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Organizational Resources and Sustained Competitive Advantage of Cooperative Organizations in Malaysia

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Abstract

Resource-based view (RBV) theory posits tangible organizational resources are vital for superior business performance and sustainable competitive advantage (Galbreath, 2004; Fahy, 2002). Lippman and Rumelt (2003) assert firms' financial or physical assets can generate high value for competitive advantage with minimal threat from replication. Firms should focus on identifying and exploiting resources to neutralize threats. This paper examines the effects of organization's tangible resources on cooperative's success. Content analyses of annual reports of Malaysian cooperatives testify tangible internal resources are a viable business strategy for sustained competitive advantage positively impacting performance.

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1. Introduction

Cooperatives offer significant contributions to the economic development of Malaysia with cooperative organizations serving as the third engine of growth after the public and private sectors. The Government of Malaysia places great emphasis on the importance of cooperatives as a mechanism for socio-economic growth and development. Cooperative organizations hold the potential to contribute

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significantly towards the national economy, the GDP and competitiveness in the global business arena. The National Cooperative Policy (2011- 2020) is aimed to drive Malaysia's transition to high-value added and high-income economy while adequately maintaining financial stability. Economic goals pursued by the Government of Malaysia include cooperatives to contribute significantly to the Malaysian GDP (up to 10% by 2020) and improve the socio-economy (MDTC website). The success of cooperative organizations hinges crucially on their ability to sustain competitive advantage and achieve superior firm performance. Almarri & Gardiner (2014) highlighted the attainment of sustainable competitive advantage is enhanced when resources are deployed to create value for customers leading to superior performance. Performance is a central issue for cooperative organizations because it would have a significant impact on their members' economy. Cooperatives must remain competitive, relevantly providing dynamic operations and deploying competitive advantage strategies and are effectively self-help organizations upholding environmental sensitivity (Leonidou et al., 2013). Firms can generate superior performance by implementing effective and successful strategies driven from a keen awareness and understanding of their key competitive advantage firms can generate (Wernerfelt, 1984; Barney, 1986).

The resource-based view (RBV) emphasizes that firms resources are an essential factor that influence competitive advantage and performance. According to RBV, firms control certain resources under various categories that can potentially contribute towards enhanced performance. Prior studies verify firms possess resources that provide the potential for competitive advantage which subsequently lead to superior performance (Wernerfelt, 1984). Extant literature shows the concept of RBV is a useful tool to investigate the relationship between firm resources and firm success. This relationship has been widely explored across many industries but not so among cooperative organizations. According to Meutia & Ismail (2012), the foundations of a firm's progress, profitability and sustained competitive advantage would normally be reflected through its resources. They emphasized that firms have different categories of resources and the application of this strategic tool allow for the possibility of a different path to growth. Firms can deploy its resources in strategies and policies that will make the firms more efficient and effective (Wernerfelt, 1984). The competing needs of resources for firm's survival and remain competitive in the market has encouraged managers to effectively manage its resources to enable them to achieve firm's objectives. Wernerfelt (1984) suggested that idiosyncratic, immobile strategic resources owned or controlled by a firm were sources of competitive advantage. Competition has become increasingly intense, and companies saw the need for more efficient ways to gain competitive advantage in order to survive. In this context, it is realistic both in theory and practice, to examine the relationship between resources and cooperative performance.

It is ironic that there has been very little work to test elements of RBV empirically in the context of cooperative organizations. Further, empirical studies of the RBV theory have concentrated on examining the relationship between intangible assets or capabilities and firm performance. Galbreath, (2005) noted there were only few studies that found tangible resources being of practical use in RBV research. Foss (1997) suggested RBV research would gain practical benefits if the range of resources is expanded to include both tangible and intangible resources. For example, Foss (1997) claimed that there are several instances where physical assets or tangible resources provide sustainable competitive advantages to firms. This may lead researchers to recommend RBV empirical analysis to include tangible resources. Hence, the objective of this paper is to examine the relationship between tangible resources and firms' performance. The findings serve to help highlight the importance of tangible assets as a true source of competitive advantage. Thus, the findings of this study would have vast implications in enhancing the performance of cooperative organizations. The outcome of this study is expected to uncover competitive advantage as an indicator of business success among cooperative organizations. The cooperative movement in Malaysia stands to benefit in the long run and succeed in its original intent to benefit members and society, economically, financially and socially.

2. Literature Review and Hypotheses Development

This section presents a review of the literature and the development of hypotheses related to organizational resources and firm performance.

RBV literature categorizes resources into a variety of forms. According to Barney (1991), resources can be classified into physical capital resources, human capital resources and organizational capital resources. RBV defines resources as physical assets, intangible assets, and organizational capabilities that the firm owns and control (Wernerfelt, 1984). Capabilities comprise latent competencies or expertise employed in organizations operations underlined with accumulated know-how (Day, 1994). They further reiterated, as an indefinite open ended firm resource, resistant to being replicated, capabilities constitute a firm's prime and most essential resource. Resources are either tangible (e.g. financial or physical) or intangible (e.g. employee's knowledge, experiences and skills and firm's reputation), mobilized to create a sustainable competitive advantage (Galbreath, 2004; Grant, 2002). Wernerfelt (1984) asserts companies acquire competitive advantage through resources, tangible and intangible. Intangible resources are by nature, diverse and immobile, with individualistic disposition and are relatively resistant to duplication.

Grant (2002) pointed out tangible resources are easily identified and evaluated because physical resource and financial resource are recorded in the firm's financial statements. Physical resource includes land and buildings (size, location), plant, equipment, machinery and tools (with technical sophistication), whilst financial resources alludes to the firm's ability to efficiently utilize its financial resource to maximize profits (Inmyxai and Takahashi, 2010). Further, Inmyxai and Takahashi (2010) emphasized that the firm's physical resources boosted with sophisticated technology can be expected to increase production, services, and business operations. The true worth of resources is depicted by how the firms formulate and deploy their strategies to improve performance. Firms that have successfully employed its physical assets to gain competitive advantage were able to do so through a history of prudent choices about the acquisition and deployment of the resources. The physical resources of a firm have an impact on performance. Correspondingly, a firms propensity towards breakthrough transactions depends on the availability of financial resources, and conversely, a firm may be curtailed towards innovating strategies when the financial resources are limited (Lee et al., 2001).

Greco, Cricelli & Grimaldi (2013) highlighted that physical resources alone is insufficient to maximize profits. A second type of resources, financial resources, which include among others, financial liquidity, operating funds and borrowing capacity and firm's ability to generate internal funds, is vital to operate a stable and successful firm enjoying maximum profitability (Volerda et al., 2011). Thus, firms need to secure sufficient financial resources to be able to operate efficiently and implement internal growth strategies to promote success. Two key components of financial resources are current assets and business finance. Current assets are assets that possess liquidity and are more readily convertible into cash. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash. Current assets are, therefore, paramount to cash flow management and forecasting, being the assets that a business uses to pay its bills and repay borrowings among others. However, current assets offer relatively small amounts of liquidity on a short-term basis, mainly to address cash flow problems. If the firm does not generate sufficient funds to repay short term liabilities, it has to be paid out from permanent capital, and this may eventually drive the company to go bankrupt. Hence, the firm's ability to pay short-term liabilities is a key factor in determining the performance of a firm. By this, it becomes clear business finance is also a critical factor in sustaining long-term investment for generating profits to the firm. According to Inmyxai and Takahashi (2010), business finance is an essential factor for financing strategic resources and restructuring or expanding the business that is matched with business objective; i.e., profit maximization. Looking from the point of view of cooperative organizations, business finance depends heavily on membership fees and

members shares. Members can exploit advantages in membership fees and members shares to gain competitive advantage as evidenced by superior rates of return (Barney, 1986).

In this study, tangible resources are classified to include both physical resources and financial resources of cooperative organizations, which are expected to affect performance. Recent research activities have shown attention shifting from tangible to intangible resources because intangible resources are seen as more important from a strategic point of view. However, Inmyxai and Takahashi, (2010) opined that tangible assets may still have a significant role in the performance of firms. Galbreath (2004) noted that tangible assets provide higher utility towards a firm's success compared to intellectual property. In addition, Lippman and Rumelt, (2003) and Kazozcu (2011) stressed firms capable of creating above average utility value of their assets; financial or physical are well positioned to mobilize these assets for a competitive edge, enjoying minimal threats of being replicated.

The findings of Galbreath (2005) confirmed that intangibles assets precede tangible assets significantly in deriving firm success. However, in contrast to the preceding conclusion, Inmyxai & Takahashi (2010) argued that tangible resources have more profound effect on firm performance compared to intangible resources. This is consistent with the findings of Galbreath (2004) and Fahy (2002) who found that tangible resources have a significant impact on firm performance compared to intangible resources. Inmyxai & Takahashi (2010) also found that business finance is also one of the critical resources that allow firms to engage in strategic business that can sustain firm performance. Based on these studies, we can hypothesize that tangible assets has an impact on the performance:

H1: Tangible resources have positive significant influence on performance of cooperative organizations.

H1_a: Physical resources have positive significant influence on performance of cooperative organizations.

H1_b: Current assets have positive significant influence on performance of cooperative organizations.

H1_c: Business finance has positive significant influence on performance of cooperative organizations.

Previous studies have provided evidences that tangible resources are key determinants to the continuity of business operations and enable companies to gain sustainable competitive advantage (Galbreath, 2004; Fahy, 2002). The outcome of this study will contribute to the realization that tangible resources also a major role on companies' sustainability.

3. Methodology

3.1. Sample and data collection

The sample for this study consists of 39 cooperatives registered in Malaysia. The research employs an approach that involves content analysis of the cooperatives' annual reports.

3.2. Empirical schema

The relationships developed in hypotheses H1_a, H1_b, and H1_c are depicted in an empirical schema as given in Figure 1. In addition to the identified independent variables, this study also includes total liabilities as control variable. The definitions and measurements of variables used in this study are outlined in Table 1.

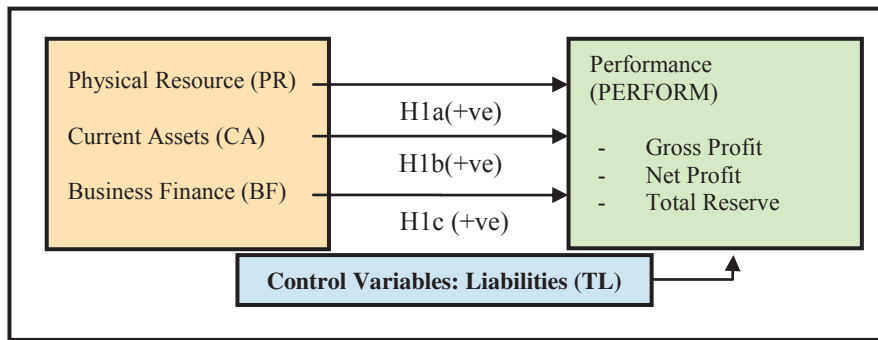


Fig. 1. Empirical Schema of Proxies for the Resource-Based View Theory on Performance

Table 1. The definitions and measurements of variables used in this study

Variable Acronym	Definition	Measurement
PERFORM	Performance	Based on: <ul style="list-style-type: none"> • Gross profit • Net profit • Total reserve
PR	Physical Resource	Total fixed assets such as land and building, plant, and equipment
CA	Current Assets	Total current assets
BF	Business Finance	Total members fees and members share
TL	Liabilities	Total liabilities

4. Findings

4.1. Descriptive Statistics

Table 2. Descriptive Statistics for the dependent and continuous independent variables

	Minimum	Maximum	Mean
Total Reserve	0.00	2,363,011,000.00	70,799,173.33
Gross Profit	-4,642,940.29	3,295,290,000.00	94,592,639.70
Net Profit	-7,045,854.69	1,729,775,000.00	51,166,113.83
Physical Resource	0.00	56,477,382,000.00	1,502,003,859.43
Current Assets	0.00	5,599,732,000.00	170,849,463.64
Total Liability	0.00	55,886,651,000.00	1,465,500,416.34
Members Fee & Members Share	0.00	1,994,960,000.00	99,005,044.90

Table 2 provides descriptive statistics of the variable PERFORM and the independent variables. PERFORM in this study is based on three types of revenues: gross profit, net profit and total reserves. The mean values are RM94,592,639.70, RM51,166,113.83 and RM70,799,173.33 respectively. However, the minimum negative values for gross profit and net profit indicate that some cooperatives in the sample made gross loss and net loss during the year of the study. The mean values for physical resource are

RM1,502,003,859.43. In relation to financial resource, the mean value for current assets and business finance are RM170,849,463.64, which is relatively lower to the mean values of tangible assets and total assets.

4.2. Multivariate Analysis

In this study, linear multiple regression is used as the basis of analysis for testing H1a to H1c. The hypothesized relationships are modeled as follows.

$$PERFORM = \beta_0 + \beta_1PR + \beta_2CA + \beta_3BF + \beta_4TL + \varepsilon_t$$

Where variable definitions are given in Table 1.

In the above regression model, multicollinearity was tested using the variance inflation factor and tolerance levels, and found to be well within the satisfactory range. In addition to these tests, an analysis of the Kolmogorov-Smirnov (K-S Lilliefors) and the Shapiro-Wilk normality test statistics suggests that the dependent variables and continuous independent variables are not distributed normally. As such, these variables are transformed by computing normal scores using Van der Waerden's transformation. A regression analysis is performed with the transformed variables.

5. Discussions

The results of the regression analysis are presented in Table 3 and are now discussed in terms of tests of each of the hypotheses. Results from Table 3 showed that the adjusted R² are 0.780, 0.821 and 0.687 for factors influencing performance (total reserve, gross profit, and net profit respectively) of cooperatives in the sample of the study. H1_a predicts that the availability of physical resource is significantly positively related to performance. The results in Table 3 reveal a positive and significant relationship of PR only for performance as measured by Total Reserve. Based on these results, H1a is only partially accepted. The insignificant relationships between PR and performance based on gross profit and net profit indicate that cooperatives are not capitalizing on their physical resource in enhancing their revenues generated from their operations.

Table 3. Multiple Regression Results for Factors Affecting Performance of Cooperatives

Dependent Variable	Total Reserve			Gross Profit			Net Profit		
R ²	0.809			0.844			0.728		
Adj. R ²	0.780			0.821			0.687		
F	27.98			35.79			17.71		
Sig	0.00			0.00			0.00		
Model	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
(Constant)		.038	.970		-.078	.938		-.050	.960
Physical Resource (PR)	.896	3.623	.001	.136	.609	.547	-.120	-.407	.687
Current Assets (CA)	.952	2.017	.052	.947	2.220	.033	.460	.816	.420
Total Assets (TA)	-.914	-1.499	.143	-.855	-1.554	.130	-.191	-.263	.794
Total Liability (TL)	-.790	-3.839	.001	.374	2.010	.053	.314	1.279	.210
Member Fee + Member Share (BF)	.754	4.598	.000	.367	2.481	.018	.415	2.120	.042

On the other hand, it is also possible that the cooperatives in the sample of the study do not have sufficient amount of physical resource to operate at an efficient level. The availability of extra resources has been argued in past studies (Chiu & Liaw, 2009) as central to an organization, enabling the organization to adapt to internal and external pressures, as well as to initiate any strategic changes required in enhancing its performance.

H1_b predicts that the availability of CA is significantly positively related to performance. The results in Table 3 reveal a positive and significant relationship of CA only for performance as measured by gross profit. Based on these results, H1_b is only partially accepted. The positive and significant relationship of CA and gross profit indicates that the cooperatives are using their current assets in maximizing revenues generated from operations. However, these results indicate that the cooperatives are not able to utilize their current assets in safeguarding their organizations from making net losses or enhance their net profits.

Finally, H1_c predicts that the availability of business finance is significantly positively related to performance. Results in Table 3 indicate significant relationships between BF and performance based on gross profit, net profit and total reserves. Hence, H1_c is accepted. Business finance includes member's shares and member fees. The significant results indicate that the cooperatives are utilising and developing their financial resources in creating competitive advantage that is crucial in enhancing firm performance.

6. Conclusion and Limitations

This study examines the availability of tangible resources in cooperatives and their influence on firm performance. These resources are considered essential for organizations as it can help to develop the resources and capabilities that are urgently needed to adapt to their external environment and in turn facilitate organizations to enjoy continuous growth. The results in this study indicate that cooperatives are utilising more of their corporate resources in creating competitive advantage with positive impact on firm performance.

In line with the RBV perspective, competitive advantage is generated from within an organization. The organization's resources are its main source of advantage, in particular those resources that are simultaneously valuable, rare, and hard to substitute (Barney, 1991). Hence, the emphasis is on how unique and different these resources are compared to those of their competitors. Therefore, in order to achieve the competitive advantage, companies have to vigilantly analyze their internal strengths and weaknesses and be able to exploit these resources. For instance, utilizing company's tangible resources such as organizational slack in developing innovations in the form of 'environmental friendly products, 'animal-free testing', 'pollution prevention policy' and investment on research and development can be a source of competitive advantage to the company because they can differentiate a company from its competitors. Consequently, these products will lead to improvement in financial performance.

This study has been subject to some limitations. First, this study focuses only on the relationship of tangible assets to firm performance. Future research may consider the influence of other components of corporate resources such as intellectual assets and reputational assets. In addition, the sample in this study is relatively small. Future research should take into consideration an increase in the number of samples and also include observations over several accounting periods. Such observation would allow for a more meaningful measure of extra tangible resources as opposed to the availability of tangible resources used in this study. In addition, it will also allow a more meaningful examination on the enhancement of firm performance.

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