

HOW NEIGHBORING COUNCILS SHAPE PROPERTY TAX REASSESSMENT: THE ROLES OF RELATIONAL CAPITAL AND PROCESS INNOVATION

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ARTICLE INFO	ABSTRACT
Keywords: property tax, relational capital, process innovation, neighboring councils, policy diffusion	The influence of neighboring councils on property tax reassessment regarding public sector innovation and administrative efficiency has not been adequately examined, particularly in terms of how one council may adopt the strategies of another. Thus, this study examines whether councils surrounded by others that have implemented reassessments experience greater innovation diffusion and better performance outcomes. To test this framework, data were collected through a survey of Malaysian local authority officers (support, management, and professional grades) using a quantitative approach to assess their views on relational capital, process innovation, and tax reassessment performance. Usable data from 154 responses were analyzed with SmartPLS 4 using partial least squares structural equation modeling. The results show that the relational capital of local authorities toward process innovation is stronger when the influence of neighboring councils is greater. Councils in regions where reassessments are actively undertaken tend to utilize relational capital more effectively through process innovation, leading to higher reassessment performance, while councils in less active regions struggle to achieve similar results. This study contributes to research on public sector innovation and policy diffusion by highlighting the external environmental conditions that influence the effectiveness of relational capital in administrative performance.
JEL Classification: E61	
Citation:	
Senawi, A., Osmadi, A. & Che Pin, S.F. (2026). How neighboring councils shape property tax reassessment: The roles of relational capital and process innovation. <i>Real Estate Management and Valuation</i> , 34(2), 134-149. https://doi.org/10.2478/remav-2026-0020	

1. Introduction

Property tax is considered to be the most stable source of revenue for local governments (Carroll & Goodman, 2011; Zhang et al., 2015) and is crucial for promoting urban growth, especially in developing countries such as Malaysia (Awasthi et al., 2020). In Malaysia, property tax is referred to as "rate" and under Section 127 of the Local Government Act 1976 (Act 171), local authorities are authorized to levy rates within their boundaries, subject to approval by the state government. binti Mohd et al. (2018) claim that property tax collection accounts for more than 60% of the total local authority's revenue. In 2022, a total of RM5.93 billion (USD1.37 billion) was collected in property taxes by

West Malaysian local authorities, which was equivalent to 0.34% of Malaysia's GDP in that year (Malaysia Socio-Economic Report, 2023)

Under Section 137 of Act 171, a revaluation of all properties in Malaysia is carried out every five years or as specified by the state government. The property tax reassessment ensures an equitable distribution of the tax burden by adjusting property values to market conditions at regular intervals. However, the reassessment faces challenges such as outdated valuation methods, inefficient administration, and resistance to change (Fjeldstad et al., 2019; Binoy et al., 2023; Giwa & Choga, 2023). According to the resource-based view (RBV) theory, organizations have unique,

valuable, rare, and inimitable resources that contribute to their success (Barney et al., 2011). Recently, most studies have focused on understanding the empirical implications of dynamic capabilities as a new approach to RBV theory (Hernandez et al., 2016), particularly on how an organization's resources and capabilities can influence its innovation and performance (Moscare-Balanquit, 2021). Relational capital (RC), part of the intangible resources that an organization possesses, which includes collaboration and knowledge sharing between actors, plays a crucial role in overcoming these barriers.

In addition, process innovation, including digitalization and advanced analytical techniques, has been introduced to improve the accuracy and efficiency of valuation. Process innovation, which is characterized by the introduction of new methods, techniques, or approaches to improve existing processes (Wang & Ahmed, 2004), is another important driver of organizational performance. Studies have shown that improving property tax reassessment through innovative processes such as systems, models and new ways of working can contribute to success (Awasthi et al., 2020; Massawe, 2020; Mishra et al., 2022). However, there is a lack of a theoretical framework developed for innovation in the public sector (Buchheim et al., 2020). Although previous research links intangible resources with local government performance (Fazlagic & Szczepankiewicz, 2018; Barrutia & Echebarria, 2022; Ramírez et al., 2022), the elements of process innovation have not been considered, and most research has been conducted mainly in industrialized countries.

Given the importance of RC and process innovations in property tax reassessment, the adoption of these innovations is not uniform across jurisdictions and is often influenced by neighboring councils, affecting the sharing of best practices and the alignment of policies (Eom et al., 2017; Bocci et al., 2019). Policy diffusion theory suggests that councils often look to their neighbors when deciding whether to adopt new practices, especially when reassessing taxes (Shipan & Volden, 2012). In the context of property tax reassessment, neighboring councils serve as a reference point for policy adoption. Research shows that councils often align their reassessment policies with those of neighboring councils to ensure regional consistency and administrative efficiency (Eom et al., 2017). While these external influences are acknowledged, researchers have not comprehensively

investigated the moderating effects of neighboring councils.

Despite the importance of RC and process innovation in the context of property tax reassessment, the exact nature of their relationship and the potential moderating effects of neighboring councils remain relatively under-researched. This study attempts to fill this gap by examining whether neighborhood councils strengthen or weaken the relationship between RC, process innovation, and property tax reassessment performance. The results of this study are expected to contribute to a more comprehensive understanding of the diffusion of economic policy and administrative efficiency.

2. Literature review and hypotheses development

2.1. Property tax and the significance of property tax reassessment and neighboring effects

In many countries around the world, there are different names for property tax, such as "rates" or "assessment". Although property tax is referred to as "rates" in Malaysia, the term "property tax" is used in this study as it is best known in the UK, the country with the most significant record of property-related taxes in the developed world (Erdem, 2020).

In Malaysia, local authorities use property tax to generate revenue needed to provide public services such as waste disposal, road repairs, street lighting, and maintenance of public buildings such as schools, libraries, recreational parks, etc. (Abd Rahman et al., 2021). The responsibility of local authorities is clearly defined in the Local Government Act 1976 (Act 171), which applies to all states in West Malaysia. In East Malaysia, however, other laws and implementations apply in relation to property tax. The state of Sabah refers to the Local Government Ordinance 1961 (Sandakan Municipal Council, 2024), while the state of Sarawak refers to the Local Authorities Ordinance 1996 (The City of Kuching North, 2024). Although the Federal Territory of Labuan levies property tax under the provisions of Act 171, its implementation differs from that in West Malaysia (Labuan Corporation, 2024).

The assessment basis for property tax in Malaysia is the annual or improved value of the property (Section 130, Act 171). Under Section 2 of Act 171, annual value is defined as the estimated gross annual rental, while improved value is defined as the reasonable price for the sale and purchase of the holding. Currently, all local authorities in West Malaysia use the annual value as the basis for property tax, except those in the states of Johor and Melaka. However, for those who use the

annual value as the basis for calculating vacant land, the improved value still applies. Tax rates for property tax levied on annual value may not exceed 35%, while a maximum tax rate of 5% is prescribed for improved value (Section 130 [2] and [3], Act 171). The tax rate generally varies depending on the use of the property and its location. An overview of property tax in West Malaysia under Act 171 is provided in Table 1.

Table 1

Overview of property tax in west Malaysia	
Element	Implementation
Purpose	To generate revenue needed to provide public services such as waste disposal, road repairs, street lighting and maintenance of public buildings such as schools, libraries, recreational parks, etc.
Legislation	Local Government Act 1976 (Act 171)
Types of properties levied	Any land with or without buildings located within the territory of the local authorities
Basis of assessment	Annual value (rates $\leq$ 35%) Improved value (rates $\leq$ 5%)
Payment	Twice a year (January and July)

Source: Local Government Act 1976 (as amended).

The implementation of property tax requires each local authority to enforce a valuation list (or assessment list) to indicate the property tax value. As stated in section 137 of Act 171, the list consists of the address of the holding, designation of the building, names of the owner, and annual value or improved value of the holding. Each valuation list also indicates the tone of the list, which serves as the base value for tax determination. The list's tone becomes one of the principles for determining the annual value or improved value of property tax, apart from *rebus sic stantibus* and hypothetical tenancy (Bujang & Abu Zarin, 2001). In general, the term "tone of the list" or "tone" often refers to the level of values established in a valuation list (Bond & Brown, 2011). The tone of the list is expressed in a year form, indicating that all values in the valuation list are as of the date stated.

The same tone of the list applies to all properties in the local authority's area to ensure uniformity of assessment. The main purpose of this principle is to achieve uniformity in the list's tone, which is generally used when amending the valuation list. When revising the valuation list, the currently applicable tone of the list must be taken into account, as prescribed in section 144(4) of Act 171. For instance, the amendment of the valuation list is due to new rateable holdings such as the new township, which was completed after the new valuation list was endorsed. The assessment of the new holdings is necessary to achieve uniformity and to

determine the annual value or improved value. The process of reassessment enables the relativities to be observed from a fresh standpoint and corrected using the rental value test to provide a relative worth (Bloom and Ladd, 1982; De Cesare & Ruddock, 1997). However, if these reassessments do not take place, the relativities between properties and localities become entrenched.

Regular, accurate reassessment is essential for equity and credibility in property taxation. Empirical work shows that more frequent reassessments improve assessment quality and fairness, while long delays can entrench inequities, especially when prices change unevenly across neighborhoods or cycles (Hou et al., 2025). As reassessment is administratively complex and politically risky, local authorities often look to their peers. Decades of diffusion research show that governments learn from, compete with, imitate, or are coerced by nearby governments, with proximity (geographic or network) increasing exposure to these signals (Shipan & Volden, 2012).

Therefore, this research theorizes that neighboring councils influence reassessment through both information and legitimacy channels. When nearby local authorities conduct reassessments, they provide observable evidence on methods, timelines, appeals, and outcomes, enabling policy learning that reduces uncertainty (Shipan & Volden, 2012). Simultaneously, visible adoptions create legitimacy cues that normalize reassessment as a professional standard, consistent with mimetic and normative isomorphism in institutional theory (Dimaggio & Powell, 2021). Within an organization, these external cues lead to action when relational capital, trust-based ties with peers, and strong internal collaboration facilitate knowledge exchange and enhance absorptive capacity. The study argues that process innovation (codified SOPs, redesigned workflows, and QA routines) is the operational pathway that embeds such learning, aligning with dynamic-capabilities perspectives on sensing, seizing, and reconfiguring. Given the evidence that more regular reassessment improves assessment quality and equity, neighboring effects are substantively important for fiscal fairness and administrative performance (Hou et al., 2025).

2.2. Relational capital, process innovation, and property reassessment performance

The resource-based view (RBV) theory states that organizations can achieve a competitive advantage by making effective use of their internal resources, both tangible and intangible. In the field of local

government, intellectual capital is of central importance. Relational capital (RC), which is a dimension of intellectual capital, is interpreted by other scholars as external capital (Kamaruddin & Abeysekera, 2021), including customer capital, which is considered part of RC (Zeglat & Zigan, 2013). In the private sector, RC refers to the value generated by a consistent set of relationships among employees (Liu et al., 2020). In contrast, in the public sector literature, it is defined as a combination of values, relationships and actions (Manes Rossi et al., 2016).

In the context of property tax revaluation, a good relationship between stakeholders, governments, and taxpayers is necessary for the revaluation process to be successful. Several landmark studies observed that RC has a significant impact on organizational performance (Kamaluddin & Bakar, 2019; Yusoff et al., 2019; Masoomzadeh et al., 2020). These findings in the literature have proven that RC also contributes significantly to the property tax reassessment, as it refers to building relationships with the public in order to educate them about the importance of this activity, which returns the benefit to them (Slack & Bird, 2014; Prabhakar, 2016; Massawe, 2020; Mishra et al., 2022). Recent research on property tax has shown that RC is the only dimension of intellectual capital other than human and structural capital that has a significant positive impact on reassessment performance (Senawi & Osmadi, 2022). This suggests that strong relationships with stakeholders, including neighboring councils, can improve performance outcomes.

Furthermore, as RC refers to the value that arises from relationships and networks within and between organizations, it can foster process innovation that leads to improved performance in property tax reassessment. Innovation can manifest itself in various forms (De Vries et al., 2016; Buchheim et al., 2020) and is commonly understood as a signal for the growth of a public organization to solve social and administrative challenges (Damanpour & Schneider, 2009). Process innovations in property tax reassessment exist in the valuation process of all rateable holdings. This process innovation, such as the development of systems and models, simplifies the property tax reassessment, thus avoiding the high costs and reducing the delays in the valuation list (Bahl et al., 2007; Massawe, 2020). Some recent studies show that process innovations such as systems, models, and new working methods influence the success of property tax reassessment (Awasthi et al., 2020; Massawe, 2020; Mishra et al., 2022). Research indicate that the mass appraisal technique positively

influences the reassessment process (Carroll & Goodman, 2011).

Overall, RC is believed to improve innovation performance by improving relationships between the organization and its stakeholders (Obeidat et al., 2017). In many areas, it has been established that there is a positive influence between RC and process innovation (Wendra et al., 2019; Beltramino, Garcia-Perez-de-Lema & Valdez-Juarez, 2021; Hanifah et al., 2021). Furthermore, innovation can have a positive impact on the organization and lead to social, competitive, and financial success (Chaudhuri et al., 2024). Therefore, a positive direct influence between RC, process innovation, and property tax reassessment performance was expected, and the hypotheses are presented below:

H₁: Relational capital positively affects the property tax reassessment performance.

H₂: Relational capital positively affects process innovation.

H₃: Process innovation positively affects the property tax reassessment performance.

2.3. Process Innovation as a mediator to relational capital-property tax reassessment performance

A mediating variable is simply an intervening variable (Garson, 2016). As suggested by McDowell et al. (2018), this study describes a mediation effect in which process innovation activity positively mediates the relationship between RC and organizational performance. Mediation occurs when the analysis shows a significant indirect effect on this relationship. An intervention usually leads to a relationship that is already consistent. Therefore, it is necessary to initially hypothesize the direct relationship, as described in the section above.

As clearly described in the section above, building good relationships with stakeholders can inspire employees to innovate and thus improve the organization's performance. Numerous studies have confirmed a significant mediating effect of innovation between RC and organizational performance (Masoomzadeh et al., 2020; Wang et al., 2021; Campos et al., 2022). Building strong relationships with stakeholders is a good customer capital activity of actors and leads to more intensive technological innovation activities in the development of innovative new products in SMEs (Ekayani et al., 2023). Further support comes from Ryu et al. (2021), who point out that collaboration with external partners must be built together with technological innovation capabilities in

order to increase the international performance of SMEs. The same is true for property tax reassessment performance, which needs support from other parties to improve its innovation capability. Therefore, one could hypothesize that:

H₄: Process innovation positively mediates the relationship between relational capital and the property tax reassessment performance.

2.4. Neighboring council as a moderator to relational capital-process innovation and process innovation-property tax reassessment performance

The concept of policy diffusion examines how policies or innovations spread across different units of government, which are often influenced by neighboring jurisdictions (Fundytus et al., 2023). In the context of local government, neighboring councils can significantly influence each other's policy decisions through mechanisms such as competition, collaboration, and learning. A neighboring council is a council that lies on the boundary of another council. Innovation is more likely if neighboring councils have already introduced a similar tax (Ashworth et al., 2006).

A moderator variable is usually referred to as a contingent variable that alters the relationship between the independent and dependent variables (Ramayah et al., 2018). In this research, the moderating effect of neighboring councils is when the neighboring councils intensify or weaken the impact of process innovation on property tax reassessment performance. A relevant study by Eom et al. (2017) examined the factors that influenced local government decisions to implement property tax reassessments. Their findings showed that interaction with neighboring councils that had already undertaken reassessments played a crucial role in influencing others to follow suit. This emphasizes the importance of regional interaction in the introduction of measures.

Relational capital refers to the value derived from an organization's relationships with external parties (Kianto et al., 2017). In the context of local government, this includes relationships with neighboring local councils that can facilitate the exchange of knowledge and best practices. Such sharing can lead to process innovations that improve the efficiency and effectiveness of processes such as property tax reassessment (Eom et al., 2017). The diffusion of innovative practices between neighboring municipalities can therefore be viewed as a form of policy diffusion, where relational capital serves as a conduit for the spread of these innovations. Interaction

between neighboring councils through policy diffusion mechanisms has a significant impact on relational capital and process innovation. These relationships can lead to improved property tax reassessment practices. This demonstrates the importance of fostering strong relationships between councils and considering the dynamics of regional politics.

Therefore, the study conceptualizes relational capital as an organizational relational resource that enables dynamic capabilities, particularly knowledge integration and process codification, which are required to execute reassessment. Neighboring councils provide signals, exemplars, and legitimacy that reduce perceived risk and search costs. When relational ties are strong, these signals are more likely to be translated into codified process innovation, which then improves property tax reassessment performance. Null or weak moderation is theoretically coherent when ties are weak, when innovations are highly context-specific, or when political constraints dominate.

In summary, relational capital and process innovations are likely to have an impact on property tax reassessment performance, but their effectiveness may vary depending on the reassessment practices of neighboring councils. Studies have demonstrated positive associations between external environmental factors and organizational performance (Battisti et al., 2015; Zulkifli, Abdul Shukor & Che Abdul Rahman, 2017; Ahmad & Erçek, 2019), but these findings are mainly from the private sector. While various studies suggest that external factors such as policy diffusion, ICT infrastructure and knowledge sharing between municipalities influence property tax revenues, researchers have not comprehensively analyzed the moderating effects of neighboring councils' revaluation practices (Salleh & Syed Ahmad, 2006; Pawi et al., 2012; Daud et al., 2013). The study therefore suggests that a positive relationship between relational capital and process innovation is stronger for councils with a neighbor who is already reassessing than for councils that have neighbors who are not reassessing. The study also suggests that a positive relationship between process innovation and property tax reassessment performance is stronger for councils with a neighbor who is already reassessing than for councils that have neighbors who are not reassessing. Thus, the hypotheses are as follows:

H₅: The positive relationship between relational capital and process innovation would be stronger for councils with neighbors who conduct reassessment than for those who do not.

H₆: The positive relationship between process innovation and the property tax reassessment performance would be stronger for councils with neighbors who conduct reassessment than for those who do not.

The research model shown in Figure 1 was further developed in the study. The proposed model consists

of four constructs: Relational Capital (RC), Process Innovation (INN), Property Tax Reassessment Performance (PTRP), and Neighboring Councils (NC). In addition, a total of six hypotheses were tested for this proposed research model.

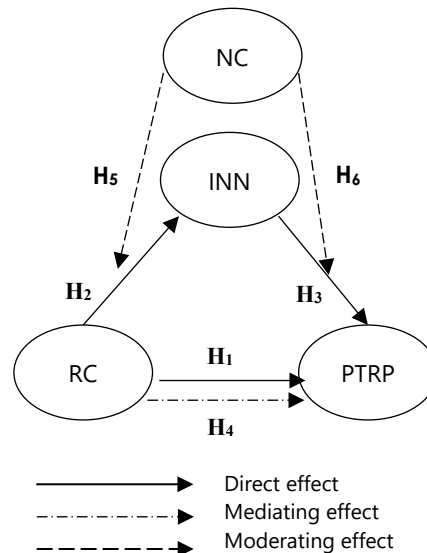


Fig. 1. Research model. Source: own study.

3. Methodology

3.1. Research methodology

The study employs a quantitative, cross-sectional survey strategy, which is commonly used in exploratory and descriptive research to collect data about people, events, or situations (Bougie & Sekaran, 2020). The sampling design for this study is a non-probability sample, as there is no sampling frame for the target respondents. A purposive sampling technique was employed because it is necessary to obtain information from a specific target group based on their expertise on the topic under study (Bougie & Sekaran, 2020). This type of sampling is also used in property valuation research, which requires a professional expert in the valuation field to answer such a survey (Atilola *et al.*, 2019).

3.2. Sampling procedure

A total of 154 officers in grades W29 to JUSA C, employed in the valuation departments of 82 local authorities in West Malaysia, were selected as respondents for this study. According to statistical power analysis (G*Power software by Faul *et al.*, 2007), a minimum sample size of 85 is required. This calculation is based on a linear multiple regression

model F-test, with four predictors, a power level of 0.8 ($1-\beta$ err prob), a significance level of 0.05 (α err prob), and a population effect size of 0.15 (f^2). The target group includes property tax experts from support, management, and professional grades. The rationale for selecting these grades is based on the position of the head of the valuation and property management department in West Malaysian local authorities (Kuala Lumpur City Hall, 2024; Pengkalan Hulu District Council, 2024). As Sabah, Sarawak, and the Federal Territory of Labuan are governed by different legislation, only Peninsular Malaysia is included in the survey. Therefore, the exclusion of East Malaysia restricts the study geographically.

3.3. Data collection procedure

Data collection is primarily carried out through a self-administered questionnaire, followed by an electronic questionnaire. Respondents who could not be contacted in person, as well as electronically, were sent the questionnaires by post. The process of developing the final version of the questionnaire included several pre-tests. Firstly, an expert judgement was conducted among academics and practitioners in the property and social sciences. Secondly, a cognitive interview was conducted with six target respondents. This process

establishes the validity and reliability of the questionnaire that will eventually be used for the final survey by adding or deleting items.

3.4. Measurement scales

The indicator used for relational capital (RC) was adapted by Fazlagic and Szczepankiewicz (2018), who focused on a study in the public sector. The indicators for process innovation (INN), on the other hand, were adapted from De Vries et al. (2016) and Walker (2014), who focus on research on process innovation in the public sector. The total number of indicators for RC and INN was initially 18 and five items, respectively, and was then reduced to 12 and four after the pretests. The property tax reassessment performance (PTRP) indicator was redeveloped based on various sources (*Local Government Act*, 1976; Mehta & Giertz, 1996; Cornia & Walters, 2005; Eom et al., 2017; Asongu et al., 2021) and consisted of two dimensions with ten items. The PTRP construct was divided into three dimensions with nine items, taking into account the results of the exploratory factor analysis (EFA). In addition, the questionnaire also contained eight items for the demographic profile.

The constructs RC and INN are used as reflective indicators, as suggested in recent literature (Shahid et al., 2020; Yusof et al., 2022; Rahman et al., 2022; Singla et al., 2022). In contrast, the reflective-formative measurement model was used for the dependent variable PTRP. In this model, the lower-order constructs are reflectively measured constructs that have no common cause, but form a general concept that fully mediates the influence on the subsequent endogenous variables (Chin, 1998). Since the PTRP construct has three dimensions—implementation, preparation, and effectiveness—this model is appropriate.

In the questionnaire, respondents were asked to indicate their agreement with certain statements in order to obtain feedback on the constructs of the research framework. Five and seven-point Likert scales ranging from 1 (strongly disagree) to either 5 or 7 (strongly agree) were used to measure the constructs of the variables employed. Different Likert scales can be used to minimize bias in the research. Details of the measurement scales for each construct are provided in Table 2.

Table 2

Measurement scales of the construct				
Constructs	Items	Items Code	Scale	Sources
Relational Capital	Relationships with the clients	RC1	Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree)	Fazlagic and Szczepankiewicz (2018)
		RC2		
		RC3		
	Relationships with other public institutions and international organizations	RC4		Fazlagic and Szczepankiewicz (2018)
		RC5		
	Relationships with other public offices	RC6		Fazlagic and Szczepankiewicz (2018)
	Relationships with funders/investors	RC7		Fazlagic and Szczepankiewicz (2018)
	Relationships with suppliers	RC8		Fazlagic and Szczepankiewicz (2018)
	Relationships with universities	RC9		Fazlagic and Szczepankiewicz (2018)
	Image	RC10		Fazlagic and Szczepankiewicz (2018)
		RC11		
Process Innovation	Administrative process innovation	INN1	Likert scales ranging from 1 (strongly disagree) to 7 (strongly agree)	Walker (2014); De Vries, Bekkers and Tummers (2016)
		INN2		
		INN3		
	Technological process innovation	INN4		De Vries, Bekkers and Tummers (2016)
Property Tax Reassessment Performance (Implementation)	Occurrence	IMP1	Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree)	Eom, Bae and Kim (2017)
	Frequency	IMP2		Eom, Bae and Kim (2017)
	Application	IMP3		<i>Local Government Act</i> (1976)

Property Tax Reassessment Performance (Preparation)	Preparation	PRE1	disagree) to 7 (strongly agree)	Local Government Act (1976)
	Act compliance	PRE2		Local Government Act (1976)
Property Tax Reassessment Performance (Effectiveness)	Uniformity	EFF1		Eom, Bae and Kim (2017)
	Revenue	EFF2		Asongu, Adegboye and Nnanna (2021)
	Cost	EFF3		Mehta and Giertz (1996)
	Tax burden	EFF4		Cornia and Walters (2005)

Source: own study.

To facilitate the analysis of moderation, the variable “neighboring councils” (NC) is set as a dummy variable with two categories. In the study, categorical data were employed for the analysis of NC, distinguishing between neighbors who reassessed and neighbors who did not reassess. For categorical data, the typical summary measure is the number or percentage of cases in each category. Therefore, nominal scales are used to characterize the moderator variable (NC) as either neighbors who reassess or neighbors who do not reassess. The choice of a nominal scale allows the researcher to assign respondents to specific categories or groups (Bougie & Sekaran, 2020). Therefore, the council with neighbors who do not reassess is coded as “0”, while the council with neighbors who do reassess is coded as “1”.

3.5. Respond rate

The final survey was distributed in West Malaysia, and only 154 out of 282 questionnaires were usable after removing duplicate responses and outliers. This shows that 54.6% of responses were received from the officers. The number of responses is reasonable, as it exceeds the minimum of 85 samples calculated in the previous section using the software G*Power by Faul et al. (2007). In addition, these 154 respondents represent 82 (80.4%) out of 102 local authorities in West Malaysia. Details of the respondents’ profiles are shown in Table 3. The sample comprised 79 (51%) female respondents and 75 (49%) male respondents; therefore, the genders were almost equally represented. Most respondents were aged 31–40 years. Respondent statistics based on years of service were compiled into five categories, with most belonging to grades W29 to W36 (n = 117, 76%).

3.6. Data analysis

The partial least squares structural equation modelling (PLS-SEM) in SmartPLS v.4 (Ringle et al., 2022) was used to test all six hypotheses formulated in this study. PLS-SEM was used in this study as it is a non-parametric approach that is commonly used to analyze complex models with moderation (Cheah et al., 2021). It is not only a standard tool for empirical studies, but also a

causal-predictive technique that strikes an optimal balance between explanation and prediction (Shmueli et al., 2019).

Table 3

Respondents’ Profiles (n=154)		
Demographic	Frequencies	Percentage (%)
Gender		
Male	75	48.7
Female	79	51.3
Age		
< 30 years	26	16.9
31 – 40 years	74	48.1
41 – 50 years	39	25.3
> 51 years	15	9.7
Position Grade		
W29 – W36	117	76.6
W41 – JUSA C	37	23.4
Years of Service		
< 5 years	30	19.5
5 – 10 years	38	24.7
10 – 15 years	39	25.3
15 – 20 years	18	11.7
> 20 years	29	18.8

Source: own study.

The analysis begins with common method bias (CMB), which can be addressed both procedurally and statistically, as the data come from a single source. A single common-method-factor approach was used for the procedural remedy to control for CMB, as recommended by Podsakoff et al. (2012). The study used the items developed by Fugate et al. (2009), which were further collected in the same survey but were not included in the model being tested. Finally, the method factor model was compared with the base model, and the result shows that the significant paths in the base model also remained significant in the method factor model.

Next, the researchers tested CMB by statistical remedy by following the suggestions of Kock and Lynn

(2012) and Kock (2015). They recommended testing full collinearity. In this method, all variables are regressed against a common variable, and if the VIF is ≤ 3.3 , there is no bias from the data from a single source. The analysis resulted in a VIF of less than 3.3 (see Table 4), so thus single-source bias is not a serious problem in our data.

Table 4

Full collinearity testing		
Relational Capital (RC)	Process Innovation (INN)	Property Tax Reassessment Performance (PTRP)
1.355	1.585	1.540

Source: own study.

4. Results and discussion

4.1. Measurement model

In the measurement model, the validity of the measures used in the study was tested for convergent and discriminant validity. The average variance extracted (AVE) was used to assess convergent validity and the composite reliability (CR) was used to assess reliability. The results of the AVEs are all greater than 0.5 and the CRs were all greater than 0.7 (see Table 5), indicating that the measures are valid and reliable (Ramayah et al., 2018; Hair et al., 2022). The loadings were also acceptable, which should be ≥ 0.5 , and resulted in only 3 loadings below 0.708 (Hair et al., 2019).

The next assessment of the measurement model relates to the formative construct. The result shows that the VIF values for all items are below the threshold value of 3.33 (see Table 6). This indicates that there is no multicollinearity problem (Diamantopoulos & Siguaw, 2006). Two measurement models were collected for the PTRP construct, as it was a higher-order construct and was analyzed using the disjoint two-stage approach. This approach was chosen because this method shows better parameter recovery of the pathway compared to the (extended) repeated indicators approach (Sarstedt et al., 2019).

As part of the validation process, it is also important to assess whether the variables in the model are discriminable. Therefore, the researchers checked the discriminant validity using the newer criterion proposed by Franke and Sarstedt (2019), the HTMT. Franke and Sarstedt (2019) recommend that HTMT ratios should be below 0.90. As shown in Table 7, all HTMT ratios are below 0.90, indicating that the variables are unique and the study has no problems with discriminant validity.

Table 5

Measurement model for the first-order constructs				
First Order Constructs (Reflective)	Items	Loadings	AVE	CR
Relational Capital	RC1	0.717	0.577	0.942
	RC2	0.712		
	RC3	0.799		
	RC4	0.819		
	RC5	0.700		
	RC6	0.742		
	RC7	0.832		
	RC8	0.799		
	RC9	0.697		
	RC10	0.706		
	RC11	0.823		
	RC12	0.745		
Process Innovation	INN1	0.860	0.788	0.937
	INN2	0.912		
	INN3	0.885		
	INN4	0.894		
Property Tax Reassessment Performance (Implementation)	IMP1	0.874	0.718	0.884
	IMP2	0.874		
	IMP3	0.793		
Property Tax Reassessment Performance (Preparation)	PRE1	0.845	0.760	0.863
	PRE2	0.897		
	EFF1	0.821	0.644	0.879
	EFF2	0.750		
	EFF3	0.794		
	EFF4	0.843		

Source: own study.

Table 6

Measurement model for the second-order construct			
Second Order Construct (Formative)	Items	Weights	VIF
Property Tax Reassessment Performance (Implementation)	IMP	0.553	1.080
Property Tax Reassessment Performance (Preparation)	PRE	0.392	1.344
Property Tax Reassessment Performance (Effectiveness)	EFF	0.414	1.350

Source: own study.

Table 7

Variable	Discriminant validity				
	1	2	3	4	5
1. Effectiveness					
2. Implementation	0.288				
3. Process Innovation	0.482	0.468			
4. Preparation	0.640	0.318	0.473		
5. Relational Capital	0.432	0.230	0.458	0.482	

Source: own study.

4.2. Structural model

To evaluate the structural model, the researchers performed a bootstrap resampling of 10,000 iterations to report the percentile bootstrap method for testing the hypotheses generated (Becker et al., 2023), as the data were not multivariate normally distributed. First, the R^2 values of the process innovation (INN) were

examined, which indicated 0.291, meaning the relational capital (RC) explained 29.1% of the variance in INN. The R^2 value for property tax reassessment performance (PTRP) was 0.358, meaning that RC and INN together explained 35.8% of the variance in PTRP.

RC ($\beta = 0.187$, $p = 0.035$) was positively related to INN. RC ($\beta = 0.279$, $p < 0.001$) and INN ($\beta = 0.442$, $p < 0.001$) were both positively related to PTRP. Thus, H_1 , H_2 and H_3 were supported. Next, the researchers tested the mediation effect of INN on the RC→PTRP relationship, and the results show that INN ($\beta = 0.083$, $p = 0.032$) was significant, and the confidence intervals did not straddle a 0, thus confirming that the mediation effect is indeed significant. Therefore, H_4 was supported (see Table 8).

Table 8

Hypotheses testing										
Hypothesis	Relationship	Std Beta	Std Error	t-value	p-value	BCI LL	BCI UL	f^2 / v^2	Decision	Effect Size
H1	RC → PTRP	0.279	0.076	3.669	<0.001	0.140	0.393	0.091	Supported	Small
H2	RC → INN	0.187	0.103	1.818	0.035	0.004	0.342	0.024	Supported	Small
H3	INN → PTRP	0.442	0.076	5.816	<0.001	0.310	0.559	0.147	Supported	Medium
H4	RC → INN → PTRP	0.083	0.045	1.854	0.032	0.007	0.152	0.0069	Supported	Small
H5	NC*RC → INN	0.407	0.142	2.862	0.002	0.184	0.656	0.057	Supported	Large
H6	NC*INN → PTRP	-0.110	0.144	0.764	0.223	-0.346	0.126	0.004	Not supported	None

Note: We used a 95% confidence interval with a bootstrapping of 10,000.

Source: own study.

Finally, the researchers tested the moderating effect of the neighboring council (NC) on the RC→INN and INN→PTRP relationships. The interaction effect NC*RC→INN ($\beta = 0.407$, $p = 0.002$) was significant, while the interaction effect NC*INN→PTRP ($\beta = -0.110$, $p = 0.223$) was not significant. From this, it can be concluded that H_5 is accepted and H_6 is rejected. This study further followed a more realistic standard for effect size as recommended by Kenny (2018), whereby values of 0.005, 0.01, and 0.025 represent small, medium, and large effect sizes, respectively. Therefore, based on the values of 0.057 in Table 8, it can be concluded that the effect size for NC*RC→INN is high.

As suggested by Dawson (2014), the interaction effect pattern is presented to see how the moderator changes the relationship between relational capital and process innovation to further elaborate on the phenomenon of moderation by neighboring councils. As can be seen in Figure 2, the line for the council with neighbors who reassess has a steeper curve than the council with neighbors who do not reassess, suggesting

that the positive relationship is indeed stronger when the NC is higher. Therefore, based on the hypothesis, it can be concluded that the relational capital of the local authority towards process innovation in property tax reassessment is stronger when the NC conducts reassessment.

To assess the predictive power of the model, the researchers conducted a PLS predict analysis, following Shmueli et al. (2019) guideline that included a 10-fold cross-validation and 10 repetitions (refer to Table 9). Based on their guidelines, the root mean square error (RMSE) values for the PLS model are generally lower for both PRE and EFF compared to those of the linear model (LM). This indicates that the study's model possesses moderate predictive power.

Table 9

PLS-Predict				
Item	$Q^2_{predict}$	PLS RMSE	LM RMSE	PLS-LM
IMP	0.060	0.976	0.969	0.007
PRE	0.131	0.938	0.974	-0.036
EFF	0.101	0.954	0.981	-0.027

Source: own study.

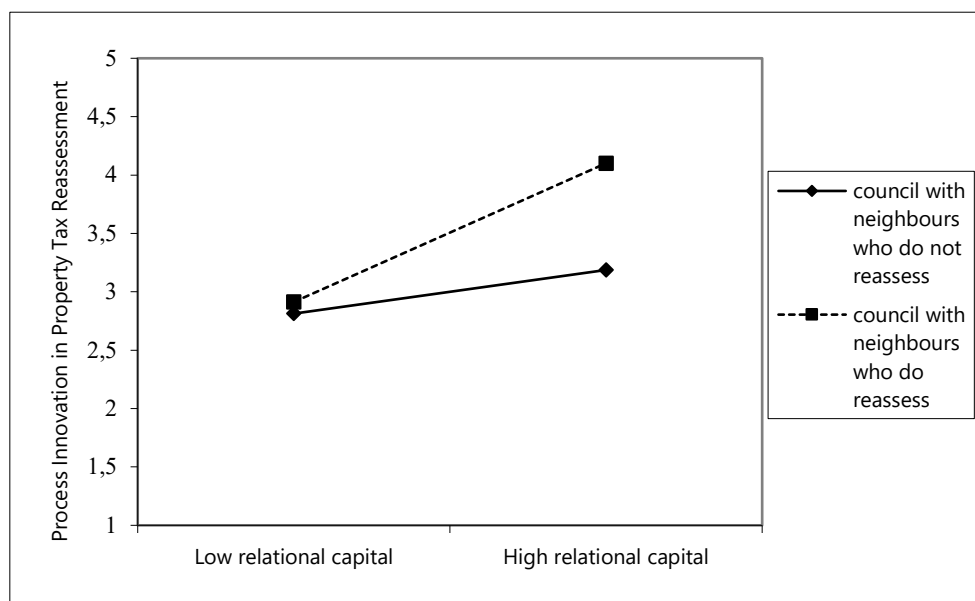


Fig. 2. Interaction Plot for H₅. *Source:* own study.

5. Discussion

As shown in the previous section, there was a positive and significant relationship resulted between RC and property tax reassessment performance. The result shows that the previous assertions that property tax reform requires collaboration with the public, stakeholders, and other external parties (Slack & Bird, 2014; Massawe, 2020; Senawi & Osmadi, 2022), are valid. RC has become an essential criterion to improve taxpayer education and public understanding of rising property tax bills. This will motivate local authorities to reassess the property tax.

A significant result was also found in the mediating effects of process innovation on the relationship between RC and property tax reassessment performance. The results from this study are consistent with those of Ekayani et al. (2023), Ryu et al. (2021) and Wang et al. (2021), indicating that innovation mediates the relationship between RC and organizational performance. The conclusion is that process innovation absorbed only part of the direct effect of RC. This result suggests that process innovation is a good antecedent condition for increasing RC and property tax reassessment in local authorities.

In addition, the moderating effect was tested and a significant moderating effect of neighboring councils (NC) on the relationship between relational capital and process innovation was found. In other words, the relationship between relational capital and process innovation was stronger for NCs that reassessed than for NCs that did not. Councils surrounded by neighbors

undergoing property tax reassessment scored higher on relational capital and process innovation. As reported by Eom et al. (2017), neighboring councils played a crucial role in influencing other councils to follow their lead, thus changing the relationship between organizational resources and their policy innovation. In other research in Malaysia, the neighboring council is also cited as one of the determinants of property tax reassessment (Senawi et al., 2022).

In contrast, the results of the study support the claim that the neighboring council (NC) ultimately does not lead to an improvement in process innovation activities with regard to the implementation of property tax reassessment. This situation is contrary to the empirical evidence in the literature that shows that councils often look to their neighbors when deciding whether to adopt new practices, especially in tax reassessment (Shipan & Volden, 2012). The influence of NC could have an impact on property tax reassessment, but from a different aspect, namely relational capital and innovation, which was clearly not based on this relationship here. While Eom et al. (2017) acknowledged that regional interactions with neighboring municipalities could facilitate the policy adoption, their findings emphasized that internal factors such as the form of government and the type of property tax assessor played a more important role in the decision-making process. This suggests that the reassessment practices by neighboring councils do not uniformly affect local authority performance in property tax reassessment.

Overall, the study's findings do not support the presence of a NC for the relationship between process innovation and property tax reassessment performance. The activity of process innovation in local authorities improves reassessment, and this effect is not dependent on whether the council cooperates with neighbors who have already conducted reassessment. While the introduction of new methods and technologies has a significant impact on the implementation of property tax reassessment, it is not necessarily dependent on the council's neighbors. The implementation of property tax reassessment is a multifaceted issue that is influenced by a combination of factors that transcend neighboring councils. Even if local authorities have a neighbor who has already implemented reassessment, how these benefits are used is crucial. The findings of Abd Rahman et al. (2021) suggest that factors such as insufficient human resources, inadequate property systems and lack of financial capacity are among the main barriers.

On the other hand, relations with stakeholders enhance process innovation related to property tax reassessment through the adoption of new methods and technologies, and this depends on the councils that have neighbors who also conduct reassessment. Local authorities with neighbors conducting the reassessment can leverage their network with other parties, including stakeholders, other public and private entities, and universities, to be successful in process innovation. With a strong dissemination practice between neighboring councils, the policy or innovation can easily spread across them through mechanisms such as competition, collaboration, and learning. This engagement will therefore benefit local authorities in the implementation of property tax reassessments.

The study, therefore, concludes that neighboring councils act as signal generators that reduce uncertainty (learning), confer legitimacy through visible adoption, and create yardstick competition through benchmarking. These external cues lead to improved property tax reassessment only when internal relational capital supports knowledge exchange and when councils enact process innovation by codifying and routinizing imported practices into standard operating procedures, data standards, and quality assurance gates.

6. Conclusion

This study highlights the importance of neighborhood influence in shaping relational capital and process innovation for property tax reassessment. The results

are consistent with an internal capability perspective, in which relational capital is positively associated with process innovation, and process innovation is associated with improved reassessment performance. In contrast, neighboring activity has only a limited direct effect and a weak, context-dependent moderating effect. Taken together, the findings imply that neighboring councils primarily function as signals and sources of know-how, but performance gains occur only when local authorities can absorb that know-how and embed it in routine practice. By pursuing regional collaboration and political harmonization, councils can increase the efficiency of reassessment and ensure fair and sustainable taxation.

The study contributes to the discourse on innovation diffusion in public finance and offers practical insights for policymakers aiming to modernize tax administration practices. For practitioners, the message is pragmatic: they should build and maintain purposeful relationships with peer councils to share concrete artifacts such as standard operating procedures, templates, vendor scopes, and appeal-handling playbooks. The local authority should measure key indicators, including cycle time, coverage, and objection or appeal rates, and compare these metrics with those of neighboring jurisdictions. Finally, it should institutionalize a periodic reassessment process to ensure that improvements persist beyond the efforts of individual champions.

The limitations of this research include the concentration of the sample in West Malaysia, the use of a cross-sectional design, and a coarse baseline moderator. Future research should incorporate East Malaysian jurisdictions to examine institutional heterogeneity, utilize longitudinal or event-history designs to capture diffusion over time, and employ more detailed moderator measures, such as the count or proportion of reassessing neighbors, the recency of neighbor reassessment, and tie strength. Despite these caveats, the findings of this study highlight a practical approach to improving reassessment: strengthening relational capital, codifying process innovations, and treating neighbor signals as catalysts rather than substitutes for internal capabilities.

Acknowledgements

The acknowledgements are intended to recognize the people who helped with the research and the Universiti Teknologi MARA (UiTM) for the financial support for the publication of this research.

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