The Preliminary Study: The Relationship between Organizational Strategy and Organizational Performance

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Abstract:
The main purpose of this study is to investigate the relationship between organizational strategy (human capital & service delivery) with organizational performance of Malaysian government ministries. Specifically the objective of the study is to examine the relationship of organizational strategy (human capital & service delivery) and performance of Malaysian government ministries. It examines also the influence of human capital, service delivery on organizational performance of Malaysian government ministries. Finally the study examines the moderating effect of organisational culture on the relationship between human capital and organizational performance as well as between service delivery and organisational performance. The data will be collected based on the self-administered questionnaire from officers of the selected ministries in the administrative city of Putrajaya, Malaysia. Descriptive statistics, confirmatory factor analysis (CFA), hierarchical multiple regression and Structural Equation Model (SEM) in AMOS will be used to

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analyse the data in this study. The findings are important as this is among the recent research conducted to investigate the relationship and influence of organizational strategy (human capital and service quality) on organizational performance from the perspective of government ministries in Malaysia. Findings of this study will be beneficial to the policy makers, practitioners and researchers. The findings will also add to the existing body of knowledge in areas of organizational studies, organizational strategy (human capital & service quality), organizational culture and organizational performance.

Key words: Human Capital, Service Delivery, Organizational Performance, Government Agencies, Malaysia

INTRODUCTION

Organizational performance is one of the widely research topic and has been the focus of many researchers and practitioners. Studies in this area have been done in both private and public organizations. Performances of organizations have been commonly studied based on financial and non-financial measures or components (Chinn, 2015). Examples of financial performance are return on asset, profit and return on investment. Meanwhile non-financial performance which normally in a form of intangible aspects are like employee satisfaction, delivery services, quality services, efficiency, effectiveness, service outcomes and customer satisfaction. However, different nature of organizations may give different priority in their performance measures. This particularly very relevant when discussing the performance between the private and public or government organizations. While private companies may focus more on profit-driven performance; the public organizations generally will focus more on non-financial performance in terms of intangible aspects such as efficiency, effectiveness and the outcomes of service (Sargent, 2009).
Public organizations generally focus their performance on non-financial such as in terms of quality of service, customer satisfaction and employee satisfaction. Though there is a different emphasis of performance studies between government and private organizations, researchers has stressed that performance of public organizations are equally important to private or profit making organizations including in Malaysia. The study of public organization performance is pivotal in Malaysia for example because public organizations have to provide important services to people and other stakeholders (Mohd Saudi, 2014; Beh, 2014).

Many studies have been devoted by researchers on organizational performance of government organizations (Fang, 2008). This is because government organizations play major role in implementing their strategic planning for the betterment of the people and survival as well as sustainability of the nation (Sargent, 2009). This is because government organizations particularly have a big task in accomplishing their national agenda. Study on the performance of government organizations is also warranted and always been given priority by most government organizations (Ruzita et. al, 2012). This is no exception in Malaysian government organizations particularly their ministries.

Despite of the widely research conducted on organizational performance the central issue that always been highlighted by researchers and practitioners is on the factors that are related and would influence the performance of public organizations. As documented in the literature various factors have been linked to organizational performance. This includes factors such as organizational factors, strategic management, human capital, service quality and delivery, organizational culture, and quality system (Fang, 2008), Kulkalyuenyong (2012), (Makanyeza, Kwandayi, & Ikobe, 2013). Different factors could be linked to the performance of private and public
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organizations. Daft (2013) suggested that in general, performance of organization is influenced by external and internal factors. Internal factors include strategic management, human capital, organizational culture, service delivery and quality system.

Meanwhile external encompasses aspects such as globalization, technology, competition, and environmental changes. However different organizations may experience or have different factors that influence their organizational performance. This, particularly in the context of factors that related and influence the performance of Malaysian government ministries. More importantly, Malaysian government ministries are heavily involved with the planning and implementation of their development programs as planned under the Malaysian development plans. Undoubtedly the performance of government ministries in Malaysia has become the central attention by all the stakeholders as it involved huge some of investment and certainly a positive outcome in terms of high performance is expected by the citizens.

Relating to the performance of Malaysian ministries several factors have been linked as highlighted by Audit General Report. Issues that were highlighted by the Audit General Report have helped the researcher to conduct this study. The Audit General Report (2015) has concluded that the weak performance of Malaysian ministries which were rated under non-satisfactory were due to factors that are related to aspects such as organizational strategy (human capital & service quality), matters related to the culture in the public sectors, implementation and monitoring. This suggests that internal resources and organizational capabilities such as human capital and service delivery need to be given priority to help improve the performance of Malaysian government ministries.
Thus this study examined the relationship between organizational strategy (human capital and service quality) and organizational performance in Malaysian government organizations specifically government ministries which are parts of the Malaysian Government administrative system in public sector.

Organizational performance of Ministries in this context plays an important role to address the concerned situation in creating a desired environment. In addition, the performance measurement studies cover diverse public agencies and organizations, such as health-care governments (Brignall & Modell, 2000, Modell, 2001), colleges (Modell, 2003), public governments (Ho & Chan, 2002) and corporate real estate managements (Wilson et al., 2003). A number of contributing organizational factors have been highlighted in the literature such as human capital and service delivery that influence the organizational performance (Fang, 2008). This study examined the relationship of organizational strategy (human capital and service quality) and organizational performance of Malaysian government ministries.

Further several studies and theories have also highlighted the role of other factors that can strengthen the relationship between organizational strategy (human capital & service quality) with organizational performance. This includes management support strategic development and organizational culture. This study examined organizational culture as the moderating factor in the relationship between organizational strategy (human capital & service quality) and organizational performance in Malaysian ministries.
BACKGROUND OF STUDY - PUBLIC SECTOR IN MALAYSIA

The administrative system of Malaysian Government is made up of three (3) main levels, namely federal level, state level and district levels known as local government. The Federal Constitution has given broad procurements to the Federal Government where national organization is concerned. However in specific cases the state government have more controls over the organization of specific matters inside the state government purview. The regulatory obligations at the Federal level incorporate all part of open administrations, for example, economy, social, security and instruction. To guarantee the smooth execution of the nation's organization the Malaysian Government through their services has set up different offices to do certain capacity to empower the administration to achieve its targets (Ruzita et al., 2012).

Issues in Malaysian Government Ministries
The greater part of the built up ministries need to direct and taking activities to be responsible and straightforward in their conveying their obligations. The worries of Malaysian government transparency, responsibility and obligation have been captured by a few worldwide studies on their rankings. These studies which were for the most part directed without anyone else's input administering non-legislative organizations have by and large shown that Malaysia needs to put thorough endeavors in refining its answerability, responsibility, accountability and transparency (Abu Bakar and Ismail 2011). It was accounted for likewise that people in general data is not generally unreservedly realistic and open (Barraclough and Phua 2007, Yaakob et al., 2009) and in numerous events, are not reachable (Siddiquee 2010). Among the reports by The World Bank on Governance Indicators in the part of 'Voice and
Accountability' (World Bank, 2014), has recorded Malaysia in the second from last quarter of the 2012 positioning. It is additionally disheartening to note this has been the situation for as long as eleven (11) years, as the study perspective the information to those of year 1996 to 2011 (Abu Bakar and Ismail 2011).

The index released by Transparency International indicated that Malaysia was ranked at 54th out 168 countries this year (2016) compared to 50th out of 175 countries last year (Transparency International, 2015). Malaysia was ranked 52th the previous year (2014). The CPI (Corruption Performance Index) scores and ranks are determined by the perceived level of corruption in the country’s public sector (Transparency International, 2016). This suggests that Malaysian public sector may face problems in their performance if the corruption still unresolved. The President of Transparency International Malaysia has stated that despite many steps have been implemented; the level of corruption experienced in Malaysia does not seem to be decreasing (Transparency International, 2016)

A study called 2012 Open Budget Index coordinated by a free body (International Budget Partnership) has set Malaysia at 53rd out of 85 nations being evaluated, showing that it has been given that insignificant data on the focal government's financial plan and money related endeavors over the span of the spending year (International Budget Partnership, 2008). This makes it very troublesome for nationals to consider the administration responsible for its administration of general society's money (public’s money). The question is that whether the Star Rating by MAMPU and Ministries rated Excellent by Audit General’s Reports achievement accurately reflects the performance of the ministries. This is because Audit General still reports of some weaknesses on the performance of some Malaysian ministries (Audit Report, 2016).
According to Auditor General’ Reports for the Year 2014 (the trends still similar in 2015), it was reported that 14 ministries still did not performed as expected. These ministries were also found to be unable to comply the stipulated regulations in their implementation of government planning. Some weaknesses have also been identified by the Auditor General’s report. Among others, these weaknesses were due to negligence in compliance with stated financial rules and procedures, inadequate supervision and lack in monitoring. In addition, the reports have revealed the existence of imbalanced and misappropriation of government activities. It has been observed that the above causes of problems are circled from the perspective of organizational capabilities or factors in terms of human capital and service deliveries. This suggests that organizational strategy (human capital and service quality) are pertinent to improve the performance of Malaysia government ministries.

The Audit report also exposed problems of weaknesses, imbalanced, and misappropriation in 45 government activities and projects especially those that target the lower-income groups and the poor. The problems in ministries and government agencies can be overcome if they have implemented an effective management system, having good organizational strategy in terms of human capital and delivery services as suggested by previous researchers such as Fang (2008); Sargent (2009); Jamal (2008); Beh (2014) and Mohd Saudi (2014).

Managing of global organizations which includes public sector and government ministries in Malaysia in the era of modern technology and globalization are very challenging. This especially because the Malaysian government is implementing the 10th Malaysian Plan or Rancangan Malaysia Ke 10 (RMK10) which transformation becomes one of the main objective or agenda of the current government. Currently the performance of Malaysian ministries which are entrusted to
implement all the programmes and initiatives under Rancangan Malaysia Ke 10 (RMK10) and transformation programs have been faced by many challenges and problems. Among the problems are related to human capital, the way works were carried out which link to organizational culture, service delivery, and management towards organization excellence (Auditor’s General Reports, 2014, 2015).

In addition, as reported by Auditor’s General Reports (2014 and 2015) there are some performance related problems faced by Malaysian ministries projects, such as road resurfacing work is not done and pavement damage is not repaired; machine used to compress the road resurfacing works specification and maintenance of the shoulder, furniture and road was not satisfactory. There are some weaknesses of project management under the Economic Stimulus Package 2 in various ministries and departments that are exposed to various forms of malpractice expenses, charges and provisions (Auditor’s General Reports, 2014, 2015).

Based on General Audit Report 2014, The Malaysian Government has faced 7 main problems. Among the repeated highlights causes or factors of some ministries performance as reported by Auditor’s General Reports are associated to service quality and human capital as follows: 1) Poor supervision, 2) Ineffective monitoring, 3) Poor service quality, 4) Insufficient funding management, 5) Lack of expertise, 6) Imbalanced and misappropriation of government activities and project and 7) The performance of government agencies.

The above problems imply that emphasis on organizational strategy (human capital and service quality) and organizational culture related matters of Malaysian ministries needs to be given serious attention and action must be taken. The importance of culture in managing Malaysian public sector has been emphasized by Malaysian government as one of the six strategy goals to achieve performance of Malaysian public
sectors (MAMPU, 2014). For this purpose the government has to redesign the work culture and working environment in order to inculcate a high performance work culture that is responsive and proactive to public needs and is results oriented. Certainly, it requires the commitment of the affected ministries to stage its efforts, set up priorities, long term goals that lead to accomplishment of vision in these aspects and to start with crucial solutions and proper correction action plans to address the repetitive issues as highlighted by the Auditor General’s Reports.

**Human Capital**
The greatest test or challenge for performance in Public sectors in Malaysia specifically is to construct and improve human capital that is exceedingly qualified, very capable and profoundly energetic human capital at all levels of public management. Along these lines modernizing the public service benefit and changing their human capitals are endeavours vital to give greatness and top notch open support of the partners and customers in the 21st century. Furthermore, performance management is an imperative apparatuses or component to upgrade abilities and capabilities at individual and gathering level so that the association advantages. It is a constant proactive procedure concentrating on arranging, acting, measuring and inspecting execution which is contrast from conventional ways to deal with execution administration are the yearly evaluation and everyday appraisal (Yunus, 2008). On the off chance that utilized successfully it will empower an association to forward arrangement and build up its human capital. A change is required from past guidelines of human capital to a much more elevated amount so maybe we require exceptional formulae to accomplish the objectives of having service excellence.
Since its independent Malaysia has been fruitful in joining the different ethnic gatherings of various hues, societies and religions to make progress toward the benefit of every one of the nation. This one of a kind equation of administration has changed the nation into a dynamic modern based economy from a provincial agrarian economy. The nation has set its objective and tried to accomplish the status of a created country in its own particular mold by 2020. It is the goal of all Malaysian that accomplishing the expressed objective will in the long run enhance the personal satisfaction for all.

Service Delivery
When discussing about the element of human capital development and challenges it cannot dispossess the elements of excellence service delivery. Almost all government activities are concerned ultimately with service delivery, which determines the performance of employee and organization. Moreover, service delivery has become a way of discerning about all public service activities, and not just seen as an annoyance activity that can be left to lower level of frontline-officers who deal face to face with the people or community (Yunus, 2008). On top of that, the other main challenge in today’s public sector is the need to be attentive to the impact on the community and the service delivery implications.

It recognizes diminishment of bureaucratic formality by and large, changes in counter administrations, enhanced issuance of licenses and allows, land organization, the administrations gave by nearby powers, and speculation assistance utilizing instruments, for example, quality administration, recognition of excellence, execution estimation, management of complaints (PMO, 2015). This suggests an elevated requirement of service delivery is an essential part of the social contracts between the legislature and the group. In today's more straightforward and responsible world, the
standard of service delivery supports the believability of the legislature. It is a key open determinant of viability in the utilization of assets. Poor service delivery is immoderate and builds anxiety and objections in the group and harms "trust" between the group and the legislature (Fang, 2008).

**STATEMENT OF THE PROBLEM**

Organizational performance of public sectors is one of the important topics and become the focus of many researchers. This is because of its organizational outcomes or effects in terms sustainability, survival, ability to deliver efficient and effective services to people and the extent the organizations able to implement the formulated programs and projects. Performance of Malaysian ministries for example is very pertinent as it indicates to the achievements of all the implemented programs based on the defined standards. Performance in public service delivery is also important as it reflects the ability of public sector to deliver outputs efficiently that contributes to the achievement of policy objectives (Samad et al. 2015).

Over the past decades, ministries, federal departments, and local authorities in Malaysia have witnessed a loss of trust and confidence from Malaysian citizens and society due in part to unsatisfactory performance (Azhar, 2008). This situation still exists and has become the attention of Malaysian government (Audit General Reports, 2014, 2015). However, this phenomenon is not uncommon among the public sector in other countries, including those in the most developed countries such as the United States (US) and the United Kingdom (UK) (Julnes & Holzer, 2009). This situation suggests there is a need to improve public sector performance in order to regain trust and confidence from citizens and society in many countries including in Malaysia.
This research was inspired by the report of the Auditor’s General of Audit to the Government of Malaysia which has been engaging on outcome-based performance and evaluation method on the governments’ projects, practices, delivery and programmes. The reports (Audit General Reports, 2013, 2014) highlighted the importance of Malaysian public or government agencies to be more focused on outcome or impact, and processes in achieving their performance. More so, in the current economic turmoil, the demand for a more rigorous monitoring of deliveries and evaluation of its outcomes and impact is highly required. However, as reported by Malaysian Audit General the performance of some Malaysian ministries are at not satisfactory level.

UNDERPINNING THEORY

Underpinning theories act as the basis of this study and that has underpinned the research design. The role of underpinning theory is to explain the relationship of the variables to describe the phenomena of the study. It describes the paradigm in which inform the understanding investigation or exploration in the study. The contribution of the theory is the generation of a new knowledge derived from the study that has been conducted (Zeithaml, Rajan, & Zeithaml, 1988).

Resources are essential for successful organizational performance (Barney, 2001). However, scholars in public administration and public management have paid relatively little attention to the role and importance of resources on organizational performance due to emphasis has been given more to the organizational performance in private sectors (Sargent, 2009). This shows lack of comprehensive empirical evidence on the link of various resources roles and its impacts on a public organization’s performance (Jamal, 2008). Studying the government ministries of organizations’ performance is
incomplete without relating to aspects that are related to resources. This is because according to (Fang, 2008) performance of government organizations including to the performance of Malaysian ministries is equally important to the stakeholders. In relating to the Malaysian ministries performance this study examined the relationship between the perspectives of organizational strategy (human capital and service quality) and organizational performance. It also examined the moderating effect of organizational culture on the relationship between organizational strategy (human capital and service quality) and organizational performance.

This study is governed by the underpinning theory of Resource Based View (RBV) as postulated by Prahalad and Hamel (1990) and Barney (1991). In this study RBV explained how internal resources in terms intangible and organizational capabilities or competencies of human capital and service delivery and organizational culture are valuable, scarce, and imperfectly imitable resources that helped to boost better performance in Malaysian ministries.

PROPOSED RESEARCH THEORETICAL FRAMEWORK

Based on the literature review it was found that human capital and service delivery provide an appropriate theoretical framework to explain the direct effect and indirect effect on organizational performance. In sum, all these factors play a crucial role in contributing to the organizational performance. Figure 1.1 shows the research framework of the study. This study derived from the RBV theory and research framework or models developed by Jamal (2008), Makayeza et al., (2013), Kulkalyuenyong (2012) and Sargent (2009). The RBV suggests that organizational performance is related and influenced by internal resources and capabilities in terms of human capital,
good services (in this study in terms of service delivery) and organizational culture.

Figure 1.1 illustrates the research framework that shows the relationship organizational strategy (human capital and service quality) as the independent variables and the organizational performance as the dependent variable. This study is appropriate as there is less empirical work regarding the relationship of organizational strategy (human capital and service quality) and its promised creation of value in the public sector like Malaysian ministries with organizational performance in which previous research findings in this topic is still unclear and debatable and further study need to be explored (Beh, 2014; Mohd Saudi, 2014; Goldsmith, 2007). Even though there is disagreement in terms of the measure of public organizational performance and the link with the antecedents and its influences, however quality of public services is still highly regarded as it can make a real transformation in terms of both the efficiency and the effectiveness of the public agencies (Mohd Saudi, 2014; Yunus, 2008; Beh 2014; Baharud-din et al., 2014; and Meyer-Sahling 2008). In this study the antecedents or factors that related to organizational performance were human capital and service delivery.

Further, currently, according to (Holbeche, 2001), that these factors are important elements to improve organizational performance. Moreover, currently there is lack of studies that link human capital and delivery services and organizational performance in the Malaysian context especially in Malaysian ministries. In addition, previous studies have linked human capital and service delivery separately or individually with dependent variable of organizational performance. This study however, used or combined both human capital and service delivery simultaneously to link with organizational performance which according Jamal (2008) and Fang (2008) the combination of these factors would produce better outcomes on
organizational performance (in terms high performance of organization). This is also in line with the issues that are faced by Malaysian ministries which were rated as unsatisfactory by the Auditor General; in which among the causes of unsatisfactory performance were related to human capital and service delivery (Audit Report, 2014, 2015).

The research framework in this study was derived from the RVB and previous models or framework of organizational performance by Sargent (2009); human capital by Jamal (2008); service delivery by Makayeza et al. (2013) and organizational culture Kulkalyuenyong (2012). The new contribution in this research framework or study was the combination of human capital and service delivery to link with organizational performance simultaneously. The other contribution was the integration of the moderating variable of organizational culture that linked the relationship between human capital and service delivery and organizational performance as suggested by Kulkalyuenyong (2012). In the original theory of RBV, it suggests only a linear relationship between internal resources and its outcome of organizational performance. This study integrated moderating factor of organizational culture to link between organizational strategy (human capital & service delivery) and organizational performance. In this study organizational culture is measured using revised Organization Culture Profile (OCP) scale or model developed by Kulkalyuenyong (2012) which consists (3) dimensions namely: reward, innovation and performance or results oriented. This model reflects the performance of service organizations in public organizations and it represents one of the major measures of organizational culture (Agle and Caldwell 1999, Howard 1998, Cable and Judge 1997). The OCP is chosen in this study because it describes the expected culture of organizational performance framework which was introduced and emphasized by Malaysian government (Yunus, 2008) and it
is one of the most validated measures of organizational culture as supported by Olanipekan et. al. (2013) and Sarros, Gray, Densten & Cooper (2005). The expected culture is the organization that will practice high performed or result oriented to ensure high performance organization.

This study certainly will be able to close the research gap from the findings of the previous research. Based on the above this study examined the relationship between human capital and delivery services and organizational performance. Consequently it examined the moderating effect of organizational culture in the relationship between human capital and delivery services and organizational performance.

![Proposed Research Framework of the study](Figure 1.1: Proposed Research Framework of the study Adapted from Jamal, (2008), Sargent (2009).)

**REFERENCES**


