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Employee Satisfaction and Performance as Intervening Variables of Learning Organization on Financial Performance

Saarce Elsy Hatane^{a*}

^aAccounting Program of Petra Christian University, Surabaya, Indonesia

Abstract

Competition forces businesses to improve the quality of their employees as the intellectual resources which then can lead to the achievement of financial performance. Improved financial performance is the result of an ongoing process that involves all stakeholders in a business organization, especially leaders and employees. This study was conducted in 33 manufacturing companies and 34 non-manufacturing company in Surabaya, as the second biggest city in Indonesia. By using partial least square statistic, this study found that employee satisfaction and employee performance are able to positively intervene in the relationship of the learning organization to financial performance.

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Keywords: Employee Satisfaction, Employee Performance, Financial Performance, Learning Organization, and Intervention.

1. Introduction

Recently, a lot of attention from business leaders in seeking global growth opportunities has shifted to Southeast Asia as the countries in that region that have given positive macro-economic outlook (Utama, 2015). The regional economic integration in Southeast Asia (ASEAN Economic Community – AEC) is a milestone for Indonesia as a part of ASEAN countries. Chin, Meyer, Tan & Waltermann (2014) report results from ASEAN Economic Integration Survey of the Boston Consulting Group (BCG) that as the overall, 78 percent of surveyed executives in ASEAN countries perceived AEC as the opportunity. The report also released that 45 percent of Indonesian surveyed executives perceived the AEC as an opportunity, while almost equal proportion (42 percent) noticed the AEC as a threat. As a

* Corresponding author. Tel.: +62 82132670343; fax: +62312983224.
E-mail address: elsyehat@petra.ac.id

response to an unpredictable and dynamic business environment, the idea of learning organization has been sprouting up. Afrianus (2013) reports that the applications of learning organization in Indonesia are running more rapidly in private enterprises than in government enterprises or agencies. Consequently, the private companies gain the benefits of the innovations resulted from the learning process. Knowledge and learning are two necessary things needed by Indonesia in the highly competitive environment.

The organizational performance can be interpreted as a result or outcome. As a business organization, a company performance broadly covers the measurement of profitability, productivity, quality of service, as well as customer and employee satisfaction (Burke & Litwin, 1992). In a global business environment that is dynamic and constantly changing, the development of organizational performance associated with the development of individual performance, skills, knowledge and experience (Covey, 1989; Covey, 2004; Jones & George, 2008). Human resources, which are members of organization who are supposed to have critical knowledge about organization and its stakeholder, will play important roles in affecting the organizational performance. Many organizations believe that human resources or the employees are their greater competitive assets, but they often fail to consistently invest in fostering the employees' learning and growth (Huselid, Jackson, & Schuler, 1997; Boudreau & Ramstad, 2007). Maximizing organizational performance emphasizes the need to take action and to make changes based on the learning, thus learning organization is important (Baker & Sinkula, 1999; Davis, 2005; Weldy, 2009).

Hence, the main characteristics of high performed organization is its ability to run the learning and development program for the employees (Tidd, Bessant & Pavitt, 2005). There are some empirical researches examined a positive relationship between learning organization and firm's financial performance (Ellinger, Ellinger, Yang & Howton, 2002; Chajacki, 2007; Wetherington, 2010; Weldy, 2009; Som, Nam, Wahab, Nordin & Mashkuri, 2012). In addition to learning organization, employee satisfaction and employee performance can also affect the organizational financial performance. Hwang & Chi (2005); Bontis & Fitz-enz, (2002); Antoncic & Antoncic (2011) find that employee job satisfaction has a positive impact on the organizational performance. Organization also need a high level of consistent performance from the employees in order to improve the organization overall performance and to survive in the high competitive environment (Newstrom & Davis, 2002). Kohli, Tasadduq & Goutam (1998) concludes that employees who grow up in an organization that supports learning is able to achieve better performance improvement. This study examines the intervening role of employee satisfaction and employee performance in describing the effect of learning organization towards financial performance.

2. Literature Study and The Hypothetical Development

2.1. Learning Organization

Senge (1990) defines learning organization as an organization in which its members continuously improve their capacities in order to achieve their objectives, and learn how to work together. The organization also becomes a place where new thinking is nurtured, and collective aspiration is liberated. Garvin (2000) argues that learning organization is an organization that skilled at creating, acquiring and transferring knowledge, as well as in changing behavior to reflect new knowledge and insights. Marsick & Watkins (2003) state that organization becomes a learning organization if it learns continuously and transforms by itself. Yeo (2005) concludes that the learning organization is based on the belief that by leaning together, the organization's members are able to levitate the organizational performance and competitive advantages. Along with the rapid changes in the competitive environment, learning organization is identified as one of the company strategy to improve its performance, both employees as individuals and company (Herrera, 2007).

Marsick & Watkins (2003) develop a model that establishes seven common actions that should be followed by the organization to create a learning organization. First is to create continuous learning opportunities. Work is designed as a form of learning, so that employees can learn on the job; and organization provides opportunities for employees to pursue education and sustainability growth. Second is to promote inquiry and dialogue. The employees acquire productive reasoning skills to express their views, and the ability to listen to and ask for others' opinion; organization also able to build a culture of questioning, providing inputs, and conducting experiments. Third is to encourage collaboration and team learning. Work is designed to use groups in order to gain different ways of thinking, the group is expected to work and learn together; collaboration is appreciated, and it is implemented by cultural values. Fourth

is to provide strategic leadership for learning. Leadership model that supports competition and the learning process; leader uses strategic learning to achieve the business goals. Fifth is to empower people toward a collective vision. Organization's members are involved in the regulation, ownership and implementation of a shared vision; the responsibility is distributed close to the decision makers so that people are motivated to learn what they are asked to account for. Sixth is connect the organization to its environment. The organization is connected with the community; the employees are directed to see the impact of their works on the whole company, and observe the environment to uses appropriate information for their works. Seventh is to create system to capture and share learning. Both, high-technology and low-technology systems, are applied to share the learning that has been created and integrated with the work; organization always provides access to, care for and maintain the systems.

2.2. Employee Satisfaction

According to Spector (1997), employee satisfaction is the satisfaction of employees toward their works. It is the degree to which employees like their jobs. Kidd (2006) defines the employee satisfaction as the feeling that employees have on the jobs; the experience of job in the relation to past experience, current expectation and the alternatives that exist in the future. The commitment of top management to increase employee satisfaction by taking into account the factors that influence employee satisfaction will be able to encourage employees to improve the performance of their duties, so as to contribute to the growth of the company (Shaw, Delery, Jenkins & Gupta, 1998).

Eylon & Bamberger (2000), Egan, Yang & Bartlett (2004), and Chang & Lee (2007) argue that there is a positive effect from learning culture on job satisfaction. Bhatti & Shahzad (2008) show that the employees who satisfied with their jobs will have higher quality of work and higher commitment to the company, so ultimately their desire to leave the organization will be declined. Antoncic & Antoncic (2011) propose four elements of employee satisfaction that is applied for this study. First is general satisfaction with work. It contains of work condition, working time and company reputation. Second is employee relationship, which consists of relationships among employees, and interviews with employees on an annual basis. Third is remuneration, benefits and organizational culture. It is including salary, benefits and rewards in the form of praise, promotion, education, permanent jobs, and the supportive atmosphere and culture of the company. Fourth is employee loyalty. The satisfied employee will be loyal to the company.

2.3. Employee Performance

Mathis & Jackson (2002) suggest that employees' performance refers to the contribution of employees to the organization. The standard of each employee can be seen through the quantity of output, quality of output, the output time period, attendance at work and cooperative attitude. Cascio (1995) argues that the performance of an employee is the accomplishment of the tasks that have been set. Tinofirei (2011) concludes that employee performance is the successful in the completion of the task, as set and measured by a supervisor, based on acceptable standards that have been established, by utilized the available resources effectively and efficiently. Employee performance is an important factor that contributes to increase outcomes, improve positive behavior and characteristics of employees, as well as helping to increase the productivity of organization (Zahargier & Balasundaram, 2011).

Blickle et al. (2008) suggest three components in employee performance. First is task performance, which is the employee contribution to the performance of organization which refers to actions that are part of formal reward system. Second is contextual performance. It includes the employee behavior that supports the organizational social and psychological environment which indirectly contributes to organizational performance. Third is the ability of employees to adapt (adaptive performance). It can be seen from the employee's ability to resolve the unforeseen or unexpected events in his work, and can adjust to the changes and innovations that occur in the company.

2.4. Financial Performance

There is no single measure that adequately describes all aspects of the company's financial performance. It can be measured using a variety of dimensions. Financial performance is a measure of changes in financial condition of a company; it is a result of management decisions and the implementation of the decision by all company's members

(Carton, 2004). Financial data is sensitive data. Therefore, identifying the optimal size for the company’s financial performance is primarily a problem. Lopez, Peon & Ordas (2005) state that in order to prevent the removal of sensitive financial performance data, the researcher can use the indirect approach to collect the financial data that is by measuring the financial perception of management. Thus, it is not directly ask respondents to report the company’s financial performance, but they are asked to report the level of their satisfaction with the company’s performance in terms of profitability, sales growth, profit growth, sales margins, and market growth. The financial performance measurement is related to signaling theory in which the financial information is a signal given by one party to the other, so that the respondents’ answers regarding to company’s financial performance has been enough to be a signal in describing the company’s actual financial condition (Spence, 1973). This signaling measurement for the financial performance also conducted by some studies, such as Powell (1992); Powell & Dent-Micallef (1997); Spanos & Lioukas (2001); Tippins & Sohi (2003).

3. Research Method

3.1. Research Model

This study examines the impact of learning organization (LO) towards financial performance (FP), and the ability of employee satisfaction (ES) and employee performance (EP) to be the intervening variables to strengthen the relationship of LO on FP. Fig 1 shows the research model in this study which has five detailed hypotheses:

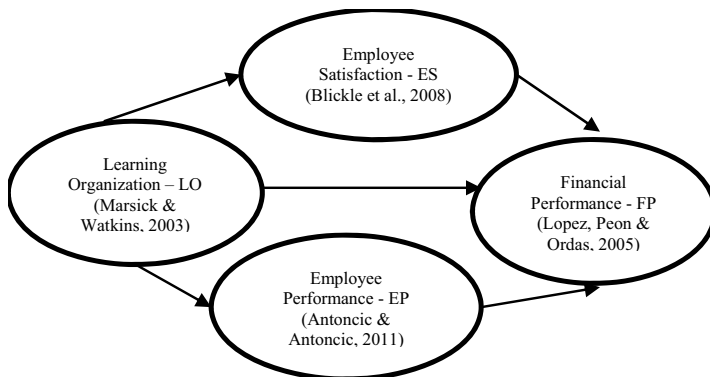


Fig 1. The Research Model

- H1: Learning organization is positively related with employee satisfaction
- H2: Learning organization is positively related with employee performance
- H3: Employee satisfaction is positively related with financial performance
- H4: Employee performance is positively related with financial performance
- H5: Learning organization is positively related with financial performance

From those five hypotheses, this study has three regression models:

$$ES = \alpha + \beta_1 LO + e \tag{1}$$

$$EP = \alpha + \beta_1 LO + e \tag{2}$$

$$FP = \alpha + \beta_1 LO + \beta_2 ES + \beta_3 EP + e \tag{3}$$

3.2 Instrumentation

The population used in this study was the companies in Surabaya. This study applied the non-probability sampling technique by choosing the limited companies from the manufacturing and non-manufacturing sectors in Surabaya. The respondents were the managers, minimum from the middle level management, who had been working in the company for at least three years. Thus from their experiences in the company, they have enough knowledge about the company to answer the questionnaires. The unit analysis used was the company. There were three managers in each company who were interviewed in order to fill the questionnaires which have type of 5-points Likert Scale, where scale 1 was strongly disagree and scale 5 was strongly agree.

The instruments exercised in this study were adopted from Marsick & Watkins (2003) using 7 items of LO; Blickle

et al. (2008) using 4 items of ES; Antoncic & Antoncic (2011) using 3 items of EP; and Lopez, Peon & Ordas (2005) using 6 items of FP. The independent variable in this study was LO, and the dependent variable was FP. The ES and EP played the role as the intervening variables. The Structural Equation Model (SEM) was employed to examine the relationship of each variable in the research model. Total managers participated in this study were 201 managers who represented 33 manufacturing companies and 34 non-manufacturing companies. Due to the limited data, the statistical measurement was run by partial least square method (PLS).

4. Results and Discussion

Table 1. The Outer Loading Validity

		Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STERR)
EP1 <- EP	I can complete a given task before the stipulated time, and in accordance with the standard expected	0.7002	0.0360	19.4770
EP2 <- EP	I can adjust to the changes and innovations that exist.	0.8599	0.0134	64.1109
EP3 <- EP	I can work together with other employees, and meet commitments related to my job.	0.8276	0.0178	46.4058
ES1 <- ES	I am committed to my organization.	0.7952	0.0194	40.8845
ES2 <- ES	I am pleased to be associated with my colleagues.	0.7252	0.0289	25.1072
ES3 <- ES	I am satisfied with the salary I received from my job, and I am satisfied with my growing organization and also gives me a chance to develop.	0.7192	0.0263	27.3358
ES4 <- ES	I often talk to my friends about the company where I work as a good company.	0.6653	0.0378	17.5841
FP1 <- FP	Assets have been used optimally to achieve the targeted profit.	0.7637	0.0243	31.4838
FP2 <- FP	My organization is able to provide in accordance with the targeted return to shareholders / owners of capital.	0.8359	0.0156	53.7560
FP3 <- FP	My organization is able to achieve sales growth that has been targeted.	0.8319	0.0159	52.3387
FP4 <- FP	My organization is able to achieve a net profit that has been targeted.	0.7820	0.0215	36.3624
FP5 <- FP	My organization is able to achieve profit growth that has been targeted.	0.8526	0.0168	50.6667
FP6 <- FP	My organization is able to master the targeted market share.	0.6618	0.0367	18.0451
LO1 <- LO	In my organization, every employee rewarded for his efforts to learn.	0.6954	0.0281	24.7522
LO2 <- LO	In my organization, employees are trying to build trust in each other.	0.6838	0.0223	30.7099
LO3 <- LO	In my organization, every employee is willing to accept an agreement on the results of the discussion group, despite different opinions.	0.6131	0.0348	17.6254
LO4 <- LO	My organization provides learning facilities to all employees.	0.6720	0.0316	21.2653
LO5 <- LO	My organization rewards employees for taking the initiative in work or resolve problems.	0.6443	0.0281	22.9554
LO6 <- LO	My organization in cooperation with the outside community to maintain good relations with stakeholders.	0.6331	0.0374	16.9308
LO7 <- LO	In my organization, leaders always have a willingness to learn.	0.6723	0.0342	19.6480

4.1 Validity and Reliability Analysis

The principle of convergent validity is a construct should have high correlation. The test assessed by the loading factor. The reflected indicator meets the convergent validation if it has outer loading value that is higher than 0.5, and

it has formative value if its t-statistic higher than 1.96. Table 1 shows the result of convergent validity, it has proved that all indicators used were valid. Discriminant validity relates to the principle that the measuring devices of different constructs should not have a high correlation. It is assessed by cross loading factors of the constructs. Another method used to test the discriminant validity is to make sure that the root of AVE for each construct is higher than the correlation between the construct with other constructs in the model. As shown in Table 2 and Table 3, the model has met the discriminant validity test.

Table 2. The Cross Loading Factor

	EP	ES	FP	LO
EP1	0.7002	0.3238	0.2655	0.3404
EP2	0.8599	0.4935	0.5693	0.3760
EP3	0.8276	0.5772	0.4680	0.4744
ES1	0.5972	0.7952	0.5018	0.5457
ES2	0.3601	0.7252	0.4554	0.3751
ES3	0.4309	0.7192	0.4610	0.5980
ES4	0.3199	0.6653	0.4797	0.3759
FP1	0.4498	0.4635	0.7637	0.3564
FP2	0.5353	0.6157	0.8359	0.4054
FP3	0.3879	0.5268	0.8319	0.4106
FP4	0.4128	0.4701	0.7820	0.4625
FP5	0.3933	0.5316	0.8526	0.5150
FP6	0.4917	0.4578	0.6618	0.3183
LO1	0.3313	0.4128	0.2389	0.6954
LO2	0.3536	0.5552	0.3211	0.6838
LO3	0.2925	0.4610	0.3959	0.6131
LO4	0.3291	0.4078	0.4899	0.6720
LO5	0.3632	0.4386	0.2120	0.6443
LO6	0.3138	0.3589	0.4277	0.6331
LO7	0.3227	0.4124	0.2834	0.6723

The reliability indicates the consistency and accuracy of a measuring instrument to take measurements. Reliability test can use two tests, the composite reliability and cronbach's alpha. Composite reliability measures the true value of the reliability of the construct; while the cronbach's alpha measures the lower limit of the reliability. A construct must have cronbach's alpha value > 0.6 ; and composite reliability value > 0.7 . Table 3 shows that this model has met the reliability tests.

4.2 Inner Model and Goodness of Fit

Inner model is a structural model to predict the causal relationship between latent variables. Through the bootstrapping process, T-statistic test parameters obtained to predict the existence of a significant causal relationship (T-stat > 1.96). R squared value is used to measure the degree of variation of the independent variable changes to the dependent variable. However, R^2 is not an absolute parameter in measuring the accuracy of the prediction model, because the basic theoretical relationship is the main parameter to explain the causality relationship.

Table 4 shows that T-statistic for each relationship is higher than 1.96 and the original samples are positive. It

indicates that each relationship is positively significant. It means that all hypothesis examined in this study are accepted. Table 3 shows the R² for each equation. The equation models developed are:

$$ES = 0.665 LO + e \quad R^2 = 24.98\% \quad (4)$$

$$EP = 0.50 LO + e \quad R^2 = 44.17\% \quad (5)$$

$$FP = 0.112 LO + 0.424 ES + 0.272 EP + e \quad R^2 = 47.97\% \quad (6)$$

The goodness of fit in the model is tested by using *Stone-Geisser (Q²)* Test. The Q² test is used for measuring how good the observation value that resulted from the model.

$$\begin{aligned} Q^2 &= 1 - (1 - R_1^2)(1 - R_2^2) \dots (1 - R_p^2) \\ &= 1 - ((1 - 0.2498) \times (1 - 0.4417) \times (1 - 0.4797)) \\ &= 0,7821 = 78.21\% \end{aligned} \quad (7)$$

The Q² result implies that the model employed in this study can explain the information from data in 78.21%. Fig 2 shows the overall statistical results model in this study. Table 5 shows the ability of intervening variables to play their role. The table showed that ES and EP are succeed to be intervening variables in strengthen the relationship of learning organization toward financial performance.

Table 3. The Discriminant Validity and Reliability

	AVE	Square Root AVE	LO	ES	EP	FP	Composite Reliability	R Square	Cronbachs Alpha
EP	0.6382	0.7989	0.4998	0.5983	1.0000	0.5660	0.8401	0.2498	0.7200
ES	0.5295	0.7277	0.6646	1.0000	0.5983	0.6516	0.8176	0.4417	0.7037
FP	0.6251	0.7906	0.5216	0.6516	0.5660	1.0000	0.9086	0.4797	0.8781
LO	0.4352	0.6597	1.0000	0.6646	0.4998	0.5216	0.8434		0.7836

Table 4. Results of Inner Weights

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STERR))
EP -> FP	0.2565	0.2554	0.0451	5.6935
ES -> FP	0.4241	0.4270	0.0460	9.2271
LO -> EP	0.4998	0.5018	0.0314	15.9255
LO -> ES	0.6646	0.6665	0.0299	22.2197
LO -> FP	0.1115	0.1103	0.0506	2.2020

4.3 Discussion and Managerial Implication

This study found that there is positive and significant relationship of LO to ES. This result supports the studies of Chang & Lee (2007), Eylon & Bamberger (2000), Lim (2003), Egan, Yang & Bartlett (2004). Positive and significant relationship of LO on EP that found in this study supports the results from Senge (1990), Marsick & Watkins (2003), Kohli, Tasadduq & Goutam (1998), and Garvin (2000). The ES is found positively significant in influencing the FP.

This result in line with the studies of Koys (2003), Hwang & Chi (2005), Bhatti & Shahzad (2008), and Antoncic & Antoncic (2011). This study supports the study of Zahargier & Balasundaram (2011) in finding the positive and significant relationship of EP on FP. The positive and significant relationship of LO on FP is related to the studies of Ellinger, et.al. (2002), Demers (2009), Herrera (2007), Martinez (2009), Davis (2005). The loading factors in Table 1 shows that LO1, ES1, EP2, and FP5 are the greatest loading factors that represent each variable. It means that those indicators are the best indicators to describe the variables examined in this study. LO1 is the ability of organization to create continuous learning opportunities. ES1 is the general satisfaction with works. EP2 is the contextual performance. FP5 is the ability of organization to achieve profit growth.

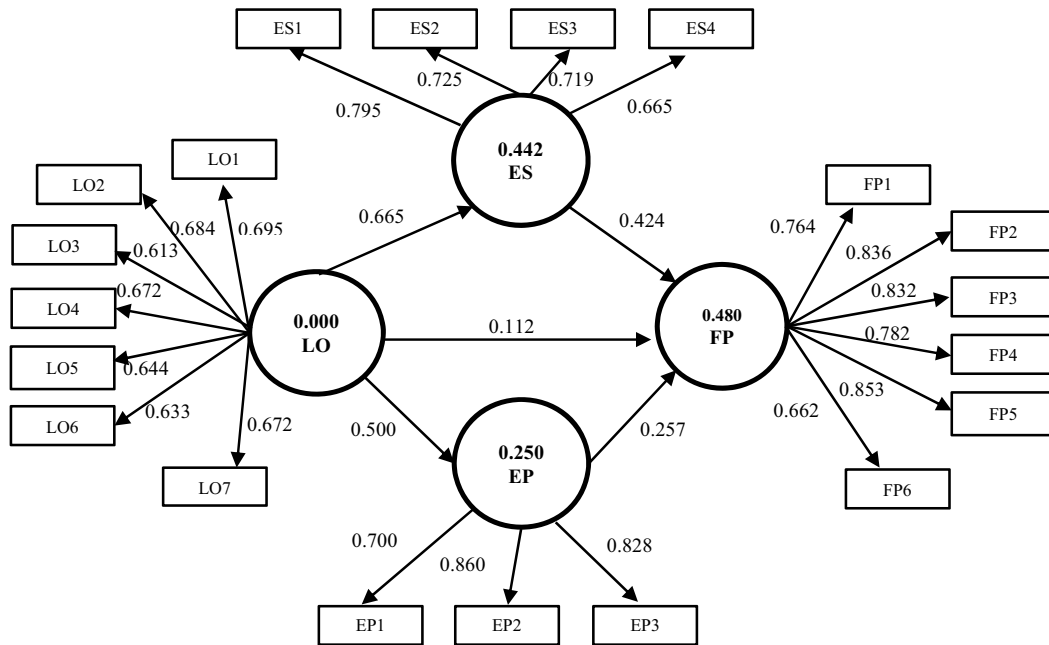


Fig 2. Result Model

Table 5. The Comparison of Intervening and Direct Influenced Power

The Intervening Model	The Intervening Power	The Direct Power LO --> FP	Results
LO --> ES --> FP	= 0.665 x 0.424 =	0.2820	0.112 Intervening > Direct
LO --> EP --> FP	= 0.500 x 0.257 =	0.1285	0.112 Intervening > Direct

The respondents in this study argued that in order to maintain the continuous learning, the companies reward the employees for their efforts to learn. By combining the learning strategy with reward system, organization is succeed to motivate the employees for improving the learning habits which will lead to the learning culture. Thus, if an organization has a culture of continuous learning, it will establish a better employee performance. The employees will be able to adjust to the change and innovation that company must take to be exist in the dynamics business environment. Learning organization helps to obtain, analyze store and disseminate knowledge which continually grow within the organization. It also provides fast access for employees who face problems in their jobs (Garvin, 2000). Therefore, the LO will increase the employees job satisfaction. Employee satisfaction can act as a basic feature in helping companies to obtain their profit growth (Koys, 2003). Organization, which is better in the continuous learning, will have a better chance to predict events and trends in the market which can lead to the increased sales and market share. In addition, the learning habits will provide a structure that is more flexible and responsive, so that company

can respond the new challenges more quickly compare to the competitors.

5. Conclusion

This study revealed the direct and indirect influences of learning organization on financial performance. The indirect influence particularly used employee satisfaction and employee performance as the intervening variables. Using structural equation model as the statistic tool, the results showed that employee satisfaction and employee performance play a role in strengthening the influence of learning organization on firm's financial performance. Organization, especially in a business field, must pay attention on the continuous learning process. This study showed that the commitment of employees on the organization will increase as the application of learning organization is increasing. Furthermore, the reward system that in line with the application of learning organization will lead to development of employee's ability to adopt the changes and innovation in the organization. The effort of organization in developing the implementation of learning organization will bring result to the increasing of employee satisfaction and performance, thus at the end will lead to the achievement of profit growth. Therefore, since it has high influences on non-financial (employee satisfaction and employee performance) and financial performance, the company must transform itself to be a learning organization which makes the learning as organization's culture.

This study examined the influence of LO, ES and EP on FP in manufacturing and non-manufacturing companies in Surabaya. The different result can be found if the future researches use different scope of area or different characteristic. The improvement in this field always needed as the business environment is dynamic. This research field also related to the personal of people in organization who will always change.

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