

EMPLOYING ORGANIZATIONAL CAPACITY COMPONENTS IN ENHANCING CORPORATE PERFORMANCE

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Abstract

Purpose: Ongoing investigations on modern markets demonstrated that organizational limit structure some portion of the organization's environment that affect its performance. Knowing its standing to the industry, a recent study inspected the effect of organizational capacity on business performance in Malaysia. The research focuses on attaining two objectives. Firstly, to analyze the perceptions of Malaysian listed companies' directors on business capacity components. Secondly, to analyze whether different components of organizational capacity effect the performance of organizations listed in Malaysia.

Methodology: A questionnaire survey and the regression analysis have been used in obtaining the data and answering the research questions respectively.

Main Findings: The consequences of this study show that company structure plays an important role in manipulating the organization's performance. Nonetheless, organizational learning was established not to explain Malaysian companies' performance. Hence, the results assist the firm in their hunt for better performance through using suitable business resources.

Implications/Applications: Recognizing organizational structure as an important organizational capacity element might improve the performance of local business in the market to withstand competitive advantage.

Keywords: *Resource-based View (RBV), organizational capacity, organizational structure, business, organizational learning, Malaysia, corporate performance.*

INTRODUCTION

Organizational capacity has been widely accepted as the process of developing and reinforcing skills, abilities, instincts, and resources of companies that can be used to contribute towards generating income to a particular business. Very few Malaysian companies have established a culture and charter in building and strengthening organizational capacity compared to other developed countries. Therefore, more studies and research are urgently required to highlight the importance of organizational capacities and the steps that need to be taken in supporting such needs. Hence there is a need to strengthen capacity building in Malaysia. Among the capacities that are of most concern are different types of soft-skills, such as advocacy capabilities, speaking/training skills, organizing skills, and other personal development. Besides human resources capabilities, other important capacities have been introduced by the International Development Research Centre (IDRC) in Canada. These capacities are categorized as organizational structure and organizational learning.

This has been found that revisions associating authoritative limit and enterprise execution have been done in the previous 5 years with the appearance of the conversation including the resources of an organization in the industry ([Henri, 2006](#); [Johannessen, Olaisen, & Olsen, 1999](#); [Wilkins & Ouchi, 1983](#); [Yilmaz & Bititci, 2006](#)). Consequently, various studies have discussed on the link between organizational capacity and company performance ([Adjaoud, Zeghal & Andaleeb, 2007](#); [Barney, 1986](#); [Bhatnagar, 2006](#); [Lopez, Peon, & Ordas, 2005](#); [O'Regan & Ghobadian, 2004](#); [El-Ghalayini, 2016](#)). While organization execution is recognized through the making of assets into special capabilities, which, thusly, lead to upper hand, which is otherwise called the center skill of the organization, organizational capabilities was identified to shape some portion of the association's condition that influence its exhibition ([Ameer, 2017](#); [Angriani, Ariffin, & Rahmawati, 2017](#); [Lusthaus, Adrien, Anderson, Carden & Montalvan, 2002](#); [Mahdieh, 2015](#); [Na Ayutthaya, Tuntivivat, & Prasertsin, 2016](#); [Warizin, 2017](#)).

Accordingly, the association between authoritative limit and corporate execution can be portrayed by hierarchical limit frameworks that describe motivations, impact examples, and norms of legitimation which make explicit hierarchical penchants to make focused edge and disadvantages ([Carney, 2005](#)). In any case, because of the blended and uncertain discoveries as to organization execution, the ongoing investigation is invigorated to consider the impacts of the limit of association on business execution with the desire to offer new discoveries in Malaysia, particularly to the business region. Drawn from several sources of competitive advantage firms resource-based view (RBV) viewpoint has been perceived as an appropriate hypothesis to clarify and backing the issue about the effect of authoritative limit on business execution. The current research examines the issues of organizational capacity to bridge the gap in the literature concerning organizational capacity and corporate performance especially in the context of Malaysian industry.

LITERATURE REVIEW

Organizational Capacity

[Honadle \(1981\)](#) in his framework for capacity-building defined “capacity” as the ability to anticipate and influence change, make informed, intelligent decisions and develop programs in setting up and implementing policy, attract, absorb and manage resources and evaluate current undertaking for future plans. He further described organizational capacity as “the improvement of a facet of management” through various process of developing and reinforcing skills, abilities, instincts, and resources by organizations. These include development of various skills, for example advocacy capabilities, speaking/training, organizing and other personal development that enriched a company human resource.

The Canadian International Development Research Centre (IDRC), in 1995 produced a model of organizational capacities that include organizational structure and organizational learning that set a benchmark for organizational capacity builders ([Lusthaus, Anderson & Murphy, 1995](#)). A self-assessment toolbox on organizational performance was published in 1997 to complement the framework ([Lusthaus et al., 2002; Na Ayutthaya, Tuntivivat, & Prasertsin, 2016](#)). In 2002, the framework was further refined to include financial viability and integration of [Kaplan and Norton's \(1996\)](#) infamous “balanced scorecard” measure of performance.

In light of the dialog on the improvement of the expertise and the ability of an organization in the writing ([Lopez et al., 2005](#)), the behind viewpoint to explain administrative ability is the RBV. Thus, this theory is an appropriate theory to support this study in examining the association between organizational capacity and company performance.

The resource-based view of the firm, as developed by [Barney \(1991\)](#), particularly suggests that sustained competitive advantage is only possible through developing resources and capabilities that are valuable, rare, imperfectly imitable and non-substitutable (VRIN). The four requirements for company resources to become sources of sustained competitive advantage criteria can be described as follows: 1) valuable – the resources enable a company to generate strategies that increase its efficiency and effectiveness; 2) rare – the company resources possessed by many competing companies cannot be sources of either a competitive advantage or sustainable competitive advantage; 3) imperfectly imitable – resources in a company are not able or difficult to be copied by another company because of unique historical conditions, causally ambiguous and socially complex; 4) non-substitutable – there must be no strategically equivalent valuable resources that are themselves either not rare or imitable ([Barney, 1991](#)). The organization execution will be perceived by the creating of assets into one of a kind abilities that, thusly, lead to the upper hand, which is otherwise called the center skill of the organization.

While the impact of organizational capacity spending on company performance has been studied for the past 50 years pioneered by the contribution made to the resource-based view of the firm (RBV) field by Edith Penrose in 1959, the findings of these past studies have been inconclusive. Later, in 1991, Joe Barney developed and introduced the RBV and the significance of the theory in generating the sustained competitive advantage of an organization. As indicated by the RBV, each association utilizes a lot of assets in making its riches by making an incentive so that is excellent and ready to accomplish the upper hand. Instances of the assets are overseeing structure, money related observing, initiative, staffing, offices, innovation, and HR. In the case of Malaysia, discussion on the issue pertaining to organizational capacity has only been done in general without any focus on the specific category of capacity. As needs be, exceptionally restricted investigations on hierarchical limit in Malaysia have been recognized ([Abdullah, Lall, & Tatsuo, 2008; Bo Shing & Xiaodie, 2017; Fatt, Khin, & Heng, 2010; Khong & Eze, 2008; Oetomo, Satrio, & Lestariningsih, 2016; Tayles, Pike, & Sofian, 2007](#)).

Corporate Performance

The performance of a company or an organization can be referred to as the ability of a company to meet its objectives and achieve its mission. Company performance can be signified by financial sustainability, a financial condition that makes a company stable and feasible. Academicians and researchers have proposed and employed a range of accounting based company performance measurements in their studies (i.e. [Abdullah, 2004; Boubakri, Cosset, & Guedhami, 2005; Chen, Cheng, & Hwang, 2005; Krivogorsky, 2006; Laing & Weir, 1999; Mohamad Yusof et al., 2017; Ponnu, 2008; Rahman & Haniffa, 2005; Shakir, 2009; Yoshikawa & Phan, 2003; Willy, 2017](#)).

A study on choices of financial goals and the performance of firms in Malaysia by [Pandey \(2002\)](#) determined that most of the managers do not emphasize raising the shareholders' wealth in decision making. Previous empirical studies identified that the profitability, efficiency, and output of newly privatized firms in developed countries have increased, which documents that post-privatization in developed countries performance has improved ([D'Souza, Megginson, & Nash, 2005](#)). Using a multi-national and multi-industry sample with six dependent variables to identify the determinants of post-privatization performance improvements, the findings of [D'Souza et al. \(2005\)](#) found evidence that some of the sources were different between developed and developing countries. However, the sample of the study only comprised insurance companies in the United Kingdom (UK), which limits the contribution of the study to other companies in the region.

Prior studies in the literature show that many researchers ([Boubakri et al., 2005; Firer & Williams, 2003; Gani & Jermias, 2006; Hutchinson & Gul, 2004; Klapper & Love, 2004; Leng, 2004](#)) have adopted the accounting-based performance measures (ROA and ROE) as proxies for firm performance.

With respect to the market-based company performance measure, which is Tobin's Q, most studies on corporate governance mechanisms have applied the principal-agent perspective in explaining company performance ([Ang & Ding, 2006](#); [Bhagat & Black, 1999](#); [Chen, 2001](#); [Eze, 2017](#); [Prevost, Rao, & Hossian, 2002](#); [Seifert, Gonenc, & Wright, 2005](#); [Weir, Laing, & McKnight, 2002](#); [Yermack, 1996](#)). In the case of Malaysia, most of the recent studies (e.g., [Alshannag, Basah, & Khairi, 2017](#); [Amran & Ahmad, 2010](#); [Ibrahim & Samad, 2011](#); [Rahim, Jalaludin, & Tajuddin, 2010](#); [Ripain, Amirul, & Mail, 2017](#); [Tsai & Tsai, 2017](#)) have used both ROA as well as Tobin's Q as proxies for company performance. [Ibrahim and Samad \(2011\)](#) used secondary data taken from the annual reports of the company and financial databases for the period 1999 to 2005. Additionally, the study by [Ibrahim and Samad \(2011\)](#) employed the fixed effects approach for the model of their study.

[Mehran \(1995\)](#) and used both Tobin's Q (TQ) and ROA in measuring firm performance. In addition, [Klapper and Love \(2004\)](#) produced evidence that healthier corporate governance is associated with higher operating performance measured by return on assets (ROA) and also higher market valuation, as measured by Tobin's Q. It has been argued that accounting-based performance measures reflect the results of managers' actions ([Hutchinson & Gul, 2004](#)).

The linkage between Organizational Capacity and Corporate Performance

[Andrews \(1971\)](#) in posited that there should be an alignment between strategy and structure of an organization for it to be successful. [Lai and Limpaphayon \(2003\)](#) showed that organizational structure of Japanese non-life insurance companies played a significant role in the performance of the companies. The study showed that mutual "keiretsu" insurers performed better compared to stock insurers. They attributed this to the better control of agency costs in a mutual organizational structure. [Germain, Claycomb, and Droge \(2008\)](#) showed the importance of organizational structure in attaining performance in a supply chain process. This finding is consistent with [Hao, Kasper, and Muehlbacher \(2012\)](#) who also found that companies' performance in Austria and China was associated with organizational structure, especially since it influenced the extent of learning and innovation.

[Tsai \(2001\)](#) argued that organizational learning had to be a central tenet of an organization so that the innovation that came from the learning can spur performance. A study by [Liao, Welsch, and Stoica \(2003\)](#) on growth-oriented SMEs showed that new knowledge was processed faster within an SME that had a developed a good knowledge acquisition and sharing process. This supports the idea that an organization needs to have a capacity for learning. [Bhatnagar \(2006\)](#) suggested that high performing Indian firms achieved the status by having information technology sector managers and multinational sector managers who have strong organizational learning capability and by providing access to excellent systems.

[Bontis, Chua, and Richardson \(2000\)](#) in their study of Malaysian industry sector found that there is a significant and substantive association between human capital and companies' performance. In support of this notion, [Prieto and Revilla \(2006\)](#) showed an association between organizational learning and business performance. They found that organizational learning possesses a direct significant relationship with market performance. These findings suggest the importance of developing the human capital of an entity to self-direct learning capability or practice (i.e., self-recognition, active learning, fondness for learning and continuous learning). [Lin and Kuo \(2007\)](#) in their studies on Taiwanese financial training centers and technology companies also found similar associations between organizational learning and firms' performance.

METHODOLOGY

Research Framework

The exploration structure of this examination is required to show up as a spellbinding and informative instrument, as opposed to a prescient one. Drawing on crafted by an assortment of analysts ([Abdullah et al., 2008](#); [Deshpande, Farley, & Webster, 1993](#); [Henri, 2006](#); [Lee & Ahmad, 2009](#); [Quinn & Rohrbaugh, 1983](#); [Shleifer & Vishny, 1997](#); [Weir et al., 2002](#)), Figure 1 provides framework for current research.

Organizational Capacity Components

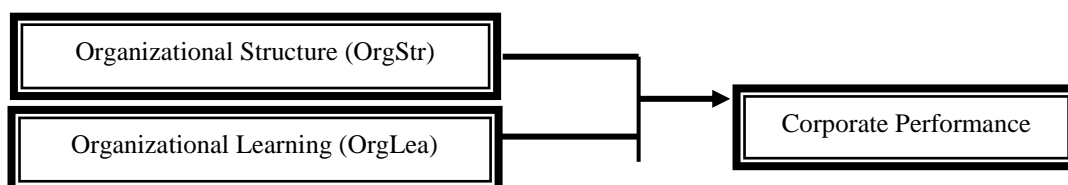


Figure 1: Research Framework

Subsequently, based on the resource-based view viewpoint and past readings ([Kumar, 2011](#); [Tsai-Yuan, Li-Min, Min-Yen & Chih-Ming, 2012](#)), the following hypotheses have been developed to test the relationship between organizational capacity components and corporate performance:

HOrgStr: Organizational structure has an influence on corporate performance.

HOrgLea: Organizational learning has an influence on corporate performance.

Data

The current study utilizes a questionnaire survey in obtaining its data. The target respondent was the Chief Executive Officer (CEO) or directing manager of each sample companies. To be able to conduct a reliable factor analysis, there has to be a sufficient sample size because the smaller the sample, the chance that the correlation coefficients between items differ from the correlation coefficients between items in other samples are bigger (Field, 2009; Tabachnik & Fidell, 2001). Thus, the survey for the current research did not apply a factor analysis whereby the data collection was conducted for a 3 month period from 1 April 2016 until 30 June 2016 with 35 completed and usable questionnaires.

RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive statistics documented the mean and standard deviation for each variable. The organizational capacity was analyzed by the organizational structure (OrgStr) and organizational learning (OrgLea). Referring to Table 1, both independent variables reported the means score of 4.23 (Organizational Structure) and 4.37 (Organizational Learning) with the minimum score of each component of 3.13 and 3.25 respectively. Each of the independent variables has a maximum score of 5.00.

The outcomes revealed that both organizational capacity components exist in every sample companies. The descriptive statistics also reported that corporate performance has a mean score of 4.34.

Table 1: Descriptive Analysis

Variables	Min	Max	Mean	Std Deviation
Independent Variables				
Organizational Structure	3.13	5.00	4.23	.47
Organizational Learning	3.25	5.00	4.37	.44
Dependent Variable				
Corporate Performance	2.50	5.00	4.34	.63

Correlation Analysis

In Table 2, the Pearson product-moment correlation documented that all the variables are significantly and positively correlated with each other. The relationship between corporate performance and organizational capacities' dimensions (organizational structure and organizational learning) correlate from the range of $r = 0.669$ ($p < 0.001$) to $r = 0.702$ ($p < 0.001$). Organizational structure was found to be highly correlated with organizational learning ($r = 0.742$, $p < 0.001$). In addition, organizational learning has significant correlations with organizational structure ($r = 0.742$, $p < 0.001$). Overall, all the variables are correlated with correlation values above 0.5.

Table 2: Correlation Analysis

	CorPer	OrgStr	OrgLea
1. Corporate Performance (CorPer)	1		
2. Organizational Structure (OrgStr)	.702**	1	
3. Organizational Learning (OrgLea)	.669**	.742**	1

Note: ** Correlation is significant at 0.001 level (2-tailed);

* Correlation is significant at 0.01 level (2-tailed);

Multiple Regression (Hypotheses Testing)

Statistical methods such as multiple regression analysis and others were carried out to verify the assumptions and to test the hypotheses. The assumptions include histogram and plotting normal probability plots (p-p plots) used to describe normality of data, Levene's test to examine the equality of variances within groups formed by variables or to detect violations of homoscedasticity, which is heteroscedasticity (unequal variance), Durbin-Watson statistics to run the autocorrelation (1.583 to 1.591) as well as collinearity statistics in determining multicollinearity among independent variables in the research.

The multiple regression analysis was conducted with the purpose to explain the associations between organizational capacity components (OrgStr and OrgLea) and corporate performance. The research model is as follows:

$$\text{Performance} = \alpha_1 + \beta_1 \text{OrgStr} + \beta_4 \text{OrgLea} \quad (\text{Equation 4.1})$$

Table 3: Results of Multiple Regression Analysis of the Association between Organizational Capacity and Corporate Performance

Model		B	Std. Error	Beta (β)	t	Sig. (p)
Organizational Structure		.568	.166	.427	3.426	.002*
Organizational Learning		-.068	.199	-.048	-.343	.734
R	R Square	Adjusted R Square	Std. The error of the Estimate		F	Sig. F
.912 ^a	.832	.803	.27815		28.803	.000 ^a

Note: **p < 0.01; *p < 0.05

As presented in Table 3, the outcomes of the multiple regression analysis show that an organizational capacity component was found to explain corporate performance. The organizational capacity component, Organizational Structure ($\beta = 0.427$, $p < 0.05$) has a positive significant effect on corporate performance. On the other hand, Organizational Learning ($\beta = -0.48$, $p > 0.05$) revealed that corporate performance was not influenced by this particular organizational capacity component. Hence, hypothesis HOrgLea was not supported.

Accordingly, findings of the research suggest that organizational capacity component (organizational structure) statistically contributes to the improvement of corporate performance in Malaysia. Table 4 summarizes the results of the hypotheses testing.

Table 4: Summary of Hypotheses Testing

Variables	Hypotheses	Predicted Signs	Observed Signs	Statistically significant	Results
Organizational Structure	Organizational structure has an influence on corporate performance.	+	+	Yes	Accepted
Organizational Learning	Organizational learning has an influence on corporate performance.	+	-	No	Rejected

Overall, it is interpreted that organizational structure appears to be important to Malaysian companies as it is statistically proven to have an influence on the performance of companies. It is shown that the companies' mission and goals are supported by their structures. The finding further describes that companies frequently review their staff performances and thus update their organizational structure accordingly. It could be explained that the roles within the organization are clearly defined and flexible enough to adapt to changing needs of the current environment. Perhaps, the outcome of the current research could also indicate that there exists a functioning structure that facilitates work in a company.

Hence, the significant finding is consistent with [Lai and Limpaphayon \(2003\)](#) and [Hao, Kasper, & Muehlbacher \(2012\)](#) who found that organizational structure has an influence on the extent of learning and innovation in Austria and China. In addition, the current research shows support to a later study by [Zhu and Jiao \(2013\)](#) who suggested that organizational structure improved corporate accounting return since it is effective in capital allotment, lessening the wasteful speculation by diminishing the overinvestment and reducing the underinvestment.

Meanwhile, the current research has found insignificant associations between organizational learning and corporate performance. Lack of qualified knowledge or skills, training, and inadequate communication among the staff could be the reason for no relationship found between authoritative learning and hierarchical execution. Among other things, no proper policies and procedures or regular plans that guide individual work could have also contributed to insignificant impact on company performance. It could also be assumed that probably some companies may have insufficient budget to provide learning or professional development needs to the staff. Accordingly, finding of the current research was found to be not consistent with [Bontis, Chua, & Richardson \(2000\)](#), [Prieto and Revilla \(2006\)](#) as well as [Lin and Kuo \(2007\)](#) which discovered that organizational learning significantly influenced performance of companies.

CONCLUSIONS AND RECOMMENDATIONS

The results answer the research questions by revealing perceptions of companies' directors on organizational capacity components as well as documenting that some organizational capacity elements have an influence on corporate performance while others are not.

The performances of local firms are substantial to the industry. Identifying organizational structure as a significant organizational capacity component might enhance the performance of the local industry in the market to sustain competitive advantage. In conclusion, suitable organizational capacity is important for Malaysian firms' directors in their decision and policy making that will benefit them in the future.

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