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Risk Management and Value Creation: Empirical Findings from Government Linked Companies in Malaysia

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Abstract

This study is an attempt to assess the status of current level of value creation among the Government Linked Companies (GLCs) in Malaysia. This study collected primary data based on a set of questionnaire survey among 134 executives and managers of GLCs in Malaysia. The data were collected based on opinions of the ten factors of value creation practices by using the five-point Likert scale. The data were analysed using descriptive statistics. Further, the reliability of the data was tested using Cronbach's alpha test, the validity of the data was tested by checking the normality test through skewness and kurtosis, and the consistency of the data was tested using factor analysis. On an average, 80.6% of the respondents agreed that they focus on these factors of value creation. Overall, the federal owned GLCs place more emphasis on certain elements of value creation than the state owned GLCs. Among the elements of value creation, the state owned GLCs emphasize the most on quality development and brand value creation, where the federal owned GLCs emphasized the most on reputation. The GLCs engaged in service sector emphasized the most on brand value and the GLCs engaged in manufacturing sector emphasized the most on customer satisfaction and quality development. This study suggest that GLCs in Malaysia improve the overall value creation by emphasizing on responsiveness, average return on investment, sales growth, profit growth and average return on sales.

Keywords: value creation, Government Linked Companies (GLC), risk, sustainable competitive advantage, Malaysia

1. Introduction

The Resource-Based View theory (RBV) focuses on transforming valuable resources of the organization to assist in achieving its goals (Barney, 1991). RBV states that organizations that are able to use or fully utilize their resources, such as raw materials, skills, etc., will have the opportunity to gain competitive advantages over their competitors (Grant, 1991), and offer sustainable competitive advantage to the organization (Macfarlane, 2014). Competitive advantage is a situation where the organization is able to create or improve its product and make it superior to the competitors' product. Sustainable competitive advantage will help the organization cope with the changes in the environment and stay successful in the future (Ketchen & Short, 2014) by achieving long-term competitive advantage which will be costly and difficult to imitate by their competitors (Papulova & Papulova, 2006).

Sustainable competitive advantage can bring many advantages, as it is a powerful source for the organization to achieve superior performance and create value for the organization (Gupta & Benson, 2011). According to Barney (1991), organizations could create competitive advantages by obtaining valuable, rare, inimitable resources and capabilities. Obtaining such resources will lead to value creation and sustainability in the organization. Kraaijenbrink and Spender (2011) also stated that without value creation, the organization would have no added value and thus, there would be no reason for the organization to exist in the market. The success of value creation usually can be differentiated by raising share prices, sales growth, reputation and profitability (Abdullah & Said, 2015b). Value creation can improve the performance of the organization by maximizing earnings per share, ensure high levels of operational effectiveness and remain competitive (Gholami, 2011). This will indirectly help the organization to implement strategies to improve its effectiveness or efficiency and eventually leads to a competitive advantage when it matches the firm's environment (Porter, 1997; Abdullah & Said, 2015c).

However, there is no guarantee that all of the resources will lead to competitive advantage or value creation. This is because, according to Kraaijenbrink and Spender (2011), people may perceive values differently. What one perceives as valuable may not be the same for another person. Moreover, due to globalization and the increase in competition, it is hard for organizations to sustain and cope with the rapid changes in the environment. Therefore, organizations must be able to offer or create something new in order to differentiate