Role of Organizational Learning in the Relationship between TQM Practices and Organizational Performance

Sisnuhadi

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TQM Practices and Organizational Performance

Sisnuhadi

A thesis submitted in fulfillment of the requirements for the degree of
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DECLARATION

I hereby declare that the thesis title “The role of organizational learning in the relationship between TQM practices and organizational performance” has been done by myself. This thesis has not been submitted previously for the award of any other academic degree and is not concurrently submitted as candidate of any other degree.

Signed:..................................................

Sisnuhadi
DEDICATION

This dissertation is dedicated to the rest of my family. My wife Aniek, and my three daughters: Sita, Bella and Floren who inspired me to continue my educational goals and allowed me the time to devote to work on this Ph.D.

I want to thank all of them for inspiring me to challenge the status quo and reach higher learning. I have learned from all three of them that education can change a person’s ability and help make this world a better place for all.

I dedicate this dissertation to each of them.
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ABSTRACT

In 2015 Asean Economic Community (AEC) has been promulgated, and the emergence of this market presents significant opportunities and competition for companies within and outside the region. Thus, Indonesian and Malaysian companies not only will compete with each other, but also with other foreign companies which may offer unique and high quality of products. Indonesian and Malaysian companies should have a good competitive edge of their products to take advantages of the AEC market. This study attempts to investigate the similarities and differences of the role of organizational learning in the relationships between quality management practices (infrastructure practices and core practices), and organizational performance in order to gain a competitive advantage in Indonesia’s and Malaysia’s ISO 9001:2008 registered manufacturing companies. Sixteen research hypotheses are tested in a cross-sectional survey. This survey involves 217 Indonesia’s ISO 9001:2008 registered manufacturing companies and 108 Malaysia’s ISO 9001: 2008 registered manufacturing companies. The data is analyzed using SEM-PLS to examine the measurement model, the structural model and the mediating effect. The results of this study indicate that in Indonesia’s ISO 9001:2008 registered manufacturing companies, the higher levels of infrastructure practices lead to higher levels of the following: core practices, organizational learning, and organizational performance. The presence of organizational learning induces higher level of organizational performance. The organizational learning was found to be a mediator between infrastructure practices and organizational performance. Core practices was found to have insignificant impact on organizational learning and on organizational performance. Furthermore it demonstrated that organizational learning did not mediate the relationship between core practices and organizational performance. In Malaysia’s ISO 9001:2008 registered manufacturing companies: the higher levels of infrastructure practices leads to
higher levels of the following: core practices, organizational learning, and organizational performance. The higher levels of organizational learning lead to higher levels of organizational performance. Moreover, it demonstrated that organizational learning mediates the relationship between infrastructure practices and organizational performance. The presence of core practices induces higher levels of organizational learning. Core practices was found to have insignificant impact on organizational performance. Organizational learning mediates the relationship between core practices and organizational performance. This study contributes to the empirical research of quality management practices in the global perspective by exploring the implementation of TQM practices (infrastructure practices and core practices) in the relationship with OL and OP in Indonesia’s and Malaysia’s ISO 9001:2008 registered manufacturing companies. In the practical implications, the research model serves as a diagnostic tool for the practitioners to gain insight into the positive influences of TQM practices on organizational learning and organizational performance.

**Keywords:** Strategic management, TQM, infrastructure practices, core practices, organizational learning, organizational performance.
Peranan Pembelajaran Organisasi dalam Hubungan antara Amalan TQM dan Prestasi Organisasi

ABSTRAK

**Kata kunci:** Pengurusan strategik, TQM, amalan infrastruktur, amalan teras, pembelajaran organisasi, prestasi organisasi.
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CHAPTER 1
INTRODUCTION

1.1 Introduction

Globalization and international trade, together with the fast improvement in information technology, have increased competition worldwide dramatically. To maintain competitive in a global market, companies need to acquire new technology, up-to-date information, skillful employees, and advanced managerial skills to produce a good quality and unique products or services. In response to these challenges, companies adopted a various strategic postures to obtain competitive advantage (Parnell et al., 2003). The success of this strategic alignment determines the successfulness of the companies in the global competition. Some scholars who have adopted a resource-based view of total quality management (TQM) stressed the important role of TQM in facilitating intangible resources (such as knowledge) to maintain a sustainable competitive advantage (Thigarajan and Zairi, 1997; Sitkin et al., 1994; Zairi & Yousef, 1995; Zakuan et al., 2010). Martinez-Costa and Martinez-Lorente (2008) pointed that the Total Quality Management (TQM) practices support environment for the innovation development in an organization.

Total quality management (TQM) has become an important organizational practice in improving quality, efficiency and organizational performance (OP). Many companies around the world have incorporated the practices of TQM in their operations. According to Zakuan et al. (2010) companies have started looking towards TQM practices as a strategy to maintain their competitive advantage. TQM is defined as the ability to deliver excellence products to stakeholders (Karapetrovic, 2003), is a holistic approach in integrating all organizational
functions to achieve customer needs and organizational goals (Kumar et al., 2009). In the empirical research, scholars use total quality management (TQM) practices term instead of TQM philosophy or concept because the TQM practices can be measured (Samson and Terziovski, 1999). Some scholars differentiated TQM practices into two aspects: infrastructure practices and core practices. The infrastructure practices is associated with philosophical or behavior aspects such as, principles and concepts, and the core practices related to technique, tools, practices and methods of achieving quality results (Zu, 2009; Lewis et al., 2006a, b).

There is a relationship between TQM practices and organizational learning (OL). Total Quality Management (TQM) practices can be used as a promotion of learning in business settings (Love et al., 2000; Moreno et al., 2005; Martinez-Costa and Jiminez-Jiminez, 2008). Barrow (1993) pointed that organizational learning basically enclosed in the TQM. Garvin (1993) and Kofoed et al. (2002) argued that the other management practices such as organizational learning is facilitated by continuous improvement and change-oriented aspects that inherent in the TQM definition. In other words, organizational learning in quality practices is regarded as a means which enables firms to create a unique, rare, or specialized resources (Mosakowski, 1993), and turn resources into sustainable competitive advantage for above average returns (Barney, 1991, 2001).

Organizational learning (OL) is becoming an important area of research. Scholars claimed that organizational learning may be the only source of sustainable competitive advantage (Kandemir and Hult, 2005). OL is defined as developing and implementing new knowledge to change employees’ behavior, which in turn will strengthen the organization to achieve improved results, adaptability to change, grow through innovation and create result-
oriented employees (Aydin and Ceylan, 2009). According to Sunassee and Haumant (2004), OL related to the way in which individuals in an organization learn, from the approaches that they take, to address a task-related challenge, and to increase their understanding of how they should learn (Abel, 2008). An organization learns when its employees are continuously acquiring, organizing, storing, retrieving, interpreting and applying information. This information becomes knowledge on how to improve business processes, enhance performance, and achieves long-range goals.

OL is regarded as an important resource for strategic renewal (Crossan and Berdrow, 2003) as well as a competitive advantage of an organization (Prieto and Revilla, 2006). Strategic renewal is pursued when companies appropriately maintain a balance between exploiting existing knowledge and creating new knowledge (Crossan and Berdrow, 2003; March, 1991).

To explore the advantages of OL process, efforts have been made to relate other relevant competencies to OL. Learning capability is improved more in the strategic context of the organization, where the constructs of OL are combined with other organization’s resources based on their strategic direction (Crossan and Vera, 2004).

In literature, there are two perspectives concerning the relationship between OL and TQM practices. First, the concept of learning is embedded in TQM practices. Learning is a tool to improve organizational capabilities by facilitating companies to explore customers' needs and by producing a unique products which is difficult to imitate (Chiles and Choi, 2000; Hackman and Wageman, 1995). OL in TQM practices is regarded as a tool which enables companies to explore new markets, hence contributing to the companies’ competitive
advantage (Crossan et al., 1999; Ruiz-Moreno et al., 2005). Second, TQM practices create a
good learning environment both by mitigating anxiety aroused from market dynamic and by
providing various learning tools. Infrastructure practices encourage people to think creatively,
to develop knowledge about customer needs, and to connect that knowledge with their
business strategy, while core practices support employees with learning tools to help them
understand what they learn and to share it (Hackman and Wageman, 1995).

Although the relationship between TQM practices and OL has attracted some scholars,
there were few studies which explore the relationship between infrastructure practices and
core practices which affect OL and organizational performance (OP). Therefore, more study
in this relationship is needed.

Moreover, studies on TQM practices previously were focused on developed countries
such as the US and Japan (Ebrahimpour & Johnson, 1992; Flynn, 1992). The empirical study
has developed its scope by exploring and comparing TQM practices in other developed and
developing countries, such as TQM practices in UK and Malaysia (Aziz et al., 2000); TQM
in China, Hong Kong, and Taiwan (Noronha, 2003); TQM in US and Japan (Khoo & Tan,
2003); TQM in Australia and Singapore (Feng et al., 2006); MBNQA in India, Mexico, and
US (Schniederjans et al., 2006); TQM in Saudi Arabia, Australia, and Canada (Jabnoun,
2005); TQM practices in USA, Mexico (Parast et al., 2006); Benchmarking in US, Japan and
Europe (Rothenberg et al., 2005); TQM practices in European countries (Iwaarden et al.,
2006); and Quality practices in Korea, USA, Mexico, and Taiwan (Yoo et al., 2006). Few
empirical work has been done in developing countries, particularly ASEAN countries (Young
and Wilkinson, 2001; Arumugam et al., 2008). Those studies do not examine the
interrelationship between TQM practices (infrastructure and core practices) and their effect on
OL and organizational performance. Therefore, more comparative empirical research on TQM
practices in ASEAN countries, especially Indonesia and Malaysia, is needed. This comparative study is intended to generate more multi-country comparative research (Sila & Ibrahimpur, 2002).

1.2 Problem Statement

In 2015 Asean Economic Community (AEC) has been implemented. The AEC has objectives of a single market and production base, a competitive economic region, equitable economic development, and integration into the global economy. It involves liberalization and facilitation of trade in goods, services, and investment, as well as protection and promotion of investment; narrowing the development gap; and free flow of skilled labor and freer flow of capital. The AEC challenges for members to explore the advantages of integration while staying prepared for changes. This emerging AEC markets present significant opportunities and competition for firms within and outside the region.

Indonesia and Malaysia are the major players in the Association of Southeast Asian Nations (ASEAN). Indonesia and Malaysia are two neighboring nations that shared similarities in many aspects. Both Malaysia and Indonesia have many common characteristic traits, these include common frames of reference in history, culture and religion. However, Indonesian and Malaysian companies have moved in different directions in the total quality management (TQM) implementation to face the economic challenge.

Indonesian and Malaysian companies began to have an interest in (TQM) as influenced by the success of Japan's quality movement. In Indonesia, the promotion of the TQM awareness is organized by private foundation called Indonesian Quality Award
Foundation (IQAF) and Indonesian government by establishing Badan Standardisasi National (BSN). The purpose of the institution is to encourage Indonesian products to meet standard determined by BSN.

While in Malaysia, the promotion of quality awareness is organized by Malaysian government. Malaysian government established Malaysian Administrative Modernization and Management Planning Unit (MAMPU) to administered TQM implementation in civil service. One of the MAMPU’s main roles is to introduce and promote new initiatives in the administration and management of the Public Service, as well as evaluate and award Government agencies for their performance in the Public Service delivery system of the country, towards achieving an efficient, effective and responsive Civil Service (MAMPU, 2013). Malaysia government also established Malaysia Productivity Corporation (MPC), which was previously known as the National Productivity Corporation (NPC) to support the development of quality management and TQM practices. In order to encourage the TQM implementation in private sector, Malaysia government established SIRIM. These institutions actively promote the TQM concepts and implementation in Malaysia.

Moreover, Malaysia and Indonesia government established their own National Quality Award. Table 1.1 shows the National Quality Award in Malaysia and Indonesia. The purpose of National Quality Award is to promote quality awareness among firms by providing well-defined criteria for assessing and demonstrating an organization's effectiveness, thereby contributing to national development. The goal of quality movement has emphasized the value of customers as the main strategy to create new markets and increase demand. Many Malaysian and Indonesian companies have adopted this market-oriented management as their TQM philosophy in order to enhance their chance for survival in the global market.