The Effect of Total Quality Management to The Performance of The Company with The Balanced Scorecard Approach As Intervening Variables

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Article History

Received May 2017
Approved June 2017
Published July 2017

Keywords:
Balanced Scorecard;
Company Performance;
Total Quality Management

Abstrak

Tujuan dari penelitian ini untuk mengetahui bagaimana pengaruh langsung variabel total quality management terhadap kinerja perusahaan, menganalisa total quality management terhadap kinerja perusahaan melalui balanced scorecard, menganalisa pengaruh variabel total quality management terhadap kinerja perusahaan melalui pendekatan BSC pada indikator perspektif pelanggan, perspektif bisnis internal serta perspektif pertumbuhan dan pembelajaran. Populasi terdiri dari 8 perusahaan manufakturyang berada di kabupaten/kota Pati. Sampel yang memenuhi kriteria sebanyak 35 responden dengan 3 unit analisis penelitian yaitu manajer, karyawan dan pelanggan. Teknik pengambilan sampel menggunakan probability sampling sehingga dihasilkan delapan perusahaan. Metode analisis data menggunakan analisis statistik Inferensial, analisis uji asumsi klasik, dan analisis regresi menggunakan SPSS Statistics 21. Hasil penelitian menunjukkan bahwa total quality management tidak berpengaruh langsung terhadap kinerja perusahaan. Dilihat dari efek mediasi, variabel balanced scorecard memediasi hubungan antara TQM terhadap kinerja perusahaan. variabel TQM tidak berpengaruh langsung terhadap kinerja perusahaan dan variabel total quality management berpengaruh terhadap kinerja perusahaan melalui pendekatan balanced scorecard.

Abstract

This study aimed to analyze the effect of total quality management variable on company performance, to analyze total quality management on company performance through balanced scorecard, to analyze the effect of total quality management variable on company performance using BSC approach on indicators of customer perspective, internal business, growth and learning perspective. The population was eight companies of manufacturing which were in Pati Regency. The sample which was appropriate with the criteria as many as thirty five respondents was three units of analysis research: the manager, the employees and the customers. The sampling technique used probability sampling. The data analysis method used inferential statistical analysis that was classical assumption test analysis, and regression analysis using SPSS Statistics 21. The results of this study showed that total quality management variable did not affect on company performance. Judging from the effect of mediation, balanced scorecard mediation the relationship between of TQM on company performance. The TQM variable indirectly affected on company performance which mediated by balanced scorecard variable and total quality management variable affected the company performance using balanced scorecard.

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ISSN 2252-6765
INTRODUCTION

The magnitude of business competition today requires the company to always make innovations and creations, with the aim to meet the consumer's desire which is very high. Therefore, every company will make every effort to improve its productivity, efficiency, fast service to stay ahead and survive the market. With the strategy of competitive advantage within the company, it is expected that the company can maintain its competitive position against its competitors. The company must have an operational strategy to maintain its corporate performance. In order to compete and excel, one of the solutions that a manufacturing company must do is to adopt and apply the best enterprise operational management practices (Munizu, 2012 in Jahanshahi, et al., 2012). It can also help companies survive the rapidly changing business conditions. Companies that do not manage these changes will be left behind and will gradually decline (Munizu, 2012, in Dananjaya 2015).

Increased competition coupled with changes in consumer tastes, technological advances, and socio-economic changes bring challenges and opportunities in business. Companies must be able to take advantage of the ability possessed to be able to win the competition and gain profit as much as possible which is one of the goals of the establishment of the company. This very tight competition forces the company to be the best of the best to survive in the era of globalization. One way that can be taken by the company to be the best is to have a good strategy that is by changing the concept of old model management with new management concepts such as the concept of balanced scorecard management that can obtain satisfactory results (Mahfud and Chairina (2009). However, there is a problem with the management of the company where inconsistency and weak competitiveness in manufacturing companies where most of the sample companies in this study do not yet have process quality capabilities concerning technology, human resources, and production standards. So the issues surrounding competitiveness basically is very influential on the low level of innovation and creativity of employees in the company (www.mydoctorate.wordpress.com). One of the solutions given by the researcher is that there is a need for human resource development on the business actor either from the system or the standard of the business industry.

By using a new approach such as the Balanced Scorecard (BSC) in managing its business, it is expected that the approach will improve the concept of management for a long time and increase the profit of the company, because by using the newer approach model will automatically make the performance of a company getting better (Pearce, et. al.(2008)). How the concept of balanced scorecard approach can affect the implementation of total quality management and the performance of the company, then the company must dare to take new and courageous steps in applying balanced scorecard in its companies. Regarding the relationship between TQM and BSC, (Anantadjaya (2008)) explains how all the BSC indicators can contribute effectively to TQM. The BSC system integrates a wide range of performance indicators, which are both financial and non-financial indicators. Therefore, in order to achieve these strategic targets, the implementation of TQM within the company should apply the BSC to identify in accordance with its indicators so that employees are motivated to achieve the desired results, and are also encouraged and rewarded to give feedback to the company.

A study by (Mahfud and Chairina (2009)) explains how all of the balanced scorecard dimensions can contribute to the effectiveness of the TQM program. The BSC system integrates a wide range of performance, financial and non-financial, which can equally provide managers with ongoing signals what is most important in their daily work, and where their efforts should be directed. Therefore, to achieve these strategic goals, TQM companies should implement BSC to identify appropriate multidimensional, non-financial indicators so that employees are motivated and
encouraged to provide feedback on the company. Therefore, empowering employees is needed to contribute for achieving sustainable performance, so TQM can be achieved successfully.

Based on previous findings by (Mahfud and Chairina (2009)) succeeds to find that the total quality management variable does not affect the performance of the company but it affects the performance by adding intervening and moderating variable that is balanced scorecard in four indicators. So that, the researcher this time will re-examine two factors that still influence weak to corporate performance namely total quality management and by presenting intervening variable that is balanced scorecard also seen in the indicator of customer perspective, internal business process, and learning and growth perspective as variable which does not directly affect the performance of the company and to strengthen the relationship between total quality management on the performance of the company is known to still have a weak effect on the performance of the company. The researcher presents balanced scorecard as intervening variable because based on previous research (Mahfud and Chairina (2009)).

The purpose of this research is to analyze the effect of total quality management variable on company performance, analyze total quality management to company performance through balanced scorecard, analyze the influence of total quality management variable to company performance through balanced scorecard approach on customer perspective indicator, internal business perspective and growth perspective and learning. In essence, the total quality management and balanced scorecard variables are aligned with Resources Based Theory (RBT) views. This theory discusses the BSC System integrates various performance, finance and non-financial, which can equally provide managers of enlightenment how management can run well so that it can be applied in their daily work. In addition, (Saendy and Anisykurlillah (2015) in Oktaviani (2016)), assume that resources-based theory is how companies can compete with other companies to gain competitive advantage by managing the resources they possess within their capabilities. Therefore, in order to achieve this strategic target, the implementation of TQM within the company should apply the BSC approach concept to identify in accordance with the balanced scorecard indicators that is, internal business perspective indicators, customer perspective indicators, as well as indicators of growth and learning perspectives. So employees are motivated to achieve the desired results, and are encouraged to provide feedback on companies where improvements can be made.

The results of the analysis on the influence of Total quality management on corporate performance through balanced scorecard can be seen in previous research by (Mahfud and Chairina (2009)), explaining how the three BSC perspectives can contribute to the effectiveness of the TQM program. The BSC system integrates a wide range of non-financial performance indicators. Therefore, in order to achieve this strategic target, the implementation of TQM within the company must apply the BSC to identify in accordance with non-financial indicators so that employees are motivated to achieve the desired results and are also encouraged and rewarded to provide feedback to the company. In line with the research, a study by Tety (2014), in which several factors in TQM can positively affect the performance of the organization by empowering employees through employee involvement in the affairs of management authority so that it has implications on the increased spirit and performance of employees. Therefore, the implementation of TQM is able to improve corporate performance and maximize competitiveness. The behavior of the total quality management variable above is consistent with the Resource Based Theory (RBT) view.

Regarding the relationship between TQM and BSC, (Dhyahrini and Hasanah (2011)) explains how all perspectives in the BSC can contribute effectiveness to TQM. The BSC system integrates a wide range of performance, financial and non-financial, which can equally provide managers with ongoing signals such as what is most important in their daily work, and where efforts should be directed. Hence, to achieve these strategic targets, TQM companies should implement BSC to identify in line with non-financial indicators multidimensional, so that employees are motivated and
also encouraged to provide feedback on the company so improvements can be made (Wijaya and Suryawan (2014). The results of the research (Mahfud and Chairina (2009)) empirically have shown that total quality management indirectly affect the performance of the company, in other words that balanced scorecards indirectly is able to influence other variable.

H$_1$: The Effect of Total Quality Management on Corporate Performance through Balanced Scorecard as Intervening Variable

The results of the analysis on the influence of Total quality management on corporate performance can be seen in previous research conducted by Talibet (2011) a positive relationship between TQM and the performance of the organization found by Talibet (2011). Talibet (2011) investigates the relationship between TQM and performance qualities in Indian organizations. In his study, Talibet (2011) concludes that TQM can affect the business system and is widely seen as a management revolution. For that reason, research is undertaken in developing countries that are lagging behind in the implementation of TQM. The research results indicate the significance and use of TQM in the service industry in India. And the results of this study are also in line with the Resources based theory pioneered by Penrose in 1959 which examines the processes and practices of enterprise management (Anantadjaya, 2008). Penrose further argues that the company's resources are heterogeneous, non-homogeneous, the productive services available come from corporate resources that give a unique character to each company. (Saendy and Anisykurilah (2015) in Octaviani (2016)) assume that resources based theory is how companies can compete with other companies to gain competitive advantage by managing their resources according to company’s capability. Whereas from the translation of the theory TQM should have an effect on corporate performance, so that later the company is able to compete globally on the globalization market competition by relying on the advantages of resources owned by the company.

In harmony with the study, the results of the study conducted by (Susanto (2012)) also show the TQM practice which is the main determinant of performance quality (performance). Thus, it can be concluded total quality management can affect company performance necessarily. However, it does not occur in this research because the total quality management variable tend to be weak in influencing other variables, so that there are other variables that can improve the relationship between TQM and corporate performance. The variable is balanced scorecard variable which function as mediation variable, the result is new finding between TQM relationship and firm performance in this research with result that TQM variable and corporate performance can influence indirectly through balanced scorecard variable seen from indicator of customer perspective, internal business perspective as well as the growth and learning perspectives that will be explained in hypotheses 3, 4, and 5. The behavior of the total quality management variable is not aligned with the view of Contigency Theory pioneered by Fiedler 1967 which supports the positive influence of TQM implementation on organizational performance. Based on the general argument of contingency theory, which states that organizational performance is a consequence of two or more factors, such as environmental organizations (ie competition markets) and adaptation of the use of Total Quality Management. Therefore, the adaptation of total quality management and market competition simultaneously improves organizational performance. The results (Callystha, and Devie (2013)) empirically have shown that total quality management has no direct effect on company performance.

H$_2$: The Influence of Total Quality Management Variable to Corporate Performance

The customer's perspective focuses on how organizations pay attention to their customers and consumers. An organization must also provide incentives to managers and employees who can meet customer expectations. This is in accordance with Resource Based Theory pioneered by Penrose is how companies can compete with other companies to gain competitive advantage by managing resources owned in accordance with the ability of the company. Where the results of research
(Mahfud and Chairina (2009)) empirically prove that total quality management indirectly affect the corporate performance through balanced scorecard approach seen from the indicator of customer perspective, in other words that balanced scorecards indirectly can affect other variables.

$H_3$: The Influence of Total Quality Management Variable on Corporate Performance Through Balanced Scorecard Approach Seen from Customer Perspective Indicators.

In this perspective, the company takes measurements on all activities undertaken by the company either manager or employee to create a product that can give certain satisfaction for the customer. With the improvement and enhancement of management from within a company will be able to realize the concept of balanced scorecard in accordance with the company's goal that is increasing profits and improving the quality of corporate management. While based on the general proposition, contingency theory states that organizational performance is a consequence of two or more factors, such as environmental organizations (ie competition markets) and adaptation of the application of TQM. Therefore, the adaptation of TQM implementation and market competition simultaneously improve organizational performance. So, empirically the results of research by (Mahfud and Chairina (2009)) proves that the total quality management indirectly affect the corporate performance through balanced scorecard approach seen from internal business perspective indicators.

$H_4$: The Influence of Total Quality Management Variable on Corporate Performance through Balanced Scorecard Approach Seen from Internal Business Perspective Indicators

For intensive purposes, learning and growth perspectives focus on human capabilities. Managers are responsible for developing employee skills. Key benchmarks for assessing performance are employee satisfaction, employee retention, and employee productivity (Rudy (2011).) In harmony with Resource Based Theory Penrose which states that the company can compete with other companies to gain a competitive advantage by managing all the resources owned in accordance with the capability of the company. Which means if want to succeed, it is required a change in the management system that starts from the SDM first, so that if its human resources have been good then in the future the company will be easy to improve the profit of its business. In theory also discusses how the company can process and utilize the resources it has. According to Susanto (2012), in order for a company is able to compete, the company must have two resource advantages, namely tangible and intangible assets and ability to manage effectively. Assets and competency capability and competitive advantage of competitors. Thus, it can be concluded the results of research conducted by Mahfud and Chairina (2009) empirically proved that total quality management indirectly affect the corporate performance through balanced scorecard approach seen from the indicators of growth and learning perspective.

$H_5$: The Influence of Total Quality Management Variable to Corporate Performance through Balanced Scorecard Approach Seen from the Indicator of Growth and Learning Perspective

METHODS

The type of research used in this study was descriptive quantitative research. Quantitative descriptive research was a study aimed at developing phenomena that exists today or past. This study does not manipulate or alter the free variables, but describes a condition as it is. The depiction of conditions can be individualized or using the numbers of Sukmadinata (2013). The type of data used is primary data, Primary data was data obtained directly from the source or subject of research source came from interviews or questionnaires Augusty (2014). The data was taken by distributing questionnaires to companies that became the target of research namely 8 manufacturing companies and data from journals, theses and thesis. The population of this research was manufacturing company located in regency / city of Pati. Samples used in this research were employees, customers.
and managers who worked in company with permanent employee status, with probability sampling technique. Probability sampling was a sampling technique that provided equal opportunity for each element (member) of the selected population to be a sample Sugiyono (2013). Data analysis techniques used were inferential statistical analysis and regression analysis. Regression analysis here yielded regression equation model 1, regression equation model 2 and regression equation model 3, 4, and 5 which have fulfilled the requirements of inferential statistical analysis test consisting of classical assumptions test (normality, linearity, multicollinearity and heterocedasticity), Sugiyono (2013). This study used the dependent variable (Y), the independent variable (X), and the intervening variable described in Table 1 below.

### Table 1. Operational Definition of Variables and Measurement Method

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Performance (Y)</td>
<td>The level of achievement of the company in carrying out activities that became its responsible in optimizing the achievement of vision, mission, and objectives that have been established by the company which can be assessed by comparing achievements with targets or with the performance of several companies in the same industry (Prayhoego and Devie, 2013).</td>
<td>Market share, new product launching, product / service quality, marketing effectiveness, and customer satisfaction.</td>
</tr>
<tr>
<td>Total Quality Management (X)</td>
<td>TQM was a means of improving performance continuously at every level of operation or process, within each functional area of an organization, by using all available human and capital resources Vincent Gasper (2006: 2).</td>
<td>Improved Quality of production result, customer satisfaction, product quality evaluation, employee empowerment, teamwork, product recognition, and leadership</td>
</tr>
<tr>
<td>Balanced Scorecard (M)</td>
<td>Balanced Scorecard was &quot;a concept that aimed to support the realization of corporate vision, mission, and strategy by emphasizing on the customer (customer), internal business, as well as learning and growth with long-term targets&quot;. Fahmi (2010: 209).</td>
<td>Customer Perspective, internal business process perspective, and growth and learning perspective.</td>
</tr>
</tbody>
</table>
RESULTS AND DISCUSSIONS

In this research had equation model 1, equation model 2 and equation model 3,4,5 which have fulfilled classical assumption test which consisted of normality test, linearity test, multicollinearity test, heteroscedasticity test, and autocorrelation test. However, in this study the equation models 1, 2, 3, 4 and 5 did not have autocorrelation because the data was cross section (Ghozali, 2011). Regression test to examine the influence of intervening variable used regression analysis method. The use of regression analysis was to estimate the causal relationships between variables (causal models) which has been determined previously based on theory (Ghozali, 2011). The regression test coefficient was calculated by making five structural equations namely the regression equation showing the relationship hypothesized.

The output results provided a significance value of 0.224 which meant Total Quality Management did not affect the performance of companies and which meant that hypothesis 2 was rejected. The results of equation analysis 1 and 2 indicated that total quality management could not directly affected the performance of the company but it could indirectly affected the total quality management to the company's performance through the balanced scorecard (as an intervening) with a significance value of 0.014 which meant that hypothesis 1 was accepted. And the results of equation analysis 3,4 and 5 showed that total quality management could indirectly influence to company's performance through balanced scorecard on indicators of customer perspective, internal business perspective, and growth and learning perspective.

Table 2. Summary of Hypothesis Testing Results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Sig</th>
<th>α</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁ = total quality management had a direct effect on corporate performance through balanced scorecard</td>
<td>0.014</td>
<td>0.05</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₂ = total quality management had no direct effect on corporate performance</td>
<td>0.224</td>
<td>0.05</td>
<td>Rejected</td>
</tr>
<tr>
<td>H₃ = total quality management had a direct effect on the company's performance through balanced scorecard seen from the customer's perspective indicator</td>
<td>0.000</td>
<td>0.05</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₄ = total quality management had a direct effect on the company's performance through the balanced scorecard seen from internal business perspective indicators</td>
<td>0.006</td>
<td>0.05</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₅ = total quality management had a direct effect on company's performance through balanced scorecard seen from indicator of growth and learning perspective</td>
<td>0.011</td>
<td>0.05</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

The results of this study indicated that the performance of the company which was proxied by total quality management could not be used to predict the profit level of the company. Managers were expected to be able to increase corporate profits by applying the concept of balanced scorecard approach so as to make the corporate managers took the decision to invest because of the opportunities to invest, so it was expected to affect the corporate earnings in the future. However, the manager could see if there was an opportunity for investment seen from changes in management and employees, making the manager to take the opportunity. This was in line with Resource Based Theory and Context Theory which stated that there was a positive relationship between TQM and corporate performance.
The results of the research showed that if the corporate earnings increased then not necessarily the performance of the company run well. It was due to in a company the possibility of opinion differences between managers and leaders in making decisions when corporate profits rose. Managers would take the decision that the company's earnings went up to finance the company's operations to make the company more advanced. While the leader expected if the company's net profit increased, then the right decision would increase the company's profit. Balanced scorecard had a very strong influence on the total quality management and performance of the company. It was also supported by the Contingency theory which predicted that there was a positive relationship between TQM and the performance of the company mediated by the balanced scorecard. Balanced scorecard was a form of maximizing corporate goals through enhancing managerial and management skills. Maximizing the corporate goal was to maximize the ability of managers and management in decision making with the intention of maximizing corporate profits (Russiana (2010)).

Decisions of innovation done by a company had information that contained signals - signal the corporate prospects. The confidence of the employees on manufacturing companies that had high investment decisions currently led to increased demand for products of manufacturing companies in Indonesia. Opportunities of innovation provided a positive signal about the growth of the company in the future, thus increasing the corporate profit. Total Quality Management was a form of management by the company to produce changes for the company in the future. The better the implementation of Total Quality Management then the corporate management would be better in the future and would be considered good by the leaders. The better total quality management, the higher the corporate performance and the lower total quality management, the company performance would be low. High profits would give an indication of good corporate prospects. Total Quality Management showed the level of success of a company that could be achieved by the company when running its operations. Thus, the total quality management greatly affected on the company's performance by looking at the amount of increase in profits earned by the company each year. This was in line with Contingency Theory which stated that Total Quality Management gave a positive influence on the development of corporate performance. But it did not happen in this study because in this study the total quality management variable did not affect the performance of the company, because the total quality management variable tended to be weak in influencing other variables, where the explanation was in accordance with research conducted by Lubis (2008) which stated that the total quality management and performance measurement system variables had no significant effect on managerial performance which meant the hypothesis was rejected.

This insignificant result was due to the quality standard which was one of the performance assessment criteria in the manufacturing companies of Medan Industrial Estate has not been fully known. In addition, at the time of filling questionnaires many respondents' answers were less consistent, because at the time of acquisition of the questionnaire answers results obtained were not in accordance with the measurement scale, which meant the company was still in the level of adjustment with a new performance measurement system. Therefore, we needed an amplifier variable that could improve the relationship between TQM and corporate performance. This variable was balanced scorecard variable that served as a mediation variable, the result was a new finding between TQM relationship and corporate performance in this research with the result that TQM variable and corporate performance could influence indirectly through balanced scorecard variable seen from the indicators of customer perspective, business perspective internal as well as the growth and learning perspectives described in hypotheses 3, 4, and 5.

The results of this study showed that total quality management had no direct effect on corporate performance. However, it affected indirectly through balanced scorecard seen from customer's perspective indicator, internal business perspective, and growth and corporate learning
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perspective, in which the influence was in accordance with research conducted by Mahfud and Chairina (2009). Total quality management was expected to have a high influence because the higher the effect, the higher the company's profit. Because high profits would give an indication of a good company performance prospect that could make customers and consumers feel satisfied.

CONCLUSIONS

Total quality management has no direct effect on corporate performance. The total quality management variable indirectly affects the performance of the company mediated by the balanced scorecard variable and the total quality management variable affects the performance of the company through balanced scorecard approach on the indicators of customer perspective, internal business perspective and growth and learning perspectives. Further research is suggested to use indicators of finance and use of companies that have gone public, because companies that go public have more employees and will publish financial statements on the site www.idx.co.id so that facilitate the retrieval of financial report data of the researcher.

REFERENCES


