

ABSTRACT

Batam Island has been developed as an industrial and trade area due to its strategic location. The Government has issued the President Decree No. 41 in 1973 as a based of Batam Industrial Development Authority (BIDA) to develop Batam to be an industrial, trade, tourism, and transshipment area. Batam has gained the confidence of foreign investment wich as steadily grown from US \$ 684 million in 1990 to US \$ 2,818 million up to December 2000.

The research of this dissertation focused on the examined and analysed the influence of production factor competitiveness and business strength to business strategy and firm's competitiveness; regarding the manufacture of the foreign direct investment in Batam. Using 133 manufactures as a population and samples, the respondent data that have been collected using questioner instrument, then analysed by Structural Equation Model (SEM) and proceed by AMOS 4.0 program.

The findings of this research suggested that there are strong positive relationship between production factor competitiveness and business strategy (0,22), production factor competitiveness and firm's competitiveness (0,91), business strength and firm's competitiveness (0,67), as well as business strategy and firm's competitiveness (0,36), but there is negative relationship between business strength and business strategy (-0,002) in Batam.

The findings also showed that most of investors very satisfied with policy related to incentives and facilities given to all investors are as follows: exemption from import duty, exemption from income tax, no value added tax (VAT), and tax holiday for foreign investors. Berry and Parasuraman (1991) suggest that a satisfaction performance level above the zone of tolerance will pleasantly surprise the investors and strengthen loyalty. On the other hand, most of investors unsatisfied with infrastructure, e.g.: transportation mode, power, water, and telephone. A satisfaction performance level below the zone of tolerance will create dissatisfaction, frustration and ultimately may lead to decrease the investors' loyalty.

Using Strategic Position and Action Evaluation (SPACE) analysis, clearly shows that investors in Batam is in a strong position, moderately production factor competitiveness as an environmental instability is balanced by business strategy, and business strength is great compared to firm's competitiveness. The strategic posture of investors in Batam is in the aggressive quadrant. These figures indicate that investors in Batam are enjoying significant advantages yet are likely to face threats from new competition.

Key words: Production factors' competitiveness
Firm's competitiveness
Investors' preference
Investors' satisfaction