

# THE RELATIONSHIP BETWEEN ORGANIZATION STRATEGY AND ORGANIZATION PERFORMANCE : THE MEDIATING ROLE OF TOTAL QUALITY MANAGEMENT

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## Abstract

This study examines the relation between organization strategy of differentiation and cost leadership and total quality management (TQM). Furthermore, it investigates relationship between TQM and organization performance and thus, whether TQM is mediating variable in relationship between organization strategy and organization performance. The empirical data for this study was drawn from a survey of 58 middle/senior managers from services firms in Riau. The analysis was conducted using structural equation modeling (SEM). The findings indicate that organization strategy is positively and significantly relation and TQM. TQM relation on performance financial and quality performance. Organization strategy not relation on performance and TQM not mediates the relationship between organization strategy (differentiation and cost leadership) and innovative performance measures. The implication is that TQM needs to be complemented by other resources to more effectively realize the strategy in achieving a high level of performance, particularly innovation.

Keywords: TQM; organization strategy, financial performance, quality performance, inovative performance

## 1. Introduction

Total quality management (TQM) is one topic of concern in management accounting. Previous studies examined the impact of new manufacturing practices such as TQM, JIT, TPM in influencing company performance. Ittner and Larcker (1995) is one of the first management accounting researchers that examines the impact of total quality management on organizational performance. They found no evidence that organizations making use TQM practice and such management accounting systems attain the highest level of performance. Followed by Sim and Killough (1998), Kurnianingsih (2001), Mardiah (2005) which examines TQM in the management accounting system design and system performance measurement and reward systems in influencing company performance. The Result showed Inconsistency and controversy between the results of this study, probably caused by other factors that influence the implementation of TQM on company performance.

Other researchers have done research on TQM on organizational performance by examining a variety of variables and analysis as well as different methods. The relationship between TQM and organizational performance are analyzed according to the degree of implementation of its elements (leadership,

quality-oriented culture, Awards system, employee participation, etc..) Such as those studied Ugboro and Screwdriver (2000), Prayogo and Sohal (2004), Sila (2007), Macinnati (2008), Jung,Wang &Wu(2009) ,Christos et al (2010), Salaheldin (2011). The successful implementation of TQM in addition influenced by internal factors also influenced by external factors such as environmental characteristics and organizational strategy and the market (Prayogo and Sohal (2006), Vijande et al (2007), Fuentes et al. (2004), Pamela et.al (2010)

Until now, few studies considers how the existence of factors beyond the implementation of TQM to enhance organizational performance. Rayap et al. (1998) stated that one factor for the success of TQM to priority corporate strategy in a competitive environment and organizational goals. A company that is committed to implement TQM as a principal strategy for the activity should not forget that the organization is part of an environment that has certain characteristics. Response in the face of the environment is to determine strategies to achieve competitive advantage. Through this strategy, an organization select and interpret the environment and establish environmental elements to survive in the environment (Keats & Hitt, 1988).Dansky and Brannon (1996) using orientation strategy (defender, prospector and analyzer) in the practice of TQM. Research results indicate that the analyzer and prospector strategy is positively related to TQM, but the defender strategy had no effect on TQM, this is due to risk averse and defender strategy is not sensitive to changes. Research Prajogo and Sohal (2006) indicate a positive relationship between differentiation strategy with TQM and TQM have relationship with organizational performance. Research results indicate that in implementing TQM required a more effective strategy in improving organizational performance.

This study is an extension of Prayogo and sohal (2006) and investigates the relationship between organizational strategy with total quality management (TQM) and organizational performance. This study differs from Prayogo and Sohal (2006) . Prayogo and Sohal not examines direct effect organization strategy on financial performance. His analysis used partial SEM. This study examines direct effect organization strategy on organization performance that analyzed with full SEM.

## **2. Literatare Riview**

### **2.1. Organization Strategy and TQM**

Very few researchers have discussed the relationship between TQM and organization strategy, particularly in the context of generic strategy models developed by Porter (1980). This is because some scholars (D.A. Garvin 1988 and RJ Schonberger (1992), have provided a strong support to the view that TQM must be adopted as a strategic model in an organization. The TQM philosophy, therefore, has successfully elevated the implementation of quality management practices from an operational level to a strategic level (J Bounds, 1994) . Nonetheless, Dean and Bowen (1994) argue that from a strategic management perspective, TQM is concerned more with strategy implementation, or deployment, rather than strategic choice, or intent. The issue is therefore to investigate to which particular strategy TQM can be associated.

Dansky and Brannon (1996) examined the relationship between organizational strategy and TQM. Dansky and Brannon use the Miles & Snow

strategy in analyzing TQM is a strategy defender, prospector and analyzer. Burns and Staker (1961 in Branon 1996) found that the organization will be effective in a turbulent environment when using a mechanism that can succeed the organization in a stable environment, by implementing the TQM philosophy in organization design.

Reed et al. (1996) argue that the content of TQM can be distinguished based on the issue of two business orientations : customer orientations and process orientation. With customer orientations, organizations will focus on gaining a market advantage where they can outperform their competitors in terms of attracting more customers with distinguished products and charge a premium price. Although not implicitly stated, this notion suggests that under customer orientation TQM is associated with a differentiation strategy. On other hand, under process orientation, companies will pursue process efficiency improvements to eliminate defects and wastes. This view can be traced back to the origins of TQM as rooted in the principles of statistical process control (SPC). The concept of kaizen (1986) that dominated the TQM literature during the 1980s and 1990s also underscored the importance of process improvement rather than product innovation.

Reed et al. (1996) pointed out that through the concept of continuous improvement, TQM elevates the importance of cost reduction through defect preventions, as also noted by Hackman and Wageman (1995) : A fundamental premise of TQM is that the costs of poor quality (such as inspection, rework, lost customers, and so on) are far greater than the costs of developing processes that produce high-quality products and services. Reed et al. (1996) therefore suggested that under process orientation, TQM implementation eventually leads to a cost-based advantage that reflects a cost leadership strategy. Another strong implication about the association between TQM and cost leadership is suggested by Gobeli and Brown (1994). In their framework on strategic approaches to innovation, they label TQM as a value leader since it places more emphasis on process innovation than product innovation. By focusing on process innovation, TQM can be linked to Porter's cost leadership strategy. Gobeli and Brown (1994), however, also emphasize that TQM does not seek purely (low) cost leadership, rather, total value leadership, meaning that TQM focuses on producing quality items at a competitive price in such a way that the ratio of quality to price will be high. Overall, the arguments suggesting that TQM is related to cost leadership strategy also have a strong basis. It is therefore difficult to derive a clear-cut conclusion to situate TQM in an exclusive association with any of these two strategies. As such, Prajogo and Sohal (2001) have posited that TQM could be used in different strategic contexts, including differentiation and cost leadership.

Prajogo and Sohal (2006) examined the relationship with the organization's strategy using Porter's generic strategies (cost leadership and differentiation) indicate a positive relationship between differentiation strategy with TQM and organizational performance. Sedangkan cost leadership strategy is positively related to TQM. Research results indicate that in implementing TQM required a more effective strategy in improving organizational performance. following two hypotheses are posited:

**Hypothesis 1a.** There is a positive and significant relationship between differentiation strategy and TQM practices

**Hypothesis 1b.** There is a positive and significant relationship cost leadership strategy and between TQM practices

## 2.2. TQM and organization performance

Total quality management is a philosophy that emphasizes the continuous improvement of manufacturing processes by eliminating waste products, quality improvement, skill development and reduction of production cost (Sim and Kollough, 1998). Improved product quality and product cost reduction can improve performance (performance) either company financial performance, quality performance and innovative performance. Customer-oriented TQM always deliver a quality product with competitive prices and always innovating the taste of consumers. Easton and Jarrell (1998) states that the effective implementation of TQM in the long run will increase the profitability and stock return. Flynn (1995) argued that the high intensity of TQM practices improve quality performance.

Several studies examining the relationship between TQM and performance of Ittner and Larcker (1995,) Research results show that there is no effect of the implementation of TQM practices on firm performance. Ittner and Larcker study only tested the TQM and connect with the non-financial performance. Sim and Killough (1998) Kurnianingsih (2000) and Mardiah (2005) examined TQM in the management accounting system design and system performance measurement and reward systems in influencing company performance. Sim and Killough The results show that TQM and JIT manufacturing practices can improve the performance using two-dimensional organization of customer performance and quality performance.

Several studies show a positive relationship between TQM performance measured by financial ukuran is is Maccinati (2008), Hendricks and Singhal (2001), Terziovski and Samson (1999), Kaynak (2003). While studies that use measures of performance with quality performance and innovative performance is Sim and Killough (1998), Kaynak (2003), Prayogo and Sohal (2006), Kumar (2009), Anupam Das dan Kumar (2011), Changiz V (2011). Based on the description above, the researchers examined the relationship of TQM practices with organizational performance organizational performance menggabungkanukuran financial performance, quality performance and innovative performance, it is hypothesized as follows:

**Hypothesis 2a.** There is a positive and significant relationship between TQM practice and financial performance.

**Hypothesis 2b.** There is a positive and significant relationship between TQM practice and quality performance.

**Hypothesis 2c.** There is a positive and significant relationship between TQM practice and innovative performance

### 2.3. Organization strategy and organization performance

Previous research show several confusions have been identified in the literature concerning the link between organizational strategy and organization performance, particularly in terms of quality .Belohlav (1993) argues that how quality fits into a specific strategy is not particularly clear because quality is a term that can be defined in a variety of ways. He also posits that attaining a high level of quality creates the potential to pursue both differentiation and cost leadership strategy within a market.

Porter (1980)suggests that a differentiation strategy aims to create a product that customers see as unique. A firm adopting this strategy selects one or more attributes or characteristics that customers perceive as important, and uniquely positions itself to excel in those attributes leading to a premium price. Philips et al. (1983)hold that among the many sources of differentiation, quality is the approach that most often characterizes a differentiation strategy. This is because quality creates a competitive advantage through customer loyalty as well as minimizing customer sensitivity to price. They also note that the conventional wisdom suggests that achieving higher quality usually requires the use of more expensive components,and other manufacturing and management techniques incompatible with achieving low costs. However, in their accompanying empirical study, they conclude that product quality exerts a beneficial effect on cost position via market share. This appears to be consistent with the arguments by TQM proponents that quality is inversely associated with cost, as discussed in the previous section. Under the TQM context, however, the proposition is that quality directly impacts on cost reduction at an operational level rather than via market share. In his quality improvement chain concept, Deming (1982) affirmed that organizations could enhance their competitiveness by improving quality resulting in cost reduction through the elimination of scrap and rework. This cost reduction will then lead to a capture of greater market share. Crosby (1979) and Juran (1993)also support this argument with their concept of quality cost. The empirical work by Maani et al. (1994) suggests that an improvement in quality results in a reduction of manufacturing cost. The implication of these arguments is that quality can serve the objective of the cost leadership strategy.

On the other hand, the relationship between organization strategy and innovation would seem to be clearer in the literature as it commonly agrees that there is a positive association between innovation, particularly product innovation, and differentiation strategy, and not with cost leadership strategy. Miller (1986)suggests that firms adopting differentiation strategy emphasize new products and new technologies as well as placing a strong emphasis on research and development (R&D) and venturing in new markets. He also supports the significant relationship between differentiation strategy and product quality because quality is an aspect of differentiation along with design, style, or technological innovation. Substantiating this argument, Abernathy and Utterback (1988) assert that the competitive advantage of innovative companies over their competitors is based on superior functional performance rather than lower initial cost, and so these radical innovations tend to offer higher unit profit margins. In addition, the literature also suggests that, in respect to the differentiation strategy, innovative companies also tend to emphasize new product development

(1995,1994). Higgins (1995) provides several examples of innovative companies. Sony, for example, introduced 200 new products and major enhancements to 800 existing products each year, whilst 3 M determined its corporate goal to derive 30% of its revenue from products introduced within the past four years.

It is also not difficult to suggest that a cost leadership strategy does not relate to innovation performance in terms of both product and process from a theoretical point of view. Porter (1980) suggests that companies adopting cost leadership strategy usually stress cost and budget control, efficient scale facilities, and the minimization of the expenses of R&D. Supporting this argument, Miller (1986) suggests that cost leaders not only will always be imitators in innovation, but they will also follow a competitor's innovation after a considerable risk-reducing lag, hence, opposing the major characteristics of product innovators. On the other hand, Porter (1980) suggests that a cost leadership strategy, to a certain degree, can lead to process innovation; however, as also argued by Miller (1986), the emphasis on efficiency often suppresses changes even in the production processes, particularly costly ones.

Studied Joo Jung, Wang and Wu (2009) suggest that competitive strategy does not directly influence on performance but differentiation strategy has stronger impact on TQM.

Studied Prayogo and Sohal (2008) evidence that the differentiation strategy is related to performance (performance) including quality performance and innovative performance. Conversely cost leadership strategy does not show a significant relationship with quality and innovative performance. Following hypothesis :

**Hypothesis 3A** : There is a positive and significant relationship between differentiation strategy and financial performance

**Hypothesis 3B.** There is a positive and significant relationship between differentiation strategy and quality performance

**Hypothesis 3C.** There is a positive and significant relationship between differentiation strategy and innovative performance

**Hypothesis 4A.** There is a positive and significant relationship between cost leadership strategy and financial performance

**Hypothesis 4B.** There is no significant relationship between cost leadership and quality performance

**Hypothesis 4C.** There is no significant relationship between cost leadership and innovative performance

#### **2.4. Mediating role TQM**

In this study also developed the role of TQM as a mediating link between organizational strategy. This development is based on previous research, such as pilliams et al. (1995) examined the relationship between competitive strategy and manufacturing strategy and performance between manufacturing strategy. Ward

and Duray (2000) using path analysis in examining the relationship competitive environment, competitive strategy, manufacturing strategy and performance.

Prayogo and Sohal (2005) also examined the effect of variables that mediate TQM as organizational strategies with performance. This study replicates the model proposed by Prayogo and Sohal. The difference of this study using two-dimensional performance of the financial performance and non-financial performance (quality performance and innovative performance).

This test aims to answer the controversy contained in the application of TQM and its effect on performance (performance). During this TQM widely studied individually as independent variables in influencing performance, and other research meguji influence TQM as the dependent variable with the strategy as the independent variable (Dansky and Branon, 1996). This study proposed TQM as variables that mediate the relationship strategy with organizational performance.

Prayogo and Sohal (2006) stated that organizations that implement TQM strategic differentiation in the environment can improve company performance. TQM practices on customer-oriented strategy of differentiation is consistent with the application which is also oriented to the customer. In organizations that use differentiation strategies and practices of TQM consistently perform differentiation and innovation of products with attention to product quality. In the long term differentiation strategy as applied to organizations using TQM to improve performance.

Cost to produce a quality product and cost for product innovation. Therefore, either the strategy or differentiation strategy leadership cost to the organization that uses TQM can affect the performance (performance) of the company. In this case if the firm chooses strategy differentiation or cost leadership strategy in implementing TQM environment that may affect performance (company performance).

Cost leadership strategy is applied to the organizations that implement TQM can be done by way of reduction of cost of defective products, product rework or cost to the customer complaint. In the TQM environment, a cost for product defects is higher than cost to produce a quality product and cost for product innovation. Therefore, either the strategy or differentiation strategy leadership cost to the organization that uses TQM can affect the performance (performance) of the company. In this case if the firm chooses strategy differentiation or cost leadership strategy in implementing TQM environment that may affect performance (company performance). Joo Jung, Wang and Wu (2009) suggest that competitive strategy does not directly influence on performance but it influence through the mediation of TQM practice on performance

**Hypothesis 5A.** TQM practices mediate the relationship between differentiation strategy and financial performance.

**Hypothesis 5B.** TQM practices mediate the relationship differentiation strategy with a quality performance

**Hypothesis 5C.** TQM practices mediate the relationship between differentiation strategy and innovative performance

**Hypothesis 6A.** TQM practices mediate the relationship between cost leadership strategy and financial performance

**Hypothesis 6B.** TQM practices mediate the relationship between cost leadership strategy and quality performance

**Hypothesis 6C.** TQM practices mediate the relationship between cost leadership strategy and innovative performance

### **3. Methodology**

#### **3.1. Source of data**

Data were obtained through a random survey of managers in services company in Riau, most of them are managers of middle / senior Which has the knowledge about the practice of the Organization The last day sekarang related with a cheap inexpensive Innovation In TQM, service companies Riau. Random sample selected includes a variety of cheap industrial sector. Of the 100 questionnaires Sent Only 58 data can be processed .

#### **3.2. Measurement of instrument**

##### ***Organization strategy measure***

In searching the model to gauge organization strategy, we reviewed a number of empirical studies that measured Porter's generic strategies, most notably Miller (1998) and Prayogo and Sohal (2006). Jermias and Gani (2004), Auzair and Langfield-Smith (2005) and Yamin et al. (1997). Among these studies, the scale by Miller (1988) was selected for the reason that it articulated the attitude or behavioral aspects of both differentiation and cost leadership strategies.

Question measuring the cost leadership strategy is achieving the lowest cost among competitors, making the procedure / services cost more to use a more efficient, cost improvements required for the coordination of the various types of service / services. Increased benefits are available equipment, services and facilities. A high score indicates high pressure cost leadership. For differentiation strategy using seven items that asked the question the degree of suppression of activity against the introduction of services / procedures more quickly, providing different services from competitors, offering a wider range of services than competitors, increased time in providing services to customers, providing services koalitas high, the service to customers in need, providing service and support after the sale (after sale). A high score indicates high emphasis on differentiation strategies conversely a low score indicates low emphasis on differentiation strategies.

Organizational strategy is measured by asking respondents their position relative to competitors' products by using a 5 point Likert scale (1 = very low and 5 = Very High).

##### ***TQM measure.***

TQM is widely used by several previous studies. In this study using TQM instruments used by Samson and Terziovski (1999) which is an instrument issued by the Malcolm Baldrige National Quality Award (MBNQA). This instrument has



been widely used and accepted as a research instrument of TQM such as Juran (1995), Evans and Lindsay (1999), Prayogo and Sohal (2005). MBNQA consists of six criteria of organizational practices namely leadership, strategy and planning, customer focus, information and analysis, people management, and process management. Questions consisted of six questions that measure leadership, people management measure 7 questions, 6 questions measuring customer focus, planning measure 6 questions, 5 questions measuring process management. and 4 items measuring information analysis. Each question was measured using 5-point Likert scale (1 = Strongly disagree, 5 = Strongly Agree)

### ***Performance measure***

#### ***Financial performance***

Financial performance measurement using the instrument used by Chenhall (1997), Kaynak (2003). Questions consist of three question items circumstances product compared with the industry average of sales growth rate in three years, the growth rate of ROI, and profit growth rates. Questions were measured using five point Likert scale, ranging from 1 = Very below average to 5 = Far above average.

#### ***Quality performance***

Quality performance previously used by Samson and Terziovski (1999), Prayogo and Sohal (2006). Quality performance was measured using 4 items dioperasionalisasi question with the performance of products / services in the industry, conformance to product specifications, product reliability and product durability. Respondents were asked to answer according to their perception of the company's position compared to competitors in industri, using five point Likert scale. Point 1 shows the worst position to 5 position best in the industry.

#### ***Innovative performance***

This instrument was used previously by Avlonitis (1994), Miller and Friesen (1982), Prayogo and Sohal (2006), which uses criteria product innovation and process innovation. Respondents were asked to answer according to their perception of the company's position compared to competitors in industri, using a 5-point Likert scale. Point 1 shows the worst position to 5 position best in the industry. Product innovation inquire about the diversity of the company's new products, the use of technological innovation in new products, new product development speed, number of new products introduced to the market and the number of new products first entered the market. While the innovation process consists of asking the company competitive technology position, speed of use of the latest technological innovations in the process, the novelty of the technology used within the company and the speed of change in processes, techniques and technologies.

## **4. Data Analysis**

Hypothesis testing conducted by the Structural Equation Model (SEM) approach using software Partial Least Square (PLS). PLS is a structural equation model (SEM) based components or variants (variance). According to Ghazali (2006) PLS is an alternative approach that shifts from a covariance-based SEM approach

based variant. Covariance based SEM generally test the causality / theory while PLS is more predictive models. PLS is a powerful analytical method (Wold, 1985 in Ghozali, 2006) because it is not based on many assumptions. For example, the data must be normally distributed, the sample should not be large. It can be used to confirm the theory, PLS can also be used to explain the presence or absence of relationships between latent variables.

#### 4.1. Data Quality

##### Validity test

Test the validity of the convergent validity performed by viewing each indicator and construct reliability test by looking at the composite reliability. According to Chin (1998) is a good indicator that has a loading factor > 0.5. Results of data processing there are three indicators that TQM has a factor loading values below 0.5, therefore the three indicators were excluded from processing.

Figure 1: Model SEM after execution

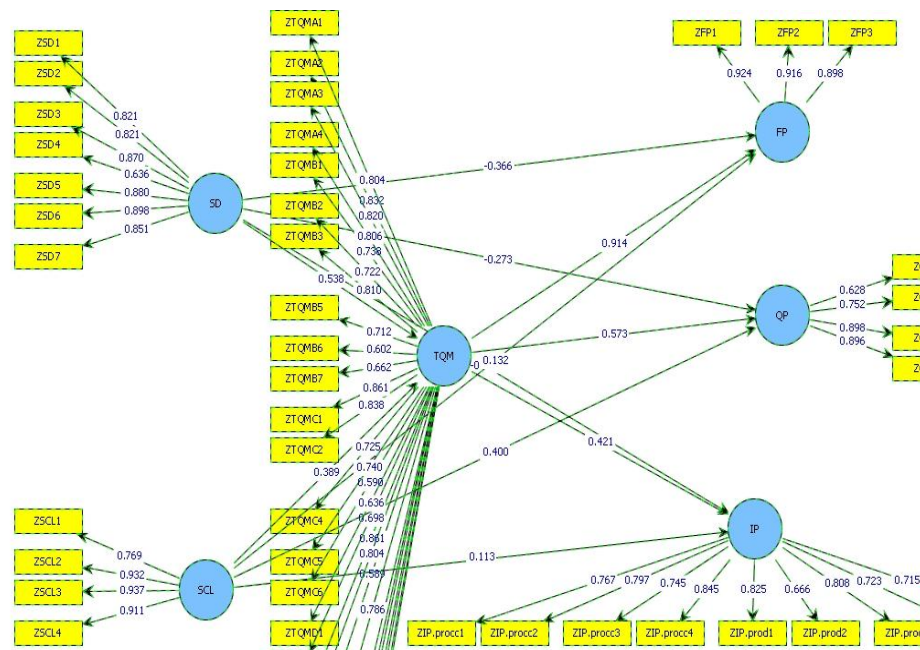


Table 1 show factor loading values of each indicator variable after the execution that is not valid. Here is the factor loading values of each construct that has a value above 0.5 means the item is valid.

**Table 1 : Cross Loading**

	SD	SCL	FP	QP	IP	TQM
ZFP1	0.479	0.579	<b>0.924</b>	0.369	0.236	0.615
ZFP2	0.591	0.601	<b>0.916</b>	0.444	0.384	0.742
ZFP3	0.424	0.469	<b>0.898</b>	0.386	0.392	0.598
ZIP.procc1	0.201	0.218	0.43	0.493	<b>0.768</b>	0.296

ZIP.procc2	0.226	0.194	0.416	0.556	<b>0.798</b>	0.333
ZIP.procc3	0.103	0.128	0.141	0.31	<b>0.745</b>	0.098
ZIP.procc4	0.243	0.262	0.361	0.573	<b>0.846</b>	0.362
ZIP.prod1	0.416	0.431	0.244	0.524	<b>0.824</b>	0.47
ZIP.prod2	0.111	0.075	0.228	0.385	<b>0.665</b>	0.107
ZIP.prod3	0.016	0.023	0.088	0.388	<b>0.806</b>	0.036
ZIP.prod4	0.446	0.477	0.294	0.549	<b>0.723</b>	0.452
ZIP.prod5	0.264	0.323	0.061	0.452	<b>0.713</b>	0.264
ZQP1	0.418	0.381	0.221	<b>0.63</b>	0.285	0.465
ZQP2	0.417	0.438	0.305	<b>0.751</b>	0.497	0.499
ZQP3	0.476	0.597	0.39	<b>0.898</b>	0.645	0.551
ZQP4	0.53	0.66	0.452	<b>0.896</b>	0.626	0.657
ZSCL1	0.601	<b>0.768</b>	0.41	0.344	0.236	0.589
ZSCL2	0.809	<b>0.932</b>	0.615	0.614	0.366	0.818
ZSCL3	0.858	<b>0.937</b>	0.622	0.676	0.43	0.842
ZSCL4	0.787	<b>0.911</b>	0.476	0.667	0.365	0.78
ZSD1	<b>0.821</b>	0.8	0.453	0.537	0.251	0.767
ZSD2	<b>0.821</b>	0.732	0.398	0.445	0.173	0.711
ZSD3	<b>0.87</b>	0.682	0.412	0.488	0.323	0.749
ZSD4	<b>0.636</b>	0.488	0.31	0.291	0.279	0.472
ZSD5	<b>0.88</b>	0.762	0.591	0.497	0.447	0.778
ZSD6	<b>0.899</b>	0.826	0.587	0.585	0.405	0.877
ZSD7	<b>0.851</b>	0.693	0.375	0.441	0.291	0.728
ZTQMA1	0.79	0.754	0.548	0.598	0.283	<b>0.803</b>
ZTQMA2	0.753	0.736	0.543	0.644	0.354	<b>0.829</b>
ZTQMA3	0.707	0.681	0.573	0.684	0.511	<b>0.815</b>
ZTQMA4	0.655	0.698	0.684	0.578	0.439	<b>0.801</b>
ZTQMB1	0.62	0.599	0.491	0.583	0.337	<b>0.732</b>
ZTQMB2	0.517	0.659	0.629	0.499	0.416	<b>0.719</b>
ZTQMB3	0.671	0.666	0.695	0.545	0.444	<b>0.81</b>
ZTQMB5	0.629	0.621	0.495	0.479	0.128	<b>0.716</b>
ZTQMB6	0.456	0.467	0.613	0.461	0.428	<b>0.598</b>
ZTQMB7	0.602	0.609	0.58	0.474	0.307	<b>0.658</b>
ZTQMC1	0.751	0.654	0.595	0.626	0.383	<b>0.859</b>
ZTQMC2	0.796	0.68	0.426	0.637	0.359	<b>0.837</b>
ZTQMC4	0.551	0.569	0.575	0.413	0.137	<b>0.721</b>
ZTQMC5	0.643	0.583	0.516	0.583	0.364	<b>0.746</b>
ZTQMC6	0.48	0.346	0.412	0.362	0.409	<b>0.598</b>
ZTQMD1	0.467	0.521	0.329	0.467	0.186	<b>0.63</b>
ZTQMD2	0.446	0.5	0.503	0.503	0.444	<b>0.693</b>
ZTQMD3	0.764	0.675	0.525	0.625	0.405	<b>0.858</b>
ZTQMD4	0.681	0.689	0.555	0.45	0.221	<b>0.805</b>
ZTQMD5	0.501	0.606	0.432	0.44	0.414	<b>0.589</b>
ZTQME1	0.768	0.699	0.432	0.435	0.209	<b>0.791</b>

ZTQME3	0.705	0.573	0.504	0.45	0.405	<b>0.731</b>
ZTQME4	0.556	0.53	0.588	0.249	0.18	<b>0.677</b>
ZTQME5	0.772	0.649	0.49	0.45	0.417	<b>0.718</b>
ZTQME6	0.496	0.412	0.485	0.205	0.135	<b>0.565</b>
ZTQMF1	0.791	0.77	0.603	0.551	0.383	<b>0.802</b>
ZTQMF2	0.669	0.735	0.415	0.418	0.278	<b>0.639</b>
ZTQMF3	0.814	0.777	0.614	0.488	0.323	<b>0.798</b>
ZTQMF4	0.72	0.746	0.423	0.448	0.161	<b>0.679</b>

Source : Results of PLS processing 2012

### Reliability test

Assessed construct reliability of composite reliability. Avarage Variance Extracted (AVE). Construct has a good reliability if composite reliability values > 0.8 and AVE values > 0.5 (Ghozali, 2006).

**Table 2 : Composite reliability dan AVE**

	Composite Reliability	Average variance extracted (AVE)	exp
SD	0.939	0.688	Reliabel
SCL	0.938	0.792	Reliabel
FP	0.937	0.833	Reliabel
QP	0.876	0.642	Reliabel
IP	0.928	0.589	Reliabel
TQM	0.971	0.543	Reliabel

Source : Results of PLS processing 2012

Results show the value of the variable composite reliability are above 0.7 and the average variance extracted (AVE) above 0, 5. Results showed all variables reliable.

### Hypothesis testing

Testing the hypothesis, can be seen from the large value of t-statistics. Significance of the estimated parameters provide very useful information about the relationship between the variables of the study. Limits to reject and accept the hypothesis is  $\pm 1.645$  significant at  $p < 0.05$  (one-tailed) and  $\pm 1.960$  (two-tailed). The following table presents the output estimation for structural model testing.

**Tabel 3 : Result of inner weight**

Hypotesis		Original sample estimate	Means of sub sample	Standar deviation	T-Statistic	Conclusion
H1A	SD -> TQM	0,556	0,588	0,136	4,089	Significant
H1B	SCL -> TQM	0,373	0,351	0,138	2,702	Significant
H 3A	SD -> FP	-0,380	-0,430	0,263	1,442	Not significcant

H 4A	SCL -> FP	0,146	0,166	0,221	0,661	not significant
H 2A	TQM -> FP	0,916	0,965	0,196	4,671	Significant
H 3B	SD -> QP	-0,277	-0,158	0,361	0,767	Not significant
H 4B	SCL -> QP	0,400	0,320	0,256	1,560	Not significant
H 2B	TQM -> QP	0,576	0,537	0,220	2,622	Significant
H 3C	SD -> IP	-0,087	-0,004	0,382	0,228	Not significant
H 4C	SCL -> IP	0,130	0,239	0,277	0,471	Not significant
H2C	TQM -> IP	0,412	0,277	0,405	1,015	Not significant

Source : Results of PLS processing 2012

### Testing Hypothesis 1

Hypothesis 1A suggests that the differentiation strategy is positively related to TQM practices supported with a value of t statistic 4.089. Consistent with Dean and Bowen (1994) that the perspective of management strategies with attention to the practice of TQM implementation strategy chosen. Argument is supported by Reed et. al (1996) that one of the issues in the practice of TQM is customer oriented and business oriented. With a customer oriented market advantage to be gained by offering different products compared to competitors' products. Reed also said the concept of continuous improvement important application of TQM practices used in cost reduction through the prevention of product defects. The research was also supported by the discovery Prayogo and Sohal (2006) that the differentiation strategy is positively related to TQM practices.

Finding hypothesis 1B that strategy of cost leadership is positively related to TQM supported that T statistic 2.702. Hackman and Wageman (1995) states that the fundamental premise of TQM is the cost for poor quality such as the cost of inspection, rework, lost customers, etc. is greater than the development of processes to produce products or services of high quality. Reed et al (1996) states with orientation to the process, the implementation of TQM causes the cost advantage that is reflected by the cost leadership strategy. Gobeli and Brown (1994) also states that TQM is not a pure cost leadership. TQM is more emphasis on quality at competitive prices. This suggests that the despite done against the cost but the emphasis on TQM environment remains the quality of the product.

### Testing Hypothesis 2

Finding hypothesis 2A and 2B are supported but hypothesis 2C rejected (shown in table 3). Result show variable organization strategy have relationship with financial and quality performance but not innovative performance. Ittner and Larcker (1996), Hendricks Singhal (1997), Easton and Jarrell (1998) who proved that the effective implementation of TQM in the long run will increase the profitability and stock return. Flynn (1995) argued that the high intensity of TQM practices improve quality performance. So is the relationship between TQM Find innovative performance is positively associated with that shown by the concept of customer-oriented TQM automatically companies produce products or services in accordance with changes in consumer tastes or the innovation of products or services that follow changes in consumer tastes. Argument that TQM practices are not related to innovative performance is that the focus is customer satisfaction at a variety of customer needs that only a customer right now. The result is a company fails to make innovations (Prayogo and Sohal, 2006).

### Testing Hypothesis 3

Finding of hypothesis 3A, 3B and 3C show the value of t statistic below 1.96 which means that the third hypothesis is rejected with a value of t statistics respectively 1.442, 0.767 and 0.228. In this study the relationship between differentiation strategy with financial performance, quality performance and innovative performance can not be proven (H3A and H3B and 3C). The argument that the researchers to see an increase in financial, quality performance and innovative performance can be seen in the long run, although the company chose the current differentiation strategy peningkatkan financial, quality performance and innovative performance can be analyzed several years to come. Flynn (1995) argued that the high intensity of TQM practices improve the quality of performance can be analyzed after several years of implementation of TQM. This study only used a sample of service companies that implement TQM in Riau province, mostly located in the city of Pekanbaru. Some companies are companies that just a few years of implementing TQM concepts so that the increase in quality and difficult Find innovative performance is analyzed with the implementation of TQM.

### Testing hypotheses 4

The findings therefore rejected hypothesis 4A and 4C that holds the insignificant relationship between cost leadership and financial performance and innovative performance. Contrary with hypothesis 4B result show relationship between cost leadership strategy and quality performance supported. Consistent with Prayogo and Sohal (2006) that the cost leadership strategy is not related with performance. Reed (1995) argued that cost leadership is obtained by reduction of cost of product failure. Garvin in Prayogo and Sohal (2006) stated quality will increase the cost that is not in accordance with the strategy of cost leadership. Juran (1993) emphasized that the quality effect in cost reduction requires a commitment from the company to gain advantage and cost leadership strategy. In the short term application of a cost leadership strategy can not affect both financial and quality performance. In the short term the company is implementing a cost leadership strategy still give priority to quality and product innovation have not obtained the company economies of scale. Economies of scale and advantages as well as an influence on the quality and performance can dilianalisis Find innovative in the long run. Customers can compare the products the company after a comparison with competitors. Assessment of the product requires a long period so that the effect on company performance companies also require a period not shorter.

### Testing hypothesis 5

The results of hypothesis 5A that TQM practices mediate the relationship the between differentiation strategy and financial performance can be supported by the coefficient of SD-TQM and TQM-FP (0.556 and 0.916) while the coefficient of SD-FP (-0.38) lower than TQM-FP (.916). Finding Hypothesis 5B TQM practices mediate the relationship differentiation strategy with a quality performance as indicated by the relationship of SD-TQM and TQM-QP with coefficient values (0.556 and 0.576), direct relationship SD-QP has a coefficient - 0.277 and the T statistic 0.76 (not significant), meaning that TQM strategy not

mediates the relationship the between organization and quality performance. hypothesis not supported. Hypotesis 5C that TQM practices mediate the relationship between cost leadership strategy and innovative performance not supported because relationship TQM-IP not significant

#### Testing hypothesis 6

Hypothesis 6A TQM practices mediate the relationship the between cost leadership strategy and financial performance is shown with a model SCL-TQM and TQM-FP (0.373 and 0.916) while the direct relationship SCL-FP has a coefficient of 0.14 was also lower, finding supported hypothesis 6A. Hypothesis 6B supported with coefficient SCL-TQM and TQM-QP ( 0,373 dan0,576) , direct relationship SCL-QP has coefficient 0,4 j lower than TQM-QP . Hypotesis 6C not supported because relationship TQM-IP not supported.

## 5. Conclussion and Discussion

### 5.1. Conclusion

The combination of the three findings suggests a harmony between differentiation strategy, TQM practices, and organization performance . Organization strategy relationship between TQM practice. The findings indicate that TQM only mediates the relationship between organization strategy and the two performance variables (financial and quality performance)

### 5.2. Discussion

As evidenced by the correlation analysis TQM is shown to have a significant and positive relationship with a organization strategy . This means that the adoption of TQM practices is usually driven by organization strategy. This result is substantiated by the findings suggesting that TQM are significantly and positively related to the organizational performance (financial and quality performance) indicating that TQM can be employed as an effective means for implementing a strategy to achieve satisfactory organizational performance. On the other hand, the findings do not indicate any positive relationship between TQM and innovative performance and relationship organization strategy and innovative performance. This insignificant relationship is of particular interest because a certain degree of support for this relationship has been identified in the literature. However, as cited by Powell (1995) there were two major issues that have created barriers for companies implementing TQM practices (irrespective of the formalization of the program). First, the great demand for substantial time and financial investment in the implementation process and, second, the “failure” of TQM to produce short-term results, particularly in terms of financial performance. In other words, in the context of a cost leadership strategy, the cost of implementing TQM will override the potential benefit that could be expected from it.

The final part of the findings shows that TQM only mediates the relationship between organization strategy and the two performance variables. In particular, this result suggests that the indirect effects of a organization strategy on both financial and quality performance are stronger than that between TQM and innovative performance measures. What can be inferred from this link is that while TQM is considered as a set of practices through which a differentiation

strategy can be implemented, under TQM, however, differentiation is more directed to quality performance rather than innovation performance. Therefore, when organizations want to pursue innovation in the purer sense that includes the characteristic of “being the first” or venturing into new markets through product innovation, TQM, in its own right, would be less effective in realizing this objective, and consequently, organizations would need to complement it with other resources. The partial mediation of TQM against product quality, on the other hand, is interesting.

Table 4 : Kesimpulan hasil

	Hypotesis	conclusion
H1A	There is a positive and significant relationship between differentiation strategy and TQM practices	Supported
H1B	There is a positive and significant relationship cost leadership strategy and between TQM practices	Supported
H 2A	There is a positive and significant relationship between TQM practice and financial performance.	Supported
H 2B	There is a positive and significant relationship between TQM practice and quality performance.	Supported
H 2C	There is a positive and significant relationship between TQM practice and innovative performance	Rejected
H3A	There is a positive and significant relationship between differentiation strategy and financial performance	Rejected
H3B	There is a positive and significant relationship between differentiation strategy and quality performance	Rejected
H 3C	There is a positive and significant relationship between differentiation strategy and innovative performance	Rejected
H 4A	There is a positive and significant relationship between cost leadership strategy and financial performance	Rejected
H 4B	There is no significant relationship between cost leadership and quality performance	Supported
H 4C	There is no significant relationship between cost leadership and innovative performance	Supported
H 5A :	TQM practices mediate the relationship between differentiation strategy and financial performance.	Supported
H 5B	TQM practices mediate the relationship differentiation strategy with a quality performance	Supported
H 5C	TQM practices mediate the relationship between differentiation strategy and innovative performance	Rejected
H 6A	TQM practices mediate the relationship between cost leadership strategy and financial performance	Supported
H 6B	TQM practices mediate the relationship between cost leadership strategy and quality performance	Supported
H 6C	TQM practices mediate the relationship between cost leadership strategy and innovative performance	Rejected



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