

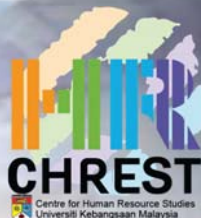
Proceedings of

THE 3RD CHREST INTERNATIONAL CONFERENCE 2018
Nurturing Human Capital amidst the 4th Industrial Revolution

TH Hotel, Kuala Terengganu
4-5 April 2018

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Centre for Human Resource Studies (CHREST)
Faculty of Economics and Management
Universiti Kebangsaan Malaysia



PROCEEDINGS OF
THE 3RD CHREST INTERNATIONAL CONFERENCE 2018
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ISBN: 978-983-99223-4-9

2018

PUBLISHED BY
CENTRE FOR HUMAN RESOURCE STUDIES (CHREST)
FACULTY OF ECONOMICS AND MANAGEMENT
UNIVERSITI KEBANGSAAN MALAYSIA

PRINTED BY
UKM CETAK
UNIVERSITI KEBANGSAAN MALAYSIA

First Printing 2018
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Centre for Human Resource Studies (CHREST)
Faculty of Economics and Management
Universiti Kebangsaan Malaysia

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Published in Malaysia by
Centre for Human Resource Studies (CHREST)
Faculty of Economics and Management
43600 UKM BANGI, Selangor, Malaysia
<http://www.ukm.my/chrest>

Printed in Malaysia by
UKM CETAK
ARAS BAWAH, PENERBIT UKM
UNIVERSITI KEBANGSAAN MALAYSIA
43600 UKM BANGI, Selangor, Malaysia

Perpustakaan Negara Malaysia

Cataloging-in-Publications

Data

Proceedings of the 3rd CHREST International Conference 2018
Nurturing Human Capital amidst the 4th Industrial Revolution

ISBN 978-983-99223-4-9

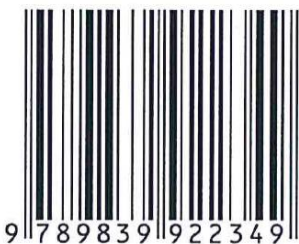


TABLE OF CONTENTS

	<i>List of Reviewers</i>	viii
1.	Peranan Motivasi Latihan Sebagai Peramal Kepada Pemindahan Latihan Dalam Program Pembangunan Kepimpinan Noor Azmi Mohd Zainol, Azman Ismail, Daud Mohamed Salleh, Ahmad Azan Ridzuan & Zahimi Zainol Abidin	1
2.	Indonesian Entrepreneurs in Malaysia: Motivations and Mechanisms Hamizah Abd Hamid	10
3.	Three Case Studies on Green Sukuk: Financing Renewable Energy Siti Rohaya Mat Rahim & Zam Zuriyati Mohamad	20
4.	Effects of Knowledge Management Infrastructure Capability on Higher Educational Institutions' Performance in Malaysia and the Moderating Role of Religiosity Muhammad Hafiz Yaakub & Zainal Abidin Mohamed	30
5.	Prosedur Istinbat Fatwa Ajaran Sesat Dalam Kerangka Perundangan Fatwa Negeri Kedah: Satu Tinjauan Alias Azhar & Mohd Shauki Muhammad Baderuddin	43
6.	Conceptual Model on the Formation of Social Entrepreneurship Intention Aisyah Bahiah Aidul Bahrein, Mohd Nazri Zakaria, Mohammad Ismail, Mohd Rafi Yaacob, Mohd Safwan Ghazali & Muhammad Fahimi Sofian	52
7.	The Relationship Between Motivation to Transfer and Training Transfer: The Moderating Role of Supervisory Support Jen Ling Gan & Halimah M. Yusof	60
8.	To Nurture Hygiene Culture Among Tertiary Level Students Mas'udah Asmui, Sharifah Norhuda Syed Mohamad, Noorsuraya Mohd Mokhtar, Suhanom Mohd Zaki & Siti Suhaila Harith	69
9.	Importance and Performance of Human Resource Practices as Perceived by Employees in Malaysia Ida Rosnita Ismail, Hasta Ariyanti, Nurul Hannah Abdul Hamid	75
10.	Societal Conditions for Social Participation: A Cross-Country Analysis Abu Hanifah Ayob	81
11.	Fungsional dan Pragmatisme Hisbah Dalam Pengurusan Insan Era Kontemporari Azrin Ibrahim	86
12.	High Performance Organization and Enterprise Risk Management Implementation Mohd Hafizuddin-Syah, B.A.M, Hawati Janor & Mohamad Abdul Hamid	93
13.	Remittances and Human Capital Investment in Selected Sub Saharan Africa Countries Chong Siew Huay & Nor Yasmin Mhd Bani	107
14.	Improving Employee Efficiency Through HRM Practices in the Hotel Industry Intan Nur Fatin Abdul Rani & Nik Hazimah Nik Mat	118
15.	Analysis of Broiler Industry Development Using Contract Farming Patterns in West Sumatera: Structure Conduct Performance Approach Fitrimawati, Endrizal Ridwan & Leli Sumarni	124

16.	Social Insurance and Social Capital Externalities the Minangkabau Ethnic Kinship in the Improvement of the Well-Being of Households of Relatives Fitrimawati, Fery Andrianus & Neng Kamarni	140
17.	The Relationship Between Talent Management and Intentions to Leave Through the Lens of Work Engagement as A Mediator Among Government Nurses in Peninsular Malaysia: A Pilot Study Intervention Sheikh Muhammad Hizam Sheikh Khairuddin, Sulaiman Hj Baputey, Firdaus Hilmi Nadzri & Zafir Khan Mohamed Makhbul	161
18.	Work-Related Factors Influencing Workplace Deviant Behaviour Among Employees in Malaysia Hotel Industry Amirah Sayeedah Ali Mahamad, Mazni Alias & Kok Wai Chew	172
19.	Does Demographics Factors Influence Personal Financial Management Practices Among the Generation Y in Malaysia? Rudy Ansar, Mohd Rahimie Abd Karim, Zaiton Osman & Muhamad Shameer Fahmi	178
20.	An Investigation of Students' Social Entrepreneurial Intentions in Malaysia: An Empirical Test Siti Daleela Mohd Wahid, Wan Mohd Hirwani Wan Hussain, Abu Hanifah Ayob & Shafinar Ismail	184
21.	A Systemic Approach to Business Incubation as A Social Innovation Khairul Akmaliah Adham, Nur Sa'adah Muhamad, Mohd Fuaad Said, Shahrizin Abdul Sarhadat, Habib Asaril Ismail & Mohd Fareez Assrul Mohd Nasir	194
22.	A Study of Visualization System for SMEs in Japan Yasuo Uchida, Yui Okamoto, Seigo Matsuno & Makoto Sakamoto	223
23.	Perceived Organizational Politics and Knowledge Hiding in Team: The Mediating Role of Relationship Conflict Norulhuda Tajuddin & Rasidah Arshad	229
24.	Exploring Millennials' Talent Management in Hospitality Industry Riza Munira Shamsudin, Zaleha Yazid, Nur Atiqah Abdullah & Mohd Ezani Mat Hassan	238
25.	Amalan Hijau Islami Sebagai Pemangkin Pembangunan Lestari Islam Dalam Era Revolusi Industri 4.0 Fadzila Azni Ahmad, Wan Norhaniza Wan Hasan & Norazilawati Md Dahlal	246
26.	Transhumanism, Stres dan Konsep Keseimbangan Wan Nornajwa Wan Othman & Fadzila Azni Ahmad	256
27.	Enrolmen Pendidikan Tinggi Universiti Penyelidikan dan Prospek Kerjaya Graduan Aainaa Amirah Haron & Noor Hasni Juhdi	265
28.	Developing Instrument for Measuring Flood Victims Quality of Life at the East Coast Region of Malaysia Nik Fakrulhazri Nik Hassan, Zuriyati Ahmad, Azemi Che Hamid, Baharom Abdul Rahman, Nurul Syuhada Baharuddin & Zuraida Mohamad	275
29.	Quality of Life Index Score and Priority Needs & Services Among Flood Victims in East Coast Region of Malaysia Nik Fakrulhazri Nik Hassan, Azemi Che Hamid, Zuriyati Ahmad, Baharom Abdul Rahman, Nurul Syuhada Baharuddin & Zuraida Mohamad	281

30.	Performance Measurement System, Organizational Justice and Lecturer Work Performance: A Study at Malaysian Public Research University Amizawati Mohd Amir, Ruhanita Maelah & Zaidi Mohd Noor	290
31.	HRM Practices in Banking Sector: A Comparative Study on Andhra Bank and HDFC Bank at Vijayawada, Andhra Pradesh Sapta Sagar Nallamothu	300
32.	A Review of Workplace Incivility Studies Nur Farzana Mohd Nahar & Ida Rosnita Ismail	309
33.	Understanding Halal Tourism from the Perspective of Muslim Travellers in Muslim-Minority Countries Mohd Fuaad Said, Khairul Akmaliah Adham, Nur Sa'adah Muhamad & Syahnaz Sulaiman	319
34.	Determinant Factors Muslim's Intention to Use Islamic Cooperative Products and Services: A Case Study in Southern Thailand Wan Nazjmi Mohamed Fisol, Mohamad Abdul Hamid & Mohammadtahir Cheumar	332
35.	Line Management in HRM: Some Insights About Role Theory Nik Hazimah Nik Mat & Pattanee Susomrith	343
36.	Implikasi Ketidakstabilan Mata Wang Fiat Terhadap Kontrak Pembiayaan Peribadi di Perbankan Islam Muhammad Mundzir Mohd Zamri & Mohd Ali Mohd Noor	352
37.	A Review of the Role of Experts and Collaboration in Public-Private Partnerships (PPPs) Rohila Awang, Suhaiza Ismail & Zamzulaila Zakaria	367
38.	Hubungan Modal Psikologi dan Sokongan Organisasi Dengan Prestasi Kerja Nur Atiqah Abdullah, Noor Husnina Norizan, Nurfaten Amyza Ameran & Norazila Mat	376
39.	Analisis Perbandingan Pertumbuhan Produktiviti Faktor Keseluruhan di Negara ASEAN+3 Noorazeela Zainol Abidin, Ishak Yussof, Rahmah Ismail, Zulkefly Abdul Karim	385
40.	Knowledge Transfer Within MNC Subsidiary: Innovation as A New Approach Jamsari Alias, Norazila Mat, Nazri Muslim	397
41.	The Relationships Among Onboarding and Retention: The Role of Organizational Identification as Mediator Kannaki S. Narayansany & Rosmah Mat Isa	411
42.	Situational Factors Influence on Informal Workplace Learning In Sustaining Employability Fauziah K.P. Dawood Sultan & Rosmah Mat Isa	421
43.	Drivers and Barriers of CSR: Exploring the Case of Malaysian Halal Industry Shifa Mohd Nor	430
44.	Tinjauan Kepustakaan Kemahiran Politik Terhadap Prestasi Kerja Dalam Tempoh 2010-2018 Enny Marlinah Manggor & Ida Rosnita Ismail	441
45.	Meneliti Faktor Yang Mempengaruhi Perhubungan Dalam Kumpulan Kerja Zaleha Yazid & Norazila Mat	450
46.	Workplace Creativity: A Narrative Review Farahrina Francis Martin & Ida Rosnita Ismail	459
47.	Addressing Endogeneity Problem in Estimating Economic Returns to Schooling in Malaysia Norlin Khalid, Rahmah Ismail, Wye Chung Khain, Suhaili Alma'amun, Hakimah Nur Ahmad Hamidi	468

48.	Pelarian Dana dan Modal Manusia Tamat Sarmidi & Abu Hassan Shaari Mohd Nor	478
49.	Hubungan Stres Pekerjaan dan Produktiviti: Tinjauan Terhadap Pentadbir Fakulti Universiti Penyelidikan Zafir Mohd Makhbul & Sheikh Muhamad Hizam Hj. Sheikh Khairuddin	489
50.	Modal Insan Dalam Landskap Industri 4.0 Zafir Mohd Makhbul & Mohd Nazmy Abd Latif	499
51.	Hubungan Antara Budaya Keselamatan dan Prestasi Keselamatan Dalam Sektor Perkilangan: Sikap Keselamatan Sebagai Faktor Pengantara Zafir Mohd Makhbul & Maran Kaliannan	507
52.	Temporal Causality Between Public Debt and Growth in ASEAN-3: A Bootstraps Rolling Window Approach Wan Farisan Wan Sulaiman, Zulkefly Abd Karim, Norlin Khalid & Riayati Ahmad	516
53.	Positive Roles of Employees' Involvement and Performance Appraisal in Distributive Fairness of Pay Systems Mohd Shukri Hajinoor, Azman Ismail & Aimi Anuar	542
54.	Comparison of the Critical Dimensions of Entrepreneurial Orientation in Small and Medium Enterprises (SMEs) of Selected Manufacturing Sectors Perengki Susanto, Nor Liza Abdullah & Yunia Wardi	553
55.	Islamic Finance Adoption and Halal Ecosystem Trend Analysis and Need of Business Support Dileep Kumar Mohanachandran & Normala S Govindarajo	564
56.	Does Academic Study Skills Affect the Document Processing Learning Value Among Students in Malaysia Higher Learning Institutions? Norlaili Harun, Mas'udah Asmui, Siti Khalijah Majid, Mastura Mohamad & Sharifah Norhuda Syed Wahid	588
57.	The Relationships Between Entrepreneurial Competencies and Entrepreneurial Success in Homestay Business: A Study Among Homestay Entrepreneurs in Sabah Kelvin Yong & Ramraini Ali Hassan	600
58.	The Determinants of Electricity Consumption in Malaysia Wong Chun Yew & Suryati Ishak	608
59.	Bank Makanan Melalui Baitul Maal: Rangka Kerja Bagi Jaminan Sekuriti Makanan Dalam Pemerkasaan Modal Insan Muhammad Izzat Mohamed & Muhammad Hakimi Mohd Shafiai	617
60.	Pembangunan Akhlak Dalam Memperkasakan Pembinaan Modal Insan Manusia Daripada Pandangan Islam Mohd Haziqi Hilmi & Muhammad Hakimi Mohd. Shafiai	627
61.	Antecedents of Voluntary Environmental Management Practices (VEMP): Centralisation, Turbulences and Proximities Muaz Mahmud, Sarah Jack & Danny Soetanto	634
62.	Product Innovation Performance: Effects of Voluntary Environmental Management Practices and Dynamic Capabilities Muaz Mahmud, Sarah Jack & Danny Soetanto	645
63.	Alcoholic Drinks and Public Interest in Case of Neoliberalism and Islam Azmat Hayat, Muhammad Hakimi Mohd Shafiai & Abdul Latif Samian	656

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ANALYSIS OF BROILER INDUSTRY DEVELOPMENT USING CONTRACT FARMING PATTERNS IN WEST SUMATERA: STRUCTURE CONDUCT PERFORMANCE APPROACH

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ABSTRACT

The purpose of this research was to analyze the structure, conduct and market performance of broiler industry with a system of contract farming in West Sumatera. This research was done to the broiler farm with a system of partnerships. Paradigm of Structure Conduct Performance (SCP) used to analyze data quantitatively. Research results got that broiler business with contract farming patterns in West Sumatera had the structure of the market competition was not perfect. The results of the concentration ratio indicates that the large-scale companies had been creating imperfect market competition and had built the oligopoly market structure so that it can colonised market in broiler industry markets through partnerships pattern. The imperfect market system which was built alongside the breeders of the people through the partnership proved that the partnership provided a positive impact to the enhancement of the construction of the industrial broiler on West Sumatera.

Key words: Structure, Conduct, Performance, Development, and Broiler

Introduction

Farming sector has an important role in economic development in Indonesia. This sector gives a contribution to the income of the farmers so as to have a positive impact towards food security and poverty reduction particularly in rural areas. One of the ranching industry are the development of the poultry industry is very rapidly especially broiler industry. Broiler farm business is one of the farm business that is experiencing rapid growth. Broiler is a type of race winning result of crosses are having a high productivity in producing chicken meat and had a very short harvesting period i.e. only requires about 35 days and does not require extensive land (Siregar and Rusastra, 2002). Short production cycle this is becoming an attraction for breeders because of the relatively faster capital turnover. The capital has been issued will quickly return so that profits will quickly obtained. Therefore this business can give you a huge advantage to breeders.

On the other hand, the needs of society against broiler meat from each year continued to increase. Currently, the chicken is a favorite meat because almost everyone Indonesia likes to eat chicken. Culture of Indonesia society that considers the meat is still a special moment widths, especially at Christmas, and new year's. Besides the many population and continues to grow every year in Indonesia and increasing public awareness about the importance of consuming nutritious food causes the demand for chicken meat continues to rise each year.

Along the increasing of the interest in the society to consume the flesh of the broiler, there was also an increase in business against savor. Thus selling chicken broiler is a very good chance to be developed. But it is unfortunate for breeders to do business interests this commodity is not accompanied with stable profits that can be earned by ranchers, so often we hear a lot of ranchers who roll the mat. This is due to the high level of risk faced in selling chickens broiler as the risk of price fluctuations, both the prices of inputs such as DOC, feed and medication as well as price fluctuations of output in the form of a live chicken and meat. The rapid growth in broiler business much more enjoyed by multinational companies of large-scale in Indonesia. Encouraged by the enormous profits, companies increasingly dominate agribusiness sector throughout the chain of production and marketing ranging from upstream to downstream. At the level of the on farm, large companies working with breeders of peoples in the form of a cooperation contract farming. As a result of competition is not perfect and many independent ranchers who close down.

Based on the daily news from Singgalang February 2015, about 100 broiler breeders in West Sumatera who are members of "Asosiasi Perhimpunan Peternak Ayam Pedaging Minangkabau (APPAPM) of the Minangkabau of West Sumatera staged action demo on Wednesday the date 18 February 2015. Demo in action that they deliver that many breeders self-contained roll mats. Former breeders there 100 percent, now only 7 percent. According to them this is happening due to the companies doing the price fluctuations that can harm the cattlemen.

This fact is supported by Fitriani (2014) based on the data which she obtained from the annual survey of the poultry industry collected by the Central Bureau of statistics. The processed of data she obtained that the eight provinces that in the survey, West Sumatera has level concentrations (75.75 percent), vertical integration, cost efficiency, labor productivity, profitability and market forces as well as the highest price among the eight provinces that in the survey.

On the basis of these data look that vertical integration has led to cost efficiency is high in West Sumatera. This led to the companies that play in this level are a great advantage. Moreover supported by the level of labor productivity is high in West Sumatra. But the fact is, the big gain is large companies whereas self-service breeders stop his efforts. It is a fact that mencengangkan and very in sayangkan. This phenomenon was aggravated with the fact that the price of broiler meat is highest in West Sumatera. This is a phenomenon that controversy where cost efficiency and labor productivity levels are high in West Sumatera, while the price of broiler's highest compared to eight areas in the survey.

The question is, how does this broiler industry development forward in West Sumatera. Will the broiler industry in market competition is not perfect can increase profits breeder. Thus research needs to be done through an approach to the structure, conduct and performance in broiler industry in West Sumatera.

Based on theory, when industrial concentrations reached 40 percent controlled by four companies then found build oligopoly. The higher the level the market concentrations resulting in a higher barrier to entry markets in the industry. Industrial concentration (Concentration Ratio- CR_4), is said to be high if the value of the concentration of sales of the four largest firms exceeds 70 percent of total sales. Concentration indicates the extent of the production of certain goods or services is limited to a few large companies (Stiegert and Carton,1998). Concentrations of markets is one measure to determine the structure of the market.

The structure of market is a matter of importance to know the behavior and performance of an industry. The structure of the market is the market attributes that affect the nature of the competition. The element structure of the market is the market share (market share), concentration (concentration) and barriers (barriers to entry). The higher the concentration level then it will be the higher the barrier to entry in an industry.

The structure of the market influence by behavior and performance in the market (Koch, 1980). Industrial concentration has a positive effect on the price-cost margin. There is a simultaneous relationship between the concentration of industry, price rigidity, technical efficiency, and price-cost margin (Setiawan (2012). The difference in the level of concentration of the industry would distinguish the behavior observed, industry and industry behavior differences that occur will differentiate market performance produced by the industries concerned (Teguh, 2010). Conduct affect the performance of companies in the

industry are reflected in the price of the product, the efficiency of the productive, equity, technical progress, profits and growth (Carlton and Perloff, 2000). This research aims to know the broiler industry development ahead of West Sumatera.

Method

This research was done to the partnership broiler farm in West Sumatera. The location of this research was conducted in the district which has the largest broiler population that is in the city of Padang, Pariaman, Padang Pariaman, district 50 Kota and Payakumbuh. The respondent was the owner of research business partnership in West Sumatera. The number of respondents is as many as 168 people. Methods of data analysis that is used is the approach Structure Conduct Performance (S-C-P).

Analysis of The Market Structure

To analyze market structure there are three main elements that are done are:

a. The Market Share

Every company has a different market share ranges from 0 to 100 percent of the total sales of the entire market.

$$MS_i = \frac{S_i}{S_{total}}$$

Where:

MS_i = the company's market share (%)

S_i = sales company i

S_{total} = total Sales throughout the company

b. Industrial Concentration

The level of concentration can be calculated in two ways, namely Concentration Ratio (CR) and the Herfindahl Hirschman Index (HHI).

- The Concentration Ratio (CR)

Concentration ratio is the percentage of the total industrial output or sales revenue. A number of large corporate concentration ratio measures the relative share of the total industrial output accounted for by companies that

$$CR_m = \sum_{i=1}^m MS_i$$

The larger percentage number (approaching 100%) means that the greater the concentration of the products of industry. If the ratio of the concentration of an industry reaching 100 percent means that the shape of its market is monopolistic.

- The Hirschman Index - Herfindahl (HHI)

This measurement is based on the total amount and the distribution of the size of the companies in the industry. It is calculated by summing the squared market shares of all firms in an industry.

$$HHI = \sum_{i=1}^m MS_i^2$$

Where:

CR_m = concentration ratio as much as m companies (%)

HHI = Herfindahl Hirschman Index

MS_i = the company's market share to a-i (%)

m = number of largest companies

n = total number of companies in the industry

HHI will have a value of 1 if a company controlled the sale of 100 percent of the industry. HHI has a value of 1/n if the respective companies in the industry have the same number of sales.

c. Market Entry Barriers

Barriers to market entry may be caused by the presence of business competition in an industry. To know it is one of the ways used to see the barrier to entry is by measuring the scale economically is known through the output of the company that controlled the market more than 50 percent. The output value is then divided by the total output of the industry. This data is referred to as the Minimum Efficiency Scale (MES).

$$MES = \frac{\text{Output Biggest Companies}}{\text{Total of Company Output}}$$

Analisis of The Market Conduct

Analysis of the market conduct made in quantitative analysis. As for the analysis of market quantitatively used from advertising of sales ratio (ADV), capital intensity (CAP) and sales growth (GRW). If the market then build oligopoly has large market structure compared to ADV others.

a. advertising Ratio against sales (Advertising Intensity/ADV)

$$ADV_t = \frac{A}{S}$$

ADV = Advertising to sales ratio at time period

A = Firm advertising expenditure

S = Total sales

b. Capital Intensity (Capital Intensity/CAP)

$$CAP = \frac{TA}{TS}$$

CAP = Capital Intensity

TA = Total assets at period t

TS = The firm total sales at the period

c. sales growth (Sales Grow/GRW)

$$GRW = \frac{TR_{yt} - TR_{yt-1}}{TR_{yt-1}} \times 100$$

GRW = sales growth

TR_{yt} = Total revenue in current year

TR_{yt-1} = Total revenue preceding year

The Market Performance

An analysis of the performance of the company may be see of profit, efficiency, growth, including the expansion of the market, employment, professional prestige, welfare, and also the pride of the group. In this research was done to some of the company's performance measurement in quantitative analysis are:

a. Price-Cost Margin-(PCM)

PCM is one of the indicators of a company's ability to increase prices above production costs. PCM is also defined as a percentage of the profit from the excess of revenue over the costs directly.

$$PCM = \frac{P - AVC}{P}$$

P = Value added

AVC = Total wage

P = Goods generated

b. The X-Efficiency

The measurement of efficiency can be done by calculating the ratio of value added to the value of the input or by means of measuring utilization level of the companies production capacity in the industry.

$$X_{eff} = \frac{N_t}{N_i}$$

X_{eff} = Efficiency

N_t = Industry Adding Value

N_i = Industri Input Value

c. Return on Assets (ROA)

$$ROA = \frac{P - T - i}{A}$$

A = Total asset at the period

P = Net profit

T = The taxes on profit

i = Interest to holders of debt

d. **Return on Sales (ROS)**

$$ROS = \frac{P-T}{S}$$

Where,

P = Net profit

T = The tax on profit

S = The total sales

e. **Return on Equity**

$$ROE = \frac{P-T}{E}$$

Where,

P = Net profit

T = tax on profit

E = Shareholder's equity

Results and Discussion

There are two groups of existing broiler farm in West Sumatera, namely contract farming and independent business ventures. In West Sumatera, in general there is a type of contract farming that is a group of partners act as a core group of partners supplying the needs of the partner company in accordance with the specified requirements. This type of partnership is called the core partnership with Plasma-Core Patterns.

Based on the research results obtained by the amount of effort the partnerships 93.4 per cent and 6.6 per cent independent business only. The large amount of effort shaped contract farming in West Sumatra in addition due to the inability of independent business contend the market is also now there is a new phenomenon which the company has a core program to be partnership breeders. Independent ranchers who survive attempted by the core company to join the partnership system. On the prediction of the future independent savor effort in West Sumatera are increasingly not found.

The magnitude of the contribution of the business partnership with Core Plasma Pattern at a glance give rise to the impression that this pattern had become gods helper in broiler industry sustainability in West Sumatra. In empirikal do so? What is the company's core have responded to economic decisions and production and local consumption in West Sumatera. The answer to this question can be explained as follows.

Market Structure in Broiler Industry

1. The company's market share in Broiler Industry

Based on the research results gained market share as well as partnerships either broiler venture independent business. Behind the venture partnership is no big company behind him. To determine the actual structure of the market of industrial broiler is then calculated the market share of the company's core. Based on table 1. the company's market share is large enough in this industry. There is one company that reaches a market share of 60 percent. If there is one company reached a market share of 15 percent means that company can be said to have the power of the market (market power) and can be said to be a monopoly if it reaches 25 to 30 percent (Sheperd, 1997).

2. Market Concentration of Companies in the Industrial Broiler in West Sumatera

This research used the calculation of concentration ratio (CR). CR4 is the concentration ratio is obtained by summing the market share of the four largest companies and CR1 is the ratio of the concentration of market share is one the largest companies. Data about the CR4 CR1 and the industry can be seen from Table 1.

Table 1. Market share, and Corporate Concentrations in Broiler Industry in West Sumatera

Core Company	Output (year)	Market Share (MSi)	MSi ²
PT. Ciomas Adi Satwa	4.224.555	60.00	3 600
PT. Karya Semangat Mandiri	1.477.000	20.98	440.16
PT. Primatama Karya Persada	447.000	6.35	40.32
PT. Pokphan	237.000	3.36	11.28
PT. Minang Ternak Sejahtera	186.000	2.64	6.96
PT. Japfa	162.000	2.30	5.29
Masrul Poultry shop	48.000	0.68	0.46
PT. Nusantara Unggas Jaya	21.000	0.29	0.08
Perusahaan mandiri	198.400	3.26	10.63
Concentration (CR ₁)	60.00		
Concentration (CR ₄)	90.69		
Index HHI ($\sum MSi^2$)	4040.16		

Based on data of table 1. to see that company in the industrial broiler was concentrated. Market of broiler industry is dominated by Ciomas Adi Satwa companies with total of market share (CR₁) 60.00 percent. Companies that are in a position to both master the broiler market share in West Sumatera is the Karya Semangat Mandiri companies was 20.98 percent. The third and fourth position is occupied by the Primatama Karya Persada companies with a market share of 6.35 percent, and Pokphan companies mastered market 3.36 percent. The value of the CR₄ acquired for 90.69 percent. This value includes high category (75-100) so that it can be said the market concentrated on certain companies.

HHI index calculation results against well not much different. HHI index which gained from a total market share of the largest firm against squared. HHI index acquired for 4040.16. This figure is greater than 1800 and means that market share in an industry concentrated high broiler in West Sumatera. This fact was supported by Fitriani (2014) based on the data which he obtained from the annual survey of the poultry Industry collected by the Central Bureau of statistics. Of the processed data he obtained that the eight provinces that in the survey, West Sumatra has level concentrations was 75.75 percent. Broiler market

concentrations highest in Indonesia is East Kalimantan (79.60) and South Sulawesi (83.76). Based on theory, when industrial concentrations reached 40 percent controlled by four companies then found build oligopoly. and categorized monopoly in the industry concentration above 80 percent. Industrial concentration (Concentration Ratio-CR4), is said to be high if the value of the concentration of sales of the four largest firms exceeds 70 percent of the total sales (Koch, 1980). The industry has a high concentration of market structure approach means a structure build oligopoly and monopoly, where there are some particular company which controlled the market. While the industry is concentrated in low, the role of trade there is no dominant so that the level of competition becomes higher than high-concentrated industries

3. Market Entry Barriers in the Broiler Industry in West Sumatera

Based on the research results obtained the value of MES of 60 percent. According to Comanor and Wilson (1967) in Alistair (2004), MES is greater than 10 percent describing the high market entry barriers in an industry. The value of MES who is very big in the get. This means that the barrier to entry kepasar in West Sumatera in the broiler industry is very high. This is due to the presence of the broiler companies play a role in the dominant and controlled market share so that other companies that market opportunity is getting smaller. The high market entry barriers proves the existence of an increasingly tight business competition and there is a price war among producers. This will cause the onset of competition. This indicates that the structure of the market broiler industry was build oligopoly. If there are barriers to entering the market, potential competitors cannot enter the market in question. To be able to get into this industry must be a potential competitor to have a minimum efficiency size (MES) that are equivalent to those owned by the largest corporations. The minimum efficiency size (MES) is a very small size where the costs diminimumkan and MES are often serves to define the size of the smallest companies in the market.

The Company's Market Conduct in The Industrial Broiler in West Sumatera

In this study, an analysis of the conduct of the market is a little different from earlier research. In earlier research, analysis of conduct or performance analysis in industry broiler made against large-scale corporations and integrators. In this study, an analysis of the conduct and performance of the market performed against livestock business partnership in

cooperation with the company integrator. The purpose of this research is to know the conduct of the business partnership that markets do a collusion and the merger with the company's integrator, and whether the conduct through collusion and merger attempts this partnership gives a good effect towards sustainability their efforts. To prove it performed quantitative analysis to determine the partnership effort market broiler conduct using the calculation method of the Advertising Intensity (ADV), Capital Intensity (CAP) and Sales growth (Mohamed et al. 2013). The results of the calculation can be seen in table 2.

Table 2. Indicator Value of Conduct Industry Broiler which Using Contract Farming in West Sumatera

Behavior's Indicator	Value	Explanation
Advertising Intensity	0	There are not advertising
Capital Intensity	0.38	High
Sales Growth.	-0.064	Very Low

Based on the results of the calculations against data obtained from a breeder of business partnership obtained a value of Advertising Intensity is zero. ADV is zero due to business partnerships not doing advertising. The advertising is used as one way of increasing sales. But business partnerships not doing advertising. On the type of business partnership that colluded with the company integrator does not require advertising to increase sales. Core company has provided a guarantee of the company's sales to the plasma. Increased sales of the venture partnership is determined by the capacity to produce them. The conduct of the merger and collusion with the company's core corporate partners turned out to lighten the load of the company partners in advertising costs. The lower the costs incurred by a business then the profits will be even greater.

The company's conduct in competition quantitatively can also be seen from the Capital Intensity (CAP). Capital intensity is the ratio between sales by total assets. Capital intensity is defined as the ratio of total average assets such as equipment, machinery and a variety of property against the sale. Based on the results of the research got capital intensity (CAP) on average in one year on the partnership business is 0.38. These values give meaning to that of 0.38 capital to generate sales. This ratio reflects the company's ability to use its assets to generate sales and this ratio ranked high. The higher capital intensity ratio means

more efficient use of assets. Capital intensity ratio obtained on a business partnership in West Sumatera indicates there is a barrier to entry to the market of the industry for the new company. The higher this ratio is becoming increasingly unattractive for newcomers to enter into partnership with the broiler industry because it takes more assets to generate each unit sale. The new company will enter the market build oligopoly must have the level of efficiency of the use of assets which are high, otherwise the company would not be able to enter new markets. Companies that have a high efficiency level will certainly be easier getting a return. Company capital intensity can be used as an indicator of the prospects for the company in the market. Next performed quantitative analysis of market conduct towards sales growth (GRW). Based on the research results obtained sales growth per period as shown in Table 3.

Table 3. Sales Growth Effort Broiler Partnership in West Sumatera

In a year	Sales Average	Sales' growth
Period 1	108.504.224	
Period 2	103.174.755	-0.049
Period 3	104.175.699	0.01
Period 4	102.340.801	-0.017
Period 5	99.797.555	-0.025
Period 6	75.842.075	-0.24

Sales growth per period in one year shows a negative growth and the trend decline in any one year. This means that there is a decline in the sales of each period. This is because the effect of the merger and collusion in price from business partnerships with the company's core. Where in collusion that, input and output pricing is fixed along the no change. But the selling price of chicken harvest periods vary and the amount of chicken harvest each period also varies which depends on the level of mortilitas chicken. The growth did not increase due to the amount of production is fixed and adjusted capacity enclosure. Production quantities will be increased if there is an increase in the number of cages. So the conduct in the increased sales may be made with increased capital investment.

The Market Performance

In this research was done to some of the company's performance measurement in quantitative analysis that is Price-Cost Margin-(PCM), X-Efficiency, Return on Assets (ROA) and Return on Sales (ROS) as well as research results from a fourth the size of the market performance business partnership with the broiler on West Sumatera can be seen in Table 4.

Table 4. Performance Indicator of Broiler Business Used Contract Farming

Performance Indicator	Value	Explanation
Price CostMargin (PCM)	11.67	Positive and Low
Efisiensi-X	0.13	Positive and Low
Return on Assets (ROA)	0.31	Positive and Low
Return on Sales (ROS)	0.12	Positive and Low
Return on Equity (ROE)	0.14	Positive and Low

PCM is one of the indicators of a company's ability to increase prices above production costs. PCM is also defined as a percentage of the profit from the excess of receipts over the costs directly. PCM is the value obtained from the ratio of the difference between goods produced deducting wages in total. In Table 4 visible value of the PCM is amounting to 11.67 percent. The value of the generated PCM is classified as low. The higher the value of the Price Cost Margin then it can be said that the performance of an industry that is getting better and vice versa. Therefore, in this study it was found that business partnership with patterns or broiler pattern of core plasma delivers performance that is still low.

In Table 4 it can be seen the result of Efficient-X of broiler with the partnership. This value is obtained from calculating the ratio of value added to the value of the input effort broiler. Value added is the value of production generated by the industry after reduced with input costs and indirect taxes. Efficient value-X 0.13 is generated. This value indicates that the business partnership with broiler in West Sumatera has reached the level of efficiency in minimizing production costs. The existence of the efficiency rate corporate profits will rise.

This proves that the business partnership with broiler has been able to achieve good performance.

Furthermore conducted an analysis of Return on Assets (ROA) generated by the efforts of broiler with partnership in West Sumatera. The value of the ROA ratio obtained from the difference in net income, taxes and interest to the holders of the debt with the total assets. The value obtained is amounting to 0.31 ROA. This value reflects the rate of return of the whole of the assets owned by the business partnership with the broiler on West Sumatera. This means that the earnings of 0.31 per year have been retrieved over the financial resources invested in his business. Each capital infused in the form of assets can give a profit of 0.31. This value is quite high. The higher the value of the ROA then the better business performance. This shows that the performance of broiler with a partnership qualifies as good enough.

The same thing also obtained against the value of the Return on Sales (ROS). The value of the ROS obtained from the ratio of the difference in net income and taxes on profit with total sales. The value obtained is ROS of 0.12. This number belongs to low. The higher the value of the ROS business performance then the better and vice versa. The number of these partnership efforts on ROS belongs to low due to relatively high costs incurred i.e. costs of feed and DOC as well as drugs.

Calculations were also done to the Return on Equity (ROE). The value perhitung results obtained from the ROE ratio difference between net income and taxes on profit with shareholder's equity. The value of shareholder's capital and profits is equity was detained in an entity by the company to the core. The value of this instance is the ROE for the company's core in the acquisition of profit. The results obtained are ROE amounted to 0.14. This means that from one operational capital invested company core shaped feed costs, DOC and drugs provide a profit of 0.14. The value of effective and efficient ROE is approaching 1. If the value of the ROE approaches zero means the company is not able to manage capital efficiently to generate income. This value is low and shows performance belongs to breeders in creating cost efficiencies of feed is less good. This can be due to the cost of feed and the DOC is quite high. Thus, the expected cost of getting Breeders feed and DOC are cheaper away from the current. The second thing that is causing the low value it is suspected of feeding efficiency. If those two things be addressed then the profit partnership efforts could be improved.

Conclusion

It can be concluded that the business broiler with contract farming in West Sumatera had a pretty good performance but less efficient and effective. This is shown from the results of all performance indicators showed positive figures and not negative but its value is still low.

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