

## Chapter 2

# The Manufacturing Sector in Malaysia

**Abstract** This chapter outlines data on the manufacturing sector in Malaysia. Data for this chapter comes mainly from government reports published by the Department of Statistics, the Central Bank of Malaysia (Bank Negara Malaysia), the Economic Report 2014/2015, newspaper articles and relevant journal articles. Specifically, this chapter focuses on data related to the economic performance and prospects of the manufacturing sector in Malaysia. The chapter begins with an overview of the manufacturing sector in Malaysia, followed by a description of the performance of the manufacturing sector. It then outlines the production performance of the industries in the manufacturing sector, namely, electrical and electronic products; chemicals, chemical products and petroleum products; wood and wood products; textiles, apparel and footwear; construction-related materials; transport equipment; and food products, beverages and tobacco products. The subsequent subsections focus on private and foreign investment in the manufacturing sector, exports of manufactured goods, employment in the manufacturing sector and financing for the manufacturing sector. The chapter concludes with a discussion on the importance of studying the manufacturing industry in Malaysia.

## Introduction

As this study focuses on the manufacturing sector in Malaysia, this chapter will provide an overview of the performance, growth and contribution of the sector to the economy of Malaysia. The importance of the manufacturing sector to the economy is evidenced in its contribution to the gross domestic product (GDP), external trade and job creation. The manufacturing sector experienced moderate growth over the years and has contributed 7.3 % to the Malaysian economy in the second quarter of 2014 (Bank Negara Malaysia 2014). Performance of the manufacturing sector between January and November 2014 shows an increase in the sales value by 6.1 % to register RM600.1 billion. In the same period, the number of employees increased by 1.5 % to 1,030,383 persons, while productivity increased by 4.6 % to RM582,421. The overall manufacturing index expanded 5.9 % compared with the same period in the previous year and grew by 3.7 % in November 2014 compared with the same month in the previous year (Department of Statistics 2015c). Boosted by resilient

domestic demand and recovery in the external sector, the manufacturing sector is expected to record a better performance. Moreover, Malaysia has been ranked as the world's top manufacturing location in new suitability index by Cushman and Wakefield (Business Circle 2014).

To sustain the sector's contribution to the economy, workforce engagement as well as the retention of talent workers in the manufacturing sector is indispensable. As the working environment in the manufacturing industry is comparatively more hazardous in nature, it is inevitable that employees will leave if they are not happy. However, it is imperative that organisations have an engaged and loyal workforce to remain resilient and competitive. Therefore, it is crucial that organisations in the manufacturing sector promote citizenship behaviour as part of its organisational culture. Boosted by business opportunities from the implementation of the Economic Transformation Programme (ETP) initiatives, domestic finance and strong inflows of foreign direct investment, the manufacturing sector is expected to expand further. To capitalise on this continuous growth, it is imperative that organisations in the manufacturing sector have a better insight of what influences organisational citizenship behaviour, as the workforce is the quality machine that drives organisational growth. In this study, the emphasis is on organisational justice with job satisfaction and leader-member exchange as potential mediators. After analysing the contribution of the manufacturing sector to the Malaysian economy, the importance of studying the relationship between organisational justice and organisational citizenship behaviour in the manufacturing sector is discussed.

## Performance of the Manufacturing Sector

The manufacturing sector grew at a faster pace, driven by the strong performance of the electronic and electrical cluster as external demand improves, particularly global semiconductor demand. The manufacturing sector recorded a strong growth of 7.3 % in the second quarter of 2014 (1Q 2014: 6.8 %) and 3.7 % in November 2014 (3.2 % in October 2014). The subsectors which contributed to the increase in November 2014 were electrical and electronic products (10.2 %); petroleum, chemical, rubber and plastic products (1.8 %); and non-metallic mineral products, basic metal and fabricated metal products (2.7 %). On a seasonally adjusted month-on-month basis, manufacturing output increased by 1.3 % in November 2014 (Department of Statistics 2015c).

The sales value of the manufacturing sector in November 2014 rose 2.5 % (RM1.3 billion) to record RM54.3 billion. On a seasonally adjusted month-on-month, the sales value in November 2014 increased by 3.5 %. Sales and exports of personal computers and related parts rebounded strongly due to improved global demand and diminishing inventory. Better performance of the domestic-oriented cluster, particularly the manufactures of transport equipment and food, beverage and tobacco, further enhanced the performance of the manufacturing sector. Overall capacity utilisation rate in the manufacturing sector was sustained at 78 % (1Q

2014: 78 %) –79 % in export-oriented industries (1Q 2014: 79 %) and 77 % in the domestic-oriented industries (1Q 2014: 75 %). In line with resilient domestic consumption and robust private investment, growth of the domestic-oriented industries such as food and beverage as well as transportation equipment and machinery is expected to remain favourable (Bank Negara Malaysia 2014).

## **Production Performance of the Manufacturing Sector**

Data obtained from the Economic Report 2014/2015 showed that generally, growth in the domestic-oriented industries remained strong due to higher exports and continued strength in private domestic demand. Real exports of goods grew at a faster pace, while growth in real imports of goods moderated, resulting in a significant improvement in net exports. Driven by private and government initiatives, domestic demand grew by 5.7 % in the second quarter of 2014 (1Q 2014: 7.4 %). Government initiatives such as the Bantuan Rakyat 1Malaysia (BR1M) gave out RM300 to individuals earning RM2,000 or less, RM650 to households earning RM3,000 or less, RM450 to households earning between RM3,001 and RM4,000 and the RM200 book voucher to university and college students, as well as the RM100 book voucher to primary and secondary school students. Private sector activity remained the key driver of growth during the quarter amid strong investment and consumption.

To provide an in-depth insight of the production performance of the industries in the manufacturing sector, the following section will outline the performance of each industry during the first 7 months of 2014. For the export-oriented industries, the focus is on electrical and electronic products; chemicals, chemical products and petroleum products; wood and wood products; and textiles, apparel and footwear. Subsectors in the domestic-oriented industries that will be discussed include construction-related materials; transport equipment; and food products, beverages and tobacco products. Data for the discussion are based on the information provided in the Economic Report 2014/2015.

### ***Production of Electrical and Electronic Products***

Driven by electronic components, communication equipment and domestic appliances, production in the electrical and electronic products subsector grew strongly by 13.3 % during the first 7 months of 2014 (January–July 2013: 6.9 %). The global sales of semiconductors increased 10.3 % during the first 7 months of 2014 to about USD188 billion. This was mainly due to the encouraging global trend in semiconductor sales in the USA, Asia Pacific, Japan and Europe since October 2013. Moreover, the output of printed circuit boards and semiconductor devices rose 53.9 % and 10.5 %, respectively (January–July 2013: 26.2 %; 18.5 %) as a result of growing demand for consumer electronics, particularly mobile devices, as well as

improving global PC sales. The replacement of PCs with a new operating system and falling prices of PCs contributed to increased global PC sales, albeit on a moderating trend. However, production of general-purpose machinery decreased 8.8 % (January–July 2013: –1.8 %) due to lower output of air-conditioning machines (–17.9 %) as well as lifting and handling equipment (–8.2 %).

### ***Production of Chemicals, Chemical Products and Petroleum Products***

During the first 7 months of 2014, production of petroleum increased 2 % (January–July 2013: 0.9 %), largely supported by higher export production of refined petroleum (23.2 %) and residual petroleum products (124.4 %). However, production of rubber products contracted 0.3 % in the first 7 months of 2014 (January–July 2013: 8.9 %) due to slower external and domestic demand for rubber gloves and rubber tyres. External demand from the automotive industry for rubber tyres was weaker, particularly from China. Moreover, following the product shift from rubber-based to plastics, silicones and metal alloys in the manufacture of medical devices, output of other rubber products declined 3.8 % (January–July 2013: 14.8 %).

### ***Production of Wood and Wood Products***

During the first 7 months of 2014, production of wood products rebounded by 5.1 % (January–July 2013: –2.7 %) with higher output in the sawmilling and planing of wood segment at 25.9 % (January–July 2013: 22.7 %). The positive performance was attributed to vibrant residential and commercial construction activities as well as increased demand for Malaysian-made furniture. Demand for timber frame and glued-laminated timber from the construction sector increased due to cost savings compared to the use of concrete and steel. Moreover, demand from major export destinations such as the USA, Japan and Australia for Malaysian-made furniture further contributed to the higher output, particularly wooden and cane furniture which rebounded by 2.2 % (January–July 2013: –12.7 %).

### ***Production of Textiles, Apparel and Footwear***

Production of textiles, wearing apparel, leather products and footwear rebounded significantly by 11.5 % during the first 7 months of 2014 (January–July 2013: –2.5 %), mainly through higher output of spinning, weaving and finishing of textiles by 11.6 % and wearing apparel by 13.5 %, respectively (January–July 2013: –17.6 %; 1.6 %). This was due to increasing demand for textiles from Malaysia's

top three export destinations, namely, Turkey, China and the Republic of Korea. Sales increased 14.5 % to RM5.5 billion (January–July 2013: 0.9 %; RM4.8 billion), attributed mainly to companies embarking into technical textile. Technical textile such as geotextile with safety elements embedded into the material was suitable for the construction industry. The apparel sector also benefited from contract manufacturing arrangement with producers of high-end international brands. Moreover, the rising affluence and household income as well as quality designs and variety of products boosted demand.

### ***Production of Construction-Related Materials***

During the first 7 months of 2014, the construction-related industries registered growth of 3.5 % (January–July 2013: 5.7 %). Precast concrete expanded 21.1 % (January–July 2013: 9.1 %). Though fabricated and basic metal products experienced a lower growth of 2.9 % and 1.9 %, respectively (January–July 2013: 17.2 %; 2.9 %), the subsector was cushioned by the turnaround in production of non-metallic mineral and other related products at 5.4 % (January–July 2013: –2 %) as well as glass products by 11.7 % (January–July 2013: –15.6 %). Robust housing construction activities and ongoing implementation of civil engineering projects contributed to the growth of the construction-related materials' subsector. New orders for construction-related materials increased, mainly driven by ongoing public works and infrastructure projects, such as MRT and LRT, extension of Duta-Ulu Kelang Expressway (DUKE) and widening of Lebuhraya Utara-Selatan (PLUS). Aided by government initiatives such as the Economic Transformation Programme (ETP), the Government Transformation Programme (GTP) and Programme Perumahan 1Malaysia (PR1MA) and the 10th Malaysian Plan (10MP) projects, production in this subsector is expected to remain resilient.

### ***Production of Transport Equipment***

Production and exports of transport equipment grew significantly by 22.9 % and 11.3 %, respectively, during the first 7 months of 2014 (January–July 2013: 9.8 %; 4.8 %). This is attributed to higher production in the shipbuilding segment (59 %), manufacture of motor vehicles (12.9 %) as well as parts and accessories (10.1 %). The automotive segment is the largest in the transport equipment subsector, with 11 car producers and 9 motorcycle manufacturers as well as 35,000 parts and accessories' manufacturers. With the aggressive sales campaign and launch of new models by industry players, total vehicle sales during the first 7 months of 2014 grew 3 % to 393,409 units comprising 350,357 passenger vehicles and 43,052 commercial vehicles. Vehicle sales are expected to expand further to 675,000 units in 2014

(2013: 655,793 units), making Malaysia the third biggest car manufacturer in the Association of Southeast Asian Nations (ASEAN) region.

### ***Production of Food Products, Beverages and Tobacco Products***

Malaysia's strength as a food producer is gaining momentum. During the first 7 months of 2014, total sales rose 2.5 % to RM20.6 billion (January–July 2013: 0.1 %; RM20.1 billion), while food exports increased significantly by 15.7 % to RM9.3 billion (January–July 2013: 6 %; RM8.1 billion). Output of food products grew 8.6 % (January–July 2013: 8.2 %) mainly from the increased production in refined palm oil (18.2 %), rice (17.6 %) as well as biscuits and cookies (8.7 %). Output of beverage recorded a growth of 19.3 % compared to –6.5% in the same period. All beverage segments registered higher gains as a result. The FIFA World Cup 2014 season, festivities and school holidays to some extent contributed to the improved performance of food and beverage subsectors. However, output of tobacco dropped 9.5 % (January–July 2013: –10.6 %). This is due to declining local leaf production and the contraband market for cigarettes, higher tax on tobacco as well as government initiatives to discourage smoking. Initiatives such as banning smoking in shopping complexes, government premises and other vicinities with central air-conditioning have impacted the production of tobacco.

### **Private and Foreign Investment in the Manufacturing Sector**

In line with strengthening domestic demand and support from an improving external sector following the recovery in advanced economies, private and foreign investment remained relatively strong. Private investment, in particular, surged 13 % to RM78.7 billion during the first half of 2014 with its share to total investment increasing to 68.9 %. Overall, private investment grew strongly by 12 % in 2014 (2013: 13.1 %), especially in the services and manufacturing sectors. Government initiatives, higher export earnings, stable labour market conditions, positive consumer sentiment and improved business prospects further accelerated private sector participation. Meanwhile, private investment in the manufacturing sector is anticipated to contribute 17.7 % to real GDP in 2014 (2013: 16.7 %). Investment in the manufacturing sector will be supported by export and domestic-oriented industries. While expenditure in the domestic-oriented industries will be sustained, investment in the export-oriented industries is expected to increase. This is especially in electrical and electronic products, particularly in medical device, telecommunication equipment and fibre optic cable segments. Expenditure in the domestic-oriented industries will be mainly supported by transport equipment as well as food and beverage subsectors.

In consonance with upbeat business confidence in the domestic investment ecosystem, the manufacturing sector continued to attract domestic and foreign investment with investment approved by Malaysian Investment Development Authority (MIDA) totalling RM47.4 billion during the first 6 months of 2014 (January–June 2013: RM22.7 billion), mainly from Japan, China and Germany. Of the total investments approved by the Malaysian Investment Development Authority, foreign investment, which accounted for 58.9 %, increased 96 % to RM27.9 billion (January–June 2013: 62.7 %; 11.8 %; RM14.3 billion). The main source of foreign investment was from Japan, followed by China, Germany and Singapore which together accounted for 79.4 % of the total foreign investment. Meanwhile, various continuous probusiness initiatives launched by the government to attract private investment yielded positive results. Approved projects for domestic investment increased significantly to RM19.5 billion (January–June 2013: RM8.5 billion), mainly in the petroleum and petrochemical, chemical, electrical and electronic as well as basic metal industries.

Following the improvement in global foreign direct investment as well as increasing investors' confidence, Malaysia remains an attractive investment destination despite stiff competition from other emerging economies. Additionally, Malaysia as an investment destination is expected to strengthen further with Malaysia's improved ranking in various global business benchmarks. Malaysia was ranked the 7th top FDI recipient in Asia, recording a net FDI inflow of RM17.2 billion during the first half of 2014 (January–June 2013: RM17.7 billion) with 10.5 % of the investment in manufacturing. In the World Bank's Doing Business 2014 Report, Malaysia's ranking improved to 6th position from 12th position in 2013, scoring in getting credit (1st), protecting investors (4th) and doing trade across borders (5th). Furthermore, Malaysia improved to 15th from 25th position in the 2014 Foreign Direct Investment Confidence Index by A.T. Kearney. The report highlighted Malaysia's efforts in enhancing competitiveness in electronic, automotive, and machinery manufacturing to move up the value chain into high-technology and skill-intensive segments. Malaysia also improved to 12th position from 15th in the 2014 IMD World Competitiveness Yearbook, scoring in business efficiency (5th), economic performance (9th), government efficiency (15th) and infrastructure (25th). Moreover, the Global Competitiveness Report 2014–2015 ranked Malaysia among the top 20 most competitive economies out of 144 countries surveyed. Of significance is Malaysia's advancement of nine positions in the institutions pillar comprising financial market development, efficiency of goods and services market as well as business-friendly institutional framework.

## **Exports of Manufactured Goods**

The manufacturing sector contributed 76.2 % to total exports in 2013, from 58.7 % in 1990 (Economic Report 2014/2015). During the first 7 months of 2014, manufactured exports rose at a double-digit pace of 11.4 % to RM337.2 billion

(January–July 2013:  $-0.3\%$ ; RM302.8 billion), buoyed by the strengthening demand from advanced economies. Manufactured exports expanded as a result of a higher growth of both electrical and electronic and non-electrical and electronic products and a low base from the second quarter of 2013. Electrical and electronic exports were driven by strong demand for semiconductors, while non-electrical and electronic exports were supported by stronger demand for resource-based products. Non-electrical and electronics (non-E&E) manufactured exports accounted for  $56.8\%$  in 2013 (1990:  $47.3\%$ ), while electrical and electronic products accounted for a third of total exports (Economic Report 2014/2015). On a year-on-year basis, electrical and electronic products, which accounted for  $34.4\%$  of total exports, expanded RM3.0 billion or  $14.9\%$  to RM23.3 billion (Department of Statistics 2015b). In 2014, gross exports of manufactured products are anticipated to expand  $6.1\%$  (2013:  $5.1\%$ ) in line with improving external demand, albeit at a more moderate pace, in the second half of the year.

The strength in exports was broad-based with robust growth in both electrical and electronic and non-electrical and electronic subsectors. Receipts from electrical and electronic products grew at an impressive  $10.6\%$  (January–July 2013:  $-2.9\%$ ) as a result of a surge of  $20.1\%$  in exports of semiconductor devices (January–July 2013:  $0.8\%$ ). Semiconductor devices accounted for  $49.4\%$  of total electrical and electronic exports during the first 7 months of 2014. Increasing demand for semiconductor devices from major markets such as China, Singapore, Hong Kong and the USA boosted the export of electronic integrated circuits and photosensitive semiconductor devices by  $24.1\%$  and  $18.5\%$ , respectively. Semiconductor devices accounted for about  $70\%$  of electrical and electronic exports to China, while semiconductors and petroleum products accounted for  $66\%$  of exports to Singapore. During the period, semiconductor devices accounted for  $30.6\%$  of total electrical and electronic exports to the USA. Additionally, telecommunication equipment and parts accelerated  $30.9\%$  (January–July 2013:  $-9.4\%$ ), largely supported by robust demand from the USA, the Netherlands, Singapore and Mexico to cater for the increasing demand for mid- to low-end smartphones and tablets, notably in emerging markets.

Non-electrical and electronic exports increased significantly by  $11.9\%$  to RM193.2 billion (January–July 2013:  $1.8\%$ ; RM172.6 billion) attributable to stronger receipts across major subsectors except rubber and jewellery exports. Exports earnings of petroleum products expanded significantly by  $23.4\%$  (January–July 2013:  $12.4\%$ ) mainly due to rising demand for refined petroleum products ( $23.2\%$ ) from Singapore, Indonesia and Australia. Similarly, chemicals and chemical products expanded  $6.7\%$  (January–July 2013:  $-0.2\%$ ) mainly due to higher receipts from Singapore, India, Indonesia and the USA. The increase came primarily from organic chemicals ( $6.3\%$ ), soap, cleansing and polishing preparations ( $14.3\%$ ) as well as dyeing, tanning and colouring materials ( $12.8\%$ ). Additionally, exports of plastic products expanded  $14\%$  (January–July 2013:  $1.5\%$ ), particularly for packaging. This is attributed largely to increase demand from ASEAN, Australia, Republic of Korea and China for plastic plates, sheets, film, foil and strip products, which grew  $22.2\%$ .



Furthermore, exports of machinery, appliances and parts recorded a double-digit growth of 12.5 % (January–July 2013: 1.4 %), while exports of optical and scientific equipment rebounded strongly by 18.6 % during the first 7 months of 2014 (January–July 2013: –12.3 %). The growth in exports of machinery, appliances and parts was largely due to strong demand for specialised machinery for specific industries (16.3 %) and general industrial machinery and equipment (9.2 %) from Singapore, the USA, China and Australia. Likewise, exports of optical and scientific equipment accelerated as a result of strong external demand from the USA, Singapore and China, particularly for measuring, checking, analysing and controlling instruments and apparatus.

Correspondingly, fuelled by higher export demand for non-ferrous metal (12.4 %), particularly copper and nickel to China, India, Singapore and Australia, manufactures of metal rose 4.7 % (January–July 2013: 21.7 %). Similarly, iron and steel products registered a strong rebound of 28.2 % (January–July 2013: –28.4 %). The strong performance is because of robust demand for tubes, pipes, hollow profiles and fittings to Norway, Thailand and Indonesia. Likewise, exports of non-metallic mineral products surged 4.5 % (January–July 2013: –9.9 %), attributed mainly to construction-related materials such as lime, cement, clay and fabricated materials.

However, shipments of rubber products contracted 7.2 % (January–July 2013: –6.5 %) due to slower exports of rubber gloves and rubber materials. Demand for rubber gloves dropped 1.7 % (January–July 2013: 0.4 %), while exports of rubber materials declined significantly (–28 %). The drop in the receipts from rubber gloves was mainly attributed to lower sales of medical rubber gloves to Germany, the UK and Brazil as well as lower average selling prices of rubber gloves amid intensified competition, particularly from China. Exports of surgical rubber gloves remained stable at 2.4 %. Meanwhile, the significant decline in exports of rubber materials (–28 %) was chiefly due to lower shipments to China, the USA and Australia. Nonetheless, exports of articles of rubber remained strong at 16.1 % (January–July 2013: –2.5 %).

Higher export earnings were also recorded for processed food at 15.7 % (January–July 2013: 6 %), with exports to ASEAN accelerating 7.3 %. The growth was backed by growing demand for edible products and preparations (18.5 %) as well as cocoa and cocoa preparations (17.7 %). Similarly, beverage and tobacco exports remained steady at 8.4 % (January–July 2013: 6.9 %). The better performance was primarily attributable to higher exports of beverage to Singapore, Indonesia, Thailand and Vietnam as well as tobacco products to Taiwan, Thailand and Vietnam.

Driven by stronger export growth of wooden furniture (13.4 %) to the USA, Japan and Australia, shipments of wood products rebounded by 4.7 % in the first 7 months of 2014 (January–July 2013: –5.9 %). Exports of bedroom furniture and seats with wooden frame, in particular, increased significantly by 21.6 % and 15.2 %, respectively. On the contrary, veneers and plywood decreased marginally by 2.7 %. While increased new housing activity in Japan during the earlier part of 2014 boosted greater demand for plywood products, lower receipts from the

Republic of Korea, Taiwan and the Philippines dampened the growth of these products in general.

Likewise, exports of textiles, clothing and footwear surged 18.7 % (January–July 2013: 2.3 %) attributed mainly to textile as well as articles of apparel and clothing accessory segments, which expanded 14.1 % and 28 %, respectively. There was a robust demand for textile products such as textile yarn and woven fabrics, particularly from Turkey (10.3 %), followed by China (8.7 %), Republic of Korea (7.9 %) and Japan (7.6 %). The significant performance in the articles of apparel and clothing accessory segments, especially men's clothing (19.8 %), was the result of stronger global demand, particularly from the USA, Singapore and Belgium.

Meanwhile, shipments of transport equipment accelerated 11.3 % (January–July 2013: 4.8 %), primarily attributable to higher exports of aircraft and associated equipment (14.8 %) as well as ships, boats and floating structures (25 %) to the USA, Japan and Thailand. In contrast, jewellery exports plummeted sharply by 15.7 % (January–July 2013: 6.6 %). The drop was significant, notably during the second quarter of 2014 largely due to declining gold investment demand globally. Specifically, the significant contraction was attributed to a decline in jewellery exports of gold, silver, platinum (–14 %) and other articles of precious metals (–40.1 %) to the United Arab Emirates, Singapore and Thailand.

## Employment in the Manufacturing Sector

In terms of employment, the manufacturing sector contributed 16.4 % to total employment. The total number of employees engaged in the manufacturing sector in November 2014 was 1,030,383 persons, an increase of 0.1 % compared with the preceding month. Meanwhile, year-on-year basis, the number of employees increased by 1.5 % (15,036 persons) as compared to 1,015,347 persons in November 2013 (Department of Statistics 2015a). The manufacturing sector has the highest number of job vacancies recording 259,831 out of 757,031 total vacancies during the first 8 months of 2014 (January–August 2013: 905,882).

Though retrenchment declined 17.6 % to 6,811 persons during the same period (January–August 2013: 29.6 %; 8,261), the manufacturing sector registered the highest number of retrenchments, accounting for 65 % of total retrenchments. In the same period, the manufacturing sector absorbed 13,910 jobseekers. During the first half of 2014, 722,750 of the two million foreign workers (January–June 2013: 2.1 million) were largely concentrated in the manufacturing sector. In the same period, of the 105,238 expatriates (2013: 81,991), 11,045 were in the manufacturing sector (Economic Report 2014/2015).

Aggregate real wages in the manufacturing sector increased by 4.5 % (1Q 2014: 3.6 %), supported by higher wage growth in the export-oriented industries (Bank Negara Malaysia 2014). During the first 7 months of 2014, average wage per employee and productivity improved to RM2,772 per month and 5.9 %, respectively (January–July 2013: RM2,608; 2.4 %). Month-on-month basis, salaries and

wages paid in November 2014 were RM2,837.8 million, an increase by 0.1 % (RM1.8 million). Meanwhile, the total amount paid in November 2014 has increased by 4.3 % (RM117.9 million) compared to November 2013.

## **Financing for the Manufacturing Sector**

The resilience and stability of the financial system provided support across all sectors of the economy. During the first 7 months of 2014, the manufacturing sector continued to receive the largest share of the loan disbursements at 20.6 % (2013: 20.8 %). As at end-July 2014, the manufacturing sector accounted for 7.7 % of total business loans outstanding (2013: 7.9 %) or RM98.3 billion of the impaired loans (2013: RM96.6 billion). In supporting the development of the strategic economic sectors, the development financial institutions continued to play a significant role. During the first 7 months of 2014, development financial institutions continued to provide financing totalling RM5.5 billion (2013: RM4.8 billion) to support the manufacturing sector. This represented 4.4 % share of total financing (2013: 7.9 %) by development financial institutions between January and July 2014.

Additionally, funds raised by the private sector through private debt security amounted to RM450 million accounting for 0.9 % during the first 7 months of 2014 (January–July 2014: RM945 million; 2.4 %). Meanwhile, the venture capital industry continued to play an important role as a source of early stage funding for innovation especially for start-up companies and expansion, providing 12 % of total investments to the manufacturing sector as at end-July 2013. Additionally, as at end-July 2014, the manufacturing sector accounted for 4.9 % or RM19.4 billion of Islamic financing (end 2013: 4.7 %, RM17.3 billion). Apart from the banking system, five revolving funds administered by Bank Negara Malaysia also provided financing for SMEs. Microenterprises continued to receive financing support from ten participating financial institutions under Skim Pembiayaan Mikro 2006.

## **The Importance of Studying the Manufacturing Industry in Malaysia**

This study, which used samples from the manufacturing industry in Malaysia, is deemed important due to the magnitude of the sector's impact on the Malaysian economy. The manufacturing sector, bolstered by strong domestic- and export-oriented industries, is expected to grow 5.5 % in 2015 (2014: 6.4 %). In addition, the manufacturing sector has contributed significantly (76.4 %) to total export earnings. Export earnings are expected to further increase from improved global trade, while domestic-oriented industries continue to expand in line with better business confidence and consumer sentiment. Spurred by higher demand for global electronics,

particularly semiconductors, electronic components, communication and computer peripherals, the electrical and electronic subsector is expected to grow further. In line with the upward swing of demand for petroleum, rubber and chemical products, the resource-based industry is anticipated to grow steadily. Meanwhile, with better job prospects and higher disposable income, the transport equipment subsector, particularly the passenger car segment, is expected to expand further. In addition, the construction-related industry is likely to expand, attributed primarily to ongoing infrastructure projects such as MRT and extension of LRT.

Besides, the manufacturing sector created huge employment and skill enhancement opportunities in Malaysia (Chew 2005a). In line with the country's economic growth, employment has expanded, with the manufacturing sector contributing the highest number of job vacancies among other sectors during the first 8 months of 2014. The expected increase in global demand, particularly for electrical and electronic as well as for wood products, will further contribute to employment growth. Given the current positive trend in the manufacturing sector, production is expected to expand generating more career opportunities. With the growth in demand for labour exceeding supply, the competition for skilled and talented workers will be more intense. Workers may job hop for better salaries or career advancement (Chin 2003; Hooi 2002, 2008; Kawabe 1991). Chew (2005b) asserts that in Malaysia, new graduates who perform well tend to get their first promotion after 3 years of service, and given the changing social values of the workforce, high performers left for firms that reward rapid advancement. This scenario has not changed in the last 10 years. Most of the excellent managers that left for better career development elsewhere are currently directors of well-established companies through a fast-track upward advancement (Chew 2005b; Hooi 2008). As such, aggressive workers will move on, and with their experience, the next company is more than willing to take them. Labour mobility is rather high especially among young workers who do not hesitate to leave. They will 'search and hop' until they feel that it is irrational to change jobs anymore (Hooi 2008). Besides, Chin (2003) notes that, as materialism gains dominance, the social bonds that have made for a cohesive society are beginning to crumble. Therefore, to secure a highly competent pool of workforce for sustaining a competitive edge, organisations in the manufacturing sector have to undertake measures to instill organisational citizenship behaviour.

Similarly, organisations in the manufacturing sector may risk losing employees to other sectors if employees perceive that their organisations are not performing. Job insecurity in their current organisations may force employees to look for jobs in other sectors. Particularly, for middle age workers, with family commitments and children's education to consider, job security and stability are more important than the slight increase in pay (Hooi 2008). As mentioned earlier, the manufacturing sector has the highest number of retrenched workers in the first 8 months of 2014, accounting for 65 % of total retrenchments (Economic Report 2014/2015). To some extent, it affects employees psychologically, as laying-off employees and sudden dismissals during sluggish times are inevitable. Workers who have better opportunities elsewhere are likely to leave if they foresee imminent bankruptcy in their organisations. To avoid losing key workers, organisations in the manufacturing sector

have to take measures to enhance sustainability and ensure that workers exhibit citizenship behaviours to further boost productivity.

In the same period, the manufacturing sector recorded a significant number of foreign workers (722,750 persons). Additionally, the manufacturing sector has 11,045 highly skilled expatriates as at end-August 2014. The presence of foreign workers in the manufacturing sector affects local employees in several ways if organisational justice is not in place. For example, significant responsibilities delegated to expatriates at the expense of local employees may affect their career advancement in the organisation and, hence, their job satisfaction. Hooi et al. (2012) affirm that perceived procedural injustice in promotion decisions intensify the intent to leave, especially among young managerial staff. Similarly, special privileges and benefits received by expatriates may further aggravate the situation if local employees perceive organisational injustice. Additionally, the presence of foreign labour from diverse cultures may create difficulties for supervisors managing them. These foreign workers may be a burden, as local employees have to understand not only their habits and cultures but also the laws that cover these foreign workers. Diversity management becomes an important competence of managers and supervisors, as they have to ensure harmony at the workplace. Where different nationalities have to work side-by-side, tension does set in over sensitive issues. Intention to leave among local employees would probably increase if the working environment were no longer conducive or fair.

Besides, due to rapid changes in technological innovations, it may be imperative for organisations in the manufacturing sector to arm their employees with a high level of broad skills and techniques. However, organisations cannot optimally reap the benefits of investment on training if the tendency of job hopping and turnover is high (Hooi 2008). Therefore, citizenship behaviours that promote a long-term employment system are necessary, though it is not the norm for Malaysian employees to remain with the same organisation in their entire career. However, as the system emphasises job security, employees may welcome it if organisations in the manufacturing sector ensure transparency and fairness at the workplace. Good quality leader-member exchange and enhanced job satisfaction further provide support for the system. Additionally, due to the increasing uncertainty in the global market, job security may be the priority of most employees. As such, establishing employment security as a core employment policy in manufacturing organisations may enhance citizenship behaviours in the manufacturing sector in Malaysia, making it worthwhile to invest in employee development. Additionally, for organisational success, it is imperative to acknowledge the value of the employees who devote their professional lives to the organisation through fair practices.

Furthermore, for manufacturing organisations, the quality of their products is essential for competitive advantage. The quality of the products is much dependent on the workers, as organisations have nothing, in terms of technology, that any other organisations cannot have. Essentially, besides competencies, the practices at the workplace affect the quality of work. Specifically, the negative effects of unhealthy work practices of the management staffs will spill over to the production staffs and, hence, the quality of the products. Therefore, besides continuous training, workers'

commitment and loyalty need to be enhanced through organisational citizenship behaviours. However, it is difficult for organisations to create loyalty without first creating satisfied employees. It is unlikely that employees will display loyalty if they are dissatisfied at the workplace. Among other factors, research shows that organisational justice significantly affects job satisfaction and intent to leave (e.g. Alexander and Ruderman 1987; Ball et al. 1994; Cohen-Charash and Spector 2001; Colquitt et al. 2001; Hendrix et al. 1999; Konovsky and Cropanzano 1991; Latham and Pinder 2005; McFarlin and Sweeney 1992); employee loyalty (Lind and Tyler 1988) and organisational commitment (Schappe 1996). Murphy et al. (2006) further affirm that organisational justice affects team loyalty.

Thus, to sustain the sector's contribution to the economy, workforce engagement as well as the retention of talent workers in the manufacturing sector is indispensable. As the working environment in the manufacturing industry is comparatively more hazardous in nature, it is inevitable that employees will leave if they were not happy. However, it is imperative that organisations have an engaged and loyal workforce to remain resilient and competitive. Therefore, it is crucial that organisations in the manufacturing sector promote citizenship behaviour as part of its organisational culture. Boosted by business opportunities from the implementation of the Economic Transformation Programme (ETP) initiatives, domestic finance and strong inflows of foreign direct investment, the manufacturing sector is expected to expand further. To capitalise on this continuous growth, it is critical that organisations examine the relationships that may exist between employee perceptions of organisational justice, organisational citizenship behaviour, job satisfaction and leader-member exchange to have a better insight of what influences organisational citizenship behaviour, as an organisation's human capital is the quality machine that steers organisational growth. In this study, the emphasis is on organisational justice with job satisfaction and leader-member exchange as potential mediators.

## Conclusion

For 2015, the manufacturing sector is envisaged to expand, spurred by robust domestic demand and export-oriented industries. Resilient domestic demand and favourable external demand support the growth of investment activities amid continued recovery in the advanced economies and better growth prospects in the region. As external demand improves, the manufacturing sector is anticipated to grow at a faster pace on higher shipments of electrical and electronic products. Improvement in the demand for electrical and electronic products, particularly global semiconductor demand as well as resilient regional trade, is expected to boost further the performance of the sector. Malaysia is likely to benefit from these developments, in particular demand for semiconductor devices – electronic integrated circuits and photosensitive semiconductor. Additionally, production of domestic-oriented industries is expected to expand further due to increasing domestic consumption and investment. Similarly, demand for construction-related

materials remains robust, as projects under the 10th Malaysian Plan and National Key Economic Areas (NKEAs) gain momentum.

In essence, domestic demand, particularly private sector expenditure is expected to play a more significant role in driving economic expansion. Specifically, probusiness initiatives launched by the government, and incentives to promote new sources of growth and encourage manufacturers to move up the value chain, are expected to consolidate and strengthen the resilience and competitiveness of the manufacturing sector. To benefit from this, it is imperative that organisations in the manufacturing sector ensure that a pool of dedicated and knowledgeable staff is continuously available to support organisational growth. With the increase in private and foreign investment, strong financing through the banking system and government initiatives, there are many opportunities for growth. Organisations in the manufacturing sector can exploit these opportunities by enhancing workforce engagement, professionalism and staff retention through fair policies and practices, as employees may reciprocate by displaying organisational citizenship behaviours (Moorman 1991).

In the subsequent chapters, the research will be discussed in detail. The next chapter will focus on the literature review on organisational justice, job satisfaction, leader–member exchange and their effects on organisational citizenship behaviour. The chapter will outline the different dimensions of the main constructs of the study. A profound understanding of related literature helps justify the necessity and credibility of this study. The main aim is to expose contemporary research issues and narrow the gap in the domain.

## References

- Alexander, S., & Ruderman, M. (1987). The role of procedural and distributive justice in organisational behaviour. *Social Justice Research*, 1(2), 177–198.
- Ball, G. A., Trevino, L. K., & Sims, H. P., Jr. (1994). Just and unjust punishment: Influences on subordinate performance and citizenship. *Academy of Management Journal*, 37(2), 299–322.
- Bank Negara Malaysia. (2014). Developments in the Malaysian economy. *Quarterly Bulletin*. Second Quarter 2014.
- Business Circle. (2014). *High-value manufacturing – Malaysia's next frontier* (14 May 2014). Available at <http://www.businesscircle.com.my/high-value-manufacturing-malaysias-next-frontier/>
- Chew, Y. T. (2005a). Achieving organisational prosperity through employee motivation and retention: A comparative study of strategic HRM practices in Malaysian institutions. *Research and Practice in Human Resource Management*, 13(2), 87–104.
- Chew, Y. T. (2005b). The changing HRM practices of Japanese firms and the impacts on compensation practices of Japanese affiliates in Malaysia. *Forum of International Development*, 28(1), 55–80.
- Chin, T. (2003). Future directions. In Malaysia Institute of Management's *Management in Malaysia* (pp. 383–390). Selangor Darul Ehsan: Percetakan Printpack Sdn. Bhd.
- Cohen-Charash, Y., & Spector, P. E. (2001). The role of justice in organisations: A meta-analysis. *Organisational Behaviour & Human Decision Processes*, 86(2), 278–321.
- Colquitt, J. A., Conlon, D. E., Wesson, M. J., Porter, C. O. L. H., & Ng, K. Y. (2001). Justice at the millennium: A meta-analytic review of 25 years of organisational justice research. *Journal of Applied Psychology*, 86(3), 425–445.

- Department of Statistics. (2015a). *Monthly manufacturing statistics*. November 2014.
- Department of Statistics. (2015b). *Malaysia external trade statistics*. December 2014.
- Department of Statistics. (2015c). *Index of industrial production, Malaysia*. November 2014.
- Hendrix, W., Robbins, T., Miller, J., & Summers, T. P. (1999). *Procedural and distributive justice effects on turnover*. Paper presented at the Annual Meeting of the Society for Industrial and Organisational Psychology, Atlanta, GA.
- Hooi, L. W. (2002). The impact of Japanese promotion practices on Malaysian enterprises. *Asia Pacific Business Review*, 9(1), 21–38.
- Hooi, L. W. (2008). Current remuneration practices in the multinational companies in Malaysia: A case study analysis. *Research and Practice in Human Resource Management*, 16(1), 78–103.
- Hooi, L. W., Sulaiman, M., & Omar, A. (2012). Procedural justice in promotion decisions of managerial staff in Malaysia. *Asia Pacific Business Review*, 18(1), 99–121.
- Kawabe, N. (1991). Japanese management in Malaysia. In S. Yamashita (Ed.), *Transfer of Japanese technology and management to the ASEAN countries*. Tokyo: University of Tokyo Press.
- Konovsky, M. A., & Cropanzano, R. (1991). Justice considerations in employee drug testing. In R. Cropanzano (Ed.), *Justice in the work place: Approaching fairness in human resource management* (pp. 171–192). Hillsdale: Lawrence Erlbaum.
- Latham, G., & Pinder, C. (2005). Work motivation theory and research at the dawn of the twenty-first century. *Annual Review of Psychology*, 56(1), 485–516.
- Lind, E. A., & Tyler, T. R. (1988). *The social psychology of procedural justice*. New York: Plenum Press.
- McFarlin, D. B., & Sweeney, P. D. (1992). Distributive and procedural justice as predictors of satisfaction with personal and organisational outcomes. *Academy of Management Journal*, 35(3), 626–637.
- Moorman, R. H. (1991). Relationship between organisational justice and organisational citizenship behaviour: Do fairness perceptions influence employee citizenship? *Journal of Applied Psychology*, 76(6), 845–855.
- Murphy, C., Ramamoorthy, N., Flood, P. C., & MacCurtain, S. (2006). Organisational justice perceptions and employee attitudes among Irish blue collar employees: An empirical test of the main and moderating roles of individualism/collectivism. *Management Review*, 17(3), 328–343.
- Schappe, S. P. (1996). Bridging the gap between procedural knowledge and positive employee attitudes: Procedural justice as keystone. *Group & Organisation Management*, 21(3), 337–364.



Organisational Justice and Citizenship Behaviour in  
Malaysia

Lai Wan, H.

2016, XVIII, 272 p. 20 illus., 13 illus. in color., Hardcover

ISBN: 978-981-10-0028-7