FACTORS ASSOCIATED WITH THE PERFORMANCE OF TIMBER BUSINESS IN SABAH

SHARON ANTIUS

SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH

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The materials in this thesis are original except for quotations, summaries and references, which have been duly acknowledged.

SHARON ANTIUS
PS04-002(K)-066
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ABSTRACT

The performance in Sabah Timber business has been influence by its factor namely pricing strategy, CEO education background, age of firm, size of firm, having own equipment and export market area. There is only four-selected business in the timber business namely logging, sawmill, manufacturing and trading from business to business for the purpose of this study. Where as furniture and business selling direct to end-user is not being considered. The respondents selected are from Sandakan, Tawau, Keningau, Sipitang, Papar and Kota Kinabalu that are mostly doing timber activity. Questionnaires are sent via mail and these need more energy effort and longer time. After the entire survey questionnaire collected only 60 useable respondents were analyzed. The result showed that low pricing strategy, CEO education background and maturity of firm are the factor that could influence the sales growth beside the economic environment as moderator in the performance of proportionate growth in the timber business in Sabah.

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ABSTRAK

Prestasi dalam perniagaan kayu kayan Sabah telah banyak dipengaruhi oleh beberapa faktor di dalam syarikat kayu kayan itu sendiri seperti faktor strategi harga, latarbelakang pendidikan ketua pegawai eksekutif, jumlah tahun syarikat dalam industri kayu kayan, saiz syarikat berdasarkan jumlah pekerja, peralatan dan mesin yang digunakan dalam sektor kayu kayan dan pasaran export. Hanya empat syarikat dalam perniagaan kayu kayan yang diambil kira untuk tujuan soal selidik iaitu syarikat kayu balak, syarikat pengilang kayu, syarikat pembuatan kayu dan perniagaan menjual beli kayu dari syarikat ke syarikat yang lain. Manakala syarikat perabot dan syarikat yang menjual ke pengguna akhir tidak di ambil kira. Pemilihan responden adalah di sekitar Sandakan, Tawau, Keningau, Sipitang, Papar dan Kota Kinabalu yang menjalankan aktiviti kayu sahaja. Soal selidik dihantar melalui pos dan ini banyak memerlukan tenaga dan masa yang panjang. Namun setelah menjalankan soal selidik di beberapa syarikat kayu kayan di seluruh Sabah, didapati hanya sebanyak 60 respon yang berguna telah diterima pakai dan berdasarkan respon ini sahajalah kaji selidik dibuat. Hasil kajian menunjukkan strategi harga terendah, latarbelakang pendidikan ketua pegawai eksekutif dan kematangan syarikat dalam industri kayu telah banyak mempengaruhi kemajuan dalam meningkatkan hasil jualan kayu kayan dan di samping itu, keadaan ekonomi sekeliling juga penentu bagi peningkatan nisbah prestasi dalam jualan perniagaan kayu kayan di Sabah.

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CHAPTER 1

INTRODUCTION

1.0 History

The tropical rainforest of South-East Asia is one of the oldest and most complex ecosystems in the world. Although generally all species of commercial trees in rich lowland and other forest such as mangroves, peat swamps and montane forests found and grown in Sabah (Sabah Forestry Department, 1989). About 70% out of the total land in Sabah is covered with rainforest, which is considered the world's oldest heritage and with the extensive forest resource base, it has been the main foreign exchange earner or major contributor to the State's economy and provides more employment opportunities as mentioned by the former Chief Minister of Sabah, Datuk Seri Joseph Pairin Kitingan (Sabah Forestry Department, 1989).

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Sabah, free from typhoons and hurricanes, being the second largest state in Malaysia is situated at the northern tip of island of Borneo, known as 'The Land Below the Wind'. It has an average climate for marine equatorial, rainfall (1700 – 5100 mm per annum) and is influenced by the north-east monsoon from November to February and the South-west monsoon from May to August. With an average climate and astonishing plant life, Sabah possesses large and stable ecological conditions enabling many new species of commercial trees that may have already disappeared in other countries like India due to harsh environmental changes (Sabah Forestry Department, 1989).

According to Sabah Forestry Department (1989) since the logging started in Sabah it has then remained as the principle revenue-generating sector in the state. The growth of commercial trees in Sabah continues to more than 3,000 species of trees native

to Sabah in comparison with countries like the United Kingdom, which only has about 30 species. The commercial tree such as *Dryobalanops* or Kapur has disappeared from India and other areas prone to harsh environmental changes, but persists in Sabah.

The Sabah forest covers an area of 4.7 million hectares or approximately 63% of the total land mass. This area includes the reserves, state land and parks. Due to the growth of commercial trees in Sabah, timber businesses have been the most encouraging in the 19th century. The high qualities of Sabah timber have been in great demand particularly by countries like Japan, Korea, Taiwan and China.

In the Table 1.1 (a) are the forest types, which can be found in Sabah during the 90s that produce high grades of commercial trees. The mangrove and nipah forest consists of 365,343 hectares; mostly occur in the east and southeast coasts of the state. The common mangrove tree is harvested for its mangrove chip for export and the local used especially for piling, firewood and charcoal. Nipah palm are used by the local people for roofs or *atap* and probably fuel.

Montane forest area of 865,000 hectares normally defined as forest growing more than 900m above sea level mostly in the Crocker Range and Mount Kinabalu. The trees are oaks and chestnuts and often appearing stunted due to prevailing strong winds and harsh environment. Fresh Water and Peat Swamp area of 166,698 hectares are normally called swamp forest, mostly occur in river deltas.

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1.0 (a): Main Forest Types in Sabah

MAIN FOREST TYPES	AREA IN HECTARES
Mangrove & Nipah Forest	365,343
Montane Forest	865,000
Fresh Water & Peat Swamp	166,698
Dipterocarp Forest (including logged and unlogged)	3,205,093

The Dipterocarp Forest areas of 3,205,093 hectares are the major and most encouraging dominant trees. One of the genera or genus is named "two winged fruits" and the name came from the fruits produced by these trees, where it has only two wings. These forests are the greatest tropical rainforest in the world and the value of merchantable timber is the highest among the rainforest in other countries. The Dipterocarp Family is the best tree that could have more that 100 genera or genus and 90% of commercial volume comes in Sabah. This has help Sabah to be the second largest producer of commercial tree in the world (Sabah Forestry Department, 1989).

Sabah, Malaysia, formerly known as The British North Borneo, has been operating in commercial trees for more than 100 years. The first concession was on Gaya Island in 1879 and 12 forest concessions were operated in 1950. The issuance of new licences and the number of logging operators have increased since then. In the year 1914, the British North Borneo Chartered Company formed the Forestry Department due to the increasing logging activities. The objective is to monitor and supervise any possible exploitation, revenue collection and collecting of forest botanical specimens (Sabah Forestry Department, 1989).

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The responsibility of the Forestry Department is to collect timber revenue to meet the objective of the State Government (Market News Scan, 2000), as timber business is a most encouraging business and contributes to the Sabah economy.

The forest concession continues with several methods of logging used such as: Axe Felling, Hand Logging, Sawmill, Steam Logging, Log Measurement, Highlead Logging, Elephant Logging, Tractor Logging, Veneer Mill, Chainsaw Felling, Plywood Mill, Forest Inventory, Mangrove Chips, Forest Plantation, Forest School, Research Centre and Inland Chips. In the early 1950's there were an increase in forest-harvesting activities and more new licences bring issued. The numbers of logging operators have increased as well. (Sabah Forestry Department, 1989).

Sabah's economy was heavily lumber dependent, based on export of tropical timber, but with increasing depletion of the natural forests and ecological efforts to save remaining natural rainforest areas, palm oil has emerged as a more sustainable resource. Other important agricultural products that boost the Sabah economy include rubber and cocoa. Tourism is currently the second largest contributor to the economy (Wikipedia, 2006). Due to the depletion of timber resources, almost 600 sawmills in Sabah have no alternative but to cease operations or consider venturing into further downstream processing. About half of the total sawmill in Sabah have a processing capacity of 11 million m3 and this is more than the resources available (Market News Scan, 2000).

1.1 Rationale Of This Study

Timber Business was a major contributor of the direct revenue and workforce in Sabah during the 70's and 80's. Due to fire and drought, clearance for agriculture, shifting cultivation, urban development, and mining and other development projects had caused extensive damage to large area of Sabah's forest (Sabah Forestry Department, 1989).

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More over after the timber business began to boom, the forest departments lost their political independence; the quality of their forest policies dropped sharply; and the government began to authorize logging at ruinously high rates — as high as ten times the sustainable level (Ross, 2001). As in the rapid growth of the downstream it is still running under lower productivity (Maskayu, 2005) mostly for local used and this also create a major fall of timber growth.

As to keep abreast with the rapid development on globalization and trade liberalization and continue the role as the resource-based industry in Malaysia (Maskayu, 2005), the intention of the study is to determine the factors that could help boost the development of the timber business in Sabah.

1.2 Problem Statement

Due to the major drop in the timber business, this research wishes to identify the factors that could influence the performances in term of its sales volume based on five years sales growth. What are the factors that could help increase their sales and what will be the factors that will reduce their sales. To answer to the question on whether the perception or expectation, the internal and external factors of the timber business will be examined based on its reliability and whether there are any significant differences in the timber business performance.

The government maybe protecting the timber industry where the annual total cut is dependent on the licensed concession areas to logging contractors and some restrictions imposed to the contractors. However, it is also much depending on the timber business capability, they may finish the concession area on or before the expiring date of the concession period.

Therefore, the contribution of this study focuses on the independent factors that are the pricing strategy, the CEO's background, Age of the firm, size of the firm, equipment ownership and the market area. This study also contributes to the effect of its moderating factor that is the policy compliance and how the economic environment could influence the relationship between the independent factor and the timber business's performance based on proportionate growth in 5 years sales.

In examining the problem statement for these studies there are three steps that will be conducted to solve the problem:

i) By indicating what are the factors in the timber business, internal or external factor, of which in the study there are several factors that have been chosen namely the pricing strategy, CEO's background, Age of the firm, size of the firm, equipment ownership and market area.

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ii) To what extent of the independent factors such as the pricing strategy, CEO's background, Age of the firm, size of the firm, equipment ownership and market area could help boost up the timber business performance?

iii) How does the compliance of the policy with independent factors moderately influence the pricing strategy, CEO's background, Age of the firm, size of the firm, equipment ownership like vehicles, machinery, etc and market area with the timber business performance? And

iv) How could the economic environment moderately influence the relationship between independent factors that is the pricing strategy, CEO's background, Age of the firm, size of the firm, equipment ownership and market area with timber business performance?

1.3 Research Objectives

Due to the depletion of the timber sector, and to keep abreast with the rapid development on globalization and trade liberalization and continue the role as the resource-based industry in Malaysia (Maskayu, 2005). The objectives of this study could be as follows:

a. To examine the influence of a firm's internal environment on sales growth

b. To identify the factors that could increase sales volume in the timber business

c. To determine the internal and external factors that could increase support the wood-based industries to a sustainable forestry development

d. To examine the moderating effect of compliance with the policy and the effect of the economic environment on the independent factors that is the pricing strategy, CEO's background, Age of the firm, size of the firm, equipment used and market area with the timber performance in Sabah.

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1.4 Scope Of Study

The study will be conducted among Timber Businesses in Sabah whereby Sabah will be divided into three divisions namely Kota Kinabalu (Including Keningau District), Sandakan and Tawau. The group of respondents is mainly selected from the upper level management or CEO from four main industries in timber namely logging, sawmill, manufacturing and trading for reliability and consistency.

The study can be divided into six variables where the factors are the pricing strategy, CEO's education background, age of the firm, size of the firm, the equipment used and market area. In compliance with government's policies and changes in economic environmental condition, this will also be considered in the study. It is assumed that the Government's policy and environment will have an impact on the independent variable to the relationship between the timber business performances.

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1.5 Significance of Study

Most of the reason why the owner or entrepreneur like to find out how they can maximize the changes and opportunities to achieve the highest possible level of success is by attending training course, taking management practices and by reading books to increase their knowledge.

The purpose of this study is to create knowledge in timber business tools by creating strategies and how to generate more sales based on basic internal factor of the organization. This study also helps and identifies some of the factors that may influence the sales performance and also identifies the moderating effect that gives significant relation to increase higher sales. By determining the factors that could influence the performance in the Timber Business, the study could create better management practices and coordination towards sustainable timber business in Sabah.

Hopefully the study would give an opportunity for timber businesses in Sabah to expand and observe the factors that could boost their performance and increase better expectations in the future. By boosting the production of timber products, the factor could increase value and retain its forests ability in the future.

1.6 Definition Of Terms Used In This Study

In this study, it reviews the main factors that believed to be the major impact to the performance. There are main key words that the researcher needs to examine.

1.6.1 Pricing strategy

Pricing is the amount of money expected, required or given in payment for something. Pricing is the benefits derived from the economy of scale to achieve high returns (Hall, 1995). Low pricing strategy is a low-cost or affordable price (Market News Scan, 2000). In this study the pricing strategy is based on the mode of sales, whether the business pricing strategy is high than the competitor, low than the competitor or same as competitor.

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1.6.2 CEO's Education Background

CEO or Chief Executive Officer's education background is all about the personality of the CEO or the manager that runs the business, the characteristic, the values, and the objectivity of the person in alternative situation (Hall, 1995). In this study, the CEO education background is measure based on the highly graduated level.

1.6.3 Age of Firm

Age is the length of time or age of firm in the business or years of survival (Hall, 1995). Age of firm in this study is reflected from its maturity of the firm in the timber business.

1.6.4 Size of Firm

Size of firm is the firm's dimension, large or small, measures by the number of employees (Hall, 1995). In this study, size of firm is measure by the number of employees in their business operation.

1.6.5 Equipment

The equipment in timber business is the machinery e.g vehicles or transportation, hydraulics, electrotechnical equipment, mixer, sandling machines and all woodworking machinery used in operation to produce high quality wood (Asian Timber, 1997). The Sabahan forest contractor purchase a complete set of timber machines for their operation (Asian Timber, 1997) Thus, this study concerns about the timber business in having its own timber equipment or fully rented from other timber business.

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1.6.6 Market Area

Market area is the sales location whether locally, nationally, or internationally or throughout the world (Hall, 1995). Thus, in this study market area could be the local sales area or export sales area.

1.6.7 Policy Compliance

Policy is the guideline that can be used as strategy, method, rules, law, enactment, or guiding principle, before the manager could make decision on alternative situation. (Lewis, Goodman, Fandt, 2004). In this study, policy is the license that needs to be comply before they could proceed to the timber business.

1.6.8 Economic Environment

Environment, which includes air, water, land, human being, living creatures, planets, microorganisms, property and the whole atmosphere, whether physical, chemical, biotic, or gases are combine as one's surroundings of an organisms (Tewari, 1994). An environment for an organization includes economic, socio-cultural, technological, and political-legal factors (Lewis, Goodman, Fandt, 2004).

Economic environment is represented by both the domestic and world economy of the general state, which is favorable represented opportunities for growth in business and will influence the strategic plans of most organization (Lewis, Goodman, Fandt, 2004). In this study concerns about the stability of the economic environment in their area, whether conducive or harsh environment.

1.6.9 Performance

Performance is defined as survival, profitability and growth (Hall, 1995). Performance is the continuous improvement that improves the process of quality for any dimension at any stage to increases both product quality and customer assessment (Legault and Sparks, 1993). Thus, in this study the performance is the sales continuous growth based on five years.

1.6.10 Timber Business

Timber organization is the business dealing with timber logging, timber wood, sawmill, manufacturing which include sawn-timber, finger joint, moulding, laminated products, pulpwood, plywood, blockboard, wood preservation, S4S, veneer, wood, kiln dry, lumber core, truck body and or soft wood whether in importing or exporting, within the state or overseas (MTIB, 2005). In this study any organization or contractor dealing with other timber business and not to the end user runs timber business.

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1.6.11 Forestry Department

Forestry Department is the division in the Sabah State that responsible in giving license to the timber contractor whom applies for the concession in the state's forest. The Forestry Department plays the most important role to protect approximately 4.2 million hectares of the Sabah's Forest as permanent forest and to guarantee the State's forestry as a never-ending component of the State's Economy. (Sabah Forestry Department, 1989). Thus, in this study forestry department are representing the state government and play a major role in protecting the state forest.

1.7 Organization of Study

This research focused on finding the factor that can affect the performance of the timber business in Sabah where approximately 200 organizations will be obtained.

This study is set in five chapters as follow:

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Chapter 1 – Introduction

In this chapter it introduces the problem being studied and the intention of the researcher to examine the development of the timber business in the Sabah Timber Business. The similar study has been conducted before but the researcher needs to explore more on the factor that relates to the timber business performance in Sabah.

Chapter 2 – Literature Review

A brief discussion on the measurement of performances and factors to determine how they could relate to the performance based on findings from the researches and expertise in this field.

Chapter 3 – Research Methodology

This chapter is to identify the independent variable that need to be examined and how it relates to the dependent variables of timber business performance through hypothesis testing. A further analysis to identify the relationship between the variables and the statistical methods that used in the study will also be discussed.

Chapter 4 – Findings

This section will describe the overview of research findings, types of data, respondent profile, the instrument used, statistic analysis and testing and the relation to the research hypothesis.

Chapter 5 – Discussion and Conclusion

This section reviews the findings in Chapter 4 and Chapter 2 to indicate whether the findings are significant, the implication of this study and the limitations to be considered for future research.

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