

# A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

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## Abstract:

The main objective of this study is to develop a best fit path model for organizational performance. A review of related literature confirmed that underperformance is a common occurrence in the business world which leads to severe losses and ultimately business closure. A quantitative research design utilizing correlational technique was used in this study. Further, a path analysis was employed to determine the best fit path model that predicts organizational performance with total quality management, strategic planning process, and organizational innovativeness as the exogenous variables. The findings of this study showed a very high descriptive levels for total quality management, strategic planning process, organizational innovativeness and organizational performance. Also, total quality management, strategic planning process and organizational innovativeness were found to have significant relationship to organizational performance. As to the best-fit path model, it was found out that total quality management has direct influence on organizational performance, and that organizational innovativeness has direct influence to strategic planning process and has significant relationship to total quality management.

**Keywords:** business administration, total quality management, strategic planning process, organizational innovativeness, organizational performance, path analysis modelling, Philippines

## 1. INTRODUCTION

The business environment is filled with stories and evidences of both success and failure among business establishments. Regardless of industry and nature of business, it is a general knowledge among business practitioners and academicians alike that for organizations to achieve sustainability, it must first perform in a manner well enough to compete in an unforgiving business environment. Through the years, the credit and collection business has made significant contribution in enhancing quality of life and in economic development as a whole. However, organizations engaged in this business are exposed in significant risk which is often catastrophic when firms do not perform well. In the credit cooperative setup, the pressure to perform at a satisfactory level or even at an exemplary level is greater. This is because a cooperative is owned by its members. Hence, the money uses to finance their bread and butter activities are the money of its members who are expecting returns out from their investment, making it more imperative for the organization to perform well.

Organizations have paid special attention to organizational performance mainly because the attainment or the non-attainment of organizational objectives is always linked towards performance. Jenatabadi (2015) explained that organizational objectives are accomplished through the various activities of a firm. Hence, operational efficiency and effectiveness needs to be attained so that predetermined objectives are accomplished. Moreover, various authors such as Thompson (1967); Friedlander and Pickle (1968) acknowledged that organizational performance is a constant consideration in the paradigms of management and that it is a vital element in both operational and strategic management. Further, Etzioni (1960) emphasized that the growth and long-term survival of an organization is the "ultimate criterion of organizational performance.

In the locality, particularly in Region XI, there are a handful of credit cooperatives in the area that are struggling to perform at a desirable level. This has led to catastrophic consequences such as member withdrawals of their share and even closure of business. Moreover, although there are extensive literatures about organizational performance, the proponent has yet to encounter a study about the causality of organizational performance using Total Quality Management, Strategic Planning Process and, Organizational Innovativeness as its exogenous variable. Thus, the proponent was compelled to come up with this study.

# A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

## 1.1 Research Objectives

The main concern of this study is to develop a best fit path model for customer satisfaction. It also seek assess the level of total quality management, strategic planning process, organizational innovativeness and organizational performance of credit cooperatives and the significance on the relationship between total quality management, strategic planning process, organizational innovativeness and organizational performance.

## 1.2 Hypotheses

There are two hypotheses of this study which are tested at 0.05 level of significance: there is no best path model on organizational performance and there is no significant relationship between the total quality management and organizational performance, strategic planning process and organizational performance and organizational innovativeness and organizational performance.

## 1.3 Significance of the study

This study will shed light on the magnitude of total quality management, strategic planning process, organizational innovativeness and organizational performance of credit cooperatives in Region XI. This would serve as benchmark in effectively and efficiently managing cooperatives as one of the primary contributors to the economy most especially in poor, less developed and developing countries in the world. This study is considered beneficial to cooperative development policy makers by providing valuable information on the extent to which factors such as governance, members' commitment, motivations, cooperative principles and technology affect the performance of savings and credit co-operatives. Secondly, the study would also benefit the cooperatives sector in order for them to enhance service delivery to their members. Finally, the study will contribute to knowledge that can be explored by scholars studying cooperatives societies and can also be used as a baseline and serves as a secondary data for the researchers who want to conduct further investigation in this area.

## 2. METHOD

### 2.1 Research Design

This study is a quantitative non-experimental research design using correlational techniques. It uses path analysis to identify the best fit path model of organizational performance.

### 2.2 Population and Sampling

Scientific process was employed in choosing the respondents. Random sampling technique will be used in determining the respondents for this study. A minimum of 400 questionnaires were distributed. Respondents of the study were the officers and employees from renowned credit cooperatives or multi-purpose type with money lending as major business with operations in Region XI. Respondent-officers are those who have served the cooperative for at least 2 years and employee-respondents are those who occupied supervisory and managerial positions and have been employed in the cooperative for at least 2 years. Data gathering was conducted between June up to September of 2019. Survey questionnaires were distributed as early as June, 2019 but retrieval took quite long considering the busy schedules of respondents and the substantial number of items in the questionnaire.

### 2.3 Research Instrument

Primary data were used in gathering information about the study which consists of four parts, namely: total quality management, strategic planning process, organizational innovativeness and organizational performance. The survey questionnaires utilized in the conduct of the study was sourced from various related researches. Restructuring / modification was carried out to make the instrument more applicable to current local business setting. To make the instrument more contemporary, it was be validated by six (6) expert validators and gained an average rating of 4.14 at a scale of 5. After validation, pilot testing was conducted. Cronbach alpha was used to check the validity of the questionnaire with TQM getting a score 0.891; strategic planning process got a score of 0.861; organizational innovativeness got a rating of 0.870 and organizational performance got a score of 0.913. This reflects that the survey questionnaire was both valid and reliable.

## 3. RESULTS AND DISCUSSION

Shown in Table 1 is the level of total quality management among credit cooperatives in region XI. The overall mean is 4.32 which has a standard deviation of .419, described as very high. This means that the total quality management

## A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

among credit cooperatives is always observed. Among the Indicators, the role of divisional top management was ranked highest followed by product/ service design, employee relations, training, process management/ operating procedures, quality data and reporting, and lastly role of the quality department. This implies that renowned credit cooperatives in Region XI have department heads that are actively involved in the quality improvement process of their respective cooperatives; division executives and department heads that accept/assume responsibility for quality performance; top management that support long term quality improvement process and that a goal setting process is conducted in a manner that goals that are set are attainable and realistic. Further, the result also indicated that renowned credit cooperatives are setting clear objectives for quality performance; there is an organizational wide understanding of the quality goals and policies; divisional top management is assessed extensively for the quality of their performance; and that top the top management is able to conduct a proper review of the issues pertaining to quality performance. Finally, the result also signified that a comprehensive and clearly defined quality plan is in place among renowned credit cooperatives in Region XI and that quality improvement is considered to be an approach that results in the increase in their profitability; and cost and schedule is given importance in relation to quality. The result reflected the total quality management theory of Morrow (1997) that TQM is a framework based on the belief that organizations need to have people that are focus on delivering high quality performance for sustainability as this will eventually result to better performance. Arikkok (2017) stated that the value of the function of divisional top management in the implementation of quality process is highly essential towards achieving its objectives. Top management should have indisputable knowledge about the organization's quality policy as well as the undeniable know how on how to implement it. Top management should show good leadership and the commitment to adhere to the quality process so that all people, including those below them will follow. The result further reflected the ideas of Kiran (2016) who unraveled that in order for TQM to be successful, it is important that everyone in the organization accepts responsibility show commitment to the quality process.

Table 1. Level of total quality management

Items	SD	Mean	Descriptive Level
Role of Divisional Top Management and Quality Policy	0.446	4.53	Very High
Role of the Quality Department	0.604	4.19	High
Training	0.514	4.28	Very High
Product/Service Design	0.480	4.45	Very High
Process Management/Operating Procedures	0.555	4.21	Very High
Quality Data and Reporting	0.557	4.20	Very High
Employee Relation	0.460	4.37	Very High
<b>Overall</b>	<b>0.419</b>	<b>4.32</b>	<b>Very High</b>

Presented in Table 2 is the level of strategic planning process among credit cooperatives in region XI. The overall mean garnered 4.45 score which has a standard deviation of .450, described as very high. This means that the strategic planning process among credit cooperatives is always observed. Among the measures of strategic planning process, institutionalizing the planning function was ranked the highest followed by establishing strategic foundation, managing strategic plan implementation, developing the strategic plans, conducting the strategic situation diagnosis, and optimizing board development and utilization. The result of the study showed that credit cooperatives have key personnel/ managers that are actively participating in the strategic planning process; top executives are recognize to have the official responsibility for the organization's strategic business planning; strategic planning as a top priority activity performed on a daily basis; resources that are allocated primarily for strategic planning; and a set of procedures that are adhered/ practiced in the strategic planning process. The result was cognizant to the opinions of Bryson, 2003; Desai (2000); and Sandada, Poee and Dhurup (2014) who all agreed that the effectiveness of the quality management process can only be attained if the adoption of the quality process is institutionalized. Strategic planning is now becoming a way of life for many successful firms. This is because strategic planning has proven to enhance the output of organizations. Hence, institutionalizing the planning process is integral to a firm's ability to perform and produce outputs at a satisfactory level since implementing quality processes requires an organization wide knowledge and commitment.

## A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

Table 2. Level of Strategic Planning Process

Items	SD	Mean	Descriptive Level
Institutional the Planning Function	0.495	4.57	Very High
Establishing the Strategic Foundation	0.461	4.56	Very High
Conducting the Strategic Situational Diagnosis	0.518	4.38	Very High
Developing the Strategic Plans	0.523	4.40	Very High
Managing Strategic Plan Implementation	0.562	4.48	Very High
Optimizing Board Development and Utilization	0.599	4.32	Very High
<b>Overall</b>	<b>0.450</b>	<b>4.45</b>	<b>Very High</b>

Reflected in table 3 is the analysis for the level of organizational innovativeness with a mean score of 4.17 and a standard deviation of .495, described as high. This means that the organizational innovativeness among credit cooperatives in region XI is often evident. Among the measures of organizational innovativeness, process innovativeness was ranked the highest followed by product innovativeness, strategic innovativeness, market innovativeness and behavior innovativeness. The result implies that renowned credit cooperatives in Region XI are constantly improving their business processes; improvising their conventional methods in solving problems; developing many management approaches during the past five years; and changing their production process at a fast rate as compared with their competitors. The result mirrored the description of Das and Joshi (2012); Hilmi, Ramayah and Mustapha (2010) that process innovativeness involves the organization's capability to organize, combine, and control organizational assets to enhance or create new processes. Process innovativeness is instrumental in enhancing the performance of an organization particularly in developing a sustained competitive advantage. Hence process innovativeness strengthens business performance.

Table 3 Organizational Innovativeness

Items	SD	Mean	Descriptive Level
Behavior Innovativeness	0.611	3.99	High
Product Innovativeness	0.572	4.29	Very High
Process Innovativeness	0.575	4.42	Very High
Market Innovativeness	0.692	4.04	High
Strategic Innovativeness	0.678	4.13	High
<b>Overall</b>	<b>0.495</b>	<b>4.17</b>	<b>High</b>

Revealed in Table 4 is the level of organizational performance among credit cooperatives in region XI. The overall mean score is 4.41 which has a standard deviation of .463, described as very high. The result means that organizational performance among credit cooperatives in Region XI is excellent. Results revealed that strategy was the dominating indicator followed by resource, measure and analysis, process, capability, and lastly environment. The result showed that renowned credit cooperatives in Region XI are using strategies that are based on target customers and market environment; equipped with leaders that considers employees ideas when planning the future direction of the company; developing, reviewing and updating the strategy every so often based on the information in the business environment, and performance measurement; offering differentiated products based on price, quality and other value compared to competitors; deploying strategies through a framework of key processes and offering established products to new market. The result is supported by Wu (2009) who hammered down a point by saying that having a good strategy based on the company's strength and weaknesses is vital towards taking advantage of opportunities and avoiding threats. Moreover, Treacy and Wiersema (2007), highlighted that there are three categories of organizational strategies: excellence in operation, product leadership, and customer relationship.

Table 4. Level of Organizational Performance

## A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

Items	SD	Mean	Descriptive Level
Capability	0.531	4.37	Very High
Resource	0.544	4.46	Very High
Environment	0.525	4.32	Very High
Strategy	0.532	4.49	Very High
Process	0.505	4.38	Very High
Measure and Analysis	0.541	4.42	Very High
<b>Overall</b>	<b>0.463</b>	<b>4.41</b>	<b>Very High</b>

Reflected in Table 5 is the significance on the relationship between total quality management and organizational performance with an overall computed p-value of .000 which is lesser than the .05 level of significance, hence the two variables are correlated. The r-value of .819 signifies a strong positive relationship between Total quality management and organizational performance. The null hypothesis is therefore rejected in favor with the alternative hypothesis. In addition, all measures of total quality measures were found to be significantly related to organizational performance. The result gave credence to the claims of Demibag, Lenny Koh, Tatoglu and Zaim (2006) who established that organizations should master the implementation of TQM since it can help organization arrive at the desired business outcomes. This is further supported by Saraph, Benson, and Schroder (1989) that an increased business performance can be attained if there is a well-established structure, system and processes in place within the organization to support the TQM process. Various Authors such as Easton and Jarrel (1998); and Hendricks and Singhal (2001) who shared similar findings that businesses that are able to establish and implement TQM in their operations are able to perform better than their counterparts that do not use TQM.

Table 5. Correlation between Total Quality Management and Organizational Performance

Total Quality Management	Organizational Performance						Overall Organizational Performance
	Capability	Resource	Environment	Strategy	Process	Measure and Analysis	
<b>Role of Divisional Top Management and Quality Policy</b>	0.521* (0.000)	0.721* (0.000)	0.553* (0.000)	0.639* (0.000)	0.546* (0.000)	0.588* (0.000)	0.682* (0.000)
<b>Role of the Quality Department</b>	0.451* (0.000)	0.407* (0.000)	0.568* (0.000)	0.409* (0.000)	0.546* (0.000)	0.427* (0.000)	0.535* (0.000)
<b>Training</b>	0.550* (0.000)	0.564* (0.000)	0.619* (0.000)	0.528* (0.000)	0.607* (0.000)	0.530* (0.000)	0.648* (0.000)
<b>Product/Service Design</b>	0.557* (0.000)	0.715* (0.000)	0.596* (0.000)	0.645* (0.000)	0.585* (0.000)	0.587* (0.000)	0.704* (0.000)
<b>Process Management/Operating Procedures</b>	0.600* (0.000)	0.637* (0.000)	0.655* (0.000)	0.551* (0.000)	0.631* (0.000)	0.552* (0.000)	0.692* (0.000)
<b>Quality Data and Reporting</b>	0.569* (0.000)	0.598* (0.000)	0.622* (0.000)	0.542* (0.000)	0.612* (0.000)	0.586* (0.000)	0.673* (0.000)
<b>Employee Relation</b>	0.683* (0.000)	0.640* (0.000)	0.699* (0.000)	0.598* (0.000)	0.716* (0.000)	0.598* (0.000)	0.750* (0.000)
<b>Overall Total Quality Management</b>	0.688* (0.000)	0.744* (0.000)	0.759* (0.000)	0.680* (0.000)	0.745* (0.000)	0.676* (0.000)	0.819* (0.000)

\*Significant at 0.05 significance level.

Depicted in Table 6 is the result on the significance of the relationship between strategic planning process and organizational performance. The result got a p-value of .000 which is lesser than the .05 level of significance hence, the two variables are correlated. The r-value of .867 signifies that there is a strong positive correlation between strategic planning process and organizational performance. The null hypothesis is therefore rejected in favor with the alternative hypothesis. Moreover, all indicators of strategic planning process were found to be significantly related to organizational performance which contributed to a strong overall correlation. The result validated the strategic planning theory of

## A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

Robinson and Pearce (1983) that a well-established strategic planning process enables the organization to plan and use the utilization of their resources, skills and knowledge which contributes to the attainment of their mission, goals and objectives in an environment of ongoing change. Moreover, Julian (2013) who founded that strategic planning and organization performance are interrelated. However, there are various ways to measure the effectiveness of strategic planning process and selecting the appropriate approach to measuring relationship between strategic planning and organization performance must be done with caution.

Table 6. Correlation between Strategic Planning Process and Organizational Performance

Strategic Planning Process	Organizational Performance					Measure and Analysis	Overall Organizational Performance
	Capability	Resource	Environment	Strategy	Process		
<b>Institutional the Planning Function</b>	0.522* (0.000)	0.665* (0.000)	0.561* (0.000)	0.743* (0.000)	0.533* (0.000)	0.555* (0.000)	0.684* (0.000)
<b>Establishing the Strategic Foundation</b>	0.546* (0.000)	0.693* (0.000)	0.611* (0.000)	0.744* (0.000)	0.621* (0.000)	0.617* (0.000)	0.732* (0.000)
<b>Conducting the Strategic Situational Diagnosis</b>	0.636* (0.000)	0.758* (0.000)	0.764* (0.000)	0.744* (0.000)	0.725* (0.000)	0.670* (0.000)	0.820* (0.000)
<b>Developing the Strategic Plans</b>	0.642* (0.000)	0.721* (0.000)	0.684* (0.000)	0.741* (0.000)	0.728* (0.000)	0.684* (0.000)	0.802* (0.000)
<b>Managing Strategic Plan Implementation</b>	0.610* (0.000)	0.794* (0.000)	0.726* (0.000)	0.815* (0.000)	0.670* (0.000)	0.665* (0.000)	0.818* (0.000)
<b>Optimizing Board Development and Utilization</b>	0.547* (0.000)	0.493* (0.000)	0.580* (0.000)	0.518* (0.000)	0.582* (0.000)	0.447* (0.000)	0.604* (0.000)
<b>Overall Strategic Planning Process</b>	0.684* (0.000)	0.800* (0.000)	0.766* (0.000)	0.834* (0.000)	0.753* (0.000)	0.706* (0.000)	0.867* (0.000)

\*significant at .05 significant level

Portrayed in Table 7 is the result on the significance of the relationship between organizational innovativeness and organizational performance. The result got a p-value of .000 which is lesser than the .05 level of significance hence, the two variables are correlated. The r-value of .844 signifies that there is a strong positive correlation between the two variables. Thus, null hypothesis is therefore rejected in favor with the alternative hypothesis. Likewise, all indicators of the exogenous variable was found to have a significant relationship with the endogenous organizational performance. The findings of this study vindicated the diffusion of Innovation theory of Rogers (1979) in which people, as part of a social system, adopt a new idea, behavior, or product. The key to adoption is that the person must perceive the idea, behavior, or product as new or innovative. It is through this that diffusion is possible. Thus, adapting to new ideas lead to easy integration on the different changes the organization make making it clearer to attain improved organizational performance. The result is supported by the Finoti, Didonet, Toaldo, and Martins (2017) who revealed that innovativeness is associated with organizational performance through the marketing strategy process. Innovativeness has been investigated as an important driver of organizational performance (Rhee, Park, & Lee, 2010; Kyrgidou&Spyropoulou, 2013; Dibrell, Craig, &Neubaum, 2014).

Table 7. Correlation between Organizational Innovativeness and Organizational Performance

Organizational	Organizational Performance
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## A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

Innovativeness	Capability	Resource	Environment	Strategy	Process	Measure and Analysis	Overall Organizational Performance
<b>Behavior Innovativeness</b>	0.474* (0.000)	0.391* (0.000)	0.536* (0.000)	0.372* (0.000)	0.467* (0.000)	0.371* (0.000)	0.498* (0.000)
<b>Product Innovativeness</b>	0.617* (0.000)	0.745* (0.000)	0.761* (0.000)	0.727* (0.000)	0.679* (0.000)	0.621* (0.000)	0.792* (0.000)
<b>Process Innovativeness</b>	0.562* (0.000)	0.786* (0.000)	0.644* (0.000)	0.749* (0.000)	0.625* (0.000)	0.645* (0.000)	0.767* (0.000)
<b>Market Innovativeness</b>	0.639* (0.000)	0.361* (0.000)	0.634* (0.000)	0.429* (0.000)	0.688* (0.000)	0.476* (0.000)	0.613* (0.000)
<b>Strategic Innovativeness</b>	0.591* (0.000)	0.538* (0.000)	0.677* (0.000)	0.581* (0.000)	0.662* (0.000)	0.570* (0.000)	0.690* (0.000)
<b>Overall Organizational Innovativeness</b>	0.730* (0.000)	0.699* (0.000)	0.820* (0.000)	0.712* (0.000)	0.791* (0.000)	0.674* (0.000)	0.844* (0.000)

\*significant at .05 significant level

Presented in table 8 is the result of the goodness of fit measures of the four path analysis models. There were four hypothesized models formulated and tested in this study. Screening of variables was critically observed to give premium on the normality of the data. Variables with interval or ratio data were counted in the formulation of models. Generated models of this study were solidified with theories. In identifying the best fit path model, all indices included must consistently fall within the acceptable ranges. Chi-square/degrees of freedom value should be less than 2 with its corresponding p-value greater than .05. Root mean square error approximation value must be less than .05, the other indices such as normed fit index, Tucker-Lewis index, comparative fit index, and the goodness fit index must all be greater than .95. Model 4 obtained the following results: P of Close Fit (P-Close) is .858; Chi-Square/Degrees of Freedom (CMIN/DF) is .088; Probability Value (P-value) is .767; Goodness of Fit Index (GFI) is 1.000; Comparative Fit Index (CFI) is 1.000; Normed Fit Index (NFI) is 1.000; Tucker-Lewis Index (TLI) is 1.004; Root Means Square of Error Approximation (RMSEA) is .000. These indices satisfied the requirement of the goodness of fit measures. Moreover, this is an indication that generated model 4 is the best fit path model.

The generated model 4 in standardized solution is picture out in Figure 3. Results denoted that the latent variable total quality management had significant contribution to the latent variable organizational performance. It could be observed from the data that the strategic planning process and Organizational Innovativeness had no significant correlation to the organizational performance. Hence, the findings suggest that organizational performance of credit cooperatives were best anchored on: total quality management.

The result further strengthened the TQM theory of Morrow (1997) that the presence or implementation of total quality management among organizations is a portal towards achieving organizational objectives, and more importantly, in the sustainability of the business. Hence, it is undeniable that total quality management positively affects organizational performance in various levels. The result was comparable to the findings of Demibag, Lenny Koh, Tatoglu and Zaim (2006); Gharakani, Rahmati, Farrokhi and Farahmandian (2013); and Arikkok (2017) that TQM implementation is an essential tool that creates competitive advantage leading to a better organizational performance. On the other hand, Arikkok (2017); Kiran (2016) emphasized that top management plays a crucial role in the implementation of total quality management and is therefore the primary party accountable for its success or failure. The result of the implementation of TQM will determine if business outcomes are good or bad.

Table 8. Summary of Goodness of Fit Measures of the Four Path Analysis Models

Model	CMIN/DF	P-Value	NFI	TLI	CFI	GFI	RMSEA	P-Close
	0 < value < 2	> .05	> .95	> .95	> .95	> .95	< .05	> .05

## A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

1	363.042	0.000	0.763	-0.462	0.763	0.773	0.941	0.000
2	133.355	0.000	0.913	0.479	0.913	0.878	0.569	0.000
3	115.043	0.000	0.925	0.551	0.925	0.891	0.528	0.000
4	0.088	0.767	1.000	1.004	1.000	1.000	0.000	0.858

**Legend:**

CMIN/DF- Chi-Square/Degrees of Freedom

NFI - Normed Fit Index

TLI - Tucker-Lewis Index

CFI - Comparative Fit Index

RMSEA- Root Means Square of Error Approximation

GFI - Goodness of Fit Index

P-close - P of Close Fit

P-Value - Probability value

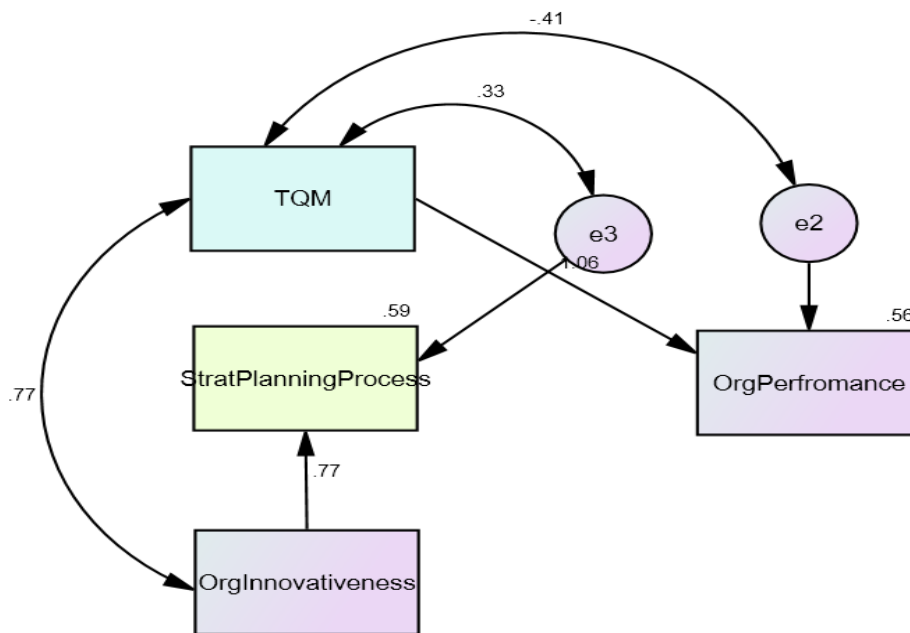


Fig. 1. The Best Fit Path Model on Organizational Performance

### 4. Conclusion

The best path model generated in this study showed that total quality management is the best predictor of organizational performance, and that credit cooperatives should focus on the continuous planning and execution of total quality processes in order to consistently perform at the highest level. Periodic monitoring and evaluation should be consistently conducted so that performance is maintained. Lastly, since the business environment is ever changing cooperatives should periodically conduct a situation analysis in order to keep abreast with the latest development in cooperative management as well as to identify possible trends and phenomenon that may affect organizational performance.



# A PATH ANALYSIS MODEL ON ORGANIZATIONAL PERFORMANCE AMONG CREDIT COOPERATIVES

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