AN ANALYSIS ON COMPETITIVENESS OF STIDC VENDOR COMPANIES

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AN ANALYSIS ON COMPETITIVENESS OF STIDC VENDOR COMPANIES

By

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A Research Paper
Submitted in Partial Fulfillment of the Requirement
For the Degree of Corporate Master in Business Administration
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Universiti Malaysia Sarawak
2002
I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate in scope and quality, as a research paper for the degree of Corporate Master in Business and Administration.

Associate Professor Dr. Shazali Abu Mansor
Supervisor

This research paper was submitted to the Faculty of Economics and Business, UNIMAS and is accepted as partial fulfillment of the requirements for the degree of Corporate Master of Business Administration.

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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

I also would like to record my highest appreciation to my supervisors, Associate Professor Abas Manor, Director of the School of Business, UNIMAP for his invaluable advice, guidance and encouragement throughout my research paper writing. His suggestions and provocative insightful comments has greatly improved this research paper.

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My appreciation also goes to the management of Sarawak Timber Industry Development Corporation (STIDC), particularly to officers in the Vendor Development Program Unit for the cooperation and assistance rendered, which in formulating the relevant data for this study. My sincere gratitude goes to all the vendor companies.

Signature: __________________________

Date: 15/4/2002

I am deeply indebted to my beloved wife Sharifah Khadijah, Was. Baling, my beloved children Mohamad Nazrin, Sabrina, and Mohamad Nadzmi for the support, encouragement, and understanding that has inspired me over the past two years of my study.
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ABSTRACT

Furniture Vendor Development Program was first started in Sarawak by Sarawak Timber Industry Development Corporation (STIDC) in December 1996. Currently there are 40 vendor companies appointed throughout the state which is in line with the concept of creating Bumiputera Commercial and Industrial Community (BCIC) in Sarawak. The thrust of BCIC is toward creating competitive, progressive, and resilient bumiputera entrepreneurs.

The objective of this study is to analyze the competitiveness of the vendor companies based on resource factors namely material, capital, human, and technology resources and marketing factors. The theoretical frameworks used are resource-advantage theory and Porter’s competitive strategies framework. Questionnaires were distributed to all the vendor companies in order to arrive at the findings. An interview with three of the company’s owner was also conducted to get their insight on competitiveness.

Findings from the study revealed that in general the level of competitiveness of the vendor companies was at parity position and can be related to the hypothesis of ‘stuck-in-the-middle’ when analyzed from resource factors and competitive strategies framework. This was attributed to their competitive disadvantage in terms of both resource factors and marketing factors.
1. INTRODUCTION

The main thrust of the concept Bumiputera Commercial and Industrial Community (BCIC) is to create more competitive, progressive, and resilient bumiputera entrepreneurs in Malaysia. This is to promote more active bumiputera participation in various sectors of the economy. In this regard, various programs were launched by the government with the primary objective to build the number of competitive bumiputera entrepreneurs in the country. One of the programs that have produced impressive result in creating more bumiputera entrepreneurs is Vendor Development Program (VDP). VDP was launched by Ministry of International Trade and Industry (MITI) in December 1988 and the first anchor company in furniture VDP was Land and General called Land and General Furniture Component Scheme in April 1993.

This packaged program is effective in creating and developing bumiputera entrepreneurs, but such program has its own problems and challenges. One of the main problems is eliminating over-dependence on the part of vendor companies to vendor development program as the primary source of business revenue. Therefore it is important that vendor companies venture in the open market that not only offer bigger market and hence revenue, but at the same time can also facilitate enterprise development. The criteria critical to successful venture in the open market is firm’s competitiveness.

1.1 Furniture Industry in Sarawak

Furniture industry accounted for the largest number of industrial establishments in the wood-based industry in Sarawak. As listed in Table 1.1, there were 336 wooden furniture related establishments throughout the state in the year 2000. This figure is forecasted to increase with the increasing number of downstream activities in the timber industry. This is evident from the increasing number of wood-based manufacturing approved by Industrial Coordination Committee (ICC) Sarawak.
Table 1.1: Status of Wood-Based Industry in Sarawak 1998-2000

<table>
<thead>
<tr>
<th>Type of Mill</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plywood</td>
<td>252</td>
<td>244</td>
<td>245</td>
</tr>
<tr>
<td>Veneer</td>
<td>27</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Dowels/Moldings</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Laminated Board</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Particle Board</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Medium Density/Fiberboards</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Woodchips</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Charcoal Briquette</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Kiln Drying Plant</td>
<td>47</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Furniture</td>
<td>327</td>
<td>335</td>
<td>336</td>
</tr>
</tbody>
</table>

Source: Sarawak Timber Industry Development Corporation (STIDC)

The furniture industry in Sarawak has shown a remarkable achievement over the last decade particularly in terms of value added. Nevertheless this industry is still labor intensive and employs the most number of workers in the manufacturing industry. The principal statistics of furniture industry in Sarawak for the period 1993-1997 is as listed in Table 1.2 below.

Table 1.2: Principal Statistics of Furniture Industry in Sarawak 1993-1997

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of establishment</td>
<td>200</td>
<td>69</td>
<td>174</td>
<td>203</td>
<td>197</td>
</tr>
<tr>
<td>No. of workers</td>
<td>1627</td>
<td>1254</td>
<td>1769</td>
<td>1985</td>
<td>2196</td>
</tr>
<tr>
<td>Gross value of output</td>
<td>42</td>
<td>38</td>
<td>56</td>
<td>63</td>
<td>75</td>
</tr>
<tr>
<td>(RM million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of input (RM million)</td>
<td>27</td>
<td>23</td>
<td>35</td>
<td>38</td>
<td>46</td>
</tr>
<tr>
<td>Value added (RM million)</td>
<td>15</td>
<td>15</td>
<td>21</td>
<td>25</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Yearbook of Statistics Sarawak 2000

1.2 Bumiputera Participation in the Furniture Industry

It is an obvious fact that bumiputera participation in the furniture industry is very low compared to non-bumiputera. Out of 336 wooden furniture related establishments in Sarawak, 75 can be
classified as bumiputera in terms of majority in equity. A study on Strategic Industrialization Programs and Database for Small and Medium Industries (SMIs) in Sarawak conducted by Mara Institute of Technology, Sarawak in collaboration with the Ministry of Industrial Development in 1995 revealed that bumiputera furniture manufacturing companies were characterized as small and medium enterprises in terms of capacity, productivity, paid-up capital, and number of employees.

1.3 STIDC Furniture Vendor Development Program

Being the lead agency to coordinate the development of wood-based industry at state level, Sarawak Timber Industry Development Corporation (STIDC) was appointed by state government to implement its Furniture Vendor Development Program (VDP) in Sarawak. This program also involved two other state agencies namely State Financial Secretary Office and Public Works Department (JKR), with STIDC as the main coordinator to the program. In this context, STIDC is the anchor company.

The main objectives of this VDP are to promote active Bumiputera entrepreneurs participation in the wood-based manufacturing industry and to create Bumiputera Commercial and Industrial Community (BCIC) in Sarawak. In order to achieve its objectives, among the roles of STIDC to its vendor companies in this program are as follows:

- Providing a guaranteed market.
- Providing technical assistance and advice.
- Implementing quality control procedures.
- Organizing management and technical training programs.
- Offering credit facilities for purchase of raw materials.
- Offering credit facilities for purchase of machineries.
- Product promotion.

1 Criteria for bumiputera status company is bumiputera-owned equity in the company is more than 50 percent.
2 Ministry of International Trade and Industry Malaysia definition of small company is paid-up capital equal or less than RM0.5 million and total number of employees equal or less than 75.
When the program first started on 6th December 1996, a total of 22 bumiputera companies throughout Sarawak were appointed as vendor companies. These vendor companies are all small companies with paid-up capital of less than RM500,000.00 and total number of employees less than 75 for each company respectively. The figure increases every year and as of March 2002, there are 40 vendor companies taking part in this program. Table 1.3 below depicted the number of vendor companies from 1996-2002.

Table 1.3: Number of STIDC Vendor Companies (1996-March 2002)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Vendor Companies</td>
<td>22</td>
<td>22</td>
<td>28</td>
<td>31</td>
<td>35</td>
<td>40</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Sarawak Timber Industry Development Corporation (STIDC)

This program is implemented throughout the state, and in view of the large size of Sarawak, vendors were appointed in every division of the state. Kuching division has the most number of vendor companies due to the large market compared to other divisions. The number of vendor companies in every division is shown in Table 1.4 below.

Table 1.4: Number of STIDC Vendor Companies by Division in 2002

<table>
<thead>
<tr>
<th>Name of division</th>
<th>Number of vendor companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuching</td>
<td>15</td>
</tr>
<tr>
<td>Samarahan</td>
<td>2</td>
</tr>
<tr>
<td>Sri Aman</td>
<td>2</td>
</tr>
<tr>
<td>Sibu</td>
<td>6</td>
</tr>
<tr>
<td>Kapit</td>
<td>2</td>
</tr>
<tr>
<td>Sarawak</td>
<td>1</td>
</tr>
<tr>
<td>Bintulu</td>
<td>3</td>
</tr>
<tr>
<td>Miri</td>
<td>7</td>
</tr>
<tr>
<td>Limbang</td>
<td>2</td>
</tr>
</tbody>
</table>

Total 40

Source: Sarawak Timber Industry Development Corporation (STIDC)

The vendor companies are appointed for a renewable contract of every two years and the contracts are to manufacture and deliver the following products:

a) Wooden furniture for government quarters.

b) Wooden furniture for government barracks.
c) Wooden furniture for government offices.
d) Wooden furniture for primary and secondary schools.
e) Kitchen cabinet and other built-in furniture.

Although there is a guaranteed market, the amount of contract awarded to the vendor companies varies in value. Furthermore, the contract will only be awarded to the vendor companies as and when there are orders from Public Works Department for the supply of furniture to government offices, schools, quarters, and barracks.

1.4 Issues and Challenges

The effort to create Bumiputera Commercial and Industrial Community is not without its problems and challenges. The VDP concept in Malaysia has been going on for over thirteen years and it is a fact that the number of bumiputera entrepreneurs in various sector of the economy has increased dramatically compared to pre VDP years. The achievements of packaged programs through integration of various facilities such as formal training, practical experience, marketing channel, technical advice, and financial assistance although showed a progress but the overall achievement was quite low. This was quite evident from the number new bumiputera enterprises being created versus the target figure. The target figure in the Seventh Malaysia Plan for VDP was 250 vendor companies, but the achievement was 206 vendor companies (Samsudin, 1999).

Vendor companies are also confronted with several issues which are affecting them to be competitive, efficient, and resilient:

a) Limited capability to meet the challenges of market liberalization and globalization.
b) Limited capacity for technology management and knowledge acquisition.
c) Low productivity and quality output.
d) Shortage of skills for new business environment.

e) Limited access to finance and capital, and the infancy of venture funds in initial or mezzanine financing.

f) High cost of infrastructure: the majority of small and medium scale enterprises (SMEs) are still located on land not designated for industrial use.

g) General lack of knowledge and access to information.

In addition, some other prevailing debates relating to VDP are regarding establishment of intra and inter industry linkages, technology transfer, effective marketing channels and strategies, strategic partnerships, minimum and maximum number of years appointed as Vendor Company, and on creation of genuine bumiputera entrepreneurs.

Perhaps the most crucial area of concern associated with VDP is the level of competitiveness of the vendor companies. Competitiveness here refers to the ability and sustainability of vendor companies to compete in the open market once they are no longer a vendor company to an anchor company. In another word, whether vendor companies are able to overcome the forces driving industry competition.

1.5 Objectives of the Study

This study will analyze two factors that can contribute to the competitiveness of STIDC’s vendor companies which are very important for every company’s performance in the open market. The study will look into the company’s resource factors and marketing factors in order to assess its competitiveness. This study will also take into account insights from the manufacturers’ point of view on the forces driving industry competition and their competitive strategies compared to existing competitors in the industry. Descriptive analysis will be used to arrive at the findings based on the questionnaire distributed to the vendor companies. There has been no such or similar study ever conducted on STIDC’s vendor companies and it will definitely benefit both the anchor and vendor companies. Findings from the study will be forwarded to STIDC, and it is hoped that they will be incorporated into its VDP for effective implementation and the benefit of bumiputera furniture manufacturers as a whole.
2. LITERATURE REVIEW

2.1 Introduction

Competition and competitiveness can be looked at from various perspectives. Synonym to competitiveness is competition, and vice versa. There are various internal and external factors that will contribute or affect the level of competitiveness of a firm. This section will discuss literature review on various factors that promote (or hinder) competitiveness and also theories on competitive strategies that can be applied by firms to attain competitive advantage over competitors. This section will highlight prevailing debates and issues relating to competitive strategy framework and the resource-based perspective.

2.2 Competitiveness and Competitive Advantage

Neoclassical economic wisdom holds that competition is, exclusively, an efficiency-seeking enterprise. For neo-classical theory, therefore, competition will be, can only be, efficiency seeking. The perfect competition theory stated that the firm’s ultimate objective is profit maximization. Firms will achieve maximum profit through efficient utilization of its resources namely capital, labor, and land. Demand is characterized as heterogeneous across industries, homogeneous within industries, and static.

On the other hand, conventional business wisdom is that competition will primarily be an effectiveness-seeking enterprise. Competitiveness refers to the firm’s product advantages, technology advantages, resources advantages factors, and its management capability. In order to be competitive, firms must have a sustainable superior performance. Performance is defined as above-average rate of return (Porter, 1980: 35), sustained over a period of years (Porter, 1980).

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Sustained superior performance arises from sustainable competitive advantages (Grant, 1998; Roberts, 1999).

Theories differ as to the sources of competitive advantage— for example, whether superior performance takes the form of monopoly rents to protected market positions (Porter, 1980); or Ricardian rents to idiosyncratic firm-specific resources (Lippman and Rumelt, 1982; Wernerfelt, 1984); or “Schumpeterian rents” to the dynamic capability to renew advantages over time (Winter, 1987; Teece, Pisano and Shuen, 1997). Under any leading strategy theory, sustained superior performance exists, it has specific causes, and these causes are tied to the concept of competitive advantage.

2.3 Resource-Advantage (RA) Theory

Resource advantage (RA) theory is an evolutionary, process theory of competition. It views firms and resources as heritable, durable units of evolutionary selection, with competition for comparative advantages in resources constituting the selection process. Competition therefore consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance (Hunt and Morgan, 1997).

Unlike neoclassical economic theories, RA theory stated that demand is heterogeneous across and within industries, and dynamic. Firms’ primary objective is toward superior financial performance through utilization of its resources namely financial, physical, human, legal, organizational, informational, and relational resources. This resource-based theory of competition is an interdisciplinary theory that focuses on the implication of comparative advantages in firm-level resources on competition, productivity, and economic growth. Specifically, when firms have a comparative advantage in resources, they will occupy marketplace positions of competitive advantage that result in superior financial performance. A schematic of the R-A theory is shown in Figure 1 below.

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To confer competitive advantage, resources must not be possessed by all competing firms, they must be difficult to imitate or duplicate through other means, and contribute positively to performance. It is the rational identification and use of resources that are valuable, rare, difficult to copy, and no substitutable which lead to enduring firm variation and supernormal profits (Barney, 1991).

As mentioned in the previous section, a firm’s competitiveness to the firm’s product advantages, technology advantages, resources advantages factors, and its management capability. These are all resources available to the firm, and since resources are heterogeneous, there will always be comparative advantages (or disadvantages) in resources between firms in an industry. Comparative resource advantage is an indication of a firm’s competitive position in an industry.

2.4 Porter’s Competitive Strategies Framework

Michael Porter’s theory of competitive strategy has determines the five forces driving industry competition. The five competitive forces namely entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors reflect the fact that competition in an industry goes well beyond the
established players. The theory contains two elements that describes firms' competitive strategies according to their market scope, and their source of competitive advantage (cost or differentiation); and a theoretical proposition about the performance outcomes of these strategic designs that failure to choose between one of cost or differentiation leadership will result in inferior performance or the so-called ‘stuck-in-the-middle’ hypothesis. In coping with the five competitive forces as described in previous section, there are three potentially successful generic strategic approaches to outperforming other firms in an industry. Porter (1980) highlighted that the three generic strategies are:

a) Overall cost leadership
b) Differentiation
c) Focus

Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. In another word, a firm is able to produce its product at a lower cost than its competitors and yet achieve comparable quality. It can gain market share through lowering its prices and still reap adequate profits.

The second strategy is one of differentiating the product offering of the firm, creating something that is perceived industry wide as being unique (Porter, 1980). The benefit of this uniqueness justifies the price premium imposed on customers. The uniqueness of the product can be in the form of superior design, better performance, better quality and reliability, more durability, or simply appealing to customers for aesthetic and psychological reasons.

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market (Porter, 1980).

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market (Porter, 1980). This requires a firm to identify the needs of a specific group of customers. The market-focusing strategy could be adopted along with the cost leadership strategy and product differentiation strategies to achieve competitiveness.

2.5 Conclusion

The discussion thus far lays the objectives and provides the framework as the background understanding of the competitiveness of a firm. The objectives of the study are to analyze the resource factors and marketing factors of the vendor companies in order to determine their competitiveness in the open market.

3. RESEARCH METHODOLOGY

3.1 Overview

The various studies, theories, and modeling discussed in the previous section have provided the framework needed to the objectives of the study on competitiveness of STIDC vendor companies in the open market. This section will discuss the modeling and research design appropriate for the STIDC vendor companies in Sarawak.

3.2 Key Factors for Objective of the Study

With reference to the objective of the study, the competitiveness of STIDC vendor companies in the open market can be divided into two areas namely resource factors and marketing factors. In this regard, the study will attempt to look at the competitiveness of the vendor companies from both the resource-based perspectives and the competitive strategy framework.
3.3 Resource Factors

Resources are the tangible and intangible entities available to the firm that enable it produce efficiently and/or effectively a market offering that has value for some market segment(s). In another word, resources are inputs at the firm's disposal in order to produce an output for market consumption.

Based on the inputs of production, resources can be divided into four categories namely material, capital, human, and technology resources. Material resources include raw materials and utilities available to the firm for production. Capital resources are both equipments and money needed for the production. Human resources are the people and skills that belong to the firm, whereas technologies are the innovation and automation applied in the production process. The availability of these resources does not assure that firms will attain competitive advantage in the marketplace because competitors can have access to similar resources in one way or the other. Instead, firms must be innovative in utilizing its resources to its advantage, or a comparative advantage in resources.

A firm will have a comparative advantage in resources compared to its competitors if it can have cost advantage in terms of inputs and outputs of those resources. One example of resource advantage is comparative advantage in people that could be derived from low total cost per unit of production to the cumulative number of units produced as a result of the "experience curve". In this case, a firm's low per unit cost of production will contribute to the reduction in overall cost of production. This is one way where firms can attain cost advantage and hence competitive advantage in the marketplace.

Another resource that can be used to the advantage of firms is technology. Technological utilization not only can provide value added to the outputs of the firms, but it can also contribute to efficiency and effectiveness of production. Importance of technology for development is widely recognized. Technology is the key to competitiveness and economic growth. Of four inputs to production –

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capital equipment, raw materials and energy, labor and technology, technology is the only one that is not physically limited.\textsuperscript{12}

Firms having a comparative advantage in resources in turn will occupy marketplace positions of competitive advantage, which then result in superior financial performance. Figure 2 provide a schematic depiction of the relationship among relative resource and produced value in the context of competitive position matrix.

Figure 2: Relative Resource-Produced Value

<table>
<thead>
<tr>
<th>Lower</th>
<th>Parity</th>
<th>Superior</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indeterminate Position</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Competitive Disadvantage</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Competitive Disadvantage</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Adapted from Hunt and Morgan (1995)

Firms occupying positions of competitive advantage (cells 2, 3, and 6 in Figure 2) can continue to do so if they engage in proactive innovation, continually reinvest in the resources that produced that competitive advantage, and/or competitors’ acquisition and reactive innovation effort fails (Hunt and Duhan, 2002). This is how firms can sustain competitive advantage.

\footnote{\textsuperscript{12} Kondo, M. (2001), Technology Acquisition and Mastering for Development, paper presented at General Conference of UNIDO, Ninth Session, Vienna, 3-7 December 2001.}