THE ROLE OF EMPLOYEE SATISFACTION AND QUALITY MANAGEMENT IN STRENGTHEN THE INFLUENCE OF LEARNING ORGANIZATION ON FIRM'S FINANCIAL PERFORMANCE

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ABSTRACT

Business development in Indonesia has been transformed. It is shown from the move of a lot of companies from domestic to global market. The degree of global competition influence has accelerated the change, as a product or service easily imitated, manufactured and shipped to anywhere. From the issues of business environment turbulence and transformation, the concept of learning organization became an interested research topic, not only for the theoretical but also practical improvement. Business organization has been called to be a learning organization as it is needed to make the organization, and also the people inside it, to have continuous improvement. This study examines the relationship of learning organization on firm's financial performance throughout employee satisfaction and quality management as the intervening variables. Structural Equation Model (SEM) is employed to measure the relationship. The objects are manufacturing and non-manufacturing companies in Surabaya, in total 65 companies. Surabaya is the capital of East Java province in Indonesia. The important finding is the significant role of employee satisfaction and quality management as the intervening variables for strengthening the influence of learning organization on firm's financial performance. The significant findings in this study are addressed to show the benefit of learning in the organization.

Field of Research: *Learning organization, employee satisfaction, quality management, firm's financial performance*

1. Introduction

Transformation has been happening in the business environment as it is characterized by the expansion of some regional businesses to global market (Christensen, Anthony, & Roth, 2004; Hitt, Keats, & DeMarie, 1998). The impact of global competition has accelerated the change, as a product easily imitated, manufactured and shipped to anywhere in the world in a matter of days (Zachary, 1995). Organizations faced several strategic challenges, mostly associated to the increase of environment turbulence, intensive competitions, rapid change of technology, workforce diversification, and the demanding customers (Higgins, 1995). In order to face those challenges, organizations need high and consistent performance from their workforces, as well as strategies employed to create better performance than competitors (Newstrom & Davis,2002).

Along with the emergence of business environment turbulence and transformation, learning organization concept has become the focus of theorists and business players, both for the development of theory and practical implication (Mintzberg, Ahlstrand & Lampel, 1998). Mintzberg et al (1998) also mentioned that business organization has been called to be a learning organization as the world moved towards internationalization and entered the globalization era, where it must to remain competitive and relevant. Organization, group and individual must have continuous learning in order to make them always be flexible and transformed. Baker & Sinkula (1999) implied that learning organization is a must for maximizing organization performance. Learning organization is very important in facilitating the learning and management process to create knowledge, thus it is also an important strategy to increase the organization performance and make the organization keep being competitive (Davis, 2005).

2. Learning Organization

Learning organization is an organization where the people inside are continuously improving their capacities in order to achieve their expected goals; new ideas fostered; joint aspirations are released; and people are learning how to learn together (Senge, 1990). Marsick & Watkins (2003) implied that learning organization is an organization that continuously learn and thus can transform its self. Learning organization involves extensive participation of employees and customers in decision making, conversation, and sharing information. It is not just group or individuals who learn; however, learning occurs continuously in various levels of business units and even in the entire company (Garvin, 1993).

There are seven indicators of leaning organization that proposed by Marsick & Watkins (2003). Those indicators are creating continuous learning capabilities; promoting inquiry and dialogue; encouraging collaboration and team learning; providing strategic leadership for leaning; empowering people toward a collective vision; connecting the organization to its environment; and creating systems to capture and share learning.

3. Quality Management

A business organization must review and improve its management practice to be able to adapt to the new business environment and to lead the transformation in the highly competitive environment (Antonia, Morales, dan Fransisco, 2005). In its development, quality management (QM) that is popular implemented in manufacturing and non-manufacturing companies, has been relevant to learning process in business management (Choo, Linderman, & Schroeder, 2007; Linderman, Schroeder, Zaheer, Liedtke, & Choo, 2004; Moreno, Morales, & Montes, 2005). QM, that is oriented on learning, enables the organization to adapt with the business environment changes (Sitkin, Sutcliffe, & Schroeder, 1994); and contributes to the performance improvement (Choo, et al. 2007; Linderman, et al. 2004).

QM is defined as a management approach that aims to achieve and maintain a high quality output, focusing on the maintenance and continuous improvement in process and defect product prevention in the all organization lines (Flynn, Schroeder, dan Sakakibara, 1994). Furthermore, QM concept seen as a set of best practices (Powell, 1995; Sila & Ebrahimpour, 2005); structured system (Mele & Colurcio, 2005); and organization culture (Dahlgaard, Kristensen, & Kanji, 1998). Oh (2009) adapted the empirical result from Samson & Terziovski (1999) in defining the indicators of QM. He defined five indicators which are grouped into two main categories. The first category is infrastructure practiced of QM, consists of leadership; customer focus; and people management. The second category is main practice of QM, which consists of management process; and information and analysis.

4. Employee Satisfaction

Chang & Lee (2007) found that there is a positif and significant influence from learning organization to employee satisfaction. Egan et al. (2004) implied that the culture in learning organization has influenced the employees satisfaction, and thus do transfer knowledge. Spector (1997) defined employee satisfaction (ES) as the satisfaction level that employees have on their jobs. Kidd (2006) mentioned that ES is the feeling that employees have about their jobs experience in the relation of past experience, today’s expectation, and future alternatives. There are four elements of QS as defined by Jasna Antoncic dan Bostjan Antoncic (2011), which are general satisfaction with work; employee relationship; remuneration, benefits and organizational culture; and employee loyalty.

5. Financial Performance

Lee & Munir (2007) found that the capability of knowledge management has significantly influencing the effectiveness of organization. Furthermore, Liu & Tsai (2007) mentioned that knowledge management also significantly boosted the operational performance. Prieto & Revilla (2006) implied that there is causal relationship where the learning capability influences non-financial performance, such as employee satisfaction and quality management, and then the non-financial performance influences the financial performance. Ellinger, Ellinger, Yang & Howton (2002) mentioned that there is direct positive correlation from learning on financial performance.

This study uses signaling theory to measure the financial performance. Spence (1973) mentioned signaling theory as the idea that one reliable party can inform about him/herself to other parties. The financial performance in this study uses five signals in order to show the change of financial condition in the organization (Lopez, Peon, dan Ordas, 2005). Those are return on assets (ROA), return on equity (ROE), sales growth, net profit, profit growth, and market share.

6. Methodology

6.1 Sample and data collection method

Manufacturing and non-manufacturing companies in Surabaya were the focus of this study. This study employed non-probability sampling as the sampling technique. The tool used in data collection was questionnaire using 5-point Likert scale. The respondent, who filled the questionnaire, was managers who have worked in the organization for minimum three years. The unit analysis used was company.

There are five hypothesis examined in this study.

H1 : Learning Organization (LO) has positive and significant influence on Employee Satisfaction (ES)
H2 : Employee Satisfaction (ES) has positive and significant influence on Financial Performance (FP)
H3 : Learning Organization (LO) has positive and significant influence on Quality Management (QM)
H4 : Quality Management (QM) has positive and significant influence on Financial Performance (FP)
H5 : Learning Organization (LO) has positive and significant influence on Financial Performance (FP)

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

$ES = \alpha + \beta 1\ LO + e$ …………………………………………… (1)
$QM = \alpha + \beta 1\ LO + e$ ………………………………………... (2)
$FP = \alpha + \beta 1\ ES + \beta 2\ QM + e$ ……………………………... (3)

6.2 Instrumentation

Table 1 shows the variables, items, and source of scale used in this study. The instrument items were adopted from Marsick & Watkins (2003); Oh (2009); Antocic & Antocic (2011); and Lopez, et al. (2005).

Structural Equation Model (SEM) was employed to measure the influence from learning organization (LO), as the independent variable, to quality management (QM) and employee satisfaction (ES), as the intervening variables, and then to financial performance (FP), as the dependent variable. Due to the limited data, 65 companies, the statistical measurement was run by partial least square (PLS).

Table 1: Instrumentation of the study variables			
Study Variables	**No. of Items**	**Source of Scale**	**Type of Scale**
Learning Organization	7	Marsick & Watkins (2003)	5-points Likert Scale
Quality Management	5	Oh, Seok Young (2009)	5-points Likert Scale
Employee Satisfaction	4	Jasna Auer Antoncic dan Bostjan Antoncic, 2011	5-points Likert Scale
Financial Performance	6	Lopez, Peon, & Ordas (2005)	5-points Likert Scale

7. Finding and Discussion

7.1 Validity and Reliability Analysis

This study measured the research model from 65 companies, which consist of 32 manufacturing companies and 33 non-manufacturing companies. Table 2 shows the result of convergent validation. The reflected indicator meets the convergent validation if it has outer loading value that is higher than 0.05, and it has formative value if its t-statistic higher than 1.96. From Table 2, this study has proved that all indicators used were valid. The highest outer loading value indicates that it is the best indicator that can describe the variable. In variable LO, the best indicator in this study is LO6, connecting the organization to its environment. It means that learning organization in manufacturing and non-manufacturing companies in Surabaya, as the sample in this study, focused more on developing the connecting system to the business environment, which are the stakeholders. The companies maintain a good connecting system that enable the management to always learn and get knowledge about the need of stakeholders. The organization will always get the updated information about the stakeholders. The stakeholders are internal stakeholders (employees and owners), and external stakeholders (customers, debtors, competitors, government, and all parties that related to organization).

In variable ES, the best indicator that can describe variable employee satisfaction is ES1 (general satisfaction with the work. It means that the business organization in Surabaya can satisfy the employees from their job. The employees satisfy with their jobs; therefore they can have commitment to the organization the work in. The best indicator that can describe variable QM is QM4 (process management). It means that the process business in the business organizations in Surabaya, as the sample in this study, have good business process. The companies have ability to design their business process to be more realistic (*fool-proof* dan *preventif oriented*). FP3 (sales growth) is the best indicator to describe the financial performance in the sample. It means that most of respondents in this study understand the financial performance achievement from the signal of sales growth.

Table 3 shows the cross relationship of latent variables to the indicators. The highlighted values show the relationship of the relationship of latent variables to its own indicators is higher than its relationship to the indicators of other latent variables. It means that the variables meet the discriminant validation.

Table 4 shows the composite reliability test result. The aim of composite reliability test is to proof that indicators used in each latent variable are reliable. The critical value is 0.7. The result show that all variables have composite reliability value higher than 0.7; thus all indicators used in those variables were reliable.

Table 2: Results for Outer Loadings

	original sample estimate	Standard deviation	T-Statistic
LO			
LO1	0.607	0.033	18.289
LO2	0.584	0.035	16.653
LO3	0.589	0.037	16.01
LO4	0.686	0.028	24.273
LO5	0.547	0.03	18.296
LO6	0.75	0.021	35.34
LO7	0.639	0.036	17.792
ES			
ES1	0.793	0.018	43.222
ES2	0.766	0.023	33.344
ES3	0.655	0.031	20.988
ES4	0.668	0.04	16.522
QM			
QM1	0.662	0.038	17.322
QM2	0.721	0.02	35.615
QM3	0.722	0.034	21.257
QM4	0.75	0.022	34.164
QM5	0.692	0.034	20.448
FP			
FP1	0.762	0.025	30.964
FP2	0.838	0.014	59.023
FP3	0.856	0.017	51.406
FP4	0.807	0.021	38.854
FP5	0.836	0.02	42.288
FP6	0.597	0.034	17.515

Table 3: Cross Loadings

	LO	ES	FP	QM
ES1	0.577	0.793	0.512	0.445
ES2	0.425	0.766	0.441	0.268
ES3	0.465	0.655	0.426	0.387
ES4	0.441	0.668	0.603	0.43
FP1	0.38	0.476	0.762	0.431
FP2	0.566	0.772	0.838	0.586
FP3	0.643	0.613	0.856	0.409
FP4	0.537	0.521	0.807	0.436
FP5	0.475	0.537	0.836	0.413
FP6	0.465	0.437	0.597	0.313
LO1	0.607	0.434	0.224	0.334
LO2	0.584	0.422	0.276	0.245
LO3	0.589	0.316	0.314	0.239
LO4	0.686	0.483	0.668	0.424
LO5	0.547	0.288	0.23	0.234
LO6	0.75	0.533	0.595	0.452
LO7	0.639	0.443	0.32	0.284
QM1	0.465	0.601	0.395	0.662
QM2	0.581	0.561	0.471	0.721
QM3	0.51	0.309	0.614	0.722
QM4	0.498	0.708	0.657	0.75
QM5	0.554	0.545	0.459	0.692

Table 4: Composite Reliability

	Composite Reliability
LO	0.822
ES	0.813
FP	0.906
QM	0.835

Table 5: Results of Inner Weights

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
LO -> ES	0.629	0.632	0.025	24.998
LO -> FP	0.158	0.152	0.044	3.581
ES -> FP	0.301	0.301	0.05	6.024
QM -> FP	0.352	0.356	0.057	6.209
LO -> QM	0.634	0.639	0.033	18.975

7.2 Descriptive Statistic and Analysis

Table 5 shows the result of inner weight that tested the hypotheses and regression models. The T-statistic in Table 5 explain that all of the five hypotheses are accepted since the T-statistic values are higher than 1.96 as the critical value. The result models are:

$ES = \alpha + 0.629\ LO + e$; $R^2 = 0.395$ .... (3)

$QM = \alpha + 0.634\ LO + e$; $R^2 = 0.402$ .... (4)

$FP = \alpha + 0.158\ LO + 0.301\ ES + 0{,}352\ QM + e$; $R^2 = 0.508$ .... (5)

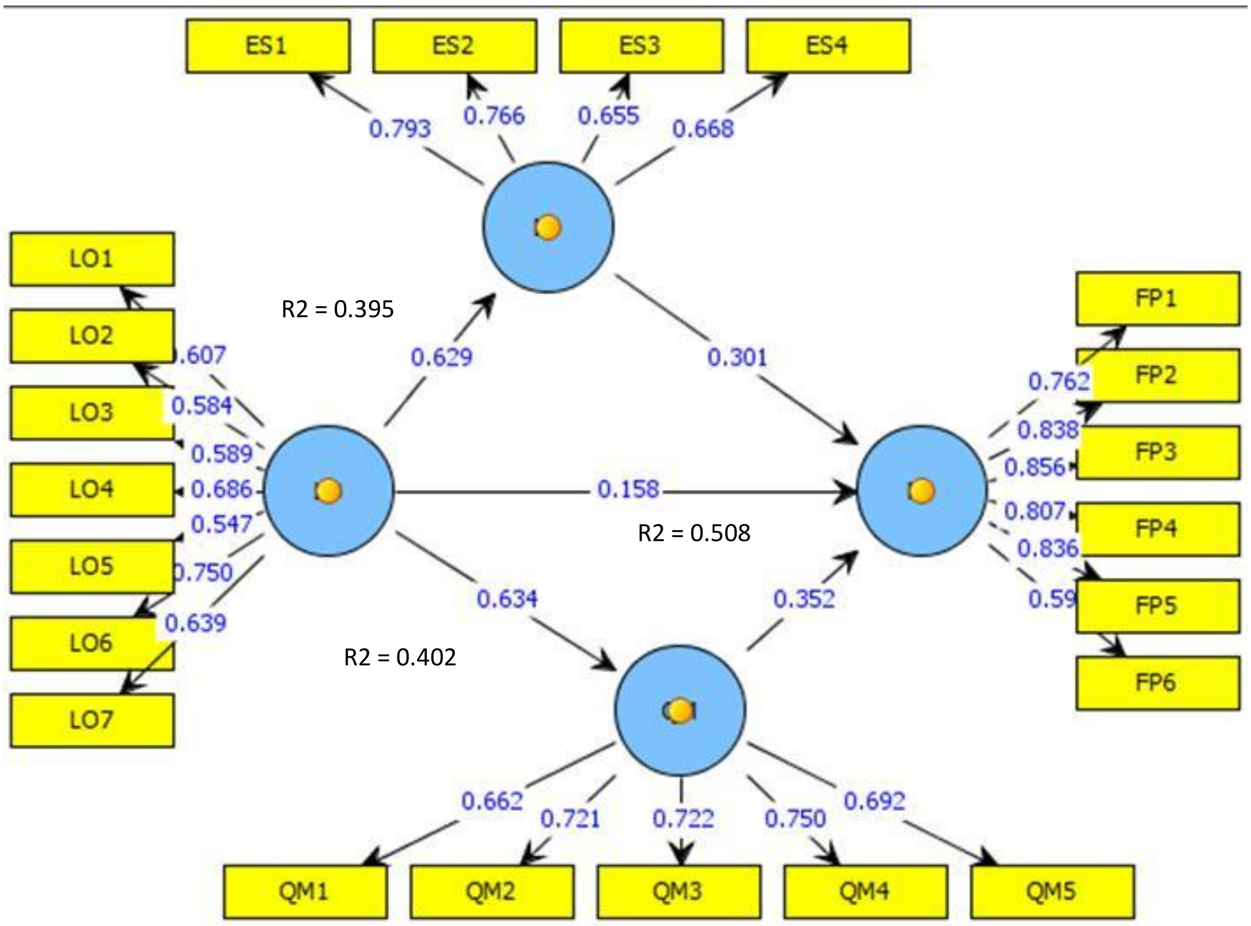
The first model implies that LO, that has positive and significant influence on ES, can explain the changed variance of employee satisfaction 39.5%. As shown in the second model, LO has positive and significant influence on QM; and the power of LO in explaining the variance of quality management is 40.2%. The third model shows that LO, ES and QM are positively and significantly influencing financial performance in the business organization as the sample of this study. The power of those three variables in explaining the changing variance of financial performance is 50.8%. The greater the R^2, the ability of model in predicting the dependent variable will be better.

The goodness of fit in the model is tested by using Uji *Stone-Geisser* (Q^2). The Q^2 test is used for measuring how good the observation value that resulted from the model.

$$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2) \dots (1 - R_p^2) \tag{7}$$
$$= 1 - ((1 - 0.395) \text{ x } (1 - 0.402) \text{ x } (1 - 0.508))$$
$$= 0{,}822 = 82.2\%$$

The Q^2 result implies that the model employed in this study can explain the information from data in 82.2%.

Figure 1: Result Model



This study examined the indirect influence of LO on FP throughout ES and QM. The direct and indirect effect of LO towards Financial Performance (FP) shown in Figure 1. Table 6 shows the ability of ES and QM as the intervening variables.

Table 6 shows that the ES and QM have ability to be the intervening variables in explaining the influence of LO on FP. The influenced power of LO on FP throughout ES and QM are higher than the direct influence of LO on FP. The influenced power of LO on FP throughout QM is higher than throughout ES. It implies that the ability of QM as intervening variable is better than ES. Furthermore, the total influences of LO, ES and QM, simultaneously, are 57%.

Table 6: The Direct and Indirect Influence

The intervening model	The Influenced Power	
LO --> ES ---> FP	0.629 x 0.301	0.189
LO --> QM ---> FP	0.634 x 0.352	0.223
The direct model		
LO ---> FP		0.158
Total influenced power		0.570

The positive and significant influence of LO on ES that found in this study is supported by Chang & Lee (2007), Eylon & Bamberger (2000), Lim (2003), and Egan et al. (2004). The positive influence of LO on ES means that LO has a role in increasing employee satisfaction. The ES, which highly represent by employees job satisfaction, is affected by the ability of organization to provide learning. Employees gain knowledge from the learning process in the organization, particularly the knowledge about organization's stakeholders, which found has highest loading factor. The more knowledge that employees have about organization's stakeholders, the more the employees can improve their job performance. From the high job performance, it is obviously will bring positive effect to organization's financial performance. The positive influence of ES on FP is found in this study, and it is in line with the result paper of Koys (2003), Gerhart & Rynes (2003), Antoncic & Antoncic (2011), Hwang & Chi (2005), and Bhatti & Shahzad (2008). The direct result that can be seen from employees' high job performance is sales growth. Employees, who satisfied with their jobs, generally will have high commitment to the organization, and thus will increase the firm's financial performance.

The examined result in this study found that there is positive and significant influence from LO to QM. This result supported by some study that also found the positive impact of LO to QM (Chiles & Choi , 2000; Ittner, Nagar, & Rajan, 2001; Senge, 1990; Sitkin, et al., 1994, and Moreno, et al., 2005). In this study, the stakeholders knowledge has by the organization give positive impact to the business process. The ability of management in designing their business process to be more realistic (*fool-proof* dan *preventif oriented*) is positively affected by their knowledge about stakeholders. The good quality management in the firm then brings positive impact on firm's financial performance. In line with the result from study of Sharma & Gadenne (2002), Kaynak (2003), Prajogo & Sohal (2006), and Roche (2002); this study also found that quality management has positive and significant influence of firm's financial performance.

This study found that LO, as independent variable, has direct influence on FP. It is positive and significant. The same result also found by Ellinger et al. (2002), Power & Waddell (2004), Sahaya (2012), Martinez (2009), and Demers (2009). However, this study also found that employee satisfaction and quality management can strengthen the role of learning organization in improving firm's financial performance. This is supported by the opinion of Lee & Munir (2007), Liu & Tsai (2007), Prieto & Revilla (2006), who revealed that learning organization give indirect influence to financial performance. Learning process and culture in organization has positive impact on organization's non-financial performance, such as the excellent business process and employees satisfaction, which at the end will give positive impact on organization's financial performance. This study found that compares to employee satisfaction, the quality management has high ability to strengthen the leadership influence on financial performance. Choo, et al. (2007), Barrow (1993), Hackman & Wageman (2004), Sitkin, et al. (1994), and Beyer et al. (1997) found that there is indirect influence from learning organization to financial performance throughout quality management.

8. Conclusion and Future Recommendation

This study revealed the direct and indirect influence of learning organization on firm's financial performance. The indirect influence particularly used employee satisfaction and quality management as the intervening variables. Using structural equation model as the statistic tool, the results showed that employee satisfaction and quality management have 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 learning process. This study showed that the commitment of employees that developed from their job satisfaction was the impact of learning organization. Furthermore, better knowledge about stakeholders as a good management practice also created from learning organization. Since it has influence on non-financial and financial performance, the company must transform itself to be learning organization which makes the learning as organization's fashion or culture.

This study examined the influence of LO, ES and QM on FP in manufacturing and non-manufacturing companies in Surabaya. As a case study, the result in this study cannot be generalized. The different result can be found differently 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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