

**THE CHARACTERISTICS AND PERFORMANCE OF PROPERTY  
DEVELOPMENT COMPANIES IN PENANG**

**BY**

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## ABSTRAK

Penyelidikan ini mengkaji perhubungan diantara sifat dan ukuran prestasi syarikat yang terlibat didalam pembangunan hartanah di negeri Pulau Pinang dengan adanya pengaruh persekitaran yang tidak menentu. Empat (4) sifat syarikat yang berbeza ialah kepuasan pelanggan, kemampuan, kepakaran, dan cara pengurusan. Manakala, ukuran pelaksanaan syarikat termasuk keberkesanan dan keuntungan. Kajian ini juga menyelidik pengaruh persekitaran yang tidak menentu sebagai perubahan gangguan. Perubahan gangguan tersebut terbahagi kepada lima (5) dimensi, iaitu pembekal, aksi pesaing, permintaan pelanggan, kewangan/pasaran modal, dan peraturan Kerajaan. Hasil kajian ini menunjukkan bahawa terdapat perhubungan diantara sifat dan ukuran syarikat pembangunan hartanah di negeri Pulau Pinang dengan adanya pengaruh persekitaran yang tidak menentu. Ini bermakna baiknya sifat dalaman syarikat seperti kepuasan pelanggan, kapasiti, kepakaran, dan cara pengurusan, menjadikan ukuran seperti keberkesanan dan keuntungan, walaupun terdapat pengaruh persekitaran yang tidak menentu.

## **ABSTRACT**

This research studies the relationship between characteristics and performance measures of property development companies in the state of Penang with the influence of perceived environmental uncertainty. The 4 (four) different categories of characteristics are customer orientation, capacity, expertise, and management style. While, the performance measures include effectiveness and profitability. This study too examines the influence of perceived environmental uncertainty as moderating variables. The variables are divided into 5 (five) dimensions, namely, suppliers performance, competitors' actions, customers' demand, financial/capital market, and government regulations. The research findings show that there is a relationship between characteristics and performance measures of the property development in Penang with the influence of the perceived environmental uncertainty. These mean that the better the characteristics, such as customer orientation, capacity, expertise, and management style, the better the performance measures, namely effectiveness and profitability of the organizations despite the influence of the moderating variables which include suppliers, competitors' actions, customer demand, financial/capital market, and government regulation.

## Chapter 1

### INTRODUCTION

#### 1.1 Background of Research

For many years, both researchers and practitioners have attempted to learn why some organizations achieve higher level of performance than other organizations. Thompson (1967), and Schendel and Hatten (1972) suggest that the success of an organization seldom depends upon a single factor. Rather, it largely stems from the ability of administrators to reach and maintain a viable balance among a combination of different factors.

Empirical studies address particular aspects of this broad problem of managing multiple dependencies. Several studies centre upon relationship between environment and performance, while others address the influence of strategy and organization structure upon performance. A small body of research indicates that success depends upon a contingent relationship between environment and strategy. However, few, if any, empirical studies focus upon the broader issue of the joint influence of all these factors upon organizational performance.

To strengthen the above findings, this study attempts to establish whether there is relationship between characteristics of property development company in the state of Penang and its performance measures with the influence of perceived environmental uncertainty as a moderator. In view of the fact that a commercial organization's ultimate goal is survival, if not profitability, the cumulative implications of previous research indicate that high-performance organizations should exhibit different combinations of these factors than low-

performance companies. Thus, there remains a lack of research relating to the characteristics of companies, particularly in property development, as to the antecedents to their performance while considering the influence of external factors.

Therefore, this research is to fill this gap by examining the relationship between the independent variables (customer orientation, capacity, expertise, and management style of organizations) and dependent variables of effectiveness and profitability (organizational performance). This study will also examine the influence of the moderating variables (suppliers performance, competitors' actions, customer demand, financial/market, and government regulations as perceived environmental uncertainty) on the relationships between characteristics and performance.

The findings of this investigation are then used to make recommendation that will facilitate greater integration and stronger conclusions in future studies which intend to examine performance measures of the property development companies.

## 1.2 **Problem Statement**

This study is to investigate whether there is relationship between organizational characteristics (customer orientation, capacity, expertise, and management style) and performance measures (effectiveness and profitability) of property development companies in Penang. If there is such a relationship, how would the characteristics influence the performance of the said companies.

Specifically, the following two questions would be the focus of the study:

- i. How would organizational characteristics influence performance of the property development companies in Penang?; and
- ii. Does perceived environmental uncertainty affect the relationship between characteristics and performance?

### 1.3 Definition

A number of concepts will be put forward within the scope of this study. They might have other wide definitions, but the definitions to these terms will be confined to the following statements, relevant to this research:

#### 1.3.1 Characteristics

Generally, the characteristics for this study reflect different qualities existing in the company. These characteristics or qualities stand from the company's perspective, namely, customer orientation, capacity, expertise, and management style. Each of these components will be elaborated further as below:

##### 1.3.1a Customer Orientation

Customer orientation is the sufficient understanding of one's target buyers in order to be able to create superior value for them continuously or to create continuously an "augmented product" (Narver and Slater, 1990). It includes the activities involved in acquiring information about the buyers in the target market and disseminating it throughout the business unit for appropriate responses to fulfill customer needs and preferences.

Customer orientation too reflects the value that a seller can provide, being the magnitude of the difference between products benefits and use costs. The current translation of the meaning to customer orientation is “quality function development”. The message is actually to “bring the customer’s voice in-house, so you can build your policies and products around your customers’ needs” (Cannie & Caplin, 1991). In layman terms, it means producing and delivering what the customer request. Thus, customer orientation represents a conscious attempt by the seller to meet or even exceed the expectations of the buyer.

#### **1.3.1b Capacity**

The meaning of capacity in this study is the ability of a company in implementing development. It covers the employees’ strength, size of project development, capital or financial resources and other resources.

#### **1.3.1c Expertise**

Buyers will be more appreciative when they perceive that a developer has expertise in the area that they venture into. Basically, expertise in this research means the ability that companies posses in terms of their core business know-how, for example, their managers’ experience, related qualifications, competence in handling tasks, and networking, especially with relevant bodies, such as local government authorities.

### **1.3.1d Management Style**

Management style is defined as behaviour predisposition, motives, attitudes, and values of managers with respect to decision making, delegation, communication, leadership and flexibility (Kang & Saiyadain, 1994). In the context of this study, it refers to perceived management style because it is measured via the perspective of the respondents to the questionnaires.

### **1.3.2 Performance Measures**

Performance measures in this study refer to the achievement of the company with respect to two criteria. Two considerations are made in determining the criteria to be used.. The first was the identification of a measure that is relevant to the companies studied. The second consideration was the desire to be able to directly relate findings from this study to previous empirical research. Evaluation in each area resulted in the use of qualitative and quantitative type of performance measures – effectiveness and profitability, as discussed below.

#### **1.3.2a Effectiveness**

For purpose of this study, effectiveness refers to the level of achievement of objectives. Specifically, it refers to attainment of growth objectives and other goals (besides profit).

### **1.3.2b Profitability**

Profitability in this study is measured by the percentage of company's return in term of net profit over sales, average rate of return of equity for the last 3 years. Profit refers to the reward for creating a satisfied customer and that the organization that does the best job for the customer will be the most profitable.

### **1.3.3 Perceived Environmental Uncertainty**

There is no widely held consensus concerning how organizational environments should be assessed and which aspects of environment affect performance. Empirical studies generally employ either one or two different means for measuring environments. The first method uses perceptual measures, usually taken along two dimensions (e.g. stable-shifting and homogeneous-heterogeneous), to assess environmental complexity, uncertainty, etc. A second method was used which employs relatively objective measures that derive from previous empirical research in industrial organizations and business policy.

Dill (1958) suggests that the relevant environment concerns factors that influence goal attainment. This study classifies its moderating variables (perceived environmental uncertainty) into five categories. They are suppliers performance, competitors' action, customers' demand, financial/capital market, and government regulations.

#### 1.4 **The Objective of the Study**

The objectives of this study are as follows:

- i. To determine the relationship between firm characteristics and performance of property development companies in Penang; and
- iii. To determine the moderating role of perceived environmental uncertainty on the relationship between firm characteristics and performance.

#### 1.5 **Significance of the Study**

This study is in search of excellent companies. Hopefully, it will contribute to our understanding of factors contributing excellent organizations. The property market in Malaysia, particularly in Penang, has (according to the Consumers' Association of Penang, Malaysia), the dubious distinction of being the sector against which complaints are frequently lodged about the seller (Khor, 1989). The orientation of the sellers or developers to house buyers is an important consideration in the marketability of houses. Indeed, the property development companies need to comprehend the linkage between their characteristics and performance measures. By understanding factors of excellent property development companies, managers may make these as examples. Consumers also may use these as guideline in their purchase of properties.

## Chapter 2

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter discusses the relevant literature on the relationship between the variables of this study. Specifically, the review of literature is divided as follows:

- i. Characteristics – these independent variables include customer orientation, capacity, expertise, and management style;
- ii. Performance measures – these dependent variables include effectiveness and profitability; and
- iii. Perceived environmental uncertainty – this moderating variable includes suppliers' performance, competitors' actions, customers demand, financial/capital market, and government regulation.

#### 2.2 Characteristics

Company characteristics usually refer to age, size, capacity, industry, location, image, product quality, structure. For purpose of this study, the characteristics such as customer orientation, capacity, expertise, and management style will be used because they have been shown to impact performance of companies (Denison, 1990). Age and size will not be used in this study.

Characteristics of companies are also defined to include shared meanings – pattern of beliefs, ritual, symbols, and myths that evolve over time, serving to

## 1.6 **Organization of the Study**

Previous researches on the similar subjects are discussed in Chapter 2. Theoretical framework and research methodology are discussed in Chapter 3. Chapter 4 presents the results of this study. Discussions, implications, conclusions, limitations of the study, and future research are presented in Chapter 5.

reduce human variability and control and shape employee behaviour in organizations (Peter and Waterman, 1982; Wilkins and Ouchi, 1983; Lorsch, 1986; Weick, 1987). This will also not be included in the scope of this study.

### 2.2.1 Management

Likert (1961) and his research team at the University of Michigan, identified four main styles or systems of management in organizations.

The four types of management styles are:

- i. **Autocratic** – decisions are made at the top management level. People do as they are told. It is used in the military type of organization. Fear management motivates people;
- ii. **Benevolent** – leaders has confidence and trust in subordinates. They impose decision making activity to their subordinates but never delegates. They are motivated by rewards. Leaders involve subordinates in problem solving, and seek feedbacks from subordinates and use them to direct organizational activities;
- iii. **Consultative** – leaders has incomplete confidence and trust in subordinates. They listen to subordinates but controls decision-making. Reward and some involvement motivates subordinates; and
- iv. **Participative** – leader has complete confidence and trust in subordinates. Work and responsibility is

delegated. Decision making involves all level.

Rewards motivates people.

Likert's (1961) research also shows that effective managers are those who adopt type from para 2.2.1(iii) and 2.2.1(iv) styles of management. In 1993, Zulaiha used the Myers-Briggs Type Indicator to identify the managerial styles of 800 managers of 17 public and private organizations in Malaysia. She found that 69 percent of them are traditionalist, 21 percent visionaries, 6 percent trouble-shooters and 4 percent catalysts.

In 1994, Kang and Saiyadain compared Malaysian and Taiwanese managers. They examine five aspects of management styles, which are:

- i. **decision making** – the degree to which subordinates are involved in the decision making process;
- ii. **delegation** – the degree to which responsibility and authority are handed over to subordinates;
- iii. **communication** – the use of two-way versus one-way communication;
- iv. **leadership** – authoritarian leadership style versus participative leadership style; and
- v. **Flexibility** – whether the manager is flexible or rigid in his management style.

They found that there are no significant difference between the Taiwanese and Malaysian managers. For their study, they developed

between 30 – 40 statements to test the five aspects of leadership style. They were measured on a 6-point Likert scale (1 – strongly disagree, 2 – disagree, 3 – slightly disagree, 4 – slightly agree, 5 – agree, and 6 – strongly agree).

### 2.3 **Performance Measures**

Performance measures vary in accordance with an organization's overall combination of environment, strategy, and organization structure. Besides conclusive organizational culture, an organization also needs good characteristics to achieve good performance. There seems to be a linkage between characteristics and performance measures of the property development organizations. Performance measures for this study have been identified as effectiveness and profitability.

### 2.4 **Perceived Environmental Uncertainty**

Contingency theory postulate that there is no one best way to lead or organize work groups. Instead, the best organizational form or leadership style is contingent upon its appropriateness to a situation or environment. Hence, theoretical approaches that take this view have been labeled contingency theories or models. A number of different situational or environmental factors have an impact on the effectiveness of leadership or organizational performance in these theories (Woodward, 1965; Pugh, 1963; Burns and Stalker, 1961).

Fiedler (1967) found that the effectiveness of leadership styles depends upon the favourability of the situation for the leader. Situation favourability is

determined by three independent factors: leader-member relations, task structure, and position power.

## 2.5 **Summary**

The literature review above indicates that organizational characteristics are related performance or high performing firms possess certain characteristics. They also exhibit particular management styles and operate in particular environments. From these ideas a research framework will be formulated.

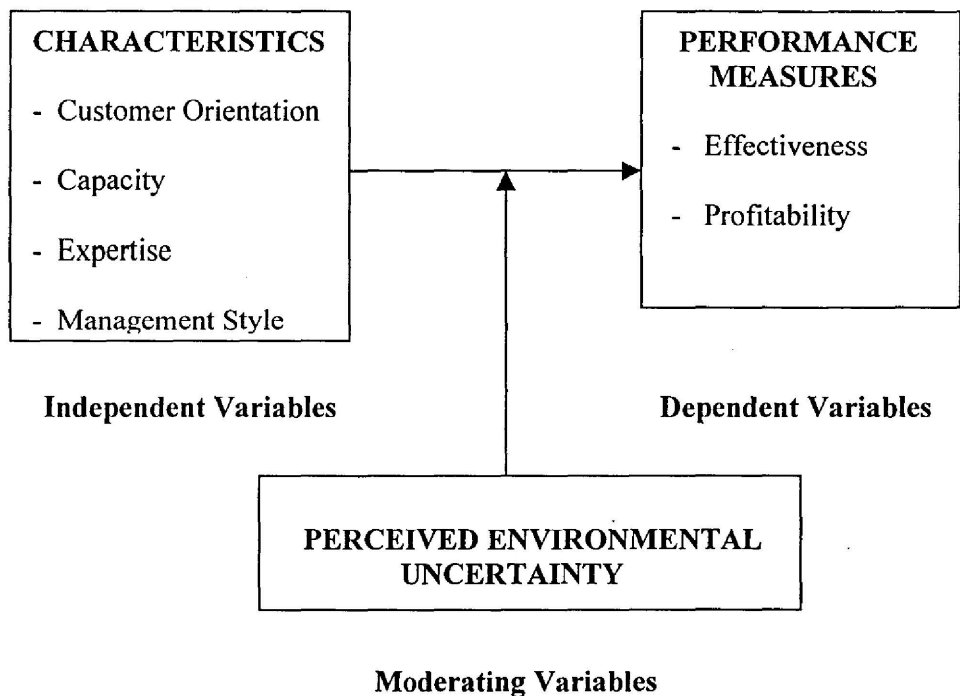
## Chapter 3

### METHODOLOGY

#### 3.1 Introduction

This chapter is divided into theoretical framework, hypothesis and research method, which are further divided into the variables and measures. Research methodology covers the type of study, study setting, time horizon, unit of analysis, population, sampling designs, questionnaire design, response rate, and data analysis method.

#### 3.2 The Research Model



**Figure 3.1: Research Model**

This study proposes the model as shown in Figure 3.1 as the theoretical framework. The research model represents the relationships that are suggested

in the study, i.e. the relationship between the management style as one of the identified characteristics and the effectiveness as a performance measure of the property development companies with the influence of perceived environmental uncertainty such as government regulations with regards to changes in its policies.

### 3.3 The Hypothesis

From the theoretical model discussed and the objectives of this study, nine hypotheses were developed and will be tested accordingly for this study.

These hypotheses are as follow:

H1: *There is significant relationship between customer orientation and effectiveness of company.*

H2: *There is significant relationship between capacity and effectiveness of company.*

H3: *There is significant relationship between expertise and effectiveness of company.*

H4: *There is significant relationship between management style and effectiveness of company.*

H5: *There is significant relationship between customer orientation and profitability of company.*

H6: *There is significant relationship between capacity and profitability of company.*

H7: *There is significant relationship between expertise and profitability of company.*

H8: *There is significant relationship between management style and profitability of company.*

H9a: *Environmental uncertainty moderates the relationship between firm characteristics and effectiveness.*

H9b: *Environmental uncertainty moderates the relationship between firm characteristics and profitability.*

### 3.4 Rationale for the Hypothesis

Basically, the 10 hypotheses designed in this research attempt to identify the significant relationships between each of the organizational characteristics and each of the organizational performance. The effect of the perceived environmental uncertainty as a moderating variable will also be tested. The rationale for each of the hypothesis has been explained in the literature survey (chapter 2).

### 3.5 Variables and Measures

#### 3.5.1 Characteristics

Cannie and Caplin (1991) designed a customer commitment survey. They evaluated organization's culture using the key factors on customer orientation based on 5 dimensions:

- i. customer orientation;
- ii. management climate;

- iii. cooperation / integration;
- iv. attitude and skills; and
- iv. costs / prevention / results.

This study will adopt these dimensions as part of organizational characteristics.

### 3.5.2 Perceived Environmental Uncertainty

Williamson (1975) has argued that markets may fail where one or more of following conditions exist:

- i. Bounded rationality in an environment which is characterized by high levels of uncertainty or complexity;
- ii. Opportunistic behaviour in circumstances in which there are small numbers (i.e. either few buyers and sellers, or unique transactions); and
- iii. Information impactedness.

This study adopts Dill's (1958) and Miller's (1987) measures of environmental uncertainty to evaluate the environment in which the firms are operating.

## 3.6 Research Methodology

### 3.6.1 Type of Study

The purpose of this research paper is to establish the relationship between the independent variables of organizational characteristics and the dependent variables of the organizational performance. Data will

be collected at a particular point in time. This is a correlational rather than a causal study.

### **3.6.2 Study Setting**

This study focuses on the performance of property development companies in the state of Penang. The variables are neither controlled nor manipulated, and no artificial settings are created for the study.

### **3.6.3 Time Horizon**

This study is a cross-sectional study where data will be collected once from the sample respondents through researcher administered questionnaire. Data was collected in December 2002.

### **3.6.4 Unit of Analysis**

The unit of analysis in this study is the organization. The respondents are expected to provide the data regarding the organization. In this research, the organization under study is the property development company in the state of Penang.

### **3.6.5 Population**

The population for the study comprised all the property development companies in Penang.

### **3.6.6 Sampling Designs**

Primary data were obtained through distributing a total number of 290 questionnaires to the property development companies in Penang. The questionnaires were distributed at a property development conference in Penang where all the companies were represented. They were

personally collected back by the researcher at the end of the conference.

### 3.6.7 Questionnaire Design

The questionnaire comprised eight (8) sections, section A to section H, with 40 items. The questions in section A to section F were adopted from the study done by Denison (1990) to measure the following variables:

i. **Independent Variables:**

These variables comprise of four types of characteristics, namely customer orientation, capacity, expertise, and management style;

ii. **Dependent Variables:**

These variables are the performance measures of the companies such as effectiveness and profitability; and

iii. **Moderating Variables:**

These variables consist of five different external situations that have impact on the company. These include suppliers' performance, competitors' actions, customers' demand, financial/capital market performance, and government regulations. These variables will be aggregated as one variable, i.e perceived environmental uncertainty.

### **3.6.8 Response Rate**

One hundred twenty five (125) sets of questionnaires were received, representing a response rate of 43%. Of the 125 sets of questionnaires returned, four (4) sets were found to be incomplete and were therefore rejected. One hundred twenty one (121) sets of the questionnaires are used in the analysis.

### **3.6.9 Data Analysis Method**

Various statistical analyses will be employed. The computer software package – the Statistical Package for the Social Sciences (SPSS) would be employed to carry out the necessary analysis. The analysis would include the descriptive statistics, correlation and linear regression.

## Chapter 4

### RESULTS

#### 4.1 Introduction

This chapter presents the results of the study. The chapter is divided into two sections. In the first section, basic characteristics of the sample property development companies are examined. The characteristics include customer orientation, capacity, expertise, and management style. The second section reports the results concerning hypothesis testing.

#### 4.2 Questionnaire Profile

A structured questionnaire was distributed to 290 companies involved in property development in Penang while they participated in a property conference. A total of 125 respondents (each representing a company) filled in and returned the questionnaires. Four of the questionnaires were rejected due to incomplete response, so were taken out of the analysis. Therefore, only 121 were valid for further analysis.

**Table 4.1: Responses Summary**

<b>Respondent Rate</b>	<b>Questionnaires Administered</b>	<b>Questionnaires Returned</b>	<b>%</b>
Management Level of Property Development Company in Penang	290	125*	43

\* A total of 4 questionnaires were incomplete and rejected.

### 4.3 Profile of Respondents

The respondents of this study are those who are holding managerial positions in the said companies. The data collected consist of gender, age, race, education, position level, type of income, and length of their service in the present company.

Table 4.2 presents the profile of the sample. Of the 121 respondents for this study, 85 respondents (70.2%) holding top or middle level managerial positions, they are male. Only 36 respondents (29.8%) are female. The respondents' racial distribution is 76 Malay (62.8%), 41 Chinese (33.9%), and 4 Indian (3.3%). One of the respondents holds degree (Ph.D), while 72% hold either a bachelor or master degree. 73 of them (60.3%) are between the age of 30 to 40. The majority (77%) have worked for more than 3 years in the company. Their detailed profiles as shown below:

**Table 4.2: Profile of Respondents**

<b>Demographic</b>	<b>N = 121</b>	<b>Percentage (%)</b>
<b>Position</b>		
Top Level Manager	33	27.3
Middle Level Manager	52	43.0
Lower Level Manager	26	21.5
Others (owner)	0	8.3
<b>Age</b>		
Below 30	19	15.7
Above 30 – 40	73	60.3
Above 40 – 50	19	15.7
Above 50 Years	10	8.3

<b>Demographic</b>	<b>N = 121</b>	<b>Percentage (%)</b>
<b>Race</b>		
Malay	76	62.8
Chinese	41	33.9
Indian	4	3.3
<b>Sex</b>		
Male	85	70.2
Female	36	29.8
<b>Level of Education</b>		
Ph.D	1	0.8
Masters Degree	29	24.0
Bachelors Degree	59	48.8
Diploma	28	23.1
High School	1	0.8
Others	3	2.5
<b>Length of Time in Industry</b>		
Less Than 1 Year	2	1.7
Above 1 – 3 Years	24	19.8
Above 3 – 5 Years	41	33.9
Above 5 – 10 Years	44	36.4
Above 10 Years	10	8.3
<b>Income</b>		
Fixed Salary	92	76.0
Both Salary and Commission	4	3.3
Others	25	20.7

#### 4.4 Reliability Analysis

To ensure the reliability of the items of the questionnaire, a reliability analysis was conducted. The Cronbach's Alpha was obtained and used to assess reliability. The closer the reliability coefficient gets to 1.0 the better. In general, reliabilities of less than .6 are considered to be poor, those in the .7 range, acceptable, and those over .8 are good.

The results obtained from the reliability analysis are shown in the table below:

**Table 4.3: Reliability Coefficient**

Perception Towards Organizational Performance	Cronbach's Alpha
Customers' Expectation	.84
Capacity	.62
Expertise	.92
Management Style	.83
Effectiveness	.84
Customer Satisfaction	.94
Profitability	.80
Perceived Environmental Uncertainty (PEU)	.90
PEU - Suppliers	.95
PEU - Competitors	.94
PEU - Customers	.94
PEU - Financial/Capital Market	.71
PEU - Government	.83

The result of this analysis shows that the Cronbach's Alpha for all variables are greater than 0.6. Therefore, the data meets the Nunnally (1978) and Ittner & Larker (1997) criteria. Thus, the questionnaire can be considered as reliable to measure organizational characteristics and performance.

#### 4.5 Descriptive Statistics of Variables

This section describes the analysis of data from respondents' to the questionnaire concerning the variables under study. In-depth analysis is presented for the four type of the characteristics and performance measures of organization, as well as the influence of the perceived environmental uncertainty. The respondents were asked to indicate "1" for "Strongly Disagree" to "7" for "Strongly Agree" in a 7-point scale. A mean score of