

# The Influence of Organisational Capability and Strategic Agility on Performance of Area Farmers Organization in Malaysia: A Conceptual Paper

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## Abstract

Area Farmers Organizations (AFOs) in Malaysia plays a critical role in enhancing the agricultural sector's contribution to the nation's development. As key facilitators of rural economic growth and agricultural sustainability, AFOs directly influence the national food security plan and income generation of the farming communities. However, many AFOs face challenges in adapting to rapidly changing environments and achieving optimal performance. This conceptual paper examines the relationship between organizational capability and strategic agility as antecedents of AFOs performance. Organizational capability, encompassing environmental scanning capabilities, coordinating capabilities and organizational learning, is hypothesized to influence strategic agility, while strategic agility is posited to have an impact on the performance. This paper adopts a theoretical lens based on the Dynamic Capabilities Theory to propose a conceptual framework linking these constructs to performance. This study is expected to offer practical and managerial implications for enhancing AFOs' strategic agility, decision-making processes, and resource optimization. By providing evidence-based insights, the stakeholders are able to formulate the appropriate policies and design initiatives that can boost the agricultural sector's competitiveness, contributing to national economic goals.

**Keywords:** Organizational Performance, Organizational Capability, Strategic Agility, Farmers Organization

## Introduction

In Malaysia, Farmers' Organizations (FOs) are agricultural cooperatives registered under the Farmers' Organization Authority, which distinguishes them from other cooperatives registered under the Malaysia Cooperative Commission. FOs operate through four formal tiers: individual members, Area Farmers' Organizations (AFOs), State Farmers' Organizations

(SFOs), and the National Farmers' Organization (NAFAS). Individual members join AFOs, which in turn affiliate with SFOs, and all 14 SFOs are affiliated with NAFAS at the national level (Pertubuhan Peladang Kebangsaan, n.d).

Nationwide, there are 605,552 individual members registered in 280 AFOs (NAFAS, 2024). These AFOs operate across Malaysia, with 27 under the Muda Agricultural Development Authority (MADA), 13 under the Kemubu Development Authority (KADA), and 28 in the state of Sarawak. The organizational structure culminates in 14 SFOs and a single National Farmers' Organization (NAFAS), (Pertubuhan Peladang Kebangsaan, n.d).

FOs perform three primary functions: social activities, socio-economic activities, and economic activities. Economic activities focus on generating profits to fund social and socio-economic initiatives. Examples of these economic activities include the provision of agricultural inputs for FO members, trading businesses, logistics services, purchasing centers for agricultural products, credit facilities, and agricultural projects such as mini paddy estates. Profits generated by individual FOs are distributed annually as dividends to shareholders. Although FOs are agricultural cooperatives, they also serve as government agencies, particularly in administering subsidies to Malaysian farmers, with a strong focus on the paddy sector (Pertubuhan Peladang Kebangsaan, n.d.)

In the paddy sector, the Area Farmers' Organizations (AFOs) serve two functions. The first function is acting on behalf of the government in the capacity of secretariat for screening activities for paddy planters who are eligible to get subsidized fertilizer and other agricultural inputs. The second function is as a business entity where they render services and do trading that are relevant to the area activities such as acting as a collection center for paddy before selling to the millers and selling agricultural inputs that are not listed in government subsidies (NAFAS, 2024).

Paddy is a vital crop for food security in Malaysia because rice is a staple food for the majority of the population. The importance of paddy planting is unparalleled for the nation's economy and social viability as it reduces dependency on importing rice from other countries. The Ministry's objective on paddy is to attain 80% self-sufficiency level by the year 2023. To achieve this, a few action plans have been implemented among others "*Sawah Berskala Besar*" also known as Smart SBB (MAFS, 2024). With Smart SBB implementation, the function of AFO will be significantly reduced and taken over by the main players of Smart SBB who will purchase the paddy harvest directly from planters and send it to the mills. This will essentially bypass AFOs function as a collecting center for paddy farmers, making their role obsolete in the Smart SBB process flow. (MAFS, 2024)

Additionally, there is also the risk if the government were to change the subsidy scheme and no longer requires AFOs to handle the output-based subsidies, this will further reduce the AFOs relevance in the paddy supply chain. Thus, in the face of these challenges, to ensure long-term sustainability and relevance for the benefit of its nearly a million members, FOs must develop organizational agility. This involves adapting to changes in the agricultural business environment and enhancing operational capabilities. In other words, the survival and effectiveness of FOs depend on their ability to embrace agility and align their functions with the evolving demands of agribusiness.

**Problem Statement**

Currently Malaysian government heavily subsidize agriculture inputs such as fertilizer, chemical pesticides, and certified paddy seed. Out of the 280 AFOs in the country, 195 derives their income from the paddy plantation activities (LPP, 2024). The main activities in the AFOs are largely concentrating on offering various services to paddy farmers including the management of the delivery system of fertilizer subsidies given by the government to paddy farmers. The AFOs received payment from the government for every bag of paddy fertilizer they handled in their areas. Nevertheless, the government might change its policy on how subsidies are channeled to paddy planter and requires the planters to buy their own fertilizer and chemical pesticide based on their individual need. Consequently, if the AFOs continue to solely rely on government contracts as their main source of revenue, this change in policy will have a substantial and adverse impact on the profitability and even existence of the AFOs. The AFOs focus should thus be on their economic functions and AFOs need to start behaving as profit-making organizations. Consequently, there is a need to investigate the factors that contributes to the good performance of the AFOs to ensure their ability to successfully achieve their objectives (Rehman et. al., 2019).

Farmers' cooperatives are key enablers in improving productivity, market access, and sustainability for smallholder farmers. However, to achieve these goals, the cooperatives has to perform. As posited before, high organizational performance directly correlates with business success and long-term survival. Organizations that consistently meet or exceed performance targets are more likely to maintain a competitive edge, secure market share, and achieve sustained profitability. The antecedent of organizational performance are many and have been the subject of past and current research. It was postulated by Fourné et al (2014) that companies that have the right mix of organizational capability will be able to develop the required strategic agility that will propel the company towards better and greater performance (Cepeda & Arias-Pérez, 2019). A study by Singh (2019) similarly established that agriculture cooperatives that managed to survive economic crisis are those that have the right mechanism to weather the environmental uncertainties. Thus, for business survival and sustainability, the company must acquire the agility to respond to changing demands and other challenges. This research endeavors to investigate how strategic ability can be acquired and enhanced by the AFOs through building certain organizational capabilities.

Among the recent studies that have been carried out in Malaysia on organizational capabilities and strategic agility were done in the context of educational institution (Chan & Muthuveloo, 2019) and SMEs in manufacturing industry (Palanisamy et al, 2020). As far as the researchers are aware, there are very few studies that have been done in the agriculture sector, especially on the FOs. In the same vein, while studies have been conducted on farmers' cooperative performance globally (Grashuis & Su, 2019; Kontogeorgos et al, 2018) there is limited research on farmers cooperatives that would shed lights on the antecedent of their performance given the unique socio-economic, cultural, and policy environment in Malaysia. With this in mind, the current study intend to fill that gap by providing insights tailored to the local context.

Key findings from previous studies indicate that organisational capability, which includes resources, competencies, and processes, significantly affects performance outcomes. Similarly, strategic agility, defined as the ability to sense and respond rapidly to environmental

changes, has emerged as a critical determinant of organizational success. However, limited research has explored the combined influence of these factors within the agricultural sector. This study seeks to address this gap by offering a conceptual model that links organisational capability and strategic agility to organizational performance of the AFOs.

Henceforth, this research aims to examine how organizational capabilities measured by the organization's sensing, seizing and transforming capabilities have an impact on strategic agility and in turn how strategic agility influence the performance of the AFOs. Additionally, despite extant literature showing the relationship between organizational capabilities and organizational performance, it is worth investigating whether these determinants will have the same impact on agriculture-based organizations given the peculiarity of the industry.

### **Research Objectives**

The general research objective of this study is to examine if the 280 AFOs in Malaysia is strategically agile to adapt to the environmental changes in agricultural business. The finding will also send signal to the relevant authorities on the best actions and intervention plans to consider in order for all 280 AFOs especially in paddy planting areas to stay relevant and sustainable in support of the aspiration of Malaysia' food security policy.

Specifically, the research objectives of this study are as follows:

- RO1: To examine the relationship between AFO organizational capabilities and AFO strategic agility
- RO2: To examine the relationship between AFO strategic agility and AFO organizational performance.
- RO3: To determine whether AFO strategic agility mediates the relationship between organizational capabilities and AFO organizational performance.

### **Literature Review**

The underpinning theory used in this research is the Dynamic Capabilities Theory proposed by Teece et al (1997) in response to the limitations of the traditional resource-based theories of the firm. It acknowledges that in today's dynamic and uncertain business environment, the ability to adapt, innovate, and reconfigure resources is essential for maintaining competitive advantage. Dynamic capabilities theory has been employed as a foundational framework in studies that aim to understand how firms develop and deploy their resources and capabilities to achieve sustainable competitive advantage. Dynamic capabilities facilitates a firm action to utilize its internal assets in a way that not only meets current environmental demands, but also to influence these demands to the firms' advantage (Abbas et al, 2019; Teece, 2019).

Dynamic capability has been conceptualized and represented by three capabilities i.e. sensing, seizing and transformation or reconfiguration (Hameed et al, 2021; Chan & Muthuveloo, 2020; Yudistira et al, 2022). Sensing involves an organization's ability to perceive and recognize changes and opportunities in the external environment. It entails staying attuned to market trends, customer preferences, emerging technologies, and competitive dynamics. Seizing refers to the organization's capability to take advantage of identified opportunities swiftly and effectively. This involves making strategic decisions, allocating resources, and initiating actions to capitalize on the identified market shifts or potential innovations. Reconfiguring or transformation encompasses the organization's capacity to reallocate and recombine its existing resources, processes, and capabilities to

address new challenges or capitalize on new opportunities (Zhou et al, 2019). It involves making changes to organizational structure, processes, and routines to adapt to evolving conditions (Banerjee et al, 2018; Kuo et al., 2017; Takahashi et al, 2017). For the purpose of this research, the researchers adopted and adapted the work by Chan & Muthuveloo (2020) and Hernández-Linares (2021) that have reframed the components and came up with three key organizational capabilities: environmental scanning, coordinating ability; and organizational learning to represent configuring and transformation as antecedent to strategic agility.

### *Organizational Performance*

Organizational performance refers to the organization's targets and goal achieved by using appropriate strategies. Organizational performance includes product and service quality, innovation, employees' performance, and is closely related to organizational management (Pang and Lu, 2018). Organizational performance generally can be calculated using financial metric such as profit and loss or return on investment (Al-Qudah et al, 2020) but it can also extend beyond numerical metric to indicate the performance of the people (Berberoglu, 2018) , and measures such as sustainability, competitive advantages, organizational capabilities, and ability to deal with environmental changes (Anwar, 2017).

Organizational performance is a critical area of research that has garnered substantial attention from scholars, practitioners, and policymakers alike. This is primarily due to its far-reaching consequences on diverse aspects of business and society (Abubakar et al, 2019) . Effective organizational performance serves as the cornerstone of a thriving economy and a well-functioning society. In the realm of business, the success of an organization directly impacts its financial stability, competitiveness, and long-term sustainability ( George et al, 2019) . From a societal point of view, the performance of organizations influences the allocation of resources and the distribution of wealth. Successful organizations contribute to economic growth, create job opportunities, and contribute to tax revenue, thereby playing a pivotal role in socioeconomic development (Aguilera et al, 2024; Epstein, 2018). In the context of AFOs in Malaysia, this is particularly true given the three-prong functions of AFOs in serving not only the economic and social interest of its members but also indirectly contributing to the food security plan of the nation (LPP, 2024).

### *Organizational Capabilities*

In this study, organizational capabilities are constructed through the factor of environmental scanning, coordinating capability and organizational learning. Studies have shown that organizational performance can be enhanced by improving its organizational capabilities. (Rehman et. al., 2019). Organizational capabilities can subsequently be viewed from the lens of human capital development (Ali et al., 2017), international performance of firms (Samadi et al, 2023), organization resilience (Duchek, 2020), digital transformation (Nadeem et al, 2018) and changes in business environment (Zhu et al., 2013). Past studies found that organizational capabilities significantly influence organizational learning which in turn influence sustainability and competitive advantages (Samadi et al, 2023). In short, capability is the ability of an organization to be good in knowing its competitive position. Capabilities must be maintained to sustain the organization's competitive advantage (Annunziata et al, 2018). Investment must be made to maintain organizational capabilities either in human skills and knowledge or equipment (Nadeem et al, 2018). If an organization focuses more on work



and less on capability, the organization can meet short term targets, but in the long run, the organization's performance will deteriorate as the capability drops and subsequently falls into the capability trap (Repenning & Sterman, 2001)

For the purpose of this study, we consider three elements as constructs of organizational capabilities. First, the ability to sense the environmental threat and opportunities through internal and external environment. Second, the ability to grab the opportunities and defuse threats that arise. Third is the ability to shape future income generation through transforming the opportunities. In the context of agriculture cooperatives, AFOs in Malaysia needs to have the environmental scanning capabilities, to better 'sense' the changes in environment trend and respond to external market demand. Next, AFOs must have the coordinating capability that will enable them to mobilize and leverage on resources for optimal performance (Badrinarayanan et al, 2019). Finally, the organizational learning must also be honed as the capability that enable people and firm to have a better understanding of its environment and make informed decision towards better performance (Basten & Haamann, 2018).

#### *Environmental Scanning*

Environmental scanning is a major part of the strategic planning process. It is used to identify external threats and opportunities. It also provides internal environmental analysis which identifies strength and weakness of organization. External and internal environmental scanning will enable organization to formulate strategies to gain competitive advantage. With environmental scanning, it gives better anticipation of the future that will affect a company's organizational performance (Pryor et al, 2019). The result and information derived from environmental scanning will enable organizations to capture important data and opportunities, enabling them to formulate strategic plan that will create competitive advantages compared to their rival (Takahashi et. al., 2017, Zhou et al, 2019).

Environmental scanning will enable organizations to prepare the business needs based on future potential business demand rather than relying solely on government led initiatives and this will enable them to be market leader and not market follower (Golovina & Abilova, 2020). Consequently, the AFOs will be able to respond quicker to business changes, thus creating competitive advantages. Environmental scanning plays vital roles for AFO to be competitive in a dynamic business environment. Having heightened awareness of external business landscape enables quick and effective response from AFOs and builds its competitiveness (Chan and Muthuveloo, 2020). Therefore, the following hypothesis is proposed:

*H1: Environmental Scanning Capabilities have a positive significant influence on Strategic Agility of Area Farmers Organizations.*

#### *Coordinating Capabilities*

Teece (2019) opined that "the manner in which a firm's resources are coordinated and managed is at least as important to competitive success and survival as the identity of the resources themselves". Thus, coordinating capability, a critical component of organizational capability, plays a pivotal role in enhancing strategic agility and improving organizational performance. Coordinating capability refers to "the ability to orchestrate and deploy tasks, resources, and activities in the new operational capabilities" (Pavlou & El Sawy, 2011, p. 246). Unlike integrating capability, which emphasizes building collective understanding and shared

goals, coordinating capability focuses on organizing and synchronizing individual tasks, resources, and activities to ensure operational coherence and efficiency (Pavlou & El Sawy, 2011).

This capability plays a crucial role in enhancing organizational agility and performance by enabling firms to allocate and utilize resources more effectively and at a lower cost (Matarazzo et al, 2021). It also equips organizations to respond to environmental changes with greater flexibility, which can lead to better strategic and financial outcomes. This is particularly significant for AFOs, which often operates with scarce resources and limited managerial capability, making efficient coordination even more critical to their success (Badrinarayanan et al, 2019).

For AFOs, purposeful coordination enhances their learning processes and operational efficiency, allowing them to better navigate their inherent limitations. Effective coordination mechanisms, such as centralization, are often embedded in an organization's structural framework and can vary in effectiveness depending on the type of organization. Consequently, strategic coordination tailored to the unique needs and limitations of AFOs is indispensable for unlocking their full potential and sustaining long-term performance. Hence, the hypothesis put forward by this is:

*H2: Coordinating Capabilities have a positive significant influence on Strategic Agility of Area Farmers Organizations.*

#### *Organizational Learning*

Organizational learning is a process of creating, retaining and transferring knowledge within the organization. A learning organization is an organization that facilitate the learning of all its members and continuously transform itself by fostering a culture of continual learning and change (Tortorella et al, 2020). Continual learning is part of an action or discussion of an event that enable postmortem of what happened, why it happened and how to sustain strengths and improve weakness. Organizational learning will equip people in the organization with an ability to act and think creatively (Alayoubi et al, 2020). Organizational learning enhances the organizational ability to do environmental scanning and cope with the environmental changes that take place due to turbulence in the market environment (Abbas et. al, 2020). People in a learning organization are proven to be more motivated, creative and resilient to crisis.

In today's uncertain environment, organizational learning is a strategic imperative for improved organizational performance (Ahakwa et al., 2021). In contrast, lack of organizational learning reduces organizational performance as a result of low efficiency and low productivity, thus hampering organization progress. Studies have shown that organizational learning contributes to the ability of an organization to innovate, transform, and maintain their competitiveness (Abbas et al, 2020). For AFOs, organizational learning is a must to transfer technology and information to their members. Therefore, the following assumption will be tested:

*H3: Organizational Learning has a positive significant influence on Strategic Agility of Area Farmers Organizations.*

### *Strategic Agility*

Strategic agility is described as a set of systematic continuous actions that organizations take when business environment operation is turbulent and disruptive (Nejatian et al., 2019). Strategic agility is the answer for an organization's survival in a VUCA business environment by providing the requisite leverage that an organization need to outperform competitor and gain competitive advantage. (Al-Taweel & Al-Hawary, 2021; Elali, 2021). Strategic agility is also defined as the ability to remain flexible and dynamic in facing new developments, to continually adjust the organization strategic direction, and develop innovative ways to create value and deal with threats effectively (Al Qadi, 2023; Shams et al., 2022). Strategic agility of organizations is the key enabler for the organization to effectively respond and adapt to current business dynamic and unforeseen market disruption (Teece, 2019). Consequently, understanding how to improve business agility is crucial to agricultural firms' continued existence and sustainability. (Lin et al, 2020)

Past studies have shown that strategic agility has significant impact on organizational performance (Kale et al, 2019; Verma et. al, 2017). Technology changes rapidly and so do environmental changes. This will invariably lead to inconsistent market demand. Organizations that are not prepared to change will be left out and face business difficulty as well as financial losses. Strategic agility is more significant during periods of business uncertainties. Strategic agility will provide positive dynamism for an organization. Organizations that can anticipate changes will be in the upper hand to prepare themselves for changes that might affect their operations and gain competitive advantages as well as potential business opportunities. Based on the foregoing argument, the following hypothesis is posited:

*H4: Strategic Agility has a positive significant influence on Organizational Performance of Area Farmers Organizations.*

Research has consistently demonstrated that organizational capabilities play a vital role in enhancing organizational performance (Rehman et al, 2019). Specifically, studies have highlighted that capabilities such as environmental scanning, coordinating capability, and organizational learning are key drivers of strategic agility (Takahashi, 2017; Chan & Muthueloo, 2020). Strategic agility, in turn, significantly influences organizational performance by enabling firms to adapt swiftly and effectively to changing market conditions (Kale et al, 2019; Verma et al., 2017). This evidence suggests that strategic agility acts as a mediating factor in the relationship between organizational capabilities and performance. In other words, the presence of strategic agility bridges the gap, amplifying the impact of organizational capabilities on performance outcomes. By fostering a dynamic and responsive organizational environment, strategic agility enhances the ability of firms to translate their capabilities into superior performance metrics. Therefore, the following hypothesis is given:

*H5: Strategic Agility has a mediating effect on Organizational Capability and Organizational Performance of Area Farmers Organizations.*

Based on the relevant literature presented above, a conceptual framework on examining the influence of organizational capabilities as represented by environmental scanning,



coordinating capability and organizational learning towards organizational performance with strategic agility posited to mediate the relationship is presented below:

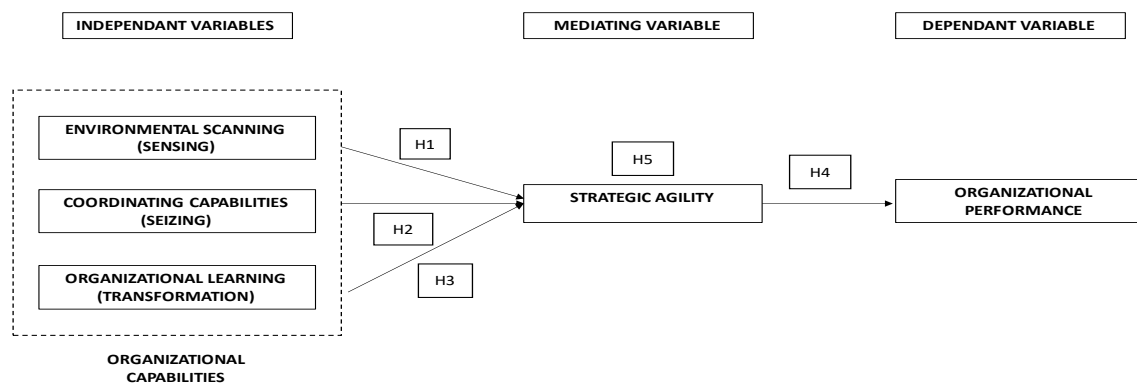


Figure 1: Proposed Conceptual Framework

## Conclusion

Farmers' organizations in Malaysia play a crucial role in the nation's development, impacting various sectors including agriculture, economy, social well-being, and environmental sustainability. Among others, AFOs enhance agricultural productivity by providing and facilitating access to agricultural inputs for its members. Farmers' organizations also enable smallholders to contribute effectively to national GDP through enhanced output and market access. Additionally, Farmers' organizations serve as intermediaries between farmers and government agencies, ensuring that policies are effectively implemented, and farmers' needs are addressed.

Given the preceding arguments, it is imperative for AFOs to have good organizational performance as it is an indication of AFOs achievement of the government goals to uplift farmers socioeconomic wellbeing through the cooperatives. It is argued that the AFOs organizational performance is influenced by organizational capabilities in which strategic agility plays a mediating role between organizational capabilities and organizational performance. By studying the relationship among these variables, AFOs will know where they stand in the market and their capability in facing environmental changes. Understanding the factors that influence the performance of the AFOs will also provide the much-needed justification to rationalize the government subsidies received every year by these farmers' organization by helping the AFOs to achieve a decent return on investment.

In conclusion, farmers' organizations in Malaysia are integral to the nation's holistic development. By improving agricultural productivity, boosting economic growth, fostering social equity, ensuring food security, and promoting environmental sustainability, they contribute significantly to the nation's progress and resilience in a rapidly changing global landscape. Supporting and strengthening these organizations is essential for achieving sustainable and inclusive development.

The significance of this research lies in its potential to advance theoretical understanding and provide practical recommendations for improving the performance of area farmers organizations. Future studies can empirically test the proposed model, thereby contributing to both academic discourse and policy development.

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