

# The Role of Managerial Constructs In Enhancing Financial Performance: The Case of Malaysian Multinational Companies

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**Abstract.** In the global competitive marketplace all multinational corporations require an effective guideline to run and manage their companies if they want to have profit. The research uses McKinsey 7-S, and five-star models to figures out the interrelationship of the key managerial constructs and develops an integrative framework which enhances market and financial performance of the multinational companies. Through the use of cross-sectional survey for top level managers in Malaysian multinational companies, the finding indicates that while leadership impacts on culture, process, structure and strategy it is strategy that has a direct bearing on market and financial performance of a MNC and the other constructs influence the performance indirectly and primarily by shaping and facilitating the implementation of the strategy of a MNC.

**Keywords:** multinational companies, leadership, structure, strategy, process, culture, performance.

## 1. Introduction

Nowadays, businesses expand speedily into the international ground. Therefore, undeniable advantages of being multinational in the globalized market increase the necessity of having an effective guideline to run and manage a multinational company [1],[2],[3],[4]. To be successful in global marketplace there is surely no unique solution that can guarantee the enhancement of market and financial performance of the companies. Some researchers have focused on the organizational structure [5], or industry context [1] while others have emphasized the firm's strategy and processes [6],[7].

By considering that international and global concepts are phenomena which have been more studied in developed countries, the lack of an integrative framework to capture the managerial functions and activities of a corporation in developing countries cause a problematic situation for corporations in developing countries to have a unique framework to achieve their vision in global marketplace.

Therefore this study aims to understand the operations of MNCs of developing countries, specifically, and MNCs generally and identify a managerial framework for them. It investigates whether the relationships among leadership, structure, strategy, culture and process of Malaysian MNCs and their impact on market and financial performance differ from that which prevails in a MNC of a developed country.

## 2. Literature Review, Theoretical Framework, and Hypotheses

Based on the theoretical literature that has been reviewed, the theoretical framework in this study follows the McKinsey 7-S and five-star models to find and examine the interrelationship between the various constructs that increase the performance of multinational organizations.

The McKinsey 7-S Framework as one of the management models considers key elements include strategy, systems, structure, skills, style, staff, and shared values. To have a high performance organization, the seven elements of McKinsey should be associated and reinforced simultaneously [8].

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There is also a management model which is called five-star model used for organizational management in the following sequence: strategy, structure, key processes, key people, roles and responsibilities, information systems, performance measures and rewards, training and development, and career paths [9].

Based on the review of these models the focus of this study is on the set of strategy, structure, leadership, culture and processes constructs that have been strongly linked to the performance of the multinational companies.

### **2.1. Relationship between Leadership and Structure, Strategy, Processes and Culture**

Leadership characteristics such as multinational orientation and strong managerial commitment to the company have deep impact on the international strategies of a business [10]. The strategic choice paradigm suggests that managers of the organization have an active and participatory role in developing the strategy of the company. While leaders design the structure, that structure later constrains the strategies in especially large and complex firms [11]. A MNC that has disparate operations and business processes requires a strong structure that acts as a coordinating mechanism to facilitated the flow of information and resources [12]. Hypotheses 1 and 2 propose this view.

Hypothesis 1: There is a relationship between leadership and structure in a MNC.

Hypothesis 2: There is a positive relationship between leadership and strategy in a MNC.

Leadership drives business processes, including customer relationship management and knowledge management. High-performance practices instituted by leaders require performance management systems, knowledge management and people processes [13],[14]. Leaders of a multinational organization should also install a multinational culture within different levels and parts of their organizations as one of their important roles [15]. They should have the ability to spread their visions and goals across the different layers of the organization in a way that lead to develop a well-suited organizational culture [16]. Accordingly, we hypothesise the following:

Hypothesis 3: There is a positive relationship between leadership and process in a MNC.

Hypothesis 4: There is a positive relationship between leadership and culture in a MNC.

### **2.2. Relationship between Strategy and Structure, Culture, and Processes**

Organizational structures are related to the environmental and strategic influences based on contingency theories [4],[17]. On the other hand, the strategy that a multinational corporation implements, is restricted by the structural configuration of that corporation [18],[19].

Culture also has a long-term impact on strategy development and implementation and, consequently, organisational performance [15]. Corporate culture can enhance organisational commitment and, thereby, ensure organisational success [20],[21]. Given the above arguments we hypothesise the following:

Hypothesis 5: There is a positive relationship between strategy and structure in a MNC.

Hypothesis 6: There is a positive relationship between strategy and culture in a MNC.

To develop and implement strategies, managerial processes are required. [22],[23]. A MNC requires a centralised strategy to set up cross-country coordination processes, such as multinational teams, to improve knowledge management and the flow of information across the organisation for increased performance [24].

Hypothesis 7: There is a positive relationship between strategy and processes in a MNC.

### **2.3. Relationship between Culture and Structure, and Processes**

Having a multinational orientation is necessary before a qualified integration of structure could take place within a MNC [25]. To have the appropriate flow of knowledge, resources, and skills and accurate control methods to establish a centralized organizational structure a multinational organizational culture is required that leads to go beyond the national characteristics [21].

On the other hand, Erez and Drori [26] offer evidence that establishes a relationship between culture and business processes. Culture can be modified towards a process orientation through the implementation of process measurements, such as service productivity, and an IT system to support that measurement [27]. Hypotheses 8 and 9 propose these relationships.

Hypothesis 8: There is a positive relationship between structure and culture in a MNC.

Hypothesis 9: There is a positive relationship between culture and process in a MNC.

## 2.4. Relationship between Performance and Strategy

The factor of performance in a company has two main dimensions, financial performance and operational performance [28],[29]. Operational performance can be measured based on non-financial and market-based measures [30],[31].

From the literature reviewed, it can be gathered that all the constructs - leadership, culture, structure, strategy and processes – have a role in the performance of an organisation. However, most of the influence upon performance is channelled through strategy [13]. Chimhanzi and Morgan [32] found that strategy enhanced market competitiveness, and, accordingly, financial performance. There are other researches that show strategy in an organization is the key construct between the performance of the organizations and the other managerial constructs of the company [33],[34]. Accordingly, we hypothesise the following:

Hypothesis 10: There is a positive relationship between strategy and the market performance of a MNC.

Hypothesis 11: There is a positive relationship between market performance and financial performance of a MNC.

Figure 1 is the theoretical framework for this research.

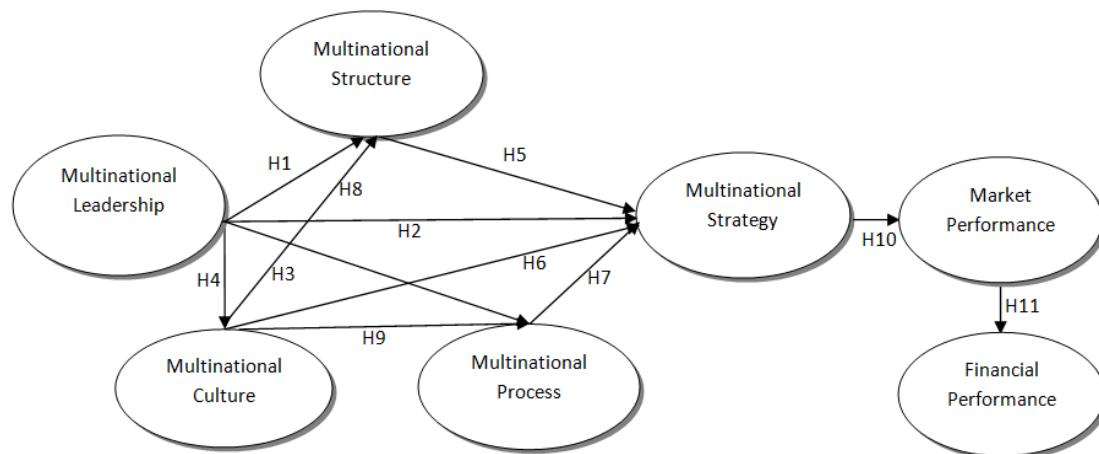


Fig. 1: Theoretical framework.

## 3. Methodology

The information regarding the managerial constructs of multinational companies is gathered through a self-administered survey. Sampling frame included multitude of Malaysian multinational companies from different industries to increase the overall generalizability of the study.

To develop the questionnaire for the survey, previously tested and validated scales were borrowed and adopted [34],[35]. The questionnaire of this study included 7 sections and seven-point-Likert type scales were used to measure all the items. The scope of the survey questions was designed for top business, financial or marketing managers of multinational corporations. Each questionnaire related to one company. For data collection the key informant approach was used to identify respondents from the MNCs.

A list of 145 companies and their information were found through databases available from website of Bursa Malaysia and FMM (Federation of Malaysian Manufacturer) Directory of Malaysian Industries 2011.

60 out of 145 MNCs accepted to participate in data collection. Totally, 43 completed responses remained to be used for the analysis of the study giving a response rate of almost 71%.

## 4. Data Analysis

The skewness and kurtosis values for all the responses were below the threshold levels less than 1 and less than 4 respectively. Explanatory factor analysis was applied, in which principle axis factoring was

carried out, followed by varimax rotation with Kaiser normalization. All the items in all the constructs in the questionnaire were found valid as all the factor loadings were about 0.7 to 0.9. Reliability of the constructs was confirmed by Cronbach alphas which were almost 0.80 and above.

#### 4.1. Correlation Analysis

To determine the significance, nature, and direction of the bivariate relationship of the key constructs, Pearson correlation analysis can be useful (table 1). Based on the result of the analysis, strategy is the only construct that has a significant correlation with market and financial performance. Except for structure and process, the other variables are significantly and positively related.

Table 1: Pearson Correlation between key managerial constructs in multinational companies

Variables	1	2	3	4	5	6
1. Strategy	-					
2. Structure	.395**	-				
3. Leadership	.536**	.404**	-			
4. Culture	.319*	.324*	.351*	-		
5. Process	.511**	.131	.557**	.402**	-	
6. Market Performance	.306*	-.096	.036	-.036	.092	-
7. Financial Performance	.427**	.145	.081	-.011	.049	.796**

Notes: \*\*  $p < 0.01$ ; \*  $p < 0.05$ , (2-tailed);  $n=43$ .

#### 4.2. Hypothesis Testing

To find the association between the variables, different regression analyses were run to determine which hypotheses can be accepted. Table 2 gives the regression results.

Table 2: Regression Results of hypotheses testing

N0.	Hypothesis	Beta	t	p	Adjusted $R^2$
H1	leadership and structure	.404	2.828	.007	0.163
H2	leadership and strategy	.536	4.064	.000	0.287
H3	leadership and process	.557	4.289	.000	.293
H4	leadership and culture	.351	2.401	.021	0.123
H5	Strategy and structure	.395	2.754	.009	0.156
H6	Strategy and culture	.319	2.158	.037	.102
H7	strategy and process	.511	3.806	.000	0.261
H8	culture and structure	.324	2.194	.034	0.105
H9	culture and processes	.402	2.811	.008	0.162
H10	strategy and market performance	.306	2.060	.046	0.094
H11	market performance and financial performance	.796	8.423	.000	0.634

Based on the regression analysis all the hypotheses of this research are supported. The results suggest that in a Malaysian MNC, leadership does influence the culture and plays a role in developing the structure, strategy, and process in a MNC which are considered in H1 to H4. The key determinant of strategy in a MNC is leadership (H2). Of all the variables, leadership has the strongest relationship to strategy (explaining close to 30% of the variations). Regression results also supported H5, H6, and H7 which shows that structure, culture, and processes influence the strategy formulation and implementation. There are also two positive relationships between culture and structure and culture and processes of a MNC that support the H8 and H9 of the research. H10 shows that only strategy directly impacts upon market performance of a MNC and Based on H11 which is supported by the regression results, there is a positive relationship between

market performance and financial performance. This means that market performance invariably will translate into financial performance.

## **5. Discussion of the Findings, Implications And Further Research**

This study developed an integrative managerial framework which enhances market and financial performance of the multinational companies and replied to this question that how the five key constructs (strategy, structure, leadership, corporate culture, and management processes) have impact on the performance of the Malaysian-based multinational organizations.

Consistent with the literature reviewed, a wise leadership who is aware of all the threats and opportunities of the global market has an influence on the development of culture, strategy, structure and process [11]. Similarly, culture has an influence on structure, strategy and process. This represents an area for future research for those who are interested in finding the interrelationship between these constructs.

However, in Malaysian-based MNCs using a specific and integrated multinational structure with its multinational processes is not that common while process has an influence on strategy [13],[32]. Analyzing the relationship between the process and structure in Malaysian multinational organizations and the type of those organizations that is structured-based or process-based can also be the idea for new researches.

However, the finding of a positive relationship between structure and strategy in our study lends credence to the alternative view in management literature that in a big and complex organisation such as a MNC, structures do constrain the choice of strategies [11],[18]. While our finding goes against the traditional Chandler strategy-structure fit, a logical explanation can be advanced. We should consider that this research is based on the cross-sectional data, and therefore does not incorporate the causality of the relationship between these two constructs. Hence, the directions specified in the final model do not represent the causal structure. The nature of this relationship can be another research opportunities to design longitudinal studies which can be used to test the direction of causality in Malaysian companies.

The study also confirms the McKinsey 7-S and Galbraith's five-star models that espouse the alignment of all these constructs in advancing an organisation's performance [8],[9].

The direct and significant relationship between strategy, and market and financial performance has important implications for organisational management. Leadership should ensure appropriate strategies that enhance sales growth, market share and product innovation. Such market-performance enhancing strategies will contribute to financial success. While there is no direct relationship, the influence of leadership, culture, process and structure on the market and financial performance of a MNC is indirect through strategy [35]. This is so given the positive relationship between leadership and strategy, culture and strategy, structure and strategy and process and strategy.

Finally, while Habib and Victor [38] found that the strategy-structure fit had, at best, a limited impact on financial performance, our finding on 'structure constraining strategy' fit suggests a positive relationship to market and financial performance.

The results of the study are expected to have important implications for managers and researches of multinational corporations especially in Malaysia and more similar developing countries like ASEAN countries. It can be a roadmap for managers in assessing their organizations' progress towards internationalization and enhancement of their market and financial performances in developing countries.

## **6. Limitations, Conclusions:**

This research has offered a better understanding of the relationships among leadership, culture, structure, process and process and their impact on the profitability of a MNC of a developing country. It has established that while leadership impacts on structure, culture, process and strategy it is strategy that has a direct bearing on market and financial performance.

In ensuring profitability, leaders of a MNC, particularly in a developing country, should consider structure, culture and process in devising strategies for the marketplace. There must be alignment among these factors to ensure a MNC's performance.

Difficult access to a complete list of the multinational corporations in Malaysia, the broad geographic range of the sample objectives, and the low participation of MCs in this study because of the risk of leakage of confidential company information and very hard access to top level managers because of their time pressures were the critical limitations in this study that reduced the number of respondents.

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