# THE MEDIATING EFFECT OF MARKET ORIENTATION ON THE RELATIONSHIP BETWEEN TOTAL QUALITY MANAGEMENT, ENTREPRENEURIAL ORIENTATION AND THE PERFORMANCE OF BANKS IN LIBYA

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## ABSTRACT

The main purpose of this study was to investigate the mediating effect of Market Orientation (MO) on the relationship between total quality management (TQM), entrepreneurial orientation (EO), and organizational performance (OP). The motivation for this study was driven by the inconsistent findings in the literature concerning the relationships between TQM, EO, and organizational performance. Due to the inconsistent results, a new research has emerged and this has prompted further investigation on the effect of other variables that may better explain the nature of these links. In the related literature, many theories have suggested that the compatibility between strategies, resources, and capabilities as the keys for success. To achieve this purpose, this study has integrated different theories such as the resource-based view, and the Congruence Model . Questionnaires were distributed to 400 Sections of the Libyan banks. 230 questionnaires were returned and used in the analysis using the PLS-SEM. The results of this study revealed that TQM, and EO were positive and have also been proven to be significant predictors of organizational performance. More importantly, the results have also confirmed the mediating effect of Market Orientation on the relationships between TQM, EO, and organizational performance.



**Keywords**: total quality management, entrepreneurial orientation, market orientation , organizational performance, Libyan banks

## ABSTRAK

Tujuan utama kajian ini adalah untuk meneliti kesan pengantaraan orientasi pasaran (MO) dalam hubungan antara pengurusan kualiti menyeluruh (TQM), orientasi keusahawanan (EO) dan prestasi organisasi (OP). Motivasi yang mendorong kajian ini dilakukan adalah disebabkan oleh penemuan yang tidak konsisten yang ditunjukkan oleh kajian lepas mengenai hubungan antara TQM, EO dan OP. Hasil yang tidak konsisten ini telah menerbitkan satu kajian baru dan mencadangkan penyelidikan lanjut terhadap kesan pemboleh ubah lain yang mungkin boleh memberikan penjelasan yang lebih baik. Berdasarkan kajian literatur yang berkaitan, banyak teori telah mencadangkan bahawa kesesuaian antara strategi, sumber dan keupayaan sebagai kunci untuk berjaya. Untuk mencapai tujuan tersebut, kajian ini mengintegrasikan teori yang berbeza seperti teori Pandangan Berdasarkan Sumber dan Model Kekongruenan. Borang soal selidik telah diedarkan kepada 400 bahagian di bank Libya. Sebanyak 230 borang soal selidik telah dikembalikan dan digunakan untuk tujuan analisis menggunakan PLS-SEM. Hasil kajian ini menunjukkan bahawa TQM dan EO terbukti sebagai peramal yang positif dan signifikan terhadap prestasi organisasi. Lebih penting lagi, dapatan turut mengesahkan kesan pengantaraan orientasi pasaran terhadap hubungan antara TQM, EO dan prestasi organisasi.



**Kata kunci**: pengurusan kualiti menyeluruh, orientasi keusahawanan, orientasi pasaran, prestasi organisasi, bank Libya.

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## TABLE OF CONTENTS

## LIST OF TABLE

## LIST OF FIGURES

## LIST OF ABBREVIATIONS

| | |
|---|---|
| BSC | Balanced ScoreCard |
| CSFs | Critical success factors |
| EO | Entrepreneurial Orientation |
| GDP | Gross domestic product |
| HRM | Human Resource Management |
| MBNQA | Malcolm Baldrige National Quality Award |
| MO | Market Orientation |
| OC | Organizational Culture |
| OP | Organizational Performance |
| PLS | Partial Least Square |
| SEM | Structural Equation Modelling |
| SMEs | Small and Medium Sized Enterprises |
| SPSS | Statistical Package for Social Science |
| TQM | Total Quality Management |
| WTO | World Trade Organization |

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the Study

Measurement of performance is very important for effective management in any organization (Demirbag, Tekinus, & Zaim, 2006). Deming (1986) argued that improvement of any process cannot be done without measuring its outcomes. Therefore, the organizational performance improvement needs some measurements to determine the extent of effectiveness of organizational recourses on business performance (Gadenne & Sharma, 2002 ). Kanji and Sa (2007) pointed out that the first condition to enhance performance is to develop and implement a performance measurement system. Traditionally, financial indicators have been used to measured organizational performance that have some shortcomings, however, to overcome these shortcomings some authors added non-financial indicators to the traditional measuring systems (Demirbag *et al*, 2006).

In today's business changing environment, organizations require to evaluate their external and internal environment for opportunities and challenges in order to remain competitive and sustain their growth . In such environment, organizations in order for them to grow and survive have to improve their performance and achieve competitive advantage over competitors, however how this performance can be enhanced and what strategies that should be implemented towards that, is still the issue that needs to be further investigated.

To achieve an enhanced organizational performance, strategic management is considered as one of the most important factor and it is also the most commonly studied approach in the field of organizational behavior (Chen, 2005). Strategic management is the process of examining current and future environments, initiating

the objectives of organization, implementing and controlling decisions to achieve organizational objectives (Adeleke, Ogundele, & Oyenuga, 2008). In addition, strategic management is how to deploy strengths and weakness of the firm to gain the advantages of its external opportunities and minimize its external problems/threats (Adeleke *et al*., 2008). Moreover, it refers to the managerial decisions made by the firm to cope with the daily changing environment in order to improve short and long term performance (Stahe & Grigsby, 1997). Furthermore, implementation of strategic management has a positive impact on profitability of the organization, and a positive relationship with a market share (Dauda, Akingbade, & Akinlabi, 2010). Dauda *et al*., (2010) pointed out that some recent studies about strategic management by Akingbade (2007), and Nmadu (2007) have confirmed the effect of strategic management on corporate performance.

In the current global economy, the service sector has been attracting attention as one of the main contributors to the growth of the overall economy. This increasing role of the service sector has been enhanced by the Internet and Communication Technology (ICT) revolution (Gupta, McDaniel, & Herath, 2005).

As the main component of the service sector, the banking industry has been facing rapidly changing markets and challenging business environment reflected in many frequent financial crisis (Al-Marri, Ahmed, & Zairi, 2007). Because of the widespread provision of financial products and services by providers, the banking industry has been characterized by increasing competition. This competition has been made stiffer by some other organizations, like post offices and insurance companies that offer many financial products and services (Hull, 2002; Kaynak & Kucukemiroglu, 1992). Consequently, banks have to develop a sustainable advantage

for their survival and so doing, they have to offer high quality and innovative products and services at competitive rates (Khalid & Irshad, 2010). Banks have to come up with unique products and services from their one-of-a-kind, rare and inimitable resources. Further, they should also focus on their HR talents, skills and capabilities that could act as a distinct base for their competitive advantage (Chang, Chan, & Leck, 1997).

The banking system's role in the entire economy has been established in theory and practice. The banking system of a country forms the core of the whole economic structure as it is the major driver of development programs and contributes significantly to the economic prosperity (Al-Marri *et al.,* 2007; Al-Swidi & Mahmood, 2011). Banks, also, contribute significantly to the growth of the economy through facilitating the financial resources for SMEs and large organizations to operate and achieve their short as well as long-term objectives (Cohen, Gan, Yong, & Chong, 2007). Therefore, effective banking industry and financial institutions are capable of playing their role in developing the economy of the country through provision of products and services (Al-Hajri, 2008; FuB, Gmeiner, Schiereck, & Strahringer, 2007). In other words, regular banks and other financial institutions (Mavridis, 2004; Firer, 2003) have a key role in driving economic growth through their provision of funds and financial services to the business sector. In the current business sector, banks have to continuously enhance their performance in order to obtain a sustainable competitive advantage. They have to provide customized and distinct products with value-added services (Goh, 2005) which will only come by taking on effective and innovative strategies. Hence, competitive performance of banks has always been a topic of hot discussion for the market managers and top leaders who are desirous of securing a significant position in the market.

From a strategy implementation point of view not all the strategies implementation initiatives are successful. According to Kaplan and Norton (2000), 70-90% of firms all over the globe suffer a failure when it comes to strategic implementation due to unsuccessful organizational strategy implementation. This fact calls for more research work to be conducted to explore further the factors that can influence the strategy implementation success.

Previous literary contributions have concluded that the firm's market placement is a vital feature of increased organizational performance (Drucker, 1985; Kanter, 1989). It is understood that market placement can be a solid basis for a long-term competitive advantage for a business (Narver & Slater, 1990; Slater & Narver, 1994; Hunt & Morgan, 1995). As explained by the Resource Based Theory, business is an ongoing concern and should be aware of market position and it must depict flexibility to dynamic business changes. In other words, it is not only a key to survive the competitive business environment, but it also enhances the firm's performance. The risk taking attitude and learning of new ideas to overcome external pressure is the core competencies of the firm. A certain amount of competence is needed in the implementation of new strategies for greater firm performance (Lumpkin & Dess, 1996) based on the premise that the firm's overall capabilities to develop internal resources to respond to external environment are developed through new strategies.

Different organizations have different plans regarding the strategies that can help them to enhance their goals. In general, Total Quality Management (TQM), and Entrepreneurial Orientation (EO) are among the most important strategies to enhance the organization positioning in the market. TQM has been considered as one of the most commonly important management philosophy. It is a modern term however its

historical roots going back a long time (McAdam, 2000). In fact, TQM has been defined as a systematic and global approach to organization management by process and continuous improvement of business performance to satisfy explicit and implicit anticipation of customers and stakeholders (Dean & Bowen, 1994). Thus, the organization's purpose is not to have TQM but to adopt it to contribute in achieving competitive advantage (Mele & Colurcio, 2006).

TQM is taken into account because of the numerous studies confirmed its influence on performance. Kumar, Kumar, Grosbois, and Choisne (2009) pointed out that the success of TQM in improving firm's performance lies in its intangible and behavioral features. Essentially, intangible resources can be considered more important than tangible resources to the organization's effectiveness and success (Al-Swidi & Mahmood, 2011). Many of the goals and objectives of organizations, many of the resources they use, and many of the outputs they generate are intangible (Cinca ,Molinero & Queiroz, 2003). They also argued that good management of intangible assets ensures the achievement of goals and objectives.

According to Khamalah and Lingaraj (2007) quality is a prerequisite for any firm and business to survive and delight its customers. TQM is an integrated management philosophy that aimed to continuous improving of quality and to achieve customer satisfaction (Karuppusami & Gandinathan, 2006). TQM is a source of competitive advantage (Douglas & Judge, 2001). In addition, there was much more effort in the past two decades in understanding the TQM practices that leads to high quality and the whole business performance (Feng, Prajogo, Tan, & Sohal, 2006). TQM is a new phenomenon in the Arab World, in spite of the importance of TQM for

organizational performance, the findings in the literature regarding this link is still inconclusive.

Some authors such as Dowe, Samson, and Ford (1999), Powell (1995), and Huarng and Chen (2002) suggested that TQM practices can be varied from country to another country (Jabnoun & Sedrani, 2005). In addition, there are numerous authors who suggested the need for deeper investigations of the relationship between TQM and organizational performance to bridges TQM and organizational theory relationship (Dean & Bowen, 1994; Hackman & Wageman, 1995; Sitkin, Sutcliffe, & Schroeder, 1994; Sousa & Voss, 2002; Spencer, 1994; Terziovski & Samson, 2000; Waldman, 1994). In addition, many organizations still implement and adopt TQM in the increase change globally (Ehigie & McAndrew, 2005). Other studies analyzed the effect of TQM on performance in the long run (Easton & Jarrell, 1998; Hendricks & Singhal, 1997, 1999). However, there are few studies analyzed the causal link between TQM and performance (Corredor & Goni, 2010).

The term "entrepreneurial orientation" (EO) is considered a very significant factor that leads to performance. It refers to a strategy making process of the firm that engages in different entrepreneurial activities in an organization (Lumpkin & Dess, 2001). Lumpkin and Dess (1996) suggested a popular model of the EO that contains five dimensions: risk taking, innovativeness, autonomy, proactiveness, and aggressiveness. Some earlier theoretical studies suggested a contingency framework that explores the relationship between organizational performance and entrepreneurial orientation (Lumpkin & Dess, 2001).

Lumpkin and Dess (2001) mentioned that the proactiveness and competitive aggressiveness dimensions of EO have been less investigated in the literature of

entrepreneurship, especially their relation to innovativeness and risk taking. Therefore, they suggested additional research studies on EO dimensions like innovativeness and risk taking. Also, Andersen (2010) mentioned that there are several weaknesses in previous research, so other researchers should adopt more cautious approach. Miller and Breton-Miller (2011) argued that most studies of EO are about small firms and rely on the executives' opinions. Furthermore, other authors argued that the EO field needs more researches to examine the characteristics of the organization's strategic management process that might influence the relationship between performance and EO (Barringer & Bluedorn, 1999; Covin , Green& Slevin, 2006; De Clercq, Dimov, & Thongpapanl, 2010; Lumpkin & Dess, 1996; Miller & Friesen, 1982; Wiklund & Shepherd, 2003). Tang, Tang, Zhang, and Li (2007) suggested expanding research on the EO-performance relationship in other transitioning and emerging economies.

To create the global economic integration and to promote the country as an attractive foreign direct investment destination, the Libyan government has been arranging table talks with world's financial and trade regulatory bodies (such as WTO) with the hope to get the accession and expertise required for sustainable growth and economy (CIA world factbook, 2010). The success of these initiatives could mean an influx of international investors into Libya to take advantage of the Libyan investment opportunities. It is however expected that several international banks will also be established in the Libyan market owing to the high demand in superior financial products and innovative services. Therefore, the present study is motivated to provide insight to Libyan as well as other business operations with the nature and structure of the Libyan business environment particularly following its membership to the World Trade Organization (WTO).

## 1.2 Problem Statement

In general, there has been always a relation between the weak economy and the absence of a strong financial system that mediates between savers and investors (Al-Hajri, 2008). Hence, for a better future economic performance, Libya as developing country has to improve the financial services to back up the economic development process (Libya country Profile Report, 2012).

According to Mr. Ahmed Rajab (2012) the manager of Gumhouria bank, the Libyan banking system has been facing a lot of problems impeding in its inefficient operations. These problems include a weak telecommunications infrastructure in Libya, lack of investment in human resources during the rule of the former regime, and reversing the culture of e-trading –these are the most important obstacles facing the banking business in Libya that limit the efficient provision of financial services to the citizens. Furthermore the considerable non-performing loans and weak enforcement of regulations add to the mix which could potentially lead to poor performance and services provision (Libya central bank newpapar,2012)

Moreover, the Libyan banking system has not been very successful in gaining the trust of Libyan savers and businesses (Hancock, 2012). Essam Allag, the Deputy General Manager of Gumhouria bank stated that many Libyans are privately collecting a significant amount of cash. Overall, the Libyan banking system also has a very weak image in the Arab region as well as internationally (Financial business Group, The Banker, 2013).

Theoretically, Organizational performance has been the concern of both academics and practitioners during the last many decades as the ultimate outcome of utilization of tangible and intangible resources. Intangible resources are considered more

important than tangible resources for the effectiveness and the success of organizations (Al-Swidi & Mahmood, 2011). In the management literature, organizational performance construct has been extensively investigated. The great attention given to the organizational performance construct was driven by the desire to identify the determinants of high organizational performance. In other words, a plethora of research is extant in the literature examining the effect of some strategies on the performance. The influence of market orientation on organizational performance is already established. This relationship is one of the important relationships in the market-orientation literature (Haugland , Myrtveit & Nyaard, 2007). As mentioned by Rapp, Schillewaert, and Hao (2008), generally, past scholars (Kirca, Jayachandran & Bearden, 2005; Wu, Mahajan & Balasubramaniam, 2003) believed that by adopting a market orientation, it can lead to positive performance outcomes. Its concept has been defined and empirically validated as a way to improve business performance (Johnson & Huizenga, 2001; Wang, Chen, & Chen, 2012) and can be a powerful competitive advantage (Porter, 1980; Day, 1990). On the other hand, there are some studies which show that market orientation is not the only viable strategic orientation and hence other orientation could have contributed to the improvements of firms 'performance (Noble, Sinha & Kumar, 2002).

Total Quality Management, as a management philosophy that concerns the overall organizational quality through continuous improvement to achieve a high level of customer satisfaction ,QM, has been widely confirmed as a critical determinant of an enhanced organizational performance and competitive advantage (Douglas & Judge, 2001; Al Dhaafri, Yusoff, & Al Swidi, 2013).

While the effect of TQM on the organizational performance has been confirmed by many studies (Ganiya, Uche, & Elizabeth, 2012; Idris, 2011; Irefin,Azeez, & Hammed, 2011; Khan, 2011; Munizu, 2013; Pinho, 2007; Salaheldin, 2009; Sila & Ebrahimpour, 2002; Talib, Rahman, & Qureshi, 2013; Talib, Rahman, & Qureshi, 2011; Valmohammadi, 2011; Yapa, 2011; Zehir, Ertosunb, Zehir, & Müceldilli, 2012 ), some other studies argued that not all TQM initiatives were successful (Kober, Subraamanniam, & Watson, 2012; Powell, 1995; Samson & Terziovski, 1999; Sanchez- Rodriguez & Martinez-Lorente, 2004; Sohal & Terziovski, 2000). To resolve this inconsistency and bridge this theoretical gap, there have been many calls for more research to be extended.

Market orientation, as a mediator, can have the suitable mechanism that can explain the relationship between TQM and organizational performance and solve the inconclusiveness findings in the previous literature. In other words, market orientation is considered the instrument that will answer the *how* and *why* the relationship between TQM and organizational performance occurs. In other words, the indirect effect through mediator is investigated and compared to the direct effect. Due the inconsistent results of the direct effect between TQM and organizational performance, the indirect effect through market orientation was examined. TQM and market orientation can provide a competitive advantage to respond to the competitive business environment (Wang *et al*., 2012)

Entrepreneurial Orientation has been attracting a great attention by academics and practitioners in the last few years. Some authors contend that EO impacts positively and significantely the organizational performance (Chow, 2006; Dada & Watson, 2013; Davis, Bell, Payne, & Kreiser, 2010; Keh, Nguyen, & Ng 2007; Mahmood &

Hanafi, 2013; Yousafzai, & Engelen, 2014; Sciascia, D'Oria, Bruni, & Larraneta, 2014; Walter, Auer, & Ritter, 2006; Wang & Yen, 2012; Zahra & Garvis, 2000). On the other hand, some studies didn't find evidence of the significant effect of EO on performance (Andersen, 2010; Slater & Narver, 2000; Smart & Conant, 1994). Moreover, other authors found correlation only in some components of EO to different performance measures (Kropp, Lindsay, & Shoham, 2008; Swierczek & Ha, 2003). Due to this inconsistency in the previous literature, a management tool needed to play the role as a mechanism that can explain the relationship between EO and organizational performance in a better way. Lumpkin and Dess (1996) suggested other mediators that can mediate the relationship between EO and organizational performance. Market orientation as one of the important practice in the organization can intervene and mediate this relationship. In relation to that, Arief, Thoyib, Sudiro, and Rohman (2013) argued that researchers should test the mediation effect of EO-performance relationship rather than the direct effect which will provide more accurate results and outcomes of performance. Therefore, this study tried to introduce market orientation as the mechanism between EO and organizational performance and to answer the related questions *why* and *how* the relationship happens. In the light of resource based view of the firm theory, the organizational innovative capabilities such as TQM, EO and MO are considered organizational capabilities that create the competitive advantage. This study tries to introduce MO as the mechanism through which TQM and EO can enhance the overall organizational performance. Very few studies have included the use of the TQM philosophy in Libyan context (Abusa, 2011; Hokoma & Khan, 2008; Najeh & Kara-zaitri, 2007; Shibani , 2012). Also a little is known about the practices of EO. There is pressure on organizations to improve in Libya and these effects need to be

investigated urgently (Abusa, 2011). Therefore, this study tries to examine the effect of TQM and EO practices on the performance of the service organizations. Finally, there is a scarcity of research done to examine the integrated effect of TQM and EO on the organizational performance (Al- Dhaafri *et al*., 2013; Al- Swidi & Mahmood, 2011). This study try to bridge this gap in the literature by investigating how the integrated effect of TQM and EO can better explain the variance in the organizational performance variable.

### 1.3 Research Questions

In light of the discussed background, this study tries to resolve these core questions:

1. What is the impact of TQM practices on the organizational performance of Libyan banks?
2. What is the impact of EO on the organizational performance of Libyan banks?
3. Does market orientation (MO) mediate the TQM practices-organizational performance relationship in the context of Libyan banks?
4. Does market orientation (MO) mediate the entrepreneurial orientation (EO)-organizational performance relationship in the context of Libyan banks?

### 1.4 Research Objectives

Based on the aforementioned research questions, the study is devoted to achieving the following major research objectives:

1. To determine the relationship between TQM practices to the organizational performance of Libyan banks.
2. To examine the relationship between EO on the organizational performance of Libyan banks.
3. To determine the mediating effect of MO on the relationship between TQM practices to organizational performance of Libyan banks.
4. To investigate the mediating effect of MO on the relationship between EO practices to organizational performance of Libyan banks.

## 1.5 Scope of the Study

To answer the research questions and to realize objectives of this study, related data is gathered from the Libyan banking industry. Therefore, the study was limited to the data gathered from several public and private banks in Libya. The Libyan banking system is comprised of Central Bank of Libya (regulatory body) and 14 commercial banks. Out of 14 commercial banks six of them are state-owned commercial banks and eight of them are private banks, with 460 bank branches. Even though this study is out in the Libya context, its implications are significant and of potential value for any other context since they investigate the business process and human interaction factors.

In addition to that, this study was employ the quantitative cross-sectional research design in which the questionnaire is the main tool for data collection. The data was collect through self-administration approach, with the bank branch as the unit of analysis.

The present study model is created based on relevant literature and it aims to study the mediating effect of MO on the relationships of TQM-organizational performance and EO-organizational performance. Chapter 3 and 4 details the research framework and the hypotheses development processes.

## 1.6 Significance of the Study

The value of this comes from expanding the existing literature related to the resource-based view theory and organizational change theory by examining the relationship between TQM, EO, MO and the organizational performance. Therefore, the value of this study is for researchers, scholars, practitioners, and organizations (leaders and employees). In general, this interdisciplinary study is able to contribute

significantly to the existing boundary of the knowledge related to the effect of TQM, EO and MO on the organizational performance. The originality, theoretical and practical value of this study is discussed in the succeeding paragraphs.

Despite the extensive research work that has been conducted in the literature of TQM and EO and organizational change, the performance implications of these strategies were not always positive. In other words, these results call for further investigations to resolve this inconsistency. Moreover, there is a society of empirical studies investigating the performance implications of the interaction between TQM practices and EO, this study represented an attempt to fill this theoretical gap in the literature. In order to resolve the inconsistent findings in the literature regarding the performance implications of TQM and EO, this study aim to examine the effect of MO in establishing the fit for these strategies and hence for better organizational performance.

This study has tried to establish the foundation by introducing the market orientation as the mechanism through which TQM and EO can enhance the overall organizational performance.

Moreover, this study tries to examine the TQM, EO, MO and organizational performance relationship in the context of services organizations, especially in banks. It has been emphasized that the most studies conducted in TQM were in the developed countries and there has been a scanty studies conducted in the developing countries, including the Arab region (Rao *et al*., 2001). In addition , Sila and Ebrahimpour (2002) in their review of the literature revealed that only 1.7 % of the studies reviewed were conducted in the including Saudi Arabia, UAE, and Qatar. Thus, this study will provide basic data for future research on how TQM practices,

entrepreneurial orientation and market orientation stimulates the organizational performance in the developing countries' setting.

This study is also significant to the practitioners as it emphasizes the role of TQM, EO towards higher organizational performance. By exploring the significant role of market orientation, this study is able to scientifically convince the Libya business managers, especially bank managers, that introducing TQM and EO is essential but not sufficient step to gain the desired level of performance unless supported by the market focus.

This study, moreover, is of a significant value to the policy-makers because they can help organizations to achieve high level of performance by offering the required consultation and training. In other words, as the involvement of all employees in such strategies requires a good level of TQM, EO and MO-related knowledge. Therefore, policy-makers should consider these requirements to be incorporated in the curriculum of the tertiary education. This is very important so as to provide the market with knowledgeable graduates that understand the quality principles and have the capabilities to create innovative ideas to achieve high performance levels.

## 1.7 Definition of Terms

### Organizational Performance

While studying organizational performance, different researchers have defined it in different ways. For the purpose of this study, it was found appropriate to follow the definition of Antony and Bhattacharyya (2010). It is defined as the tool that is helpful in estimating and calculating the success of an organization. A successful firm must create and deliver the product and services to its internal and external customers.

### Total Quality Management

In the literature of quality management, there are various TQM definitions proposed (e.g. Dale, 2003; Flynn ,Schroeder,& Sakakibara 1994; Anderson, Rungtusanatham, & Schroeder, 1994; Yusof & Aspinwall, 2000). Recently, Kumar, Choisne, Grosbois, and Kumar (2009) stated that TQM is the combination of organizational activities conducted to satisfy customer needs, wants and demands which in return helps the organization to meet objectives and goals.

Moreover, the American Society of Quality (ASQ) defined it as the organization's ability to launch products/services that meet customer demands and expectations. Therefore, for the purpose of this study, the definition provided by Kumar *et al*. (2009) is considered.

**Entrepreneurial Orientation (EO)**

Entrepreneurial orientation refers to the entrepreneurial attributes and characteristics (Dess *et al*., 1999). It is also defined as any decision-making activity that results in a new entry in the business environment (Lumpkin & Dess, 1996).

**Market Orientation (MO)**

Market orientation can be defined as organizational culture that is necessary for the materialization of value added service for the customers, and sustainable superior performance for the business. Market orientation creates superior value for customers through three behavioural components; competitor orientation, customer orientation and inter-functional coordination (Pelham & Wilson, 1996; Narver & Slater, 1990).

# CHAPTER TWO
# THE LIBYAN BANKING SYSTEM

## 2.1 Introduction

This portion of the report describes the Libyan economy through the analysis and usage of the latest information available. Moreover, it provides a description of the components of the Libyan banking system. In addition to that, it discusses the role of the Central Bank of Libya in controlling the monetary policies. This chapter serves to bring to attention a selection of strategic issues which correlate with the performance of Libya's financial institutions; hence the elaboration of the said issues is conducted throughout this chapter. The conclusion of this chapter has singled out both the lack of customer focus and entrepreneurial capabilities of Libya's financial institutions for contributing significantly to its poor organizational performance. These weaknesses have prevented the banks in Libya from gaining customer satisfaction and the chance to explore promising business opportunities in the future. This chapter starts off by providing a short description of Libya and its economic situation.

## 2.2 Overview of Libya

Libya covers an approximate area 1,759,540 km2, with the Mediterranean Sea to its north, Chad and Niger to its south, Northern Sudan and Egypt to its east and Southern Algeria and Tunisia to its west. Its current population numbers about 6.5 million people, with an annual birth rate of 2.1%. Islam is the religion followed by 99% of the population. According to the C.I.A. FACT Book (2010), the literacy rate is 82.6%, although it is markedly higher for male at 92.4% than for females at 72%. Ethnically, Libyans are mostly of a mixed Arabian ancestry, but they are some from other North African countries, e.g. Egypt, Tunisia, and West and Sub-Sahara Africa. There are also small numbers of foreign residents.

Ninety-five percent of the Libyan population speaks Arabic, which forms its main language, although tinged with the local Libyan dialect. Apart from Arabic, both English and Italian are sometimes used as the mode of communication in bigger cities, although the speakers of the latter are mostly the older generation (Libya country profile, 2012).

Having achieved independence in 1951, Libya came under the rule of a monarchy. This period lasted till September 1969 when the Libyan monarchy was abolished by Muammar Al Qadhafi. At this point, the relationship between the USA and Libya deteriorated as Qadhafi opposed US diplomatic initiatives as well as their military presence in the Middle East. As a consequence of its involvement in the bombing over Lockerbie, Scotland in 1988, UN forced sanctions on Libya in 1992. This caused the country to remain internationally isolated, and its economy has been under considerable strain suffering from spiraling inflation, high unemployment and serious structural problems (Twati & Gammack, 2006). These sanctions were in place till 2003 when Libya formally accepted responsibility for the unfortunate incident in1988. Considerable steps in normalizing relations with Western nations have been taken since then; major changes include, the US removed Libya from terrorist list in June 2006. Libya has recently made a great effort to adopt a more open political system and free market economy (Abuas, 2011). The government of Libya undertook several steps in this context and these include; applying for WTO membership, minimizing subsidies, and establishing privatization strategies to support its commitment in transforming the economy towards a more market-oriented one (CIA world Factbook, 2010).

The Transitional National Council (TNC) was established in Benghazi in March in order to unseat the Qadhafi regime and bring democracy to the country. Anti-Qadhafi forces successfully captured the country's capital in August 2011 after months of infighting. The UN General Assembly then followed up with a vote to acknowledge TNC as a legitimate interim government of Libya in mid-September. The country was officially declared liberated on 23rd October once the last remaining pro-Qadhafi's supporters were defeated and sealed with the death of Qadhafi himself, with plans for elections, constitution formation and new legitimate government (Libya country profile, 2012).

### 2.3 An Overview of the Libyan Economy

The core of the Libyan economy lies in revenues from energy resources such as oil which contribute around 95-98% of export earnings, 65-70% of GDP, and 80% of government income. In the past few years, Libya has shown great progress in terms of its economic reforms, which is a part of a more extensive campaign to include the isolated country in the international community. This effort was supported when the UN sanctions were lifted in the face of the country's promise to eliminate programs catering to the development of weapons of mass destruction. The sanctions were lifted by June 2006, providing a much required support for the country's attraction of FDI flows.

Although to revolutionize the predominant socialist economy of Libya may look like what it seems a long way to go, the liberalization is likely to lead to the development of entrepreneurship and a more market-oriented economy. Over the last five years, the service and construction sectors have developed and it is likely that these two sectors, which represent about 20% of GDP, will continue to contribute to the growth of the nation's GDP at a larger extent upon the decreasing of its political instability.

Due to both climate and feeble soil circumstances, it is of no surprise that the agricultural output is compromised and this leads to the need to import almost 75% of their food supply. Even though the Great Manmade River Project appears to be the crucial agricultural water source, this water source has to be desalinized in order to meet the growing demands of water supply (Libya Country Profile, 2012).

Coupled with the issues of poor governance, corruption and regional economic discrepancies, Libya holds a high record on a number of social issues such as social disparity and youth unemployment. The potential of Libya, according to its political stability and economic reformation, are reliant on its governing agency – the interim government led by the National Transitional Council (NTC).

The cause of distress of the 2011 rebellion episode in Libya was one of the major social issues, the youth employment. The governing administration of the interim government portrays an unhealthy noxious labour environment, with an extreme level of rigidity in private sector, in addition to the lack of skill sets among youth and the preference of youth employment in the public sector. The discouraging business environment has basically restrained self-employment. As a result of the aftereffects of conflicts, difficulties can be temporarily exacerbated. However, behind these radical changes of the political system lies an exigency for Libya to contest these confrontations (Libya Economic Outlook, 2012). Table 2.1 and the graphs that follow in subsequent sections provide a brief summary on a few selected main Libyan economic indicators over the period of 2008-2012.

Table 2.1
*Selected Economic Indicators of Libya*

| **Country/Year** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|
| Growth of GDP % | 2.4 | -1.4 | 3.2 | -59.7 | 121.9 |
| Inflation( % Change) | 10.4 | 2.4 | 2.5 | 15.9 | 10.0 |
| Exports (Growth %) | 31.1 | -39.5 | 27.8 | -57.8 | 196.1 |
| Imports (Growth %) | 43 | 12.3 | 11.1 | -56.7 | 110.8 |

Source: Libya trade with the world report (2012)

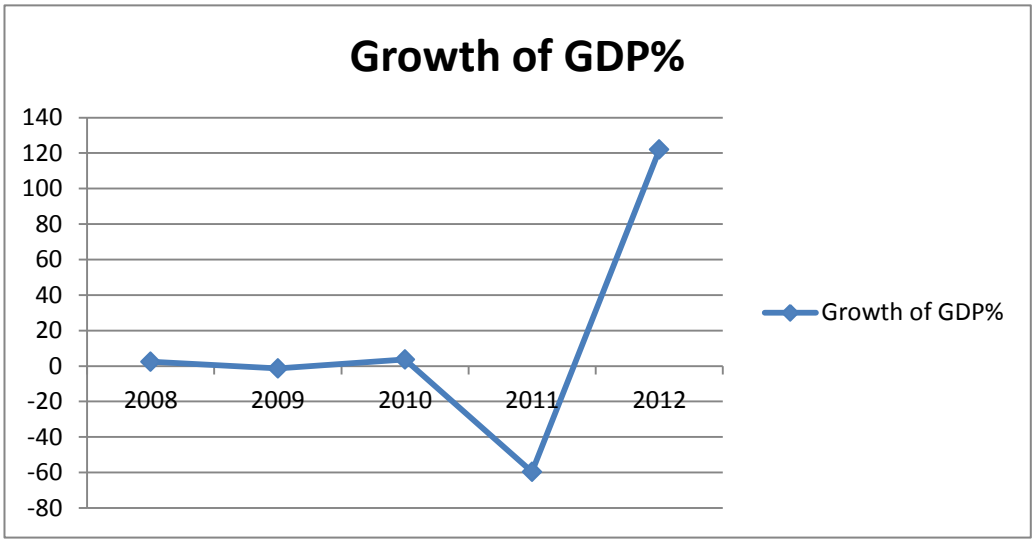


Figure 2.1
*Libyan GDP Growth(%)*

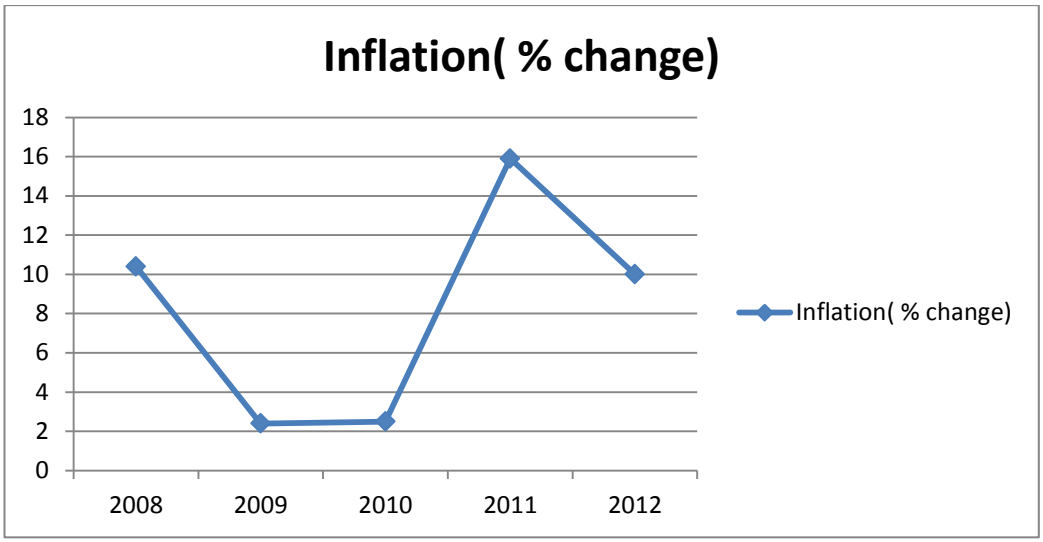


Figure 2.2
*Libya Inflation Change (%)*

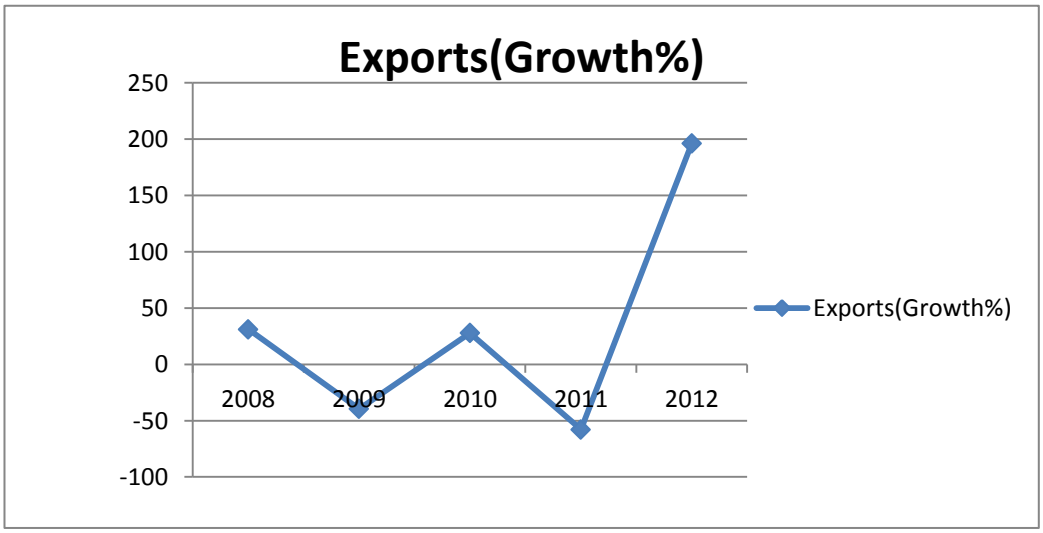


Figure 2.3
*Libyan Export Growth (%)*

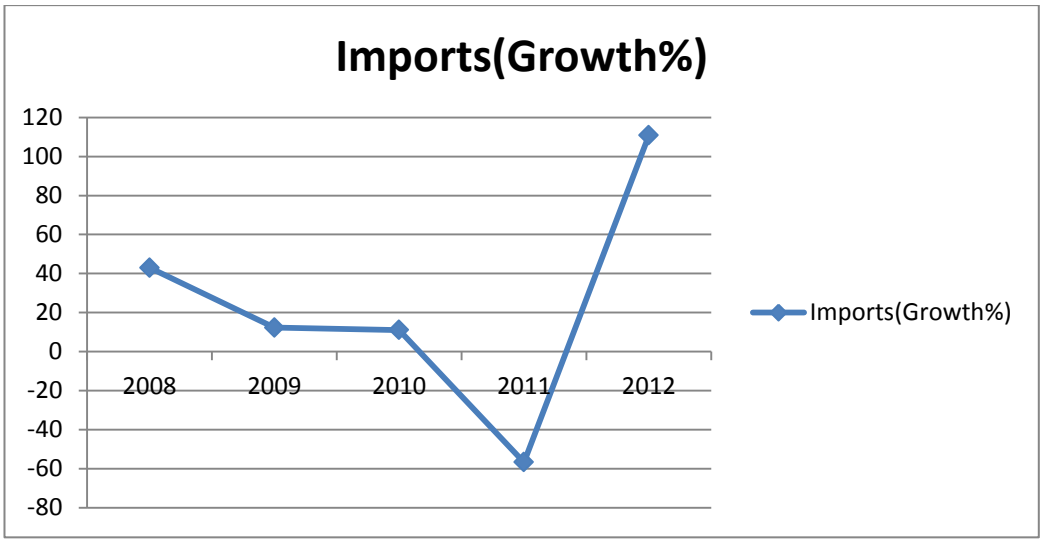


Figure 2.4
*Libyan Imports Growth (%)*

**2.4 Libya After 2011 Revolution**

In March 2011, a Transitional National Council (TNC) was formed in Benghazi with the stated aim of overthrowing the Qadhafi regime and guiding the country to democracy. In response to Qadhafi's harsh military crackdown on protesters, the UN Security Council adopted Resolution 1973, which demanded an immediate ceasefire and authorised the international community to establish a no-fly zoneover Libya. After several months of see-saw fighting, anti- Qadhafi forces in August 2011 captured the capital, Tripoli. In mid-September,the UN General Assembly voted to recognise the TNC as the legitimate interim governing body of Libya.

The TNC on 23 October officially declared the country liberated following the defeat of the last remaining pro-Qadhafi stronghold and Qadhafi's death, and plans to transition toward elections, the formation of a constitution, and a new government (Libya country profile, 2012).

The National Transitional Council (NTC) has taken steps to promote a peaceful political transition, to normalize economic conditions, and to set out a national reform agenda. In the short term, the authorities must restore security, bring

hydrocarbon production fully online, exercise fiscal discipline, resuscitate the banking system, and maintain macro economic stability. But Libya also faces the formidable challenges of responding to the underlying causes of the revolution and building a democratic regime in the midst of heightened regional risks and global uncertainties. Therefore, medium-term efforts should focus on capacity building, infrastructure renewal, and private-sector development, improving education, job creation, and putting in place an effective social safety net, within a framework of transparent and accountable governance.

At the request of the Libyan authorities, international financial institutions are engaged in policy consultations and technical assistance, aimed at maintaining macroeconomic stability and developing an institutional infrastructure to promote economic diversification and employment growth.

During the conflict, commercial banks suffered from a systemic liquidity crunch despite the doubling of currency in circulation. The shortage of dinar cash was linked to the slow normalization of the foreign exchange market and reflected a breakdown in the banking system infrastructure (in which commercial banks experienced difficulties making payments through the electronic system). The lack of access to foreign exchange constrained commercial bank operations, undermined public confidence in banks, and further prompted the private sector to hoard cash; the hoarding was exacerbated by account holders' fears of difficulty in accessing deposits (Libya beyond the Revolution, 2012).

Economic activity is expected to show some recovery in 2012, concurrent with an improvement in the security situation. Crude oil production has exceeded 1 million

barrels per day as of early 2012, and is expected to reach the pre-conflict level in 2014.

The new political elite decided to islamise the financial system. Thus, at the end of 2012, the General National Congress of Libya passed a law to stop the citizens of Libya from dealing with *riba* immediately. The government, however, is planning to abolish *riba* transactions between institutions and the banks starting in 2014. With these developments, this study, thus, aims to measure customer satisfaction through perceived service quality in Libyan Islamic windows. While it is true that Libya has recently opened its doors for Islamic finance, there are a growing number of institutions converting their operations to Islamic banking, which require studies on customer satisfaction for further service improvements (Khafafa & Shafii, 2012).

In December 2013, Libya's Economic Minister Mustafa Abufanas announced the creation of a financial regulatory agency which would regulate Libya's entire financial sector, excluding the banking industry which is governed by the Bank of Libya (Libya business news,2014)

## 2.5 Libyan Financial Sector

Financial sector in Libya consist from Commercial banks, specialized banks, Islamic banks, Insurance companies, Pension funds and Financial Market.

### 2.5.1 Commercial Banks

The Libyan banking system is comprised of Central Bank of Libya (regulatory body) and 14 commercial banks. Out of 14 commercial banks six of them are state-owned commercial banks and eight of them are private banks, with 460 bank branches.

### 2.5.2 Specialized Banks

The Agricultural Bank is one the major tools of the agricultural revolution in the service of the national economy with 45 branch offices spread throughout Libya, and Alrefi bank seeks to grant cash and in-kind loans to low-income individuals and SMEs.

### 2.5.3 Islamic Banks

The Libyan Islamic bank has only very recently been established, in 2012, as a major step in the development of the country's Islamic finance reform. Its presence will facilitate a better operation of a valuable resource through the development of sound capital investment. Libya is a particularly interesting centre for Islamic finance, as Islam is the state religion, and about 97 per cent of all Libyans are Sunni Muslim. Due to the former regime's chronic inability to diversify the economy away from the oil and gas sectors, Libyan fiscal policy continues to be dominated by oil revenues generated to support the huge burden of the bloated civil service and the extensive subsidy system.

### 2.5.4 Insurance Companies

Libyan insurance market currently consists of (12) companies where the exercise of insurance activity through agreements concluded with the most important and largest international companies in the reinsurance. Their goal creating the appropriate insurance coverage of all kinds, according to what was stipulated in the laws governing the insurance sector and regulations .All of these companies work under Insurance Supervisory Authority.

### 2.5.5 Pension Funds (Social Security Fund)

The Libyan state, like much of the world had known before the Social Security (retirement systems - social assistance - social insurance) and it went towards social security through the development of methods of these systems.

### 2.5.6 Financial Market (LSM)

Created in 2006, the LSM has seen a relative amount of success. However, due to the revolution and other factors, the number of companies listed has declined over the years since its creation. Concerns have been raised about the illiquidity of the LSM, and investors' interest in trading securities. LSM is under the financial regulatory agency which would regulate Libya's entire financial sector, excluding the banking industry which is governed by the Bank of Libya.

## 2.6 The Banking Industry in Libya

### 2.6.1 The Structure of the Banking Sector in Libya

The Libyan banking sector is dominated by the Central Bank of Libya and commercial banks. Commercial banks have been major financial institutions since the first public bank commenced operations in 1957.

The local commercial banks in Libya constitute state-owned as well as privately-owned banks. Libya has six state-owned commercial banks and eight private banks with a total of 460 branches. According to the CBL's bank directory (2012), banks including Gumhouria Bank, Libyan Foreign Bank, Al-Umma Bank, National Commercial Bank, Sahara Bank and Wahda Bank are categorized as public banks. The remaining eight private banks are Al-Wafa Bank, Al Umma Bank, Alejmaa Alarabi Bank, Libyan Foreign Bank, Aman Bank for Commerce and Investment,

Gumhouria Bank, Sahara Bank, Wahda Bank and National Commercial Bank (Central Bank of Libya, 2012).

At the moment, foreign banks are not permitted to provide retail services (Mahmud 2008). However, these banks are allowed to set off representative offices, but only under the terms of Libyan Banking Act. Foreign banks which have done so include the BACB (British Arab Commercial Bank) and the Arab Banking Corporation (ABC). The entry of private banks to the market occurred in 1996 when the first private bank was established (Bank of Commerce and Development), offering a range of retail banking services in competition with public banks. Since that time, the growth and development of the private banking sector in Libya has continued and reached eight private banks.

In contrast, the number of public banks stood at eleven in 1996, but was reduced by the Central Bank of Libya to six banks in 2009. This indicates that the Libyan public banking sector suffers from weaknesses in terms of performance and needs re-structuring. These weaknesses associated with public banks in Libya have contributed to the growth of privately-owned banks. With the intention to improvise services, the Central Bank of Libya has scheduled a plan to restructure and reform the public banking sector in November 2010. In compliance to the modernization plan, the Gumhoria Bank and Umma Bank, the largest bank and the fifth largest Libyan state owned commercial bank respectively, are compound to amalgamation (Almanara News, 2010). Central Bank of Libya sees improved access to better banking services and products, and access to a wider network of branches following this amalgamation. It is the intention of the Central Bank of Libya that within the

next few years, they will be able to achieve modernization and profitable banks business.

### 2.6.2 The Role of Central Bank of Libya (CBL)

In modern economy, the central bank is regarded as the main financial institution in any country. A central bank is, in actual fact a government agency that plays the vital role in overseeing the entire financial system and the growth of money supply. Central banks do not usually have direct contacts with the public citizens. They are more inclined towards dealing and communicating with commercial banks and securities dealers with regards to the formulation of new policy functions.

The Libyan state exclusively owns the Central Bank of Libya CBL). The CBL is sanctioned to not only monetary authority, but also the status of an autonomous corporate body. The main concerns of CBL, according to the Libyan general economic policy, should be centered towards achieving monetary stability and promoting sustainable economic growth. The 1951 Libyan Currency Committee was dedicated to only maintaining sterling assets against the issue of local currency. It is neither their responsibility to maintain credit or money supplies nor to supervise banks. The Libyan Currency Committed has therefore been replaced by the CBL, whose operation stated on 1$^{st}$ of April 1956.

According to CBL (2002), the functions and policies of the Central Bank of Libya are:

1. Issuing Libyan banknotes.
2. Sustaining the stability of the internal and external value of Libyan currency.
3. Managing the reserves of gold and foreign exchange at state level.

4. Regulating the credit and banking system policy based on the agenda of state policy
5. Offering banking services to public administrative units and institutions.
6. Issuing and managing state loans.
7. Offering temporary loans to the treasury to balance any temporary budget deficit.
8. Issuing national currency.
9. Stabilizing money and capital markets.
10. Maintaining national and international reserves and gold.
11. Acting as a banker that liaises with commercial banks.
12. Acting as a banker and fiscal agent that liaises with state and public entities

### 2.6.3 Islamic Banking System in Libya

Judging from the increasing number of Islamic banks and windows, it is acknowledged that Islamic banks are capable of attracting individual customers with its religious-oriented banking practices. In Libya, Islamic banking and finance become apparent only after the revolution in 2011.

The Central Bank of Libya began promoting Islamic banking practices in 2009. The guideline of A.R.N.M. No (9/2010) was established to allow commercial banks like Jamahiriya Bank to provide Islamic banking products and services.

Moreover, some Libyan banks like the North African Bank, Sahara Bank and Wahda Bank took part in promoting Islamic banking and launched their Islamic banking facilities. The essence of the relevant guideline's publication serves as a governing ground on the fundamentals of Islamic banking operation in the year 2010. The country has taken a shift in its banking and finance sector and Islamises its financial system after the revolution. By the end of 2012, the General National Congress in Libya regulated a law against riba (interest). In the effort to promote Islamic banking

and finance, the Libyan government has resolved to the elimination of interest-based banking systems beginning in 2014 (Khafafa & Shafii, 2013).

## 2.7 Critical Issues Associated with the Banking System in Libya

It is claimed that a weak and feeble economy has always been related to the absence of a strong financial system, which acts as a mediating factor between saving individuals and investors (Al-Hajri, 2008). It is thus important that Libya improves its financial services and economic development process in order to attain better economic performance in the future (Libya Country Profile Report, 2009).

Libya has 14 banks under the purview of the CBL . It is responsible in administering the monetary policy and the transference of currencies (CBL, 2010). Several issues that characterize Libyan banking system are discussed in the following sub-sections.

### 2.7.1 Issues Related to the Weak Performance

The Libyan banking sectors appear to be what it seems, awfully feeble and impervious. According to the 2012/2013 Global Competitiveness Index (GCI), out of 144 countries, the banking sector of the country ranks 139 in the reliability index. In terms of the availability of venture-capital, Libya is positioned at the 93$^{rd}$ ranking ladder. Libya is positioned at the 143$^{rd}$ place of financial services affordability scales. In order to assert assurance of the banking system in the year 2012, Libya has elevated its withdrawal restrictions in exchange of two favors; first, to instill assurance of the banking system in times of political instability and second, to act in response to the predicament of liquidity following the revolution.

The accessibility to private financial services remains limited as it experiences underlying structural issues. It appears that the challenges of the banking sector of Libya does not lie only on the issues of weak payment, it also suffers from

ineffectual credit reporting and clearance systems. The collateral requirements and other forms of regulations limit small borrower's access to financial services. This constraint that small borrowers face is largely due to the exertion to provide substantial evidences of a private land. Though it appears that the credit guarantee fund is in existence, it was not fully utilized in 2012 because its function was in the progression of reactivation then. Furthermore, the financing availability was also greatly affected due to the discernment of "connected lending", where financial services are only allotted to individuals based on personal connections.

The NTC sanctioned an Islamic banking law in 2012, where the banking system in Libya complies with a piece of sharia banking legislation which serves as a mean to achieve financial diversification in both financial products and services. In lieu to this, a number of options have been delineated. Being put into considerations by the authorities is whether to allow conventional banks the permission to set up Islamic finances branches or windows, or allow these banks to operate according to the Islamic banking system. The reformation of the financial system could not take place unless the economy stabilizes and a strong ruling of leadership from the government becomes apparent.

In an attempt to help sustain SMEs in the country, the Libyan government introduced various procedures. Besides the provision of SMEs financial assistance from the Islamic Development Bank, numerous eminent dialogues on financial vehicles with local financial institutions are also organized. Some banks have even established their own units, catered especially for SMEs to meet their financial needs assistance. However, the assistance is only relevant to financing short-term or project-based

finances and not to business start-up financial assistance aid (Libyan Economic Outlook, 2012).

### 2.7.2 Libyan Banking System as Perceived from a Regional and International Image

The banking system in Libya is claimed to have a tarnished reputation mirrored by its meager ranking in various international ranking standards, in both regional and international market. In a study conducted by The Banker's Magazine (2010), Libyan banks were not at par with the world's 1000 largest banks list. However, 84 other Arab banks were listed in that list. 58 of those Arab banks are based in the GCC, including 17 from the UAE, 11 from Saudi Arabia, nine from Bahrain and eight each from Qatar and Kuwait,

As reported in The Banker Magazine (2013), Libyan banks have also failed to make it into the 100 Arab banks listing. The countries included in the list are Saudi Arabia, UAE, Qatar, Kuwait, Bahrain, Morocco, Egypt, Lebanon, Jordan, Oman, Algeria and Tunisia.

### 2.7.3 Libyan Banking System and the Customers

The Libyan banking system faces numerous operation issues. The Libyan Country Profile Report (2012) has described the performance of the banking system in Libya as anemic and the banking system as incapable of supporting the country's development. There are several issues leading to the inefficient operation of the banking system in Libya. Problems that arise include a voluminous amount of non-performing loans, poor communication services and infrastructure, and the inattention to skill investment. The banking system in Libya is also confronted with major challenges of non-acceptance on the use of electronic trading and limited access to financial services, all of which lead to poor banking services and

performance. In addition, the offer of financial lending assistances is only opened to public sector companies due to inequality.

According to Hancock (2012), Libya is also facing severe under-banking issues where only 25% of its population is associated to the banks. A major challenge would be to gain its citizens' trust on the banking industry after the 2011 revolution. Another challenge would be to figure out the best way to develop the future of Libyan banking sector. According to the Deputy Manager of Gumhouria Bank, Essam Allag, many Libyans have been stockpiling significant volumes of reserved cash supplies. Based on this situation, it is thus feasible that the banks in Libya put their effort in attracting people to save through banks.

### 2.7.4 Libyan Banking System and the Overall Economic Development

The argument that lies behind the economic development issues is related to issues of offering microfinance services. The microfinance services are said to have not been able to help reduce youth unemployment rate and poverty. Thus, the one impediment that most entrepreneurs agreed upon is the difficult access to obtain financial resources or credits (Falah, 2006). Consequently, the access that population has to formal financial services sector is hence, diminutive (Libya Country Profile, 2012).

In terms of the involvement in the development of SMEs and eradicating poverty through microfinancing, Libyan banking system still plays a rather implausible role. The United Nations has reported that out of its 6.4 million populations, 40 percent of the population in Libya still live below poverty line, and they are not recipients of any form of benefit from the country's oil reserve although this reserve ranks the highest in Africa and ninth in the world (The National, 2011).

The Libyan Bureau of Statistics has reported a 13 percent unemployment rate and a 50 percent of youth unemployment (Libya Country Profile, 2012). Furthermore, on the scale of 1 to 7, the quality of Libyan educational system was rated rather poorly with a 2 point scale, causing it to fall on the third lowest ranking of 142$^{nd}$ out of 144 countries in the world (GCI, 2012/2013). With regards to the availability of research and training services; with a rating scale of 1 to 7, the country scored a minimal of 2.4 score, positioning the ranking of this country at 143$^{rd}$ out of 144 countries.

## 2.8 Banks' Resources and Organizational Performance

The resource-based view of the firm confirms that the firm's competitiveness and enhanced performance .(Barney, 1986). Tangible resources refer to physical objects like locations, capital, building, warehouses, and other facilities while intangible ones refer to knowledge, efficient practices, skills, processes, capabilities and intellectual capital such as entrepreneurial orientation (EO) (Bakar & Ahmad, 2010; and Mathews, 2006).

In addition, intangible resources may be viewed from a strategy viewpoint as more significant compared to tangible resources in terms of its contribution to the success and effectiveness of the firm. More specifically, the intangible resources importance stems from their value, their rarity and their inimitability that differentiate the organization from its rivals (Bakar & Ahmed, 2010). They are the primary aspects of the orginazation's desirable sustainable competitive advantage. Nevertheless, several factors may cause their dissemination from the firm towards its rivals (Apintalisayon, 2008; Barney, 1991).

## 2.9 Reasons as to Why the Libyan Banking System should Improve its Performance

The current dynamic financial sector environment has been struggling in the face of several challenges that affect their performance. Despite the economic hardship, banks are increasingly being established to bring homogeneous products. This increases the competition among the banks as they exist in a single market. This tight competition in the banking industry is compounded by the fact that banks offer almost the same financial products and services in the face of rapid changes in the needs and expectations of customers. In fact, the new generation has been significantly critical of the products and services quality offered by banks and their demand for unique new products and services that are dependable and responsive. In addition to this, aside from the dynamic changes taking place in culture and technology, customers are becoming highly educated, knowledgeable and aware of their rights and are hence inclined to voice their opinions to the public when dissatisfied (Li, Zhao & Lee, 2001). Moreover, in the context of banks' business, errors are costly and the product complexity is at a constant increase. It is very challenging to maximize the bank capacity and lessen risks in the face of the industry growth.

Stated differently, the present dynamic environment and the customers' knowledge have been urging banks to achieve better and efficient performance. Banks have to employ quality as well as innovation strategies if they are desirous of achieving better strategic position in the marketplace (Feng, Prajogo, Tan & Sohal, 2006).

Banks need to employ innovative ways in launching new products and services, they must to be proactive in preventing customer complaints and they have to ensure their leadership position among their rivals. In other words, they have to employ EO

strategies to sustain their survival in the market and to thrive successfully. Moreover, they have to employ TQM practices so that they may align their activities with the needs and expectations of the customers to satisfy them and to attract their loyalty in an ever-changing market (Krishnaveni & Divya, 2004; Li *et al*., 2001).

### 2.10 Summary

This chapter discussed (the Libyan banking system) and the issues and challenges faced related to marketing and operations by the banking system. There have been many issues raised about the Libyan banking system related to marketing as well as operational policies. Apparently, the major issue related to the Libyan banking system is its failure to attract the Libyan customers to carry out their banking transactions. Moreover, Libyan banks have no significant contribution to the development of the overall economy through business financing policies, especially SMEs. These problems have been related, either partially or fully, to the lack of customer-oriented strategies employed by Libyan banks. Aside from this, several banks have failed to explore business opportunities linked to business financing in general and SMEs financing, in particular. This lack of customer-oriented strategies in Libyan banks will give their international competitors the upper hand when the country decides to open up its economy following its membership to the WTO.

# CHAPTER THREE
# LITERATURE REVIEW

## 3.1 Introduction

The current chapter reviews the prior literature dedicated to organizational performance, total quality management practices, and entrepreneurial orientation. It discusses the position of TQM practices and EO in the context of the banking sector in Libya. It also explains MO's potential mediating impact on the TQM practices/EO –organizational performance relationship.

## 3.2 Organizational Performance

In organizational studies, great effort has been expended to investigate the organizational performance determinants (Simpson, Padmore, & Newman, 2012). That is because of the importance of the subject in reflecting the path of development for any organization, and because of the implications of these studies on organizational effectiveness and competitiveness (Sulaiman, Yusoff, & Chelliah, 2010).

In the global context, the competition has been significantly increasing in quantity and quality. However, the new generation of customer has become very critical about the quality of products and services. This new environment in which the customers and their changing demands have become the center of attention, forced organizations to adopt innovative strategies and maintain a high level of quality standards to ensure their presence in the global marketplace. Due to what has been mentioned earlier, the adoption of TQM practices and being an entrepreneurial organization has become the center of many scholars in the organizational studies field.

In management literature, it has been acknowledged that organizational performance is deemed to be the most crucial constructs in strategic management area (Combs, Crook & Shook, 2005). As such, over the previous decades researchers have carried out significant number of research on organizational performance in an effort to provide an insight into the antecedents, processes and other factors that can improve organizational outcomes (Jing & Avery, 2008). Moreover, a considerable portion of literature in this context was encouraged by the practical importance of the concept of organizational performance emanating from top managerment who are often concerned about long-term success and competitiveness (Finkelstein & Hambrick, 1996).

Service organizations primarily aim to provide customers with products/service that satisfy their needs and desires (Al-Marri, *et al*., 2007). Hence, several researchers have extended their studies to examine the effective performance of the service sector and its determinants.

### 3.2.1 Bank Performance and the Overall Economic Development

One of the major reasons behind a poor overall economic growth is its banking system's poor performance. Stated differently, effective financial system carries an important purpose within the economic development in the nation (Anderson & Trap, 2003). This indicates that capable banking system facilitates business entities rising and management of funds which could lead to the country's economic progress (Fase & Abma, 2003).

Service-oriented firms, including banks should always conduct a revision of their policies and develop new ideas in order to maintain the competitiveness and innovativeness of their performance. In organizational performance literature,

majority of research has been carried out to examine the antecedents of organizational performance in both manufacturing and service organizations like banks. Financial institutions are in fact the core of a country's economy as they cater to the other sector's needs. Thus, significant attention has been paid by practitioners and academics to investigate the factors that could potential impact organizational performance and improve strategic competitiveness (Al-Marri *et al*., 2007).

### 3.2.2 Organizational Performance Definition

The current dynamic and competitive business environment has extensively stressed that measuring organizational performance is crucial in evaluating successful organizational strategy (Neely, 1999). It is also impossible to enhance a business entity without first measuring its present situation. Nevertheless, regardless of the extensive studies carried out in literature about organizational performance, no universal consensus has been reached by scholars on the way it should be defined (Ford & Schellenberg, 1982; Johannessen, Olaisen & Olsen, 1999). In an attempt to shed light on the term, Antony and Bhattacharyya (2010) described organizational performance as the measure utilized for the evaluation and assessment of an organization to develop value and deliver it to its customers (external and internal). Olosula (2011) explained the performance concept as an ability to assess the level of success of a business organization.

According to Kanyabi and Devi (2012) performance is the measurement of financial ability of the firm such as the level of profit, investment level with both growth in sales and profit. Mandy (2009) viewed performance as the outcome of adapting effective management process. He posited that organizational performance be measured using a number of criteria; which includes effectiveness, efficiency, growth and productivity. Firm effectiveness can be used to measure operation,

finance as well as behavioral levels,while Davood and Morteza (2012) viewed performance as the ability of a film to create acceptable outcome and actions . Hence, firm performance is a central issue in business activities which needs adequate planning and commitment.

Measuring organizational performance is an important issue in today's research scenario. The researchers use different approaches and measures in evaluating organizational performance while conducting researches (Khan & Khalique, 2014).

As mentioned earlier, due to the concern shown regarding the survival of organizations in today's ever-changing market place, both academics and practitioners have conducted huge research studies investigating the organizational performance term and its determinants (Johannessen, Olaisen, & Olsen, 1999). However, the question regarding what is the most appropriate measure of organizational performance has been the issue of growing importance among researchers and practitioners alike (Jusoh, Ibrahim, & Zainuddin, 2008). However, there has been a lack in consensus among researchers about the meaning of the organizational performance term that, despite the extensive research work, remains a debatable issue (Johannessen, Olaisen, & Olsen, 1999). Murphy, Trailer, and Hill (1996) in their review on the measurements of performance, identified 71 different measures using both financial as well as non-financial indicators to measure the organizational performance.

The review of literature dedicated to organizational performance shows the existence of unanswered questions that challenges academics and practitioners pertaining to the most suitable measure of organizational performance. Traditionally, organizations have been using cost and accounting-based measures to measure its

performance (Demirbag, Tatoglu, Tekinus, & Zaim, 2006). Because of the increasing dynamism of the business environment, the competitive market in which the organizations operate in imply that there must be a proper measurement system that measures the overall organizational performance rather than financial measures. Related to that, Johnson (1983) and Kaplan (1984) emphasized that the financial performance system has proven not to be efficient in measuring the business performance in a competitive and turbulent business environment. Moreover, it was argued that financial measure of organizational performance fails to anticipate the changes in the competitive business scenario.

To justify the common use of the financial performance in measuring the organizational performance, some researchers such as Johannessen *et al.* (1999) argued that the financial indicators are the most standard since they quantify the organizational performance and facilitate the comparison. As such, several financial measures have been utilized to gauge organizational performance like ROI, ROA, and earnings per share (EPS). Nonetheless, although the profit is the main driver of business, it cannot reflect the organization's ability to maintain the profitability in the future (Bruns, 1998).

Organizational performance has been gauged through financial as well as non-financial measures in literature in an attempt to measure the performance of an organization. As it has been mentioned earlier, the changing business environment and the complex marketplace have forced the organizations to go beyond the traditional measurement system that has one dimension and narrow focus to be able to measure all the operational aspects and the market factors as well (Kaplan & Norton, 1992). Therefore, many researchers have been evaluating the existing

measures besides designing new ones. In relation to that, Johannessen *et al*. (1999) reviewed the literature related to the evaluation the efficiency of financial measures in measuring the organizational performance. Based on that, many limitations have been identified. First, financial measures of organizational performance are susceptible to the method of variance and might be misleading since they might be affected by the industry-related factors. Second, due to the possibility of manipulation of financial measures, they do not always represent actual organizational performance and third, financial measures according to Kaplan and Norton (1996) can present only the impact of past performance and they may be misleading when utilized to predict future performance. Fourth, financial measures seem to be stable and do not reflect new goals. In other words, they cannot identify the current issues related to the organizational performance in the modern business environment (Hanson & Mowen, 2003). Fifth, financial measures lack the strategic focus and rather emphasizes on short-term financial measures resulting in a wide and increasing gap between developed strategies and their implementation (Kaplan & Norton, 1996; Neely, 1999).

### 3.2.3 Organizational Performance Measurement System in Banks

Notwithstanding the extensive research work regarding the performance measurement system, there has been no consensus on which is the most appropriate measurement system. Furthermore, it was argued that measuring the performance of service organizations is more critical than that of the manufacturing due to the intangibility of the services (Bharadwaj, Varadarajan, & Fahy, 1993). This is so since the business growth and effectiveness of service organizations are mainly dependent on the customer relationships and service quality in the long run. Many studies have been conducted to measure the performance of banks. Banks have previously been

using financial measures including ROA, ROI and ETA, internal growth of equity (IGOE), and many other ratios (Ramanathan, 2007). However, these ratios are still used in studying the performance of banks. Despite the crucial importance of these ratios in evaluating the performance of banks, they neglect other aspects of the overall organizational performance. Therefore, many other non-financial indicators should be used to measure the performance taking into consideration non-financial dimensions that result in increased productivity and attractive added value to the customers (Ramanathan, 2007).

A thorough review of literature concerning performance management system showed that accounting-based mesaure dominated among other organizational performance measures (Atkinson & Brown, 2001). Additionally, the financial measurement system of the organizational performance has been criticized by both academics and practitioners since they have the short-term focus and can be easily manipulated. Besides that, they tend to measure the past performance and have no reliability in measuring the future performance (Jusoh, Ibrahim, & Zainuddin, 2008).

As a result of the global competition and dynamic business environment, especially in the banking industry, banks should seek an appropriate performance measurement system that could measure both financial as well as non-financial dimensions of their various activities (Atkinson & Brown, 2001). In other words, in the banking industry the performance measurement system should pay more attention to non-financial activities that has a long-term focus through value-creation activities, such as the service quality and customer satisfaction.

Over the past years, the traditional measurement system has been criticized for its reliance on financial data to measure the organizational performance (Jusoh, Ibrahim,

& Zainuddin, 2008). It has been argued that the traditional measurement system no longer fits the current changing and highly competitive business environment. Therefore, an appropriate measurement system should be able to assess human-based activities and processes' effectiveness as well. That is, an effective measurement system should capture all the activities that affect the value creation processes within an organization. Therefore, in performance measurement literature, there have been several attempts to create strategic performance measurement systems that cover financial as well as non-financial indicators (Chenhall, 2005). For instance, Fitzgerald, Johnston, Brignall, Silvestro and Voss (1991) proposed a framework that covers financial and non-financial measures, known as the Results and Determinants Model that is applicable in the service sector organizations. While "Results" in their model refer to the competitiveness, service quality and financial performance, "Determinants" refer to the flexibility, resource utilization and innovation.

Contributing to the same stream of research, Heskett, Jones, Sasser, and EarlSchlesinger (1994) developed the Service Profit Chain Model to measure financial and non-financial performance of the service industry firms. Based on this model, it was claimed that the non-financial measures such as, employees satisfaction, and loyalty, productivity, internal quality, organizational values, and customer satisfaction and loyalty would result in growth and profitability of an organization.

Similarly, the most popular model in measuring organizational performance was introduced by Kaplan and Norton (1992) called the Balanced Score Card (BSC) Model (Bourne, Neely, Platts, & Mills, 2002). However, it was introduced as the strategic model that balances all aspects of organizational performance based on

which organizations can suit their strategies to achieve their overall goals and objectives. Specifically, BSC system considers the assessment of the performance from various perspectives such as from financial, internal business, customer and learning perspectives.

Majority of studies in performance measurements literature have been carried out to relate the BSC implementation to enhanced organizational performance. To begin with, Hoque and James (2000) and Malina and Selto (2001) extended an extensive research to examine the effect of BSC implementation on organizational performance. Their findings indicated that the successful implementation of BSC in organizations lead to superior performance. In the same way, Malina and Selto (2001) studied the BSC implementation on financial performance and supported the existence of an indirect link between the two.

It can be argued, accordingly, that the implementation of BSC in banks can enhance the overall performance as it can be used to communicate the vision through the bank's structure, enhance the business planning activities and establish a quality customer relationship (Kaplan & Norton, 1996).

### 3.2.4 The Performance Measurement used in this Study

While the financial performance of an organization has a primary importance in measuring the success of profit-based organizations, non-financial performance has a growing importance in measuring public and service organizations (Kaplan & Norton, 2000). However, an extensive review of the literature of performance measurements shows that the financial measurement system has been receiving many critics by practitioners and academics since this system neglects some aspects of organizational performance (Arnand, 2003). On the other hand, non-financial

measures have been gaining the credits as good measures as they deal with causes rather than effect (Arnand, 2003), they are capable of reflecting the current management situations (Banker, Potter & Srinivasan , 2000 ), and more importantly, they focus on service quality and customer (Banker *et al*., 2000).

Furthermore, the non-financial-financial performance relationship has been examined by several researchers – for instance, York and Miree (2004), and Rust, Zahorik and Keiningham (1995) contended that non-financial performance like customer satisfaction, enhanced quality and innovativeness can maximize market share and develop long-lasting customer loyalty that eventually leads to increased financial performance. In measuring financial and non-financial performance objective as well as subjective measures can be used. While the objective measures are based on the real figures from the organization, the subjective measures use the perceptual responses of the participants to assess the performance (Johannessen *et al*., 1999).

This study, therefore, chooses to use non-financial performance or perceptual measures to measure the organizational performance due to the following applicable assumptions. An assumption states that the perceptual measures are consistent and do not significantly differ from the objective measures and thus, the same level of performance. The respondents may be wary of the data confidentiality when asked concerning financial indicators (Ackelsberg & Arlow, 1985), especially in a tightly closed business environment like Libya. More importantly, the subjective measures help in overseeing the potential opportunities for organizational effectiveness in the long-term (Pizam & Ellis, 1999). Therefore, in this study, the perceptual measure of

organizational performance of banks in Libya is used to collect the data related to the overall organizational performance.

Having determined the organizational performance that is most suitable for this study, the following sections are devoted to provide detailed discussion regarding the TQM practices.

### 3.2.5 Factors Contribute to Organizational Performance

In the literature many studies tried to investigate the factors that contribute organizational performance. Su (2013) conducted study to examine the relationships between entrepreneurial orientation and firms' performance of Chinese high-tech firm. Also the study investigated the mediating role of organizational learning and moderating role of firm life cycle. The result showed entrepreneurial orientation has positive relationship with firms' performance and organizational learning has a mediating role between entrepreneurial orientation and firms' performance. In addition firms' life cycle is moderated the organizational learning and firms' performance relationship. In line with that, Modi (2012) tried to investigate relationships between market orientation, innovativeness, resource scarcity, funding source, and performance in non-profit organizations in India. The study finds that market orientation, innovativeness and performance have positive relationship. Furthermore, resource scarcity and funding sources do not moderate the market orientation and performance relationship.

In a study conducted by Zahari, Rahman, Othman and Baniamin (2014) they investigated the relationships between knowledge sharing and organizational performance among insurance companies in Malaysia. The result showed there is positive relationship between them. The findings of the study will help managers and

decision makers to better understand the role of knowledge sharing practices among employees in insurance companies.

Similarly, Mazdeh and Hesamamiri (2013) they study the effect of Knowledge management reliability on organizational performance by developing a reliability measurement instrument in companies in North America. They found the reliable Knowledge management has a positive relationship with organizational performance.

Another study by Jain and Moreno (2015) they investigated the effect of organizational learning on the performance and knowledge management practices in a heavy engineering organization in India. The result indicates that organizational learning have a positive relationship with performance and knowledge management practices.

Pokharel and Choi (2015) carried out a study to estimate the Dimensions of Learning Organization in public sector organizations South Korea. The results revealed that supported the positive relationship between levels of learning organization and organizational performance. Similarly, Hsien Kuo (2011) study the relationship between human resource management, organizational learning, organizational innovation, knowledge management capability, and organizational performance. Their result supported the relationship between the variables. In the same research line, Gharakhani and Mousakhani (2012) they investigated the role of knowledge management capabilities on SMEs organizational performance. The found that factors of knowledge management capabilities (knowledge acquisition, knowledge sharing, and knowledge application) have positive and significant impact on SMEs' organizational performance. Another study by Tavitiyaman, Zhang& Qu (2012)

study the influence of competitive strategies and organizational structure on hotel performance .The result supported the relationship between the variables.

Baird, Hu& Reeve (2011) examined the relationship between culture, total quality management (TQM) practices, and organizational performance .Their finding support the relationship between these variables.

### 3.2.6 TQM, EO, MO, and the Organizational Performance

It has been contended by researches that all external factors which may potentially impact the performance of banks are unpredictable. Consequently, for the survival and grow in market share, a bank should develop innovative products and services (via internal resources) that are differentiated from those of its rivals and it should employ superior quality standards in its entire activities and processes (Fub *et al*., 2007).

TQM has been hailed as one of the most crucial development in the management field which forms competitive advantage in firms all over the globe (Al-Swidi &Mahmod , 2011). During the last decades, increasing attention has been focused on TQM practices and their effects and when implemented, on the business entity's performance. Many organizations in various economic sectors like manufacturing, service, healthcare and government have been attempting to employ TQM practices in the quest to enhance their performance. Similarly, according to Douglas & Judge (2001) TQM is largely in the limelight owing to its perceived role as source of competitive advantage. In addition to this, the relationship between TQM practices and organizational performance has been extensively studied by several academics. Khan (2011) reached to the conclusion that a significant positive interaction exists between TQM practices and performance. More recent studies examined TQM

practices as a method towards developing competitive advantage and enhancing organizational performance (e.g. Sisnuhadi &Nasir ,2013).

Researchers have also focused on the increasing influence of EO on organizational performance. Some authors considered EO as an influential antecedent of effective organizational performance (Wiklund, 1999; Wiklund & Shepherd, 2005) while others rejected this relationship (Smart & Conant, 1994). From the view point of the resource-advantage theory, EO is an important element that allows the firm to form a competitive position in the marketplace and to improve its competitive advantage over its rivals (Dhaafri & Al-Swidi , 2014). The current entrepreneurial business environment is rife with change and innovation has permeated all business levels. Thus, managers and business leaders should encourage and facilitate an innovative environment (Zahra, 1999).

Regardless of the many attempts to explain a positive direct relationship between TQM practices and organizational performance, the findings are inconclusive and two contrasting findings have been highlighted (Prajogo & Sohal, 2001; Easton & Jarrel, 1998). Moreover, Davis (2007) contended that the findings on the EO-organizational performance relationship in literature have been consistent but the findings on the moderating variables impact on this relationship have been inconclusive. This inconsistent result urge scholars and researchers to further explore the potential moderating or mediating variables in order to generate conclusive empirical results (Macaes, Farhangmehr & Pinho, 2007).

Thus, in order develop a sustainable competitive advantage, the organization's leaders and employees should create a culture that promotes constant change and create ongoing innovative and creative business environment that leads to high and

satisfactory products/services (Kuratko & Welsch, 2004). Added to the above, the effect of MO on organizational performance has been established and is deemed to be one of the most crucial relationships with market-orientation literature (Haugland, 2007).

Past scholars like Kirca ,Jayachandran,&Bearden (2005) and Wu (2003) were convinced that by adopting market orientation, it can lead to positive results (Rapp, Schillewaert, &Hao 2008). Market orientation has been conceptualized and empirically validated as a method to enhance business performance (Aliu & Idris, 2012) that could promote competitive advantage (Kumar , Jones , Venkatesan & Leone, 2011 ). Contrastingly, some studies reported that market orientation is not the only strategic orientation and therefore, other orientation may have played a part in improving firm performance (Hult & Ketchen, 2001). This may encourage studies to consider the interaction between TQM practices, EO, MO and their impact on the performance of the organization.

Having determined the organizational performance that is most suitable for this study, the following sections are devoted to provide detailed discussion regarding the TQM practices.

### 3.3 Total Quality Management (TQM) Practices

The pioneering founders of TQM include Deming (1986), Juran (1986), and Crosby (1979). Total Quality Management (TQM) transformed the business philosophy around the globe (James, 2008). The growing and intensive literature in the management field reveals that TQM practices have become a crucial factor for organizations to achieve a sustainable competitive advantage (Harrington & Williams, 2004).

### 3.3.1 Definition of TQM

The concept of Total Quality Management (TQM) has been developed to enable organizations to compete in the intense global competition (Zakuan, Yusof, Laosirihongthong, & Shaharoun, 2010).

Although a significance amount of work has been conducted about TQM practices, there is still lack of consensus as to its definition. This is because TQM has been defined in various ways based on the different notion of quality (Reed *et al*., 1996). Nevertheless, in the robust literature of TQM, there is evidence of convergent and discriminant validity (Hackman & Wageman, 1995).

However, in the literature of quality management, there are various definitions proposed for the TQM concept. To begin with, according to Dale (2003), TQM refers to the management method that guarantees the relevant individual's cooperation and contribution for the generation of products and services for customer satisfaction. In the same way, Flynn *et al*. (1994) stated that TQM is an integrated method that leads to superior outcomes through the maintenance and sustenance of an ongoing process of improvement.

Other TQM definitions have their bases on its principles. Among them, Anderson, Rungtusanatham, and Schroeder (1994) defined the strategy of TQM as a holistic method to the overall quality of the firm with the help of major principles like leadership, ongoing improvement, effective management of process, product or service design, customer involvement and satisfaction and involvement of customers and employee training and involvement.

Along this line of argument, and from the viewpoint of change perspective, Yusof and Aspnwall (2000) described TQM as the management approach and way of

thinking that can change the organization with the help of change initiatives in an attempt to reach superior status. They also referred to it as the system that assists in achieving excellence.

Similarly, Kumar, Choisne, Grosbois, and Kumar (2009) defined TQM as a holistic management method that combines all organizational activities for customer satisfaction and expectation for the achievement of overall firm objectives.

Moreover, Dean and Bowen (1994) proposed that TQM strategy can be considered in terms of principles, practices and techniques. The first one covers customer focus, ongoing improvement and teamwork, with every principle having a set of determing practice like customer relationships, group training and skills, and quality and process control. In order to make sure of these practices effective application, they have to be assisted by quality functions including deployment, team building methods and control charts.

Based on their review of literature dedicated to TQM definition, Mehra, Hoffman, and Sirias (2001) highlighted major critical factors on the basis on which TQM should be described. The factors are management structure, quality tools, customer orientation and support from suppliers. However, despite the differences among researchers in defining TQM (e.g. Dean & Bowen, 1994; Black & Porter, 1996; Rao *et al.* ,1999; Flynn & Saladin, 2001), they prefer Malcolm Baldrige National Quality Award( MBNQA ) as the model upon which TQM definition should be based.

As stated frequently in quality management literature, TQM measurement can be conducted with the help of some factors (e.g. Saraph *et al*., 1989; Sila & Ebrahimpour, 2002; Arawati, 2005; Li *et al*., 2003).The Strategy was defined by Swamidass and Newell (1987) as the series of actions practiced to achieve

organizational goals. Based on that, TQM can be referred to as the management system comprising of a number of interconnected critical factors that assist in developing a set of actions geared towards achieving specific goals of the organization.

### 3.3.2 Total Quality Management and Organizational Performance

Quality management is robust with a plethora of research work conducted in relation to TQM strategy (Corredor & Goni, 2011). Regarding the performance implications of TQM strategy, a significant amount of work reported that the TQM philosophy adoption will consequently provide benefit to every organization (Sila & Ebrahimpour, 2002). To explore how TQM strategy had been studied, analyzed, operationally defined, measured, and its implementation evaluated, several researchers (e.g. Ahire, Landeros & Golhar, 1995; Fynes, 1989, 1999; Thiagarajan & Zairi, 1997a, 1997b, 1997c; Sila & Ebrahimpour; 2002), conducted comprehensive literature review about the previous research work.

In studying TQM strategy, Ahire *et al*.(1995) and Thiagarajan and Zairi (1997a;b;c) used MBNQA and EQA criteria as the framework. While Ahire *et al*.(1995) reviewed 226 research works comprising of conceptual works, empirical articles and case studies related to the quality management literature between 1970 and 1993, Thiagarajan and Zairi(1997a;b;c) focused only on case studies papers. However, Ahire *et al.* (1995) found that the majority of the literature was conceptual and the published empirical work was inadequate. Based on that, his suggestion was to intensify the empirical work in relation to TQM strategy. On a similar line of study, Thiagarajan and Zairi (1997a, 1997b, 1997c) conducted a literature review and divided the TQM factors into soft and hard quality factors. The former includes intangible factors that are not easy to measure; for instance, commitment of top

management, teamwork, training and empowerment, customer focus and effective communication. On the other hand, the latter are factors that can easily be measured; for instance tools and techniques.

From a different perspective, Fynes (1998; 1999) reviewed the TQM literature that was focused on validating the TQM construct and defining its critical factors. Specifically, he investigated 20 empirical studies with the TQM strategy critical factors proposed by Flynn Schroeder and Sakakibara (1994) as the judgment framework. In other words, he used the following seven factors as the critical factors of TQM strategy: commitment of top management, product design, quality information work management, process management involvement of supplier and involvement of the customer.

In a related study, Yong and Wilkinson (1999) attempted to conduct a literature review of the TQM strategy-performance relationship. They reviewed a total of 15 articles, where all revealed either positive or negative results of the relationship. They found the reviewed articles to be related to studies conducted in different countries investigating the TQM strategy and organizational performance relationship. The study also concluded that the unsuccessful TQM initiatives can be attributed to the partial implementation of TQM strategy and claimed that for organization to enhance its performance towards achieving a competitive advantage, TQM strategy should be implemented fully and be an integral part of the organizational operations.

In the same vein, Sila and Ebrahimpour (2002) comprehensively reviewed literature concerning quality management. They went through 347 articles included in several journals between the years 1989 and 2000. Throughout their work, they identified

25 factors as TQM critical factors which later constituted their study framework. Their findings revealed that customer focus and satisfaction is the top two discussed factors followed by employee training, leadership and top management commitment. Factors that followed this list included employee involvement, continuous improvement, innovation and teamwork. The least two factors discussed in TQM are quality information and performance measurement. In addition to that, they stated that the quality management in the service sector seems to be more difficult because of the intangibility of services. Therefore, they suggested that a comprehensive questionnaire and framework that include all the major elements of TQM should be expanded and tested to suit the context of service organizations. Further, they suggested that future research on TQM to pay more focus on certain factors that were not extensively given attention like strategic planning, product and service design, social responsibility, employee appraisal, rewards and recognition. It is noteworthy that from 347 reviewed studies a mere six of them constituting 1.7% were carried out in the Middle East, like Saudi Arabia, UAE, and Qatar.

In his meta-analysis for studies about TQM during the period 1987-2002, Baker (2003) stated that the effect of TQM practices on organizational performance has been empirically supported. As previously mentioned, manufacturing organizations were the first to design and implement TQM practices whereas services-based organizations were far behind. Further, TQM adoption in the service sector has been growing rapidly in the global competitive business arena.

Tari (2005) highlighted nine TQM critical factors upon reviewing literature regarding TQM. These factors include customer-based approach, process management, commitment and leadership of management, quality planning,

management based on facts, HRM including training, teamwork and communication, continuous improvement, cooperation with supplier, and finally organizational social and environmental issues-related awareness. He also pointed out that the literature has revealed that TQM and HRM are highly correlated and the latter was found to be the basis of the success of the former.

In relation to that, Prajogo and Sohal (2001) studied the TQM implementation-innovation performance relationship and argued that TQM implementation is affected by the organizational environment and its strategy. They focused on literature concerning the relationship between TQM and innovation and then performance by distinguishing between two claims. The first one states that the TQM establishes innovation-oriented environment and positively associates with innovation and performance (Dean & Bowen, 1994; Kanji, 1996; Mahesh, 1993; Roffe, 1999; Tang, 1998), whereas others (such as Harari, 1993; Samaha, 1996) argued that the implementation of TQM principals may hinder the organizational innovation.

Many researchers have also focused on the mediating role of TQM (e.g.Fuentes-Fuentes, Albacete-Saez, & Liorens-Montes, 2004; Prajogo&Sohal, 2006). They studied the relationship between environmental characteristics, organization strategy and performance. Specifically, Fuentes-Fuentes *et al*. (2004) collected data from 273 Spanish firms at the quality managers' level. They used casual model and SEM for model testing and revealed that environmental characteristics influence the implementation of TQM and this in turn influence the financial, operational, and human-aspects of organizational performance.

Similarly, Prajogo and Sohal (2006) investigated the mediating role of TQM on the organizational strategy-performance relationship with the help of data gathered from Australian middle and senior managers. They employed SEEM to test the causal model. They found the existence of a partial mediating role of TQM on the relationship.

In the same stream of research, it was contended by Molina-Azorin, Tari, Claver-Cortes, and Lopez-Gamero (2009) that the quality management theory's development was mainly based on three sources namely, the prescription of the quality gurus, the National quality awards, and measurements studies. They also found that the bulk of the reviewed research work revealed that the successful implementation can improve organizational performance.

#### 3.3.2.1 TQM and Performance of Manufacturing Organizations

TQM has been garnering attention from researchers and has been one of the most researched topics in the field of Operation Management over the last past few decades (Jimenz-Jimenz & Martinez-Costa, 2009 ; Pakdil, 2010). However, as it has been widely known that TQM philosophy had its origin in production to improve the quality of finished products, its application has increasingly become an invaluable competitive advantage for organizations (both manufacturing and service) (Kaynak, 2003; Sila & Ebrahimpour, 2002). In general, TQM has been examined as a competitive advantage factor (e.g. El Shenawy, Baker & Lemak, 2007; Escrig-Tena, 2004).

In the literature of TQM, there have been various trends identified by both academics and practitioners. First, the focus, initially, was directed to define the concept and identify its critical success factors (e.g. Ahire *et al*., 1996; Black & Porter, 1996;

Flynn *et al*., 1994; Saraph *et al*., 1989). Later, researchers paid more attention to conduct empirical research in the quest to investigate TQM factors impact on organizational performance (Feng, 2006; Cheng & Lai, 2005; Kaynak, 2003; Sila & Ebrahimpour, 2005) and sustainable competitive advantage (Nair, 2006; Reed *et al*., 2000).

It is evident that empirical studies dedicated to TQM and organizational performance relationship generated varying and opposite results. While some studies attributed the superior performance of some organizations to the adoption of TQM strategy (Flynn *et al*., 1995; Douglas & Judge, 2001; Kaynak, 2003; Sila & Ebrahimpour, 2005), others examined the failure of these practices to improve performance (Dooyoung, Kalinowski & El-Enein, 1998). Owing to these inconclusive findings pertaining to the relationship, many researchers carried out a literature review to examine the previous research work. Alongside with that many other empirical research works have been conducted to further the examination of the TQM-performance relationship.

For example, Nair's (2006) meta-analysis of studies published in the years from 1995-2004, investigated which TQM factors positively associated with the performance of the organization. Additionally, Nair (2006) tried to look into the existence of moderating variables that may impact the TQM practices-organizational performance relationship. The study supported the existence of TQM influence on performance. The findings stressed on the TQM critical factors (leadership, people management, process management and customer focus) effects on organizational performance. They also highlighted the moderating variables in the relationship between performance and TQM practices, and these include organizational structure

as proposed by Douglas and Judge (2001). He, therefore, suggested that many other contextual variables may be considered by future studies to bring about a tailor-made TQM program to organizations.

In this connection, prior literature was reviewed by Sila and Ibrahimpour (2005) in their attempt to examine the TQM critical factors-business results relationship with the help of data gathered from 226 U.S. manufacturing firms. On the basis of this literature review, they determined seven factors; strategic planning, information and analysis, customer focus, HRM, process management, business outcome and supplier management. Their findings showed that the number of articles, empirically supporting the existence of positive relationship, was much more than the number of articles that reported negative or no relationship. On the other hand, their empirical results showed TQM factors to be holistic and hence should be applied in whole and not on piecemeal basis to achieve the desired performance results. They also found that while there is significant performance implications between leadership and information, leadership and process management are the only TQM factors that have direct relationship with business results.

In the same line of research, Kaynak (2003) brought forward a research model created based on prior studies to study the TQM practices-organizational performance relationship. The model covered leadership training, relationships among employees, quality data, supplier quality management, product/service design, process management and performance of the firm. The empirical findings, according to data gathered from 383 business units operating in 48 States, supported the existence of a positive association between TQM implementation and performance of firms. In addition to this, in their effort to examine the TQM

practices-firm performance relationship among 250 high tech manufacturing firms, Kaynak and Hartley (2005) used the cluster analysis to compare the performance of 250 high tech manufacturing firms based on their extent of TQM implementation. They found that high performing firms were extensively implementing TQM compared with low performing firms. According to that, they proposed that TQM implementation can be deemed as a pre-requisite to competitive advantage.

In their empirical study, Samson and Terziovski (1999a, b) also looked into the TQM implementation-organizational performance relationship among 1200 Australian and New Zealand manufacturing firms. However, their findings showed that almost all the TQM practices were found to significantly predict performance. They also found that TQM behavioral factors (soft TQM factors) like leadership, people management and customer focus were stronger determinants of performance than hard TQM factors. In the same vein, a study conducted by Rahman and Bullock (2005) involving 261 Australian manufacturing firms revealed a positive association between soft and hard TQM elements and a direct relationship between soft TQM elements and organizational performance, they found that soft TQM factors affect indirectly the organizational performance through hard TQM factors.

Similarly, in an earlier research aimed to study the TQM practices-firm performance empirically by Lemak, Reed, and Satish (1997) found that, based on 60 companies, TQM strategy was associated with superior performance. In other words, their study showed that TQM strategy improved the financial performance of the studied firms. This was later supported by the empirical results obtained by Agus and Abdullah's (2000) study in the Malaysian manufacturing companies where they found that

customer satisfaction stemmed from the implementation of TQM strategy and it was positively related with the financial performance.

In a comparative study, Feng *et al*. (2006) focused on the TQM strategy-quality performance and innovation relationship by conducting a comparison between Australian and Singaporean companies. Their sample comprised of 194 Australian and 58 Singaporean firms and they found that leadership and people management are associated with innovative performance, whereas customer focus and process management are associated with quality performance.

In connection to this line of research, Brah, Tee, and Rao (2002) conducted a study looking into the same relationship among 185 companies in the Singaporean context. Based on their findings, the causal relationship between TQM practices and firm performance is supported. The study also stressed the significance of behavioral factors of TQM strategy like top management leadership, customer satisfaction, HR focus, and quality focus. Additionally, it also stressed on the significance of intangible TQM practices including strategic planning and information and analysis, to the organizational success and effectiveness. This study also suggested that there should be longitudinal studies and extensive future case studies dedicated to the relationship between TQM practices and firm performance.

Owing to the under-researched area of study dedicated to the TQM-performance, many other recent studies exerted huge efforts in examining this relationship in developed as well as developing nations. Nevertheless, the findings of many of these studies indicated that TQM strategy has been increasingly garnering universal importance as a major driver of superior business. This can be justified by the consistent results obtained by researchers. This includes Lakhal, Pasin and Limam's

(2005) study that examined the TQM effect on performance among 133 Tunisian plastic transformation sectors. Their empirical results corroborated the findings of many previous researches by supporting the TQM positive influence upon the performance of the firm. Following the same research stream, Kumar, Choisne, Grosbois, and Kumar (2009) studied the same relationship on the basis of data gathered from 15 Canadian companies and showed the existence of a positive influence of TQM strategy implementation on firm performance. In relation to that, Zakua *et al*. (2010) developed a conceptual model of TQM implementation that related to organizational performance in the automotive industry in Malaysia and Thailand. The results determined the significant differences in practices of TQM and their impact on organizational performance.

In studying the relationship between TQM and technology management, and their impact on operations performance, Kuruppuarachchi and Perera (2010) examined this relationship of manufacturing organizations. They gathered data from 44 Sir Lankan manufacturing organizations with using Structural Equation Modeling (SEM) to analyze the data. The results of this research showed that TQM has a positive relation with operation performance, while there is significant in the relationship between technology management and operation performance. Moreover, the results showed that there is a strong relationship between TQM and technology management, which indicates that high TQM will be followed by technology management practices.

In their contribution to TQM literature, Agus and Hassan (2011) carried out an empirical study about enhancing production and customer performance through TQM strategies for competitive advantage. They examined this relationship in

Malaysian manufacturing industry. Pearon's correlation and structural equation modeling were used to analyze the gathered data. The results reported that TQM has significant correlations with customer performance and production performance. In addition to that, this study pointed out that retail manufacturing firms should focus more on quality measurement of TQM and on

management support of TQM initiatives to gain strategic sustainable competitive advantages.

A significant number of prior research works in quality management indicates that TQM strategy can positively impact the organizational performance (Molina-Azorin, Tari, Claver-Cortes, & Lopez-Gamero, 2009). On the other hand, many other researchers reported the failure of TQM in organizational effectiveness (Dooyoung, Kalinowski, & El-Enein, 1998). Many researchers such as Brah and Lim (2005) attributed the failure of TQM performance implications to several reasons; lack of strategic organizational focus which led to the notion that TQM implementation can resolve short-term problems with instantaneous results, lack of top management commitment to products/services in a firm influences quality performance, and lack of supportive organizational culture (OC) impacts the TQM strategy successful implementation as a change strategy for enhancing the overall performance of the firm.

#### 3.3.2.2 Total Quality Management and Performance of SMEs

SMEs are the drivers of the current global economy as they have a dominant role in the development of both developed and developing countries (Ghobadian & Gallear, 1996). Hence, the research work related to the TQM in the context of SMEs are growing (e.g. Fening *et al*., 2008; Bayati&Taghavi, 2007; Lewis *et al*., 2006a,b,

2005; Temtime& Solomon, 2002, Rahman, 2001a,b). Several researchers (Temtime& Solomon, 2002; Ahire&Golhar, 1996) claimed that TQM practices can help small and medium sized enterprises, if implemented, to be more market-focused and to be more efficient. In addition to that, TQM implementation in SMEs can help them to get the full advantage of their human resources capabilities, and to improve their competitiveness and consequently, to achieve superior position in the dynamic market.

A thorough literature review of studies dedicated to TQM practices revealed that studies focused on TQM implementation in large manufacturing companies while less attention has been given to their application in the context of SMEs (Rahman, 2001). In other words, there has been a dearth of literature investigating the effect of TQM practices on performance of SMEs (Demirbag *et al*., 2006). Moreover, many studies regarding the implementation of TQM in SMEs were based on case studies scattered in different countries such as the study conducted by Abdullah (2010) in Malaysia, Ghobadian and Gallear (1996) in the UK, and Tannock, Krasachol, and Ruangpermpool (2002) in Thailand. The purpose on either case study was to examine the TQM implementation and to investigate the barriers and key success factors in TQM adoption, and to report the differences in performance between SMEs based on their commitment to TQM practices.

The bulk of the literature dedicated to TQM in SMEs is conducted to examine the TQM critical factors. In a study that investigated the TQM perceptions, behavioral planning and firm size of SMEs, Temtime and Solomon (2002) used a descriptive statistics to analyze the data collected from 52 SMEs in Ethiopia. Based on their review of the previous studies they tried to focus their attention on some influential

critical factors of the TQM construct. As a result, they examined eight critical TQM factors, which are customer satisfaction, managerial leadership and commitment, ongoing improvement, empowerment of and involvement of employees, supplier partnership, quality culture and philosophy, measurement and feedback. Their findings were supportive of previous studies regarding the main obstacles to TQM implementations. Fotopoulos and Psomas (2010) investigated the relationship between TQM factors and organizational performance based on data collected by 370 questionnaires from Greek companies. Their findings showed that these TQM factors are affecting organization's performance.

Another study carried out by Valmohammadi (2011) focused on impact of the seven TQM criteria (leadership, process management, customer focus, supplier, employee management, communication and quality information systems (QIS) and tools and techniques) on the Iranian manufacturing SMEs' performance. According to the results, strong relationships exist between TQM practices and organizational performance of small and medium manufacturing enterprises. He revealed that leadership has a key role in improving the performance of Iranian manufacturing SMEs.

Furthermore, in their investigation into the TQM practices-performance of Ghana SMEs Fening, Pesakovic, and Amaria (2008) made use of the MBNQA variables based on the data gathered from 116 SMEs covering all sectors in Ghana. Based on their analysis and hypotheses testing procedures, they concluded that there are positive significant relationships between the seven management practices used in the study namely, leadership, strategic planning; analysis and information, HRM, customer and market focus, quality process management, and business outcome and

performance of SMEs. More importantly, the study also found that the most positive significant association existed between HRM and SMEs business performance.

In another context, Salaheldin (2009) conducted study which involving 139 Qatari SMEs, divided the critical factors of TQM into strategic, tactical and operational factors. Strategic factors include factors linked to practices and support of top management, tactical factors are linked to employees and suppliers and operational factors are linked to products, resources and customers. However, the findings of the study revealed that there is a significant effect of TQM factors on both operational and organizational SMEs performance. The study stressed on the significant role of strategic factors in successfully implementing TQM strategy among SMEs.

In their contribution to the literature of TQM in SMEs, Demirbag *et al*.(2006) conducted an empirical research on 163 SMEs in Turkey to identify the TQM critical factors and examine their relationships with organizational performance. Based on Exploratory Factor Analysis, they identified seven critical factors, which are top management role, quality data and reporting, employee's relationship, supplier quality management, quality policy, training and process management. Their findings are aligned with the notion of the strong positive association between the critical factors of TQM and the SMEs non-financial performance. They showed that TQM-financial performance relationship is weak. However, they also showed that non-financial performance can play a mediating role on the SMEs TQM practices-financial performance relationship.

Although the effect of TQM factors on firm performance in SMEs is garnering increasing attention, examining this relationship in SMEs' setting is still in its infancy. However, in an early attempt to explore this relationship, Anderson and

Sohal (1999) used the data collected from 62 Australian SMEs, where they used the Australian Quality Award as the framework. They tried to test the differences caused by TQM factors on many performance indicators namely, product/service quality, delivery timeliness, production cost, and delivery flexibility. They revealed that strategy, policy and planning practices, information analysis practices and people management practices were not significantly different throughout the different outcomes. On the other hand, the results showed that leadership practices were greater on products/service quality more than on delivery flexibility.

Literature has followed the trend of categorizing TQM factors into hard and soft factors while exploring TQM and performance relationship. Accordingly, Gadenne and Sharma (2009) explored the hard-soft quality factors relationship with Australian firms performance. They identified six critical factors based on the data collected from the top management of 119 returned questionnaire. Moreover, the six factors in their study include benchmarking and quality measurement, continuous enhancement, top management philosophy, involvement of employee and customer, employee training, and improvement of firm efficiency. Their findings are consistent with the statement that TQM strategy has effective implications on firm performance and hence a combination of hard and soft TQM factors has to be applied to positively influence the overall performance of the firm.

In line with the previous studies, the results generated by Pinho's(2008) analysis confirmed that TQM practices are the major contributors to SMEs' organizational performance. His study used the data collected from 135 Portuguese SMEs in his quest to investigate the direct association between TQM practices and performance of the firms, and the indirect relationship through customer orientation and

innovation. This study, moreover, showed that measuring results, quality assurance system, and top-management training and leadership initiatives factor are among the most influential factors on SMEs' performance. While it was found that innovation and customer orientation significantly impacted the SMEs' performance and innovation respectively, the impact of TQM and Customer orientation on innovation and SMEs' performance was not supported by the results.

Since the global economy has been very much dependent on the promising SMEs' business activity, TQM implementation has been attracting the attention in some of the emergent economies. For example, Lee (2004) carried out an empirical research to investigate how the TQM implementation can affect the performance of Chinese SMEs. Based on the data collected from 112 SMEs, he identified many difficulties in TQM application like lack of resources, lack of knowledge, and the ineffective quality training and poor employee involvement. Despite of the various difficulties in implementing TQM in SMEs, SMEs owners are of the consensus of TQM's significance for business superiority. Additionally, the results revealed a positive association between implementation of TQM and SME's performance.

In relation to that, there are two opposite views regarding the difference in the organizational performance of ISO 9000 certified and non-certified SMEs. On the one hand, the results generated by Sohail and Hoong's(2003) study on 101 Malaysian SMEs shows a significant difference but on the other hand, Rahman's (2001) findings on the bases of data gathered from 250 Australian SMEs confirmed no significance difference.

In the field of organizational design, Garcia-Bernal and Ramiraz-Aleson (2010) examined the relationship between TQM benefits and organizational performance

based on organizational design. Their results showed that TQM when consistent with organizational design postulates can increase the organizational performance benefits of TQM.

#### 3.3.2.3 Total Quality Management and the Performance of Service Organizations

The demand on high quality service increases as the society obtains greater income, more knowledge and maturity (Al-Mansour, 2007). Since its conception in the early 1980s, TQM has added new dimensions to the management practices worldwide. Moreover, the TQM effect on organizational performance has been reinforced by various studies. In addition to this, it has been largely contended that TQM principles, aligned with the contingency model of TQM application, apply to every environment. When applying TQM in the service environment, a modified model with compatible practices should be designed to reap the utmost potential benefits (Al-Mansour, 2007). Furthermore, many researchers (Al-Mansour, 2007, Huq & Stolen, 1998; Prajogo, 2005) focused on behavioral and human-focused TQM factors like customer focus, leadership, empowerment, and involvement, which are cContributing to the literature of TQM in service organizations, some researchers such as Brah, Wong, and Rao (2000), tried to gain insights into the influence of TQM on the firms performance in the Singaporean service sector. On the basis of a literature review, they identified 11 TQM critical factors, according to data gathered from 176 service organizations. The study showed that the improvement in performance can be attributed to customer focus and quality improvement rewards. Moreover, TQM behavioral factors, including support from top management, employees' involvement, empowerment, and training are among the key success factors of TQM implementation.

In relation to that, while Brah, Tee, and Rao (2002) found that intangible TQM factors have strong effect on performance more than that of tangible factors, or have equal importance. Similarly, Brah and Lim (2005) revealed that the actual improvement in organizational performance was mainly attributed to the tangible factor of TQM. These results were obtained from analyzing the data collected from 81 Singaporean logistic firms in an attempt to study the influence of technology as TQM practice on firm performance. The study findings showed a positive association between TQM factors and organizational performance indicating TQM applicability in service industries.

In a similar study, Hasan and Kerr (2003) conducted an empirical study to investigate the influence of TQM practices on the performance of service organizations. They used the data collected from a sample of 400 service organizations to show how performance is affected by different TQM factors. The findings confirmed that top management support and commitment and customer focus are among the most important factors for an effective organizational performance. Another study was carried out by Khan (2011) to study the influence of TQM practices on the service organizations performance. Data was collected from 250 managers working in service organizations in Pakistan .The study found that TQM practices predict performance and urged the decision makers to employ TQM as an organizational strategy to achieve competitive advantage.

Along a similar line of work, Gupta *et al*. (2005) conducted a study concerning quality management in service firms to investigate how organizations can sustain structure for total quality. By integrating SERVQUAL and Deming management model, they proposed a conceptual model to understand the relationship between

sustaining structures and total quality service and customer satisfaction. However, the proposed model linked leadership, organizational culture (OC), and employee commitment with total quality service. The study also provided a framework, where the customer satisfaction-sustaining structures relationship can be evaluated.

In a study conducted by Sit, Ooi, Lin, and Chong (2009), they focused on the TQM practices-customer satisfaction relationship in the context of service organizations in Malaysia. The empirical results generated from the data collected from 140 service organizations revealed that practices including customer focus, leadership, HR focus, and information and analysis all positively influenced customer satisfaction.

In line with that, Yang (2003) tried to study the states of the quality management in the health care industry in Taiwan to gain insights into the extent to which TQM practices can help in solving many operations-related problems. He confirmed that many hospitals have utilized TQM system and obtained substantial and desirable results. He also developed a practical guide to be applied by health care institutes. Another study carried out by Fields and Roman (2010) examined the relationship the use of quality management practices and organizational characteristics of substance abuse treatment centres. Data was gathered from a total of 700 private and public centres. The study revealed that TQM practices were positively associated with providing extensive care and use of evidence-based practices.

In an evaluation concerning the quality management system in a hospital in Yemen, Øvretveit and Al Serouri (2006) concluded that even if the quality management system was not implemented, the results revealed a good compliance of predetermined standards and an improvement in patient satisfaction.

Similarly, Macinati (2008) tried to determine the factors of TQM that are predictors of public health organization's performance in Italy. As for the TQM impact on the healthcare organizational performance, they showed that TQM factors positively associated with performance but not with financial performance.

Alolayyan, Ali ,and Idris (2011) tried to exploring the application of TQM and its influence on operational flexibility in Jordanian hospitals. The result show there is a significant positive relationship between TQM and operational flexibility.

#### 3.3.2.4 TQM Practices between Manufacturing and Service Organizations

TQM strategy is an emerging management philosophy geared to solve many problems. It has disseminated from its origin in manufacturing to cover all types of organizations, including service organizations. The equal applicability and importance of TQM factors in all types of organizations has been confirmed by many researchers including Kaynak (2003) and Sial and Ebrahimpour (2002). Despite the fact that the service sector has been the dominating sector in global economies and each country, the service quality concept has not been well-explored as much as the product quality (Gupta *et al*., 2005). Originally, the concept of quality emanated from engineering-based activities and gained more attention and applicability to encompass all organizational activities. TQM basically stemmed from ideas proposed by Deming, Juran, Crosby, Feigenbaum and Ishikawa. It is a philosophy that is catered to satisfying customers through constant processes of improvement.

Many differences have been provided to differentiate manufacturing firms from service firms. These differences would, significantly, affect the application of TQM factors. Apparently the most notable and clear difference highlighted by Al-Mansour (2007) is the products intangibility in manufacturing firms in comparison to

intangible services produced in service organizations. Because of that, measuring the quality of products against preset-up specifications is much easier than measuring the quality of intangible products that are not as homogeneous and are hence challenging to measure.

In TQM literature, several studies attempted to examine the TQM applicability in the service industries by comparing the results obtained from manufacturing and service firms. For instance, Beaumont, Sohal and Terziovski's (1997) study involved 261 manufacturing firms and 85 service firms. They found that service firms did not utilize as many management quality tools compared to their counterparts. This was compounded by the findings reached by Woon (2000) where 240 Singaporean companies comprised the sample. The study findings revealed that service firms reported lower level of TQM implementation participation, the when it came to hard TQM factors like information and analysis and process management. The study further showed that soft TQM factors were employed by both sectors without significant differences. These two studies advocate that soft TQM factors are more suitable in service organization compared to hard TQM ones.

Consistent with this argument are the results provided by Huq and Stolen (1998) in a their study dedicated to examining the differences in TQM implementation between firms in both sectors (manufacturing and service). The study data was gathered from 18 manufacturing and 18 service firms. They found that manufacturing firms employ the whole TQM dimensions while service organizations are more discerning and more inclined to soft TQM dimensions.

Similarly, in his study dedicated to the TQM in both manufacturing and service organizations in the context of Australia, Prajogo (2005) employed 194 to examine

the differences in light of TQM variables, which are leadership, strategic planning, informational and analysis, customer focus, people management, process management and product quality. The study findings showed no significant differences among the two sectors in terms of these factors. The results showed a significantly higher score in human resource management practices. Apart from that, the study highlighted equal employability of TQM practices in both sectors organizations.

Talib , Rahman, and Qureshi (2013) investigated the relationship between TQM and quality performance in Indian service companies. Based on 172 questionnaires, they found that that 12 TQM practices partially affecting the performance of the company's quality. These practices are leadership, innovation and continuous improvement, human resource management, employee encouragement, communication, customer focus, supplier management, information and analysis, employee involvement, process management, strategic planning, and product and service design.

#### 3.3.2.5 Critical Factors of TQM

Initially, the categorization of TQM practices has been a subject of debate among the researchers(Samson &Terziovski, 1999a). The Malcolm Baldridge National Quality Award (MBNQA) is considered as the extensively used TQM measure (Curkovic, Melnyck, Calantone, & Handfield, 2000; Lee, Rho, & Lee, 2003). On the basis of a literature review of quality management in the service sector firms, some TQM factors were noted to have been examined. Specifically, the TQM critical factors that have been extensively examined, to determine the impact of TQM strategy on firm performance, are listed in Table 3.1.

Table 3.1
*Critical Factors of TQM Strategy*

| Critical Factors of TQM strategy | Studies |
|---|---|
| Management Leadership | Arawati (2005); Brah *et al*.(2000); Kaynak (2003); Khairul Anuar *et al*. (2001); Li *et al*. (2003); Sila and Ebrahimpour (2005); Sureshchander *et al*. (2001) |
| Customer Focus | Arawati (2005); Brah *et al*.(2000); Flynn *et al*. (1994); Khairul Anuar *et al*. (2001); Li *et al*. (2003); Sila and Ebrahimpour (2005); Samson and Terziovski (1999). |
| Strategic Planning | Black and Porter (1996); Li *et al*. (2003); Samson and Terziovski (1999); Sila and Ebrahimpour (2005);Wu *et al*. (1997) |
| Human Resource Management | Ahire *et al*. (1996); Anderson *et al*. (1994); Black and Porter (1996); Brah *et al*.(2000); Deming (1986); Sanchez-Rodriguez and Martinez- Lorente (2004); Saraph *et al*. (1989); Sila and Ebrahimpour (2005); Silvestro (1998) |
| Service Design | Anderson *et al*. (1994); Brah *et al*.(2000); Kaynak (2003); Li *et al*. (2003); Powell (1995); Sureshchander *et al*. (2001) |
| Information and Analysis System | Ahire *et al*. (1996); Anderson and Sohal (1999); Black and Porter (1996); Flynn *et al*. (1994); Kaynak (2003); Khairul Anuar *et al*. (2001); Powell (1995); Saraph *et al*. (1989); Sanchez-Rodriguez and Martinez-Lorente (2004); Sila and Ebrahimpour (2005); Sureshchander *et al*. (2001); Wu *et al*. (1997) |
| Continuous Improvement | Ahire *et al*. (1996); Anderson *et al*. (1994); Arawati (2005); Khairul Anuar *et al*. (2001); Flynn *et al*. (1994); Li *et al*. (2003); Rao (2006); Saraph *et al*. (1989); Sureshchander *et al*. (2001) |
| Benchmarking | Ahire *et al*. (1996); Arawati (2005); Behara and Gundersen (2001); Black and Porter (1996); Brah *et al*.(2000); Powell (1995); Sureshchander *et al*. (2001) |

### 3.3.2.6 Total Quality Management (TQM) in Banks

In the current business environment, banks are constantly urged to adopt TQM and other innovative strategies for many reasons. Some of these reasons are: the need for continuous improvement, the need for efficient use of available resources, the need for improving operational efficiency, the need for improving the decision making process, the need for better understanding of customer needs and requirements, the need for implementing cultural change, and finally the need for utilizing scientific methods for data analysis and problem solving (Peschel, 2008).

The turbulent and uncertain business environment urged banks and financial service industry to stress on enhancing their capabilities and be capable of integrating innovative strategies. The employed innovative strategies can assist banks and financial service providers to generate superior quality products and services that are distinguished from rival offers. Accordingly, banks have to improve business processes to provide superior service.

Current banks and financial services providers have been facing strong competition, which are creating havoc on their development and survival. Hence, these service providers require the adoption of innovative strategies (such as TQM) now as never before to grow or even remain in business especially in the current competitive market (Al-Mansour, 2007).

Bank customers are more significant compared to salesmen promoting products/services. The crucial service marketing role played by customers stems from their credibility to garner new customers and suggest services to their peers. Nevertheless, these customers are very sensitive to the service quality and service delivery and they may conveniently shift to rival services. This calls for the bank to

develop a customer based by employing life-long strategy on the basis of continuous innovative high quality products and services distinct from their rivals.

The TQM strategy is geared towards satisfying customers through ongoing improvements (Kumar *et al*., 2009). Hence, it may assist banks in increasing customer loyalty and satisfaction (Al-Mansour, 2007). More importantly, distinct service quality provided by banks should be primarily based on extensive knowledge concerning customer's needs, requirements and expectations. This knowledge can be collected by banks by developing an environment where in all employees (with middle and top managers) are involved in effective customer-communication. Stated differently, banks' successes are mainly based on marketing researches that determine needs and expectations of customers that ensure customer involvement in service design and evaluation (Al-Mansour, 2007).

In banks, there are some processes and activities that need to be improved in quality such as products and services' processing duration, loans, AMT, credit cards, waiting times and new account, customer complaints, friendliness and efficiency, financial records accuracy and timeliness, customer inquiries response, and direction provided to lost customers.

In the present business marketplace, the quality management in banking industry takes place increasingly (Rana, 2004). Therefore, banks should develop TQM models for their branches' operations to satisfy their internal and external customers. The banks TQM model should drive managers to carry out bank-wide enhancement in the service quality. Moreover, TQM model of commercial branch banking operations should stress how TQM factors can establish the overall integration of all the activities within a bank to ensure the achievement of all organizational objectives. To

ensure a successful TQM initiative, bank experts should concentrate on employee training to inculcate knowledge needed for effective TQM implementation. In addition, TQM implementation may be based on guidelines (e.g. ISO standards) and the entire processes should be assessed and monitored (Al-Mansour, 2007).

#### 3.3.2.7 TQM Practices and Banks Performance

Due to the significance of bank roles in any economy and the hyper- competitive business environment (Naeem *et al*., 2008), increasing trend towards the applicability and feasibility of TQM in financial institution has been noted in literature, particularly banks. This trend is urged by the TQM significance in the competitive marketplace of banks and by the requirement to satisfy quality-conscious customers in the dynamic business environment.

But in TQM literature, only few studies have been conducted to examine the TQM implementation level and its effect on the banks performance (e.g. Al-Marri *et al*., 2007; Al-Mansour, 2007; Bilich & Neto, 2000; Naeem *et al*., 2008; Olabode, 2003; Peschel, 2008).

Specifically, Naeem *et al*. (2008) examined the TQM implementation level among commercial banks in Pakistan and brought forward a practical model. The study results showed that majority of Pakistani banks were at their starting phase in implementing TQM. However, based on the review of the literature conducted, they reached to the conclusion that TQM implementation is often linked with superior level of service quality. Similarly, Olabode (2003) examined the level of TQM practices implementation in Nigerian banks. On the basis of the bank's years of operation, he classified them into three generations and studied one bank each from each classification. He used the data gathered from 75 bank staff, 12 managers, and

300 clients to highlight the differences among the three generations in light of TQM factors of quality personnel, computerization, employees' attitudes, organizational objectives awareness, motivation level, and participation in the processes of decision-making. He concluded that TQM strategy positively related to banks performance. Additionally, the significance of top management for successful TQM initiatives was also highlighted in the study along with the significant role of employees in creating TQM culture to aid the achievement of organizational aims.

In their attempt to identify the TQM critical success factors, Al-Marri *et al*.(2007) carried out an empirical study to use the data collected from 250 banks in the United Arab Emirates (UAE). In their study, they identified sixteen TQM success factors. They are strategy, top management support, continuous enhancement, benchmarking, customer focus, quality department, quality system, HRM, recognition and rewards, analysis of problems, quality technology, service design, employees, service scales, service culture and social responsibility. All these factors were found to be positively linked to the success of TQM and firm performance. TQM strategy was also found to be crucial to banking industry and other service-oriented firms to develop a sustainable competitive advantage.

Along the same line of study, Peschel (2008) investigated the benefits acquired by firms following adoption of TQM. He studied the specific case of Los Alamos National Bank that won the Baldrige Award. He confirmed that the bank, as a result of their quality efforts, had 80% satisfied customers above the national average of 55%. Moreover, the bank had 90% very satisfied employees who received quality training as compared with 8% nationally.

In summary, an extensive research review showed that although studies examined

the impact of TQM practices on organizational performance, only little is known concerning this relationship in the banking environment. Aside from little conceptual work examining the extent to which these practices are being implemented in the banking sector, one can strongly claim that the TQM practices impact on the banks' performance is largely ignored. Hence, the present study aims to contribute to the extant knowledge by investigating the impact of TQM practices upon the performance of organizations, particularly those in the Libyan banking industry.

#### 3.3.2.8 Total Quality Management in the Middle East and the Arab Region

A thorough literature review of quality management revealed that majority of studies dedicated to TQM were carried out in developed countries while those dedicated to developing countries are still lacking (Rao *et al*., 1997) and the Arab region in particular (Dale *et al*., 2001). That is, very little attention has been paid by researchers to carry out empirical research in quality management in developing countries, including Arab and Middle Eastern countries (Al-Khalifa &Aspinwall, 2000).As discussed earlier, Sila and Ebrahimpour (2002) revealed that there is a lack of knowledge related to TQM implementation in the Middle East including Saudi Arabia, UAE, and Qatar which constituted only about 1.7 % of the studies included in their articles reviewed.

In the beginning of the 1990s, some researchers such as Zairi (1996) tried to investigate the challenges faced by organizations in the Middle East in their endeavors to implement TQM strategy. Since then, more focus has been paid by studies to the TQM implementation as a response to the stiff competition resulted from the global business expansion to the Middle Eastern countries (Al-Khalifa & Aspinwall, 2000; Al-Zamany *et al.*, 2002). In the mean time, TQM strategy has been

attracting attention in Africa (Beugre & Offodile, 2001; Temtime & Solomon, 2002; Temtime, 2003).

Although there has been an increasing awareness about the quality management in the context of Middle Eastern countries (Dedhia, 2001), the speed of TQM implementation and adoption was very slow compared to that of the developed countries (Al-Khalifa & Aspinwall, 2000; Chapman & Al-Khawaldeh, 2002; Al-Zamany *et al*., 2002). Practically, in the Middle Eastern countries there were very poor knowledge regarding the productivity, efficiency, and organizational competitiveness implications of TQM strategy implications. However, the adoption of TQM strategies in the Middle Eastern region was driven by the globalization, open global economies, fluctuating oil pieces, and stiff competition from Multi-national organizations offering high quality products and services (Al-Khalifa & Aspinwall, 2000).

One of the first studies related to TQM practices in the Middle East was conducted by Al-Khalifa and Aspinwall (2000) in Qatar. In their study they tried to reflect the level of TQM implementation in Qatari organizations. However, they found that TQM implementation has been facing major challenges such lack of required information, commitment of top management, and lack of quality education and training. Another study in context of Qatar carried by Salaheldin (2008) tried to identify the critical success factors of TQM implementation . The study result confirm the positive effect of TQM implemation on organizational performance of the SMEs in Qatar.

Contributing to the TQM implementation in the Middle Eastern countries, other studies were conducted by Chapman and Al-Khawaldeh (2002) in Jordan, Al-

Zamany *et al*. (2002) in Yemen, and Curry and Kadasah (2002) , Alhwairini and Foley (2012) in the context of Saudi Arabia. While Chapman and Al-Khawaldeh (2002) investigated the TQM implementation-Jordanian manufacturing firms in terms of labor productivity, Al-Zamany *et al*. (2002) and Curry and Kadasah (2002) explored the problems facing TQM implementation and key TQM factors in Yemen and Saudi Arabia respectively.

Based on the previous studies, the findings of Chapman and Al-Khawaldeh's (2002) study, labor productivity in companies with high TQM implementation was found to be very high compared to that of low TQM implementation companies. On the other hand, the result of the Al-Zamany *et al*.'s (2002) case study confirmed that lack of TQM understanding, government support, and lack of supporting culture in the organization were revealed to be the major barriers of Yemeni firms TQM implementation. Similarly, in Saudi Arabia, Curry and Kadasah (2002) revealed an in-depth understanding that the TQM concept and philosophy is significant for the TQM successful implementation , Alhwairini and Foley (2012) the study examin TQM critical success factors in not-for- profit organization.

In the same research direction, Salaheldin (2003) tried to investigate the TQM implementation challenging and supporting factors based on the data collected from 84 Egyptian manufacturing firms. The findings of this study revealed that TQM implementation in Egypt has been facing the same challenges as in other developing countries. The main challenges are the lack of top management commitment support, training, resources, and the resistance to change.

In Libyan context  study carried by Abusa and Gibson (2013) showed the level of TQM implementation among Libyan manufacturing firms and evaluated the effect of

ISO 9000, and the company size upon implementation. Their findings showed that Libyan firms are struggling to employ TQM and no significant difference has been found between TQM elements throughout ISO and non-ISO certified firms. They also revealed no significant difference between SMEs and large companies. Another study condect by Shibani (2012).The study tried to investigate the factors influencing successful of TQM implementation in the Libyan construction industries. The findings of the study revealed that TQM implementation has been facing diffecilty such lack of knowledge of QM and lack of management commitment. Along the same line of study, Shibani , Saidani , and Gherbal (2012) tried to examines the obstacle that contribute to prevent implementation of TQM in Libyan organisations who use the ISO9000 system. The study result shows that Libyan industries have difficulty in implementing TQM .The top two barriers were found to be a lack of benchmarking and employee's resistance to change.

TQM studies conducted around the globe primarily aim to implement TQM successfully in manufacturing as well as service firms. Despite the growing attention paid by researchers to TQM strategy, the available relevant literature in developing countries have been scattered, scarce, and mainly conceptual or case study-based, unlike the detailed and empirical literature of TQM strategy in Japan, US, and European countries (Djerdjour & Patel, 2000; Krasachol & Tannock, 1999). Therefore, the studies conducted in other developing and newly industrialized countries can provide an avenue for TQM implementation research.

**3.3.2.9 Deficiencies in the above Studies**

In fact, TQM concept is relatively new to the Arab countries. Hence, the key components and TQM practice implementation processes and their management have been largely unexplored. In addition, the majority of studies in the Arab region

related to TQM practices were conceptual and descriptive in nature reflecting the lack of empirical studies examining the TQM implications on organizational performance.

Furthermore, the present study adds to TQM literature by shedding a light on TQM practices and performance implications in the context of Arab countries which are believed to have different cultural, social, and economic environments. Additionally, prior studies examining the implementation of TQM in the banking industry are few and far between and what few studies exist, lack the systematic empirical evidences exploring the TQM strategy and banks' performance relationship.

Thus, this study is one of the first attempts to understand TQM practices in the Arab region; moreover, it is believed there is a scarcity of research done to study the effectiveness of the banking sector's TQM. The present study is expected to enrich the global theory of quality management through the implementation of TQM strategy in the notion promoted by resource-based view theory, organizational change theory and congruence model.

To shed more light on the past literature dedicated to the entrepreneurial orientation variable, details are provided in the following sections.

## 3.4 Entrepreneurship Orientation

### 3.4.1 Introduction to Entrepreneurship

Prior literature paid great attention to the field of entrepreneurship to extend the knowledge through many academic journals, bulk of literature, and the emergence of Entrepreneurship departments in schools of management(Davis, 2007). Furthermore, there has been a growing and deep discussion concerning the entrepreneurship concept among academics according to various theoretical bases (Hisrich & Peters,

2002). Hence, several researchers proposed different definitions of the concept on the basis of the way they perceived its role (Vesper, 1980). As such, no consensus has been reached concerning the concept of entrepreneurship in literature (Davidsson, 2003).

### 3.4.2 Entrepreneurship Definition

As previously mentioned, several definitions have been proposed for the concept of entrepreneurship. For instance, Hitt, Ireland, Camp and Sexton (2001) referred to entrepreneurship as the "identification and exploitation of previously unexploited opportunities" while George and Zahra (2002) defined entrepreneurship as the societal, organizational and individuals identification and pursuant of business opportunities for wealth creation. Similarly, Eckhardt and Shane (2003) described entrepreneurship as "the discovery, evaluation, and exploitation of the future goods and services." However, it is evident that in the above definitions, the opportunity recognition is the main element. Similarly, the concept was defined by Churchill (1992) as the process of creating values by developing and uncovering opportunities through taking the advantage of opportunities without regard to human and capital resources.

In addition, some researchers distinguished between the entrepreneurship as a content and entrepreneurial orientation as a process in the following way;

### 3.4.3 The Degree of Entrepreneurship

In the ever-changing business environment today, organizations and individuals tend to differentiate themselves from others through their engagement in the Entrepreneurial processes (Certo ,Moss & Short, 2009). In differentiating organizations based on their involvement in entrepreneurship, Cooper and

Dunkelberg (1986) evaluated the organizational involvement in entrepreneurship by using the term of degree of entrepreneurship.

Moreover, different researchers identified different factors influencing the degree of entrepreneurship of an organization. Verheul, Uhlaner, and Thurik (2005) assumed that some factors can enhance the degree of entrepreneurship of an organization. These factors include taking risks (Begley, 1995; Stewart & Roth, 2001), proactiveness, opportunity recognition, creativity and innovation(Covin & Miles, 1999; Jennings & Young, 1990; Torrance, 1962), and autonomy(Lumpkin & Dess, 1996).

### 3.4.4 Entrepreneurial Orientation (EO)

A significant bulk of research has been dedicated to entrepreneurship's entrepreneurial orientation. There is a consensus regarding the benefits that EO provides but there are also many schools upon which the concept is defined (Davis, 2007). In this regard, Lumpkin and Dess (1996) defined EO as the set of practices of the organization that reflects their approach through the criteria entailed in processes and decision making. In the same way, Covin *et al*. (2006) defined it as the construct that reflects the company's entrepreneurial abilities.

Moreover, several researchers attempted to determine some of these organization's characteristics in their attempt to contribute to the development of EO. Miller and Friesen (1982) highlighted some characteristics including the organization's differentiation over its competitors, growth rate, and the knowledge level of the organizational strategies (Miller & Friesen, 1982). Frank, Kessler, and Fink (2010) defined EO as an organizational strategic orientation of grasping the specific entrepreneurial aspects of practices, methods, and decision making.

### 3.4.5 Dimensions of Entrepreneurial Orientation (EO)

Several researches have been dedicated to the EO development via five dimensions; innovativeness, proactivness, risk-taking, autonomy and competitive aggressiveness. These dimensions work independently and in combination but a superior combination could lead to the company's excellent status (Morris & Sexton, 1996).

A review of prior literature showed that EO had three research streams. First, the investigation of factors that reflect the existence of high EO level in the organization (Zahra, 1991) and second, the attention paid to the EO influence upon the performance of the organization ( Garvis, 2000). Finally, the third stream of research has been trying to explore the variables that may influence the EO and organizational performance relationship. That is being done through studying the moderation effect of some influencing variables such as organizational culture (OC) and other environmental and organizational variables(Covin, Green, &Slevin, 2006).

In Davis (2007) seminal research regarding entrepreneurship, a debate concerning its dimensionality was highlighted.

Apart from that, competitive aggressiveness and autonomy as EO dimensions were emphasized by some other researchers. The former is described as the responses of the firm towards dynamic trends in the market (Lumpkin & Dess, 2001) whereas the latter is described as the independence of actions of individuals/organization in the process of transforming ideas into action (Lumpkin & Dess, 1996).

Although considerable studies supported the inclusion of the above two dimensions in EO construct, only a few studies considered them (Davis, 2007). Along the same way, the present research is not including them. The proceeding sections discuss the

definitions and background of innovativeness, proactiveness, and risk taking as EO dimensions.

#### 3.4.5.1 Innovativeness

Innovativeness is the company's inclination to involve itself in new ideas development and creative processes which results in new products, services and technological development (Lumpkin & Dess, 1996).

The earlier research dedicated to the concept of innovativeness concentrated on the organization's ability to launch new products and services (Kimberly, 1981). The definition of innovation was later expanded by Knight (1997) to include the entire activities performed by the organizations in its attempt to creative solutions to challenges in developing new products and services. Moreover, innovativeness encapsulates the entire managerial and administrative activities and technological processes of the firm.

In this context, Certo *et al*. (2009) claimed that innovation may be incremental or radical, to develop present features or to launch improvements to products or services, or to launch new products and services to satisfy the customer' demands that are ever-changing.

Hitt, Hoskisson and Nixon (1993) differentiated between innovativeness and inventiveness by referring to inventiveness as the first part of innovativeness – it is the inclination of the company to launch and support new ideas, products and services through creative processes and effective experimentations. Inventiveness will be useless to the company if it without potential opportunities for successful introduction or application. Hence, the firms should support inventiveness activities for where the perceived opportunities of applications or commercialization will lead

to new values creation for customers and enhanced company strategy position in the marketplace.

On the other hand, innovativeness is described by scholars as the main core to successful entrepreneurial organization (Bruder & Preisendorfer, 2000; Drucker, 1985). There are two innovation models provided in literature namely, the conservative model and the entrepreneurial model proposed by Miller and Friesen (1982). Different organizations adopt these models based on their types. While the conservative model is employed by an organization to reinforce its original position in a competitive and uncertain market, the entrepreneurial model is employed by an organization as an element of competitive advantage over its competitors, regardless of the environmental dynamics or uncertainty.

Several researchers also attempted to differentiate between innovation types according to the field of innovation activities (e.g. product and market-related innovation consisting of product design and marketing activities, and technological innovation). Owing to the close relationships between these innovation types, it is quite challenging to follow strict differentiation (Lumpkin & Dess, 1996).

In relation to that, the innovativeness increases probability that an organization will recognize the first-mover advantages (Wiklund, 1999) and generate exceptional

economic performance (Brown & Eisenhardt, 1998). Moreover, innovativeness has become the most important factor that used to characterize entrepreneurship. Thus, some writers pointed out that innovativeness as the major among all the entrepreneurial profile traits, and therefore argued that the value creation if the essential role of entrepreneurs (Sharma & Dave, 2011).

Furthermore, innovativeness significantly contributes to the growth and profitability of entrepreneurial organizations (Covin & Wales, 2010; Covin & Miles, 1999) and explains organizational cultural readiness and innovation realization (Hurley, Hult, & Knight, 2005).

#### 3.4.5.2 Proactiveness

Proactiveness is described as the organization's intensity for future market needs and opportunities anticipation which may or not be aligned with its operations to launch products/services for customer satisfaction and changing requirements (Venkataraman, 1989). Proactiveness refers to the organization's willingness and ability to anticipate the new development as early as possible to be the first-mover against competitors, rather than waiting for emerging new development and then react to them (Frank, Kessler, & Fink, 2010). Proactive organizations are organizations that are always pioneers in entering new markets or they are first followers to create and enhance products/services of the first movers (Davis, 2007).

Several studies have been noted in literature to stress on the importance of the speed of the firm's reactions to the opportunities' availability, and the importance of the company's ability to take advantage of opportunities involving new products and services (Miller & Friesen, 1982). Some researchers have also stressed on the advantages of firms-movers as the main elements of proactiveness (Davis, 2007; Miller, 1983).

The pioneering definitions of the proactiveness construct appear to be confusing as it differentiated between proactiveness and competitive aggressiveness. It is evident that while competitive aggressiveness is the way a firm responds to the new demand trends and the changing needs of customers (Lumpkin & Dess, 1996), proactiveness

refers to the way the company is involved in new business opportunities. In the past research, proactiveness has been used by researchers over a period of time to refer to the organization that is fast pioneer and innovator in introducing and marketing new services and products (Kraus & Kauranen, 2009). In other words, a proactive organization is a leader rather than a follower (Sharma & Dave, 2011), has high levels of commitment, performance, and imagination (Caruana *et al*., 2002).

#### 3.4.5.3 Risk-taking

The entrepreneur's inclination to accept risk is a critical factor of EO construct (Davis, 2007). Both the entrepreneur's attitude and behavior towards risk-taking is the major factor that distinguishes him/her from other individuals working in the organization. Risk-taking refers to the inclination of an individual to take resource commitments (Miller & Friesen, 1978). Risk taking is often used to describe the uncertainty as a result of behaving entrepreneurially (Kraus *et al*., 2012).

Three categories of risks were identified by Baird and Thomas (1985); they are the risk debt taken to start the business, significant commitment of resources into a certain investment, and exploring unknown business areas. Additionally, risk taking is an important factor of EO and usually used to explain entrepreneurship (Osman, Rashid, Ahmed, & Hussain, 2011).

### 3.4.6 Entrepreneurial Orientation (EO) in the Libyan Banking Industry

The literature review shows that EO's dimensions are banks innovativeness, banks proactiveness, and their risk-readiness, which are all significant for organizational competitiveness. This is because they are the core of the banks flexibility that enables them to get along in a dynamic business environment, and are the main

success factors that affect their performance (Covin & Miles, 1999; Covin & Slevin, 1991; Zahra & Covin, 1995).

In addition to this, the current marketplace has been characterized to be increasing competitive and dramatically changing with critical and uncertain customers' needs and expectations, particularly in the face of technology revolution. Given this circumstances, to survive and grow, banks will have to create a competitive advantage through enhancing their capabilities and keeping their technologies updated (Lumpkin & Dess, 1996). More importantly, the adoption of new and innovative technology will enable banks to have supreme distinct processes that will improve their activities, produce novel products and eventually, attract potential customers. In the context of Libya, although majority of bank's managers are educated abroad, they have limited entrepreneurial innovativeness, proactiveness, and risk taking process are confined owing to their aversion to risk.

### 3.4.7 The relationship between Entrepreneurial Orientation (EO) and Organizational Performance

The EO and organizational performance relationship has been widely examined by authors. Several studies included three main EO dimensions namely innovativeness, proactiveness and risk-taking. For another viewpoint, Lumpkin and Dess (1996, 2001) claimed that EO is best explained by five dimensions with competitive aggressiveness and autonomy added to the above three.

The relationship between entrepreneurial orientation and organizational performance at the infancy phase was conducted by Hughes and Morgan (2007) with young high-tech firms as their study sample. Specifically, their sample comprised of 1000 new high-tech firms from the UK and they adopted the framework proposed by Lumpkin and Dess (1996) (with five EO dimensions). They found proactiveness and

innovativeness to be positively linked to business performance at the infancy phase and risk-taking to be negatively linked to performance. Both competitive aggressiveness and autonomy failed to reveal any relationship.

As innovation forms one of the basis of entrepreneurship field (Avlonitis & Salavou, 2007), extensive research has been conducted to examine its impact on organizational performance. Increasing attention has also been paid by studies to determine its antecedents. From another point of view, Garcia-Morales, Liorens-Montes and Verdu-Jover (2007) examined the association between personal mastery and the performance of the organization via organizational learning and innovation. They gathered data from 410 Spanish firms and employed confirmatory factor analysis. They revealed a positive direct and indirect association between personal mastery and performance via organizational learning and innovation. A positive association was also found between innovation and performance. They concluded that organizational learning influenced performance (directly and indirectly) through organizational innovation.

In their attempt to clarify the relationship between EO, market orientation and organizational performance, Todorovic and Ma (2008) studied the role of culture on it. Specifically, they examined the correlation nature between EO and market orientation and its impact on the performance of the organization. They conducted an analysis of literature dedicated to OE and MO with the help of Hofstede's (2001) study. Their study involved five countries with the highest GDP and five with the lowest. They showed the entrepreneurial organizations in collectivist societies deal with lean resource environments and concluded that the EO or MO influence on performance fluctuates.

Along the same line, Li *et al*. (2009) focused on the EO-performance relationship through data gathered from 165 Taiwanese entrepreneurs in securities and future institutions. They examined the mediating role of the process of knowledge creation. On the basis of their results, they confirmed the positive association between EO and organizational performance. Moreover, the process of knowledge creation significantly mediated the EO-performance relationship.

Furthermore, Avlonitis and Salavou (2007) identified EO profiles of Greek SMEs to demonstrate the dimensions of product innovativeness of different potentials of performance. Their data was taken from 149 manufacturing firms, with two opposite groups identified namely active and passive entrepreneurs. They showed that the two groups comprised of new products innovators. They also found that the entrepreneurial attitudes inculcated in the group of active entrepreneurs are reflected in new products.

Similarly, Antoncic and Prodan (2008) confirmed the significance of EO by stating that corporate entrepreneurship is significant for the performance of the organization. They attempted to create a corporate, technological and entrepreneurial model that is alliance-driven and examine its influence on performance. Their sample from which they collected data from comprised of 226 Slovenian manufacturing firms. They revealed that strategic alliance involvement is quite effective on corporate technology entrepreneurship, and consequently on firm performance.

Additionally, Keh, Nguyen and Ng (2007) examined the EO and marketing information effects on Singaporean SMEs. They highlighted EO's influential role on acquiring information and using marketing information and eventually, organizational performance. They also revealed that the employment of marketing

information influences the performance of the firm and partially mediates the relationship between EO and organizational performance.

Although research dedicated to entrepreneurship is robust, most of the results found concerning EO-organizational relationship are inconsistent. Academics and practitioners alike are in doubt as to the EO's appropriateness for organizational effectiveness (Li, Huang, & Tsai, 2009; Wiklund & Shepherd, 2005). Specifically, Wiklund and Shepherd (2005) claimed that other factors could impact the EO-organizational performance relationship that should be extensively examined.

In the context of the banking industry, business is rife with innovation and risk tolerance and is interesting that the effect of EO on banks on bank's performance has been largely ignored and until recently, there has been a gap in research dedicated to the EO-organizational relationship in the context of banks, particularly in the developing countries with distinct cultural practices.

The study by Arief, *et al*. (2013) supported the previous findings that entrepreneurial orientation and performance relationship was found to be positive. A1 - Dhaafri and A1 - Swidi (2014) in their study on the entrepreneurial orientation and organizational performance. The finding of the study showed entrepreneurial orientation has a significant and positive association with organizational performance. Shukri Bakar and Mahmood (2014) reported significant and positive relationship between corporate entrepreneurship and performance of academic public higher education in Malaysia.

### 3.4.8 The Integration between TQM and Entrepreneurial Orientation (EO)

Day (1994) contended that the implementation of TQM practices in banks improves its customer-orientation capabilities as the purpose behind TQM strategy is to bring about customer satisfaction through ongoing improvement of the organizational activities. In fact, the present global business environment is characterized by dynamic globalization, liberalized market, ever-changing technologies and customer's demands.

According to prior management literature, banks have faced numerous challenges especially in the face of the current global environment. First, the banking sector is characterized by aggressive competition stemming from the increasing number of banks located in the same environment and catering to the same customer base. This competition is even compounded by the fact that banks produce almost identical products and services (Li *et al*., 2001).

Second, the current business environment is rife with ever-changing customer demands urged by technological advancements. New generations of customers are more knowledgeable, aware of rights, and they are more able to express their views if they are not satisfied with the firm's products and services. Hence, customers demand for highly innovative and superior quality products and services that are equipped with the up-to-date technological features (Li *et al*., 2001).

Several researchers noted the quick and fast changes in the societies throughout the world. Additionally, they stressed on the knowledge-based societies, where quality in itself is insufficient to attract potential customers. In fact the basis of sustainable competitive advantage, in the current technologica era, has shifted from quality to innovation that goes over customer's expectations and geared to gain their loyalty

(Hoang, Igel, & Laosirihongthong, 2006). It is therefore suggested that TQM adoption and entrepreneurial orientation can be the source of competitive advantage for banks for their survival and prosperity.

The above challenges urge banks and other firms to employ innovation and quality strategies to realize superior strategic position (Feng, Prajogo, Tan & Sohal, 2006). On the basis of the resource-based view of the firm (RBV), TQM practices and EO can be deemed as the organization's intangible resources and capabilities that are inimitable by rivals.

Stated differently, TQM and EO can be considered as intangible resources and capabilities owing to their key role in the changing culture of the organization and their nature of inimitability. Hence, banks are encouraged to adopt strategic orientation through economic and technological factor to develop competitive advantage. Choi and Valikangas (2001) also argued that TQM strategy, as an important strategy, cannot create sustainable competitive advantage if not combined with other innovative strategies.

Despite the many studies that have examined the TQM practices and EO's effect upon organizational performance, studies focused on the performance implications of the integrated effect of both are still lacking. As a result, there is a scarcity of empirical studies have examined the combined TQM and EO's effect on the performance of the organization. In addition to this, in the context of banks, they have to be capable of creating customer values by establishing a combination of TQM practices and EO behaviors (Slater & Narver, 1995; Lai, 2003). Thus, the present study is an attempt to bridge the gap in literature by examining the combined effect of TQM and EO in clarifying the variance in organizational performance.

Because market orientation is important to every organization strategy implementation, the proceeding sections are dedicated to the literature review of relevant MO and its effect on organizational performance.

Due to the importance of market orientation (MO) in any organizational strategy implementation, the following sections were devoted to review the literature relevant to the MO and its impact on organizational performance.

## 3.5 Market Orientation (MO)

### 3.5.1 Market Orientation Definition

MO is reported to be a major source of competition in many managements and marketing researches (Shehu & Mahmood, 2014). In the modern business environment, competition among the business firms has reached an extraordinary level and obtaining bearable competitive advantage has become a key to survival for most of the firms. (Kelson, 2012; Wilson, Pereprlkin, Zhang & Vachon, 2014). Market orientation also provides an organization with a strategy and is a vital approach to understanding markets (Morgan, Vorhies& Mason, 2009). It is stated that MO provides better understanding of the environment, and business that adopts Market orientation adequately meets the customer needs in a better way (Grainer & Padanyi, 2005).

Theorists in the field of marketing have addressed market orientation for decades (Wrenn, 1997). The concept has been utilized to describe the marketing concept implementation which postulates that a firm should satisfy the customer's long-term needs (Anderson 1982) and that for a firm to be successful, it should be driven by customer-orientation (Howard, 1983).

The proposed operational definitions of marketing orientation arose in the early 1990s. The concept has been described by Kohli and Jaworski (1990) as a set of behaviors and activities in the organization. Specifically, they defined it as the organization-wide production of market intelligence that concerns the current and future needs (customer philosophy), dissemination of this intelligence throughout departments (integrated marketing organization), and organization-wide responsiveness towards it (goal achievement). The above definition covers activities that concern collection of information concerning customer needs and acting on them.

On the other hand, Narver and Slater (1990) described it as consisting of three behavioral components and addressing customers and competitors. According to them, market orientation comprises of customer orientation, competitor orientation and inter-functional coordination. The former two covers the activities involved in collecting information regarding the buyer and competitors in the target market and disseminating it across the business while the latter has its basis on customer and competitor information and consists of the coordinated efforts of business that involves more than marketing in the hopes of creating optimum value for buyers. The above definition pertains to comprehending the target market, competition and coordinated use of company resources to develop great customer value (Day, 1994). Narver and Slater (1990) further added that market orientation is organizational culture that creates behaviors in an effective and efficient manner. The same authors published an article stating that a market orientation is the culture that prioritizes the interests of the major stakeholders, and provides norms for behavior concerning the organizational development and responsiveness to market information (Slater & Narver, 1995). In addition, a market-oriented culture reinforces the value of superior

market intelligence and the requirement of functionally coordinated actions focused on obtaining competitive advantage (Day, 1994). Hence, market orientation can be viewed from a greater more strategic point of view (Uncles, 2000).

The above two definitions have been the topic of most discussions where some researchers tried to synthesize them – for instance, Deng and Dart (1994) describes market orientation as the production of suitable market intelligence regarding current and future customer needs, and the relevant abilities of competitive entities to satisfy these needs, the dissemination and integration of this intelligence throughout departments and the coordinated design and execution of the strategic reaction to market opportunities. According to Cadogan and Diamantopoulos (1995), a great level of overlap lies between the two definitions two levels (conceptual and operational level). Similarly, Deshpande and Farley (1998) described market orientation as a group of cross-functional process and activities geared towards the creation and satisfaction of customers via ongoing needs-assessment. This indicates that the backbone of market orientation comprises of ongoing development of optimum customer value (Narver & Slater, 1998).

### 3.5.2 Dimensions of Market Orientation

Market orientation is the level to which firm behavior is according to the marketing concept (Kohli & Jaworski, 1990). More importantly, MO has been studied from the behavioral perspective as well as from a cultural one (Homburg & Pflesser, 2000). From the latter perspective, MO is considered as the organizational culture that effectively and efficiently develops the required behaviors in order to create optimum value for buyers and hence, ongoing optimum business performance (Narver & Slater, 1990). There are three MO components highlighted from this perspective – customer orientation, competitor orientation and inter-functional coordination.

Customer orientation refers to the beliefs that are customer-centered (Deshpanda *et al*., 1993) and it needs a great understanding of the creation of the creation of superior products and services (Narver & Slater, 1990). On the other hand, competitor orientation needs the understanding of the firm's strengths, weaknesses, capabilities and strategies of competitors that are actively involved in collecting information regarding existing and future competitors (Deshpanda *et al*., 1993; Narver & Slater, 1990). Finally, inter-functional coordination refers to the coordinated use of the firm resources in the creation of optimum value for customers (Narver & Slater, 1990).

On the other hand, from the behavioral point of view, MO is described as consisting of a three dimensions ,namely intelligence generation, intelligence dissemination and responsiveness (Kohli, 1993; Kohli & Jaworski, 1990). Market intelligence covers the needs and preferences of customers and an analysis of exogenous factors that impact them (Kohli & Jaworski, 1990). Second, departments in the organization should coordinate and contribute to reacting to market needs (intelligence dissemination). Third, responsiveness is described as the actions adopted in reaction to the generation and dissemination of the intelligence. The two conceptualizations of MO (behavioral and cultural) are consistent to each other. Both consider MO as comprising of three components namely customer, competitor and inter-functional departments.

### 3.5.3 Market Orientation and Business Performance

Several empirical studies have been dedicated to examining the MO-organizational performance relationship (e.g. Alizadeh, Alipour & Hasanzadah, 2013; Hartano, 2013; Jaiyeoba, 2014; Kelson, 2012; Ogbonna & Ogwu, 2013; Daud, Remli &

Muhammad, 2013; Shah & Dubey, 2013; Webster, Hammond & Rothwell, 2014; Mokhtar, Yusoff & Ahmad, 2014).

Alizadeh, Alipour and Hasanzadah (2013) conducted study to examine the relationship between market orientation and business performance in SMEs of Iran. Their results show positive relationship between market orientation dimensions and the performance. Another study conducted by Hartano (2013) indicated a positive and significant association between market orientation and organizational performance in Indonesia.

Similarly, Jaiyeoba (2014) investigated the direct relationship between market orientation and firm performance in Botswana's service firm. He found that positive relationship between MO and OP. In the same line of research Kelson (2012) examined the relationship between market orientation, and organizational performance in Ghana .His finding support the relationship between these variables. In a related study, Ogbonna & Ogwu (2013) support the positive relationship between market orientation and performance of insurance companies in Nigeria.

In context of Malaysia Daud, Remli & Muhammad (2013) they investigated the effect of market orientation on organizational performance in Takaful in Malaysia. The result indicates that organizational performance has a positive and significant with market orientation. In United Arab Emirates Shah and Dubey (2013) examined the impact of market orientation on financial institutions. The finding from their study indicated a positive association between them.

Webster, Hammond and Rothwell (2014) stated a positive association between market orientation and performance of business schools in Unite state.

#### 3.5.3.1 Market Orientation and Business Performance of SMEs

A considerable portion of literature carried out an examination of MO and SMEs performance. Among them, Matanda and Ndubisi's (2009) study examined whether or not supplier market orientation results in the development of optimum supplier perceived value and firm performance. They proceeded to test their model via structural equation modeling among 244 Sub-Saharan Africa fresh produce suppliers. According to their finding, customer orientation improves supplier perceived value creation whereas both competitor orientation and inter-functional were negatively related to it.

Also, Suliyanto and Rahab (2012) conducted a study to investigate the relationship between market orientation, learning orientation, entrepreneurial orientation and innovativeness and organizational performance. They collected data from 150 Indonesian SMEs. Based on their results, innovativeness impact performance, market orientation supports learning orientation and innovativeness while market information regarding customers and competitors assist firms in keeping abreast of market changes. Therefore, firms should have learning capabilities and employee's identity along with a mission for superior competitive advantages and business performance.

Furthermore, Davis, Babakus, Englis and Pett (2010) examined the impact of CEO gender on market orientation and performance in 155 U.S. SMEs. They showed that gender significantly and indirectly impacts market performance through market orientation and financial performance.

In a related study, Ledwith and O'Dwyer's (2009) study proposed a model that relates MO, new product performance and organizational performance in SMEs. The

model was examined through data gathered from 106 Irish SMEs. The finding revealed a strong relationship between MO, new product performance and organizational performance.

Chao and Spillan (2010) contributed to MO and organizational performance literature with their study that investigated the association between the two constructs in the context of U.S. and Taiwanese SMEs. The participants to their study included owners/managers of 138 SMEs in three U.S. states (Maryland, New York and Pennsylvania) and 151 Taiwanese SMEs. Their study showed that neither the U.S. or Taiwanese SMEs intelligence generation nor dissemination significantly related to their performance.

#### 3.5.3.2 Market Orientation and Business Performance of Service Organization

Some researchers who dedicated their work to the MO-organizational performance relationship included Lonial, Tarim, Tatoglu and Zaim (2008) . They contributed to this field of literature by examining the critical factors of MO and measuring their impact on development of new service and financial performance in the Turkish hospital industry. The study drew on self-administered questionnaires to collect data from a sample comprising of privately-owned general hospitals in Istanbul, Turkey. On the basis of the study's theoretical considerations, the authors developed a model to identify the interconnections among MO, new service development - performance and financial performance.

Rodrigues and Pinho (2010) conducted a study to investigate the effect of MO on employee's job related attitudes namely job satisfaction and organizational commitment (OC) and organizational performance (OP). Their finding showed that

internal marketing implementation significantly impacted the market-oriented behaviors in a positive way.

In a related study, Ramayah, Samat and Lo (2011) examined the effect of market orientation on job-related attitudes and organizational performance in Malaysia. Specifically, they examined the association among MO, service quality and their effect on organizational performance. For data collection, they distributed 175 structured questionnaires to managers working in service sector. They showed that MO significantly impacts OP as well as service quality and service quality significantly impacts organizational performance. It is interesting to note that their findings also revealed that service quality partially mediated the MO-organizational performance relationship.

In the context of Bangladesh, Zebal and Goodwin's (2011) study explored MO among private universities. They aimed to examine the MO-business performance relationship and collected data from business and non-business school members of 15 private universities. The questionnaire included four performance measures namely market share, teaching and service quality, student growth and overall performance. The results showed that all four measures significantly and positively associated with MO in the universities.

Similarly, in Malaysia, Lam and Boon Ooi (2012) examined the interaction between TQM, MO, and SQ in the service sector. Data collected from 150 service organizations and employed the SEM to examine the associations. The results evidenced that TQM, MO and service quality were positively related. MO was also found to relate with service quality in a significant way.

In Ghana, Mahmoud and Yusif (2012) studied the impact of MO and learning orientation adoption on nonprofit organizations- performance. Date was collected from 118 Ghanaian NPOs to test their theory. They fund that MO and NPO are significantly related.

Consistent with prior studies, Morgan, Vorhies, and Mason (2009) examined the possession of MO and marketing capabilities in the marketplace. The finding showed that, MO directly impacts the firm's ROA and marketing capabilities directly impact ROA.

In Pakistan, Zaman, Javaid, Arshad and Bibi (2012) investigated the effect of internal marketing on commercial banks' organizational commitment, MO and business performance. They collected data from 12 commercial banks in the country. They found that internal marketing programs significantly affected employee's commitment, their MO and overall firm profitability. Additionally, they also found that organizational commitment did not mediate the internal marketing and MO relationship.

Similarly, Subramanian and Strandholm's (2009) study investigated certain ways in which MO of an organization assists in the formation of organizational competencies that eventually leads to superior performance. Data was collected from 159 acute care hospitals through a survey and analyzed to test the study hypotheses. MO was found to significantly contribute to the formation of numerous organizational competencies, which eventually results in superior performance specifically in cost containment, revenue growth, success in patients' retention and new services success.

Finally, Gudlaugsson and Schalk (2012) examined the impact of MO on OP and determined the reason behind the collapse of Iceland's commercial banks. The study aimed to measure the banks' organizational culture and the degree of MO. They used a instrument based on the Denison Model of Organizational Culture Survey (DOCS). Their findings revealed that Iceland's banks are profit-oriented which explains their low score on certain dimensions.

#### 3.5.3.3 Market Orientation and Business Performance of Manufacturing Organization

Literature also addressed the relationship between MO and the performance of manufacturing organizations. In particular, Green Jr., McGaughey and Case (2006) carried out a study to investigate the relationship between market orientation, supply chain management (SCM), and organizational success. Accordingly, they conducted a survey among 484 sales managers from U.S. manufacturers to gather data .They examined a total of five hypotheses via the structural equation modeling. The model revealed that a manufacturing firm's SCM strategy is a mediator in its MO-success relationship. In another study, Singh (2009) brought forward, two methods through which MO and outsourcing build capability enhance business performance. He employed data gathered from foreign and Indian companies and revealed that both MO and outsourcing contributed to building capabilities and that outsourcing helps in improving business performance. These results indicated that MO and outsourcing can complement each other in building capability, enhancing business performance and managing risky environmental conditions.

Along the same caliber of research Green Jr., Inman and Willis (2005) identified and resolved inconsistencies in the literature by using SEM to examine new data gathered from 173 U.S. organizations. Among the structural dimensions examined (i.e.

formalization, specialization, decentralization and integration), only formalization was revealed to positively predict MO. Additionally, MO was revealed to positively predict financial as well as marketing performance. Along a similar line of research, Farrell, Oczkowski and Kharabsheh (2008) conducted a study to determine whether or not a firm in IJV should concentrate more on learning orientation or market orientation. They surveyed 168 senior managers involved in IJV in the context of Malaysia. According to their results, an MO has a more positive effect on organizational performance as opposed to learning orientation. Specifically, the non-linear relationship between MO and performance indicates that larger benefits in performance are driven by firms who possess low initial levels of MO, indicating that it is more preferable for the firm in an IJV to have a strong MO. As for the practical implications of the study, firms are urged to focus on enhancing their overall level of MO if they are desirous of improving their business performance.

Furthermore, Langerak, Hultink and Robben (2007) examined the new product development activities and MO culture and their impact on superior organizational performance via superior new product performance. Their sample involved 475 Dutch manufacturing firms. Their findings revealed a better insight into the manner in which market-oriented culture results in optimum organizational performance.

Similarly, Zhou, Juan, Zhou and Chenting's (2006) study examined the MO process that impact performance with the help of a cross-level method. They surveyed 2754 employees working in 180 Chinese firms. The results showed that organizational-level MO culture results in unit-level MO behavior, which in turn improves employee level job satisfaction, and eventually, quality of product. This was found to encourage organizational performance.

In the same way, Lin, Peng and Kao (2008) contributed to literature by providing a quantitative analysis where in market orientation, entrepreneurial orientation ,learning orientation and innovativeness are the main success factors in technology-intensive companies. They used SEM to examine the relationship from data gathered from 33 venture companies with the inclusion of Taiwanese innovation companies. Their main finding is that learning orientation fully mediates the MO-innovativeness relationship. The rest of the results showed that organizational structure, comprising of formalization and decentralization, failed to moderate the innovativeness-business performance relationship while the level of formalization of the organizational structure negatively impacts the performance of business.

### 3.5.4 Relationships between TQM and Market Orientation

TQM is among the most globally acknowledged approach used to achieve high quality levels, resulting in optimum quality products and services (Waldman, 1994) and in superior organizational performance (Cook & Verma, 2002 as cited in Escrig-Tena, 2004). Studies in developing countries also found TQM to positively impact levels of customer satisfaction and innovation performance in manufacturing and service firms (Lee *et al*., 2010). Among the many aspects that management should concentrate on is the restructuring of the organizational management, to handle the marketplace demands. Besides TQM 'market-led strategic change' (Piercy, 1992) also known as 'market focus' (Brown, 1993), where firms consistently align their internal processes to fit marketplace characteristics, can assist firms in achieving sustainable competitive advantage. Market orientation or MO is defined by Jaworski and Kohli (1993) as the ability of the company to collect, disseminate and react to the market intelligence, whereas Narver and Slater (1990) described it as the firm culture that facilitates generation of specific values and behaviors that develop

consumer benefit and guarantee ongoing optimum performance. These authors examined the impact of MO on the firm performance and they reached to the conclusion that MO is significantly related to the performance of the firm (Harris & Piercy, 1997). A large portion of literature has been dedicated to studying the relationship between MO and performance of firms ,but the relationship between MO and TQM has been largely overlooked. Both TQM and MO are primarily focused on satisfying customers and therefore it is logical to assume that two may be related.

Quality management may be driven internally by individual organization and externally by marketplace or customers (Gummesson, 1998). Gummesson (1998) presented the current quality concept has added to minimizing the gap between customer requirements and technical features. Thus, the assumed synergetic linkage between quality and marketing concepts need significant attention in order to conduct an analysis between TQM and MO.

### 3.5.5 Relationships between EO and Market Orientation

A positive relationship has been shown by some researchers between MO and organizational performance (Han *et al*., 1988; Jaworski & Kohli, 1993) while other studies that examined EO and MO relationship revealed that two to be correlated. Specifically, Miles and Arnold (1991) highlighted a significant correlation between EO and marketing orientation, a concept synonymous with MO. Some other authors claimed that the relationship between the two impact the performance of the firm (e.g. Atuahene-Gima & Ko, 2001; Frishmmar & Horte, 2007; Slater & Narver, 1995; Zhou *et al*., 2005).

In addition, other authors claimed that the synergy between MO and EO is a determinant of firm performance, which indicated the existence of correlation between them (Atuahene-Gima & Ko, 2001; Frishammar & Horte, 2007; Slater & Narver, 1995; Zhou *et al*., 2005). Specifically, Atuahene-Gima and Ko (2001) revealed that MO and EO must be maximized at the same time in order to achieve optimum organizational performance. They also implied that the actual EO-MO correlation rather than their presence is important to the success of the organization. This shows that a change in either one of the constructs will affect the other as well as the entire correlation.

### 3.5.6 The Rationality of the Expected Mediating Effect of Market Orientation (MO) on the TQM Practices, EO and Organizational Performance

According to their extensive TQM literature review, Sila and Ebrahimpour (2002) revealed that empirical studies dedicated to TQM practices and organizational performance showed inconsistent findings. In order to resolve this ambiguous situation and shed a light on the reasons behind the inconsistent results, authors including Ehigie and McAndrew (2005) contended that some variables that may impact TQM implementation success and organizational performance should be examined in future works. Nevertheless, a relationship between TQM practices and market orientation should be present as both stress on customer's needs, customer's participation and they both attempt to achieve the ultimate goal of customer satisfaction (Day, 1994; Mohr-Jackson, 1998). The TQM practices and MO implementation activities call for close collaboration among company departments in terms of data collection or information gathering in order to satisfy customer values and expectations. In this regard, Litton (2001) contended that TQM practices may provide various tools that companies could use in order to transform themselves into market-oriented companies. Moreover, Ahire *et al*. (1996a) stated that TQM urges

the development and sharing of market intelligence that allows the ongoing response and adaptation of companies to the dynamic market environment. Similarly, Yam *et al*. (2005) reached to the conclusion that TQM is a holistic and planned management strategy utilized to develop and sustain market orientation behavior and ambiance in the workplace. These contentions indicate a relationship between TQM and MO.

However, these arguments lack empirical evidence except a few of them. For example, in their attempt to examine the TQM practices and MO in the context of Malaysia's service sector, Samat *et al*. (2006) showed that among the seven TQM components studied, customer focus and employee empowerment significantly related to MO, with customer focus having a significant influence on empowerment. Similarly, Raju and Lonial (2001) explicitly studied the causal relationship between quality context, MO and firm performance. They made use of structural equations modeling to examine 740 healthcare providers in the U.S. and concluded that quality context impacts market orientation, which eventually leads to enhanced performance. Hence, they claimed that the TQM and MO philosophies should be related to develop an integrated corporate strategy to obtain competitive advantage.

Previous studies advocate the premise that both EO and MO are interrelated (Atuahene-Gima & Ko, 2001). Along the same line of study, Miles and Arnold (1991) examined whether or not MO and EO are synonymous concepts viewed from two points of view. They examined furniture manufacturing firms and empirically showed that the two concepts are distinct but correlated in such a way that market focus is a significant element of EO. Stated differently, the EO dimensions namely innovation, risk-taking and pro-activeness, react to changes in the market and are influenced by the market. Other authors stated that the MO and EO synergy forms

the performance of the firm indicating the existence of correlation between them (Atuahene-Gima & Ko, 2001; Frishammar & Horte, 2007; Slater & Narver, 1995; Zhou *et al.*, 2005). Specifically, Atuahene-Gima and Ko (2001) showed that MO and EO should be maximized at the same time to obtain optimum effect on organizational performance. These articles also indicate that the actual correlation between the two constructs, as opposed to just the existence of their orientations, is important to the organizational success. Thus, this implies that a change in either one of the constructs would impact the other and the whole relationship's effectiveness.

To discuss the theoretical underpinning theories of this study, the following section elaborated some of the suitable theories and how they might suit the purpose of this research.

# CHAPTER FOUR
# METHODOLOGY

## 4.1 Introduction

The preceding chapter provided an overview of the relevant literature concerning OP, TQM, EO and MO. The present chapter is appropriated to explain the research methodology and the procedures employed to achieve the study objectives. In particular, the chapter provides a thorough explanation of the study's theoretical framework, conceptual definitions, study hypotheses, underpinning theory, study population, the size of the study sample, sampling method, and the methods relating to data collection and data analysis.

## 4.2 Underpinning Theories

This study primarily aims to investigate the mediating impact of MO on the TQM, EO and organizational performance relationship. Due to the nature of the variables used in this study, various underpinning theories can be suitable to theoretically underlie the framework of this study. The following sub-sections discussed these theories and provided supportive arguments. However, this study tried to integrate resource based view theory and the contingency theory as was reflected in the congruence model.

### 4.2.1 Resource-Based View (RBV)

RBV is one of the widely growing research topics in strategic management in the last decades (Galbreath, 2005; Talaja , 2012) even though others argue that it does not appear to meet the empirical content criterion for a theoretical system (Priem & Butler, 2001). Wernerfelt (1984) was the pioneering author who introduced it to literature and recognized that the success of an organization is primarily determined by internal resources (assets or capabilities). These resources are either tangible or

intangible (Collis, 1994). Barney (1991) stated that firm resources constitute of capital equipment, knowledge and skills or employees, brand names and the reputation of the firm. RBV postulates that the firm resources are primary factors that determine its sustainable competitive advantage (Barney, 1991). Resources that are rare, valuable and inimitable are the primary contributors to sustainable competitive advantage and are viewed as intangible strategic resources. On the basis of these resources, the firm is able to generate innovative products and deliver high quality services that would ensure its high position in the market (Barney, 1991; Russo & Fouts, 1997).

In addition to this, the RBV emphasizes on the fit between the capabilities of the firm and its available opportunities which explains the failure of blindly imitating strategies adopted by successful organizations that may not 'fit' the available resources. Hence, the RBV mechanism considers the complete utilize of obtainable resources to develop unique foundation skills for the achievement of the much needed competitive advantage (Makadok, 2001).

Many factors have been stressed to prevent competitors from achieving the similar competitive advantage of an organization. They include organizational strategies, human competencies, invaluable information sources access (Barney, 1986, 1991; Russo & Fouts, 1997). In other words, a firm may be able to develop its competencies and adjust their fit to its internal capabilities and external environment for the achievement of a competitive strategic position.

RBV has certain implications on the competitive advantage of the firm. First, RBV's emphasis is on the significance of resources in the creation and sustainability of firm's competitive advantage and thus, a firm should create a mechanism to choose

its unique available resources that possess high potential value (Makadok, 2001). Second, because both the internal and external environment was stressed on, it is important for the firm to gather extensive and updated information to make effective plans (Barney, 1986). More importantly, This establishment of competitive advantage needs to be dynamic for the survival and growth of the firm in an ever-changing and ever-competitive market environment (Teece *et al.,* 1997).

The primary goal of the present research is to examine the effect of the interaction between TQM practices, EO and MO upon the performance of the organization. A thorough literature review reveals that the variables chosen in this study have been underpinned by the RBV. Specifically, TQM consider as one of the primary sources of competitive advantage (El Shenawy *et al.,* 2007; Reed *et al.,* 2000; Tena, 2004) while EO is viewed as one of the determinants of competitive advantage (Weerawardena & Coote, 2001). Moreover, MO was emphasized to represent superior skills of understanding and satisfying customers (Day, 1994) and as an intangible entity and an important supervisory skill (Hunt & Morgan, 1995).

The effective management of information will result in achieving superior customer value (Esteban *et al.,* 2002; Kohli & Jaworski, 1990). Market orientation is also claimed to be a crucial source of advantage that significantly relates to the profitability of the firm (Gravens & Guilding, 2000; Ruekert, 1992).

### 4.2.2 The Congruence Model

In addition to the previous discussed theories, this study was also inspired by the congruence model that emphasizes the importance of the good fit between some organizational elements to produce the desired outcomes.

The congruence model emphasizes that to acquire good understanding of the organizational performance, one need to understand the component of the organization as a system. Based on Nadler and Tushman's (1998) and Tushman and O'Reilly's (2002) studies, it is asserted that the congruence model is considered to be an open system with four interactive components. These four components are the inputs, strategy, the organization transformation, and the outputs. Inputs include factors such as the environment, organizational resources, and the organizational history. However, the strategy component includes the strategy employed by the organization to put its vision into action. That is, the strategy translates vision into decisions that help the organization to grow and achieve high performance level. In addition to that, outputs are the products and services that fulfill the organizational objectives.

At the core of the congruence model lies the transformation process part. It puts great stress on the transformation process that considers organization as an entity comprised of four elements that interact with each other, namely people, work, formal organization and information organization.

As mentioned, every organization can be significantly impacted by its environment, social and economic factors and legal limitations. The environment factor comprises of market, suppliers, governmental bodies, technological advancements, economic and social conditions, competitors and financial institutions. In addition, the major determinants of organizational performance are capital, employees, technology and information. The organization's history may also affect its effectiveness.

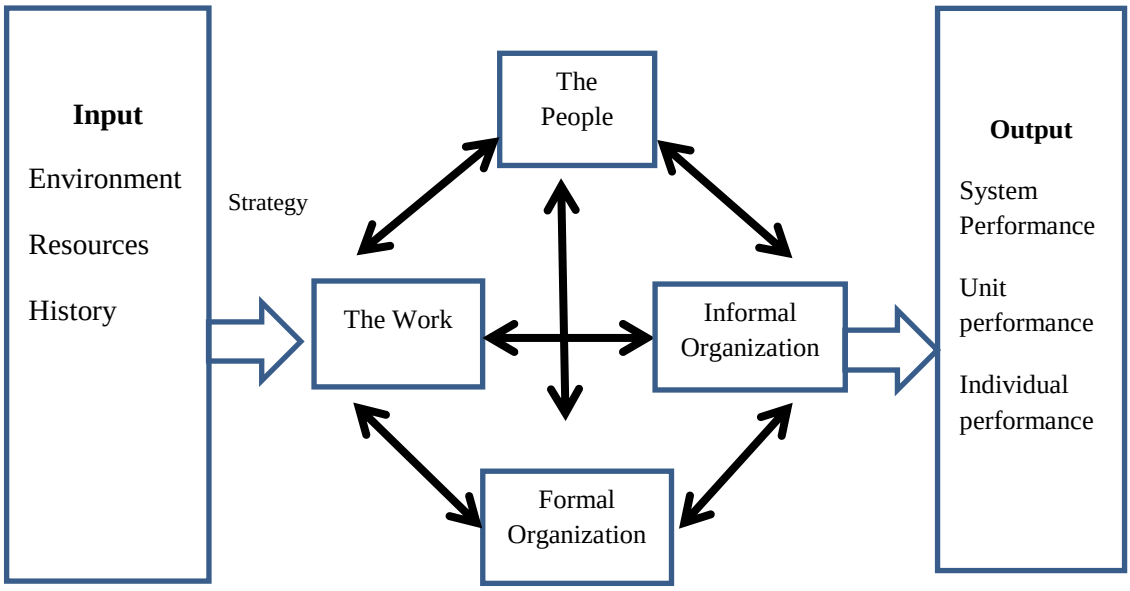


Figure 4.1
*The Congruence Model*

So, to be able to predict the capacity of an organization in the future, one should be familiar with the strategic decisions, the evolution of values responses to crises, and beliefs that shaped it over time.

For the strategy component, an organization has two levels, namely corporate and business strategy. While corporate level strategy involves high level and overall organizational directions, business strategy considers the set of decisions to put the vision into action. This implies the consideration of all the resources, demands, and the environmental threats and opportunities.

Undoubtedly, the ultimate objective of any organization is to produce a satisfactory performance at the corporate, divisions, and individual levels. In general, in this model, the output of an organization describes broadly the organizational performance and effectiveness.

As stated earlier, the main component of the model is the transformation process. This component uses the inputs and through the interaction of its part it produces the

outputs. There are four key components that constitute the transformation process component. These are the work, the people who perform the work, the formal organizational arrangements that include the structure and direction of the jobs, and the informal organization that refers to the operating environment, the culture, and the behavioral patterns.

The major focus of the congruence model is the concept of fit. The primary assumption of this model is that the organizational performance depends on the alignment of each of the components, namely the work, people, structure, and culture with all of the others. These components can fit well together and function effectively, or have a poor fit and lead to below potential performance. In other words, the greater is the fit among these components, the higher the performance. As stated earlier, the major purpose of this study to examine the extent to which TQM strategy, EO and MO are in a good fit and how this transformation affected the overall organizational performance of Libyan banks. From this point of view, this model, in conjunction with other discussed theories, prove its strengths to explain the relationships amongst the variables of the study.

### 4.3 Theoretical Framework of the Study

Based on the previous literature review explained above regarding the throritical and managerial issues, the framework of this study was developed. Many gaps were discovered between variables that encourage for more invesitagtion about the relationships between the proposed variables. In the previous chapter variables were discussed separately with performance and if there is any relationship between variable also explained. In other words, the research framework of this study is formed based on the previous literature review that contains the relationships between variables under investigation. The direct relationships between independent

variables and dependent variable have been studied separately. In addition, some relationships between independent variables, mediating variables, and dependent variable also investigated previously. The examination of the joint effect of TQM, EO, market orientation on performance is lacking in the literature.

Another gap was found in the relationship between TQM and organizational performance. Previous literature reported a positive and significant effect of TQM on organizational performance (Rungtusanatham, & Schroeder, 1995; Demirbag *et al*, 2006; Talib *et al.* 2013; Terziovski & Samson, 2000; Wang *et al.*, 2012; Zehir, Ertosunb, Zehir, & Müceldilli, 2012), however other did not find this significant effect (Davis, 1997; Powell, 1995; Kober, Subraamanniam, & Watson, 2012; Westphal, Gulati, & Shortell, 1996). These inconsistent results create a research gap that should be investigated further by introducing new variable that may explain the relationship in better way. To achieve this purpose in this study, market orientation was proposed to mediate the relationship between TQM and organizational performance. The relationship between TQM, market orientation, and performance has been studied by researchers such as Tatoglu and Zaim (2006) that used in establishing the current framework of this study.

EO construct is considered one of the most important strategies for survival and growth (Sila & Ebrahimpour, 2002). Managers and leaders with entrepreneurial traits can affect the performance positively than others who do not have. There is a bulk of research in the literature review that examined the relationship between EO and organizational performance, but it is not consistent. Some authors argued that the inconsistent results are due to the lacking of mediator that may explain the relationship between them (Harms, 2013; Lumpkin & Dess, 1996; Venkatraman,

1989; Vij & Bedi, 2012). Market orientation as an organizational activity may have the power to mediate this relationship and play the mechanism role to give more explanation.

The above discussion revealed gaps in the previous literature and the relationships between variables. In addition, it creates a motivation to generate the theoretical framework of this study. As proposed in most previous studies, this study proposed TQM, and EO as independent variables whereas organizational performance was proposed to be as independent variable. Market orientation was planned to be mediator variables.

As a result of a thorough literature review and the subsequent theoretical gaps identified, the research framework of the study was designed. That is, the study used the following framework to test the hypotheses postulated.

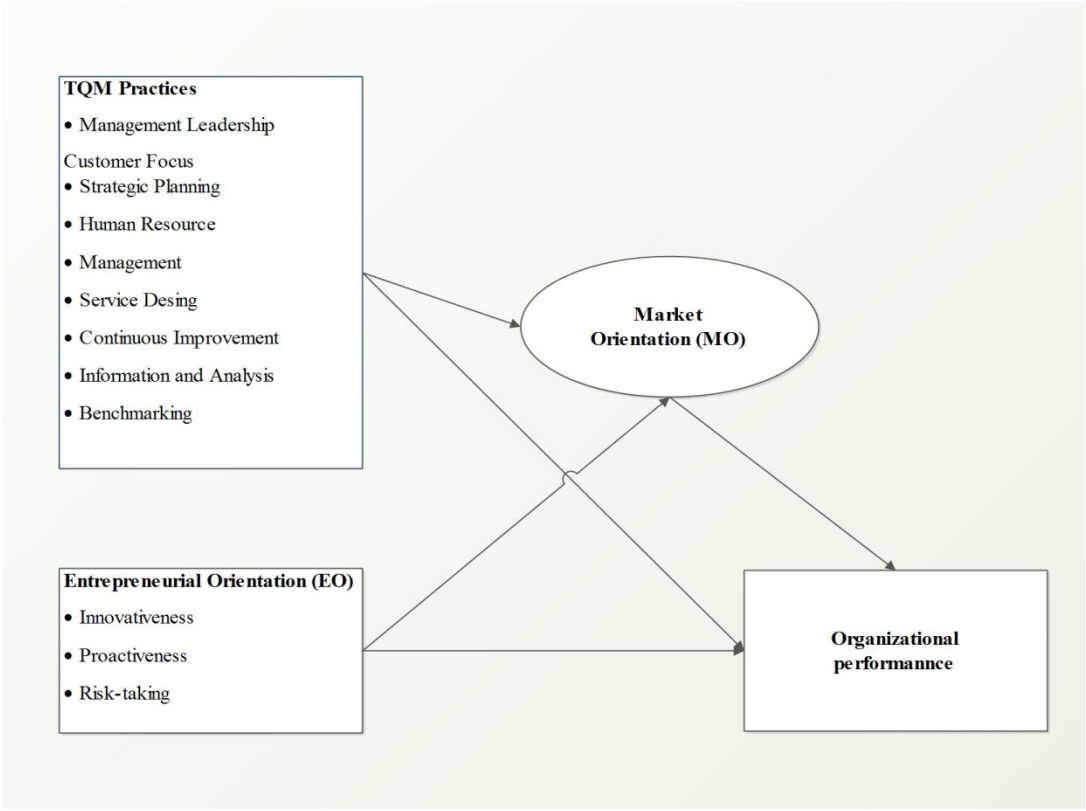


Figure 4.2
*Theoretical Framework of the Study*

The variables in the above model of the study are categorized into exogenous (independent variables) and endogenous (dependent variables). However the exogenous variables are not affected by other variables, endogenous variables are affected by other variables, and sometimes at the same time may affect other variables in specific model (Muhamad, 2008). More specifically, the exogenous variables in the above model are total quality management (TQM), and entrepreneurial orientation (EO), whereas the endogenous are market orientation (MO), and organizational performance (OP).

In sum, the present model consists of two independent Variable, TQM comprising of eight dimensions and EO comprising of three dimensions, MO as Mediating Variable, OP as Dependent Variables stated in Figure 4.2

## 4.4 Hypotheses Development

Hypotheses were developed according the findings of prior literature. In consistence with the study questions and the objectives enumerated in the first chapter, the next sub-sections expounds on how the present study's hypotheses were developed from prior literature.

### 4.4.1 TQM Practices and Organizational Performance

A thorough review of literature concerning TQM reveals that researchers utilized different approaches in TQM conceptualization (Nair, 2006). For instance, some studies such as Das *et al.* (2000), Kaynak (2003), and Samson and Terziovski (1999b) viewed the construct through its multiple dimensions, other studies such as Arawati (2005), Arawati and Ridzuan (2001), Choi and Eboch (1998), and Douglas and Judge (2001) made use of a single dimensional definition for the construct. The former studies built their view on significant correlation assumption among the

factors of TQM implying that TQM strategy should be applied as a whole as opposed to individual practices. In relation to this, studies using TQM as a single construct revealed positive TQM strategy-organizational performance relationship. Several empirical studies have also measured the performance of the firm with the help of the criteria laid down by TQM (e.g. Choi & Eboch, 1998 Flynn & Saladin, 2001; Montes, Jover & Fernandez, 2003; Samson & Terziovski, 1999b).

A major of portion of TQM literature revealed a positive TQM practices-organizational performance relationship (Sila & Ebrahimpour, 2002). In addition, TQM practices were shown to impact financial as well as non-financial performance as they improve firm innovation (Singh & Smith, 2004), boost organizational culture change (Irani, Beskese, & Love, 2004), improve the competitiveness of the market (Chong & Rundus, 2004), maximize growth of market share (Kaynak, 2003), enhance productivity (Kaynak, 2003; Rahman & Bullock, 2005), boost the morale of employees (Rahman & Bullock, 2005) and finally, improve organizational performance as a whole (Powell, 1995). Prior evidence and supporting contentions led the researcher to propose the following hypothesis;

***Hypothesis 1 (H1): TQM has a significant effect on organizational performance***

#### 4.4.1.1 TQM-Management Leadership and Organizational Performance

Some authors contended that TQM can be viewed as a single construct when studying the relationship between TQM and firm performance (e.g. Terziovski & Samson, 1999), whereas other authors (e.g. Powell, 1995; Dow *et al.,* 1999) stated that only some TQM practices positively relates with firm performance (Anuar, 2002; Montes & Jover, 1004; Powell, 1995; Yasin *et al.*, 2004). These mixed

findings indicate that several TQM elements significantly affects the performance of the firm (Hendricks & Singhal, 2001; Samson & Terziovski, 1999b).

Harrington and Williams (2004) stressed the well known premise that management leadership component of TQM has been viewed as one of the top TQM strategy dimensions(Singh & Sushil, 2012; Faisal , Rahman , & Qureshi, 2011). As such, the critical role of leaders in TQM is not merely yielding their control, but it is also in empowering employees, providing training and enhancing performance (Harrington & Williams, 2004). Additionally, a successful strategic leadership is reflected by the way leaders can effectively use social as well as human capital in their development of competitive edge (Hitt & Irel, 2002). According to Hitt and Ireland (2002), the topmost issue in strategic leadership is the question as to 'whether or not the level of strategic leadership in a firm has any role in its performance'.

Stated differently, management leadership is one of the top factors of TQM that has been focused on by researchers as the platform upon which they base any TQM initiative (Chuan & Soon, 2000; Idress, 2011). Top management role in developing a supporting organizational culture is pertinent, particularly one that has its basis on effective communication, teamwork, empowerment, participative decision making and effective training (Koehler & Pankowski, 1996). Hence, TQM literature empirically acknowledges the relationship between management leadership and organizational performance (Arawati, 2005; Flynn *et al.*, 1995; Montes & Jover, 2004; Powell, 1995;Valmohammafi, 2011 Yasin *et al.*, 2004). Based on the above discussion, the researcher proposes the following hypothesis;

***Hypothesis 2 (H1a): TQM-Management leadership significantly affects organizational performance***.

#### 4.4.1.2 TQM-Customer Focus and Organizational Performance

In literature, the major objective of TQM strategy is customer satisfaction and meeting customer's expectations. The TQM strategy is considered to have failed if it does not add value to customers (Thiagarajan & Zairi, 1997c). In order to be successfully, an ongoing and effective communication between the firm and customers should be maintained and customers should be allowed to get involved in the design of products and services (Hunt, 1995). Customer involvement in marketing activities requires life-long relationship strategies via interactions. Additionally, organizations particularly banks should have a dependable customer-centered databases listing their needs and expectations and keeping abreast of their satisfaction levels.

Moreover, strategic positioning is the manner and the position where the organization competes. These are significant TQM concepts that help in maintaining a considerable level of customer satisfaction via products and services that are of high quality and are innovative (Hooley, Fahy, Greenley & Beracs, 2003). In this regard, several authors revealed that customer satisfaction is crucial in the overall organizational performance and that the higher level of customer satisfaction, the lower will be the operating cost (Lee & Hwan, 2005) and in turn, the greater will be the profit level (Matzler, Hinterhuber, Daxer, & Huber, 2005) and the more improved will be the performance of the firm (Westland, Gustafsson, Lang, & Mattsoon, 2005).

The significance of customer-centered view for successful TQM initiatives was stressed by Mehra *et al.* (2001) in their proposal for a TQM customer-centered strategy. Hence, according to the emphases provided by authors to both customer satisfaction and loyalty, it is evident that they form the core of every successful

business. This was confirmed by Mehra *et al.* (2001) when they stated that the customer-center element of TQM is going to be the most significant aspect of TQM literature.

Organizations need to maintain a loyal customer base in their quest to produce profits and maximize market share by satisfying customers' expectations. This is the reason why customer satisfaction has been increasingly gaining the scholars and practitioners' focus as they have begun to acknowledge its importance in profit generation. In a related study Agus *et al.* (2000) stated that TQM strategy implementation enhances the financial performance of the firm via customer-centered activities. Evidence to this end shows customer focus to be positively linked to firm performance (e.g. Montes & Jover, 2004; Yasin *et al.*, 2004). Based on the above discussion and evidences, the following hypothesis is proposed;

***Hypothesis 3 (H1b): TQM-Customer focus has a significant effect on organizational performance.***

#### 4.4.1.3 TQM-Strategic Planning and Organizational Performance

Strategic planning primarily covers the activities upon which the firm creates, applies and tests its strategies to achieve firm objectives (Srinidhi, 1998). It is invaluable in aligning TQM strategy with the rest of the firm strategies. In other words, TQM-strategic planning is concerned with the capabilities of the firm including sufficient funds, experienced and skilled workers and ample time to meet planned goals (Black & Porter, 1996).

Some researchers highlighted the significance of strategic planning by stating that the ability of the organization to thrive in dynamic business environment is reflected through its policies of strategic planning (Chenhall, 2005). In addition, top

management is significantly involved in the TQM context through this TQM component (Krumwiede & Charles, 2006) where the process via which the firm vision and mission are transformed into plans and actions are considered (Tari, 2005). It is important for strategic planning, as a TQM strategy to lay down guidelines that directs the manner in which the organization design its TQM practices to achieve its aims and to align them with the needs and expectations of customers (Sila & Ebrahimpour, 2002).

A thorough review of TQM literature shows that prior studies revealed a significant strategic planning-organizational performance relationship – this includes Li *et al.* (2003), Sila and Ebrahimpour (2005), Sila and Ebrahimpour (2002) and Wu *et al.* (1997). Hence, the researcher proposes the following hypothesis for testing;

***Hypothesis 4 (H1c): TQM-Strategic Planning has a significant effect on organizational performance.***

#### 4.4.1.4 TQM-HRM and Organizational Performance

HRM refers to an element of TQM strategy that involves employee involvement, training and empowerment (Ahire *et al.*, 1996). Similarly, Arawati (2005) claimed that HR of a firm are the basis for its competitive advantage and more importantly, researchers in this field have accepted that in order to implement TQM practices, organizational culture should be changed to support the adopted TQM model. It is important for firms to create an appropriate TQM model with certain HRM practices to assist employees in accepting and implementing the quality activities (Kekale & Kekale, 1995).

The role of employees in successful organizational change initiatives for sustainable and competitive business has been evidenced in literature (e.g. Ehigie & McAndrew,

2005; Ooi, Bakar, Arumugam, Vellapan & Loke, 2007; Palo & Padhi, 2005; Sila, 2005). This contention is supported by Akdere (2006) who claimed that TQM practices relate to organizational competitive in a positive manner via the inputs of employees.

Specifically, studies in literature shows that TQM implementation calls for transformation of OC to have it aligned with an appropriate TQM model. In addition to this, employees' needs should be considered such as their empowerment, training and involvement in order to realize the objectives of the organization (Kekale & Kekale, 1995).

The direct involvement of employees in quality management system, visions, and goals will difently lead for success of TQM program (Motwani, 2001). The idea and reason behind involveing employees in the quality system is that the innovative ideas comes from the one who actually doing the job, i.e. employee (Thiagarajan & Zairi, 1997). Several authors confirm the positive effect of employee involvement on the TQM implementation process (David & Bishnu, 2009; Faisal *et al*., 2011; Oakland & Tanner, 2007; Thiagarajan & Zairi, 2007).

On the other hand, employees' employment at every level of the organization may play a significant role in successful TQM implementation but it could mean failure if it is done against the employees' skills and experience (Gatchalian, 1997). Moreover, an organization may reap the benefits of the TQM initiatives only when there are well-planned and effectively applied quality training strategies (Arawati, 2005).

Consequently, empowered individuals in the organization, who are recipients of training and work in teams, can be the drivers of successful TQM implementation as this fete calls for the entire members' participation. As a result of giving power to

employees, a sense of belonging towards the organization and do their best to have innovative ideas and zealous for doing job (Singh & Sushil, 2013).

Educated and training employee is an organizational asset. Knowledge and abililty of practicing TQM is a must through continuous training. Training as a critical success factors for TQM is suggested by many researchers (Faisal *et al*., 2011; Vouzas & Psychogios , 2007)

TQM studies advocate the positive human resource management-organizational performance relationship (e.g. Arawati, 2005; Flynn *et al.,* 1995; Khairul Anuar *et al.*, 2001; Montes & Jover, 2004; Powell, 1995; & Yasin *et al.*, 2004). Therefore, on the basis of prior literature findings and the above discussion, the researcher proposes the following hypothesis;

***Hypothesis 5 (H1d): TQM-HRM has a significant effect on organizational performance.***

#### 4.4.1.5 TQM-Service Design and Organizational Performance

Effective service design plays a key role in organizational performance as it enhances reputation and customer satisfaction (Lakhe & Mohanty, 1995). Also, effective service design of a firm often results to enhanced work processes, minimized wasted time and maximized customer satisfaction and profitability.

Additionally, the firm's financial performance can get a boost from TQM implementation as it maximizes efficiency and minimizes cost as highlighted by Arawati (2005) and Flynn *et al.* (1995). Added to this, a significant relationship between service design and organizational performance was demonstrated by other

studies in this field (e.g. Anderson *et al.,* 1994; Flynn *et al.,* 1995; Montes & Jover, 2004). Thus, this discussion led the researcher to propose the following hypothesis;

***Hypothesis 6 (1e): TQM-Service design has a significant effect on organizational performance.***

#### 4.4.1.6 TQM-Information and Analysis System and Organizational Performance

Quality management literature acknowledges that effective information system is one of the top factors contributing to successful implementation of TQM initiatives (Ahire *et al.,* 1996). The significance of an information system (combination of hardware, software, people and procedures) are the basis of majority of the national quality awards such as MBNQA to highlight its importance as one of the conditions of effectively managed organizations (Kartha, 2004).

The importance of such systems and analysis systems for effective firm performance, particularly in this decade of information and communication technology (ICT) was emphasized by Saraph *et al.* (1989). They claimed that organizations that have effective IS can readily react to the dynamic changes in the market because of their capabilities (effective data collection, data presentation and data dissemination).

Along the same line of contention, Flynn *et al.* (1995) demonstrated the presence of a positive association between quality information systems and organizational performance. According to them, this is because thorough knowledge and effective use of customer-centered information can lead to considerable levels of customer satisfaction and efficient operations. Hence, the following hypothesis is proposed to be tested;

***Hypothesis 7 (H1f): TQM-Information and Analysis System has a significant effect on organizational performance.***

#### 4.4.1.7 TQM-Continuous Improvement and Organizational Performance

TQM strategy has been primarily referred to as a management philosophy that attempts to achieve customer satisfaction via ongoing efforts towards improvement at all levels (Benavent, Ros & Moreno-Luzon, 2005). It refers to desire for continuing improving all aspect in the organization and searching for never ending improvement to have better methods for improving all processes including inputs and outputs (Burli, Kottursheltar, & Dalmia, 2012). It is therefore pertinent for organizations to extend their ongoing improvement activities to encompass processes such as management activities as well as management styles (Benavent *et al.,* 2005).

There can be considerable deviation between the organizational vision and its actual operational situation and this may be resolved through effective management system processes (Landau, Drori & Porras, 2006). This is particularly true as the main aim of any organization is to generate results that achieve customer satisfaction and exceeds customer expectations indicating that it is important for organizations to evaluate their managerial and technical processes based on their contribution to achieving customer satisfaction (Baker, 2003).

In other words, in the current dynamic business market, organizations should consider their requirement to adopt life-long ongoing enhancement strategies involving the entire organizational members. In this regard, Dean and Bowen (1994) contended that this need for ongoing improvement strategies was boosted by the critical innovation and quality-seeking customers. Several factors may support such strategies including top management support, effective HRM and efficient

information systems that gathers and analyzes information to ascertain practices that need enhancement (Escrig-Tena, 2004).

Prior studies dedicated to quality management showed that ongoing improvement practices enable organizations to perform better (e.g. Anderson *et al.,* 1994; Christos ,Fotopoulos & Psomas ,2010; Flynn *et al.,* 1995; Li *et al.,* 2003; Montes & over, 2004; Powell, 1995). The following hypothesis is therefore proposed;

***Hypothesis 8 (H1g): TQM-Continuous Improvement has a significant effect on organizational performance.***

#### 4.4.1.8 TQM-Benchmarking and Organizational Performance

As a continuous systematic approach, benchmarking is one of the important CSFs of TQM to measure the key business process against the best practice of the industry (Singh & Sushil, 2012).

Benchmarking strategy is useful for organizations to keep abreast of market performance by comparing themselves to their leading competitors. The essence behind such strategy is to examine the products, services and methods used by competitors in the same industry or other industries with the objective of gaining competitive edge (Ahire *et al.,* 1996). Aspects of other organizations that may be benchmarked by an organization include cost savings, process efficiency, employee satisfaction and customer satisfaction.

The positive impact of benchmarking on the performance of the firm has been evidenced by several researchers such as Ahire *et al.* (1996), Arawati (2005), Powell (1995),Christos *et al,*(2010); Sanchez-Rodriguez and Martinez-Lorente, (2004). On the basis of the above findings, the researcher proposes the following hypothesis;

***Hypothesis 9 (H1h) TQM-Benchmarking has a significant effect on organizational performance.***

### 4.4.2 Entrepreneurial orientation (EO) and Organizational Performance

Researchers have proposed different measures to gauge the EO concept, with some examining the whole construct and its relationship to performance, and others determining the impact of its dimensions on the performance of the organization (Davis, 2007). The latter method is adopted in this study to develop the hypothesis regarding the EO dimensions-organizational performance relationship.

Moreover, several authors have examined EO and organizational performance relationship in the entrepreneurship field (Davis, 2007) where the existence of the positive relationship between the two were supported (e.g. Covin & Slevin, 1986; Drucker, 1985). In this regard, Covin and Slevin (1991) and Zahra and Dess (2001) contended that while some theoretical studies support the relationship between the two variables, such relationship still needs solid empirical evidence.

Although most studies dedicated to the impact of EO on organizational performance evidenced a positive impact, some confirmed the opposite (e.g. Li *et al.*, 2009; Wiklund & Shepherd, 2005). Some other studies like Keh *et al.* (2007) demonstrated that firms having high degrees of entrepreneurial capabilities are able to examine and take advantage of business opportunities and have a higher tendency to develop competitive advantage compared to their competitors.

Additionally, literature in the field of entrepreneurship evidenced a positive EO-performance relationship while researchers showed distinct findings. Specifically, a few studies revealed an insignificant relationship between entrepreneurial orientation and performance (e.g. Brown, Davdisson & Wiklund, 2001; Kaya & Syrek, 2005).

Meanwhile, Ramachandran (2003) showed that EO contributes to the firm value through its identification of the causes of customer dissatisfaction in an attempt to create their solutions. He added that EO adoption in developing nations is still in the stage of infancy. Moreover, Dwairi (2004) attempted to shed a light on the variation in bank's performance in the context of Jordan and found that some banks are superior over others owing to their considerable EO practices level. In the context of Libyan different banks possess different degrees of performance and thus, it can be said that EO significantly impacts the Libyan banks' overall performance.

Although there are mixed results concerning the impact of EO on firm performance, majority of studies are of the consensus that the greater the level of EO, the greater will be the level of its performance, competitive advantage as well as profitability (Covin & Slevin, 1991; Wiklund, 1999 Zahra & Covin, 1995). Moreover, many studies agreed on the gap in entrepreneurial literature in developing nations concerning the role of entrepreneurs (Lazer & Hardin, 1994) and as such, the following hypothesis is proposed;

***Hypothesis 10 (H2): Entrepreneurial orientation has a significant effect on organizational performance.***

#### 4.4.2.1 Innovativeness and Organizational Performance

The multidimensional method to the EO study recommends the importance of assessing each dimension's relationship with organizational performance. Hence, EO dimensions namely innovativeness, pro-activeness and risk-taking should be individually examined when studying the mentioned relationship (Davis, 2007). Innovativeness is core to the entrepreneurship definition (Shane & Venkataraman, 2000). According to Kropp *et al.* (2006), innovativeness is the answer to the issues in

entrepreneurial organization. As a result, the more uncertain the business environment is, the more innovativeness will be required in processes (Miller, 1983). In addition, innovative and creative firms outperform their competitors and hence it is expected that innovativeness is an important performance determinant. Accordingly, the researcher proposes the following hypothesis to be tested;

***Hypothesis 11 (H2a): Innovativeness has a significant effect on organizational performance.***

#### 4.4.2.2 Proactiveness and Organizational Performance

Pioneering studies dedicated to entrepreneurship stressed on proactiveness as a major attribute of an entrepreneurial firm (Miller, 1983). As mentioned, innovativeness refers to the firm's ability to create new products and services and to assess market and customer's needs. On the other hand, proactiveness refers to the organization's ability to obtain future-focused outlook that allows the firm to respond to opportunities in terms of products and markets. Proactiveness is essentially a major element of the organization in its capitalization of its creative capabilities (Covin & Miles, 1999). In this field, several researchers evidenced the significance of proactiveness for a firm and the presence of a positive proactiveness-organizational performance relationship (e.g. Bhuian, Menguc & Bell, 2005; Lumpkin & Dess, 2001). Based on the above discussion, the following hypothesis is proposed;

***Hypothesis 12 (H2b): Proactiveness has a significant effect on organizational performance.***

#### 4.4.2.3 Risk-taking and Organizational Performance

Risk-taking is the inclination of a firm to appropriate resources on business activities that are characterized as risky (Lumpkin & Dess, 1996). When a firm decides to

undertake risks, it faces two possibilities; first, the possibility of failure and the possibility of missing a potential opportunity (Dickson & Giglierno, 1986). Hence, risk-taking a crucial element for a firm, the absence of which will prevent the firm from taking advantage of opportunities in the market (Hughes & Morgan, 2007). Additionally, risk-oriented firms combine opportunity-seeking with risk taking activities in order to develop an effective opportunity exploitation viewpoint (Lumpkin & Dess, 1996). To this end, according to Miller and Friesen (1982), if the firm avoids risks, no new product development effective strategies will be developed and the competitive performance of the firm will deteriorate in the dynamic market. This is why several researchers stated that successful firms are more inclined towards taking risks in their attempt to ensure competitive performance (Hughes & Morgan, 2007). The following hypothesis is thus proposed;

***Hypothesis 13 (H2c): Risk-taking has a significant effect on organizational performance.***

### 4.4.3 Total Quality Management (TQM) and Market Orientation

TQM is a holistic and planned management strategy for developing and sustaining market orientation workplace behavior and atmosphere. These arguments imply a causal link between TQM and market orientation (Lam, Lee, & Ooi, 2012).

Lam *et al.*,(2012) investigates the associations between TQM, market orientation and service quality for the service organizations. This study serves as empirical evidence contributing to the attributes of TQM that can be seen on market orientation, and subsequently on service quality. The study result show that TQM contributes significantly and positively to market orientation. In other words, TQM implementation can improve the market orientation of a service company. This

finding is consistent with the studies performed by Day (1994) and Mohr-Jackson (1998) in that both studies supported the strong positive linkage between TQM and market orientation since both constructs place strong emphasis on satisfying customer. Furthermore, Litton (2001) findings that TQM principle serves as an apparatus for a company to achieve market orientation. Another study by Samat et al. (2006), have portrayed to have a positive and significant effect on market orientation. Thus, once TQM practices are in place, market needs can be identified easily and marketing strategy can be further improved, creating values for the customers and churning out a niche for the service company that adheres to TQM adoption.

***Hypothesis 14 (H3): TQM has a positive and significant effect on the Market Orientation***

### 4.4.4 Entrepreneurial Orientation (EO) and Market Orientation

Market orientation (MO) and Entrepreneurial orientation (EO) have gained the importance in today's world. Now these two are considered the main sources in the increase of firm performance (Hafeez , Chaudhry , Siddiqui & Rehman ;2011). Entrepreneurial orientation and market orientation provides the basic knowledge about the organizational learning that enables the organization to achieve the high performance and to understand the values of customers (Liu , Luo, & Shi ; 2002). A strong relationship exists between entrepreneurship and market orientation. Although these orientations may be implemented separately, firms emphasise entrepreneurship when they are market-oriented. Therefore, the strong relationship and complementarities between entrepreneurship and market orientation reduce the effort involved in the joint adoption of both orientations. Both orientations also

demonstrate a strong relationship with performance (Benito, Benito & Gallego; 2008).

***Hypothesis 15 (H4): Entrepreneurial Orientation has a positive and significant effect on the Market Orientation***

### 4.4.5 Market Orientation and Organizational Performance

The main features of the market orientation are the customer focus, competitor intelligence focus, cross-functional coordination and performance implication. The relationship between market orientation and business performance is significant and positive in case of profitability and economic performance. The market orientation is the process of creating superior value and increasing performance (Slater & Narver, 2000). Narver and Slater (1990) reported an association between MO and business performance and Jaworski and Kohli (1993) showed that market orientation is linked to the overall business performance, employee commitment and team spirit and it offers psychological as well as social benefits to employees. This may encourage studies to consider the interaction between TQM practices, EO, MO and their impact on the performance of the organization.

***Hypothesis 16 (H5): Market Orientation has a positive and significant effect on the organizational performance.***

### 4.4.6 Market Orientation as a Mediator between TQM and Organizational Performance

In quality management literature, TQM is considered to be a complete management philosophy aiming to achieve customer satisfaction via continuous improvement (Dale, 2003). Wang *et al.,* (2012) investigate the relationship between TQM, market orientation and organizational performance in hotel industry in Taiwan. The study result show that TQM contributes significantly and positively to market orientation

and TQM is an antecedent of market orientation. Another study by Tatoglu and Zaim(2006) tried to determine the impact of implementation of TQM and market orientation on organizational performance of SMEs in Turkey. The result reveals that market orientation has appositive and significant impact on organizational performance through a mediating role of TQM implementation. The main objective of a firm adopting TQM is to improve its market-focus because if the organization fails to improve market-focus with the help of TQM, its performance will not experience considerable improvement and hence, the researcher proposes that the following hypothesis be tested;

***Hypothesis 17 (H6): Market Orientation (MO) mediates the relationship between TQM and organizational performance of banks.***

### 4.4.7 Market Orientation as a Mediator between EO and Organizational Performance

The impact of EO on organizational performance has been widely discussed and approved by the researchers. The question arises now how EO can enhance performance and what is the mechanism that explains this effect. Therefore, market orientation has come to answer this question. It is proposed in this study to mediate the relationship between EO and organizational performance. The relationship between EO and market orientation in one hand and the relationship between market orientation and organizational performance in the other hand have been hypothesized to have significant relationships due to the previous literature that approve that relationship. In addition, the indirect EO-oganizational performance relationship is more prominent than the direct relationship (Lau & Zhang, 2006). In other words, the relationship between EO and organizational performance is no straightforward; therefore it is affected by other elements (Vij & Bedi, 2012).

Lumpkin and Dess (1996) suggested other mediators between EO and organizational performance that may explain this relationship such as organizational activities. Harms (2013) reported that there are only 15 studies in Scoups that examined the mediating effect between EO-performance relationships. The results showed at least partial mediation which hints there is a need for a mediator that may act as a transmission of the mechanism to explain that relationship. Additionally, risk-taking and practiveness contribute to innovation which in turn enhance and increase organizational performance (Gunawan, Jacob, & Duysters, 2013). In relation to that, Arunachalam, Ramaswami, Herrmann, and Walker (2013) metioned that the previous researches show that EO affects innovation and in turn innovation impact organizational performance. Innovation is considered an important element of market orientation that leads to enhance performance. Therefore, market orientation could play the mediating effect between EO and organizational performance, and explain that effect in a better way. Therefore, the following hypothesis was proposed to be examined:

***Hypothesis 18 (H7): Market Orientation (MO) mediates the relationship between Entrepreneurial Orientation (EO) and organizational performance of banks.***

### 4.5 Measurement and Instrumentation

Measurement of items with the help of Likert scale is basically one of the most extensively used techniques in studying the impact of TQM practices including EO influence on organizational performance (Al-Marri *et al.*, 2007). Therefore, in the present study multiple-item Likert scale is employed to measure the study variables.

In particular, a five-point Likert scale ranging from 1 depicting strongly disagree to 5 depicting strongly agree is employed for TQM practices, EO and OP constructs. This

Likert scale adoption is supported by Al-Marri *et al.* (2007) who evidenced the extensive use of such measurement in TQM practices and EO studies. Likert scale is simple for respondents to respond to according to their perceptions of behaviors, assessments and attitudes.

The scales utilized in the present study are discussed in detail in the next sub-sections.

### 4.5.1 Organizational Performance Scales

Organizational performance measurement was obtained from studies in literature dedicated to management. Specifically, Narver and Slater's (1990) and Jaworksi and Kohli's (1993) measures were adopted to measure performance. Chapter three provided that the measure for this construct comprised of items confined to non-financial performance. As such, some items were adopted from Chan (2004), Fuentes-Fuentes (2004), and Kaplan and Norton (1993). The items employed to measure organizational performance construct of bank branches along with their sources are exhibited in Table 4.1

Table 4.1
*Organizational Performance Scale*

| Code | Item | Source |
|---|---|---|
| OP1 | Overall performance of our bank (branch) last year was | Narver and Slater (1990) ; Jaworski and Kohli (1993) |
| OP2 | Overall performance of our bank (branch) relative to competitors last year was | Narver and Slater (1990) ; Jaworski and Kohli (1993) |
| OP3 | Overall sales growth of our bank (branch) relative to major competitors last year was | Narver and Slater (1990) ; Jaworski and Kohli (1993) |
| OP4 | Through the last year, our unit cost of service delivered was | Chan (2004); Fuentes-Fuentes (2004); Kaplan and Norton (1996) |

Table 4.1 (Continued)

| | | |
|---|---|---|
| OP5 | Customer satisfaction level on services provided by our bank (branch) last year was | Chan (2004); Fuentes-Fuentes (2004); Kaplan and Norton (1996) |
| OP6 | All the employees of our bank (branch) have a level of job satisfaction that last year was. | Chan (2004); Fuentes-Fuentes (2004); Kaplan and Norton (1996) |

### 4.5.2 The TQM practices Measure

Chapter three indicated inconsistent techniques used to measure TQM practices. In the present study, the critical factors of TQM strategy are encapsulated through the use of relevant TQM factors that have been extensively utilized in the service sector. From this study's research framework, it is evident eight factors characterize TQM strategy and they are management, leadership, customer focus, strategic planning, human resource management, service design, information and analysis, continuous improvement and finally, benchmark. The items employed in the present study for the measurement of TQM practices and their sources are listed in Table 4.2.

Table 4.2
*Total Quality Management Practices Scale*

| **Code** | **Item** | **Source** |
|---|---|---|
| **Management Leadership** | | |
| ML1 | In our bank, long-term plans focused on quality are developed. | Brah, Wong, and Rao (2000) |
| ML2 | In our bank, there are clear quality goals identified by top-level managers. | Brah, Wong, and Rao (2000) |
| ML3 | In our regular meeting, we always emphasize the importance of service quality delivered to our customers. | Brah, Wong, and Rao (2000) |
| ML4 | In our banks, we view service quality as being more important than cost. | Brah, Wong, and Rao (2000) |

Table 4.2 (Continued)

| | | |
|---|---|---|
| ML5 | In our bank, we depend heavily on quality performance to evaluate employees. | Brah, Wong, and Rao (2000) |
| **Customer Focus** | | |
| CF1 | In our bank, a summary of customer complaints is always given to floor and departments' managers. | Brah, Wong, and Rao (2000) |
| CF2 | It is the policy in Our bank to use the customers' feedback to determine their needs and requirements. | Brah, Wong, and Rao (2000) |
| CF3 | In our bank, customers' requirements and expectations are used as the basis for measuring quality. | Brah, Wong, and Rao (2000) |
| CF4 | In our bank, floor and departments' managers are aware of the level of customer satisfaction. | Brah, Wong, and Rao (2000) |
| CF5 | It is the policy of our bank to keep in close contact with our customers. | Brah, Wong, and Rao (2000) |
| CF6 | It is the policy of our bank to regularly measure external customer satisfaction. | Samson and Terziovski (1999) |
| **Strategic Planning** | | |
| SP1 | In our bank, we have a mission statement which has been effectively communicated to all the employees and gained their support. | Samson and Terziovski (1999) |
| SP2 | In our bank, we have comprehensive planning process which sets and reviews short and long-term goals. | Samson and Terziovski (1999) |
| SP3 | Our plans focus on the achievement of the best practice in the banking industry. | Samson and Terziovski (1999) |
| SP4 | When we develop our plans, policies, and objectives, we always incorporate customer requirements and the needs of all stakeholders, including the community. | Samson and Terziovski (1999) |
| SP5 | In our bank, we have a written statement of strategy covering all the operations which is clearly articulated and approved by our senior managers. | Samson and Terziovski (1999) |
| SP6 | Our branch operations are effectively aligned with the central business mission. | Samson and Terziovski (1999) |
| **Human Resource Management** | | |
| HRI1 | In our bank, all employees' suggestions are evaluated. | Brah, Wong, and Rao (2000) |
| HRI2 | In our bank, most employees' suggestions are implemented. | Brah, Wong, and Rao (2000) |

Table 4.2 (Continued)

| | | |
|---|---|---|
| HRI3 | In our bank, we often work in teams, with members from a variety of departments. | Brah, Wong, and Rao (2000) |
| HRI4 | In our bank, we use the ability to work in teams as a criterion in employees' selection. | Brah, Wong, and Rao (2000) |
| HRT1 | In our bank, employees' training is provided in quality principles. | Brah, Wong, and Rao (2000) |
| HRT2 | In our bank, resources are available for employees training. | Brah, Wong, and Rao (2000) |
| HRT3 | In our bank, there is always a kind of employees' training going on. | Brah, Wong, and Rao (2000) |
| HRT4 | In our bank, the top management is often involved in quality training. | Brah, Wong, and Rao (2000) |
| HRE1 | In our bank, employees are encouraged to take initiatives when dealing with customers' complaints. | Brah, Wong, and Rao (2000) |
| HRE2 | In our bank, problem solving ability is a criterion for selecting employees. | Brah, Wong, and Rao (2000) |
| HRE3 | In our bank, employees are given the resources necessary to deal with customers' complaints. | Brah, Wong, and Rao (2000) |
| **Service Design** | | |
| SD1 | It is the policy in our bank to thoroughly review the new service designs before its marketing. | Brah, Wong, and Rao (2000) |
| SD2 | In our bank, the quality of new service is more important than reducing the cost. | Brah, Wong, and Rao (2000) |
| SD3 | When designing new service, employees from different departments often participate in the process. | Brah, Wong, and Rao (2000) |
| **Information and Analysis** | | |
| IA1 | In our bank, we have a program to reduce the time between receiving an order and its satisfaction. | Anderson and Sohal (1999) |
| IA2 | In our bank, performance data is collected and analyzed in regular basis. | Anderson and Sohal (1999) |
| IA3 | In our bank, information allows us to control and improve core processes and services. | Anderson and Sohal (1999) |
| IA4 | Customer and performance data allows us to track performance and the benchmarking data is used. | Anderson and Sohal (1999) |

Table 4.2 (Continued)

| | | |
|---|---|---|
| IA5 | In our bank, everyone has easy access to the needed information. | Anderson and Sohal (1999) |
| IA6 | In our bank, we receive timely information and the important data is presented and communicated to employees in regular basis. | Anderson and Sohal (1999) |
| IA7 | In our bank, information systems are always evaluated and improved. | Anderson and Sohal (1999) |
| **Continuous Improvement** | | |
| CI1 | In our bank, there is always an emphasis on the continuous improvement in all the activities at various levels. | Rao (2006) |
| CI2 | In our bank, there is always an emphasis on the quality-awareness programs for employees. | Rao (2006) |
| CI3 | In our bank, continuous improvement is emphasized in the training programs provided to employees. | Rao (2006) |
| CI4 | In our bank's policies, improving the quality is more important than the quantity and short term goals. | Rao (2006) |
| CI5 | In our bank, all branches believe that by implementing continuous improvement strategies, they can survive and serve better in the highly competitive environment. | Rao (2006) |
| **Benchmarking** | | |
| B1 | In our bank, it is always emphasized that benchmarking is our strategy to achieve a better competitive position | Brah, Wong, and Rao (2000) |
| B2 | We visit other banks, locally and internationally, to investigate their practices. | Brah, Wong, and Rao (2000) |
| B3 | In our bank, we conduct research to find out the best practices of other local and international banks. | Brah, Wong, and Rao (2000) |
| B4 | In our bank, we monitor competitors to find out the best banking industry practices. | Brah, Wong, and Rao (2000) |

### 4.5.3 Entrepreneurial Orientation (EO) Measure

The pioneering developed measure for EO was proposed by Khandwalla (1977) and was later followed by Miller and Friesen's (1983) five-item scale. Several researchers conducted extensive examination to create later measures including those proposed by Covin and Slevin (1986, 1989) and Smart and Conant (1994).

Much later, a major portion of literature dedicated to EO focused on three dimensions namely innovativeness, proactiveness and risk-taking. The present study adopted Covin and Slevin's (1989) items to measure EO as listed in Table 4.3 along with their sources.

Table 4.3
*Entrepreneurial Orientation (EO) Scale*

| Code | Item | Source |
|---|---|---|
| Innovativeness | | |
| I1 | It is the culture of our bank to emphasize innovation and research and development activities | Covin and Slevin (1989) |
| I2 | Our bank introduces new products and service at a high scale | Covin and Slevin (1989) |
| I3 | Our bank supports bold approaches to innovative product development | Covin and Slevin (1989) |
| **Proactiveness** | | |
| P1 | Employees in our bank are encouraged to take initiatives and proactive moves | Covin and Slevin (1989) |
| P2 | Our bank is usually the first bank to introduce new technologies and products | Covin and Slevin (1989) |
| P3 | Our bank has a strong competitive posture toward competitors | Covin and Slevin (1989) |
| **Risk- Taking** | | |
| R1 | Our bank has a strong proclivity for high return projects | Covin and Slevin (1989) |
| R2 | The environment faced by our bank requires boldness to achieve objectives | Covin and Slevin (1989) |
| R3 | Our bank usually adopts an aggressive, bold posture when faced with risk | Covin and Slevin (1989) |

### 4.5.4 Market Orientation Scale

Market orientation in this study was measured by the items adopted from Narver and Slater (1990) as they are conveniently developed into different components and as such, it is easier to observe each component's impact on business performance. Despite the fact that MO is deemed as one construct, some studies conducted an analysis of its separate components (Lukas & Ferrell, 2000). Specifically, MO measures comprise of six items catering to customer orientation, seven items catering to competitor orientation and finally five items catering towards infter-functional coordination – equating to a total of 18 items. The adapted items employed to measure MO and their sources are displayed in Table 4.4.

Table 4.4
*Market Orientation Scale*

| Code | Item | Source |
|---|---|---|
| **Competitor Orientation** | | |
| Co1 | In our bank (branch) Managerial staff regularly shares information within our organization regarding our competitors' actions. | Narver and Slater's (1990) |
| Co2 | We keep informed and analyze the product offers by our competitors. | Narver and Slater's (1990) |
| Co3 | Our Managerial staff targets customer where we can have an opportunity for competitive advantage. | Narver and Slater's (1990) |
| Co4 | Our Top management often discusses competitors' strengths and strategies. | Narver and Slater's (1990) |
| Co5 | In our bank (branch) We usually anticipate how our competitors will response to our competitive move. | Narver and Slater's (1990) |
| Co6 | In our bank (branch) When we faced with decision making situation, we willing to take risk.. | Narver and Slater's (1990) |
| Co7 | In our bank (branch) We rapidly response to competitive action that threatens us. | Narver and Slater's (1990) |

Table 4.4 (Continued)

| | | |
|---|---|---|
| **Customer Orientation** | | |
| Cuo1 | Our business strategies are driven by our beliefs about how we can create greater value for customers | Narver and Slater's (1990) |
| Cuo2 | In our bank (branch), We measure customer satisfaction systematically and frequently. | Narver and Slater's (1990) |
| Cuo3 | Our business objectives are driven primarily by customer satisfaction. | Narver and Slater's (1990) |
| Cuo4 | Our competitive advantage is based on our understanding of customer needs. | Narver and Slater's (1990) |
| Cuo5 | In our bank (branch), We constantly monitor our level of commitment and orientation to serving customer needs. | Narver and Slater's (1990) |
| Cuo6 | In our bank (branch), We give close attention to after sales services | Narver and Slater's (1990) |
| **Inter-functional Coordination** | | |
| If1 | In our bank (branch), Our top manager's business function regularly visits our current and prospective customers | Narver and Slater's (1990) |
| If2 | In our bank (branch), We freely communicate information about our successful and unsuccessful customer experiences across all business functions. | Narver and Slater's (1990) |
| If3 | In our bank (branch), All our business functions (sales, marketing, R&D, finance) are integrated in serving the needs of our target markets. | Narver and Slater's (1990) |
| If4 | All our managers understand how everyone in our business can contribute to creating customer value. | Narver and Slater's (1990) |
| If5 | In our bank (branch), We share resources with others business units. | Narver and Slater's (1990) |

## 4.6 Research Design

A research design refers to a master plan that details the methods and procedures conducted to gather and analysis data (Zikmund, 2000). Business studies offer three types of research namely exploratory, descriptive and explanatory (Zikmund, 2000; Sekaran, 2003). The chosen research type is based on the individual's understanding of the research issue. In particular, exploratory design is employed to collect information on a specific issue but it does not offer conclusive outcomes. In other

words, it just provides an insight into a new phenomenon after which further studies are conducted to obtain conclusive evidence (Zikmund, Babin, Carr and Griffin, 2010).

On the other hand, descriptive design is employed to examining distinct situations where only little knowledge is known concerning the nature of the issue. This type is thus carried out to provide a description to a problem (Zikmund, 2000; Sekaran, 2003). Finally, explanatory design is employed to provide specific knowledge of the variables' relationships in terms of their nature (Zikmund, 2000; Sekaran, 2003).

The present study employs an explanatory type of study as it attempts to shed a light on the relationships between TQM, EO, MO, and organizational performance. In other words, the hypotheses were developed to explain and confirm the relationships (whether or not they are significant). Other research design aspects include study population and sample, sampling method, data collection method and data analysis. These are discussed in the next sections.

### 4.6.1 Population and of the Study

The study population is described as the group of people, events or things examined in the study (Sekaran & Bougie, 2010). Sekaran and Bougie (2010) added that study population is the group of people, events or things that a researcher is desirous of making inferences of based on a derived sample. This research based its population on the total number of Libyan banks (both state and private commercial banks). Accordingly, six state-owned commercial banks and eight private banks are present in Libya, having a total of 460 branches in all.

### 4.6.2 Sampling Design: Sample Size and Power Analysis

A sample refers to a group of individuals chosen from a more expansive population for the purpose of conducting a survey (Salant & Dillman, 1994). A good sample size is significant in minimizing the cost of sampling error, and this shows the requirement for an appropriate sample size selection. According to Salkind (2003), a suitable sample size is needed for any study as too small sample may not be a suitable representative of the population. In fact, this may cause Type I error that leads to the rejection of a specific finding when it is in fact acceptable (Sekaran, 2003). On the other hand, too big a sample is unsuitable as it may lead to Type II error that leads to accepting a specific finding when it should be rejected.

The scientific guideline of sample size determination proposed by Krejcie and Morgan was adopted and 200 samples were obtained. According to Cohen (1997), sample size should be determined with the help of an appropriate statistical test, where the test power is a viable option. Such power refers to the probability of rejecting a null hypothesis or a specific effect size of a distinct sample size at a specific level of alpha (Cohen, 1988). The test is capable of detecting a difference in the wider population. Additionally if the used sample size was determined through other alternatives, it is still suitable to employ power analysis to ensure that the probability of effects detection is explicit (Ramalu, 2010).

Through the G*Power 3.1 software, the sample size was calculated as function of user-specific values for the determined population effect size ($f2$), required significance level ($\alpha$),the statistical power ($1-\beta$) and finally, the number of research model predictors (Faul, Erdfleder, Lang & Buchner, 2007). The first step in determining the sample size in the present study is to conduct a priori power analysis with the help of software package G*Power 3.1 as recommended by Faul *et al.*

(2007), where a total of 12 predictor variable equations were utilized to determine the sample size. Cohen's (1977) standards were used to calculate the sample size with the following guidelines; effect size ($f2$=0.15), significance alpha level ($\alpha$ = 0.05), desired statistical power (1-$\beta$ = 0.95), and 12 predictors. Figures 4.3 and 4.4 displays the results of the statistical test conducted for multiple regression analysis and the table shows an appropriate sample size of 184. In addition, the results showed that the statistical power for effect sizes detection was at a recommended value of 0.95 as stated by Cohen (1977). Consequently, 184 respondents comprised the study sample from 460 subjects.

**F tests** – Linear multiple regression: Fixed model, $R^2$ increase

| | | |
|---|---|---|
| **Analysis:** | A priori: Compute required sample size | |
| **Input:** | Effect size $f^2$ | = 0.15 |
| | $\alpha$ err prob | = 0.05 |
| | Power (1−$\beta$ err prob) | = 0.95 |
| | Number of tested predictors | = 12 |
| | Total number of predictors | = 12 |
| **Output:** | Noncentrality parameter $\lambda$ | = 27.6000000 |
| | Critical F | = 1.8091622 |
| | Numerator df | = 12 |
| | Denominator df | = 171 |
| | Total sample size | = 184 |
| | Actual power | = 0.9510958 |

Figure 4.3
*Power Analysis for Medium Effect*

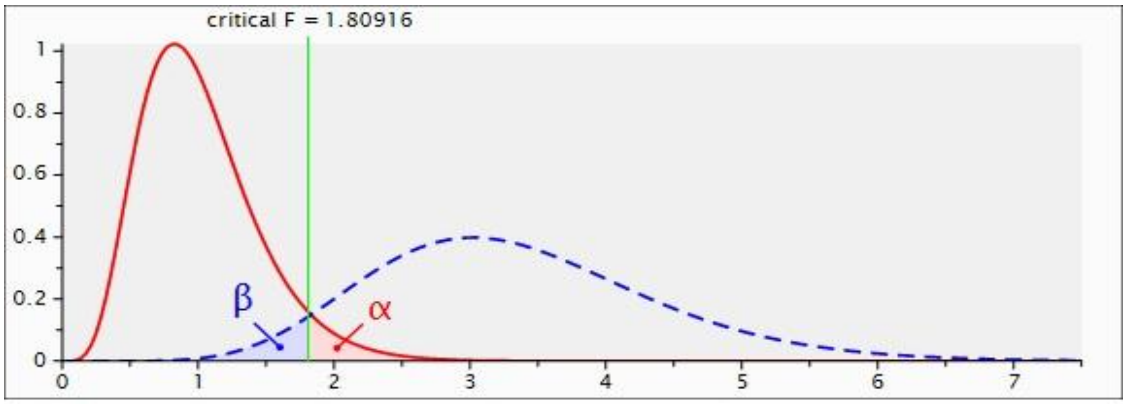


Figure 4.4
*Distribution Plot*

### 4.6.3 Units of Analysis

One of the main aims of the present study is to test the hypothesized relationships on the business unit level and hence, the study's unit of analysis is the bank branch represented by the branch manager. In this regard, Hepworth (1998) claimed that adding new management initiatives offers advantages to the organizational level as well as the management level. Majority of prior studies on TQM were carried out at the organizational level and thus, the present study contributes to literature concerning TQM and EO strategies at the bank branch level.

In the context of banking sector, examining the impact of TQM and EO has become significant as the significance of their contribution to successful implementation of strategy is increasingly becoming important. The next section discusses reasons behind why bank branch was chosen as unit of analysis in this study.

First, bank branches occupy an important position in the banking sector (Athanassopoulos, 1997), as they directly relate customers with the banks and competitive advantage is created through their value creation processes.

Second, bank branches are the liaisons between the bank and clients, and thus the bank's performance as a whole largely depends on the branches operations as stated

by Das, Ray and Nag (2009). They added that bank branches have a significant position in the bank's OP success as they mobilize the deposits and as a result, they also produce funds for the bank's investment processes. In other words, the bank branches performance may cause the success or collapse of the whole bank. As such, the performance and efficiency of the bank branches have been increasingly examined by researchers.

Finally, several academicians have primarily focused on business units in their examination of TQM practices (Saraph *et al.,* 1980), market orientation (Dwairi, Bhuian & Jukus, 2007), and strategies of TQM (Reed, Lemak & Montgomery, 1996). The importance of bank branches as a unit of study was also backed by many studies that examined TQM applicability and other innovative strategies at the bank branch level. Specifically, Longo and Cox (2000) distributed a questionnaire among 160 bank branch managers in the U.K. indicating that branches are considered as strategic business units wherein competitive advantage is developed via effective strategies. Other studies claimed that bank branches should be the core of strategic execution of the corporate bank and it is the best level upon which the level and outcomes of such strategy may be observed.

### 4.6.4 Estimating Expected Response Rate

In the present study, the total questionnaire distributed was 400 as opposed to 200 in an oversampling meant to assist in countering the loss stemming from non-cooperative subjects and unexpected issues (Salkind, 1997). Such oversampling also ensures that non-response bias and non-response rate will not impact the residuals as recommended by Phokwang (2008), Sindhu and Pookboonmee (2001), and Ringim, Razalli and Hasnan (2012). According to Babbie (1973), 50% rate of response is

deemed to be an acceptable rate in surveys relating to social research and hence, this study attempts to achieve just so.

### 4.6.5 Sampling Techniques

The researcher made use of probability sampling method to provide every individual an equal chance of being chosen as part of the sample (Sekaran, 2003). This sampling method is beneficial as no researcher bias arises against the sample objects selection (Salkind, 2003) and it produces high generalizability (Cavana, Dalahaye, & Sekaran, 2001). Specifically, this study attempted to draw samples from the banking sector of Libya through a Systematic random sampling procedure. Such procedure requires the random selection of a sample from a sampling population (Saunders *et al.*, 2009) manually with the help of a number table, computer or online number generator. Hence, SPSS software was used to produce random numbers from the list of branches names through the computer system ( SPSS-Data-Selet Cases) as illustrated in Table 4.5.

Table 4.5
*The Random Sampling*

| Regions | No.of branches | Proposed Sample |
|---|---|---|
| Eastern Region | 115 | 107 |
| Western Region | 295 | 255 |
| Southern Region | 50 | 38 |
| Total | 460 | 400 |

### 4.6.6 Questionnaire Design

The study questionnaire comprised 80 questions categorized into four sections – in the first section, 47 questions were included to measure each branch's TQM practices and in the second one, 9 questions measured three EO dimensions through the viewpoint of branch managers. In the third section, 18 items, adopted from Naver and Slater (1990) were included to gauge the branch managers' perceptions of MO

while the fourth section comprised 6 questions measuring the organizational performance of each branch.

### 4.6.7 Data Collection Procedures

The appropriate survey administration considerably impacts the satisfactory responses of the data gathered. Hence, the present study made use of self-administered questionnaire as the primary tool for data collection. In this regard, the quantitative method of study is invaluable in transformation information using the questionnaire into significant outcomes that contributes to research development (Cooper & Schindler, 2006). As mentioned, the questionnaire comprised 80 items measured with the help of a 5 point Likert scale, and the researcher specifically followed the self-administration approach in the cities where the bank branches were situated to guarantee significant rate of response. Such a method allowed the respondents to clarify ambiguities and the data collectors to confirm missing data from the respondents. Some bank branches were assisted by their headquarters in providing the much needed data; for instance, Wahda Bank offered a great degree of cooperation.

The original questionnaire was worded in English but since the targeted study respondents' (i.e. Libyan bank branch managers) mother tongue is Arabic, it was translated into Arabic language following the recommendations of Brislin (1970, 1986). The translation was carried out through back translation procedure, where the questionnaire was translated into Arabic, and then back to English in order to confirm both validity and reliability of the wording. Two bilinguals' services were obtained to translate it first into Arabic, and then two others were requested to back translate the translated original version, without confirming with the original version. The two English versions of the questionnaire were then compared after which minor

changes were made accordingly. Back translation guarantees the near equivalence of the two English versions of the questionnaire.

### 4.6.8 Pilot Study

After the initial questionnaire draft was revised many times to clarify issues, the next step involved the carrying out of a pilot study using the data gathered from a sub-set of the participants in order to test the measure's validity and reliability as recommended by Sproull (2004). The pretest evaluation, as mentioned, entailed the services of two academicians, but in the pilot test evaluation, respondents are chosen from the same pool of respondents (Bradburn, Sudman & Wansink , 2004). The aim behind the pilot test is to refine the measure prior to its distribution for actual data collection. This enables the rephrasing of ambiguous questions, gauge time required for questionnaire completion, and measures the measures reliability and validity. The steps followed in the pilot test are explained in the following paragraphs;

The pilot study data was collected from the managers of 31 bank branches located in Bangizh, Drnaa' and Al Badah. The managers were requested to comment on the questions and their clarity. Based on their feedback, the questions were rephrased to minimize confusion and maximize data quality. Following the pilot study, the instrument's reliability and validity were confirmed.

Reliability refers to the level of consistency among multiple measurements of a construct (Hair *et al.*, 2010) and hence, reliability analysis of the instrument was confirmed by the items consistency in measuring the construct. The instrument's reliability ensures that it measures consistently and produces the same result even if utilized repetitively. Sekaran (2003) proposed four methods that are extensively utilized by researchers to guarantee measuring instruments reliability; they are test-

retest methods, alternative form methods, split half method and Cronbach's alpha coefficient method. Davis (2000) highlighted the inadequacy of the first three methods based on their practical weaknesses. The first test may generate lower scores owing to the changes in the subject, the second one may require significant expenses as two different but equivalent forms of the same measure should be developed and lastly, the third method may generate different reliability coefficients according to the division of items.

However, Cronbach's alpha method for measuring reliability is invaluable due to its strengths to overcome the issues faced by all the three methods. Cronbach's alpha's practicality has been the dominating force behind its use, particularly in the field of social science. Hence, taking the cue from other social science studies, the present study employed Cronbach's alpha coefficient to test the measurements reliability. The method shows the items consistency when measuring the same construct by indicating that they show high consistency and share high tendency to measure it. Nunnally (1978) proposed some minimum standards for Cronbach's alpha where alphas that are of 0.7, 0.8 and 0.9 are for exploratory, basic and critical issue-based respectively.

The Cronbach's alpha coefficient of the study constructs are displayed in Table 4.6, where it is evident that all have acceptable level of internal consistency as they exceed the least level of alpha (0.7) (Nunnally & Beinstein, 1994). As they all showed a good level of internal consistency when measuring the construct, all the items remained and none were deleted.

Table 4.6
*Reliability Analysis of Pilot Study*

| **Constructs** | **No.of original items** | **Cronbach's Alpha** | **Item deleted*** | **Cronbach's Alpha if item deleted** |
|---|---|---|---|---|
| Management Leadership | 5 | 0.813 | Nil | 0.813 |
| Customer Focus | 6 | 0.876 | Nil | 0.876 |
| Strategic Planning | 6 | 0.888 | Nil | 0.888 |
| Human Resource Management | 11 | 0.886 | Nil | 0.886 |
| Service Design | 3 | 0.747 | Nil | 0.747 |
| Information and Analysis | 7 | 0.878 | Nil | 0.878 |
| Continuous Improvement | 5 | 0.868 | Nil | 0.868 |
| Benchmarking | 4 | 0.859 | Nil | 0.859 |
| Innovativeness | 3 | 0.850 | Nil | 0.850 |
| Proactiveness | 3 | 0.893 | Nil | 0.893 |
| Risk Taking | 3 | 0.725 | Nil | 0.725 |
| Competitor Orientation | 7 | 0.930 | Nil | 0.930 |
| Customer Orientation | 6 | 0.949 | Nil | 0.949 |
| Inter-functional Coordination | 5 | 0.886 | Nil | 0.886 |
| Organizational Performance | 6 | 0.874 | Nil | 0.874 |

Because a measurement may have a good level of reliability while lacking validity, it does not necessarily reflect goodness of measurement, as claimed by Churchill (1979) and Sekaran (2003). Therefore, the validity of the measure in this study was confirmed prior to the actual data collection phase. Validity is described as the level to which the measurement measures what it is expected to measure (Nunnally & Bernstein, 1994). In research methodology literature, several validity measures were proposed; for instance, in behavioral science the construct and content validity are the most extensively employed measures of validity (Kerlinger & Lee, 2000; Leary, 2004; Nunnally & Bernstein, 1994). More specifically, content validity shows the level to which the measure seems to measure what it is supposed to measure and is primarily based on the experts' judgmental claims that the measurement items

measure all the aspects of the construct. To ensure such validity, the items development entailed the comprehensive and thorough review of literature. In addition to this, feedback from several academicians and practitioners were carried out to develop the construct's items. The questionnaire was also distributed to potential respondents for revision and assessment.

On the other hand, construct validity was measured through factor analysis by employing the Principle Component Method and Varimax rotation. This analysis highlights the items explaining the same construct. Because the pilot study sample size was only 30, factor analysis of each construct was separately examined following Ahire *et al.* (1996), Black and Porter (1996) and Saraph *et al.* (1996).

The initial step involved the confirmation of the applicability and suitability of factorability of factor analysis through Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity. Kaiser (1974) described the KMO as an index that compares the observed correlation coefficient's magnitude to that of the partial correlation coefficient. The condition is such that the smaller the sum of the partial correlation between variable pairs, the closer will be the KMO to the value of 1.0 and thus, the more suitable factor analysis will be. Kaiser (1974) explained the KMO measure on the basis of their proximity to one; if it is approximately 0.90 it is deemed marvelous, if it is approximately 0.80, it is deemed meritorious, approximately 0.70 is deemed middling, approximately 0.60 is mediocre, 0.50 is deemed miserable and finally, below 0.50 is not acceptable. In this study, the results of the pilot study analysis in Table 4.7 showed that KMO measures ranged from 0.747-0.930 indicating the appropriateness of conducting factor analysis.

Table 4.7
*Factor Analysis and Reliability of the Final Instrument (Pilot Study)*

| constructs | No of Items | Factor loding | KMO | Eigenvalue | % of Variance | Cronbach's Alpha | Items Deleted |
|---|---|---|---|---|---|---|---|
| **Management Leadership** | 5 | .756 .845 .692 .845 .687 .814 .883 | 0.718 | 2.95 | 59.001 | 0.813 | Nil |
| **Customer Focus** | 6 | .776 .669 .754 .827 .742 .887 | 0.781 | 3.745 | 62.414 | 0.876 | Nil |
| **Strategic Planning** | 6 | .766 .840 .804 .781 .909 .887 | 0.702 | 3.888 | 64.802 | 0.888 | Nil |
| **Human Resource Management** | 11 | .795 .745 .900 .833 .789 .780 .900.847 .810 .890 .827 | 0.809 | 5.786 | 52.598 | 0.886 | Nil |
| **Service Design** | 3 | .695 .863 .885 | 0.602 | 1.958 | 65.261 | 0.747 | Nil |
| **Information and Analysis** | 7 | .850 .678 .615 .831 .798 .917 .822 | 0.788 | 4.413 | 63.044 | 0.878 | Nil |
| **Continuous Improvement** | 5 | .792 .772 .740 .819 .800 | 0.817 | 3.237 | 65.744 | 0.868 | Nil |
| **Benchmarking** | 4 | .853 .940 .854 .852 | 0.704 | 2.922 | 73.044 | 0.859 | Nil |
| **Innovativeness** | 3 | .929 .897 .903 | 0.673 | 2.318 | 77.26 | 0.850 | Nil |
| **Proactiveness** | 3 | .923 .858 .735 | 0.744 | 2.472 | 82.397 | 0.893 | Nil |
| **Risk Taking** | 3 | .826 .810 .728 .862 .887 | 0.651 | 1.959 | 65.305 | 0.725 | Nil |
| **Competitor Orientation** | 7 | .899 .907 .803 .904 .866 | 0.889 | 4.992 | 71.318 | 0.930 | Nil |
| **Customer Orientation** | 6 | .883 .883 .904 .936 .902 .892 | 0.917 | 4.819 | 80.31 | 0.949 | Nil |
| **Inter-functional Coordination** | 5 | .838 .635 .912 .749 .869 | 0.828 | 3.546 | 70.923 | 0.886 | Nil |
| **Organizational Performance** | 6 | .880 .781 .715 .720 | 0.812 | 3.732 | 62.199 | 0.874 | Nil |

## 4.7 Data Analysis

After data collection procedure, descriptive and inferential statistics were used for data analysis. In particular, the PLS-SEM method was employed to analyze the collected data including SmartPLS (Ringle *et al.,* 2005), and PLS-Graph (Chin, 2003).

### 4.7.1 Descriptive Analysis

This type of analysis is utilized to provide a description of the phenomenon under study (Sekaran & Bougie, 2010), where descriptive information is statistically analyzed according to the frequency of phenomenon occurrence (frequency), the average score, or the central tendency (mean), and the variability extent (standard deviation). The sample characteristics and the all the constructs used in the study were exposed to descriptive analysis.

### 4.7.2 Partial Least Squares (PLS) Technique

The PLS-SEM technique is described by Wold (1982) as a second generation structural equation modeling that performs effectively with structural equation models containing latent variables and a series of cause-and-effect relations (Gustafsson & Johnson, 2004). This approach is an effective and flexible technique used in statistical model development and prediction (Ringle, Wende & Will, 2012). The present study made use of the PLS-SEM for several reasons; first, structural equation models have been shown to be superior in estimating compared to regressions, particularly, in mediation assessment (Brown, 1997; Iacobucci, Saldanha & Deng, 2007; Mattanah, Hancock, & Brand, 2004; Preacher & Hayes, 2004). Its strength comes from providing measurement error and providing accurate mediating effects estimates (Chin, 1998). Second, PLS path modeling suits real world applications and is beneficial for complex models (Fornell & Bookstein, 1982;

Hulland, 1999). Its assumptions of soft modeling (i.e. flexibility in developing and validating complex models) provide its strength in estimating complex models (Akter *et al.,* 2011). In the current study, the relationship among 13 models within the structural model was examined and the PLS-SEM was employed for accurate prediction.

Third, data in majority of social science studies often have issues of normality (Osborn, 2010) and PLS path modeling does not need normal data (Chin, 1998a); in other words, PLS views non-normal data just as effectively as normal data. On the whole, this study chose to use PLS path modeling to steer clear of normality issues that may occur during the data analysis.

Fourth, PLS-SEM is capable of providing meaningful and valid outcomes, while other analysis methods like SPSS frequently provides ambiguous conclusions that would call for other analyses (Bollen, 1989). Moreover, according to Tabachnick and Fidel (2007), SEM is one of the top effective statistical tools used in the field of social and behavioral sciences that is capable of the simultaneous examination of multiple relationships.

Hence, the present study used SmartPLS path modeling to confirm measurement and structural models. A measurement model explained the reliability and validity of the constructs while a structural model was used to carry out bivariate correlation analysis as well as regressions analysis simultaneously to clarify relations and their effects among constructs under study. More importantly, PLS algorism and bootstrapping determined the mediating effects of MO on the TQM-EO and OP relationship.

#### 4.7.2.1 Advantages of PLS

Several advantages are attributed to PLS as compared to SEM and such advantages are primarily related to its robustness - it provides a solution even to issues that may not be solved through SEM. In SEM, poor measurement is one of the major obstacles – for instance, when a researcher attempts to test a structural model with a single item measure or a combination of measures, it may face issues that cannot be resolved. However, in case of PLS, all recursive models are identified with single item measures and in addition to this, it can also manage formative and reflective constructs. Several researchers opt for PLS use because of this. PLS is also capable of expedient exploration of multiple variables to determine variables sets that are predictors of the outcome variable. Additionally, it does not face model complexity like SEM does and is hence capable of handling multiple measured constructs conveniently.

On a final note, PLS is not sensitive to sample size as its estimation method is capable of handling very small as well as very large samples more effectively in comparison to SEM.

#### 4.7.2.2 Evaluate PLS models

Hair *et al.* (2013) and Valerie (2012) proposed two primary methodological elements in the evaluation of PLS models;

1. Evaluation of Measurement Model – The evaluation of reflective measurement models is based on their internal consistency, constructs uni-dimensionality, measures convergent validity, and measures discriminant validity summarized below;

a. Construct Validity – where indicator loadings have to be higher than 0.70. It is also referred to as exploratory factor analysis (EFA).
b. Convergent Validity – where the average variance extracted (AVE) should have a value greater than 0.50.
c. Discriminant Validity – where the AVE of every latent construct should have a value greater than the construct's greater squared correlation with another latent construct (as proposed by Fornell-Larcker, 1981). Moreover, the loadings of the indicator have to be greater compared to all of its cross loadings.
d. Internal Consistency Reliability – Cronbach's alpha is considered as the lower bound of the internal consistency reliability and composite reliability is considered as the upper bound of the true reliability, which is unknown. The two measures have to be higher than 0.70.

2. Evaluation of the Structural Model – the primary criteria for evaluating the structural model are listed as follows;
    a. R Square ($\mathbf{R^2}$) – R square values of 0.75, 0.50 or 0.25 are considered as substantial, moderate and weak respectively, in the field of marketing research studies.
    b. Effective Size ($\boldsymbol{f^2}$) – the effect sizes of the specific latent variables impact upon the dependent latent variables are obtained with the help of $\boldsymbol{f^2}$ analysis. Specifically, $\boldsymbol{f^2}$ values of 0.02, 0.15 and 0.35 are considered as small, medium and large effect sizes of predictive variables respectively.
    c. Predictive Relevance of the Model – the model quality can be examined through the use of blindfolding procedure in order to obtain $Q^2$=1-SSE/SSO. A positive $Q^2$ indicates that the model possesses predictive

validity and a negative one indicates the absence of predictive validity (Tenenhaus, 1999).

d. Goodness of Fit (GoF) of the Model – GoF was defined by Tenenhaus, Esposito, Chatelin and Lauro (2005, p.176) as PLS-SEM's sole measure of goodness of fit. Such a measure is the endogenous variables geometric mean of the AVE and average $R^2$. Goodness of fit value of 0.10, 0.25 and 0.36 are considered as small, medium and large respectively (Wetzels, Odekerken-Schroder & Oppen, 2009).

e. Hypothesis Testing – the path coefficients significance is assessed with the help of the bootstrapping method, where the least number of bootstrap samples is 5000, and it is important that the number of cases equalizes the number of observations in the initial sample. The critical t-values for three-tailed tests are provided as; 1.65 at 0.10 significance level, 1.96 at 0.05 significance level and 2.58 at 0.01 significance level.

## 4.8 Chapter Summary

The present chapter provided an overview of the study methodology and an outline of the sampling design. It covers the employed study method and data collection strategies along with the rationale behind the research design. The chapter provided a description of the theoretical framework, a list of conceptual definitions, and a discussion of hypothesis development. It also explains the relevant underpinning theories, the study population, the sample size, and sampling method, and the techniques employed for data collection and analysis. Finally, the chapter discussed the study instrument in terms of its reliability and validity, and provided an overview of the pilot study and the related results.

# CHAPTER FIVE
# FINDINGS

## 5.1 Introduction

The present chapter is dedicated to presenting the analysis of the collected data. Specifically, descriptive and inferential statistics were applied on the data via SPSS (Statistical Package for Social Sciences) and PLS-SEM (Partial Lease Squares-Structural Equation Modeling). It begins by providing and discussing the main results following the preliminary analysis and screening of the data collected through survey. This is followed by the evaluation of the model quality with the help of PLS and this involves presentation of the findings obtained of the measurement and the structure model including construct, convergent, and discriminant validity, predictive relevance, effective size and goodness of fit (GoF). The final part presents the hypotheses testing findings and the mediating impact of market orientation.

## 5.2 Analysis of Survey Response

### 5.2.1 Response Rates

The respondents' distribution, based on the regions wherein the bank branches are located, is listed in Table 5.1. It is evident from the table that majority of the branches are in the Western Region. In addition, the total rate of response in the study is 56%.

Table 5.1
*Distribution of Respondent by Regions*

| Regions | Distributed Questionnaires | Returned and Usable | Percentage |
|---|---|---|---|
| Eastern Region | 107 | 70 | 65% |
| Western Region | 255 | 140 | 55% |
| Southern Region | 38 | 20 | 53% |
| Total | 400 | 230 | 57% |

### 5.2.2 Test of Non-Respondent Bias

A survey questionnaire was used as the primary data collection tool and because it was self-administered, the non-response bias had to be tested. Several of the study respondents only provided data after several visits and reminders throughout the collection period (May-July 2014).

For this purpose, the T-test was carried out to conduct a comparison between early and later responses in terms of study variables. According to Armstrong and Overton (1977), and Kannan, Tan, Handfield and Ghosh (1999), a significant difference between early and late responses may be attributed to the differences between non-respondents and respondents.

For testing the non-response bias, T-test was conducted between the 160 early respondents and 40 late respondents. Additionally, the study constructs was considered and prior to examining the equality of means throughout the responses, the Levene's test of equality variances was conducted. The results of the test revealed homogeneity throughout the groups at the level significance of 0.01. The equality of means was then tested across the two groups in terms of the study variables. The results of this test, presented in Table 5.2, revealed no significant differences between early and late respondents for the entire variables and both groups were backed by 0.01 level of significance.

Table 5.2
*Group Statistics of Independent Sample t-test (n=200)*

| Constructs | Early/Late Responses | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| Management Leadership | Early | 160 | 2.924 | .911 | .072 |
| | Late | 40 | 2.775 | .733 | .116 |
| Customer Focus | Early | 160 | 2.736 | .980 | .077 |
| | Late | 40 | 3.013 | 1.014 | .160 |

Table 5.2 (Continued)

| | | | | | |
|---|---|---|---|---|---|
| Strategic Planning | Early | 160 | 2.851 | .921 | .073 |
| | Late | 40 | 2.883 | .892 | .141 |
| Human Resource Management | Early | 160 | 2.625 | .843 | .067 |
| | Late | 40 | 2.859 | .837 | .132 |
| Service Design | Early | 160 | 2.652 | .919 | .073 |
| | Late | 40 | 2.417 | .942 | .149 |
| Information and Analysis | Early | 160 | 2.834 | .860 | .068 |
| | Late | 40 | 2.686 | .779 | .123 |
| Continuous Improvement | Early | 160 | 2.731 | .857 | .068 |
| | Late | 40 | 2.765 | .859 | .136 |
| Benchmarking | Early | 160 | 2.523 | .963 | .076 |
| | Late | 40 | 2.300 | .911 | .144 |
| Innovativeness | Early | 160 | 2.781 | 1.037 | .082 |
| | Late | 40 | 2.683 | 1.007 | .159 |
| Proactivness | Early | 160 | 2.742 | 1.041 | .082 |
| | Late | 40 | 2.733 | 1.016 | .161 |
| Competitor Orientation | Early | 160 | 2.763 | .883 | .070 |
| | Late | 40 | 2.761 | .753 | .119 |
| Customer Orientation | Early | 160 | 2.943 | 1.038 | .082 |
| | Late | 40 | 2.958 | .896 | .142 |
| Inter-functional Coordination | Early | 160 | 2.696 | .904 | .071 |
| | Late | 40 | 2.745 | .750 | .119 |
| organizational performance | Early | 160 | 2.710 | .912 | .072 |
| | Late | 40 | 3.138 | .836 | .132 |
| Risk-taking | Early | 160 | 3.252 | .915 | .072 |
| | Late | 40 | 3.150 | 1.089 | .172 |

Table 5.3
*T-test results for Non-Response Bias*

| Constructs | Levene's Test for Equality of Variances | | t-test for Equality of Means | | |
|---|---|---|---|---|---|
| | F Value | Sig | T-Value | DF | Sig |
| Management Leadership | 6.056 | .015 | .957 | 198 | .340 |
| Customer Focus | .003 | .956 | -1.582 | 198 | .115 |
| Strategic Planning | .021 | .884 | -.200 | 198 | .842 |
| Human Resource Management | .021 | .885 | -1.573 | 198 | .117 |
| Service Design | .414 | .521 | 1.442 | 198 | .151 |

Table 5.3 (Continued)

| | | | | | |
|---|---|---|---|---|---|
| Information and Analysis | .180 | .671 | .993 | 198 | .322 |
| Continuous Improvement | .198 | .657 | -.223 | 198 | .824 |
| Benchmarking | .284 | .594 | 1.327 | 198 | .186 |
| Innovativeness | .094 | .759 | .537 | 198 | .592 |
| Proactivness | .442 | .507 | .046 | 198 | .964 |
| Risk-taking | 4.287 | .040 | -.116 | 198 | .907 |
| Competitor Orientation | 3.423 | .066 | .018 | 198 | .986 |
| Customer Orientation | 2.833 | .094 | -.087 | 198 | .930 |
| Inter-functional Coordination | 5.078 | .025 | -.315 | 198 | .753 |

### 5.2.3 Descriptive Statistics

The conducted a descriptive analysis for the collected data to provide a description of the total quality management, entrepreneurial orientation, organizational performance, and market orientation from the perspective of the respondents. The constructs mean, standard deviation, minimum and maximum values are listed in Table 5.4, where the implementation level of the above constructs are also listed, indicating the perceived performance level of Libyan banks.

Based on the figures listed on Table 5.4, the constructs minimum value is 1.00 while the maximum value is 5.00, indicating that Likert scale was employed. Data revealed that management leadership had the top maximum mean value compared to the other dimensions of TQM, indicating the respondents' high concentration and emphasis on leadership practice in achieving the desired organizational performance. Moreover, the low value of standard deviation showed that respondents did not differ in their perception of the importance of leadership for organizational performance characterized by sustainability.

Management leadership is followed by strategic planning with a mean of 2.858 and standard deviation of 0.913. The respondents appeared to have stressed on strategic planning and its role in organizational performance. Next is the information and analysis with mean of 2.804 and standard deviation of 0.845. The results showed good emphasis on the information and analysis as evident from the values. Customer focus also had its share of respondents' focus with a mean value of 2.792 and standard deviation of 0.991 although its importance in the perception of respondents is not as high as leadership, strategic planning, and information and analysis.

With regards to continuous improvement and human resource management, they obtained mean values of 2.738 and 2.672 respectively and standard deviations of 0.855 and 0.845 respectively. Additionally, service design and benchmarking had mean values of 2.605 and 2.479, and standard deviation of 0.926 and 0.955 respectively, with benchmarking obtaining the lowest mean value. This indicates that Libyan banks lack benchmarking and this can be the reason behind the poor practices in service design and improvement. Benchmarking is a significant asset that leads to the achievement of other practices. It is recommended that Libyan banks should concentrate more on how to benchmark the best practices to enhance organizational performance.

Moreover, with regards to risk-taking, it obtained the highest mean value of 3.232 as listed in Table 5.4 and the lowest standard deviation of 0.950 and this shows the respondents' inclination to take risks to maximize banking performance. With regards to innovativeness and proactiveness, they obtained mean values of 2.763 and 2.740, and standard deviation values of 1.029 and 1.033 respectively. The

proactiveness values show that Libyan banking sector is not proactive enough in their activities to increase their performance.

Also, market orientation dimensions obtained mean values of 2.763, 2.946 and 2.706 along with standard deviations of 0.857, 1.009 and 0.873 indicating the perceptions of the respondents about customer-focus, with customer orientation having the highest mean.

With regards to organization performance, it is evident from the table (Table 5.4) that it obtained the mean value of 2.796 and standard deviation value of 0.912 and this indicates the respondents' negative perception of the current performance of Libyan banks that underlies the reason for the present study. The low standard deviation value shows that respondents are of the consensus in their perception.

Table 5.4
*Descriptive Statistics of the Constructs*

| Variable | Dimension | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|---|
| Total Quality Management | Mangement Leadership | 200 | 1 | 5 | 2.894 | 0.879 |
| | Customer Focus | 200 | 1 | 5 | 2.792 | 0.991 |
| | Strategic Planning | 200 | 1 | 5 | 2.858 | 0.913 |
| | Human Resource Management | 200 | 1 | 5 | 2.672 | 0.845 |
| | Service Design | 200 | 1 | 5 | 2.605 | 0.926 |
| | Information and Analysis | 200 | 1 | 5 | 2.804 | 0.845 |
| | Continuous Improvement | 200 | 1 | 5 | 2.738 | 0.855 |
| | Benchmarking | 200 | 1 | 5 | 2.479 | 0.955 |
| Entrepreneurial Orientation | Innovativeness | 200 | 1 | 5 | 2.762 | 1.029 |
| | Proactivness | 200 | 1 | 5 | 2.740 | 1.033 |
| | Risk-taking | 200 | 1 | 5 | 3.232 | 0.950 |
| Market Orientation | Competitor Orientation | 200 | 1 | 5 | 2.763 | 0.857 |
| | Customer Orientation | 200 | 1 | 5 | 2.946 | 1.009 |
| | Inter-functional Coordination | 200 | 1 | 5 | 2.706 | 0.873 |

Table 5.4 (Continued)

| | | | | | |
|---|---|---|---|---|---|
| Organizational Performance | 200 | 1 | 5 | 2.796 | 0.912 |

## 5.3 Data Screening and Preliminary Analysis

### 5.3.1 Assumption of Normality

Normality shows the symmetrical curve, with the greatest scores frequency concentrated on the extremes of both small and middle frequencies (Pallant, 2005). For the normality assumption test, researchers (Kline, 1998; Pallant, 2005) recommended assessing for both independent and dependent variables via skewness and kurtosis values. In the field of social sciences, the nature of constructs displays various scales and measures that may lead to positive or negative skewness (Pallant, 2005). On the other hand, kurtosis refers to the distribution where the observations are gathered around the central mean.

Hair *et al.* (2006) claimed that skewness values that are not within the range of +1 and -1 are significantly skewed while Kline (1998) contended that the cutoff value between +3 and -3 is still acceptable. As for the kurtosis values, Coakes and Steed (2003) claimed that the acceptable range is from +3 to -3 (See Table 5.5).

On the basis of the above range (+3 to -3), the results of the present study's skewness values deviate from normal distribution and hence, in order to tackle such abnormal distribution or skewed data, the researcher employed PLS Structural Equation Modeling, which is the distribution free, statistical modeling technique (Chin, 1998).

Table 5.5
*Results of Skewness and Kurtosis for Normality test*

| Variables | Skewness | | Kurtosis | |
|---|---|---|---|---|
| | Value | Std. Error | Value | Std. Error |
| Management Leadershiop | -.035 | .172 | -.706 | .342 |
| Cusomter Focus | .051 | .172 | -.876 | .342 |
| Strategic Planning | -.250 | .172 | -.640 | .342 |
| Human Resource Management | .053 | .172 | -.358 | .342 |
| Service Design | .061 | .172 | -.623 | .342 |
| Information and Analysis | -.343 | .172 | -.172 | .342 |
| Continuous Improvement | -.147 | .172 | -.360 | .342 |
| Benchmarking | .211 | .172 | -.925 | .342 |
| Innovativeness | .045 | .172 | -.885 | .342 |
| Proactivness | .140 | .172 | -.770 | .342 |
| Competitor Orientation | -.361 | .172 | .059 | .342 |
| Customer Orientation | -.269 | .172 | -.564 | .342 |
| Inter-functional Coordination | -.459 | .172 | -.589 | .342 |
| Organizational Performance | -.043 | .172 | -.766 | .342 |
| Risk-taking | -.898 | .172 | .389 | .342 |

### 5.3.2 Test of Linearity

Testing the linearity of data determines the relationship of independent variables with dependent ones that predict the right direction of the hypotheses. Specifically, positive values show positive relationship. On this basis, Hair *et al.* (2006) suggested the partial regression plot to be used on each variable when there is more than one single variable to ensure optimum equation representation. For this purpose, the researcher employed the normal P-P plot of regression standardized residual plot for independent variables on the dependent one. Based on the results, normal distribution was achieved. The graph of the linearity test output is attached in Appendix C.

### 5.3.3 Multicollinearity Test

This test is significant to be employed prior to model testing (Hair *et al.*, 2010) as it shows the existence of relapse in the correlation matrix, wherein the independent variable is significantly correlated with another of its kind. Additionally,

multicollinearity is evident when the value of correlation is greater than 0.90 as suggested by Hair *et al.* (2010). The multicollinearity test is achieved through the variance influence factor (VIF) and tolerance value determination.

To this end, the variance influence factor refers to the amount of variability of the chosen independent variable that is explained by other independent variables while tolerance value is the opposite of VIF (Hair *et al.,* 2010). The cut off value for VIF and tolerance values are 10 and 0.10 respectively indicating that the when the former value is near to 1.00, little or no multicollinearity exists.

The three models and their highlighted collinearity values for the entire independent variables are presented in Table 5.6. Variables obtained correlation below 0.90 and this shows no issue of multicollinearity. With regards to the VIF values, they range between 2.623 and 5.437 and tolerance values fall between 0.184 and 0.336. The results conform no violation of the assumption of multicollinearity.

Table 5.6
*Multicollinearity Test*

| Modal | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| Total Quality Management | Organizational Performance | 0.336 | 2.977 |
| Entrepreneurial Orientation | | 0.192 | 5.203 |
| Market Orientation | | 0.184 | 5.437 |
| Total Quality Management | Market Orientation | .381 | 2.623 |
| Entrepreneurial Orientation | | .381 | 2.623 |

**5.4 Evaluation of the Model Quality**

Data analysis in this study was conducted with the help of the software package, SmartPLS, Version 2.0 M3 as suggested by Ringle, Wende and Will (2005). Smart PLS is extensively utilized in the field of marketing and management science (Henseler *et al.*, 2009). According to researchers (Hair *et al.,* 2011; Valerie, 2012), a

PLS model is generally analyzed and interpreted in two phases; first measuring the outer model for validity and reliability and second, analyzing the structure model by R square, effect size, predictive model relevance, and goodness of fit (GoF). In the first phase, properties of multi-item constructs are measured with the inclusion of convergent validity and discriminant validity. Following the second phase, the study hypotheses testing is conducted through the bootstrapping method. Figure 5.1 demonstrates the two phases.

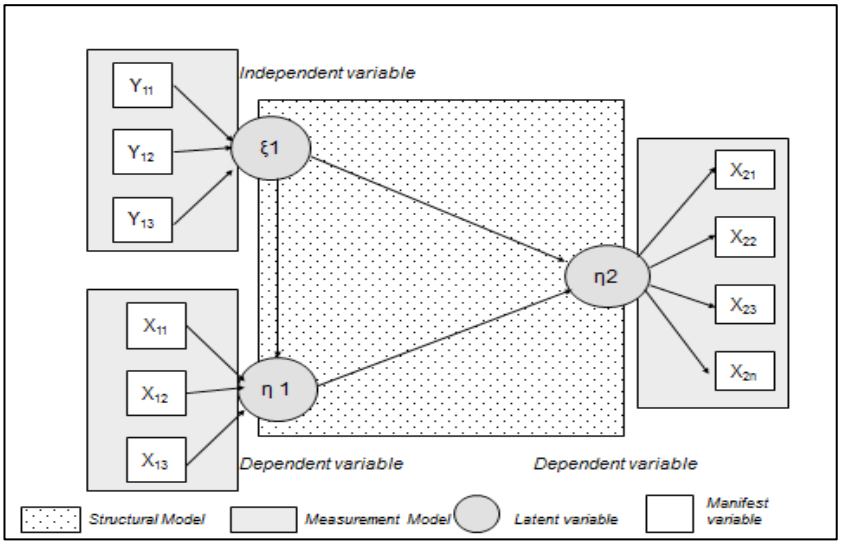


Figure 5.1
*Measurement Model and Structural Model*

Source: Valerie (2012).

The initial study model comprised 80 reflective measurement items that are manifest variables or indicators, four latent variables including two independent, one dependent variable and one mediating variable constituting 16 relationships between them on the basis of the proposed study hypotheses as presented in Figure 5.2.

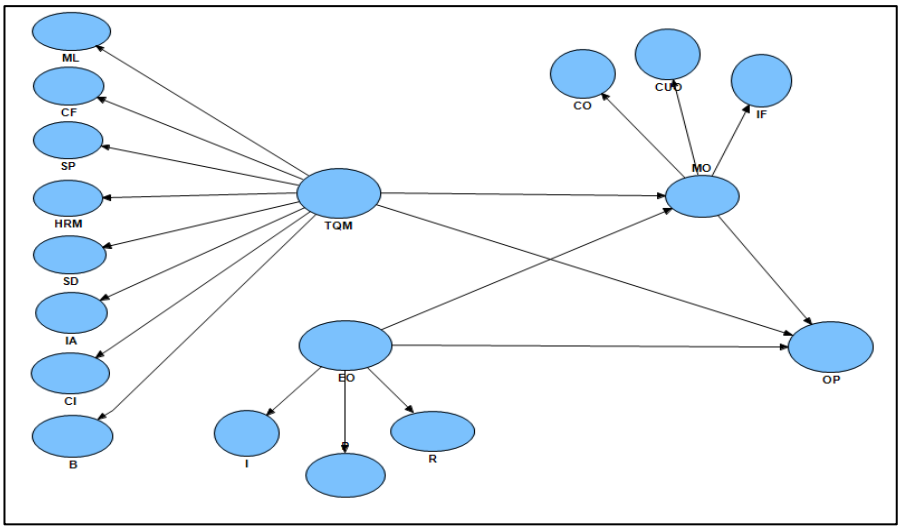


Figure 5.2
*Original Study Model*

### 5.4.1 Measurement Model

Prior to hypotheses testing, the Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed to assess the measurement model's outer model. The following phases, suggested by James C Anderson and Gerbing (1988) were followed. This process confirms construct validity. Construct validity can be assessed through the construct's content validity, convergent validity and discriminant validity.

#### 5.4.1.1 The Construct Validity

Content validity is defined as the level to which the proposed items suitably measures the concept of the construct that they are designed to measure (Hair *et al.*, 2010). Stated differently, items measuring a construct should load higher on their respective constructs. Hence, items are considered through a thorough literature review. On the basis of the factor analysis, the entire items correctly loaded to their constructs. The content validity of the measures is presented in Table 5.7. It is evident from the table, that the items loaded significantly to their respective

constructs and that the measures content validity are confirmed (See Tables 5.7 and 5.8) (Chow & Chan, 2008).

Table 5.7
*Factor Analysis and loadings of the Items*

| Itms | B | CF | CI | CO | CUO | HRM | I | IA | IF | ML | OP | P | R | SD | SP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **B1** | **0.887** | 0.497 | 0.772 | 0.652 | 0.625 | 0.718 | 0.622 | 0.728 | 0.581 | 0.670 | 0.582 | 0.635 | 0.540 | 0.723 | 0.635 |
| **B2** | **0.833** | 0.430 | 0.595 | 0.438 | 0.452 | 0.488 | 0.433 | 0.567 | 0.407 | 0.499 | 0.296 | 0.419 | 0.313 | 0.556 | 0.533 |
| **B3** | **0.901** | 0.490 | 0.666 | 0.507 | 0.533 | 0.622 | 0.523 | 0.601 | 0.493 | 0.576 | 0.424 | 0.489 | 0.341 | 0.640 | 0.553 |
| **B4** | **0.903** | 0.529 | 0.662 | 0.498 | 0.565 | 0.651 | 0.583 | 0.651 | 0.519 | 0.627 | 0.473 | 0.514 | 0.399 | 0.637 | 0.652 |
| **CF2** | 0.520 | **0.858** | 0.507 | 0.455 | 0.551 | 0.661 | 0.548 | 0.614 | 0.491 | 0.596 | 0.448 | 0.445 | 0.370 | 0.561 | 0.747 |
| **CF3** | 0.466 | **0.871** | 0.484 | 0.415 | 0.498 | 0.621 | 0.433 | 0.510 | 0.507 | 0.567 | 0.397 | 0.418 | 0.364 | 0.442 | 0.687 |
| **CF4** | 0.379 | **0.790** | 0.396 | 0.495 | 0.564 | 0.434 | 0.449 | 0.577 | 0.592 | 0.578 | 0.414 | 0.453 | 0.583 | 0.490 | 0.620 |
| **CF5** | 0.428 | **0.823** | 0.527 | 0.519 | 0.573 | 0.603 | 0.534 | 0.591 | 0.554 | 0.608 | 0.488 | 0.545 | 0.535 | 0.544 | 0.619 |
| **CF6** | 0.518 | **0.846** | 0.458 | 0.464 | 0.538 | 0.634 | 0.542 | 0.524 | 0.451 | 0.634 | 0.411 | 0.491 | 0.351 | 0.442 | 0.693 |
| **CI1** | 0.576 | 0.560 | **0.840** | 0.637 | 0.648 | 0.653 | 0.645 | 0.749 | 0.645 | 0.539 | 0.582 | 0.613 | 0.640 | 0.682 | 0.685 |
| **CI2** | 0.654 | 0.432 | **0.899** | 0.603 | 0.576 | 0.724 | 0.656 | 0.650 | 0.582 | 0.551 | 0.537 | 0.587 | 0.489 | 0.629 | 0.629 |
| **CI3** | 0.666 | 0.406 | **0.819** | 0.498 | 0.479 | 0.676 | 0.538 | 0.543 | 0.529 | 0.543 | 0.460 | 0.439 | 0.412 | 0.539 | 0.596 |
| **CI4** | 0.672 | 0.489 | **0.777** | 0.551 | 0.591 | 0.592 | 0.569 | 0.693 | 0.524 | 0.617 | 0.476 | 0.550 | 0.496 | 0.733 | 0.622 |
| **CO1** | 0.649 | 0.491 | 0.664 | **0.823** | 0.711 | 0.710 | 0.682 | 0.671 | 0.672 | 0.554 | 0.526 | 0.704 | 0.526 | 0.696 | 0.559 |
| **CO2** | 0.437 | 0.365 | 0.457 | **0.827** | 0.580 | 0.398 | 0.561 | 0.585 | 0.567 | 0.395 | 0.392 | 0.590 | 0.633 | 0.498 | 0.368 |
| **CO3** | 0.367 | 0.417 | 0.556 | **0.808** | 0.642 | 0.406 | 0.677 | 0.631 | 0.566 | 0.393 | 0.486 | 0.587 | 0.680 | 0.503 | 0.417 |
| **CO4** | 0.535 | 0.609 | 0.528 | **0.839** | 0.736 | 0.520 | 0.637 | 0.610 | 0.593 | 0.555 | 0.574 | 0.711 | 0.615 | 0.565 | 0.491 |
| **CO6** | 0.471 | 0.413 | 0.623 | **0.830** | 0.715 | 0.509 | 0.666 | 0.639 | 0.671 | 0.484 | 0.626 | 0.704 | 0.689 | 0.529 | 0.481 |
| **Cuo1** | 0.566 | 0.527 | 0.648 | 0.713 | **0.867** | 0.539 | 0.762 | 0.669 | 0.657 | 0.550 | 0.637 | 0.728 | 0.662 | 0.581 | 0.570 |
| **Cuo2** | 0.665 | 0.497 | 0.642 | 0.712 | **0.854** | 0.524 | 0.708 | 0.719 | 0.685 | 0.544 | 0.560 | 0.680 | 0.591 | 0.608 | 0.559 |
| **Cuo3** | 0.580 | 0.557 | 0.629 | 0.743 | **0.907** | 0.535 | 0.716 | 0.717 | 0.733 | 0.504 | 0.584 | 0.738 | 0.635 | 0.643 | 0.550 |
| **Cuo4** | 0.500 | 0.583 | 0.638 | 0.707 | **0.894** | 0.528 | 0.706 | 0.733 | 0.777 | 0.511 | 0.594 | 0.637 | 0.677 | 0.620 | 0.592 |
| **Cuo5** | 0.504 | 0.673 | 0.534 | 0.741 | **0.873** | 0.533 | 0.689 | 0.711 | 0.777 | 0.595 | 0.599 | 0.662 | 0.681 | 0.598 | 0.600 |
| **Cuo6** | 0.499 | 0.611 | 0.586 | 0.757 | **0.917** | 0.526 | 0.730 | 0.723 | 0.791 | 0.587 | 0.651 | 0.714 | 0.724 | 0.646 | 0.550 |
| **HRE2** | 0.600 | 0.635 | 0.711 | 0.601 | 0.595 | **0.848** | 0.626 | 0.708 | 0.588 | 0.592 | 0.543 | 0.638 | 0.514 | 0.691 | 0.684 |
| **HRE3** | 0.541 | 0.591 | 0.612 | 0.582 | 0.577 | **0.747** | 0.508 | 0.672 | 0.568 | 0.565 | 0.489 | 0.482 | 0.483 | 0.676 | 0.598 |
| **HRI1** | 0.685 | 0.621 | 0.654 | 0.477 | 0.493 | **0.842** | 0.512 | 0.543 | 0.519 | 0.689 | 0.446 | 0.496 | 0.388 | 0.620 | 0.715 |

Table 5.7 (Continued)

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **HRI2** | 0.531 | 0.528 | 0.594 | 0.483 | 0.482 | **0.813** | 0.440 | 0.492 | 0.542 | 0.488 | 0.404 | 0.437 | 0.341 | 0.550 | 0.572 |
| **HRI4** | 0.522 | 0.559 | 0.639 | 0.571 | 0.518 | **0.801** | 0.541 | 0.564 | 0.535 | 0.558 | 0.529 | 0.502 | 0.426 | 0.594 | 0.577 |
| **HRT1** | 0.488 | 0.463 | 0.520 | 0.311 | 0.255 | **0.710** | 0.367 | 0.386 | 0.346 | 0.527 | 0.283 | 0.288 | 0.260 | 0.402 | 0.591 |
| **HRT4** | 0.527 | 0.489 | 0.623 | 0.365 | 0.335 | **0.747** | 0.491 | 0.528 | 0.399 | 0.557 | 0.260 | 0.417 | 0.310 | 0.513 | 0.665 |
| **I1** | 0.579 | 0.444 | 0.636 | 0.656 | 0.684 | 0.565 | **0.838** | 0.632 | 0.580 | 0.482 | 0.608 | 0.657 | 0.469 | 0.560 | 0.517 |
| **I2** | 0.525 | 0.535 | 0.631 | 0.691 | 0.738 | 0.531 | **0.920** | 0.721 | 0.607 | 0.614 | 0.582 | 0.761 | 0.677 | 0.600 | 0.628 |
| **I3** | 0.559 | 0.613 | 0.672 | 0.745 | 0.745 | 0.612 | **0.915** | 0.742 | 0.647 | 0.673 | 0.601 | 0.837 | 0.664 | 0.642 | 0.695 |
| **IA1** | 0.671 | 0.571 | 0.633 | 0.623 | 0.670 | 0.624 | 0.691 | **0.804** | 0.613 | 0.614 | 0.582 | 0.693 | 0.534 | 0.714 | 0.626 |
| **IA2** | 0.729 | 0.534 | 0.651 | 0.636 | 0.615 | 0.641 | 0.615 | **0.754** | 0.540 | 0.553 | 0.415 | 0.561 | 0.450 | 0.658 | 0.620 |
| **IA3** | 0.574 | 0.615 | 0.661 | 0.602 | 0.628 | 0.614 | 0.609 | **0.863** | 0.627 | 0.596 | 0.518 | 0.600 | 0.556 | 0.737 | 0.700 |
| **IA4** | 0.611 | 0.565 | 0.731 | 0.670 | 0.703 | 0.610 | 0.722 | **0.848** | 0.629 | 0.548 | 0.528 | 0.649 | 0.592 | 0.722 | 0.676 |
| **IA5** | 0.401 | 0.405 | 0.536 | 0.582 | 0.609 | 0.426 | 0.564 | **0.759** | 0.599 | 0.408 | 0.430 | 0.532 | 0.591 | 0.607 | 0.449 |
| **IA6** | 0.483 | 0.476 | 0.599 | 0.535 | 0.652 | 0.513 | 0.602 | **0.797** | 0.638 | 0.480 | 0.420 | 0.442 | 0.533 | 0.623 | 0.585 |
| **IA7** | 0.577 | 0.586 | 0.632 | 0.630 | 0.650 | 0.553 | 0.608 | **0.804** | 0.584 | 0.535 | 0.490 | 0.608 | 0.683 | 0.673 | 0.621 |
| **IF1** | 0.583 | 0.584 | 0.588 | 0.600 | 0.728 | 0.615 | 0.573 | 0.656 | **0.807** | 0.510 | 0.415 | 0.528 | 0.481 | 0.556 | 0.616 |
| **IF2** | 0.620 | 0.474 | 0.631 | 0.615 | 0.698 | 0.603 | 0.596 | 0.575 | **0.830** | 0.526 | 0.558 | 0.577 | 0.527 | 0.570 | 0.531 |
| **IF3** | 0.282 | 0.485 | 0.480 | 0.609 | 0.583 | 0.406 | 0.485 | 0.537 | **0.794** | 0.435 | 0.557 | 0.494 | 0.584 | 0.430 | 0.456 |
| **IF5** | 0.340 | 0.441 | 0.501 | 0.583 | 0.668 | 0.425 | 0.552 | 0.645 | **0.792** | 0.457 | 0.544 | 0.542 | 0.647 | 0.568 | 0.432 |
| **ML1** | 0.642 | 0.520 | 0.595 | 0.510 | 0.517 | 0.603 | 0.624 | 0.620 | 0.449 | **0.837** | 0.465 | 0.586 | 0.459 | 0.604 | 0.707 |
| **ML2** | 0.586 | 0.516 | 0.474 | 0.430 | 0.548 | 0.522 | 0.547 | 0.502 | 0.469 | **0.811** | 0.521 | 0.516 | 0.362 | 0.449 | 0.593 |
| **ML3** | 0.496 | 0.561 | 0.512 | 0.467 | 0.467 | 0.526 | 0.456 | 0.496 | 0.546 | **0.801** | 0.456 | 0.476 | 0.447 | 0.504 | 0.609 |
| **ML4** | 0.450 | 0.568 | 0.474 | 0.434 | 0.390 | 0.459 | 0.464 | 0.474 | 0.403 | **0.769** | 0.312 | 0.404 | 0.435 | 0.456 | 0.640 |
| **ML5** | 0.545 | 0.693 | 0.640 | 0.492 | 0.560 | 0.766 | 0.578 | 0.583 | 0.543 | **0.812** | 0.487 | 0.549 | 0.528 | 0.556 | 0.731 |
| **OP1** | 0.553 | 0.431 | 0.582 | 0.603 | 0.640 | 0.477 | 0.599 | 0.585 | 0.600 | 0.515 | **0.907** | 0.632 | 0.549 | 0.554 | 0.441 |
| **OP2** | 0.529 | 0.457 | 0.599 | 0.604 | 0.651 | 0.556 | 0.636 | 0.618 | 0.663 | 0.538 | **0.891** | 0.623 | 0.562 | 0.545 | 0.502 |
| **OP3** | 0.309 | 0.347 | 0.420 | 0.455 | 0.568 | 0.319 | 0.477 | 0.422 | 0.468 | 0.420 | **0.813** | 0.480 | 0.548 | 0.304 | 0.343 |
| **OP4** | 0.184 | 0.420 | 0.323 | 0.418 | 0.494 | 0.289 | 0.430 | 0.391 | 0.432 | 0.355 | **0.730** | 0.421 | 0.450 | 0.332 | 0.301 |
| **OP5** | 0.460 | 0.446 | 0.571 | 0.538 | 0.562 | 0.467 | 0.627 | 0.485 | 0.501 | 0.525 | **0.888** | 0.638 | 0.514 | 0.421 | 0.483 |
| **OP6** | 0.395 | 0.427 | 0.478 | 0.452 | 0.379 | 0.517 | 0.449 | 0.403 | 0.428 | 0.332 | **0.621** | 0.505 | 0.341 | 0.467 | 0.384 |

Table 5.7 (Continued)

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **P1** | 0.582 | 0.508 | 0.621 | 0.690 | 0.687 | 0.588 | 0.700 | 0.668 | 0.638 | 0.551 | 0.619 | **0.859** | 0.563 | 0.646 | 0.549 |
| **P2** | 0.497 | 0.525 | 0.574 | 0.683 | 0.653 | 0.531 | 0.804 | 0.644 | 0.528 | 0.609 | 0.565 | **0.901** | 0.666 | 0.538 | 0.546 |
| **P3** | 0.517 | 0.482 | 0.586 | 0.786 | 0.768 | 0.504 | 0.777 | 0.658 | 0.631 | 0.546 | 0.658 | **0.934** | 0.727 | 0.588 | 0.495 |
| **R1** | 0.405 | 0.484 | 0.591 | 0.705 | 0.698 | 0.485 | 0.675 | 0.652 | 0.609 | 0.533 | 0.578 | 0.701 | **0.889** | 0.541 | 0.545 |
| **R2** | 0.288 | 0.390 | 0.462 | 0.539 | 0.503 | 0.346 | 0.451 | 0.500 | 0.570 | 0.392 | 0.440 | 0.498 | **0.795** | 0.436 | 0.397 |
| **R3** | 0.456 | 0.438 | 0.491 | 0.667 | 0.674 | 0.422 | 0.582 | 0.600 | 0.577 | 0.473 | 0.519 | 0.627 | **0.848** | 0.526 | 0.409 |
| **SD1** | 0.659 | 0.548 | 0.717 | 0.604 | 0.587 | 0.668 | 0.609 | 0.697 | 0.617 | 0.575 | 0.429 | 0.512 | 0.489 | **0.864** | 0.611 |
| **SD2** | 0.475 | 0.460 | 0.562 | 0.600 | 0.610 | 0.491 | 0.560 | 0.740 | 0.496 | 0.482 | 0.429 | 0.605 | 0.615 | **0.808** | 0.481 |
| **SD3** | 0.663 | 0.459 | 0.640 | 0.486 | 0.537 | 0.669 | 0.506 | 0.666 | 0.522 | 0.532 | 0.493 | 0.519 | 0.391 | **0.811** | 0.571 |
| **SP1** | 0.488 | 0.681 | 0.630 | 0.432 | 0.453 | 0.694 | 0.536 | 0.571 | 0.491 | 0.681 | 0.419 | 0.470 | 0.433 | 0.547 | **0.851** |
| **SP2** | 0.621 | 0.756 | 0.561 | 0.424 | 0.488 | 0.764 | 0.495 | 0.604 | 0.462 | 0.749 | 0.362 | 0.457 | 0.377 | 0.565 | **0.859** |
| **SP3** | 0.422 | 0.659 | 0.484 | 0.464 | 0.488 | 0.506 | 0.472 | 0.594 | 0.449 | 0.560 | 0.319 | 0.416 | 0.500 | 0.532 | **0.702** |
| **SP5** | 0.682 | 0.646 | 0.745 | 0.510 | 0.630 | 0.661 | 0.669 | 0.720 | 0.594 | 0.716 | 0.479 | 0.561 | 0.458 | 0.598 | **0.885** |
| **SP6** | 0.550 | 0.583 | 0.697 | 0.504 | 0.589 | 0.655 | 0.673 | 0.666 | 0.611 | 0.651 | 0.509 | 0.516 | 0.467 | 0.534 | **0.814** |

Table 5.8
*Significance of the Factor Loadings*

| **Construct** | **Items** | **Loading** | **standard error** | **T-Value** | **P-value** |
|---|---|---|---|---|---|
| Benchmarking | B1 | 0.887 | 0.011 | 29.745 | 0.000 |
| | B2 | 0.833 | 0.011 | 23.233 | 0.000 |
| | B3 | 0.901 | 0.007 | 40.332 | 0.000 |
| | B4 | 0.903 | 0.010 | 29.834 | 0.000 |
| Customer Focus | CF2 | 0.858 | 0.010 | 26.006 | 0.000 |
| | CF3 | 0.871 | 0.009 | 27.329 | 0.000 |
| | CF4 | 0.790 | 0.010 | 21.871 | 0.000 |
| | CF5 | 0.823 | 0.009 | 28.255 | 0.000 |
| | CF6 | 0.846 | 0.010 | 23.336 | 0.000 |
| Continuous Improvement | CI1 | 0.840 | 0.011 | 28.596 | 0.000 |
| | CI2 | 0.899 | 0.010 | 30.065 | 0.000 |
| | CI3 | 0.819 | 0.009 | 32.526 | 0.000 |
| | CI4 | 0.777 | 0.013 | 22.598 | 0.000 |
| Competitor Orientation | CO1 | 0.823 | 0.011 | 23.317 | 0.000 |
| | CO2 | 0.827 | 0.008 | 26.796 | 0.000 |
| | CO3 | 0.808 | 0.007 | 31.419 | 0.000 |
| | co4 | 0.839 | 0.009 | 27.142 | 0.000 |
| | CO6 | 0.830 | 0.011 | 23.508 | 0.000 |
| Customer Orientation | Cuo1 | 0.867 | 0.004 | 44.762 | 0.000 |
| | Cuo2 | 0.854 | 0.004 | 47.882 | 0.000 |
| | Cuo3 | 0.907 | 0.004 | 47.007 | 0.000 |
| | Cuo4 | 0.894 | 0.004 | 45.724 | 0.000 |
| | Cuo5 | 0.873 | 0.004 | 52.380 | 0.000 |
| | Cuo6 | 0.917 | 0.004 | 45.691 | 0.000 |
| Human Resource Management | HRE2 | 0.848 | 0.010 | 21.401 | 0.000 |
| | HRE3 | 0.747 | 0.009 | 21.905 | 0.000 |
| | HRI1 | 0.842 | 0.008 | 24.789 | 0.000 |
| | HRI2 | 0.813 | 0.008 | 22.242 | 0.000 |
| | HRI4 | 0.801 | 0.008 | 23.259 | 0.000 |
| | HRT1 | 0.710 | 0.008 | 20.121 | 0.000 |
| | HRT4 | 0.747 | 0.008 | 22.293 | 0.000 |
| Innovativeness | I1 | 0.838 | 0.011 | 30.209 | 0.000 |
| | I2 | 0.920 | 0.010 | 40.853 | 0.000 |
| | I3 | 0.915 | 0.012 | 32.117 | 0.000 |
| Information and Analysis | IA1 | 0.804 | 0.008 | 22.371 | 0.000 |
| | IA2 | 0.754 | 0.009 | 21.272 | 0.000 |
| | IA3 | 0.863 | 0.008 | 25.035 | 0.000 |
| | IA4 | 0.848 | 0.008 | 23.450 | 0.000 |
| | IA5 | 0.759 | 0.008 | 17.333 | 0.000 |
| | IA6 | 0.797 | 0.007 | 24.565 | 0.000 |
| | IA7 | 0.804 | 0.008 | 22.805 | 0.000 |

Table 5.8 (Continued)

| | | | | | |
|---|---|---|---|---|---|
| Inter-functional Coordination | IF1 | 0.807 | 0.013 | 23.929 | 0.000 |
| | IF2 | 0.830 | 0.014 | 22.688 | 0.000 |
| | IF3 | 0.794 | 0.014 | 21.457 | 0.000 |
| | IF5 | 0.792 | 0.015 | 20.926 | 0.000 |
| Management Leadership | ML1 | 0.837 | 0.012 | 22.756 | 0.000 |
| | ML2 | 0.811 | 0.014 | 17.186 | 0.000 |
| | ML3 | 0.801 | 0.010 | 23.410 | 0.000 |
| | ML4 | 0.769 | 0.014 | 16.479 | 0.000 |
| | ML5 | 0.812 | 0.013 | 21.506 | 0.000 |
| Organizational Performance | OP1 | 0.907 | 0.010 | 23.722 | 0.000 |
| | OP2 | 0.891 | 0.010 | 23.788 | 0.000 |
| | OP3 | 0.813 | 0.012 | 16.423 | 0.000 |
| | OP4 | 0.730 | 0.015 | 10.970 | 0.000 |
| | OP5 | 0.888 | 0.010 | 22.031 | 0.000 |
| | OP6 | 0.621 | 0.017 | 9.808 | 0.000 |
| Proactiveness | P1 | 0.859 | 0.006 | 52.815 | 0.000 |
| | P2 | 0.901 | 0.008 | 47.082 | 0.000 |
| | P3 | 0.934 | 0.009 | 45.708 | 0.000 |
| Risk- Taking | R1 | 0.889 | 0.019 | 23.597 | 0.000 |
| | R2 | 0.795 | 0.016 | 20.885 | 0.000 |
| | R3 | 0.848 | 0.018 | 21.877 | 0.000 |
| Service Design | SD1 | 0.864 | 0.018 | 24.479 | 0.000 |
| | SD2 | 0.808 | 0.015 | 24.142 | 0.000 |
| | SD3 | 0.811 | 0.016 | 25.528 | 0.000 |
| Strategic Planning | SP1 | 0.851 | 0.008 | 31.780 | 0.000 |
| | SP2 | 0.859 | 0.009 | 28.562 | 0.000 |
| | SP3 | 0.702 | 0.011 | 19.163 | 0.000 |
| | SP5 | 0.885 | 0.009 | 30.193 | 0.000 |
| | SP6 | 0.814 | 0.008 | 29.282 | 0.000 |

#### 5.4.1.2 The Convergent Validity Analysis

According to Hair *et al.* (2010), convergent validity refers to the degree to which a group of variables converge in measuring a particular concept. They suggested that convergent validity can be established through the simultaneous testing of three criteria; factor loadings, composite reliability (CR) and average variance extracted (AVE). As such, the entire items loadings were examined and confirmed to be above 0.70 (the acceptable level recommended by Hair *et al.*, 2010). The factor loadings were all significant with 0.01 level of significance (See Table 5.7).

Convergent validity is also confirmed through composite reliability – a test that refers to the level to which the items set indicate the latent construct in a consistent manner (Hair *et al.,* 2010). For this study, the Cronbach Alpha and Composite Reliability values are listed in Table 5.9. From the table, the values of Cronbach Alpha fall between the range of 0.771- 0.945 while composite reliability values fall between 0.881-0.956 indicating that the latter values exceeded the recommended value of 0.70 (Fornell & Larcker, 1981; Hair *et al.,* 2010). Hence, the results confirm the outer model's convergent validity.

In addition to the above, the average variance extracted (AVE) values were tested to further confirm the outer model's convergent validity. AVE shows the group of items average variance extracted in relation to the variance shared with measurement errors. Specifically, AVE gauges the variance encapsulated by indicators that relate to the assignable variance to the measurement errors. If the AVE value is 0.5, the set of items is deemed to have sufficient convergence in measuring the construct (Barclay, Higgins, & Thompson, 1995). In the present study, the values of AVE fall in the range of 0.622-0.686 indicating good construct validity of measures as recommended by Barclay *et al.* (1995).

Table 5.9
*The Convergent Validity Analysis*

| **Construct** | **Items** | **Loading** | **Cronbach's Alpha** | **CR** | **AVE** |
|---|---|---|---|---|---|
| Benchmarking | B1 | 0.887 | 0.904 | 0.933 | 0.777 |
| | B2 | 0.833 | | | |
| | B3 | 0.901 | | | |
| | B4 | 0.903 | | | |
| Customer Focus | CF2 | 0.858 | 0.894 | 0.922 | 0.702 |
| | CF3 | 0.871 | | | |
| | CF4 | 0.790 | | | |
| | CF5 | 0.823 | | | |
| | CF6 | 0.846 | | | |

Table 5.9 (Continued)

| | | | | | |
|---|---|---|---|---|---|
| Continuous Improvement | CI1 | 0.840 | 0.854 | 0.902 | 0.697 |
| | CI2 | 0.899 | | | |
| | CI3 | 0.819 | | | |
| | CI4 | 0.777 | | | |
| Competitor Orientation | CO1 | 0.823 | 0.883 | 0.914 | 0.681 |
| | CO2 | 0.827 | | | |
| | CO3 | 0.808 | | | |
| | co4 | 0.839 | | | |
| | CO6 | 0.830 | | | |
| Customer Orientation | Cuo1 | 0.867 | 0.945 | 0.956 | 0.785 |
| | Cuo2 | 0.854 | | | |
| | Cuo3 | 0.907 | | | |
| | Cuo4 | 0.894 | | | |
| | Cuo5 | 0.873 | | | |
| | Cuo6 | 0.917 | | | |
| Human Resource Management | HRE2 | 0.848 | 0.898 | 0.92 | 0.622 |
| | HRE3 | 0.747 | | | |
| | HRI1 | 0.842 | | | |
| | HRI2 | 0.813 | | | |
| | HRI4 | 0.801 | | | |
| | HRT1 | 0.710 | | | |
| | HRT4 | 0.747 | | | |
| Innovativeness | I1 | 0.838 | 0.871 | 0.921 | 0.795 |
| | I2 | 0.920 | | | |
| | I3 | 0.915 | | | |
| Information and Analysis | IA1 | 0.804 | 0.909 | 0.928 | 0.648 |
| | IA2 | 0.754 | | | |
| | IA3 | 0.863 | | | |
| | IA4 | 0.848 | | | |
| | IA5 | 0.759 | | | |
| | IA6 | 0.797 | | | |
| | IA7 | 0.804 | | | |
| Inter-functional Coordination | IF1 | 0.807 | 0.82 | 0.881 | 0.649 |
| | IF2 | 0.830 | | | |
| | IF3 | 0.794 | | | |
| | IF5 | 0.792 | | | |
| Management Leadership | ML1 | 0.837 | 0.866 | 0.903 | 0.65 |
| | ML2 | 0.811 | | | |
| | ML3 | 0.801 | | | |
| | ML4 | 0.769 | | | |
| | ML5 | 0.812 | | | |
| Organizational Performance | OP1 | 0.907 | 0.894 | 0.921 | 0.664 |
| | OP2 | 0.891 | | | |

Table 5.9 (Continued)

| | | | | | |
|---|---|---|---|---|---|
| | OP3 | 0.813 | | | |
| | OP4 | 0.730 | | | |
| | OP5 | 0.888 | | | |
| | OP6 | 0.621 | | | |
| Proactiveness | P1 | 0.859 | 0.88 | 0.926 | 0.807 |
| | P2 | 0.901 | | | |
| | P3 | 0.934 | | | |
| Risk- Taking | R1 | 0.889 | 0.799 | 0.882 | 0.713 |
| | R2 | 0.795 | | | |
| | R3 | 0.848 | | | |
| Service Design | SD1 | 0.864 | 0.771 | 0.867 | 0.686 |
| | SD2 | 0.808 | | | |
| | SD3 | 0.811 | | | |
| Strategic Planning | SP1 | 0.851 | 0.881 | 0.914 | 0.68 |
| | SP2 | 0.859 | | | |
| | SP3 | 0.702 | | | |
| | SP5 | 0.885 | | | |
| | SP6 | 0.814 | | | |

#### 5.4.1.3 The Discriminant Validity Analysis

In order to ensure further construct validity of the outer model, the discriminant validity is important to be established. Hence, prior to hypotheses testing, discriminant validity was ensured. Discriminant validity refers to the level to which items can differentiate among different constructs in that it shows that the items of different constructs are not overlapping. Additionally, discriminant validity of measures share variance between each individual construct and hence it should be higher than the variance shared among specific constructs (Compeau, Higgins & Huff, 1999). In this study, the discriminant validity of measures was established through Fornell and Larcker's (1981) method, where the square root of AVE for the entire constructs was replaced at the diagonal elements of the correlation matrix as demonstrated in Table 5.10. Ten items were dropped to enhance the result and these items are CF1, SP4, HRI3, HRT2, HRT3, HRE1, CI5, IF4, CO5, and CO7. All the

other values are less than 0.90 and hence, the outer model's discriminant validity was established as suggested by Hair *et al.* (2010).

The above results of the outer model's construct validity ensure that it is appropriate to test the proposed hypotheses.

Table 5.10
*The Discriminant Validity Matrix*

| | **B** | **CF** | **CI** | **CO** | **CUO** | **HRM** | **I** | **IA** | **IF** | **ML** | **OP** | **P** | **R** | **SD** | **SP** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| B | **0.881** | | | | | | | | | | | | | | |
| CF | 0.554 | **0.838** | | | | | | | | | | | | | |
| CI | 0.769 | 0.568 | **0.835** | | | | | | | | | | | | |
| CO | 0.600 | 0.559 | 0.688 | **0.825** | | | | | | | | | | | |
| CUO | 0.622 | 0.650 | 0.690 | 0.823 | **0.886** | | | | | | | | | | |
| HRM | 0.710 | 0.709 | 0.793 | 0.621 | 0.599 | **0.788** | | | | | | | | | |
| I | 0.619 | 0.600 | 0.724 | 0.783 | 0.810 | 0.638 | **0.892** | | | | | | | | |
| IA | 0.727 | 0.672 | 0.793 | 0.761 | 0.804 | 0.713 | 0.786 | **0.805** | | | | | | | |
| IF | 0.573 | 0.617 | 0.685 | 0.746 | 0.833 | 0.640 | 0.686 | 0.750 | **0.806** | | | | | | |
| ML | 0.678 | 0.712 | 0.675 | 0.581 | 0.619 | 0.724 | 0.667 | 0.668 | 0.600 | **0.806** | | | | | |
| OP | 0.512 | 0.515 | 0.618 | 0.635 | 0.682 | 0.543 | 0.667 | 0.604 | 0.641 | 0.559 | **0.815** | | | | |
| P | 0.589 | 0.561 | 0.659 | 0.802 | 0.782 | 0.599 | 0.848 | 0.730 | 0.665 | 0.633 | 0.683 | **0.898** | | | |
| R | 0.458 | 0.521 | 0.614 | 0.760 | 0.748 | 0.500 | 0.684 | 0.697 | 0.692 | 0.557 | 0.611 | 0.729 | **0.845** | | |
| SD | 0.729 | 0.592 | 0.777 | 0.679 | 0.696 | 0.741 | 0.675 | 0.844 | 0.661 | 0.642 | 0.544 | 0.654 | 0.597 | **0.828** | |
| SP | 0.676 | 0.805 | 0.760 | 0.565 | 0.643 | 0.800 | 0.692 | 0.766 | 0.634 | 0.818 | 0.509 | 0.589 | 0.538 | 0.673 | **0.825** |

## 5.5 The First-Order and Second-Order Constructs

The differences between first-order and second-order measurement models were examined prior to examining the conceptual and theoretical aspect of the second order constructs. As demonstrated in Figure 5.3, Entrepreneurial Orientation's dimension of innovativeness (I) is a latent construct gauged by a set of measured variables I1-I3 while entrepreneurial orientation itself was measured by nine items indirectly via latent constructs (See Figure 5.4). As such, entrepreneurial orientation is referred to as a second-order construct, where the second-order factor structure has two layers of latent variables.

In the present study, total quality management (TQM), entrepreneurial orientation (EO), market orientation (MO), and organizational performance (OP) are referred to as second-order constructs due to the fact that they generated multiple first order latent factors (Hair *et al.*, 2010). Further clarification of this matter is presented in the next section.

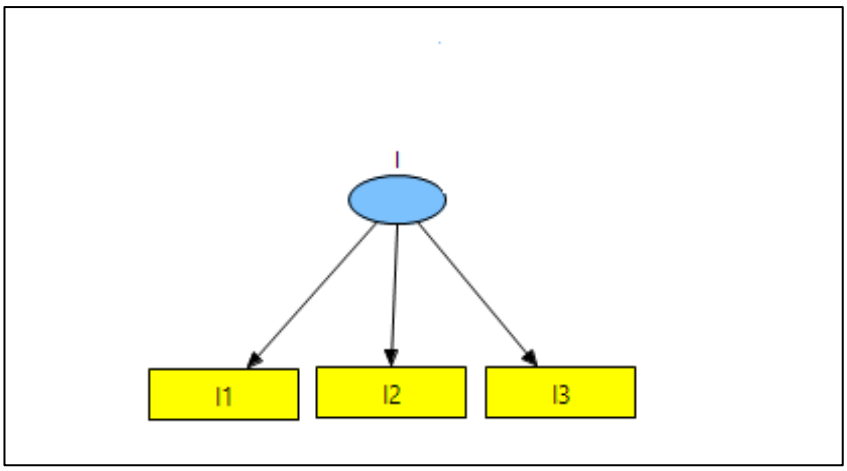


Figure 5.3
*First order measurement model of EO-Innovativeness (I)*

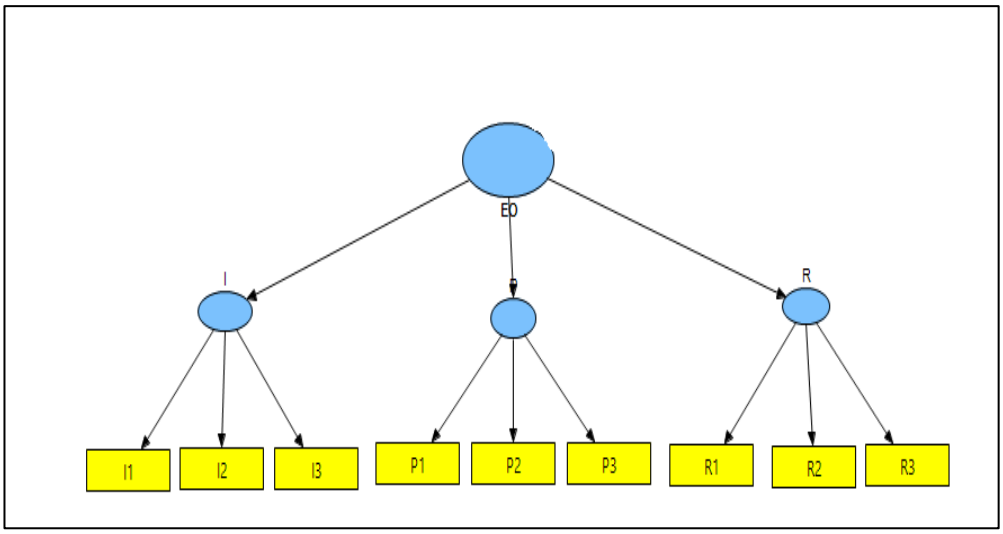


Figure 5.4
*Second order measurement model of Entrepreneurial Orientation (EO)*

As illustrated in Figure 5.3, Entrepreneurial Orientation-Innovativeness (I) as a latent construct was measured by a set of measured variables namely I1 through I3. Similarly, as illustrated in Figure 5.4, Entrepreneurial Orientation (EO) construct was measured indirectly by nine items through other layer of latent constructs.

Therefore, EO is called a second-order measurement model. The second-order factor structure has two layers of latent variables. In this study as example, Total Quality Management (TQM), Entrepreneurial Orientation (EO), Market Orientation (MO), and Organizational Performance (OP) are called a second-order constructs as they caused multiple first order latent factors (Hair *et al.*, 2010). The following sub sections illustrate and justify more of using TQM, EO and MO as a second-order factor models.

### 5.5.1 The Analysis of the Second Order Constructs

This study has three second-order latent constructs, which are total quality management (TQM), entrepreneurial orientation (EO), and market orientation (MO). Prior to the research model testing, the first order constructs were examined to determine whether or not they conceptually explained their respective second-order

constructs. In other words, the first order constructs should clarify and explain their hypothesized second-order constructs (Byrne, 2010).

To begin with, for total quality management (TQM), its eight first-order constructs are management leadership (ML), customer focus (CF), strategic planning (SP), human resource management (HRM), service design (SD), information analysis (IA), continuous improvement (CI), and benchmarking (B). These first-order constructs explained TQM as evidenced by their R square values that fall in the range of 0.663-0.832 (See Table 5.11). In Table 5.10, it is evident that the first-order constructs of TQM were distinct after employing Fornell and Larcker's (1981) guideline. Hence, TQM is explained and clarified by its first order constructs conceptually.

Table 5.11
*The Establishment of Second-Order Constructs*

| Second Order | First Order | Loading | Standard error | T-value | P value | R square |
|---|---|---|---|---|---|---|
| **Total Quality Management** | Benchmarking | 0.833 | 0.023 | 35.973 | 0.000 | 0.693 |
| | Customer Focus | 0.815 | 0.034 | 24.184 | 0.000 | 0.663 |
| | Continuous Improvement | 0.879 | 0.017 | 50.519 | 0.000 | 0.773 |
| | Human Resource Management | 0.898 | 0.018 | 50.145 | 0.000 | 0.806 |
| | Information and Analysis | 0.896 | 0.015 | 58.746 | 0.000 | 0.803 |
| | Management Leadership | 0.850 | 0.021 | 40.532 | 0.000 | 0.723 |
| | Service Design | 0.853 | 0.021 | 41.426 | 0.000 | 0.728 |
| | Strategic Planning | 0.912 | 0.012 | 78.251 | 0.000 | 0.832 |
| **Market Orientation** | Competitor Orientation | 0.919 | 0.011 | 80.474 | 0.000 | 0.844 |
| | Customer Orientation | 0.966 | 0.007 | 144.078 | 0.000 | 0.934 |
| | Inter-functional Coordination | 0.902 | 0.019 | 48.615 | 0.000 | 0.814 |
| **Entrepreneurial Orientation** | Innovativeness | 0.930 | 0.010 | 90.962 | 0.000 | 0.865 |
| | Proactiveness | 0.946 | 0.007 | 145.459 | 0.000 | 0.896 |
| | Risk- Taking | 0.864 | 0.021 | 41.832 | 0.000 | 0.747 |

In addition, entrepreneurial orientation (EO) was measured through three first-order constructs, which are innovativeness (I), proactiveness (P) and risk-taking (R). These first-order constructs provide a good explanation of EO as evidenced by their R square values, which fall between 0.747 and 0.896. Discriminant analysis results of these constructs in Table 5.11 also show that they are correlated and hence EO is appropriately explained by the three hypothesized first-order constructs.

Finally, with regards to market orientation, it is hypothesized to be explained by first-order constructs namely competitor orientation (CO), customer orientation (CUO), and inter-functional coordination (IF) where their R square values range from 0.814-0.934 as presented in Table 5.11. Moreover, discriminant analysis established the distinction of each one of the first order constructs.

### 5.6 The Assessment of the Inner Model and Hypotheses Testing Procedures

After the confirmation of the goodness of the outer model, the next phase involves the testing of hypotheses relationships among the variables with the help of PLS Algorithm, Smart PLS. The path coefficients were produced and presented in Figure 5.5 and 5.6.

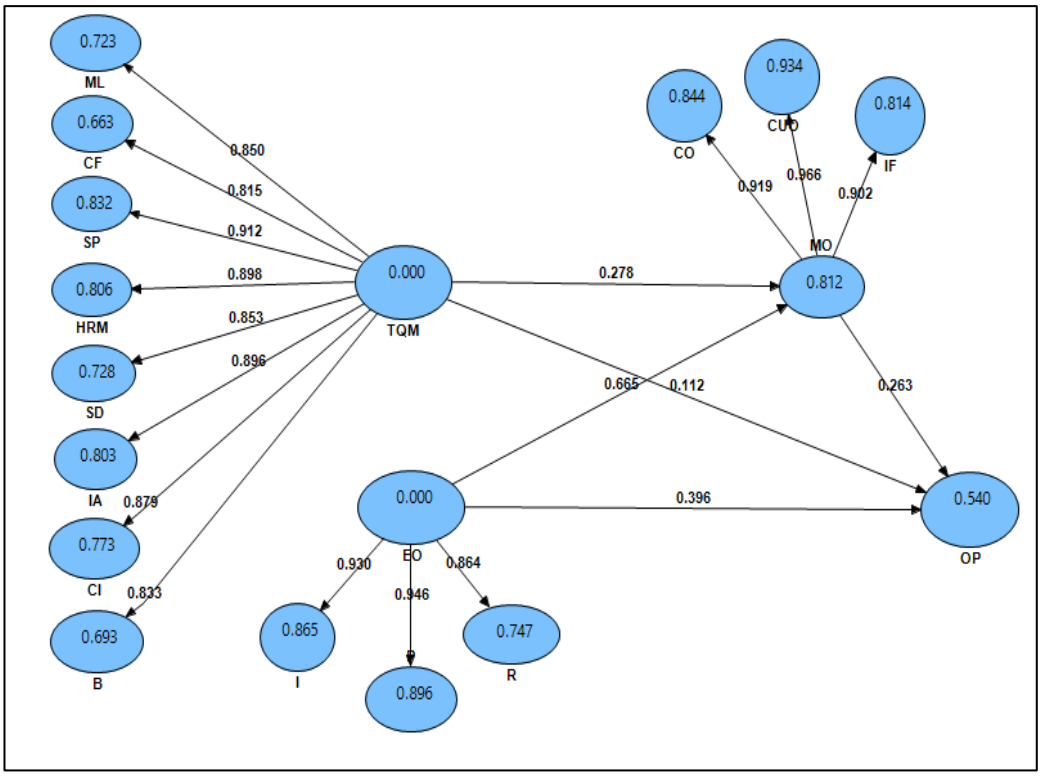


Figure 5.5
*Path Model Results*

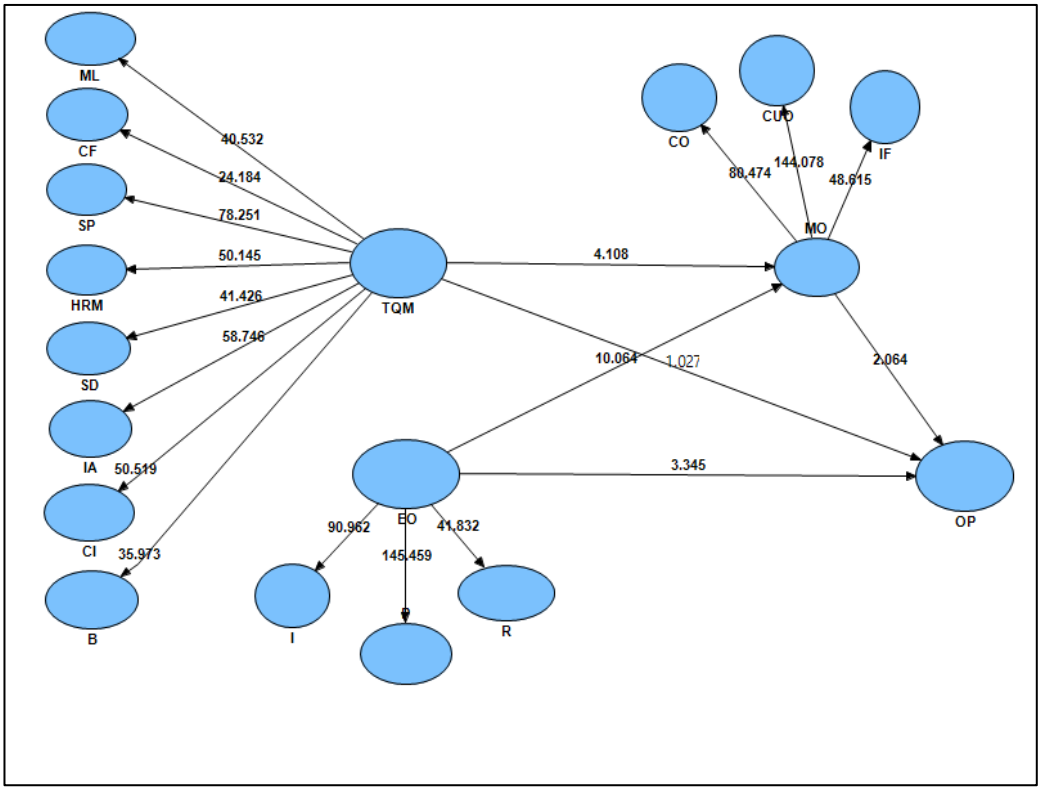


Figure 5.6
*Path Model Significance Results*

Table 5.12
*The Results of the Inner Structural Model*

| Hyp.No | Hypothesis | Path Coefficient | Standard Error | T-Value | P-Value | Decision |
|---|---|---|---|---|---|---|
| H1 | **TQM -> OP** | 0.187** | 0.087 | 2.145 | 0.016 | Supported |
| H1a | **ML -> OP** | 0.162** | 0.098 | 1.642 | 0.050 | Supported |
| H1b | **CF -> OP** | 0.169** | 0.085 | 1.987 | 0.024 | Supported |
| H1c | **SP -> OP** | -0.318 | 0.131 | 2.427 | 0.008 | Not Supported |
| H1d | **HRM -> OP** | 0.077 | 0.093 | 0.828 | 0.204 | Not Supported |
| H1e | **SD -> OP** | -0.095 | 0.100 | 0.952 | 0.171 | Not Supported |
| H1f | **IA -> OP** | 0.005 | 0.136 | 0.036 | 0.486 | Not Supported |
| H1g | **CI -> OP** | 0.290*** | 0.119 | 2.433 | 0.008 | Supported |
| H1h | **B -> OP** | -0.004 | 0.085 | 0.047 | 0.481 | Not Supported |
| H2 | **EO -> OP** | 0.570*** | 0.0872 | 6.539 | 0.000 | Supported |
| H2a | **I -> OP** | 0.198* | 0.142 | 1.398 | 0.081 | Supported |
| H2b | **P -> OP** | 0.234** | 0.114 | 2.058 | 0.020 | Supported |
| H2c | **R -> OP** | 0.137** | 0.079 | 1.734 | 0.042 | Supported |
| H3 | **TQM -> MO** | 0.278*** | 0.068 | 4.108 | 0.000 | Supported |
| H4 | **EO -> MO** | 0.665*** | 0.066 | 10.064 | 0.000 | Supported |
| H5 | **MO -> OP** | 0.263** | 0.127 | 2.064 | 0.020 | Supported |

*: $p<0.10$; **: $p<0.05$; ***: $p<0.01$

The path coefficients statistical significance can be determined via bootstrapping methods in SmartPLS 2.0. In this regard, the T-values of each path coefficient were produced through such method and P-values were eventually obtained. Based on the results, TQM significantly impacted organizational performance where ($\beta= 0.187$, $t=2.145$, $p<0.10$) and hence, the first hypothesis (H1) is supported.

As for the TQM dimensions, they showed mixed results; results for management leadership, customer focus, and continuous improvement are ($\beta= 0.162$, $t=1.642$, $p<0.1$) ($\beta= 0.169$, $t=1.987$, $p<0.1$) and ($\beta= 0.290$, $t=2.433$, $p<0.01$) respectively, and they positively affected organizational performance indicating that H1a, H1b, and H1g are supported. Meanwhile, strategic planning negatively and significantly impacted organizational performance with the result ($\beta=-0.318$, $t=2.427$, $p<0.01$)

indicating that H1c is rejected. Moving on to human resource management, service design and benchmarking, they obtained the following results respectively; (β= 0.077, t=0.828, p>0.1), (β= -0.095, t=0.952, p>0.1) and (β=-0.004, t=0.047, p>0.1). Hence all failed to affect organizational performance indicating that H1d, H1e and H1h are rejected.

With regards to the results obtained for hypothesis testing pertaining to entrepreneurial orientation and its dimensions on organizational performance, EO positively and significantly impacted OP (β= 0.570, t=6.539, p<0.01) and hence H2 is supported. Its dimensions of innovativeness, proactiveness and risk-taking also positively impacted organizational performance with the following respective results; (β= 0.198, t=1.398, p<0.10), (β= 0.234, t=2.058, p<0.05) and (β= 0.137, t=1.734, p<0.05) indicating support for H2a, H3b and H2c.

Furthermore, total quality management was found to positively and significantly impact market orientation with (β= 0.278, t=4.108, p<0.01) and thus supporting H3, entrepreneurial orientation was found to positively impact market orientation with (β= 0.665, t=10.064, p<0.01) and thus supporting H4. Finally, marketing orientation was revealed to positively and significantly impact organizational performance with (β= 0.263, t=2.064, p<0.05) and thus supporting H5.

### 5.7 Testing the Mediating Effect of Market Orientation

This study proposes the mediating impact of market orientation between the TQM-OP relationship and EO-OP relationship (See Figure 5.7).

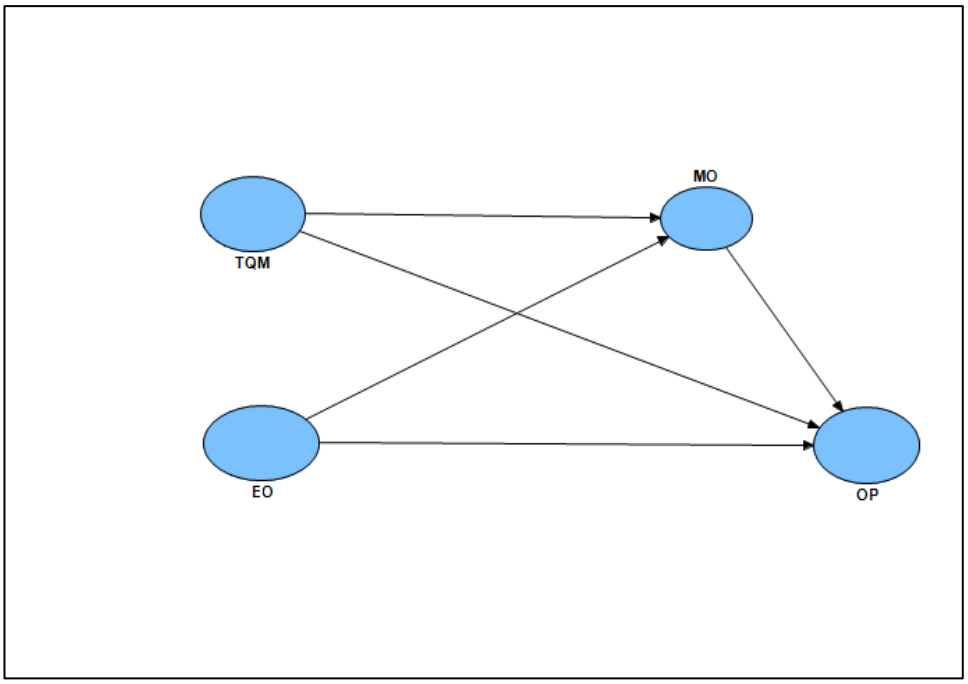


Figure 5.7
*The Mediating Role of Market Orientation*

The mediating role of market orientation was examined with the help of SmartPLS 2.0. The results of the test is displayed in Table 5.13, where it is evident that after employing the bootstrapping method, market orientation fully mediates TQM-Organizational performance relationship at the significant level of 0.01 ($\beta$= 0.074, t=1.804, p<0.01) and thus H6 is supported.

As for the mediating role of MO on the EO-OP relationship, the results obtained show that MO partially mediates the mentioned relationship with ($\beta$= 0.173, t=1.997, p<0.01) indicating partial support for H7.

Table 5.13
*Testing the Mediation Effect of Market Orientation*

Testing Mediation effect of Market Orientation

| Hyp No | Hypothesis | A | | B | | a*b | | C | | C' | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Path | T-value | Path | T-value | Path | T-value | Path | T-value | path | T-Value | B&k | bootstrapping |
| H6 | Market Orientation as Mediator between TQM and Performance | 0.275*** | 4.231 | 0.271*** | 2.112 | 0.074*** | 1.804 | 0.641*** | 15.08 | 0.111 | 1.016 | Full Mediation | Mediation Effect |
| H7 | Market Orientation as Mediator between EO and Performance | 0.670*** | 10.587 | 0.271*** | 2.112 | 0.173*** | 1.997 | 0.717*** | 17.553 | 0.670 | 10.587*** | Partial Mediation | Mediation Effect |

## 5.8 The Predictive Relevance of the Model

Literature dedicated to multivariate data analysis shows that predictor variables explain the R square of their endogenous counterpart, where R square of endogenous variable indicates the predictive power of the model. The method of reutilizing the sample was employed as suggested by Stone (1975) and Geisser (1975) to establish the model's predictive ability. To this end, World (1982) argued that PLS is utilized for the sample's reuse method (Gotz, Liehr-Gobbers & Krafft, 2011).

### 5.8.1 Cross-Validated Redundancy

The predictive relevance of the study model can be assessed through the Stone-Geisser non-parametric test (Chin, 1998; Fornell & Cha, 1994; Geisser, 1975; Stone, 1975). Also, in the Smart-PLS package, blindfolding method can be used to examine the model's predicting capacity. Such method deletes data while and treats them like missing values in estimating parameters. The estimated parameters can then be reused to develop raw data that were previously missed. The blindfolding process generates a general cross-validating metrics $Q^2$.

$Q^2$ comes in all forms depending upon the chosen prediction form. A cross-validated communality is achieved when the data points are predicted through latent variable scores, a cross-validated redundancy $Q^2$ is the output if the data points are predicted through LVs that predict the block in question.

This cross-validated redundancy reliably indicates the predictive relevance of the model (Fornell & Cha, 1994). If the redundant communality is higher than 0 for the entire endogenous variables, the model's predictive validity is established if it is not, then it is ambiguous. Table 5.14 shows the cross-validated redundancy for

organizational performance, and market orientation to be 0.355 and 0.504 respectively and thus, the predictive validity of the model is established.

Table 5.14
*Predictive Quality Indicators of the Model*

| Variable | Variable Type | R square | Cross-Validated Communality | Cross Validated Redundancy |
|---|---|---|---|---|
| Organizational Performance | Endogenous | 0.540 | 0.664 | 0.355 |
| Market Orientation | Endogenous | 0.812 | 0.625 | 0.504 |

### 5.8.2 R-Square

R-square indicates the amount of variance explained by the exogenous variable in its endogenous counterpart. It represents the quality of the model variables (Hair *et al.,* 2010). There are various criteria than can be utilized as R square level guidelines. For example, R square values of 0.26 or higher is substantial, those of 0.13 are considered moderate and those of 0.02 are considered weak (Cohen, 1988). In other take, R square values failing on or greater than 0.67 are considered as substantial, those that fall on 0.33 are considered moderate and those that are 0.19 are considered as weak (Chin, 1998).

In the present study, the R squares of the endogenous variables (OP and MO) are 0.540 and 0.812 (See Table 5.14).

### 5.8.3 Effect Size

Cohen (1988) provided that effect size that is lower than 1.0 are deemed as less and in the present study (Table 5.15), the effect size of organizational performance is greater than 1.0 and others are less than 1.0 and are therefore considered less.

$$Effect\ size(f) = \frac{R^2_{incl} - R^2_{excl}}{1 - R^2_{incl}}$$

Table 5.15
*The effect Size of the Organizational Performance, and the Interaction Term*

| Construct | R2incl | R2excl | R2incl-R2excl | 1-R2incl | Effect Size |
|---|---|---|---|---|---|
| TQM | 0.541 | 0.537 | 0.004 | 0.459 | 0.01 |
| EO | 0.541 | 0.511 | 0.030 | 0.459 | 0.07 |
| MO | 0.541 | 0.528 | 0.013 | 0.459 | 0.03 |

## 5.9 The Goodness of Fit of the Whole Model

The PLS Structural Equation Modeling possesses a single measure for GoF (goodness of fit). A global fit measure for PLS according to Tenenhaus *et al.* (2005) refers to a geometric mean of the average communality and average R square of the endogenous constructs. As such GoF measure covers the variance extracted by the inner and outer model. The following formula is proposed by Wetzels, Odekeren-Schroder and Van Oppen (2009);

$$Gof = \sqrt{(0.676 \times 0.612} = 0.643$$

The comparison was developed on the basis of the following criteria – small = 0.1, medium = 0.25 and large = 0.36. The result revealed GoF to be large and hence model validity is adequate.

## 5.10 Summary of the Findings

Partial Least Square Structural Equation Modeling (PLS-SEM) was used to analyze the constructs. In this chapter, PLS-SEM method and its use were discussed. Prior to testing the model, the reliability and the validity of the outer model was established

through SEM after which the predictive power of the model was examined and the GoF of the overall model was confirmed. The structural model was assessed and the reports were provided in detail. The tested hypotheses are presented in Table 5.16.

Table 5.16
*Summary of the Result*

| Hypothesis | Hypothesis Path | Decision |
|---|---|---|
| H1 | There is a positive significant relationship between TQM practices and Organizational performance. | Supported |
| H1a | There is a significant relationship between TQM-Management Leadership and Organizational Performance | Supported |
| H1b | There is a significant relationship between TQM-Costumer focus and Organizational Performance | Supported |
| H1c | There is a significant relationship between TQM-Strategic Planning and Organizational Performance. | Not Supported |
| H1d | There is a significant relationship between TQM-HRM and Organizational Performance. | Not Supported |
| H1e | There is a significant relationship between TQM-Service Design and Organizational Performance. | Not Supported |
| H1f | There is a significant relationship between TQM-Information and Analysis and Organizational Performance. | Not Supported |
| H1g | There is a significant relationship between TQM-Continuous Improvement and Organizational Performance | Supported |
| H1h | There is a significant relationship between TQM-Benchmarking and Organizational Performance. | Not Supported |
| H2 | There is a significant relationship between EO and Organizational performance | Supported |
| H2a | There is a significant relationship between EO-Innovativeness and Organizational Performance | Supported |

Table 5.16 (Continued)

| | | |
|---|---|---|
| H2b | There is a significant relationship between EO-Proactiveness and Organizational Performance | Supported |
| H2C | There is a significant relationship between EO-Risk-taking and Organizational Performance. | Supported |
| H3 | There is a significant relationship between TQM and Market Orientation. | Supported |
| H4 | There is a significant relationship between EO and Market Orientation | Supported |
| H5 | There is a significant relationship between Market Orientation and Organizational performance | Supported |
| H6 | Market Orientation mediates the relationship between TQM and Organizational Performance. | Supported |
| H7 | Market Orientation mediates the relationship between EO and Organizational Performance. | Supported |

A detailed discussion and explanation of these results and findings are provided in the coming chapter in light of prior literature, study context and underpinning theories.

# CHAPTER SIX
# CONCLUSION, DISCUSSION AND RECOMMENDATIONS

**6.1 Introduction**The present chapter is dedicated to presenting the summary of the study. First, the chapter provides a summary of the issues and the motivations behind the study. This is followed by an explanation of the research design and statistical analysis utilized. The chapter also touches upon the results of statistical tests, provides the study contribution and implications. The study limitations and potential direction for future research are discussed in the final part.

## 6.2 Summary of the Study

Total quality management has been acknowledged in the previous decades as one of the top significant management tools and philosophy that results in the continuous improvement of the organization, maximized customer satisfaction, and competitive advantages. This contention is supported by several studies including Dean and Bowen (1994), Ehigie and Mc Andrew (2005), Flynn, Schroeder and Sakakibara (1994), Gao (1991), Grant, Shani and Krishnan (1994), Koneecny and Thun (2011), Shib, Graham and Walden (1993). Studies abound in literature concerning the impact of TQM in various contexts like service, manufacturing, public sector, SMEs and even higher educational institutions (e.g. Arawati, 2005; Al-Swidi & Mahmood, 2011; Das, Paul, & Swierczek, 2008; Douglas & Judge, 2001; Sohal & Terziovski, 2000; Saravanan & Rao, 2006; Demirbag *et al*., 2006; Mohd Nizam & Tannock, 2005; Sohail & Hoong, 2003; Cruickshank, 2003; Dahar, Faize, & Niwaz, 2010; Nor Hazilah, 2004).

The findings of studies focused on examining the relationship between TQM practices and organizational performance are however inconsistent (Kaynak, 2003). Majority of studies revealed positive results (e.g. Arawati, 2005; Flynn *et al*., 1995;

Douglas & Judge, 2001; Kaynak, 2003; Molina-Azorin *et al*., 2009; Sila & Ebrahimpour, 2005; Yasin *et al*., 2004) but some showed negative results (e.g. Dooyoung, Kalinowski & El-Eneim, 1998; Sanchez-Rodriguez & Martinez-Lorente, 2004; Sila & Ebrahimpour, 2002). Accordingly, other researchers like Ehigie and Mc Andrew (2005) called for more studies to examine the relationship in terms of other influencing variables.

Following the same argument, despite the number of studies that highlighted the relationship between EO and organizational performance, their findings are still inconclusive. While some authors found the EO dimensions namely innovativeness, proactiveness and risk-taking to be positively and significantly related to organizational performance (Brown *et al.*, 2001; Covin & Slevin, 1989; Drucker, 1985; Knight, 1997; Lumpkin & Dess, 1996; Miller, 1983; Naman & Slevin, 1993; Wiklund, 1999; Zahra & Covin, 1995; Zahra, 1993a), others revealed the direction to be negative (e.g. Li *et al.*, 2009; Wiklund & Shepherd, 2005). This consistency can be tackled by taking other factors into consideration (Wiklund & Shepherd, 2005). In the present times characterized by dynamic technological advancement and globalization, it is crucial for organizations to strive for development, growth and survival (Dess, Lumpkin & McGee, 1999).

In this regard, market orientation can enhance firm performance (Li *et al.,* 2008) and it significantly affects business performance as stated by Wang, Chen and Chen, (2012). Owing to the inconclusive findings as to the EO-organizational performance relationship, this study proposes market orientation to be the mechanism that sheds in-depth insight into such relationship. This is because market orientation is a practice employed by organizations to obtain the best outcome via TQM and EO

implementation. This study is motivated by the call for future examination to the relationship to solve issues made by Al-Swidi and Mahmood (2011c).

The researcher was also motivated by the rationale that both TQM and EO's primary objective is to improve organizational performance and they both have similar success factors. A thorough review of literature shows that extensive research has been dedicated to the impact of TQM, EO and MO separately on organizational performance while the collective integrative impact of all three is largely untouched. Thus, this study aims to examine the mediating role of market orientation between the TQM-EO-Organizational Performance relationship among Libyan banks. It also aims to highlight the integrated effect of TQM and EO on MO and organizational performance.

On the basis of the problem statement explained in Chapter One of the theses, and a comprehensive review of literature in Chapter Three, this study sets out to achieve the following objectives;

1. To determine the relationship between TQM practices and organizational performance among Libyan banks.
2. To examine the relationship between EO and organizational performance among Libyan banks.
3. To determine the mediating effect of MO on the TQM practices-organizational performance relationship among Libyan banks.
4. To investigate the mediating effect of MO on the EO practices-organizational performance relationship among Libyan banks.

In an attempt to achieve the above study objectives, a thorough review of literature was conducted and discussed in chapter three. Literature reveals that studies

concerning entrepreneurship and quality management found that regardless of the expansive use of both TQM, EO in developed nations, research in these areas are scarce, particularly in the Arab nations. What few studies there are reported positive effect on organizational performance although not all the cases of TQM and EO implementation were successful. Some authors concentrated on the reasons behind their failure while others recommended other influential variables in order to obtain better findings.

From the review of literature, eight critical factors of TQM and three of EO have been highlighted. The eight TQM factors have been extensively researched in the field of quality management in the service sector and they are management leadership, customer focus, strategic planning, human resource management, service design, information and analysis system, continuous improvement, and finally, benchmarking. On the other hand, the three EO dimensions are innovativeness, proactiveness and risk-taking.

In addition, the present study's theoretical framework was discussed and explained in chapter three, where it was made evident that it could be based on several theories namely The Resource-Based View of the firm, The Congruence Model, and Organizational Change Management Theory. From the above theories, the RBV is used as the main underpinning theory while the other two are complementary theories. This is because RBV underlies the match between opportunities and capabilities of the firm which bring about competitive advantage and enhanced organizational performance and three constructs were proposed by majority of studies as the primary source of competitive advantages – TQM, MO and EO.

Therefore based on the study objectives, variables were extracted and used to develop the study framework after which a quantitative method was employed and explained in chapters three and four to test the developed theoretical framework. On the basis of the problem statement, research questions, research objectives and literature review, the study hypotheses were developed for empirical testing. A survey questionnaire, containing the study constructs, was used for data collection. The entire questions in the questionnaire were adopted and adapted from prior sources to support both face and content validity of the instrument. Additionally, Likert scale was employed for measuring the items and to guarantee items validity and reliability, a pilot study was carried out among 30 respondents. Based on the results, a satisfactory level of goodness of measure was obtained and thus, the questionnaire was employed in the actual study.

The questionnaire was translated into Arabic and distributed among Libyan bank branches – specifically 400 questionnaires were distributed with 230 returns constituting a 57% rate of response. Data analysis was conducted with the help of Structural Equation Modeling, Partial Least Squares (PLS-SEM), where descriptive data, non-response bias and normality were all tested. The results of the tests were presented in chapter five. This chapter further elaborates on the findings, provides the study recommendations and contribution, its limitations and explores directions for future research. The study is culminated in this chapter by the study conclusion.

## 6.3 Discussion

### 6.3.1 Total Quality Management (TQM) and Organizational Performance

The first objective of this study is to determine the effect of TQM on organizational performance and for this purpose, regression paths were examined between the two constructs. In chapter five, Table 5.12, the relationship between TQM as a composite

construct and organizational performance was found to be positive and significant at 0.01 level of significance and hence H1 is supported ($\beta$= 0.187, t=2.145, p<0.05). This finding is aligned with prior findings such as (Anderson *et al*., 1995; Arumugam, Ooi, & Fong, 2008; Demirbag *et al*., 2006; Dooyoung *et al*., 1998; Escrig-Tena, 2004; Flynn *et al*., 1995; Douglas & Judge, 2001; Irfan, Ijaz, Kee, & Awan, 2012; Kaynak, 2003; Kumar *et al*, 2009; Llorens Montes & Verdu Jover, 2004; Molina-Azorin *et al*., 2009; Munizu, 2013; Pinho, 2007; Prajogo & Sohal, 2003; Salajegheh & Pourrashidi, 2013; Shenaway *et al*., 2007; Tabe, Rezaeekelidbari, & Chegini, 2013; Talib *et al*., 2013; Terziovski & Samson, 1999; Wang *et al*., 2012; Zehir *et al*, 2012; Zhang, 2000) .

This result shows the importance of TQM practice among Libyan bank branches for objectives and performance achievement. It is evident that Libyan banks that succeeded in implementing TQM practices would be capable of handling customer complaints, achieving customer satisfaction, generating effective delivery system and increasing performance.

The positive and significant impact of TQM on organizational performance is reported by many studies in quality management literature. According to Khamalah and Lingaraj (2007) and Kumar *et al.* (2009), the significance of TQM as a management approach and a criteria for an organization to survive, grow and satisfy customers.

Moreover, successful TQM implementation can assist Libyan banks to enhance their services and to prevent defects in daily processes. For instance, successful implementation of TQM practices minimizes repetitive work, enhances services, and satisfaction of both employees and customers, facilitates planned objectives and

enhances the performance of the organizational as a whole. In other words, successfully implemented TQM initiatives can lead to maintained and minimized error rates (Al-Mansour, 2007).

Owing to the variation in the contribution level of every TQM critical factor (Montes & Jover, 2004), the present study further examined the significance of each factor as this may shed further light on each factor's contribution to the banks for better use of resources. Thus, while implementing TQM, consideration should be placed on highly contributing TQM factors. In this regard, prior literature revealed mixed results concerning the relationship between TQM dimensions and organizational performance (Rahman & Bullock, 2005). Chapter five, Table 5.12 presents that three of eight TQM critical factors positively and significantly predicted organizational performance. Details of such relationships are discussed in the next sub-sections.

#### 6.3.1.1 Management Leadership (ML) and Organizational Performance

The results of this study show management leadership to positively and significantly affect organizational performance ($\beta$= 0.162, t=1.642, $p<0.05$) as presented in Table 5.12 in the preceding chapter. This result supports H1a and is aligned with prior studies reporting the same result (e.g. Abusa & Gibson, 2013; Arawati, 2005; Flynn *et al*., 1995; Hendricks & Singhal, 2001; Irefin, Abdul-Azeez, & Hammed, 2011; Llorens Montes & Verdu Jover, 2004; Powell, 1995; Talib *et al*., 2013; Yasin *et al*., 2004 ) that stressed on the significance of leadership system underpinned by clear vision and quality values for the stimulation of the whole organization and successful TQM implementation initiatives (Gupta *et al.,* 2005). Leaders of the organization are responsible to relay the quality policy and vision of the organization, disseminate the goals of quality and enhance initiatives constantly (Rashid & Aslam, 2012). They are also responsible for supporting players' relationships among departments to achieve

TQM objectives. This stresses on the importance of a management leadership system underpinned by the entire employees' capabilities in achieving needs of stakeholders and increasing satisfaction among customers via continuous improvement.

To this end, Ireland and Hitt (2005) stated that organizational performance is largely dependent on the leadership styles adopted by managers and hence, the bank leaders have to adopt a strategy that provides training to both managers and leaders in order to produce transformational leaders.

In the context of Libyan, the result evidences the awareness of the pertinent role of leadership in the implementation and development of TQM practice in the hopes of achieving the objectives, which is to enhance organizational performance. This result also shows that top management possess long-term quality plans and clear quality goals as recommended by Abusa (2013). Leaders and managers should also stress on the provision of high quality services to customers rather than stressing solely on the service cost.

#### 6.3.1.2 Customer Focus (CF) and Organizational Performance

Data analysis results presented in Table 5.12 in the preceding chapter show customer focus has a positive and significant impact on organizational performance ($\beta$= 0.169, t=1.987, $p<0.05$) – a result that supports H1b and that is consistent with prior findings (e.g. Llorens-Montes & Verdu-Jover 2004; Yasin *et al.*, 2004).

In the context of this study's focus, loyal bank customers can recommend the bank to relatives and friends. In the current dynamic business environment, bank customers have become discerning of the quality and innovation of services offered by banks in such a way that they can easily move on to the next service provider if they are not satisfied. Because of this, it is important for banks to adopt strategies that are

customer and market oriented in order to enhance customer satisfaction levels (Al-Mansour, 2007). Libyan banks should attempt to solidify customer trust and achieve satisfaction via high quality service provision (Abusa, 2013). Banks survival is at risk in the face of increasing competition with no customer focus strategies (Rana, 2004). In other words, customer focus helps prevent irrelevant processes and design services/activities that are underpinned by the needs and expectations of customers (Juran, 1988).

In the context of Libya, a mere 25% of the population as mentioned in chapters one and two own bank accounts (Hankcock, 2012), and this indicates the low image of banks in Libya and the need for their adoption of long-term customer focused strategies. In order for Libyan banks to maintain loyal customers and attract new ones, the needs and expectations of customers have to be measured and examined objectively and in a consistent manner as this could lead to saving resources and the achievement of the bank's objectives.

#### 6.3.1.3 Strategic Planning (SP) and Organizational Performance

Strategic planning entails the development and deployment of plans geared towards enhancing the relationship of the firm with its stakeholders (suppliers, business partners, customers) and achieving long-term goals (Teh, Yong, Arumugam & Ooi, 2009).

Data analysis results presented in Table 5.12 of the preceding chapter reveals that strategic planning insignificantly determined organizational performance ($\beta$= -0.318, t=2.427, p<0.01) and hence rejecting hypothesis H1c. This result contradicts prior results of Li *et al.* (2003), Sila and Ebrahimpour (2005) Sila and Ebrahimpour (2002), Talib *et al.* (2013) and Wu *et al.* (1997).

This result indicates that strategic planning practices are not employed in Libyan banks, which calls for managers in Libyan banks to pay attention to providing efficient service via strategic planning. Libyan banks management should be aware of strategic planning in order to practice them, to serve customers and to attain a competitive edge in the dynamic marketplace.

#### 6.3.1.4 Human Resource Management (HRM) and Organizational Performance

The result for the effect of HRM on organizational performance is depicted in the preceding chapter's Table 5.12, which reveals that HRM did not significantly determine organizational performance ($\beta$= 0.077, t=0.828, p>0.1) and hence H1d hypothesis is rejected. This result contradicts prior study results of Arawati (2005), Flynn *et al.* (1995), Powell (1995), Talib *et al.* (2013) and Yasin *et al.* (2004). This study employed Brah *et al.'s* (2000) instrument to measure the HRM dimension and this measurement comprised employee empowerment, employee involvement and employee training. Despite the consensus of prior studies of the significant impact of HRM on organizational performance, this study revealed otherwise, and this indicates that in Libyan banks, a gap exists between employees and managerial practices and that employees are not involved in the decision making process and they are not recipients of sufficient empowerment, involvement opportunities and training.

In this context, Libyan banks employees are not as involved in making decisions in their organizations owing to the autocratic way that such banks are run by management. The scenario us such that majority of the employees refrain from arguing with the managers as this would put a black mark on their performance, although they argue in favor of the organization's interests.

In addition, employees in Libyan banks are seldom trained notwithstanding how this training may positive affect them in the future. Managements in such banks may perceive training to be a huge investment without returns and are therefore not inclined to provide them to their employees with training. According to Shibani, Saidani and Gherbal (2012), employees require training in order to do their tasks in an effective and efficient manner.

Moreover, Libyan banks employees need empowerment. In this regard, Shibani *et al.*, (2012) stated that the company and government policy does not provide enough room for employee involvement and hence they strictly have no autonomy to decide on their own without management or leader's authority.

According to the Resource-Based View (RBV) theory, HRM is deemed to be among the most tangible resources and assets that assist organizations in their goal and competitive advantages achievement. Similarly, based on the contingency theory of congruence model, HRM may only generate positive outcomes if manager's capabilities is matched with employees' capabilities and this can be brought about through empowerment and involvement initiatives. In other words, if management is unable to increase the performance level through employees, they may not be inclined to employ HRM practices of training, involvement and empowerment. In turn, employees lacking in qualification to get involved in the decision making process may not be capable of assisting in driving the organization in the right direction. To reiterate, management capabilities have to match with those of employees for enhanced performance of the organization.

Furthermore, employees require training as it is the basic instrument used to reinforce the implementation of TQM practices. As such, employees should not be

expected to contribute to quality development if they are ill-equipped to do so in terms of knowledge and skills (Chow & Lui, 2003). If Libyan banks provide training to their employees, then they will be more capable of understanding the needed improvements, act accordingly and provide excellent customer service (Kaynak & Hartley, 2008). In sum, employees' role in employing HRM practices should not be overlooked as this would bring about a smooth and successful TQM implementation.

Therefore, it is pertinent that Libyan banks should encourage their employees and motivate them in order to achieve quality performance – their feedback and suggestions should be obtained, and they should be trained in team management, empowered to get involved in initiatives, and trained to handle customer's complaints.

#### 6.3.1.5 Service Design (SD) and Organizational Performance

As with the preceding construct, service design was found to insignificantly impact organizational performance ($\beta$= -0.095, t=0.952, p >0.1) as presented in the previous chapter. This result is contrasting to prior studies results that reported a significant relationship between the two constructs; for instance, Anderson *et al.* (1994), Flynn *et al.* (1995), Lakhe and Mohante (1995); Llorens-Montes and Verdu-Jover (2004), and Talib *et al.* (2013). Based on this result, hypothesis H1e is rejected. In this regard, according to Lakhe and Mohanty (1995), good service design would enhance the performance of the organization.

In the context of Libyan banks, this insignificant effect may be attributed to the lack of the customer's voice concerning the services and thus at present, the customer's feedback and suggestions and their impact on the Libyan banks service design is indiscernible.

Despite the considerable efforts placed by Libyan business environment to the customer-focus strategies, the impact of customers' feedback on the design plans is still lacking, which may be related to the limited competition leaving customers with few alternative service providers to choose from. This situation is however changing with the Libyan government's new economic policy. It is hence pertinent for Libyan banks and other organizations to review their policies concerning customer focus and design of products and services for customer satisfaction. Such policies and strategies have to be related to the employees' capabilities to provide service for sustainable quality outcomes.

#### 6.3.1.6 Information and Analysis (IA) and Organizational Performance

An insignificant relationship was also found between information and analysis construct and organizational performance ($\beta$= 0.005, t=0.036, p>0.1) and hence hypothesis H1f is rejected. This result contradicts with prior results reported by Ahire *et al.* (1996), Flynn *et al.* (1995), Kartha (2004), Ott and Van Dijk (2005), Powell (1995), Saraph *et al.* (1989), Sila and Ebrahimpour (2005), Sit, Ooi, Lin and Chong (2009).

Literature dedicated to TQM is of the consensus that information and analysis system (IAS) has a significant role in the overall performance of banks as such a system facilitates cost reduction, increased productivity, enhanced service quality, reduced risk and uncertainty in the decision making process, and it maximizes workforce use Bilich and Neto (2000). Regardless of these prior results from literature, the present study results showed negative impact of IAS on organizational performance of Libyan banks. These mixed results may be attributed to the Libyan banks communication and information system's ineffectiveness. This result is backed by

Shibani *et al.,* (2012) who found an insignificant relationship between the two constructs.

#### 6.3.1.7 Continuous Improvement (CI) and Organizational Performance

Talib *et al.* (2013) stated that continuous improvement is among the critical factors that facilitates ongoing improvement of performance outcome. On the basis of the results presented in Table 5.12 of the prior chapter, continuous improvement significantly determines organizational performance ($\beta$= 0.290, t=2.433, p<0.01) - a result that is consistent with those reported by prior studies such as Yusuf *et al.* (2007), Benavent *et al.* (2005), Christos *et al.* (2010), Gatchalian (1997), Lakshman (2006); Powell (1995) and Talib *et al.* (2013).

This result indicates that Libyan banks pay attention to continuous improvement practices and ensure their effective implementation. In a similar study, Abusa (2013) found continuous improvement practices to significantly impact the performance of Libyan Industrial Sector.

The result shows that the continuous improvement practices are given attention and implemented effectively in Libyan banks. This result in line with the study of Abusa (2013) that found continuous improvement practices is significantly affecting organizational performance in Libyan Industrial Sector.

#### 6.3.1.8 Benchmarking (B) and Organizational Performance

Benchmarking assists in conducting a comparison of the organizational performance based on internal or external aspects of the organization (Talib *et al.,* 2013). In the present study, benchmarking was found to negatively and significantly impact organizational performance ($\beta$= -0.004, t=0.047, p<0.01) and this result does not match with those of prior studies that found a positive significant impact of the same

on organizational performance (e.g. Ahire *et al.*, 1996; Arawati, 2005; Christos *et al.*, 2010; Powell, 1995; Talib *et al.* ,2013; Terziovski & Samson, 1999). Other studies like Dow *et al.* (1999) showed that benchmarking does not contribute to quality results. This result may be explained by the contention that some soft TQM factors may contribute more to the enhancement of organizational performance compared to some hard TQM factors, like benchmarking (Samson & Terziovski, 1999). In another take on the construct, Powell (1995) reported an insignificant effect of benchmarking on performance and reached to the conclusion that TQM implementation success may not be dependent on benchmarking. In the context of Libya, Shibani *et al.,* (2012) reported that benchmarking is one of the top barriers for TQM implementation in companies.

It is necessary for Libyan banks to view benchmarking as a strategy towards achieving optimum competitive advantage and accordingly call for more research to determine the best practices in international and local banks.

### 6.3.2 Entrepreneurial Orientation (EO) and Organizational Performance

This study found EO to positively and significantly impact organizational performance ($\beta= 0.570$, $t=6.539$, $p<0.05$) at 0.05 level of significance as depicted in the preceding chapter's Table 5.12. This result supports hypothesis H2 and other prior results reported by other studies (e.g. Abebe, 2014; Al-Swidi & Al-Hosam, 2012; Arief *et al*., 2013; Campos & Valenzuela, 2013; Dada & Watson, 2013; Keh *et al*., 2007; Li *et al*., 2009; Liu & Liu, 2011; Mahmood & Hanafi, 2013; Miller, 1983; Saeed *et al*., 2014; Sciascia *et al*., 2014; Tang & Tang, 2012; Wang & Yen, 2012; Zhang & Zhang, 2012). Indicating that organizational leaders may benefit from implementing EO strategy to maximize and improve the organization for survival and growth in the current dynamic and complex market environment.

Additionally, based on this result, EO is effective in achieving Libyan banks organizational performance. According to Wiklund and Shepherd (2003), entrepreneurial traits and activities are needed for the survival and growth of organizations. Nevertheless, other studies such as Dimitratos, Lioukas and Carter (2004), George, Wood and Khan (2001), Slater and Narver (2000) and Walter, Auer and Ritter (2006), this positive EO impact is not supported. Other studies that showed positive results concluded that organizations having high entrepreneurial activities display optimum performance in comparison to their low entrepreneurial counterparts. The positive result indicates that bank leaders should not only be entrepreneurial but they also have to acknowledge the opportunities in their grasp to obtain competitive advantages.

#### 6.3.2.1 EO-Innovativeness and Organizational Performance

This study found innovativeness construct to significantly affect organizational performance ($\beta$= 0.198, t=1.398, p<0.10) and hence supporting H2a. Prior studies are of the same contention in that they advocated innovativeness to increase profitability, produce excellent economic performance, and contribute to organizational growth and profitability (Brown & Eisenhardt, 1998; Covin & Miles, 1999; Covin & Wales, 2010; Jalali, 2012; Wang & Yen, 2012; Wiklund, 1999).

#### 6.3.2.2 EO-Proactiveness and Organizational Performance

This study showed that proactiveness positively and significantly relate to organizational performance ($\beta$= 0.234, t=2.058, p<0.05) at 0.05 level of significance indicating support for hypothesis H3b and significance of the construct in the performance of the organization. Prior studies also reported a positive and significant effect of the construct on organizational performance including Bhuian *et al*., (2005), Caruana *et al.* (2002), Kraus *et al.* (2012), Lump and Dess (2001), and Wang and

Yen (2012). This result shows the significance of proactiveness in the context of banks in Libya.

#### 6.3.2.3 EO-Risk Taking and Organizational Performance

Like proactiveness, this study found risk-taking to have significant and positive impact on organizational performance ($\beta$= 0.137, t=1.734, p<0.05) at 0.05 significance level as depicted in chapter five's Table 5.12. This result supports hypothesis H2c and indicates the positive impact of risk-taking on organizational performance as reported by Hughes and Morgan (2007), Kraus *et al.* (2012), Miller and Friesen (1982) and Wang and Yen (2012).

### 6.3.3 Total Quality Management (TQM) and Market Orientation

TQM is acknowledged as an effective approach globally to achieve high quality levels, and products and services of optimum quality (Waldman, 1994). Accordingly, TQM practices-market orientation positive relationship is expected as both stress on the needs and participation of customers with the ultimate objective of achieving customer satisfaction (Day, 1994; Mohr-Jackson, 1998).

Based on this study's result, a positive and significant relationship exists between the two (TQM and market orientation) ($\beta$= 0.278, t=4.108, p<0.01) at the 0.01 significance level as depicted in chapter five's Table 5.12. This supports the proposed hypothesis H3 and is aligned with the results reported by Lam, Lee and Ooi (2012) and Tatoglu and Zaim (2006).

This result also reveals that Libyan banks do acknowledge the TQM importance in achieving optimum performance via MO practices. MO reflects the proposed aim behind TQM implementation, and that is to achieve superior organizational

performance. It shows the significance of TQM practices in improving customer orientation, competitor orientation and employees coordination.

### 6.3.4 Entrepreneurial Orientation (EO) and Market Orientation

The EO-MO relationship shows that market focus is a significant aspect of EO where EO dimensions of innovation, risk-taking and proactiveness react to the changes in the market and are impacted by it.

Similarly, studies such as Frishammar and Horte (2007) and Zhou *et al.* (2005) argued that the MO-EO relationship determines the performance of the organization. Other studies like Atuahene-Gima and Ko (2001) recommended the simultaneous maximization of the two constructs for maximum organizational performance. This contention indicates that the EO-MO relationship is significant to the successes of the organization and hence, any change in one construct will impact the other, and the overall effectiveness. This study confirmed the positive and significant relationship between the two ($\beta$= 0.665, t=10.064, $p<0.01$) at 0.01 level of significance, and hence supporting hypothesis H4. This result is aligned with prior results reported by William and Ma (2008) who revealed a significant EO-MO relationship.

### 6.3.5 Market Orientation and Organizational Performance

The market orientation affect on organizational performance has long been established and considered as among the most important relationships in literature dedicated to market-orientation (Haugland *et al.,* 2007). In this regard, Rapp *et al.,* (2008) stated that prior scholars (e.g. Kirca *et al.,* 2005; Wu *et al.,* 2003) are convinced that MO adoption can result in positive outcomes of performance. The MO concept has been empirically defined and validated and shown to enhance

business performance (Johnson & Huizenga, 2001) and to achieve competitive advantage (Porter, 1980; Day, 1990). Nevertheless, according to Hult and Ketchen (2001) and Noble *et al.* (2002), other viable strategic orientation aside from market orientation contributes to the enhancement of performance.

This study confirmed a positive and significant relationship between market orientation and organizational performance ($\beta$= 0.263, t=2.064, p<0.05) at 0.05 significance level and such result supports hypothesis H5 and the results of prior studies such as Ramayah, Samat and Lo (2011). This shows that the elements of market orientation namely customer orientation, competitor orientation, and inter-functional coordination is viewed by Libyan banks as the most critical factors that lead to high performance level.

### 6.3.6 The Mediating Role of Market Orientation between Total Quality Management (TQM) and Organizational Performance

Towards achieving the study objectives, the researcher investigated the mediating impact of market orientation between TQM-organizational performance relationship. The result presented in Table 5.13 of the preceding chapter confirmed this mediating impact at the 0.01 level of significance ($\beta$= 0.074, t=1.804, p<0.01) following the employment of the bootstrapping method. More importantly, the mediating effect was full mediation according to bootstrapping method.

This finding supports the use of market orientation as an approach that organizations can employ to improve their performance via TQM implementation indicating that it plays a role in determining the impact of TQM on organizational performance through customer orientation, competitor orientation and inter-functional coordination.

Some prior studies were of the consensus of the positive relationship between TQM and organizational performance, and market orientation and organizational performance. The collective impact of these variables on the performance of the organization was logically proposed and confirmed by the study results. They revealed that Libyan banks are aware of practicing market orientation in their day-to-day activities.

### 6.3.7 The Mediating Role of Market Orientation in the Relationship between Entrepreneurial Orientation (EO) and Organizational Performance

The results of this study (Chapter Five, Table 5.13) confirm the mediating impact of market orientation on the EO-organizational performance relationship ($\beta$= 0.173, t=1.997, p<0.01) at 0.01 level of significance following the bootstrapping method. This result is aligned with the proposed hypothesis H7 in that a partial mediating effect was confirmed according to bootstrapping method.

Market orientation is a mechanism that sheds an in-depth insight into the EO-organizational performance and in prior discussions earlier in this study, a direct positive and significant relationship exists between EO and organizational performance. Hence, this positive effect and significance is expected to increase through the practices of market orientation factors, which are customer orientation, competitor orientation and inter-functional coordination. The result indicates that Libyan banks do employ market orientation practices by concentrating on customers and competitors.

In this regard, several insights have been brought up in this study concerning the issues relating to organizational performance of Libyan banks. To date and to the researcher's knowledge, this study is one of the few studies conducted in the Arab world in general that examined the joint impact of TQM and EO on market

orientation and organizational performance. Also, this study attempts to extend literature and contribute to both literature and practice by examining the mediating impact of MO with the help of PLS-SEM analysis. A detailed explanation of some contributions is further elaborated in the next section.

## 6.4 Contributions of the Study

In this study, many insights concerning the issues related to the organizational performance of Libyan banks have been arisen. The present study, as to date, is one of very few studies conducted in the Arab world to examine the joint effect of TQM, and EO on organizational performance. In addition, this study is an attempt to expand the boundary of the current existing knowledge in the literature by examining the mediating effect of market orientation on the organizational performance using PLS-SEM analysis. Therefore, by integrating the effect of TQM, EO, and market orientation, this study had many contributions in the literature and practice. In the next following sub-sections, some contributions were elaborated of this study.

### 6.4.1 Contributions to the Literature

This study attempts to contribute to the understanding of TQM-EO-Market Orientation and organizational performance relationship. Based on the findings of prior studies, the present study's framework of study was developed in order to examine the proposed hypotheses. Chapter one provided the significance of the study while the contributions of the study are provided and discussed in this section.

First and foremost, this study contributes to literature by shedding a light on the importance of TQM in the service sector, specifically Libyan banks. It contribution extends to the re-examination of the ambiguities in the TQM-organizational performance relationship as literature presents mixed findings concerning the

relationship. More importantly, this study significantly contributes to literature by including the effect of EO as innovative practices and strategies towards the theoretical model to shed better insight into the variance of organizational performance construct.

Second, this study highlighted the EO significance towards organizational performance as prior studies also presented inconsistent results – specifically, the current study contributes to management literature through its re-examination of the EO impact on organizational performance to reach a consensus in literature. Because of the mixed results furnished by literature, practitioners and academics alike have called for the determination of EO strategy appropriateness for the performance of the organization (Wiklund & Shepherd, 2005) and this study confirmed EO's positive and significant affect on organizational performance.

Third, the present study's results showed that the combined TQM and EO effect on organizational performance was more significant compared to their individual effects. Therefore, the researcher recommends both strategies to be integrated and implemented together. The significance of such integration is evidenced by the inter-dependency of the constructs' dimensions. Accordingly, upon comparing their individual impacts (TQM & EO) as composite variables on organizational performance, it is evident that both strategies should be considered as a bundle of strategies and not individual strategies.

Fourth, this study examined the role of market orientation in maximizing organizational performance – specifically, its mediating role in the relationships of TQM, EO and organizational performance. Based on the results, MO has a key role in developing and improving the performance of organizations. To this end, market

orientation is explained by the RBV theory in that it is an important resource in achieving competitive advantages.

Fifth, the bulk of literature concerning this topic is confined to developed nations and as such, the present study extends literature dedicated to TQM, EO and market orientation to the banking sector of Libya, which is a developing nation.

Finally, the present study carried out robust analysis on the validating the instrument in addition to testing the hypotheses and the model. Prior studies mainly depended on traditional instruments like factor analysis and Cronbach alpha coefficient for such validation. These instruments are effective but not sufficient to this study's current analysis. This study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) method for validating the measurement model and testing the proposed hypotheses and as such, it can be viewed as one of the few studies that made use of such a method for the goodness of fit of the measurement model in hypotheses testing.

### 6.4.2 Practical Contributions

In addition to the contributions to literature, the findings obtained by the present study have several practical implications for managers, practitioners and policy makers. These findings provide a clear insight into TQM, EO and MO's role in improving the organizational performance as a whole. Some practical contributions of these findings are discussed in this section.

First, both decision makers and managers of Libyan banks are made aware of the significance of TQM implementation. As a management approach, TQM is considered to facilitate competitive advantages of the organization and to increase

performance. Libyan banks who are desirous of implementing strategies or systems, it is essential to implement TQM to steer clear of any issues in the later stage.

Second, based on this study's findings, the entrepreneurial role within the organization is among the primary characteristics that helps its survival and achievement of a strategic status in the market. Hence, managers in Libyan banks are advised to draw up and follow effective plans that can improve entrepreneurial culture and traits among its workers.

Finally, the inconsistent findings concerning TQM and EO effect upon organizational performance is tackled by this study by including market orientation to further explain and enhance organizational performance.

## 6.5 Limitations of the Study

Although this study offers practical and theoretical contributions, not unlike any other study, it has its own limitations and these limitations have to be considered with caution.

The first study limitation is the adopted cross-sectional research design for the examination of the hypothesized relationships – the design focuses on a single point of time while the psychological human aspects are constantly changing. On this basis, the study conclusions may differ if the researcher employed a longitudinal design. This is compounded by the fact that TQM and EO are long-term strategies and studying the related relationships at one point in time will lead to inaccurate results. It is strongly recommended that longitudinal studies are conducted to investigate TQM and EO impacts on organizational performance.

The second limitation concerns the quantitative research method, where the respondents were asked to translate their perceptions according to the items in the survey questionnaire and gauge them through a Likert scale. There is a possibility that the answers the respondents gave may be influenced by their biased perception of the subject matter (Macinati, 2000). Hence, it is recommended that future studies adopt a mixed research design, where both quantitative and qualitative research designs are combined for complementary affect.

The third and final limitation is the lack of prior studies dedicate to the phenomenon under focus in the context of Libya. This lack in studies limits the researcher's ability to compare with other studies of the same caliber.

### 6.6 Suggestions for Future Research

This study leaves avenues worthy of pursuit in future researches. First, data collection was confined to a cross-sectional approach and owing to the complexity involved examining strategies like TQM, EO, market orientation and organizational performance, this research may be extended through a longitudinal method. In this manner, the complexity of the relationships may be explained over a period of time and development of variables may be observed throughout the period to shed better light on the relationship changes between them.

The second future recommendation is related to the first one in that the present study's research design method confined the researcher to observe the nature of relationships and their effects within just one point in time. In this regard, for a complete examination of the effect of TQM and EO on organizational performance, a case study approach may be employed to allow the researcher to minutely examine the relationship and to generate optimum results.

Third, this study's results are primarily based on data collected from branches of Libyan banks as they are more knowledgeable concerning TQM, EO and MO and their impacts on organizational performance. Other points of view may be included in future studies like customers and employees.

The generalizability of results may be enhanced by future studies examining TQM and EO impacts on MO and performance by focusing on individual constructs. Additionally, the same model can be employed to study other sectors in the market, particularly in a country or region having a strong and unique culture to add to the dimension of findings.

Finally, the R-square of organizational performance was found to be 54% as presented in chapter five – indicating that the model's variables constitute 54% to organizational performance explanation. The rest of the constitution may be explained by other variables that contribute to performance, which should be determined and examined by future studies.

## 6.7 Conclusion

In sum, the banks organizational performance remains one of the major issues that relate to overall economic development and growth of a country. The improvement of the banks overall performance has been a topic of concern to all decision-makers in developing nations, and Libya is no different. Also, TQM and EO have been extensively acknowledged as the top effective approaches that can assist organizations realize higher performance and generate innovative products and services. In the context of Libya, the importance of both constructs has been accepted although such strategies are still in their initial phase in the country.

The present study's findings support the significant impact of both TQM and EO on the performance of the organization. Although such approaches originated in the West, they are effective in improving and maintaining organizational performance among Libyan banks.

Moreover, the mediating role of market orientation was examined in this study as a mechanism that explains the relationship between TQM and organizational performance, and EO and organizational performance relationship. Both relationships have been confirmed to be mediated by market orientation.

The findings of this study also confirmed customer focus as one of the critical factors of TQM indicating the need for Libyan banks to exert effort in obtaining accurate information of customer's needs and requirements to solidify their trust and achieve customer satisfaction. To this end, a reliable system of information should be developed to gather feedback and complaints from customers. Additionally, banks should conduct survey in a regular manner to gauge the level of customer's satisfaction of the services they provide and their suggestions as to their improvement. In other words, Libyan banks should develop a customer-first culture and match their efforts and activities towards such culture. To conclude, this study's findings provided new insights into TQM, EO and market orientation's contribution towards organizational performance among Libyan banks.

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