Export Performance of Malaysian Furniture Industry: Rethinking Competitiveness

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Introduction
Malaysia’s economy is largely dependent on the exports of several products. Since the 1990s furniture export has become one of the strongest earning sources for Malaysia. Behind the success of this industry the country has some comparative advantages such as the competitive pricing strategy and good quality products. Malaysia is able to achieve a position among the first 10 leading furniture exporting countries of the world (www.mfc.com.my).

In spite of several obstacles like the world economic recession, Malaysia’s furniture industry has proven to be tough enough. Furniture export has increased dramatically from the 1990s to 2000. In 1990 the total amount of furniture export was RM 437 million and in 2000 it rose to RM 5.6 billion. As Malaysia’s economy is stable and the government is very dedicated to helping this industry the furniture industry has flourished greatly. Besides all these factors the country has a big source of major raw materials.

Malaysia is now ranked among the top exporting furniture nations in both the US and Japan. Datuk Sri Rahidah Aziz said there was also a significant market diversification with local furniture related products going to 142 countries in 1998 as compared with 116 in 1995. The furniture makers in Malaysia can be assured that the increasing demand of locally produced furniture range determines that buyers are satisfied with the quality and value. Malaysian furniture is recognized worldwide and we have been consistently producing good quality furniture at attractive prices (‘Overview of Malaysian Furniture Industry’, Malaysian Furniture Industry Council, www.mfc.com.my).

In 1995-96 there was an issue regarding the furniture industry of Malaysia. It was all about rubber wood, a vital raw material for furniture. The Government was worried that the amount of rubber trees was diminishing. But the major importers were not agonized. One of the important importers said that rubber trees are very fast growing so there is nothing to worry about. Rubber wood is mostly used for the furniture which is artificially polished rather than remaining natural colour (www.mfpc.com.my).

The previous name of the Malaysian Furniture Industry Council (MFIC) was the Federation of Malaysian Furniture Manufacturers and Traders Association.

Abstract
Malaysia is one of the ten largest furniture exporting countries of the world. Behind the success of this industry there are several competitive advantages which are rare and difficult to copy by its competing nations. Hence the importance of measuring competitive advantages of the furniture industry of Malaysia has arisen. The concept “competitiveness” is vast and vital for a nation to measure. The purpose of this paper includes, specifying the meanings and measurements of “competitiveness”. After that the study will clarify the definitions of “competitiveness” for the furniture industry of the country. “Competitiveness” of any industry should be measured based on the appropriate objectives of any nation. In the measurements, the expectations of involved exporters, importers or clients and the worldwide demand and supply conditions should be brought under consideration which cannot be possible by a single measure of competitiveness.

Keywords: Competitiveness, Export Performance, Comparative Advantage, Constant Market Share, Shift-Share
(FMFMTA). It was established in 1978. It preserves interests of the Malaysian furniture manufacturers and exporters. In 1993, FMFMTA was renamed MFIC (www.mtic.com.my). The role of this institute is vital in building of Malaysia's furniture industry strength in the local market as well as in the world market. It is a 13 states furniture association. It represents at the national, regional and international levels. MFIC is the official institute of Export Furniture Exhibition (EFE) and EFE is presented by Malaysia Furniture Entrepreneur Association (MFEA) (www.mhec-singapore.com), (www.mfic.org.my).

There are several reasons for which the country has shone in the sector. The reasons may include the good quality and durability of furniture. Most of the furniture is made of high quality tropical hardwoods such as Meranti, Nyatoh and Ramin. Several Government organizations like the Ministry of Plantation Industry and Commodities and other relevant Ministries articulate the important role of the furniture industry in the Malaysian economy. Under Government supports there are several key issues such as pro-business policies, responsive government, and attractive tax and other incentives, intellectual property protection etc. World-class logistics and communication systems are significant factors for the growth of this sector and its exports. Besides all these some natural resources like oil, gas, tin, timber, palm oil, rubber are also supportive. A proper skilled workforce is also supplementary. Educated, productive, multilingual population, comprehensive system of vocational and industrial training etc. are very crucial factors here. Under a vibrant business Environment, market-oriented economy, well-developed financial and banking sector, wide usage of English language, especially in commerce, large local business community with long history in international business, large foreign business community leave great contribution in the production and export of furniture of Malaysia (www.mfpc.com.my).

Recently the industry has faced the problem of increased cost of raw materials which causes loss for the manufacturers. Another point is that in previous days industry labourers had to pay their own tax but now the government has made a rule that tax be paid by the employers. Again the manufacturers are under burden. Further the Government has fixed a minimum wage rate for the labourers. All these affect the industry owners badly. Thus in 2012 the new issue is to urge the Government to assist the furniture industry of Malaysia (www.theborneopost.com). Hence the industry has to find some new competitive advantages to remain powerful in the local markets as well as in the highly competitive markets of the world.

The concept of competitiveness is a vital issue to be clarified nationally at both the micro level and at the macro level of firms. Published works on the Malaysian furniture industry are very rare to find and there is a great potential for research on this issue. The purpose of this paper is firstly to find out the appropriate meaning of competitiveness and secondly to find out the appropriate measure of competitiveness and thirdly to introduce a definition of competitiveness for Malaysia's furniture industry. 'Competitiveness' for Malaysia's Furniture industry must consider the expectations and demand of its local and foreign clients and it is most difficult to capture 'competitiveness' by a single measure.

**Defining Competitiveness**

There are many different concepts and definitions of competitiveness. The term competitiveness is used to mean many different things by different people. It can be used as an excuse for protectionism, cost cutting etc. or it can be used to inspire innovation and productivity increases.

Economic dynamism, globalization and social progress and competitiveness go hand-in-hand. Competitiveness can be analyzed in any economy and society at macro level (Baklyte & Tverraniemiene, 2010).

According to one dictionary, 'competitiveness' is "an aggressive willingness to compete" (The Free Dictionary, 2004). To obtain a deeper understanding of 'competitiveness', a literature review is needed. The definitions of competitiveness are presented here by two categories such as national level and firm level, as they vary.

**Defining Competitiveness at a National Level**

Competitiveness can be defined as “the ability of a country to produce goods and services that meet the test of international markets and simultaneously to maintain and expand the real income” (Tyson 1992).

The OECD (1997) added some criteria that competitiveness is to be proved “under free trade and fair market conditions” and “over the long-term”: “These definitions all include an international element in the sense that products and services are exposed to international trade, competing with products and services produced by countries with different cost structures and/or more sophisticated features. At the same time, competitiveness of a nation implies rising returns on resources and rising real income for the citizens” (Union et al., 2004). Thus high-wage countries have to compete in international markets with low-wage countries. Hence productivity is achieving both low costs and high wages at the same time (Belkacem, 2002).

WEF defines competitiveness as "the ability of a national economy to achieve sustained rates of economic growth as measured by the annual changes in per capita GDP." (WEF 1996).

Competitiveness on a national level may include the relative performance of nations competing in the international market, or a nation's ability to attract global capital (Belkacem 2002). Boltho (1996) defines real exchange rate as an indicator of competitiveness that involves both export and import competitiveness.

In summary, national competitiveness is successful trade performance in the international markets and as a result of this there will be sustained and rising standards of living in terms of rising real incomes. The real definition stated by the National Competitiveness Council (NCC 2003): “competitiveness is the
ability to achieve success in markets leading to better standards for all."

**Defining Competitiveness at a Firm Level**

Few definitions in the literature were found to describe competitiveness at a firm level (Buckley, Pass and Prescott, 1988). One very important one can be, "Competitiveness is synonymous with a firm's long-term profit performance and its ability to compensate its employees and provide superior returns to its owners" (Aldington Report, 1985).

The Department of Trade and Industry (DTI 1998) states that: "For a firm, competitiveness is the ability to produce the right goods and services, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms."

Firm competitiveness can be related to market performance, with high productivity and low costs. Based on the literature very little is found about any vital objective of a firm. The general objectives of a firm may include: survival of the firm is the most important one then rising returns on its resources and rising returns to its owners (Union et al., 2004).

**Conceptual Framework for Assessing Competitiveness**

Competitiveness assessment is based on several specific parameters. A sector's performance can be dependent on several human and non-human components as well. These can be performances of the farmer-producer, processor, exporter or retailer (depending on the channel of market participation), goods safety and quality, regulatory scenario, quality of human resources in the system or even the role played by the government in policy making (Sagheer, Yedav, & Deshmukh, 2009).

From an economic point of view, it assumes that country A and country B are two of many countries that produce and export products. To simplify, assume that the two exporting countries do not consume that product, the product is a small part of their total economic activity, and there are no transport charges between countries.

Several important concepts relating to cost of production, productivity, trade and competitiveness can be shown by a simple model.

Let the curves FA and FB in Figure 1 represent export supply curves, at farm-gate price in countries A and B respectively. They represent the quantity that would leave the farm for export at alternative farm prices. Because there is not domestic use, curve FA and FB are also domestic supply curves. The curves XSA and XSB represent excess supply curves at the point of exit from the country. The vertical difference between the X and F curves represents variable domestic "marketing" cost (e.g., strong transportation, and handling, including any marketing and export taxes or subsidies). The world market in Figure 1 clears at price PW, with country A producing and exporting quantity QA and country B producing and exporting QB. The supply curves show that country A has high variable production costs and low variable marketing costs relative to cost in country B. Thus, the farm-gate price in country A, PA, is higher than the farm-gate price in country B, PB.

Suppose these cost curves were unknown but economists had accurately measured the average cost of producing and marketing of products in country A and B. After adjusting for year to year variability, they would likely find in country A that the average total unit cost of producing QA unit was PA, The average variable production cost per unit would equal area AIECD in Figure 1 divided by QA, and the per unit residual represents to fixed production factors would equal the area of BEC divided by QA. Total marketing cost per unit would equal the difference between PW and PA. Equivalent cost estimates could be obtained for country B.

According to the above concept, Sharples (1990) defined that competitiveness does not have a definition in neo-classical economic theory; it is a political concept. It is becoming conventional, however, for economists and others to perceive competitiveness as the result of the combined effect of market distortions and comparative advantage.

Figure 1: Comparative Advantage between Countries A and B (Source: Sharples, 1990)
Competitiveness Measurement

Competitiveness should be maintained and increased at each level like firm level or national level. Measuring competitiveness is not an easy task. The actual performance cannot be defined by a single measure of competitiveness. Thus multiple measures should be used. Potential can be turned into performance by measuring the management process.

There are many different concepts and definitions of competitiveness. The term of competitiveness is used to mean many different things by different people. It can be used as an excuse for protectionism, cost cutting etc. or it can be used to inspire innovation and productivity increases. Economic dynamism, globalization and social progress and competitiveness go hand-in-hand. Competitiveness can be analyzed in any economy and society at macro level. Competitive advantage is the function of the process through which a firm organizes and manages the activities. Competitive advantage can be born when a firm can innovate a new way, which is more effective and efficient than those of its competitors in the industry, to deliver value to the customers. In every competitive strategy, there are two different components like; the structure of the industry in which the enterprise evolves; the profitability may change hugely from one industry to another; another point is the positioning of the company in any industry (Balkyte & Tvaronoviciene, 2010).

Performance Measurement

International Market Share is a frequently used measure of competitiveness for specific types of commodity or industry (Krugman and Hotspoulos, 1987). The margin of market share cannot be revealed by this measure, thus making profitable market share can be an informative measure (Buckley et al., 1988). By including imports as an element for measuring competitiveness, balance of trade figures serve as an established measure of international performance at a national level.

Domestic market activity cannot be a measure of competitiveness according to the measures mentioned. All these measures individually or collectively reveal nothing about the future performance or sustainability, rather they focus on the past performance.

Potential Measurement

In a nation with comparative and competitive advantages, there are certain factors that contribute to those advantages (Scott 1985, Porter 1990). The factors are access to natural resources, skilled labour and capital, supporting industries and sophisticated business strategies etc. Total Factor Productivity (TFP) can be the most important factor (Belkacem 2002). Productivity is one of the major contributing factors of competitiveness (Porter, 1990).

Conversely, a target can be achieved by productivity. This target may include certain measures like standard of living or return on resources at micro level like firm level and it can be at macro level like national level. Achieving targets or goals is not possible by productivity or other factors of potential measurements.

Management Process Measurement

It is possible to implement the plans of potentials and convert them into improved performance by proper management process. Generally management process measurement is qualitative but not quantitative. Therefore, it can create certain problems. Factors of the management process may include internal and external relations, marketing skill and risk, knowledge management (Union et al., 2004). In multifaceted, dynamic business situations, it is difficult to assess and compare management processes, (Buckley et al., 1988).

Combined Index

A single measure of competitiveness cannot capture the total picture of the situation as there are diverse domains and there is immense relationship between and among the measures.

If competitiveness is measured on a national level, WEF and IMD use composite indices which include a great number of variables to appraise a nation's competitiveness (Union et al., 2004).

Three basic observations can be drawn from the discussion of all definitions of competitiveness and its measures. These are: 1. Objectives of a nation and firms as well should be considered; 2. High standard of living of citizens can be the objective of any nation and high return on investment can be the objective of any firm; 3. As a whole competitiveness can be described as the fulfillment of these sorts of objectives.

Goals and Appropriate Measures of Competitiveness for any Nation and Firm

GDP per capita used by WEF is the most powerful measurement of competitiveness for a nation. GDP per capita is adjusted to Purchasing Power Parity in few cases (Garelli 2002; Garelli 2002) argues that “GDP does not include many items that people would generally consider part of their standard of living” Hence the problem is, a nation can have a clear objective but which measure of competitiveness is appropriate for it, is ambiguous.

Each firm must formulate its mission in order to find the base or foundation of future management. It may include three basic elements: core values of the firm and the factors that affect the firm's basic commitment, major purpose of the firm and the firm's vision and goals through which the firm will accomplish its mission (Collins and Poras 1996).

Goals and Appropriate Measures of Competitiveness for Malaysia's Furniture Industry

The appropriate measures of competitiveness can be identified only when the objectives are recognized properly as it is directly related with a set of specified objectives or mission. Now the objectives of Malaysia’s furniture industry should be clarified.

The mission may include several objectives:

1. Increasing the production of furniture products
2. Increasing the export of furniture products
3. Contributing more in the country’s GDP
4. Becoming more competitive internationally
5. Identifying and implementing new competitive advantages which cannot be duplicated easily by other competing nations

All these objectives match with the following measures of competitiveness:

Three major methodological tools can be used. Firstly, two methods are used to measure the changes of comparative advantage and competitiveness of a country’s export using the Revealed Comparative Advantage (RCA) and Constant Market Share Analysis (CMS) method; the third method is used to identify potential export markets using the Shift Share method. Detailed descriptions on these three approaches are provided in the following paragraphs:

**Revealed Comparative Advantage (RCA)**

“Revealed comparative advantage (RCA) is a ratio of A/B, where A stands for the export value of a commodity of a country or region divided by the total export value of all commodities of a country or region, and B stands for the export value of every commodity of the world divided by the total export value of all commodities of the world” (Gong, 2011). Global business is vastly dependent on the fact of comparative advantage. Comparative advantage results from international trade and originated from the core thought that a country exports goods more efficiently compared to others. Comparative advantage theory measures a country’s specialization in the international division of commodity. It is determined by the country’s availability of cheap resources. It includes a country’s domestic and international competitiveness and its technological advancement and innovation (Russu, 2011).

Comparative advantage is the tendency for countries to export those commodities which they are relatively more skilled at producing, than the rest of the world. If a country can produce a good at a lower relative cost than other countries, then with trade, that country should devote more of its resources to the production of that particular good (Serin & Civon, 2008). In different stages of product life cycle different competitive advantage strategies will be effective. In the introduction stage firms should offer relatively higher quality products to the quality conscious buyers and to decrease dissatisfaction with the purchase of defective new products to gain competitive advantage. As the product reaches the growth stage, customers demand more promotional activities to facilitate them with more information regarding some issues like its performance, longevity etc. In maturity stage competitive advantages may include high levels of operational efficiency, application of technological advances that lower manufacturing, distribution, and administrative costs” (Beal & Bi, 2010).

Revealed Comparative Advantage was first applied by Balassa (1965). He showed that two of the factors, which determine the value of a country’s export share for a particular product, its relative size and the value of its aggregate exports, cause the export share to be a conceptually unsatisfactory measure of its revealed comparative advantage. As a result of eliminating these factors an adjusted export share is obtained for each country, and a set of these shares will correlate perfectly with their matching set of RCA indices.

**Constant Market Share (CMS) Approach**

The reason for which CMS has greater attention over the question of interpretation than other methods (based on explicit empirical models) is that it is based on an identity and is not derived from an explicit theory. CMS analysis involves a decomposition of terms of an identity and, as such, the empirical results can be consistent with any number of theories (Ahmed-esa-hani, 2006). The constant market share approach is a popular and simplified method of examining export growth by which a given change in a country’s exports is partitioned into structural and competitive components.

Ariff (1984) made assessment on the Malaysian import and export performance using the CMS model. His study included destination countries such as Australia, Canada, some European countries, Japan, USA and other newly industrial countries like Hong Kong, South Korea, Taiwan and Singapore. The model assessed Malaysia export pattern to the destination countries and their import from Malaysia. He pointed out that the estimates of each effect (standard growth effect, commodity composition effect and market share effect) would depend crucially on the standard used in the computation. In other words, the magnitude of this effect would be affected by the standard against which the focussed exporting countries export to the focussed destination, was matched. A positive commodity composition effect would suggest that exports consist mainly of those items, for which import growth had been particularly strong in the focussed destination, while a positive market destination effect would suggest that the exports concentrated mainly on the most rapidly growing markets. The market destination effect however is relevant only where the focussed destination refers to a region. However, both the commodity composition and market distribution effect depend on the structure of exports in the base year and those subsequent changes in the commodity composition or market distributions during the intervals of investigation.

**Shift-Share Technique**

The essential idea is to analyze the extent to which the difference in growth between each region and the national average is due to the region performing uniformly better than average on all industries or to the fact that the region happens to be specialized in fast growing sectors (Esteban, 2000). It measures the growth of individual markets relative to all members of a chosen group. The shift-share method is used as a technique for identifying export opportunities (Ahmed and Mark, 1995; Khalifa, 1996, and Peh Kian-Heng, 1999).

Shift-Share technique is a method, which is useful for identifying export opportunities. It analyses change in trade over time on the basis of the
changes in a country’s export growth occurred in market share. This method aims at determining the percentage net shift, which is the relative gain or loss in growth of a particular member, relative to the group in the time period chosen. The net shift should be positive for members gaining shares over the period and negative for members losing market share. The members identified positive net shifts are the most potential.

Competitiveness of Malaysia’s Furniture Industry Products’ Export Performance

The furniture industry of Malaysia is highly competitive. It has achieved the position among the world’s largest 10 furniture exporting countries. There are several factors that contribute greatly. These are: aggressive industry promotion, high technology involvement in the production and great market expansion internationally. The furniture industry of Malaysia has proved to have testimony and popularity by exporting to around 160 countries. According to nifpc.com the biggest competitive advantages are:

- **Economic Factors**
  - Natural resources: palm oil, gas, timber, tin, oil, rubber
  - GDP growth rate
- **Government Policies**
  - Business policies
  - Supportive government

- Lucrative tax
- Property protection Act
- Skilled Workforce
  - Educated population
  - Multidimensional skilled workers
  - Industrial training
- Good Infrastructure
  - Advanced highways and railways
  - Well-equipped seaports and airports
  - Quality telecommunications services
- Sound Business Environment
  - Market-oriented economy
  - Good financial and banking condition
  - Mass usage of English language
  - Good condition of international business involvement
  - Big international business group

Other very important factors of competitiveness of Malaysia’s furniture industry may include:

**Quality & durability**

Malaysian furniture is very fashionable and durable because of the availability of high quality tropical hardwoods such as Meranti, Nyatoh and Ramin technology, and the skilled labour.

**Quality-driven explosive export growth**

Within two decades Malaysian furniture has become a multibillion-ringgit industry.

**Strong government support**

The Malaysian government patronizes the furniture industry as it has great impact on the economy of the country, through the Ministry of Plantation Industry and Commodities and other relevant Ministries.

**World-class communications & logistics**

Reliable telecommunications system, internet access throughout the country, a network of modern expressways, world-class seaports such as Westport, Northport and the Port of Tanjung Pelepas, and international airports all contribute greatly in the expansion of the furniture industry.

From Table 1 and Figure 2 it is clear that Malaysian furniture export is declining a bit from 2010 to 2011 except in the sectors of seats and their parts and parts of furniture. The declining percentages are small but threatening. If it goes on then, this industry will lose great market share. Thus the country must focus on its competitive advantages and implement all these to regain and advance the position of furniture export in the world market.

**Conclusion**

Today’s multi-billion ringgit furniture industry of Malaysia was a cottage based industry in its early age. Great support of the Government, advanced technology and extraordinary creative designs have made the present status of this sector. Malaysia exports furniture to more than 160 countries.

Table 1: Malaysian Furniture Export by Type 2011:

<table>
<thead>
<tr>
<th>Type</th>
<th>2010 (RM Million)</th>
<th>Share %</th>
<th>2011* (RM Million)</th>
<th>Share %</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7,359.2</td>
<td>100.0</td>
<td>7,670.3</td>
<td>100.0</td>
<td>-3.6</td>
</tr>
<tr>
<td>Wooden</td>
<td>6,519.6</td>
<td>81.9</td>
<td>6,198.8</td>
<td>80.8</td>
<td>-4.9</td>
</tr>
<tr>
<td>Metal</td>
<td>571.1</td>
<td>7.2</td>
<td>564.4</td>
<td>7.4</td>
<td>-1.2</td>
</tr>
<tr>
<td>Plastics</td>
<td>26.4</td>
<td>0.3</td>
<td>23.8</td>
<td>0.3</td>
<td>-10.1</td>
</tr>
<tr>
<td>Seats and its parts</td>
<td>559.1</td>
<td>7.0</td>
<td>592.4</td>
<td>7.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Furniture of other materials</td>
<td>25.7</td>
<td>0.3</td>
<td>22.0</td>
<td>0.3</td>
<td>-14.4</td>
</tr>
<tr>
<td>Parts of furniture</td>
<td>257.3</td>
<td>3.2</td>
<td>268.9</td>
<td>3.5</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: MATRADE
(www.mfpc.com.my), Malaysia exports around 80% of its production. The country has already large markets in US, Japan and Australia. The export growth rate is very high in UAE, Saudi Arabia, the Philippines and Russia. Malaysia is now looking for countries like Algeria, Greece, Puerto Rico and Libya (www.mfpc.com.my). “Malaysia has always been known for its wood based furniture, owing to its natural resources. The government has set an annual growth target of 6.5% for wood based furniture, estimated to reach up to RM 3 billion by year 2020” (www.mfpc.com.my).

According to mfc.com, the European furniture market is slightly smaller than that of US and it is enlarging and creating great opportunity for the furniture exporting countries. Malaysian furniture industry has to penetrate this large market of Europe. This market demand includes basically high end medium price, high quality products. The European furniture market is worth about RM 50 billion a year after the enlargement. Another positive thing for the industry is, foreign buyers are looking to Malaysia because the country can meet their high production demand. Because of original design as aesthetics and other important competitive advantages Malaysia is still in a good position even though there is great competition from low priced countries like China and Vietnam. There is a world economic recession but global demand for furniture is high. The government also plays an important role in nurturing the industry. Providing Pioneer Status for tax exemption and Investment Tax Allowance, the pro-business environment makes doing business easier and faster. Malaysian furniture industry can meet or even exceed the expectations and continue its expansion in the world market because of the extraordinary competitive advantages like good quality products with high potential markets and a business friendly environment.

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