

**THE MEDIATING EFFECT OF  
COMPETITIVE ADVANTAGE ON THE  
RELATIONSHIP BETWEEN  
ORGANIZATIONAL LEARNING AND  
COLLECTIVE HUMAN CAPITAL WITH  
FIRM PERFORMANCE IN MNEs**

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**by**

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## **LIST OF ABBREVIATIONS**

GDP	Gross Domestic Product
MNE	Multinational Enterprises
OL	Organizational Learning
KA	Knowledge Acquisition
KD	Knowledge Distribution
KI	Knowledge Interpretation
OM	Organizational Memory
CHC	Collective Human Capital
CA	Competitive Advantage
FP	Firm Performance
SME	Small and Medium-sized Enterprise
SPSS	Statistical Package for the Social Sciences
PLS-SEM	Partial Least Squares – Structural Equation Modelling.
AVE	Average Variance Extracted.

**KESAN MEDIATOR KELEBIHAN KOMPETITIF DAN PERHUBUNGAN DI  
ANTARA PEMBELAJARAN ORGANISASI DAN MODAL INSAN  
KOLEKTIF DENGAN PRESTASI FIRMA MULTINASIONAL**

**ABSTRAK**

Sejak tahun 1970-an, Malaysia menjadi tumpuan utama firma multinasional untuk melabur dan mengembang kemampuan mereka di dalam industri pembuatan. Firma multinasional dari Amerika, Europah, Japan, China dan Korea telah banyak melabur di dalam segmen automotif, perubatan, elektrik dan elektronik, penerbangan dan juga makanan dan minuman. Firma multinasional di Malaysia memainkan peranan yang penting untuk meningkatkan peluang pekerjaan, pengetahuan dan kemahiran pekerja. Dalam industri yang semakin berkembang dengan kompetitif, maka pembelajaran organisasi dan modal insan kolektif dipengaruhi oleh pergerakan pekerja di dalam firma multinasional. Sumbangan utama kajian ini ialah memahami kesan terhadap pembelajaran organisasi dan modal insan kolektif ke arah prestasi firma dengan kelebihan kompetitif sebagai mediator. Kajian ini berbentuk kajian rentas keratan melalui persampelan kebarangkalian sistematik. Pengurus dari firma multinasional dikenalpasti sebagai responden. Kajian ini merangkumi sebelas hipotesis yang dikaji daripada 237 responden. Terdapat hubungan langsung yang signifikan di antara pemerolehan dan pengedaran pengetahuan, ingatan organisasi, modal insan kolektif dengan kelebihan kompetitif. Walaupun terdapat tafsiran pengetahuan yang signifikan disebabkan hubungan negatifnya, hubungan tersebut ditolak kerana kajian ini memberi tumpuan kepada hubungan yang positif sahaja. Fenomena ini disyaki kerana walaupun firma multinasional

menyediakan struktur latihan yang baik dan pembimbing yang dapat berkongsi pengetahuan tetapi kemampuan penerimaan pekerja baru atau pekerja yang kurang berpengalaman didapati lemah. Apabila kelebihan kompetitif dikaji sebagai mediator pengedaran pengetahuan didapati tidak signifikan disebabkan pergerakan yang kerap di kalangan pekerja mahir yang menyebabkan pembelajaran pengetahuan terhenti. Tafsiran pengetahuan masih menunjukkan hubungan negatifnya apabila kelebihan kompetitif menjadi sebagai mediator. Ini membuktikan kelemahan dari sudut penyesuaian dan kemampuan penerima. Sebagai kesimpulan, kajian ini menegaskan bahawa pemerolehan pengetahuan, ingatan organisasi dan model insan kolektif adalah kelebihan utama yang sedia ada di kalangan firma multinasional di Malaysia. Sebaliknya, pengedaran dan tafsiran pengetahuan perlu ditingkatkan melalui penyemaian semangat berpasukan di kalangan pekerja untuk memudahkan proses interaksi. Dengan ini, kajian ini berjaya menyumbang dengan mengintegrasikan teori pandangan berasaskan sumber (RBV) dan asimilasi dalam industri pembuatan Malaysia.



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**ABSTRACT**

Malaysia have been an appropriate country for MNEs to invest and expand their manufacturing capabilities since 1970s. MNEs from United States of America, Europe, Japan, China and Korea covering segments like automotive, medical, electric and electronics, aviation as well as food and beverages were being heavily invested. MNEs in Malaysia increases career opportunities as well as enhances knowledge and skills of Malaysian employees. In this ever emerging market with full of competitiveness, organizational learning and collective human capital is being impacted with employee movement within MNEs in Malaysia. In line with this study conducted to find out the impact towards organizational learning and collective human capital towards firm performance with competitive advantage as a mediator was the main contribution done. This is a cross-sectional study. Systematic probability sampling was used as sampling technique for this research. The respondents were identified as managers from respective MNEs. Total of 237 usable respondents were responded and tested eleven hypotheses. As a result with direct relationship towards competitive advantage, knowledge acquisition, knowledge distribution, organizational memory and collective human capital was found to be significant. Even though knowledge interpretation was found to be significant, due to its negative relation it was rejected as the study was focusing on positive relation only. It is suspected, despite of having good training and coaches who able to share the

knowledge but the adaptability of the recipient determines the success of knowledge interpretation was found to be weak. When competitive advantage mediates knowledge distribution was found not to be significant due to skilled employees opt to move around resulting knowledge halt. Despite of the significance for knowledge interpretation, due to its negative relation it was rejected due to the recipient adaptability and capability as well when competitive advantage mediates. The findings from this research contributes to the context of MNEs in Malaysia by affirming knowledge acquisition and organizational memory as well as collective human capital were well established. Knowledge distribution and interpretation has to be enhanced by MNEs here through teamwork and relationships between employees. Despite of that, this research have contributed successfully by integrating and enhancing Resource Based View (RBV) and assimilation theory in Malaysian manufacturing industry.

# **CHAPTER 1**

## **INTRODUCTION**

This chapter begins with the background of the research which acts as the foundation as well as serving to highlight the overall scope of the study. It is followed by the research with research problem statement, the research questions as well as the research objectives, which emphasize the importance of this piece of research.

The next section of this chapter illustrates the extent of the research, its significance and impact on the domestic environment in Malaysia as well as its place in future research. The definition and illustration of key terms used in this study are summarized at the end of this chapter.

### **1.0 Introduction**

This chapter provides an introduction to the piece of research by drawing a comprehensive picture of this study as a whole and as such, laying the foundations for the following chapters. It starts with an overview of the research background. The importance of the study is then discussed in the problem statement and the broad gaps in current literature are addressed as well as the significance of the research towards theoretical perspectives and its estimated practical contributions. Through the problem statement the research is addressed by specific research questions and research objectives as well as by defining the scope. The chapter also defines the important terms used in the study.

MNEs have been taking the lead in terms of innovation and moving the market trend in order to meet ever changing customer demand. As well as meeting the changes they have to meet

the challenges in the market presented by the customer, regardless of whether it is with product, service or quality. From meeting the customer demand, there is now the expectation to meet the customer differences which determine the performance of the MNEs in industry (Azmi, 2008).

It also needs to be acknowledged that MNEs have a wealth of experience in operating in crises in both the internal and external environment. Some of the firms who acknowledged this earlier have made the significant changes required to prepare to meet these crises and those firms who haven't, have eventually been phased out of the industry (Collins, 2001).

Thus, this study has been carried out to further understand organizational learning and collective human capital significance in MNEs in Malaysia. This research explores the latest significance of the relationship of these variables with MNEs in Malaysia which have had significant growth and have contributed to the growth of SMEs as well as the GDP of the country over the years (Penang Investment, 2015). Thus, the aim of this research is to understand the reason for the retention of the MNEs in Malaysia.

## **1.1 Research Background**

This study explores the determinants of Multinational Enterprises (MNE) performance in Malaysia. Therefore, the influence of organizational learning and collective human capital on establishing competitive advantage that improves firm performance has also been investigated.

The United Nation (2011) poverty alleviation and equality access in economic commerce are two main critical aspects in the economic environment of today. It looks at reducing the number of people below the absolute poverty line and ensuring the minimal needs of a person are related to poverty alleviation. The distribution of profit, asset and land equally among people in the region or country is classified as equality of access. It is found that strong sustainability performance by

MNEs enables them to contribute in order to improve poverty alleviation (Seidu, 2011). On account of this, MNEs have a tendency to contribute back to society in the region in terms of growth and development by school, hospital and environment (Abu-Jarad, Yusof & Nikbin, 2010). With the current high business volatility, MNEs do face multiple challenges and crises to sustain their performance. With the commitment towards society and the environment, MNEs have to overcome the crises and challenges to support poverty alleviation by having required measures to mitigate the risk. In order for the firm to continue to perform and defeat the challenges faced, it requires a knowledge based work force as well as a skill based work force. A well-established organizational learning structure in the organization for the employees to create, disseminate, share and develop the knowledge in the respective organization is important. Only then the firm would have the ability to sustain its performance (Akhavan & Jafari, 2008).

With ever changing market priority and needs, firms need to continually exercise and improve the internal and external response to rapid changes to ensure that the growth and revenue is sustained. This ensures continuous learning drives the organizational learning to greater heights at all times. Thus, it becomes essential for an organization to store, acquire and disseminate knowledge in an adequate manner so that the performance of the firm is ever sustained (Akhavan & Jafari, 2008). Chang & Lee (2007), quoted by having the right organizational learning, it creates the ability to lead, along with the acquisition, dissemination and exploitation of knowledge. By having it so, it would enable the firm to maintain its performance and ensure it is sustained during the economic crisis mode. With the right capability, motivated and experienced human capital organizational learning in the firm is able to be created and sustained. Humans are willing to learn and with the vast experiences in the field have the ability to overcome crises and rectify the situation in the shortest period of time (Wang, Su & Yang, 2011).

Retaining and producing knowledge management in industry today is one of the key successes in an organization (Seidu, 2011). Since it is created and shared among the employees; it is more of the employees' tacit and explicit knowledge that they have gained from specific operations, processes or job scope in a period of time. The continuous improvement methodology would be helpful for the organization to have repeated ignitions in order to reach a near perfect system (Coyle, 2009).

Referring to Darroch (2005), most firms practice the sustaining and fundamentals of the economy model of having cost leadership, market or product differentiation and niche orientation to attain firm performance. The above three segments are widely used in domestic environments when referring to competitive advantage being analyzed in terms of business continuity with rapid changes, development in technology and market demands and requirements. Operational cost and product cost is one of the main contributing factors in order for MNEs to remain in the industry. Despite having a huge or limited product variant, it has to ensure meeting the end user's demand. By having a huge variant of products MNEs have to ensure they meet their end user's affordability so that the products can remain in the industry. All this has to be done without lowering the quality and safety standards of the product. One of the drawing factors for MNEs to venture into external resources is due to the knowledge and skills as well as the abilities that the labour force has to acquire. Furthermore, with the establishment of the learning mechanisms or structure establishment in the organization in terms of sustainability as well as managing the crises and developing the new work force to demonstrate the firm performance (Nkundabanyanga, 2016), only an experienced work force has the ability to develop a new work force and repeat the organizational learning to ensure the self-sustainability is retained (Sampe, 2012).

With more market-orientated and ability to lead cost leadership, Small Medium Enterprises (SMEs) are able to emerge to be competitive to MNEs. Therefore, MNEs incur a high operation cost which forces them to be outsourced (Chase, 1997). According to Panayides (2007), to overcome a performance crisis, it is equally important for the firm to establish a strong cost competitive supply chain management as well as a steady exploration of new resources in overseas companies. Instead of reacting to the crisis, most of the firms change their strategies to minimize the business impact and they tend to focus on productivity gains.

Smit (2010) studies the responses of firms in global competition by examining the organizational and strategic response. Firm performance and international strategy are one of the key deliverables being measured. Firms in international strategy and performance were determined by the nature of the industry the firm is in, as well as the core competency of the firm established. The outcome of the study showed international strategy is significantly correlated to the return of sales instead of the growth of the firm. Strong manufacturing based firms on a bigger scale, coincide with earlier studies on firm performance in terms of manufacturing capability, operational standardization as well as knowledge sharing in terms of patent.

Thus, this study expects to analyze the significance of organizational learning establishment by MNEs as well as knowledge, skills and abilities developed by MNEs towards the employees. It is found that MNEs with the affordability in establishing right problem solving methodology, training development as well as standardization practices have indirectly helped long serving employees in the firm to gain such experience in order for them to increase and sustain firm performance (Chang & Lee, 2007). Malaysia has been one of the countries for MNEs to invest in heavily over the few decades. Therefore, the significance of organizational learning and collective human capital practices among MNEs in Malaysia have been studied. With this,

organizational learning and human capital abilities and skills among Malaysians have been analyzed. This, would result in Malaysians having a higher competitive advantage in the market which continues to attract MNEs allowing them to increase their performance in Malaysia. Subsequent subchapters will provide the foreign and domestic investment trends by states as well as in the manufacturing sectors in Malaysia. This is expected to highlight Malaysian manufacturing economic progress and its relevance to this study.

### **1.1.1 Malaysian Economic progress from 2014 to 2015**

It is also equally important to understand the current economic trend, particularly in foreign investment. Table 1.1 illustrates a total of seven key foreign investors in Malaysia which were approved by the Malaysian Investment Development Authority (MIDA) to invest in Malaysia from 2014 to 2015 in the manufacturing industry. The total investment brought in during 2014 was USD 7.7bil compared to USD 4.0bil in 2015 which is 48.12% lower than the previous year. Generally, all the foreign investors in manufacturing have reduced their investment in Malaysia recently apart from Hong Kong and Taiwan.



Table 1.1

*Foreign investment by country in the Malaysian manufacturing industry from 2014 and 2015 in USD*

Country	2015		2014	
	No.	Foreign Investment (USD)	No.	Foreign Investment (USD)
USA	19	967,415,374	23	385,742,193
Japan	60	934,577,332	55	3,105,691,474
Hong Kong	9	741,457,266	5	20,125,303
China	17	436,367,936	24	1,357,631,949
Singapore	87	325,119,116	121	2,234,759,646
Korea, Rep.	22	315,480,187	11	442,575,625
Taiwan	24	297,318,698	30	197,738,902

(Source: Adopted from Projects approved by MIDA (2015))

MIDA (2015) has a further breakdown of the investment analysis of key industry segments as illustrated in Table 1.2. The highest foreign investment in the manufacturing industry was in electronics and electrical products followed by basic metal products in 2014 and 2015 respectively. Nevertheless, compared to 2014 and 2015 almost all the manufacturing segments have reduced their foreign investments apart from those related to non-metallic mineral products. Only natural gas has no foreign investment it mainly due to domestic investment. Domestic investment when compared to foreign investment, showed more investments in petroleum products, transport equipment and food manufacturing. From the analysis, electronics and electrical products and basic metal product segments have less investment interest from both foreign and domestic markets.

Table 1.2:

*Domestic and Foreign investment by the manufacturing industry segment from 2014 to 2015*

Industry	2015				2014			
	No.	Domestic Investment (USD)	Foreign Investment (USD)	Total Proposed Capital Investment (USD)	No.	Domestic Investment (USD)	Foreign Investment (USD)	Total Proposed Capital Investment (USD)
Petroleum Products (Incl.Petrochemicals)	12	5,853,824,406	434,134,591	6,287,958,998	19	3,215,799,883	1,350,440,930	4,566,240,813
Natural Gas	1	2,426,722,611	0	2,426,722,611	-	-	-	-
Electronics & Electrical Products	93	168,328,442	1,912,268,386	2,080,596,828	96	207,039,516	2,977,873,247	3,184,912,763
Transport Equipment	55	1,399,133,986	118,096,517	1,517,230,504	56	1,070,802,669	533,628,731	1,604,431,400
Non-Metallic Mineral Products	25	327,584,241	536,399,741	863,983,982	30	614,108,520	371,292,323	985,400,842
Basic Metal Products	28	216,755,154	624,665,767	841,420,920	33	564,243,439	2,276,894,500	2,841,137,939
Food Manufacturing	51	479,583,678	137,639,037	617,222,715	67	371,198,163	442,264,892	813,463,055

(Source: Adopted from Projects approved by major segments in the Manufacturing industry, MIDA (2015))

Table 1.3 further segments the investment details MIDA (2015) from Malaysian states in the manufacturing industry. The investment is captured in 2013 and 2015 respectively. In 2013 Johor and Sarawak were the states which recorded the highest investment by foreign investors with approximately USD 2.4bil and USD 2.2bil respectively. They were followed by Penang and Kedah with USD 1.4bil and Pahang with USD1.2bil. Due to the geographical location Penang and Kedah as well as Johor and Pahang are neighboring states, whereas, Sarawak is not part of Peninsular Malaysia and is classified as East Malaysia. In 2015 the only state that drew the attention of foreign investors was Penang, with an approximate investment of USD 1bil, even though it was lower than 2013 which recorded USD 0.2bil.

Irrespective of foreign investment, domestic investment has been pushed hard in states like Johor, Sarawak and Malacca. The rest of the states have shown lower domestic investment together

with lower foreign investment. Overall foreign investments have been drastically reduced by 35.21%. Even though domestic investment injected was higher in 2015 compared to 2013 the total proposed capital investment was still lower for 2015 compared to that of 2013. The reduction in foreign investment in the Malaysian economy does have an economic impact on the domestic industry as part of the SMEs are fully supporting the sustainability of the MNEs. Having such a reduction on a yearly basis would slow down the development and sustainability of the SMEs as well as increasing the poverty line as explained by Seidu (2011). Foreign investments are important for the operations, organizational learning as well as skill development structure. Only a MNE is able to deliver such practices because of its proven experiences in past years of management, in terms of organizational practices which have been developed in every crisis management, as well as the employees who have gained the knowledge, skills and the abilities to manage the crisis in order to increase the firm's performance. When MNEs invest in Malaysia it is expected such practices and skilled employees would come along to train and develop their Malaysian counterparts. This would help our employees be competitive and develop the SME industry by setting the right desired challenge in order to deliver higher performance. Eventually, the MNEs would let local management manage accordingly to sustain and develop the firm's performance once the desired performance has been attained after several years of investment.

Table 1.3

*Domestic and Foreign investment by Malaysian states in the manufacturing industry in 2013 and 2015*

State	2015				2013			
	No.	Domestic Investment (USD)	Foreign Investment (USD)	Total Proposed Capital Investment (USD)	No.	Domestic Investment (USD)	Foreign Investment (USD)	Total Proposed Capital Investment (USD)
Johor D.T.	137	6,517,776,348	732,182,137	7,249,958,485	179	3,802,850,483	2,247,543,200	6,050,393,684
Sarawak	22	2,608,124,297	146,400,383	2,754,524,679	18	353,655,900	2,400,637,637	2,754,293,537
Selangor D.E.	222	974,935,939	881,427,432	1,856,363,371	229	1,096,249,082	915,825,199	2,012,074,281
Melaka	28	1,115,764,002	483,071,838	1,598,835,840	28	768,069,126	523,243,583	1,291,312,709
Pulau Pinang	107	518,790,689	1,048,656,157	1,567,446,847	169	871,079,450	1,461,026,940	2,332,106,390
Perak D.R.	32	122,953,355	783,192,979	906,146,334	26	377,303,285	110,689,042	487,992,327
Negeri Sembilan D.K.	35	125,913,256	272,555,878	398,469,135	41	281,109,922	603,149,656	884,259,578
Terengganu D.I.	11	20,326,745	306,037,296	326,364,041	13	254,908,556	193,098,693	448,007,249
Kedah D.A.	49	110,475,276	205,737,708	316,212,984	50	219,519,976	1,290,541,529	1,510,061,505
Pahang D.M.	17	77,140,345	193,553,876	270,694,220	18	80,041,748	1,405,788,754	1,485,830,502
Kelantan D.N.	6	81,240,754	1,202,797	82,443,551	7	355,078,965	0	355,078,965
Sabah	10	21,178,436	59,992,607	81,171,043	23	677,124,419	156,504,435	833,628,853
W.P. - Kuala Lumpur	2	352,278	592,134	944,411	6	9,858,218	4,154,604	14,012,822
Perlis I.K.	1	724,759	0	724,759	2	60,830,925	0	60,830,925
W.P.- Labuan	1	675,991	-	675,991	2	9,451,969	0	9,451,969
<b>TOTAL</b>	<b>680</b>	<b>12,296,372,469</b>	<b>5,114,603,221</b>	<b>17,410,975,690</b>	<b>811</b>	<b>9,217,132,024</b>	<b>11,312,203,272</b>	<b>20,529,335,296</b>

(Source: Adopted from Projects approved by Malaysian states in the Manufacturing industry, MIDA (2015)).

During the last years from 2006 to 2015 Penang's GDP has been growing. Based on Penang economic indicator (2015), Malaysia's GDP growth for the year 2015 has grown to 5.9% versus the projected figure of 5.7% in January 2015. On average Penang state's GDP was relative to Malaysian GDP growth from 2012 to 2015 respectively as illustrated in Figure 1.1 (Penang economic indicator, 2015).

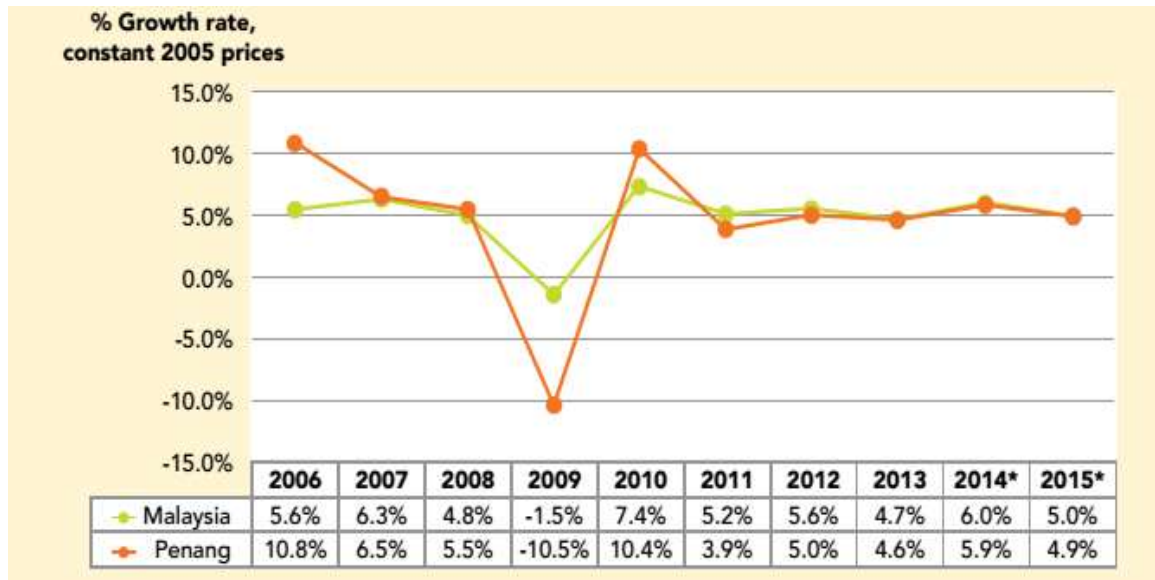


Figure 1.1: Malaysian GDP versus Penang state GDP from 2006 to 2015.

(Source: Adopted from Penang economic indicator (2015)).

Based on Table 1.4 by Penang economic indicator (2015) it can be seen that the growth rate in the manufacturing industry dropped from 6.2% in 2014 to 5.5% in 2015. As for Malaysia's GDP compared to Penang's state GDP the drop was from 4.8% in 2014 to 3.8% in 2015. Despite the drop in the GDP growth rate the manufacturing segment share in Penang is still the second highest overall in the Malaysian economic industry, which provides a very important economic foundation for Penang state. Regardless of the economic segments overall economic activity, the Malaysian GDP declined from the year 2014 to 2015, which indicates that the Malaysian GDP was decreasing due to low economic activity which correlates to Table 1.1 and Table 1.2 on the reduction of foreign investors in Malaysia.

Table 1.4

*Malaysian versus Penang state percentage of growth and share for 2014 and 2015 by economic activity*

Economic activity	Malaysia				Penang			
	% growth		% share		% growth		% share	
	2014	2015*	2014	2015*	2014*	2015*	2014*	2015*
Agriculture	2.6	3.1	7.1	6.9	4.5	3.5	1.9	1.8
Mining	3.1	2.8	7.8	7.6	14.5	13.5	0.1	0.1
Construction	11.6	10.7	4.1	4.3	0.8	-0.2	2.3	2.2
Manufacturing	6.2	5.5	25.0	25.1	4.8	3.8	47.8	47.4
Services	6.3	5.6	56.0	56.1	7.1	6.1	48.0	48.6
<b>GDP growth/share</b>	<b>6.0</b>	<b>4.5-5.5</b>	<b>100.0</b>	<b>100.0</b>	<b>5.9</b>	<b>4.9</b>	<b>7.0</b>	<b>7.0</b>

(Source: Adopted from Penang economic indicator (2015)).

Referring to the capital investment ratio in Penang state from 2009 to 2014, it indicated that foreign investments were growing compared to domestic investment as illustrated in Figure 1.2. This suggested that foreign investors were still interested to invest in Malaysia or Penang state despite the economic downturn and crisis in 2009 till 2011.



*Figure 1.2: Ratio of capital investment in Penang state by Domestic and Foreign investors in RM billions from 2009 to 2014.*

*(Source: Adopted from Penang economic indicator (2015)).*

It was highly suspected due to the recent economic crisis in 2009 to 2011 that foreign investors would have reduced their investments in Malaysia. The current recovery of the economy would encourage more and more investors to develop economic activities in Malaysia despite the drop in investment in 2015 compared to 2014. Nevertheless, such reductions should not be taken lightly as they truly impact the domestic market and social-economy which depends on foreign investors' expansion and growth.

In 2012 the total labour force increased to 13.1mil people and later to 13.6mil in 2013. From 2010 to 2013 there was an incremental of 18.38%. The working population in 2013 was

recorded as 13.2mil people. There was an increase in the labour force each year as illustrated in Figure 1.3. In 2015 the total labour force was 14.5mil people and in 2016 it was 14.6mil people, which indicated that there is a year to year increase in the Malaysian labour force (Department of Statistics Malaysia, 2017).



Figure 1.3: Principal statistics of labour force, Malaysia, 2012 and 2013.

(Source: Adopted from Labour force survey, Department of Statistics of Malaysia, 2013)

Figure 1.4 further illustrates the new work force below 24 years was 16.6% in 2012 and 16.0% in 2013 respectively. In 2010 it was 16.3%, with a healthy drop in 2013. It increased over the years from 2010. Senior work forces from 55 years of age were 7.8% in 2012, 8.2% in 2013 and 7.4% in 2010. This was a healthier trend whereby, a senior and experienced work force are continuously engaged in work. There are a few possibilities for the senior employees to continue working. Firstly, employers decide to retain them due to their set of skills. Secondly, they are



attached to the employer due to the medical benefits and are unable to find a suitable job. Thirdly, they are retired and have found another suitable job according to their age, which can only be provided by foreign investors.

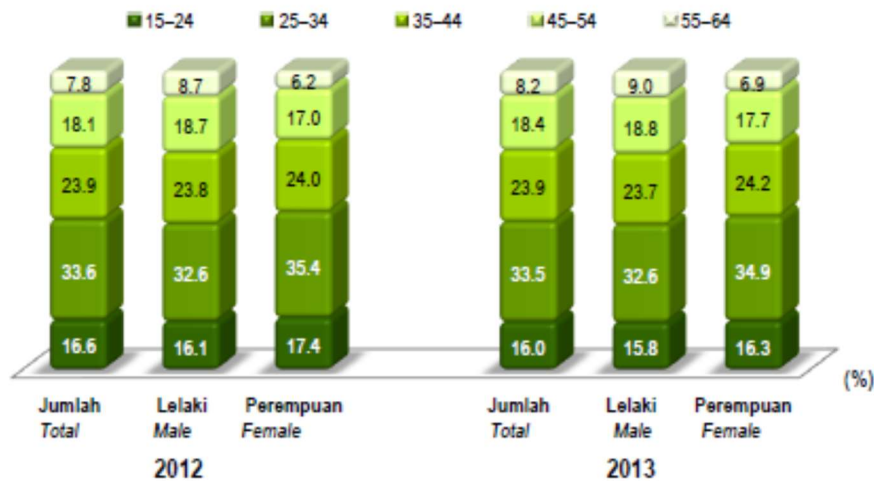


Figure 1.4: Employed persons by sex and age group, Malaysia, 2012 and 2013.

(Source: Adopted from Labour force survey, Department of Statistics of Malaysia, 2013).

According to Penang Investment (2015), in 1990s, Malaysia was seen as being attractive heavy investment by foreign MNEs especially in Penang and Kulim; where companies like Intel Technologies, Motorola, Seagate and Western Digital have invested heavily and expanded their production capabilities for higher revenue growth. Today, Intel Technologies only have two main assembly and test plants, Motorola has sold their manufacturing operations and now focuses on research and development. From a giant assembly hard disk manufacturer Seagate only sustains a small assembly plant in Penang. This is similar to Western Digital, who has stopped their expansion in Penang and heavily expanded in Kelana Jaya and bought up the Panasonic plant and renovated it for assembly and test operations. Fairchild has sold their assembly and test factory (Penang investment, 2015). In July, 2016 Western Digital Malaysia Sdn. Bhd. and Seagate

Malaysia Sdn. Bhd. announced that they had decided to close down their operations in Penang and to move to Thailand by 2017 in phases (Penang investment, 2016). All these actions have eventually had an impact in terms of organizational learning in MNEs as well as human skills development which are strongly focused on by MNEs. The question has arisen as how to retain MNEs in Malaysia so as to continue to maintain their performance in order to sustain and be a high productive nation.

In the last two years, Abbott Laboratories, Hewlett Packard, Sandisk, St. Jude, National Instruments and Honeywell have heavily invested and started their operations in Malaysia. Also, companies like B Braun, Osram and First Solar have heavily expanded in Malaysia as well. On top of that, international mergers and acquisition have also significantly impacted Malaysia. The main merger and acquisitions have been Alterra which was bought over by Intel Technologies, St. Jude bought over by Abbott Laboratories and Sandisk bought over by Western Digital in recent years. In spite of these changes, Agilent technologies went over to Keysight Technologies and Avago Technologies. Such expansion and acquisition have been made with a huge investment to retain their performance as well as to enhance, develop and to retain their human capital (Penang investment, 2015), which eventually would develop overall productivity of the nation (Seidu, 2011).

The reviews were done to understand the expansion and sustainability as well as how to overcome the barriers of MNEs. Only a few studies have been done on how these variables contribute to the significance of the MNEs in order to retain the firm performance in overseas which leads to the problem statement of this research.

## **1.2 Problem Statement**

They are MNEs investing as well as expanding in Malaysia as explained in the figures above. This drastic decision made by MNEs indirectly leads to employee movement impacting organizational learning and skill enhancement in Malaysia (Coyle, 1997). By understanding the current organizational practices towards organizational learning and collective human capital deliverables respectively, the study measures the sustaining MNEs competitive advantage capabilities and their performance in Malaysia.

One of the key observations acknowledged when MNEs leave, expand or invest is the employee movement within MNEs. It is very common for employees to job hop in such an environment to protect their income or seek better opportunities. In such an environment it creates a knowledge halt or vacuum in the organizational learning process in existing organizations or firms (Coyle, 1997), which increases the chances of existing MNEs losing their competitive advantage as well as performance in Malaysia. The more such situation are faced by sustaining MNEs in Malaysia, the chances of them losing their competitiveness is higher which will reduce the manufacturing growth in the Malaysian economy in the coming years.

Despite having multiple organizational learning applications, it is found the key principles which coincide with assimilation theory are acquiring, disseminating and sharing. For MNEs, this has been well established and requires self-sustaining and repeatability and reproducibility in the international arena. It is expected that MNEs have established the adequate organizational learning structures and systems for the organizations and employees to self-sustain. Thus, this study addresses the relationship among organizational learning, competitive advantage as well as firm performance in Malaysia with competitive advantage as a mediator. Wang, Su & Yang (2011)

explained that the right strategic planning in organizational learning would result towards successful firm performance.

Similarly, for collective human capital, when the employees have gained the required knowledge, skills and abilities throughout their employability in MNEs it would directly relate to firm performance and the contribution towards the success and sustaining of the organization. Human capital was found to be an intangible asset in the organization and considered as one of the inimitable assets. Nevertheless, when employees decide to move around to another organization or firm, the organization or firm has to ensure the continuity of the knowledge, skills as well as abilities are retained within the organization (Sirmon, Michael, Ireland & Gilbert, 2012). The revolution of collective human capital should have developed and be enhanced as well as well-crafted in organizational practices. Thus, this study relates the significance of collective human capital knowledge, skills as well as the ability in the organization.

Growing the organization and delivering the organizational goals and indicators, is a combined effort of all the employees in the organization. Thus, it becomes critical to improve the efficiency and performance of MNEs. Most of the dynamic capability approaches were being classified as conceptual (Davenport & Prusak, 1998). It also found the previous literatures were to understand the implications of cost leadership, product differentiation and a niche market towards a firm performance (Clarke & Whiting, 2011). Similarly, current research focused on the growth of the firms by having a core competency (Seidu, 2011) which drives SME growth instead of MNEs. As SMEs were highly focused on by local government and industries, firm performance research was mainly done on them and minimal research was carried out on MNEs and their performance in overseas sustaining. Thus, this piece of research addresses MNEs sustainability in Malaysia to increase the growth of the Malaysian economy.

The performance of MNEs in overseas such as in Malaysia is a big challenge faced by them currently. MNEs that attain sustainable performance have the ability to survive for a long time in one specific region or location (Seidu, 2011). For example, Intel Technologies Malaysia Sdn. Bhd. is one of the MNEs which started its first operation plant 45 years ago in Malaysia (Penang investment, 2015) and still has the ability to sustain itself and overcome economic challenges. Since MNEs in Bayan Lepas were established in 1970s, they should have attained the niche performance in Malaysia by now. The skills of the employees are unique and have been developed over these years within the MNE and have contributed to counter the challenges faced during the past years, enabling the MNEs to remain in Malaysia. Such skills are classified and could not be developed and created elsewhere. They are the key elements in this research to help understand the sustainability of such MNEs in Malaysia over a period of time.

In summary, this research addresses the current sustaining challenges of MNEs in practicing organizational learning as well as the importance of collective human capital in MNEs in Malaysia, which answers the implications towards competitive advantage and MNE performance respectively.

### **1.3 Research Questions**

From the research background and problem statement, the present study has four research questions, which were:

- 1) Does organizational learning build competitive advantage among MNEs in Malaysia?
- 2) Does collective human capital build competitive advantage among MNEs in Malaysia?

- 3) Can competitive advantage mediate significantly between organizational learning and firm performance among MNEs in Malaysia?
- 4) Can competitive advantage mediate significantly between collective human capital and firm performance among MNEs in Malaysia?
- 5) Does competitive advantage contribute towards firm performance among MNEs in Malaysia?

#### **1.4 Research Objectives**

Based on the research background and the problem statement explained earlier, the present study has four objectives, which were:

1. To assess the significance of the relationship between organizational learning and competitive advantage among MNEs in Malaysia.
2. To examine the significance of the relationship between collective human capital and competitive advantage among MNEs in Malaysia.
3. To evaluate competitive advantage and the way it mediates significantly between organizational learning and firm performance among MNEs in Malaysia.
4. To determine competitive advantage and the way it mediates significantly between collective human capital and firm performance among MNEs in Malaysia.
5. To measure the significance of the relationship between competitive advantage and firm performance among MNEs in Malaysia.

## **1.5 The scope of the Present Study**

The study sets out to analyze the significance of the organizational learning, collective human capital and competitive advantage with relevance to firm performance. The study further expands by measuring the significance of competitive advantage as a mediator towards organizational learning and collective human capital as well. It has been important for this study to focus on competitive advantage in order to retain the business for development in the domestic market.

Manufacturing is one of the most ventured into industries and one of the most important sectors in industry, which brings foreign investors to Malaysia. It is also known that these MNEs are concentrated in only a few states in Malaysia. It may be due to the infrastructure and transportation and also the state government incentives. Currently MNEs are heavily concentrated in the states of Selangor, Penang, Kedah, Perak; Johor and Malacca because of population involvement in the segment which is rather high compared to sales and service which is scattered across Malaysia.

The cross-sectional approach is expected to understand the variables (organizational learning, collective human capital, competitive advantage and firm performance) for a period of time specifically in Malaysia. The data obtained from this research is restricted in examining the significance of the variables organizational learning, collective human capital, competitive advantage and firm performance in MNEs. Even though the individual variables have been studied separately by previous researchers, the combination of these variables in this study are intended to be analyzed in Malaysia.

## **1.6 The Significance of the Present Study**

The present study is expected to make a significant contribution towards burgeoning the literature on MNEs in organizational learning, collective human capital, competitive advantage and firm performance. Together with these factors it will add mediating significance towards competitive advantage.

### **1.6.1 Theoretical significance**

The objective of this research was to find the correlation between organizational learning and firm performance as well as collective human capital and firm performance under the mediating effect of competitive advantage. Besides adding to the existing literature the evidence from this research is expected to share the best approach to advance MNEs for the Malaysian economy. The development framework, has given an idea for business development for the antecedents and consequences of the three constructs. By having these constructs, the roles of organizational learning, collective human capital, and competitive advantage can be seen on MNE performance, whereby, MNEs are the prime contributor to Malaysian economy. By studying this framework it will add value and enhance the literature about the relationship of organizational learning and collective human capital towards firm performance respectively with competitive advantage as a mediating effect between organizational learning and collective human capital.

With this, the current research is expected to contribute towards the theoretical development of the resource-based view (Barney, 1991) which simulates organizations to enhance competitive advantage only when there is adequate organizational learning and heterogeneous skilled resources in the organization. Besides the resource-based view theory, the research also explores the assimilation theory which coincides with organizational learning practices in the



organization. From the theoretical perspective, human capital and organizational learning are grounded in the resourced- based view, the assimilation as well as the adaptive and generative learning theory respectively. These theories are confined and are interrelated to competitive advantage which makes the research to have a strong significant bearing to both theories by determining competitive advantage as a mediator (Leavitt, 2011). The outcomes from this research are expected to highlight the significance of the relationship towards organizational learning, collective human capital and competitive advantage with regards firm performance. As Seidu (2011) and Sampe (2012) have strongly cited the above variables are related to firm performance. The results from this research can support and enhance as well as act as a basis for future empirically-based research in the context of MNE performance and the Malaysian economy.

### **1.6.2 Practical significance**

The empirical findings will help MNEs in gaining an in-depth understanding of the relationship as well as the significance of organizational learning, collective human capital, and competitive advantage with firm performance. Nevertheless, it will also benefit MNEs as to how to perceive competitive advantage as a mediating factor in the business model respectively. There are three main practical contributions that have emerged from this research. Firstly, the attempt to investigate the effects of organizational learning and collective human capital in MNEs will eventually provide insights and perspectives into the Malaysian economy as well as the sustainability of the MNEs.

Secondly, MNEs develop the economy by demonstrating a secure supply chain domestically as well as improving their cost and product quality measures with healthy productivity improvement, which generates and stimulates innovations and promotes the healthy

social - economy within domestic suppliers and provides huge job employability (Smit, 2010). It was expected that with a long established experience an organization would have developed with strong organizational learning and would be self-sustaining. Over the years, SMEs have developed themselves to compete with the operation costs of MNEs and they are willing to take the lead in terms of cost leadership in manufacturing leadership (García-Morales, Matias-Reche & Verdú Jover, 2011).

Thirdly, as with any MNE investment it is expected to position itself for a decade or longer to be operating in the country. With vast operation and development experiences MNEs have the tendency to develop and enhance employee knowledge, skills and abilities as well as organizational learning structures in Malaysia. For this research, managers as well as supervisors from any organization in the firm with experience were identified to respond. As these managers and supervisors are presumed to have earned and gained vast experience in strategies as well as crisis management decision making. Along the way in their career, they might have learned from their leaders techniques on crisis management which can be adapted to the current environment. It was expected that they will have the ability to define the goal, vision and business strategies of the MNEs towards their organization in order to grow their respective organization or employees so as to deliver the results towards firm performance.

Past researchers have developed and focused on competitive advantage towards the growth of SMEs. As the local government has initiated funds to support the local economy, SMEs have tended to take advantage of this with the support from MNEs. Successful SMEs tend to outperform and are able to acquire the business sustainability with multiple MNEs. This has resulted in expansion and growth in the SME industry. However, by acting in this way, MNEs have tended to slim down their cost and have lost the lead on cost leadership. With this, SMEs in the long run

have created the capability to equalize MNE operation capability which eventually becomes a threat to MNEs. This has resulted in MNEs outsourcing their operational capability for a lower price. The local economy requires MNEs to sustain themselves to bring in new technology and the latest products which would develop and enhance the capabilities of local industries (Ismail, 2005).

Most of the pieces of the past research was developed and based on USA (Hsu, 2006; Zheng, Baiyin & McLean, 2010), Australia (Migdadi, 2005), Canada (Manovas, 2004), Taiwan (Chuang, 2004), Hong Kong (Khalifa & Liu, 2003), Korea (Lee & Choi, 2003), Indonesia (Sampe, 2012) and Vietnam (Nguyen, 2010). Thus the models developed by previous researchers were confined to the growth of the nation when it was evaluated and studied in a specific country. With the framework established for this research it was evaluated based on the Malaysian response towards the model.

The outcome from this enquiry will act as a guidance for MNEs in Malaysia to be pursued and to retain their operation through expending and acquisition while retaining the performance. It is also anticipated that the outcome from this research would enable the owners of MNEs and local senior level management to improve the organizational learning mechanisms to benefit the employees and organization overall. This research will also add value to the Malaysian government by encouraging MNEs to retain their operations as it will improve the domestic economy as well as SMEs. Finally, this piece of research expects to lead future research in organizational learning and collective human capital in Malaysian MNEs and their retention in Malaysia.