Moderating Effect of Liquidity Risk on the Organisational Culture, Working Capital Management and Innovation towards Firm Performance

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ABSTRACT

This study aims to investigate the impact of organisational culture, working capital management, innovation performance with the moderating effect of liquidity risk towards SME firm performance. In order to test the relationship between variables, 311 questionnaires were distributed and collected with self-report and with google forms. This study also used Statistical Packages for the Social Science (SPSS) to test the hypothesis of this study. A total of six hypotheses were distributed in this study and as a result, this study found that there was a significant negative relationship between organisational culture and firm performance. and it supported the mixed findings of the previous study, but there was a significant positive relationship between working capital management and firm performance and innovation with firm performance. Similarly, this study also found that liquidity risk which is the moderating role of this study strengthens the degree of the relationship between organisational culture and firm performance, However, liquidity risk does not moderate the relationship between working capital management and firm performance, as well as between innovation and firm performance. At the end, out of six hypotheses in this study, three hypotheses have the significant positive effect which has been accepted, and three significant negative effects of hypothesis which have been rejected.

Keywords: Firm Performance, Innovation, Liquidity Risk, Organisational Culture, Working Capital Management

1. INTRODUCTION

The small-medium enterprises (SMEs) business remains the most dynamic force and agent of economic growth and development of a nation. SMEs are the backbone of the Malaysian economy, accounting for 98.5% percent of all the business establishments in Malaysia Figure 1 shows the SMEs establishment in Malaysia (SME Corp Malaysia, 2016). In today`s business world, it is not only the large companies and organisations which are powering the developing countries but also the small and medium enterprises (SMEs) (Ibrahim & Murtala, 2015). During the entire period, SMEs have gained as well as increasing attention from all over the world. Small firms play a significant positive role in any country's economy (Zieba, 2014). The growth of the SMEs sector has received the attention of policymakers in various countries, this helps boost their confidence and encourage as well as brings attention to SMEs development. above mention economic look to the SMEs sector to increase employment provides more jobs as well as innovation and economic development (Ogunyomi, 2016).

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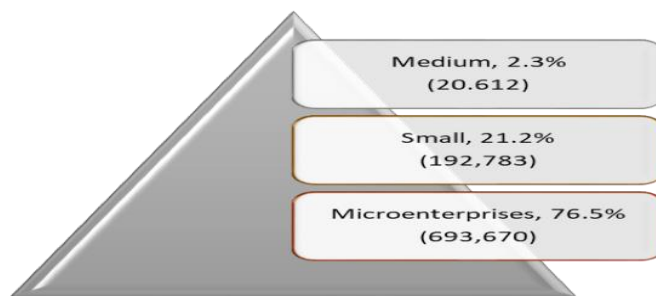[1]Corresponding Author: *gulkiz1102@gmail.com*

Figure 1. SMEs Establishment in Malaysia

The previous study shows that SME's performance in developed countries has a higher standard than developing countries (Hashim, 2015). The average benefaction of SMEs to Growth Domestic Product (GDP) based on the categories of the countries divided into three incomes levels which stated in the graph below shown with the low-income countries 16 percent, middle-income countries 39 percent and high-income countries 51 percent. According to Agwu and Emeti (2014) the global standpoint of Small and Medium enterprises (SMEs) as critical of economic growth and development remains refusal to developing and as well the development countries. SMEs play a significant role in Malaysia's economic development (SMEs Corp Malaysia, 2016). It is simplified into two categories which are manufacturing sector as well as service and another sector in general.

Table 1 Small Medium Enterprises (SMEs) in Malaysia

Size	Manufacturing	Services and other sectors
Medium	Sales turnover between RM15 mil and RM50 mil OR Between 75 and 200 employees	Sales turnover between RM3 mil and RM20 mil OR Between 30 and 75 employees
Small	Sales turnover between RM300,000 and RM15 mil OR Between 5 and 75 employees	Sales turnover between RM300,000 and RM3 mil OR Between 5 and 30 employees
Micro	Sales turnover below RM300,00 OR Less than 5 employees	Sales turnover below RM300,00 OR Less than 5 employees

However, according to Andries and Feams (2013), innovations can play a significant and important role in determining growth, competitiveness and enable to make an opportunity in every employment. A welcoming environment in terms of information, as well as sources in the industry, gives an opportunity for both large and small enterprises. along with this line, it has turned into pre-essential and linked to an organisation's growth, competitiveness, and performance as well as increases in earnings and long-term survival (Pletcher & Mann, 2013). Continuously, organisational culture is one of the important rules for having a successful firm. A well-segmented culture can have a long-term impact on an organisations capacity to improve its performance (Prajogo & McDermott, 2011). Organisational culture has been held up as a key determinant of business success (Jogaratanam, 2017). In another study, working capital management has become more important in 21st century business as a result of global economic issues that put a strain on firms' liquidity and profitability. As a result, working capital management may improve the company's financial performance (Afrifa & Padachi, 2016).

One of the current issues faced by SMEs in Malaysia is the difficulty of new start-up companies to get financing. This is also closely related to a lack of information which is part of the reason why

SMEs are unable to obtain financing from the financial institution. Overall, although Malaysia has achieved full employment still faces a shortage of skilled labor in the technique field (Rahman, Yaacob & Radzi, 2016). Another major issue encountered by SMEs in Malaysia is lack of understanding of marketing techniques, customer marketing, and branding which appears as the important aspects to small-medium entrepreneur to look at.

2. LITERATURE REVIEW

Organisational culture has been recognised as the normative glue that binds employees together and can have a significant positive impact on business outcomes. The importance of an organisational culture as a key strategic business driver that can improve the achievement of performance and competitive advantages in any organisational is established. The culture of an organisation has a significant impact on its numerous decision and activities. For some, culture is the glue that holds an organisation together. While for others, it's the compass that guides them down to the right road. Which is the way a company's basic ideas, values, attitude, that instinctively guide the way employee thinks and act. A firm`s business entails a sequence of activities that are carried out in an established manner, and these are the general business operations. they must adopt and follow a set of techniques and procedures to run their firm effectively and efficiently. Working capital management is one of the important items, as it's the relevance of processes in the short term. Starting with the material purchase and payments to suppliers and concluding with customer receivable recovery. Working capital management is a major policy element that affects a variety of aspects of a corporation, including profitability and liquidity. Effective working capital management is essential not only for profitability but also for the solvency of a firm (Panigrahi, 2014). Any organisations cannot deny the importance of working capital management or the policy. Research from all over the world has discussed this topic and discussed it in the detail from the perspective of multiple countries. Researchers in developing countries regard working capital management as the life blood of any organisations, which is why most of the research on this topic is carried out in developing countries. However, previous researcher such as Jimenez-Jimenaz and Sanz Valle (2011), and Keskin (2006), points to a positive empirical study between the relations of innovation and firm performance. Innovation is a complicated process including changes in productions functions and processes in which firms aim to build upon their particular technological competence, defined as a firm set of resources and how these are altered by innovation skills Therrien et al. (2011). SMEs have a significant role in the country's economy. One of the factors that can affect the operations of a firm is the lack of liquidity. This issue can lead to the failure of availing the necessary funds to carry out their day-to-day activities. The study of liquidity provides both the internal and external forecast of a firm's financial operations. It highlights the various steps that a firm has to follow to maintain its cash flow.

3. METHODS

This part will discuss the research methods that shall be engaged in this study. In Malaysia, examining SME performance is the main purpose for this study by finding the relationship between working capital management, organisational culture, the performance of SMEs, innovation, and the moderating effects of liquidity risk on the independent and dependent variables. Consequently, the framework development is based on the Resource-Based Theory. But, in line with this study literature review, one moderating and dependent variable and three independent variables are conceived the research framework to be developed. The independent variables are, organisational culture, working capital management, and innovation, while the dependent variables are SME performance. As a result of inconsistencies recorded on the relationships between these two variables from different studies, the liquidity risk moderating variable is presented to enhance the impact of the independent variables on the dependent variable. Moreover, the conceptual that occurs among all the constructs shall be depicted by the

research framework and this will serve as a foundation for hypothesis research formulation, as presented in the framework - see Figure 2.
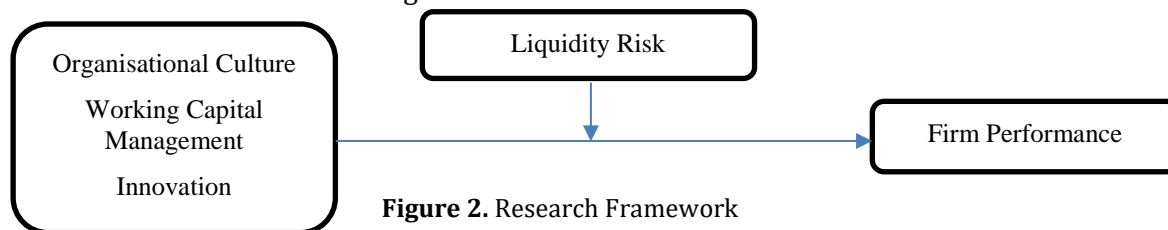

Figure 2. Research Framework

Based on the research objectives, the hypotheses are presented as below:

H_1: There is a significant positive relationship between organisational culture and firm performance.

H_2: There is a significant positive relationship between working capital management and firm performance.

H_3: There is a significant positive relationship between innovation and firm performance.

H_4: Liquidity risk moderates the relationship between organisational culture and firm performance.

H_5: Liquidity risk moderates the relationship between working capital management and firm performance.

H_6: Liquidity risk moderates the relationship between innovation and firm performance.

3.1 Data Collection and Sampling

The sample size is a sub-collection with a size that can be easily managed by the targeted population of interest to be studied. Statistically, it is related to a subset that is chosen from a population being studied. Therefore, population sampling is the means or process through which any group or individual of representative components are chosen from a given population for the primary purpose of the statistical analysis. Hair et al. (2010) suggested to prevent the difficulties of misspecification, the sample size should range from 150 to 400. As same as Kline (2005) advised to avoid inappropriate solutions or non-convergence in the confirmatory factor analysis model, the sample size should be from 100-150. However, data collecting can be done in a variety of ways. The primary data for statistical analysis will be collected from small-medium enterprises using a questionnaire survey in this study. Continuously, the researcher uses the survey approach since it enables a large amount of data to be collected promptly at a specific time with minimal responses error. It also uses quantitative measurement to confirm the study findings and aids in the interpretation of findings. In this study, the researchers adopted a hand-delivery, google form, and collection strategy for the survey questionnaire to get a high respondent rate within the shortest time possible. This study is also a cross-sectional data collection which defines as data collected at the same time from a different individual or the firm (Gray et al., 2007) – see Table 2.

Table 2 Population and Sample Size of SMEs in Malaysia

No.	State	No. SMEs	Sample Size
1	Kuala Lumpur	84,261	383
2	Johor	68,874	382
3	Perak	60,028	381
4	Pinang	40,824	380
5	Kedah	37,092	379

No.	State	No. SMEs	Sample Size
6	Melaka	21,675	377
7	Perlis	5,053	357

3.2 Questionnaire Development and Data Analysis Techniques

The structured questionnaire used in previous studies consists of a closed multiple-choice questionnaire to be employed to collect relevant information from the responders. The item was rated from the 5-point Likert scales as follows: 1=strongly disagree, 2=disagree, 3=neutral, 4= agree, and 5=Strongly agree. Firm performance items are adapted from Kamyaabi and Devi (2012); organisational culture items are adapted from Shehu and Mahmood (2014), Al-Swidi (2012), and Tseng (2010); working capital management items are adapted from Risal (2017); innovation items are adapted from Lai et al. (2014); and liquidity risk items are adapted from Ogol (2011) and Ismal (2010). In general, the researcher who conducts quantitative research uses the survey method because it is regarded as the most appropriate for gathering data on the specified instrument that produced statistical data on a large sample for the goal of findings result to a given population (Creswell, 2007). Moreover, data has been collected by the researcher through a questionnaire survey for this study. Obtaining the perception of the responses about the issues under consideration is the technique that has been used. In this study, the researcher adopted a hand-delivery, google form, and collection strategy for the survey questionnaire to get a high respondent's rate within the shortest time possible. this study is also a cross-sectional data collection which defines as data collected at the same time from a different individual or the firm. For the data coding and other preliminary analysis, this research is going to use SPSS, which is SPSS version 27 has used. this study researcher used a reliability test to ensure, whether the result was acceptable. ANOVA test was also proposed for this study.

4. RESULTS AND DISCUSSIONS

4.1 Demographic Data Analysis

The demographic profile of the distributed questionnaire contains to assemble data with references to age, gender, nationality, qualification, position, and employee. In turn, Table 3 shows the data of respondents with elaborating age, gender, nationality, qualification, position, and employees.

Table 3 Demographic Profile of Respondents

Demographic	Categories	Frequency	Percentage
Age	Below 30	79	25.7%
	30-40	100	32.6%
	41-50	94	30.6%
	Above 50	34	11.1%
Gender	Male	174	56.7%
	Female	133	43.3%
Race	Malay	141	45.9%
	Chinese	98	31.9%
	Indian	38	12.4%
	Others	30	9.8%
Qualification	Bachelor`s Degree	226	73.6%
	Master	37	12.1%
	Ph.D	25	8.1%
	Diploma	19	6.2%
Position	Owner	76	24.8%
	Manager	144	46.9%
	Assistant Manager	65	21.2%
	Supervisor	22	7.2%

Demographic	Categories	Frequency	Percentage
Employee	10-49	136	44.3%
	50-100	113	36.8%
	101-199	58	18.9%

4.2 Discriminant Analysis

Discriminant analysis was carried out to examine the level of independent and dependent variables followed by moderating effects which are organisational culture, working capital management, innovation performance, firm performance, and liquidity risk. The mean score for all the variables is presented in Table 4.

Table 4 Discriminant Analysis of All Variables

	N	Minimum	Maximum	Mean	SD
Organisational Culture	307	3.00	5.00	4.3220	.37780
Working Capital	307	3.00	5.00	4.2329	.39093
Innovation	307	3.43	5.00	4.3118	.34914
Liquidity Risk	307	3.00	5.00	4.3409	.43842
Firm Performance	307	3.14	5.00	4.3690	.33440

4.3 Internal Consistency using Cronbach Alpha

Alpha Cronbach's values that above 0.6 are considered highly reliability and acceptable index (Pallant, 2011; Nunnaly & Bernestsin, 1994). As indicated in Table 5, all the Cronbach's Alpha results were acceptable.

Table 5 Result of Cronbach`s Alpha

Variables	No of Items	Cronbach's Alpha	Note
Organisational Culture	7	.731	Accepted
Working Capital Management	6	.662	Accepted
Innovation Performance	7	.648	Accepted
Liquidity Risk	6	.819	Accepted
Firm Performance	7	.665	Accepted

4.4 ANOVA

Table 6 Result of ANOVA

Model	Sum of Squares	Df	Mean square	F	Sig
Regression	6.5111	4	1.628	17.747	.0001
Residual	27.706	302	.092		
Total	34.217	306			

Based on the ANOVA result as presented in Table 6, the model is significant at 99% confidence level.

5. CONCLUSIONS

This study addresses a gap in the literature by providing empirical evidence on the relationship between organisational culture, working capital management, innovation performance, liquidity risk on SMEs firm performance. The main objective of this study was to examine the moderating effect role of liquidity risk on organisational culture, working capital management, innovation performance, and firm relationships in the SMEs sector context. The present study has empirically tested the relationship among organisational culture, working capital management, innovation, liquidity risk, and SMEs firm performance. According to all the six hypotheses that have been tested, out of three hypotheses were found significantly supported, while the three hypotheses were rejected. Finally, limitations and several recommendations for future studies

were highlighted in this study. The first implication of the theory is that this study has contributed Resourced-Based Theory. This study also supports how Resources-Based Theory provides a more meaningful study in the area of performance. The Resourced-Based Theory is one of the theoretical frameworks employed in this study as it has been widely used in the studies. The measurement scales of the variables in this study were adapted from the previous studies as reflected in chapter three. Therefore, replicating them in another context is obligatory to confirm their reliability and validity. Lastly, the current study establishes SME's performance-related variables as all variables were drawn from different sources thus minimising the problem of common method bias. This study used SPSS data analysis for the resulting outcome, future studies may focus on different data analyses such as PLS-SEM and more. This study used quantitative analysis; future studies may focus on using qualitative research. this study is focusing on SMEs Malaysia between the variables, the future study may focus on compressive between among the countries.

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