

Causal Relationship Between Strategic Plan, Managerial Performance, and Product/Service Quality and Its Implication on Satisfaction of Credit Union Members

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Abstract

The present study's objectives were to analyze the impact of strategic plan on managerial performance and product/service quality and its implication on satisfaction of PCU members. Ten PCUs within BKCUK (i.e., 8 in Western Kalimantan and 2 in Central Kalimantan) were selected as objects of this study. Approximately 305 respondents consisting of managers, administrative staff, activists, and members of the selected PCUs were randomly selected and used as sources of primary data. Path analysis was applied to estimate the magnitude of causal relationships between exogenous variables and endogenous variables. Results of the study showed that strategic plan directly and indirectly affects member's satisfaction. Strategic plan indirectly affects member's satisfaction through three paths: (i) strategic plan-managerial performance-member's satisfaction; (ii) strategic plan-product/service quality-members satisfaction; and (iii) strategic plan-managerial performance-products/services quality-member's satisfaction. Based on its standardized path coefficients, the third path is found as the most important path. Causal relationship between the four investigated variables is better explained by the third path.

Keywords : member's satisfaction; product/service quality; managerial performance; strategic plan; credit unit.

1 Introduction

In Indonesia, credit unions play an important role in empowering people's economic and social status. Credit unions in Kalimantan, which were organized by Credit Union Coordination Board Kalimantan (BKCU-Kalimantan), have been recognized as the most rapid rate of growth and development. In the last eight years, from 2001 to 2008, BKCU-Kalimantan has been at the top, either from number of members or the amount of assets point of views. The value of both aspects of the BKCU-Kalimantan is much larger than those credit unions in other regions. At national level, the rates of growth and development of CPUs within the BKCUK were at the top positions. For example, the primary credit union in Pontianak experienced growth in number of members and assets at an amazing rate.

Credit union development in Kalimantan, either at BKCU level or PCU level, is very prominent. This was confirmed by the 2007 Asian Credit Union Forum workshop agreement results which set that 15 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. These conditions motivated and inspired the authors to conduct this research with the main focus: analyzing 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 on managerial performance and product/service quality and its implication on satisfaction of members of credit union.

2 Literature Review

2.1 Credit union member's 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 when 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 their savings. However, to have this identity such as a good depositor and a good borrower is not easy.

The following traits or characteristics are required by credit union members to be categorized

as good savers and borrowers. These include:

- a credit union members strongly motivated by the hope that the money can continually grow (increase) in the direction of time;
- 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;
- 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;
- 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 [Mecer, 2003].

2.2 Product and services quality within Credit Union

In business, service is often referred to customer service. According to [Ariestonandri, 2006], 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. A little bit different opinions were expressed by Kotler (2003). 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) [Kotler, 2003].

2.3 Strategic management and Credit Union member's satisfaction

Thompson (2003) argues 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, according to him, 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 the following aspects: analysis; formulation; implementation; and evaluation [Thompson, 2003].

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 sheet 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 [David, 2000]; [Kotler, 2003]

2.4 Relationship between managerial, product/service performance and Credit Union member's satisfaction

Managerial group is the center of decision making related to resource optimization and allocation of resources (i.e., assets, human resources, capital, and technology). 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 [Hersey, 1990]; [Kotler, 2003]; [David, 2000]. Accordingly, there should be either direct or indirect relationship between managerial performance and member's satisfaction.

2.5 Research Methods

The study was conducted at 10 PCUs within Kalimantan BKCU (i.e., 8 in Western Kalimantan and 2 in Central Kalimantan). Three hundred and five 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

key variables, as mentioned previously, 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. The proposed path model, which was developed based on [ACCU, 2003],[Roque, 2006], [David, 2000],[Darmawan, 2004], [Kamenuang, 2004], and [Purba, 2005], is depicted in figure below.

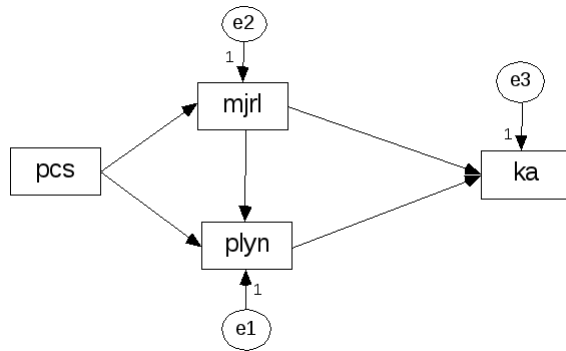


Figure 1: Proposed path model

As shown in the model, strategic plan indirectly affect member's satisfaction through three different paths:

1. strategic plan-managerial performance-member's satisfaction;
2. strategic plan-product/service quality-member's satisfaction, and
3. strategic plan-managerial performance-product/service quality-member's satisfaction.

3 Results and discussions

3.1 Path analysis model fits

Test of model fit was performed after classical assumption tests (i.e., normality, linearity, multicollinearity, recursive model, scale used, and sample size). Results of the test are as follows.

Table 1: Results of model fit tests

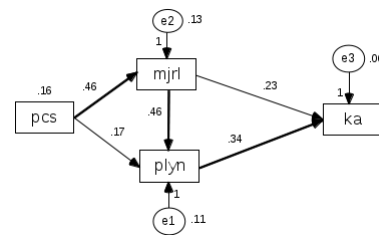
| No | Fit tests | Cut-off Value | Proposed model | Results |
|----|-------------|---------------|----------------|---------|
| 1 | Chi-Square | 3.84 | 5.22 | Fair |
| 2 | Probability | ≥ 0.05 | 0.22 | Fair |
| 3 | GFI | ≥ 0.90 | 0.99 | Good |
| 5 | AGFI | ≥ 0.90 | 0.92 | Good |
| 6 | CFI | ≥ 0.94 | 0.99 | Good |
| 7 | TLI | ≥ 0.95 | 0.92 | Fair |
| 8 | RMSEA | ≤ 0.08 | 0.12 | Fair |

Based on the model fit tests results, it can be concluded that the proposed model (i.e., path analysis

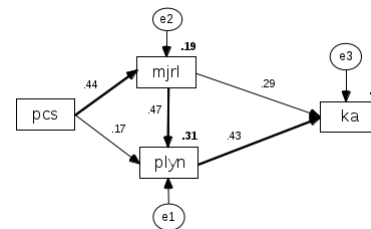
model) shown in Figure 1 can fairly be used to analyze the direct and indirect effects of strategic plan on member's satisfaction.

3.2 Empirical path analysis model

The resulted empirical path analysis model and its associated standardized and unstandardized path coefficients as well as its determinant coefficients are depicted in the following figures.



(a) Empirical path analysis model and its unstandardized path coefficients



(b) Empirical path analysis model and its standardized path coefficients

Based on these empirical path analysis models, results of hypotheses testing can be obtained and further discussed.

3.3 Results of hypotheses testing

Indirect effect of strategic plan on member's satisfaction through managerial performance

The magnitude and direction of indirect effect of strategic plan on member's satisfaction through managerial performance which are represented by their associated both unstandardized Figure 2a and standardized Figure 2b path coefficients are summarized in Table 3.

Table 2: Path coefficients of strategic plan towards member's satisfaction through managerial performance

| Variables* | Path coefficients** | | S.E. | C.R. | P |
|--------------|---------------------|------|-------|------|---|
| | Unstd. | Std. | | | |
| mjrl ← pcs | 0.46 | 0.44 | 0.053 | 8.54 | 0 |
| ka ← mjrl | 0.23 | 0.29 | 0.041 | 5.52 | 0 |
| Total effect | 0.69 | 0.73 | | | |

* pcs = strategic plan; ka = CPU member's satisfaction ** Unstd. = unstandardized; Std. = standardized

The first path of the effect of strategic plan on member's satisfaction is through managerial performance. Its magnitudes, which are represented by their associated path coefficients, as shown in Table 3, are 0.44 and 0.29, respectively. This indicates that a good strategic plan tends to ease managers in managing their organization which, in turn, results in a better managerial performance. Furthermore, a good managerial performance has the potential to satisfy members of their organization.

Indirect effect of strategic plan on members satisfaction through product/service quality

Maximum member's satisfaction is one of the most important objectives for primary credit union managers. Accordingly, every effort including strategic plan and product/service quality is directed at maximizing member's 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 3: Path coefficients of strategic plan towards member's satisfaction through product/service quality

| Variables* | | | Path coefficients** | | S.E. | C.R. | P |
|--------------|----|------|---------------------|------|-------|------|---|
| | | | Unstd. | Std. | | | |
| pyln | <— | pcs | 0.17 | 0.17 | 0.054 | 3.14 | 0 |
| ka | <— | pyln | 0.34 | 0.43 | 0.042 | 8.1 | 0 |
| Total effect | | | 0.51 | 0.6 | | | |

* pcs = strategic plan; ka = CPU member's satisfaction ** Unstd. = unstandardized; Std. = standardized

It is found that member's satisfaction is indirectly—through product/service quality—affected by strategic plan. Credit union members, as indicated by the results of analyses, concerned with both strategic plan and more importantly with product/service quality which are provided and produced by the organization. The magnitudes of the indirect effect on member's satisfaction (i.e., through product/service quality) are 0.17 and 0.43, respectively. This is relatively lower (i.e., 0.60) than the indirect effect of strategic plan through managerial performance (i.e., 0.73, see Table 3).

Indirect effect of strategic plan on member's satisfaction through managerial performance and product/service quality

It is interesting that managerial performance affects member's satisfaction both directly and indirectly

(i.e., through product/service quality). This also indicates that in fact strategic plan affects member's satisfaction, as hypothesized in the proposed path analysis model, indirectly through three different paths. The first path is through managerial performance, the second path is through product/service quality, and the third path is through managerial performance and product/service quality. Path coefficients of these causal relationships are shown in the table which follows.

Table 4: Path coefficients of strategic plan towards member's satisfaction through managerial performance and product/service quality

| Variables* | | | Path coefficients** | | S.E. | C.R. | P |
|--------------|----|-------|---------------------|------|-------|------|---|
| | | | Unstd. | Std. | | | |
| mjrl | <— | Pcs | 0.46 | 0.44 | 0.053 | 8.54 | 0 |
| plyn | <— | Mjrl | 0.46 | 0.47 | 0.052 | 8.78 | 0 |
| ka | <— | Plyln | 0.34 | 0.43 | 0.042 | 8.1 | 0 |
| Total effect | | | 1.26 | 1.34 | | | |

As indicated in the table above, the magnitude effect of strategic plan on managerial performance (i.e., represented by its associated standardized path coefficient) is 0.44, and the magnitude effect of managerial performance on product/service quality is 0.47. In the mean time, the magnitude effect of product/service quality on member's satisfaction is 0.43. This is much stronger than the magnitude effect of managerial performance on member's satisfaction (i.e., 0.29 as shown in Table 2). This indicates that the indirect effect of strategic plan on member's satisfaction is better explained through the third path: strategic plan—managerial performance—product/service quality—member's satisfaction. This is empirically supported by its total effect which is 1.43 as to compare with the first path (i.e., 0.73 as shown in Table 3) and the second path (i.e., 0.60 as shown in Table 4). This means that a good strategic plan positively affects managerial performance (i.e., a better strategic plan will result in a higher managerial performance); managerial performance positively affects product/service quality (a higher managerial performance will drive a better product/service quality); product/service quality positively affects member's satisfaction (a better product/service quality will increase member's satisfaction).

This finding is in agreement with [Thompson, 2003] who considers the importance of strategic management and [ACCU, 2003] which puts and considers strategic management (i.e., strategic plan) at the very strategic place in the management of credit union. In addition, this finding is also in line with [David, 2000], [Roque, 2006], [Kamenuang, 2004], and [Darmawan, 2004] who conclude that strategic plan, managerial performance, and product/service quality in an organization such cooperatives and

credit unions play an important role to increase members' satisfaction.

4 Conclusions

Satisfaction of members obtained significant attention from the credit union managers. A number of managerial variables affect, either directly or indirectly, credit union member's satisfaction. These variables include strategic plan, management leadership (managerial performance), and products/services quality.

As discussed previously, strategic plan indirectly affect member's satisfaction through three different paths:

1. strategic plan-managerial performance-member's satisfaction;
2. strategic plan-products/services-member's satisfaction; and
3. strategic plan-managerial performance-products/services-member's satisfaction. Based on their magnitude effects, which are represented by each total standardized path coefficients, it is found that the third path indirect effect of strategic plan on member's satisfaction is the strongest one. This means that the causal relationship between the four managerial variables under investigation is better explained by this path.

This finding categorizes managerial performance and product/service quality as intervening variables-variables that bridge strategic plan and member's satisfaction. Furthermore, it implies that in an organization where members have the privilege to obtain excellent product as well as services and have the right to evaluate their organization management performance such as credit union-more specifically primary credit union, strategic plan which serves as guidance for the future of the organization plays a very important role. A good strategic plan will results in a better managerial performance which in turn will generate a higher product/service quality, and ultimately will increase member's satisfaction.

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