

Confirmatory Factor Analysis on Organization Reputation, Strategic Leadership, and Organization Culture as A Resources-Basedview

by Ellitan Lena

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Confirmatory Factor Analysis on Organization Reputation, Strategic Leadership, and Organization Culture as A Resources-Basedview

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Abstract

This research is intended to validate the measurement model of organization reputation, strategic leadership, and organization culture as a resources-based view. The essence of the measurement model as follow as: (1) *the stronger the good employer is the stronger organization reputation will be*; (2) *the stronger the ability to think strategically is the stronger the strategic leadership is*; and (3) *the stronger the freedom to grow and to fail is the stronger the organization culture is*. The measurement model based on theoretical framework successfully reaches convergent validity and composite reliability. This measurement model of intangible asset in the organization base of resource based view to be used in advanced

research on corporate entrepreneurship. The revalidation of measurement model in wider context and population, for example the small business sector, becomes the agenda of the future research. For practical purpose, the usage of measurement model indicators can be accomplished.

Keywords: Organization reputation, Strategic leadership, Organization culture, CFA

1. Introduction

Indonesia has a special characteristic in the growth of its **Gross Domestic Product (GDP)** in the year 2009 at the sum of Rp 5,613 trillions and steeply increases in 2010 at the sum of 6.1 percent with the volume of Rp 6,422 trillions or equal to USD 700 billion and holds the 16th great world position. Observing such a data, it is proven that the contributor of the Indonesian economic growth is stimulated by the domination of private sector (94%) and not by the contribution of government expenditure (6%) (BPS, 2010). Law Number 20 the year 2008 on UMKM – the Micro, Small and Medium Scale Enterprises sets up the criteria of business performers in Indonesia namely the micro, small, medium, and big scale businesses.

Organization in whatever business scale in Indonesia must be capable of improving quality of its management and maintaining the organizational growth for its own benefit or for the sake of growth sustainability of the Indonesian GDP. Each organization must have ability to design and manage its business organization to be the best among its own industrial group. One of the most important measurements of the success of an organization is the organizational performance achievement.

2. Literature Review

The *worthed or achieved* organizational performance achievement is indicated by *sustained competitive advantage* Clulow et al. (2007); Runyan et al. (2007). J.B. “*Sustained competitive advantage comes from a firm’s resources and capabilities and includes management skills, organizational processes and skills, information and knowledge*” Barney in Runyan et al. (2007:392). In other words, the *worthed or achieved* organizational achievement is carried out through the *firm’s resources and capabilities*. This is commonly known as the *Resource-Based View (RBV)* approach. Clulow et al. (2007: 19) explains RBV as follows:

The Resource-Based View (RBV) explores the role of key resources, identified as intangible assets and capabilities, in creating competitive advantage and superior performance. To a great extent, the conceptual analysis and empirical research within the RBV has focused on the firm’s perspective of key resources and the value to the firm of these key resources. The other perspective on key resources is to explore the value they provide to the customer. The question of interest here is whether key resources that hold value for the firm also hold value for the customer.

Barry, Clulow, and Gerstman in Clulow et al. (2007) identify three key resources, namely “*tangible assets (value recognized in the balance sheet), intangible assets (value results from reputation and client trust), and capabilities (value is embodied in the culture of the firm and the knowledge and skills of employees)*” (p. 21). This research is focused on organization reputation, strategic leadership, and organization culture as resource-based. The strategic leadership is added due to its role in policy development leading to performance improvement of the three *key resources*.

2.1 Reputation Organization

Walsh and Beatty (2007), designate the organizational reputation in the new framework with

two kind of understandings, “first reputation is as a collective phenomenon, and the second is as the idea of organizational reputation which has not been conceptualized as a result of consumer reaction perceived from direct and indirect experiential interaction”.

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2.2 Strategic Leadership

Ireland and Hitt (1999), define strategic leadership as “a personal ability to anticipate, envision, maintain flexibility, think strategically, and collaborate with others to initiate changes for better future of the organization”. Burns (2008), define strategic entrepreneurial leadership as “a combination of conventional management expertise with some entrepreneurial skills”.

2.3 Organization Culture

Robbins (2003), defines it as “the interpretation of a system collective understanding formed by members of the organization. It’s concurrently become the differentiation towards other organization”. Morris et al. (2008); define the entrepreneurial organizational culture as a “type of corporational organization which could affect the intensity of entrepreneurship ecosystem in the company”.

3. Research Method

This research is designed to test the measurement model of the three latent variables (construct), namely *organization reputation*, *strategic leadership*, and *organization culture* by using some indicators (manifest variables) respectively reflecting such constructs. The subject of research is 24 units of business available under the umbrella of Ciputra Group randomly selected. Ciputra Group is a big scale corporation.

Organization Reputation (OR) is measured by using five indicators referring to Walsh and Beatty (2007) consisting of: (1) *customer orientation* (OR1); (2) *good employer* (OR2); (3) *reliable and financial strong* (OR3); (4) *product and service quality* (OR4); and (5) *social and environmental responsibility* (OR5). Strategic Leadership (SL) is measured by using six indicators referring to Burns (2008) comprising of: (1) *ability to motivate* (SL1); (2) *ability to manage change* (SL2); *ability to clarify ambiguity and uncertainty* (SL3); (4) *ability to think strategically* (SL4); (5) *ability to delegate* (SL5); and (6) *flexible but consistent* (SL6). The Organization Culture (OC) is measured by using five indicators referring to Morris et al. (2008) covering: (1) *focus on people and empowerment* (OC1); (2) *attention to basic* (OC2); (3) *hands-on management* (OC3); (4) *freedom to grow and to fail* (OC4); and (5) *commitment and personal responsibility* (OC5).

Based on the aforesaid indicators, a Likert Scale Questionnaire is prepared as the analytical instrument. Respondents respond the questions in questionnaire within the range of ‘completely agree’ up to ‘disagree’. Items of question in questionnaire are developed by the researcher either by virtue of variable indicators according to synthesis of theories or based on the questions of the questionnaire from the previous research. The collected data are then analysed by using the Confirmatory Factor Analysis (CFA) with the help of AMOS.

4. Result & Discussion

4.1 Result

The construct measurement model testing using CFA is performed more than one round. In this case, model is modified based on *modification indices* (Arbuckle & Wothke, 1999: 153). The aim is to get the construct measurement model with the *fit indices* fulfilling the requirements or *cut-off*. Output of *fit indices* calculation on construct measurement model is shown in Table-1 below.

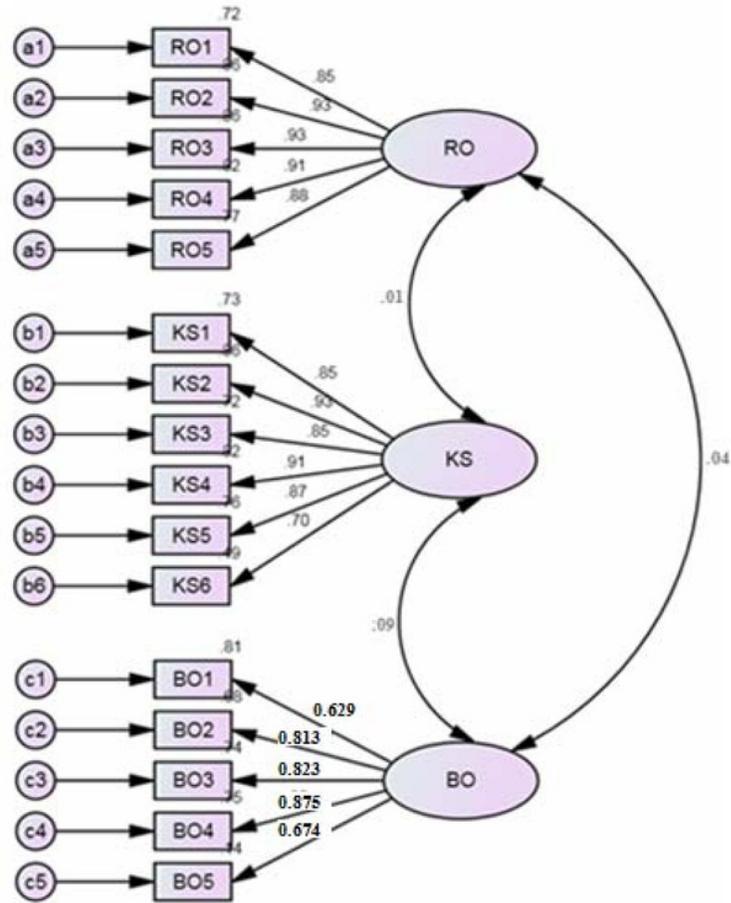
Table 1. Fit-Indices of Measurement Model

No.	Fit Indices	Value	Cut-off ^{a)}	Status
1.	Chi-square	174.659 (p = 0.000)	probability of Chi-square > 0.05	Marginal 3
2.	RMR	0.004	< 0.08	Fit
3.	GFI	0.912	> 0.90	Fit
4.	TLI	0.979	> 0.95	Fit
5.	CFI	0.982	> 0.95	Fit
6.	RMSEA	0.078	< 0.08	Fit

* Adapted based on Hair et al.(2006: 753)

From Table-1, it is found out that *the overall fit index* gives the *chi-square* value at the sum of 174,659 (p=0.000) having the *marginal status*. However, other indices, namely RMR, GFI, TLI, and RMSEA have the *fit status*. Majority of the indices indicate *fit status*, so that overall, the construct measurement model can be declared as having been *fit*.

Further, CFA is used to test the construct validation, namely *convergent validity*. The convergent validity of construct measurement model is tested based on the *loading factor* (Hair et al., 2006:777). The loading factors of the organization reputation, strategic leadership, and organization culture are shown in Table-2. Graphically, the measurement model is indicated in Drawing-1.



Drawing 1. Measurement model

Table 2. Loading Factor and Composite Reliability

<i>Latent Variable</i>	<i>Indicator</i>	<i>Factor Loading</i>	<i>p-value</i>	<i>Composite Reliability</i>
Organization Reputation (RO)	<i>Customer Orientation (RO1)</i>	0.857	0.000	0.948
	<i>Good Employer (RO2)</i>	0.932	0.000	
	<i>Reliable and Financial Strong (RO3)</i>	0.926	0.000	
	<i>Product and Service Quality (RO4)</i>	0.895	0.000	
	<i>Social and Environmental Responsibility (RO5)</i>	0.880	0.000	
Strategic Leadership (KS)	<i>Ability to Motivate (KS1)</i>	0.879	0.000	0.956
	<i>Ability to Manage Change (KS2)</i>	0.879	0.000	
	<i>Ability to Clarify Ambiguity and Uncertainty (KS3)</i>	0.859	0.000	
	<i>Ability to Think Strategically (KS4)</i>	0.943	0.000	
	<i>Ability to Delegate (KS5)</i>	0.869	0.000	
	<i>Flexible but Consistent (KS6)</i>	0.700	0.000	
Organization Culture (BO)	<i>Focus on People and Empowerment (BO1)</i>	0.629	0.000	0.876
	<i>Attention to Basic (BO2)</i>	0.813	0.000	
	<i>Hands-on Management (BO3)</i>	0.823	0.000	
	<i>Freedom to Grow and to Fail (BO4)</i>	0.875	0.000	
	<i>Commitment and personal Responsibility (BO5)</i>	0.674	0.000	

From Table-2, it is found out that the organization reputation has the lowest *loading factor* of 0.857 at *customer orientation* indicator, and the highest of 0.932 at *good employer* indicator. Strategic leadership has the lowest *loading factor* of 0.7 at the *flexible but consistent* indicator, and the highest of 0.943 at *ability to think strategically* indicator. The organization culture has the lowest *loading factor* of 0.629 at the *focus on people and empowerment* indicator, and the highest of 0.875 at the *freedom to grow and to fail* indicator. All loading factors are significant ($p=0.000$). These outputs indicate that convergent validity requirements are fully met.

Finally, CFA is used to test the composite reliability of every construct (Hair et al., 2006:

777-778). Table-3 indicates that the organization reputation, strategic leadership, and organization culture have the *composite reliability* consecutively at the sum of 0.948, 0.956, and 0.876. Composite reliability requirement is 0.7 and up (Hair et al., 2006: 778). In this way, all the three constructs have met the *composite reliability* requirements.

4.2 Discussion

Organization reputation, strategic leadership and organization culture as the constructs have got their measurement tested based on some indicators reflecting the said constructs respectively. Each construct has one indicator with the *biggest loading factor* (meaning as the strongest indicator in those constructs). The intended indicators are *good employer* at the organization reputation, *ability to think strategically* at the strategic leadership, and *freedom to grow and to fail* at the organization culture.

Referring to indicators with the biggest loading factor in each construct, it can be found out that: (1) *the stronger the good employer is* (prospective work place, good treatment to employees, availability of competent employees), *the stronger organization reputation will be*; (2) *the stronger the ability to think strategically is* (implanting and uniting the strategic thought in each step by the leader, and the reliability of the strategic goals determined by the leader), *the stronger the strategic leadership is*; and (3) *the stronger the freedom to grow and to fail is* (acceptance to a success or to a failure as a learning process, bravery to take initiative with the risk of being successful or failed, and the freedom to express the opinion), *the stronger the organization culture is*.

Convergent validity fulfilment of the organization reputation, strategic leadership, and organization culture above at least gives contribution strengthening (supporting) the existing measurement model. The measurement model of organization reputation strengthens the measurement model of Fombrun et al. (2000), Davies (2003), and Walsh and Beatty (2007). Further, the measurement model of strategic leadership strengthens the model measurement of Bass and Avolio (1993), Ireland et al. (1995), and Burns (2008). Finally, the measurement model of organization culture strengthens the measurement model of Robbins, Schein (2004), and Morris et al. (2008).

5. Conclusion

This research is to test the model measurement of organization reputation, strategic leadership, and organization culture. The measurement model built on the theoretical basis is successful to get the *convergent validity* and *composite reliability*. Furthermore, this proven measurement model of intangible asset in the organization base of resource based view to be used in advanced research on corporate entrepreneurship. Revalidation of measurement model at wider context and population (such as the sector of UMKM – Micro, Small, and Middle Scale Enterprises) becomes the agenda of the research in the future. For the practical purposes, utilization of construct measurement indicators can be undertaken.

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