

COMPETITIVENESS OF PRIORITY INDUSTRIES

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Introduction

The chemical industry is broad, ranging from household items to material inputs for the resource-based industries. In 1995, the imports of chemical products amounted to RM13.8 billion, while exports amounted to RM5.7 billion. Between 1994 and 95, the chemical and petrochemical industry experienced a growth rate of 41.6%, representing one of the fast growing industries in Malaysia. Considering the importance of this industry, one of the key issues raised is to determine the competitiveness of this industry. Consequently, this research purports to examine the nature of the industry structure, stage of the life cycle of the industry, business strategies pursued by firms in the industry, and the value chain analysis of the chemical industry.

Materials and Methods

Based on the work of Porter (1980); Bowman and Johnson, (1992), a structured questionnaire was developed. A total of 180 firms was identified in the study, and 120 questionnaires were distributed in the Klang valley. A total of 46 usable questionnaires were available for analysis. These firms were involved in agricultural chemicals, other basic industry chemicals, soap, detergents, cosmetics and toilets preparations, synthetic resins, starch based and fermentation products, pharmaceutical, paint and paint products, and plastic products. Data was analysed by using the SPSS programme. Descriptive statistics were also used in the analysis.

Results and Discussion

The results showed that the majority of these firms were Malaysian owned. The majority was between 10-20 years old, and has 100-200 employees. Almost 40% of the firms exported their products overseas. About 45% have annual sales of RM50-200 million. An analysis of the nature of industry structure showed that it was not difficult to enter into the industry. About a third of the firms perceived a potential

growth rate of 6-9% per annum and another one third perceived a growth rate of 9-12% per annum. The intensity of competition among firms was quite high. Firms also considered that their products had little substitutes. Buyers appeared to have more bargaining power than selling firm, while the bargaining power of suppliers or vendors were not high as the purchasing firms had more power. The industry is considered to have medium range technology level, and the rate of innovation in the industry is not so rapid. It was also found that the firms did not consider themselves competitive at the international level or as compared to foreign firms in the industry. Most of the firms pursued a cost strategy (5 firms), differentiation (31 firms), and focus (10 firms) strategies. It was also found that the firms were mostly in the growth and maturity stages. One firm was in the introduction stage and two firms were in the decline stage. This suggests that the firms are relatively new or young in the industry. An analysis of the value chain showed that the primary activity costs 75% (median) of the total costs while the support activity accounts for 25% (median) of the total costs. In terms of primary activity costs, the largest component in the cost structure were the purchases from suppliers and inbound logistics. Operations activity cost was the second largest component in the primary activity cost structure. With regards to the secondary cost structure, the largest components were research and development, human resources and general administration expenses. The profit margin in these cost structures were only about 10% (median).

Conclusions

The findings suggest that the chemical industry in Malaysia is still at its infancy stage. Many of the firms are small in size, and do not have the capacity to compete with large international chemical firms. Although the potential growth rate is perceived to be relatively favourable, the intensity of competition among the firms is quite intense. As a large proportion of the inputs required by the industry is imported, it may not be wise to promote the growth and development of the industry without considering alternative sources of input supplies for the chemical industry.

References

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