address the arguments against opening new oil palm plantations and one argument often used is whether we can follow the United Kingdom which used up 70% of their land for agriculture as currently we have only used up about 24% of our land for agriculture (MPOC Report, 2008). Put in other way, would UK be able to enjoy the same standard of living if it uses only 8% of its land as in the case of Sarawak.

Constant Pressure from Non-governmental Organisations (NGOs)

The oil palm industry of which IOI is a part faces constant pressure from NGOs with allegations of illegal logging, opening new land for oil palm, peatland destruction leading to excessive carbon dioxide emissions, natives deprived of land and livelihood, disappearing bio-diverse wetlands, increase in food prices and extinction of the Orang Utan. The environmentalists relentlessly demand a moratorium on peatland use, the employment of sustainable agronomic practices, transparency in policy and industry decisions and the replacement of Orang Utan food trees. Aside from that, the environmentalists also stress the need for Malaysian companies which own and operate oil palm businesses in Indonesia to use the same methods in Indonesia i.e. to practise sustainable practices as practised in Malaysia even though it might not be required by law in Indonesia. These allegations will remain important factors to consider by all oil palm producers in Malaysia or elsewhere as non-adherence or blatant disregard of the impact of the industry on the society and environment in which they operate could be detrimental to these organizations and the industry as a whole.

Unfavourable legislation and government policies

Unfavourable legislation and government policies are constant threats to any industry including the oil palm industry. An example of this is the Windfall Tax. As the price of crude palm oil soars, oil palm planters became more concerned about the much higher windfall tax which they have to pay for. Under the current structure, planters are taxed on the difference between the threshold price, set at RM2,000 per tonne of crude palm oil(CPO) and the higher selling price. Oil Palm planters in Peninsular Malaysia pay 15 percent tax on CPO sales above RM2,000 per tonne while those in Sabah and Sarawak pay 7.5 percent.

3.5 Diagnosis of IOI Corporation

Although IOI is one of the most efficient oil palm company in the world, it has made some blunders in its acquisition of assets which has slightly affected its rating and affected its impeccable image. This is indicative of some weaknesses in monitoring and control especially in its investment division.

IOI faces fierce competition from Sime Darby especially after the merger of Sime Darby, Golden Hope and Guthrie. Although IOI is currently more competitive in many aspects, it cannot simply write off the sheer size of Sime Darby and the potential positive outcomes of the synergistic merger of the three strong veterans.

Lack of land bank for volatile palm oil price, continuous oil crises and unrelenting attacks from environmental non-governmental organizations pose continuing threats to the operations of IOI.

As of late, the property sector of IOI, though a lucrative diversification has been plagued by its poor performance in the asset acquisition activities. This has been a major threat to the ratings of the shares and could initiate privatization drive – in fact in it still underway now.

Top management of IOI Corporation faces the daunting task of steering the organization amidst uncertain economic climate brought about by the meltdown of the US economy and the effects it has on other economies.

IOI's high percentage of family-based shareholders has implications for succession plans, corporate governance and transparency. For a public-listed company, this might have some negative bearings.

IOI's exemplary management of its stakeholders and its sensitivity towards their importance and needs gives IOI the added edge in operations and enhances its ability to sustain its competitiveness. In other words good relationship with stakeholders increases the efficiency of an organization.

IOI's operational strength is supported by its human resources, good agricultural practices the technologies it uses, its strategic management of R&D, its exemplary leadership style, its emphasis on CSR and good corporate governance.

The emerging biofuel market and growth in demand for palm oil and other downstream products in various regions are strong opportunities for growth for IOI to pursue. Nonetheless, the biofuel industry and the close link of its viability to the price of crude oil and other oil and fats also have a downside to it.

To conclude, IOI is in a strong position to maintain its position in the oil palm industry but needs to extend more care to mitigate the effects of its property business sector. Of immediate concern is its ability to properly manage its investments decisions.

4.0 CONCLUSIONS

The SWOT analysis yielded five major strengths, three weaknesses, six major opportunities and five major threats. The major strengths are a diversified business base, efficiency, environmentally friendly practices, high CSR orientation, professional, talented, and dedicated team of human resources and a high cash pile. The weaknesses are high exposure to financial risks, lower-than expected ability to assess asset acquisition and high percentage of family-based shareholders. Opportunities for expansion of upstream and downstream activities abound globally aided by strong palm oil consumption growth and the emerging biofuel market. Threats come in the forms of a weaker and seriously challenged world economy, climate change, lack of land bank, constant pressure from environmental NGOs and unfavourable legislation and government policies. It is thus, concluded that the SWOT analysis reveals that IOI's ability to sustain its competitiveness is depended upon how well its team of professional and dedicated human capital and leaders can strum on the notes of strengths which spells the need to further expand its diversified business base, continue its efficient environmentally friendly practices, and to use of its high cash pile prudently.

These are summarized in the table below.

STRENGTHS	WEAKNESSES
1. Diversified business base 2. One of the most efficient palm oil producers 3. Champion of environmentally friendly practices 4. CSR-oriented organization 5. Professional, talented and dedicated team of human resources with strong leadership 6. High Cash Pile	1. Exposure to a variety of financial risks 2. Weakness in assessment of asset acquisition 3. High percentage of family-based shareholders
OPPORTUNITIES	**THREATS**
1. Expansion into Indonesia. 2. Growing palm oil market in Europe. (Expansion of refinery in Rotterdam.) 3. Expansion of specialty fats plant in Johor. 4. Strong palm oil consumption growth in several regions such as China, Africa and USA. 5. Emerging biofuel market.	1. Dampening economic outlook 2. Climate change 3. Lack of land bank 4. Constant pressure from pro-environment NGOs 4. Unfavourable legislation and government policies

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