

UNIVERSITI TEKNOLOGI MARA

**THE RELATIONSHIP BETWEEN
ORGANIZATIONAL CAPABILITIES AND
ORGANIZATIONAL PERFORMANCE OF
MALAYSIAN LOCAL AUTHORITIES: A
RESOURCE BASED PERSPECTIVE**

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Candidate's Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

In the event that my thesis be found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree to be subjected to disciplinary rules and regulations of Universiti Teknologi MARA.

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Abstract

Prior research on the factors influencing organizational performance has largely been grounded on the industrial organization perspective and thus tended to emphasize external factors. In the light of the Resource-Based View (RBV), which has suggested that certain key internal factors of an organization may be a source of organizational sustainable competitive advantage, this thesis tries to examine how organizational capabilities may be used to enhance organizational competitive advantage, measured in terms of their ability to perform above average industry performance. The relationships between organizational capabilities and organizational performance were tested with data collected from a survey of 140 Information Technology Managers and Accountants of the Malaysian Local Authorities (LAs). Previous RBV studies have argued that entrepreneurship capabilities (EC), Information Technology (IT) capabilities, the learning orientation (LO) and the use of strategic information are among the highest order capabilities important for organizational success.

There are three main objectives of the study. The first objective is to examine the direct effect of four organizational capabilities namely the Strategic Management Accounting (SMA) information use, EC, IT capabilities and the LO on organizational performance measured in terms of the overall organizational performance, service quality performance, financial performance and human resource (HR) performance. In order to answer the first objective, four main hypotheses have been developed. Hypotheses 1 to 4 have proposed positive relationship between each organizational capability and each indicator of organizational performance. The second objective of the study is to examine the interaction effect of the SMA information use and EC on each indicator of organizational performance. Subsequently this study also tries to examine the interaction effects of SMA information use and IT capabilities on each indicators of organizational performance. To answer this objective, two main hypotheses have been developed. Hypothesis 5 has proposed that the interaction between EC and the SMA information use would further enhance each indicator of organizational performance. Hypothesis 6 has suggested that the interaction between IT capabilities and the SMA information use has contributed positively to organizational performance. The third objective of the study is to examine whether learning orientation mediates the relationship between the SMA information use and organizational performance. To answer this objective, hypothesis 7 has been developed. Hypothesis 7 proposed that LO mediates the relationship between SMA information use and organizational performance.

The finding on the first objective of the study has shown that the four organizational capabilities have a positive significant effect on overall organizational performance. However, when specific organizational performance was used, not all organizational capabilities were positively related to organizational performance. Only the LO has shown a significant positive relationship to service quality performance but it does not show significant positive relationship to financial performance. This has suggested that by focusing on the LO alone, and ignoring other organizational capabilities, an organization was not able to enhance its financial performance. Instead, other organizational capabilities such as the SMA information use, EC and IT capabilities were

more significant in enhancing financial performance. Examining the role of these organizational capabilities in improving HR performance, this study has discovered that only IT capabilities and the LO have contributed significantly to HR performance. Hence, it can be concluded that different types of capabilities contribute to different indicators of organizational performance.

The finding on the second objective of this study has revealed that the interaction between the use of SMA information use and entrepreneurship capabilities has shown a significant effect on LAs financial performance. LAs managed by managers with low level of EC, characterized by an aversion to risk, passiveness and lack of innovation were unlikely to be able to fully exploit new ideas and information emerging from the SMA information use. It means that, these LAs have had a high chance to miss the opportunities offered by the SMA information use to increase revenue, to reduce bad-debt and to operate within their budget. In contrast, managers with a high level of EC would utilize this information to decrease an organization's exposure to risk and help resolve problems in entrepreneurial activities as well as suggest future direction for the organization which in turn has improved performance. This finding has been consistent to the argument put forward by the RBV's perspective that has suggested that the synergy between two or more resources will create sustainable competitive advantage.

The finding on the third objective of the study has revealed that the SMA information use has enhanced the culture of learning orientation among the Malaysian LAs which in turn has contributed positively to organizational performance. This finding has provided helpful insight to understand better the underlying mechanism of the organizational performance impact on the SMA information use. The information provided by SMA would enhance organizational commitment towards learning, the culture of knowledge sharing and opening the minds of the organizational members. This, in turn has enabled organizational members to deliver better quality service and improve financial performance in the Malaysian LAs.

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