LABOUR COMPOSITION, PRODUCTIVITY AND SKILLS DEVELOPMENT IN THE MALAYSIAN FURNITURE SECTOR

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LABOUR COMPOSITION, PRODUCTIVITY AND SKILLS DEVELOPMENT IN THE MALAYSIAN FURNITURE SECTOR

By

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A Project Report Submitted in Partial Fulfillment of the Requirements for the Degree of Bachelor of Wood Science and Technology in the Faculty of Forestry Universiti Putra Malaysia

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DEDICATION
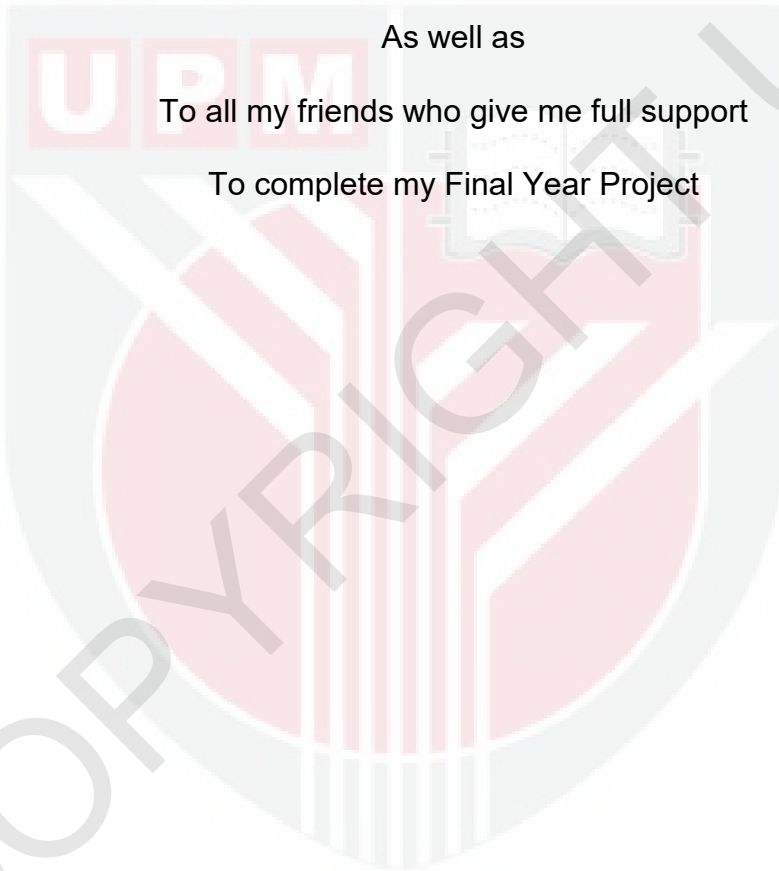
Dedicated to:

My beloved family

To all my batch mates

To all my course mates

As well as

To all my friends who give me full support

To complete my Final Year Project

ii

ABSTRACT

Labour resources are important in ensuring the successful completion of a project. The nature of furniture manufacturing in Malaysia are labor intensive. Unskilled foreign worker that dominate the workforce resulted in poor quality of project and low productivity. This study aimed to find out the current trend of labour composition, productivity and skills development, determine the reasons for foreign workers dominating the labour force and identify the challenges in recruitment and improving productivity in the Malaysian furniture sector. The study was carried out using questionnaires forms which contain selection of short and predetermined as well as Likert scale answers. The data was analyzed using average index method and frequency analysis. The result of this study show that factors that drive the employers to employ foreign workers is caused by affordable hiring cost and the challenge of improving productivity is the flip-flopping of government policy.

ABSTRAK

Sumber tenaga kerja adalah penting bagi memastikan sesuatu projek dapat disiap. Bidang pembuatan perabot di Malaysia bergantung kepada tenaga kerja yang ramai. Pekerja asing tidak mahir yang mendominasi tenaga kerja menyebabkan kualiti dan produktiviti projek menjadi rendah. Kajian ini bertujuan untuk mengetahui trend semasa komposisi buruh, produktiviti dan kemahiran pembangunan, menentukan sebab-sebab pekerja asing menguasai tenaga buruh serta mengenal pasti cabaran-cabaran dalam pengambilan pekerja dan meningkatkan produktiviti dalam sektor perabot Malaysia. Kajian ini telah dijalankan dengan menggunakan soal selidik yang mengandungi pemilihan jawapan pendek yang sesuai dan juga menilai mengikut skala Likert. Data dianalisis menggunakan kaedah purata indeks dan analisis kekerapan. Hasil kajian ini menunjukkan bahawa faktor-faktor yang mendorong majikan untuk mengambil pekerja asing adalah disebabkan oleh kos pengambilan berpatutan dan cabaran penting dalam peningkatan produktiviti ialah berubah-ubah polisi kerajaan.

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APPROVAL SHEET

I certify that this research project report entitled "Labour Composition, Productivity and Skills Development in the Malaysian Furniture Industry Sector" by Tan Xu Chee has been examined and approved as a partial fulfilment of the requirement for the degree of Bachelor of Wood Science and Technology in the Faculty of Forestry, Universiti Putra Malaysia.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

1.1   General Background

The Malaysian furniture sector is known as one of the significant sub-sectors that has contributed to the country's economic growth. Malaysia is a country blessed with rich timber resources, and the success of the upstream forestry, logging and sawmilling industries make the furniture sector in Malaysia thrive over several decades. Not only that, the availability of labour, together with a stable political climate, investor friendly policies and legislation have been the driving force behind the rapidly growing industry. In Asia, Malaysia is competing with the 4 worlds' leading exporters such as China, Vietnam, Thailand and Indonesia, and is now ranked as the third largest exporter of furniture after China and Vietnam (Chan, 2018). Nevertheless, Malaysian furniture do have an advantage over those in China, as the Chinese are subjected to anti-dumping measures imposed by the US, whereas Malaysia's competitiveness over Vietnam is that the latter does not have a domestic supply of rubber wood. Furthermore, the Malaysian furniture sector is also awarded the honour of being among top 10 exporter of furniture globally (MATRADE, 2017).

The Malaysian government has selected the furniture sector as one of the industry that has a long-term growth potential. This is further supported by the formulation and implementation of the Industrial Master Plan (IMP) (Table

1.1), which provided a framework for the development and transformation of the manufacturing sector in Malaysia. The first Industrial Master Plan (IMP1) was launched in 1986, laid the foundation by targeting manufacturing industries to become the leading growth sector of the economy and opportunities for the maximum and efficient use of the natural resource, instead of exporting it in the raw form. The Industrial Master Plan 2 (IMP2) focused to broaden the manufacturing capability through the strategies of cluster-based industrial development and manufacturing. The IMP3, which is currently on-going, aims to further broaden the scope by including services and featuring functional targets such as Small Medium Enterprises (SMEs), human resource development (HRD), technology, logistics, marketing and so on (MITI, 2017). Further the wood furniture sector is also targeted by the government to grow by 6.5%, which is estimated to reach up to RM53 billion by 2020 (MPIC, 2009).

Table: 1.1 Industrial Master Plan

IMP	Duration
IMP1	1986 - 1995
IMP2	1996 – 2005
IMP3	**2006 - 2020**

Despite the strong position of the Malaysian furniture sector, there has been an increasing recognition that this sector need a consolidated plan to protect and enhance its comparative advantage in the highly competitive global furniture industry. The establishment of the ASEAN Free Trade Area (AFTA) which made the global move toward a borderless economy by lowering intra-

regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme for AFTA is already in place (AFTA Council, 2018). In this case, Malaysian furniture will have to compete even more vigorously with other countries that are producing similar output and supply. In moving forward to achieve further progress, the sector needs to confront with new challenges, including intense competition for foreign investment, the need to develop innovative, creative and skilled human capital and the need to identify and develop new sources of growth, as well as the need to achieve industrial growth with equitable distribution (Anon, 2018).

The Malaysian furniture sector is known as a low wage, low-tech, labour intensive and supplier-dominated industry. Secured labour and material are the essential elements for running the furniture industry. However, shortage of labour is still a main concern for many owners of furniture companies. In Malaysia's furniture industry alone, reputed to be one of the largest in the world, a shortage of 27,000 workers has seen monthly shipments declining by more than 28 per cent (Ministry of Human Resources, 2018). In fact, the Johor Furniture Manufacturers and Traders Association stated that the severe labour shortage have become the main reason for most of the manufacturers cannot run their operation to complete their order. The delayed shipment results in longer lead time for buyers and is becoming a potential concern of buyers from Malaysia. According to Chua (2017), this issue has been handed over to the government, and is actively discussed with the authority to allow the intake of more foreign labours.

Workers are important for the productivity of any economic sector, and so if employers face too many uncertainties in hiring workers, that will not go well for the nation's economic growth. There are several reason for the shortage of labour in the Malaysian furniture sector. The flip-flopping policy of the government on labour issue worsen the productivity of furniture manufacturing. Not only that, younger generation in Malaysia are not willing to be involved in this sector since the furniture sector in categorised as a 3D's job (dirty, dangerous and demeaning). Due to their reluctance in taking up menial job by the local workers, the furniture manufacturers have to recruit foreign workers as the workforce. The Malaysian furniture sector provided employment to 92,000 workers in 2017, and is highly dependent on foreign workers especially the workers from Bangladesh, Myanmar and Nepal. Overall, the legal and illegal foreign workers monopolised the labour composition of furniture sector in Malaysia (Chan, 2018).

In the Malaysian furniture sector, labour's skill development becomes another factor that affect the labour performance and productivity. The furniture manufacturing industry requires operation of machines by semi-skilled workers. Under the 11th Malaysia Plan (11MP), the government aims to increase productivity in manufacturing through a two-pronged strategy of "increasing automation and enhancing workforce skills development". The sector is expected to record a growth of 5.1% per annum during the RMK11 period, led by the domestically-oriented subsector, which is expected to increase by 4.4% in line with better business confidence and consumer sentiments. The 11MP targets skilled workers, i.e., those with diplomas and

higher qualifications, to reach 35% or 5.35 million of total workforce by 2020 (Eleventh Malaysia Plan, 2015).

The furniture industry has been identified by the Malaysian government as one of the industries which can meet the objectives of its long-term earnings, full utilization of the natural resources, and provide greater socio-economic benefits for its people, through exports. Therefore, it is important to understand how far the industry has progressed into higher productivity and skill development, and in doing so, to evaluate the labour composition of furniture manufacturing over the years.

1.2 Problem Statement

According to the available statistics, foreign labour made up the major part of labour composition in the Malaysian furniture sector. Such high percentage of foreign labourers shows the dependence of the Malaysian furniture sector on foreigners. When the government froze the intake of foreign labour, this issue led to a severe impact on the Malaysian furniture sector, especially in Johor, Selangor and Penang which contributed 95% of total export volume of Malaysia to United States, Japan, China, Australia, England, U.A.E and India. In 2016, 14 furniture business in Johor ceased operation due to the shortage of foreign workers (Chua, 2017).

5

In order to achieve the development of furniture sector in Malaysia, the number of skilled workers have to be increased. However, the labour composition of Malaysian furniture industry, which is dominated by foreign unskilled workers slow down the labour productivity growth and development of this sector. Most of the skilled or even unskilled local workers do not want to be involved in the furniture sector.

The Malaysian furniture sector is defined as one of the essential manufacturing sub-sectors in boosting the country's economic growth. Hence, it is important to know the current status of labour composition, to understand how far the industry has progressed into higher productivity and skill development of the Malaysian furniture sector. This research aims to analyse the current labour composition, labour productivity and skills development of furniture sector. Secondly, this research aims to establish the origin country and why foreign labour dominated the labour force of the Malaysian furniture sector. And lastly, the research also defined the challenges of recruitment and improving labour productivity in the Malaysian furniture industry.

1.3   Justification

As the workforce of Malaysian furniture sector is predominated by foreign labour, it is necessary to know the current labour productivity and skills development level. Not only that, it is also crucial to understand the reason of over-reliance on foreign labour in furniture sector and the challenges faced by the employer in improving recruitment and productivity. The domination of

foreign labour in workforce which is mainly categorized as unskilled labour will become the obstacle for manufacturer to produce better quality of furniture product and achieve higher profit. Thus, this topic is worth to be studied and help to bring the furniture industry in Malaysia to a higher level and then beat the other world's leading exporters.

1.4 Objectives

The general objective of this study is to explore the find out the current labour composition, productivity and skill development in the Malaysian furniture sector.

The specific objective of this study are:

i. To determine the reasons for foreign workers dominating the labour force in the Malaysian furniture sector, and

ii. To identify the challenges in recruitment and improving productivity in the Malaysian furniture sector.

iii. To identify the challenges in improving productivity in the Malaysian furniture sector.

1.5 Scope of Study

This study focuses on the labour and human capital which are the essential driving factor of growth and performance of the Malaysian furniture sector. The secondary data on the profile of labour composition in recent years with six consequences years from 2011 to 2016 will be used in this study. Factor analysis of labour skill development which is related to labour composition

and labour productivity will be carried out by surveying 25 furniture factories in the Klang Valley.

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