

AN ANALYSIS OF COMPETITIVENESS OF HOUSING DEVELOPERS IN MALAYSIA

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Introduction

In 2004-2005, a research was conducted to determine the resources required to compete in the speculative housing development sector in Malaysia. It was funded by INSPEN under the NAPRIC programme. While practitioners may intuitively know what these resources are, this study makes them explicit by adopting the scholastic approach. As promised to the respondents, this paper makes public the research findings of the study. It begins by describing the adopted research methodology before dwelling briefly on the research outcome.

Methodology

Questionnaires were sent by post to managing directors of all housing developers registered with the Real Estate and Housing Developers' Association (REHDA) and Sarawak Housing Developers' Association (SHDA). Developers from Sabah were excluded from the study due to non-cooperation from the Sabah Housing and Real Estate Developers' Association (SHAREDA). Following that, interviews were conducted with respondents who indicated in the returned postal questionnaires their willingness to meet up with the research team (see Table 1).

The resources itemised in the questionnaire were based on past similar studies conducted in other industries and countries after it was pre-tested by 3 housing development executives. Given the heterogeneity of the sample population, the collected data can be said to reflect the entire industry. The youngest firm among the participating companies was established in 2000 whereas the oldest in the 1940s, their full-time employees ranged from none to over 200, and turnover for 2003 was from less than RM 1 million to RM 600 million.

State (Col 1)	No of questionnaires sent out (Col 2)	No of returned questionnaires (Col 3)	No of follow-up interviews (Col 4)
Kelantan	29	1	-
Terengganu	20	-	-
Pulau Pinang	154	6	-
Pahang	82	7	-
Negeri Sembilan	64	2	1
Perak	151	6	2
Johor	164	2	1
Melaka	113	-	-
Kedah / Perlis	115	2	1
Sarawak	186	5	4
Selangor	395	5	2
Kuala Lumpur	204	4	2
TOTAL	1,677	40	13

Table 1: Response rate of the postal questionnaire survey and face-to-face interviews

Research findings

Table 2 shows the ranking (Col 1) of the resources in term of its competitiveness, based on the aggregated scores (Col 3). It clearly shows that the most important resource is prime location of land, which is not unexpected. The same applies to the other variables that were highly rated (i.e. cash flow, understanding market potentials, relationship with local authorities, and management expertise and experience). What is particularly interesting from the table is not those variables that were highly rated, but those that were not - skilled employees, organisational strategy and policies, staff training and development, trade secrets and project innovation and part of the larger group. The respondents gave mixed scores to these variables (see Col 4 of Table 2), as they did to the others. But the overall impact resulted in them appearing at the lower portion of Table 2. It is these variables that beg elaboration.

Rank (Col 1)	Resources (Col 2)	Mean* (Col 3)	Standard deviation (Col 4)	Min.* (Col 5)	Max.* (Col 6)
1	Prime location of land	4.38	0.721	3	5
2	Cash flow	4.31	0.710	2	5
3	Understanding market potentials	4.27	0.804	2	5
4	Relationship with local authorities	4.24	0.597	3	5
5	Management expertise and experience	4.16	0.866	2	5
6	Organisation and service reputation	4.14	0.855	2	5
7	Ability to manage change	4.11	0.809	2	5
8	Relationship with competent support services providers	4.05	0.664	3	5
9	Skilled employees	3.92	0.759	2	5
10	Management tolerance to risks and uncertainties	3.86	0.918	2	5
11	Organisational strategy and policies	3.78	0.854	2	5
12	Staff training and development	3.59	1.040	1	5
13	Trade secrets and project innovation	3.54	1.070	1	5
14	Part of a larger group	3.14	1.134	1	5

Table 2: Ranking of resources in terms of their ability to exploit opportunities and neutralise threats

Source: Respondents.

Note: * 1-insignificant, 2-little significance, 3-moderately significant, 4-significant, 5-highly significant.

Various scholars (e.g. Umiker, 1988; Pickett, 2000; Karami et. al., 2004) suggest that human resource is vital for the success of organisations. The finding however contradicts them. One interviewee exclaimed, "Why should I bring in a trainee and train him? How sure are you that he will be reliable? I'd rather engage competent outsiders for the job. If I want the skills, I pay for it." The ranking of organisational strategy and policies at the bottom four of the table might offend scholars like Ansoff (1965) who have long promoted their importance for organisational success. One interviewee remarked, "Developers can plan as far as they want, but they should be prepared to alter their initial plans if the market does not go the same way because the market will discipline the developers when they make a wrong planning." The importance of staff training and development has been noted in various industries, such as banking (Packer and Sharrar, 2003) and high-technology (Chang and Chen, 2002), even for small- to medium-sized enterprises (Loan-Clarke et al., 1999; Vinten, 2000). Some interviewees felt that spending in training on staff that eventually leaves is misplaced

investment. Others pointed out the lack of training courses catered to the housing development sector.

At least on trade secrets and project innovation, the result concur with one study, i.e. Taylor and Levitt (2005) who view residential building industry as a laggard in adopting new products and processes, although having said that it has to be pointed out that Duncan (2002) disagree. While there are developers who strive to be innovative (“Terrace house have been designed to death, yet we still try”, said one interviewee), the reality is that developers can generally get by without having to be innovative (“There is no secret actually, only hard work”, said another interviewee). With rising population, affluence and rural-urban migration, the demand for housing, particularly in Malaysia’s cities and major towns has been, and will continue to be, strong. Conventionally-designed housing still sells provided they are well located. Besides, trend-setting development concepts and housing design are very quickly imitated by competitors. The premium for innovation therefore has a short shelf life.

The ranking of part of a larger group at the bottom of the list suggests that, while there are many housing developers that have construction arms that provide synergistic benefit, those that do not are not lesser off in terms of their ability to prosper in the same industry. This finding concurs with past studies. Varadarajan and Ramanujam (1987) state that related diversification may be necessary, but not sufficient, for superior performance. Similarly Bettis et. al. (1985) indicate that although on average, related diversified firms outperform unrelated diversified firms, related diversification offers no guarantee of a favourable risk/return performance.

Having drawn up Table 2, the analysis went a step further to determine if a pattern can be found statistically between firm-specific characteristics and variation in responses. Indeed, several patterns were identified, which made the study all the more interesting.

Resources (Col 1)	t-value (Col 2)
Managerial expertise and experience	1.008
Management tolerance to risks and uncertainties	- 0.308
Ability to manage change	- 0.367
Organisational strategy and policies	- 1.161
Part of a larger group	- 0.212
Staff training and development	- 0.822
Organisation and service reputation	- 0.901
Trade secrets and project innovation	0.079
Skilled employees	- 0.223 **
Prime location (land bank and acquisition)	- 0.353
Understanding market potential	0.053
Cash flow	0.911 **
Relationship with competent support services providers	0.968
Relationship with local authorities	- 0.909

Table 3: Comparison between public listed and non-public listed firms

Note: ** $P < 0.05$

For companies with different legal status (i.e. public listed and non public listed) independence-samples T-test revealed outstanding dissimilarities in the respondents' perceived value for skilled employees and cash flow variables (both at $P < 0.05$) (see Table 3). Put simply, public listed firms attached slightly higher expectations (i.e. average score of 4.00) on skilled employees relative to non-public listed firms (average score of 3.91). Being large, public listed companies must rely on their human resource for corporate success. For smaller organisations, outsourcing which is commonly practised by housing developers allows them to function effectively with minimal full-time staff. Indeed it has been found that outsourcing allows the organisation to concentrate on the true business of the enterprise (Phillips, 1992), improve service quality and enhance organisational capability for the development of new products and services (Kakabadse and Kakabadse, 2001) and help reduce staffing overhead (Siklos, 1996).

In term of cash flow, non-public listed firms recorded higher perceived value (i.e. 4.34) in comparison to public listed firms (i.e. 4.00). The rating by non-public listed and public listed firms were 4.34 and 4.00 respectively. One interviewee mentioned that public listed firm has wider options to raise funds than non-public listed firms. Some scholastic literature supports his view. Hare (1994) opines that a public listed company that performs well in the market can always raise more cash through additional equity offerings. Leitner (2005) points out that a private company's capital structure can be very narrow, comprising of retained earnings and loans from the founder and officers.

Resources (Col 1)	F-value (Col 2)
Managerial expertise and experience	0.991
Management tolerance to risks and uncertainties	1.128
Ability to manage change	1.495
Organisational strategy and policies	2.327 *
Part of a larger group	1.782
Staff training and development	1.487
Organisation and service reputation	1.006
Trade secrets and project innovation	2.432 *
Skilled employees	0.856
Prime location (land bank and acquisition)	0.653
Understanding market potential	1.553
Cash flow	0.931
Relationship with competent support services providers	0.194
Relationship with local authorities	0.281

Table 4: Comparison based on number of housing segments the firms involved in

Note: ** $P < 0.05$

One-way ANOVA test done on sample companies clustered according to number of housing types they were involved in (i.e. low-cost, medium-cost, high-cost, mixed development and integrated townships) found two resources to have significance value (both at $P < 1.10$); the first being organisational strategy and policies, and the second being trade secrets and project innovation (see Table 4).

Firms that were involved in multiple housing segments emphasised more on organisational strategy and policies (e.g. firms active in all five housing segments scored 4.50) than those that were not (e.g. firms active in only one housing segment scored 3.38). This result is as

one might expect. A well-planned corporate strategy is more crucial for those who are involved in multiple segments than those who are not. They need to make right choice of housing types, or their combination thereof, to maximise returns. Scholastic literature supports the findings that careful strategic planning is vital for a firm with wider scope of product diversification. Even when substantial synergistic opportunities exist, diversification can negatively impact firm performance if there are no effective managerial policies (Gary, 2005). Thackray (1982) discovers that much criticism has been leveled at diversified businesses because of problems of long-range planning and control associated with bigness. Accordingly, when the scale and breadth of diversification exceed the competence of the corporate management, collective failure to manage product diversification adequately becomes the real cause of dilemma in diversification.

An interesting pattern appeared when the responses for trade secrets and innovation were compared with the number of housing segments the participating firms were involved in. The score rose from one to four segments (i.e. 3.08 for one segment, 3.86 for two segments, 4.00 for three segments and 4.40 for four segments) before dramatically dipping for respondents involved in five segments (i.e. 3.00). This intriguing pattern calls for further in-depth investigation. No explanation was offered by the interviewees. Scholars have different points of view on the relationship between product diversification and innovation. Empirical research works (e.g. Doi, 1985; Hoskisson and Hitt, 1988; Baysinger and Hoskisson, 1989) support a negative relationship between product diversification and innovation. However, from the economic perspective, Nelson (1959) predicts a positive relationship between them. Hitt et al. (1997) argue that the effects of overall product diversification on innovation (as a necessity to remain competitive in the market) were found to be close to zero.

Resources (Col 1)	t-value (Col 2)
Managerial expertise and experience	0.784
Management tolerance to risks and uncertainties	0.522 *
Ability to manage change	0.127
Organisational strategy and policies	- 1.069
Part of a larger group	0.497
Staff training and development	- 0.625
Organisation and service reputation	- 0.561
Trade secrets and project innovation	- 0.492
Skilled employees	- 0.445
Prime location (land bank and acquisition)	- 1.206
Understanding market potential	- 1.211
Cash flow	- 0.659
Relationship with competent support services providers	- 0.183
Relationship with local authorities	- 0.631

Table 5: Comparison between firms operate in single-state and multi-states
*Note: ** P < 0.05*

For companies with different geographical coverage (i.e. uni-state and multi-state), statistical test revealed clear dissimilarities in their respective response to management tolerance to risks and uncertainties (see Table 5); those that operated in single states scored management tolerance to risks and uncertainties slightly higher (i.e. 3.90) than those that operated in several (i.e. 3.75). Past scholastic works on geographical diversification and risks are

conflicting. In the banking industry, Demsetz and Strahan (1997) and Rose (1995) found that operating interstate throughout the country can reduce risks exposure, from regional downturn for example. In contrast, Liang and Rhoades (1988) observe that banking organisations with greater geographical diversification face higher risks. The present study concurs with the former.

Conclusions

To the best of the research team's knowledge, this study is the first, be it in Malaysia or elsewhere, to examine the resources required to succeed in the speculative housing sector. Its scholastic contribution lies in identifying certain resources which, while important in other industries for competitiveness are less so in this sector. It also affirms the primacy of prime location of land as providing the competitive edge. Furthermore, it highlights certain firm-characteristics that give rise to variation in response.

On a practical note, what this study reveals is that newcomers to this sector from other industries would have to quickly adapt to the changing resource requirements that are needed to prosper in the sector as they are likely to be different from those required elsewhere. Also, as the housing development firms evolve, and so to do their firm characteristics, the importance of the certain variables in granting competitiveness likewise shift.

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