

THE EFFECTS OF STRATEGIC PLAN, LEADERSHIP, FINANCIAL PERFORMANCE, AND PRODUCT/SERVICE QUALITY ON SATISFACTION OF CREDIT UNION MEMBERS

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ABSTRACT

Credit Union, in Indonesia, has well developed and plays an important role in supporting economic empowerment of its members. Based on its members, assets, and financial performance, BKCU of Kalimantan was regarded as the best credit union coordinating body in Indonesia. In addition, 15 Primary Credit Unions (PCU) in Indonesia have been selected to be included into Asian Access Branding evaluation, 10 of which were PCUs within BKCUK. Objective of this study is to analyze the impact of strategic management, leadership, financial performance, and product/service quality on satisfaction of PCU members. Ten PCUs within Kalimantan BKCU (i.e., 8 in Western Kalimantan and 2 in Central Kalimantan) were selected as objects of this study. No less than 386 respondents which consist of managers, administrative staff, activists, and members of the selected PCUs were randomly selected and used as sources of primary data. Data were collected from respondents using questionnaires. Path analysis was used to estimate the magnitude of direct and/or indirect causal relationships between exogenous variables and endogenous variables. AMOS Version 16 was used to perform the analysis. Results of the study show that: (i) strategic planning indirectly affect member satisfaction through three channels i.e., manager of leadership, quality of products/services, and leadership of managers and the quality of products/services; (ii) financial performance target affects member satisfaction, both directly and indirectly through three channels i.e., managers leadership, quality of products/services, and leadership of managers and quality products/services; and (iii) there are two critical paths that need to be considered in an effort to improve the satisfaction of members of credit unions (i.e., strategic planning manager-leadership-quality product/service-member satisfaction and the financial performance targets managers-leadership-quality product/service-member satisfaction).

KEYWORDS

Satisfaction of CU members; quality of product; leadership of manager; financial performance; strategic plan; Credit Unit

1. INTRODUCTION

In Indonesia, credit unions play an important role in supporting the economic empowerment of the people. Credit unions in Kalimantan, which were organized by Credit Union Coordination Board Kalimantan (BKCU-Kalimantan), has been nationally rated as a credit union who have the most rapid development. In the last eight years, from 2001 to 2008, BKCU-Kalimantan always be at the top, whether seen from the number of members and the amount of assets it owns. The value of both aspects of the BKCU-Kalimantan is much larger than the other regions. The rate of growth and development of primary credit unions within BKCU-C network also occupy the top spot at the national level. For example, the primary credit union in Pontianak experienced growth of the number of members and assets of an amazing rate.

Credit union development in Kalimantan, both at the level of BK3D or BKCU or primary credit union (PCU), which is very prominent at the national level is confirmed by the results of the workshop agreements Asian Credit Union Forum of which was held at 20 to 22 September 2007 in Bali that set a 15 (fifteen) primary credit union in Indonesia prepared for the assessment included in the Access Asia Branding at Asia level, where 10 of which is located in the primary BKCU network-Kalimantan (ACCU, 2007).

These conditions, i.e., the primary credit union development within BKCU-Kalimantan which is very prominent on the national level, motivating and inspiring for the authors to conduct this research with the main focus: inventory, identify, and analyze various aspects of management which is of key importance in the development of credit union in Kalimantan region, especially in terms of organizational and managerial side.

Specifically, this research is aimed at analyzing the effects of strategic plan, leadership, financial, and product/service quality on satisfaction of members of credit union.

2. LITERATURE REVIEW

Credit union members' satisfaction

Credit Union is a formal non-banking financial institution that has meaning "a collection of people who trust each other in a unifying bond, agreed to save money in order to create capital, lend them amongst each other with reasonable rates for productive purposes and well-being." Roque (2006), stated that satisfaction would be achieved at least 30% of the market are members and users of Credit Union services and act as "good savers and borrowers. That is, members of the Credit Union require Credit Union not only as places to borrow but also as a place to develop the savings of members. However, to have identity as a member of a credit union depositor and good borrower is not easy.

Mecer (2003) explained that the members can be categorized as good savers and borrowers they have the following traits or characteristics: (a) a credit union members strongly motivated by the hope that the money can continually grow (increase) in the direction of time; (b) realize that the credit union organization was their own and automatically as a familial-based economic system which means that these organizations helped develop the system of moral economy; (c) understand that the system, which is implemented within credit union is a system prevailing in banks, cooperatives, and insurance, are managed in an integrated manner covering aspects of administration, finance, management, organization, networked, educational, self-reliance, and solidarity; (d) understand and appreciate those characteristics so that they become the identity of the credit union members and become foundations, principles, values, and pillars for the moral development of the economy.

Credit union financial performance

Financial performance in the business world generally use measures of corporate financial ratios in which these ratios can be used as a guide in determining the direction for the company to carry out financial policies in both the short and long term. Walsh (2003) explained that the financial ratios in the business are an indication that guides a company's management in setting the targets and business standards. These ratios are also very helpful to managers in determining the long-term strategy the most profitable and make short term decisions.

Financial performance measures are often used to evaluate the company's operating performance is Return on Investment (ROI), Return on Equity (ROE), and Return on Total Assets (ROTA). Figures of such ratios can reflect the company's activities during a given accounting period, i.e., whether the company is run well and be healthy or unhealthy views of the financial aspects (van Horne, 1989; Copleland, 1992).

Credit union, as a formal non-banking financial institution, has distinctive characteristics, which is built by a certain community groups who inhabit a particular area to serve the needs of members. Therefore, the parameters of financial performance using different ratios from those which are commonly used in general business. These ratios are known as Protection; Effective Financial Structure; Assets Quality; Return on Cost; Liquidity; and Sign of Growth is abbreviated with PEARLS (ACCU, 2003).

Financial performance and members' satisfaction

Financial performance measures related to both the balance sheet and income statement that has been achieved in one accounting period. Therefore, there is a linkage between financial performance and the satisfaction members/customers, because it reflects the achievement of financial manager performance which can provide information about the company's financial progress over time. These developments closely related to the underlying financial policy. Van Horne (1989), states that the financial policies that include investment decisions, funding decisions, and decisions of the division of profits in the form of dividends.

Some study results showed that there is a close linkage between customer satisfaction and financial performance measures, such as operating margin, Return on Investment (ROI), and the accounting profit (Rust, 1994; Anderson, 1994; Ittner, 1998; Zeithaml, 2000).

Product and services quality within Credit Union

In the business world service is often referred to customer service. Ariestonandri (2006) explains the customer service can be defined as the provision of goods or services required by customers in an efficient manner. However, a good customer service is more than just those things such as doing it right, communicate well, deliver timely services to customers, responding to individual customer needs and provide knowledge to customers. Not so much different opinions were expressed by Kotler (2003). He stressed that there are five determinants of service, namely (1) reliability (the ability to perform the promised services accurately and

reliably), (2) responsiveness (the ability to help customers and provide quick or responsive services); (3) assurance (knowledge and courtesy of employees and their ability to generate trust and confidence), (4) empathy (a condition for care, giving personal attention to customers), and (5) tangible (appearance of physical facilities, equipment, personnel and communication media).

Strategic management and Credit Union members' satisfaction

Thompson (2003), states that the principle of strategic management is to build long-term strength in order to provide maximum benefits for owners to improve the level of short-term gains. Strategic management focuses on integrating management, marketing, finance/accounting, production / operations, research and development, and computer information systems to achieve organizational success. The goal is to optimize the current trend for the future. Thus, the scope of strategic management includes aspects of the analysis, formulation, implementation, and evaluation.

Value and customer satisfaction in the context of value chains is a tool for identifying ways to create more customer value. The ratio of corporate and financial performance is heavily related to the balance sheet and income statement that has been made in one accounting period. Balance includes asset structure and financial structure which is operated to generate profits and are reflected in the income statement. Optimization of investments in assets and sources of funding and strategic planning have been prepared including service strategy is an integrated management action forward is accompanied by a variety of remedial action adjustment/evaluation of the implementation of corporate strategies in order to achieve corporate objectives, namely maximizing the wealth of the owner and to provide more value and customer satisfaction (Van Horne, 1989; David, 2000; Kotler, 2003).

Relationship between Managerial, financial, and service performance and Credit Union members' satisfaction

Managerial group is the center of decision making related to resource optimization and allocation of resources (assets, human resources, capital, technology management). Meanwhile, assets, human resources, capital, technology, and management which have been allocated dynamically are operated according to organizational functions that have been determined by running the strategic management in order to maintain its existence and providing services to customers in order to satisfy the members / customers (Robbins, 2006; Hersey, 1990; Van Horne, 1989; Kotler, 2003; David, 2000).

3. RESEARCH METHODS

Ten PCUs within Kalimantan BKCU (i.e., 8 in Western Kalimantan and 2 in Central Kalimantan) were used as objects of this study. No less than 386 respondents which consist of managers, administrative staff, activists, and members of the selected PCUs were randomly selected and used as sources of primary data. Data which include the abovementioned key variables were collected from respondents using questionnaires. Path analysis was used to estimate the magnitude of direct and/or indirect causal relationships between exogenous variables and endogenous variables. AMOS Version 16 was used to perform the analysis.

Credit union, as a formal nonbank financial institutions built by the particular group of people who inhabit a particular area to serve the needs of members, has its own characteristics, including its service parameters. ACCU (2003) explained that the parameters of service to credit union members is the quality of products/services which include: (1) target or product/service, (2) the presentation of products; (3) the scope of financial products, (4) brand mind set (pattern think about the brand), (5) wealth-building products; (6) provision of loans; (7) access and convenience; (8), value pricing; (9) stimulants loyalty, and (10) product packaging.

4. RESULTS AND DISCUSSIONS

Path analysis model fits

After having passed the test of normality, linearity, multicollinearity, recursive models, the scale used, and the number of samples, test of model fit was accomplished. Results of the test are as follows.

Table 1. Results of model fit tests

No	Fit tests	Cut-off Value	Proposed model	Results
1	Chi-Square	3.84	1.89	Very good
2	Probability	≥ 0.05	0.17	Good
3	GFI	≥ 0.90	0.10	Good
5	AGFI	≥ 0.90	0.97	Good
6	CFI	≥ 0.90	0.10	Good
7	TLI	≥ 0.95	0.98	Good
8	RMSEA	≤ 0.08	0.05	Very good

Based on results of model fit tests as shown in the above table, it can be concluded that the proposed model (i.e., path analysis model) in Figure 1 can be used to analyze the effects of of strategic management, leadership, financial performance, and product/service quality on satisfaction of PCU members.

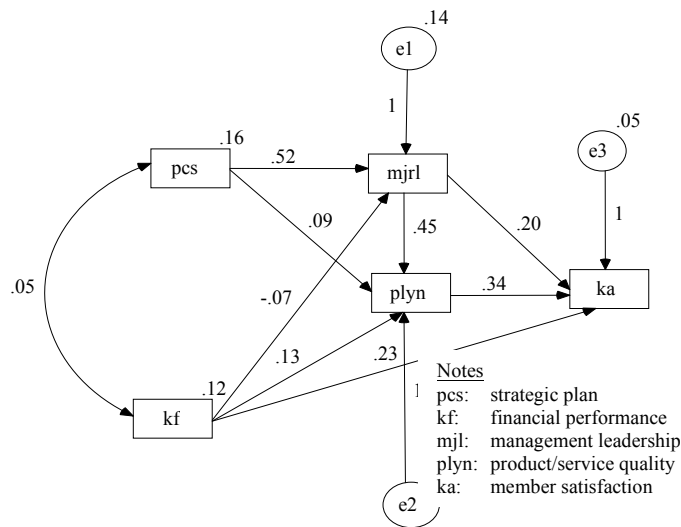


Figure 1. Path analysis model

Results of hypotheses testings

Effect of strategic plan and financial performance on manager leadership

Path coefficients of strategic plan and financial performance toward Credit Union management leadership, which are obtained from the path model analysis, are summarized in table below.

Table 2. Strategic plan and financial performance path coefficients

Variables*	Estimate	S.E.	C.R.	P
mjrl <--- kf	-0.07	0.058	-1.143	0.253
Mjrl <--- pcs	0.52	0.051	10.059	***

Note: kf = financial performance; pcs = strategic plans; and mjrl = CU manager leadership

Financial performance, which—in this study—is represented by certain level of net profit that should be achieved (i.e., financial performance target), partially has no effect on credit union management leadership. It is interesting to explain that the effect of this variable on manager leadership—although the effect is not significant—is negative indicating that the higher the financial performance goals the more difficult to achieve. Accordingly, under this situation managerial performance of manager (i.e., manager leadership) is assumed low. Strategic plan, in the mean time, positively affects manager leadership. This indicates that a good strategic plan tends to ease managers in managing their organization which, in turn, results in a better managerial performance.

It is found that—even not that strong—these variables simultaneously affect manager leadership. This means that manager leadership within credit union to some degree is affected by strategic plan and financial performance which were set of formulated by board of director and members of credit union through certain mechanisms (i.e., Members Annual Meeting).

Direct and indirect effect of strategic plan and financial performance (through Credit Union manager leadership) on product/service quality

The magnitude and direction of either direct or indirect effect—through manager leadership—of strategic plan and financial performance on product/service quality which are represented by their associated path coefficients are summarized in Table 3.

Table 3. Strategic plan, financial performance, and manager leadership path coefficients

Variables*		Estimate	S.E.	C.R.	P
mjrl	<--- kf	-0.07	0.058	-1.143	0.253
mjrl	<--- pcs	0.52	0.051	10.059	***
plyn	<--- pcs	0.09	0.051	1.687	0.092
plyn	<--- kf	0.13	0.052	2.435	0.015
plyn	<--- mjrl	0.45	0.045	10.074	***

Note: kf = financial performance; pcs = strategic plans; and mjrl = CU manager leadership; plyn = product/service quality

Strategic plan and financial performance have both direct and indirect effect on product/service quality. However, based on their associated path coefficients, as shown on the table, their indirect effects (0.97 and 0.38 respectively) are stronger than those of their direct effects (0.09 and 0.13 respectively). This indicates that a better quality of product/service is generated by a better manager leadership where a better manager leadership is simultaneously triggered by both strategic plan and financial performance. In other words, strategic plan and financial performance, which were formulated by members and board of directors through member annual meeting mechanisms, play an important role in encouraging and promoting a good manager leadership. This, in turn, results in a good product/service quality.

Indirect effect of strategic plan and financial performance (through Credit Union manager leadership and product/service quality) on satisfaction of Credit Union members

Maximum member satisfaction is one of the most important objectives for Credit Union managers. Accordingly, every effort including strategic plan, financial performance target, manager leadership, and product/service quality is directed at maximizing member satisfaction. How strong and to which direction these variables affect, either directly or indirectly, on satisfaction of credit union members are represented by each path coefficients. These coefficients are depicted in table below.

Table 4. Strategic plan, financial performance, manager leadership, and product/service quality path coefficients

Variables*		Estimate	S.E.	C.R.	P
Mjrl	<--- kf	-0.07	0.058	-1.143	0.253
Mjrl	<--- pcs	0.52	0.051	10.059	***
Plyn	<--- pcs	0.09	0.051	1.687	0.092
Plyn	<--- kf	0.13	0.052	2.435	0.015
Plyn	<--- mjrl	0.45	0.045	10.074	***
Ka	<--- mjrl	0.20	0.034	5.792	***
Ka	<--- kf	0.23	0.035	6.469	***
Ka	<--- plyn	0.34	0.036	9.427	***

Note: kf = financial performance; pcs = strategic plans; and mjrl = CU manager leadership; plyn = product/service quality

It is found that member satisfaction is directly and partially affected by financial performance target, manager leadership, and product/service quality. Credit union members, as indicated by the results of analyses, concerned with manager leadership, financial performance target, and more importantly product/service quality which are provided and produced by organization. Financial performance target has not only direct effect but also indirect effect on member satisfaction. It has three different paths of indirect effects: through manager leadership; through product/service quality; and through manager leadership and product/service quality. The

magnitude of the indirect effect through manager leadership (0.13) is lower than its direct effect (0.23); through product/service quality is 0.47; and through manager leadership and product/service quality is 0.92. With respect to financial performance target, the later indirect path is considered as the most important path.

Strategic plan has three different paths of indirect effects on member satisfaction: through manager leadership; through product/service quality; and through manager leadership and product/service quality. The magnitudes of these indirect effects are 0.70, 0.43, and 1.31 respectively, which means that its indirect effect path through manager leadership and product/service quality is more important than that of the two other indirect effects.

5. CONCLUSIONS

Satisfaction of members obtained significant attention from the credit union manager. A number of managerial variables affect, either directly or indirectly, credit union member satisfaction. These variables include strategic planning, financial performance target, leadership management, and quality of products/services.

Strategic planning indirectly affect member satisfaction through three channels i.e., manager of leadership, quality of products/services, and leadership of managers and the quality of products/services. The financial performance target affects member satisfaction, either directly or indirectly. No different from strategic planning, this variable indirectly affect member satisfaction through three channels i.e., managers leadership, quality of products/services, and leadership of managers and quality products/services.

Based on the path coefficient, there are two critical paths that need to be considered in an effort to improve the satisfaction of members of credit unions. These are (i) strategic planning manager-leadership-quality product/service-member satisfaction, and (ii) the financial performance targets managers-leadership-quality product/service-member satisfaction.

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