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ORGANIZATIONAL CAPACITY AS POTENTIAL MODERATOR IN ENHANCING CORPORATE PERFORMANCE: A PROPOSED FRAMEWORK

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Abstract

In line with the introduction of the Malaysian Code on Corporate Governance (MCCG) in 2000, companies that comply with the recommendation of the MCCG which stresses on accountability and transparency, is expected to perform better than others. Looking further on issues associating to industries, recent studies proved that organizational capacity, which is understood as developing the resources and capabilities of an organization that are valuable, rare, imperfectly imitable and non-substitutable that generates particular organizational tendencies to create competitive advantages and disadvantages, form part of the organization's environment that affect its performance (Camison & Villar-Lopez, 2014; Chen, Qiao & Lee, 2014; Dowdell, Herda & Notbohm, 2014). Recognizing its importance to the industry, the current study intends to examine the moderating effect of organizational capacity on the association between corporate governance and corporate performance in Malaysia since no prior studies have reported on the work albeit they examined the influence of these variables independently (Tayles, Pike & Sofian, 2007; Abdullah, Lall & Tatsuo, 2008; Khong & Eze, 2008; Fatt, Khin & Heng, 2010; Hussein et al., 2014). A questionnaire survey and the regression analysis methods will be applied in obtaining the data and answering the research questions respectively. The outcome of this research is expected to contribute to the industry by identifying of whether organizational capacity plays a significant role in moderating the association between corporate governance and corporate performance and hence acknowledge firms of how they can improve their performance through organizational capacities.

Keywords: Corporate Governance; Organizational Capacity; Resource-based View Perspective (RBV); Corporate Performance

1. Introduction

Studies linking organizational capacity and company performance have been carried out in the past half a decade with the emergence of the discussion involving the resources of a company. Various studies appeared to debate organizational capacity and the importance of resources to company performance (Barney, 1986b, 1986c; Barney, 2001; Murray, 2003; O'Regan & Ghobadian, 2004; Lopez, Peon & Ordas, 2005; Bhatnagar, 2006; Adjaoud, Zeghal & Andaleeb, 2007). The resource-based view of the firm (RBV) perspective has been recognized as an appropriate theory to enlighten the issue concerning the influence of organizational capacity on company performance. Company performance is acknowledged through the crafting of resources into unique competencies, which, in turn, lead to competitive advantage, which is also known as the core competence of the company.

Although the link between corporate governance and company performance among Malaysian companies has long been researched, there is little empirical evidence concerning the assessment of the impact of organizational capacity on company performance. Meanwhile, the association between organizational capacity and company performance have been independently conducted (Johannessen, Olaisen & Olsen, 1999; Henri, 2006). Therefore, the present study seeks to fill this gap by providing insights into the influence of corporate governance attributes and organizational capacity elements on corporate performance.

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Table 1: Theoretical Framework, Research Objectives and Research Question

Theoretical Framework	Research Objective	Research Question
Resource-Based View of the Firm Perspective (RBV)	To determine whether different components of organizational capacity moderate the association between corporate governance and performance of Malaysian listed companies.	Do the organizational capacity components moderate the association between corporate governance and performance of Malaysian listed companies?

2. Research Problem

While the issue of corporate governance in other countries globally was given specific attention much earlier compared to Malaysia, studies on corporate governance in Malaysia have largely emerged subsequent to the 1997/1998 Asian Financial Crisis. Several recent studies suggest that corporate governance factors, such as independent directors, CEO duality, size of the board, family members on board and ownership structure, are strong determinants of performance of Malaysian listed companies (Rahman & Haniffa, 2005; Abdullah, 2006; Haniffa & Hudaib, 2006; On & Tan, 2007; Razak, Ahmad & Aliahmed, 2008; Haat, Rahman & Mahenthiran, 2008; Abidin, Kamal & Jusoff, 2009; Shakir, 2009; Amran & Ahmad, 2010; Ghazali, 2010; Ibrahim & Samad, 2011). Therefore, the requirement to comply with the Malaysian Code on Corporate Governance (MCCG) recommendations among public listed companies has become very important in Malaysia since its introduction in 2000.

A part from that, it has been determined that studies linking organizational capacity and company performance have been carried out in the past half a decade with the emergence of the discussion involving the resources of a company in the industry. Various studies appeared to debate organizational capacity and the importance of resources to company performance (Barney, 1986b, 1986c; Barney, 1991; Murray, 2003; Yeo, 2003; O'Regan & Ghobadian, 2004; Lopez, Peon & Ordas, 2005; Bhatnagar, 2006; Adjaoud, Zeghal & Andaleeb, 2007).

Organizational capabilities form part of the organization's environment that affect its performance (Lusthaus et al., 2002). Accordingly, the association between corporate governance and organizational capacity can be explained by the systems of organizational capacity that represent incentives, influence patterns and norms of legitimation that generate particular organizational tendencies to create competitive advantages and disadvantages (Carney, 2005). Drawn from several sources of competitive advantage, this study intends to show the possibility of relating the governance approach with the resource-based view of the firm (RBV) perspective.

Nonetheless, due to the mixed and inconclusive findings with regard to the relationship between corporate governance and corporate performance, the current study is inspired to look at the moderating effects of organizational capacity on the influence of corporate governance on company performance with the expectation to offer new findings in Malaysia, especially to the industry area.

3. Review of Literature

The agency theory was used as the core theory with regard to the studies on corporate governance and corporate performance (Colarossi et al., 2008; Shakir, 2009; Zainal Abidin, Mustaffa Kamal & Jusoff, 2009; Sami, Wang & Zhou, 2011; Lu et al., 2012; San Martin-Reyna & Duran-Encalada, 2012; Tariq & Abbas, 2013; Dian, 2014; Gupta & Sharma, 2014) with the main objective of the theory is to reduce or minimize the agency cost incurred by the principals, by controlling the behavior of the agents through the internal control mechanisms of the company.

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The agency theory also emphasizes that companies can employ a variety of mechanisms to align the interests of owners and agents.
Based on the discussion on the development of the skill and the capability of a company in the literature (Comlek et al., 2012; Kroes & Manikas, 2014; Shi & Huang, 2014), the underpinning perspective to explain organizational capacity is the resource-based view of the firm (RBV) perspective which postulates that firm-level differences allow some of the differences to sustain competitive advantage through identifying, developing and deploying the main resources. The good quality or virtues of the resource-based theory of competitive advantage have been brought forward by several resource-based theorists including Barney (1991, 2001). The corporate performance will be recognized by the crafting of resources into unique competencies that, in turn, lead to competitive advantage, which is also known as the core competence of the company. Accordingly, very limited studies on organizational capacity in Malaysia have been identified (Tayles, Pike & Sofian, 2007; Abdullah, Lall & Tatsuo, 2008; Khong & Eze, 2008; Fatt, Khin & Heng, 2010; Hussein et al., 2014).

Organizational capabilities form part of the organization's environment that affect its performance (Lusthaus et al., 2002; Chen, Qiao & Lee, 2014). Corporate governance is associated with organizational capacity by the systems of organizational capacity that represent incentives, influence patterns, and norms of legitimation that generate particular organizational tendencies to create competitive advantages and disadvantages (Carney, 2005). Dowdell, Herda and Notbohm (2014) found that management reports on internal control over financial reporting improve reporting quality which describes company capabilities as distinctive competencies that would be difficult for rivals to imitate within a practical time and budget constraints.

Meanwhile, Bolivar-Ramos, Garcia-Morales and Garcia-Sanchez (2012) revealed that technological distinctive competencies and organizational learning has a positive influence on performance. This argument is strengthened by Camison and Villar-Lopez (2014) illustrating that the performance of an organization is affected by organizational innovation and technological capabilities for products and processes who contend that environmental factors related to demand appear to be the strongest performance determinant. In addition, product strategy is also an important determinant of its performance (Chen, Qiao & Lee, 2014). According to Tayles, Pike and Sofian (2007), strategy is a pattern of allocating resources that allows a company to maintain and improve performance, which generates "fitness" among company'sactivities.

The infrastructure of an organization includes facilities and technologies, in which facilities generally refer to the physical infrastructure that supports the functioning of a company encompassing the buildings and internal services, equipment, transportation system, as well as communication system, while technological resources include machinery, equipment and information technology or systems. This entire infrastructure is significant for a company to function effectively and efficiently. The implementation of the performance measurement systems works as a key support to the enhancement of organizational capabilities in small and medium enterprises (SMEs).

As a conclusion, there is still no consensus regarding the dimensions of information technology adoptions and information technology capabilities in organizational capacity and performance literature. The resource-based view suggests that a company obtains resources that are practicable to develop value for a company. This aspect of organizational capacity takes account of facilities and technologies. Thus, in generating company strategy, companies are expected to make use of facilities and technologies at the maximum level. Hence, this study predicts a

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positive moderating influence of infrastructure on the relationship between corporate governance and company performance.

With respect to organizational learning, the competing values model has a notion that learning is one of the organizational capacities that can increase the value and develop competitive advantage in a company. Organizational learning can be derived from many aspects depending on the organizations' activities. Learning capability is seen as the basis for organizational capabilities, which is essential for efficiently completing a company's processes, products and value of service. It then determines the company's potential to create value for stakeholders better and faster as a requirement of financial achievements, and, thus, influences performance. According to Cavaleri (2004), organizational learning operates as a tool for converting the previous circumstances and experiences to effective actions.

Organizational learning is described as a resource that is expected to be used to generate value, and, hence, creates wealth to the company. The functions and purposes of each element of the organizational learning have to be different and made more special than other companies in order for them to be recognized as a competitive advantage. The involvement of organizational learning as a component of the organizational capacity is assumed to be extremely important because learning is a vast process with diverse elements. The more the learning elements are brought into a company, the more they are expected to contribute to better strategic and financial performance outcomes for the company. Thus, the findings should be viewed within the framework developed by Barney (1986) to assess whether company resources contribute to sustained economic performance.

Hence, to enhance the value of knowledge, there is a prediction that companies can provide learning opportunities to employees in all stages throughout their employment terms. Performance has also been evidenced as being affected by learning routines at both the higher and lower learning levels, such as team learning, individual learning and knowledge creation abilities in the short-term, which may suggest that managers will not place learning competencies as achieving long-term goals (Murray, 2003). Ho (2008) uses four indicators – informational-sharing patterns, inquiry climate, learning practices and achievement mindset – of organizational learning in his study, to determine their effect on organizational performance. From the argument above, a moderating effect of organizational learning is expected between corporate governance and company performance.

A finding by Comlek, Kitapci, Celik and Ozsahin (2012) addresses that two dimensions of organizational learning capacity (system orientation and knowledge acquisition-utilization orientation) positively affect firm innovative performance. In addition, Kitapci and Celik (2014) support the earlier study by documenting that firms can enhance quality performance through improving organizational learning capacity. Although extensive studies have been carried out on the impact of organizational capabilities on company performance, the researchers have so far acknowledged that no one single study exists that adequately covers the moderating effect of organizational capacity on corporate governance and corporate performance in Malaysia. Hence, the current research is motivated to fill the gap in the literature.

4. Methodology

The current study developed a research framework from the theoretical perspectives in analysing and interpreting how the organizational capacity components moderate the association of corporate governance and performance of listed companies in Malaysia. These perspectives include the agency perspective and the resource-based view of the firm (RBV). The variables to be examined are as proposed in the research framework in Figure 1.

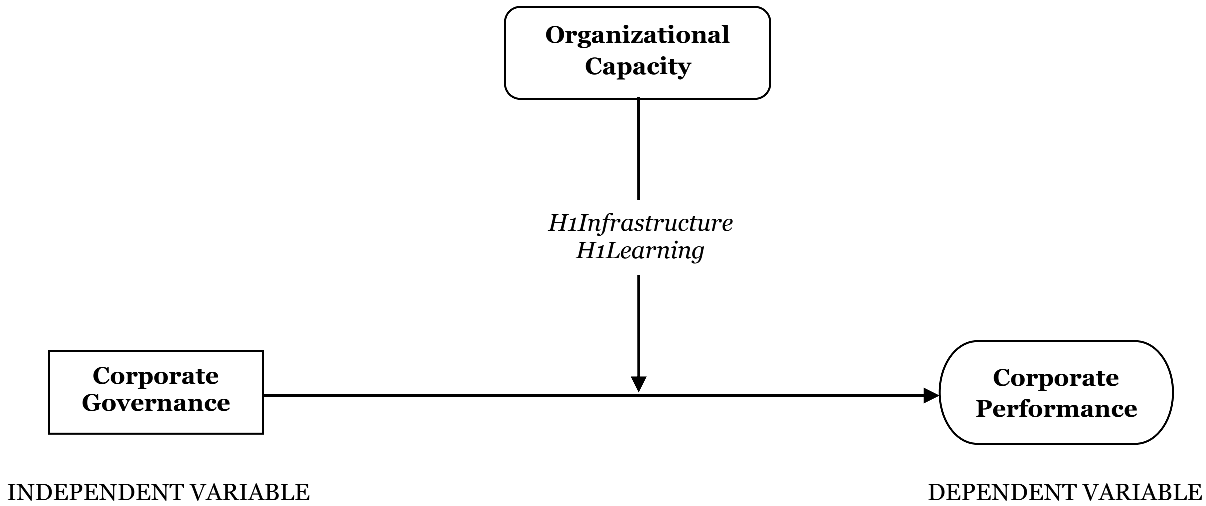

Figure 1: Proposed Research Framework

5. Hypotheses Development

A company may use these resources to create and implement valuable strategies. The current study focuses on two components in the business environment, which are characterized as: (1) infrastructure and (2) organizational learning. The two different components of organizational capacity, which were selected based on the framework by the IDRC, validate the two interrelated areas that underlie an organization's performance. In accordance to that, based on the RBV perspective and prior studies (e.g. Kumar, 2011; Tsai-Yuan et al., 2012) the following hypotheses have been developed:

H1Infrastructure: Infrastructure has a moderating effect on the association between corporate governance and corporate performance.

H1Learning:Organizational learning has a moderating effect on the association between corporate governance and corporate performance.

Conclusion

In this conceptual paper, some expectations from the research which will be benefitial in several aspects have been outlined in Table 2.

Table 2: Expected Results and Benefits

New finding	Potential application	Impact on economy
To recognize the moderating influence which infrastructure and organizational learning have on the association between corporate governance and performance of local industry.	Helping the local industry sector in forecasting towards organizational capacity components to sustain competitive advantage.	Encouraging local companies to sustain appropriate resources in their businesses.

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