

Technical efficiency of the Malaysian wooden furniture industry: a stochastic frontier production approach.

ABSTRACT

Wood furniture industry is an important component in our manufacturing sector for it significantly contributes to the industrialization of Malaysia's economy. Evaluating wood furniture industry's level of efficiency is important to assist and provide a relative direction to small and medium firms on their business. The objective of this research is to examine the efficiency of wooden furniture industry by determining the technical efficiency using stochastic frontier production model. Results show that firm output is 54 per cent less than the maximal output which can be achieved from the existing inputs. The technical inefficiency on individual firm varies from 1.63 to 94.69 per cent and so does the potential to increase firm output from the existing inputs. This evidence suggests that many firms still operate below the efficiency level, confirming the conventional view that labor-intensive firms are most likely inefficient.

Keyword: Technical efficiency; Stochastic frontier model; Wooden furniture industry.