

Learning Orientation, Innovation Capability, and Organizational Performance: Evidence from Banking Sector of Pakistan

Sardar Muhammad Zahid

Department of Management Sciences
COMSATS Institute of Information Technology Lahore, Pakistan
smzahid@ciitlahore.edu.pk

Imran Ali

Department of Management Sciences
COMSATS Institute of Information Technology Lahore, Pakistan
imranalinim@gmail.com

Abstract

Learning orientation and organizational innovativeness have become buzz words today owing to their significance for enhancing organizational performance. Innovativeness has become the strategic necessity of organizations today in order to contend in the intense market competition. Current study examines the dynamic relationship between organizational learning orientation, innovation capability and the organizational performance in the banking sector of Pakistan. This is an exploratory study in nature and the respondents were selected from different banks operating in Pakistan. Structural equation modeling approach is adopted to analyze the data and test the hypotheses. The study documented significant relationship between learning orientation, innovation capability and organizational performance in the banking sector of Pakistan.

Key Words: Learning orientation, innovation capability, organizational performance, banking sector, Pakistan.

Introduction

Banking sector across the globe is going through a number of quick changes; this is due to rapid pace of technological advancement. Use of automated teller machines (ATMs), advanced statistical models for risk Management and Advance Ledger Posting Machines

(ALPM) has changed the conventional banking activities. Scientific progress has changed the nature of labor needed to perform banks operations. The demand for those workers which have computer knowledge and having different skills significantly increased. In recent years Banks use their resources for bringing state of the art technologies to improve their processes and make them more efficient. The diversity within commercial banks greatly increases in recent years. Every banking organization is trying to look and build their organization different and diverse from other organization by pursuing different and distinct strategies through introducing new products and services, having some differentiation through innovation and continue improvement. So learning Orientation is very important for banking sector in order keep up with market competition through innovation and its better performance.

Innovation and organizational learning are highly interlinked to each other. Innovation can be defined as the formation, acknowledgment and implementation of new ideas, mode of deed and constructed products and services (Thomson 1965). Zaltman et al and Rogers defined innovation as an idea, application or a formed object claimed as novel by the referring body of acceptance. According to Ambalio et al innovation is the successful application of new and inventive ideas in organization. Acquiring, sharing and utilizing the new information actually make and completes the innovation activity. And one thing which is noticeable is that there lies some synchronization between an organization's knowledge and innovation, as their correlation is inspected by many intellectuals. The correlation between the objective of acquiring information and innovation has not been focused and preferred by many organizations because of variety of reasons which includes the absence of wide harmony on the way of describing that how the learning orientation can be formed. It is taken as an individual feature by most of the intellectuals and which has been computed by using multiple patterns. Few experimental studies have logically computed the measurement attributes. Another reason is that the function of learning orientation with the innovation has always been underestimated (Capon 1992).

This finding inspects the connection between the learning orientation, innovation, and the organization's performance by drawing a model from the organization's philosophy of

learning and information of new product. A learning orientation is formed on the basis of the information available in literature. Learning orientation is taken as a worthy precursor of innovation which eventually influences the functioning of an organization. Learning orientation has four important parts: dedicated to learning, communicated vision, receptive or broad mindedness, and the ability to share the information within the organization.

Review of Literature

Researchers have discovered that the learning is associated with the boost of new information which is very vital to the organization's innovation skills and the organization's operations. (Hurley and Hult 1998). A firm committed to learning is anticipated to go for the recent and most advanced technology (Gatigon and Xuereb 1997), which results in a huge innovation in goods and the procedures of a firm. Innovation potential is highly linked to the organization's functioning (Mone et al 1998). By analyzing the literature, one may come to know that learning orientation is understood as: dedication to learning, communicated vision, broad-mindedness, sharing of information within the organization (Hurley and Hult 1998, Hult and Ferrell 1976). Learning can only happen if the organization has a precious and well formed construction of information sharing, thus intra organizational knowledge sharing is also included.

2.1 Learning orientation

It implies to the extensive endeavor to create and use knowledge in order to achieve core competency. It also states the importance of analyzing targeted people's needs and demand, market variability and competitor's strategy. Meanwhile, it also directs the organization to create innovative and value added products with the help of new technology (Hurley and Hult 1998, and Mone et al. 1998). It includes the process of gathering data (Dixon 1992); the way it is analyzed (Argyris and Schon 1978), judged (Sinkula et al. 1997) and communicated (Moorman and Miner 1998).

2.1.1 Commitment to Learning

The extent to which an organization gives importance and emphasis to learning (Sinkula et al. 1997) is likely to create a learning environment is called commitment to learning (Norman 1985). Learning is always considered valued by goal oriented organization (Sinkula et al. 1997) as it is also linked with the long term goal specifications. For example goal oriented organizations encourage their employees to use their work time to gain knowledge apart from knowledge specified to job (Slater and Narver 1994). The lack of enforcement to gain knowledge by higher authorities will discourage employees.

2.1.2 Shared Vision

Shared vision is reflected by the phenomena of emphasizing organizational learning (Sinkula et al.1997). According to Verona () hold that without this phenomenon, the concept of learning by organization members is less emphasizing. A problem extensively faced by organization members is that they are unclear (Hult 1998) about learning objectives even when they are enthusiastic to learn. Thus, many innovative ideas go unrealized due to the absence of a defined direction; great ideas fail to put into action due to differentiated interests in organization. Hence, with the accomplishment of knowledge organizational hub is created that is required by a constructive learning environment. According to Brown and Eisenhardt each organizational department has its own parameter of gathering, analyzing and evaluating information. So, different departments see innovation in different perspectives. For example, marketing department is more inclined towards information concerning market issues. Whereas R& D department is curious about technicalities, this explains different interpretation of same information. Shared vision elaborates information according to departments' focus and makes sure that quality of learning is improved. The main purpose of shared vision is to promote intra-organizational communication so that same information goes effective for all departments of the organization. It also enhances cross departmental communication so that data is elaborated and used to create innovation (Brown and Eisenhardt 1995).

2.1.3 Open Mindedness

The decisive evaluation of organizational schedule and innovation acceptance is referred to as open mindedness (Sinkula et al. 1997). To implement this, a firm needs to be adaptive towards advancing technology and unstable market mechanisms. The rate of knowledge obsolescence is high in most sectors. The organization can become useful by searching for the previous unanswered queries that affected organizational performance (Verona 1999, Porac and Thomas 1990, Sinkula 1994). Therefore, sometimes it is better to update the knowledge basics to cope with new ways.

2.1.4 Intra-organizational Knowledge Sharing

The acceptance of common beliefs and behaviors associated with organizational learning are termed as intra-organizational knowledge sharing (Zaltman et al. 1973, Moorman and Miner 1998). It aims to provide a base for future information exploitation by keeping up with knowledge gained from different sources (Lukas and Hult 1996). For example, customer information gained from marketing expertise may be useful in a different way for R &D in the development and updating of a product according to customer needs (Moorman and Miner 1998).

Addition in individual learning leads to the growth of organizational learning. To keep the information available in organization is important to avoid loss in case of employee turnover or transfer (Lukas Hult 1996). Thus, to avoid such consequences, intra-organizational knowledge sharing is mandatory. Learning will be restricted without knowing growth even when organization has a shared mission. According to scholarly views, learning is not possible if the organization lacks of proficient system of investigating information (Moorman and Miner 1998). Intra organizational knowledge sharing refers to methodical accumulation of knowledge, experience and lessons across the organization.

2.2 Firm Innovativeness

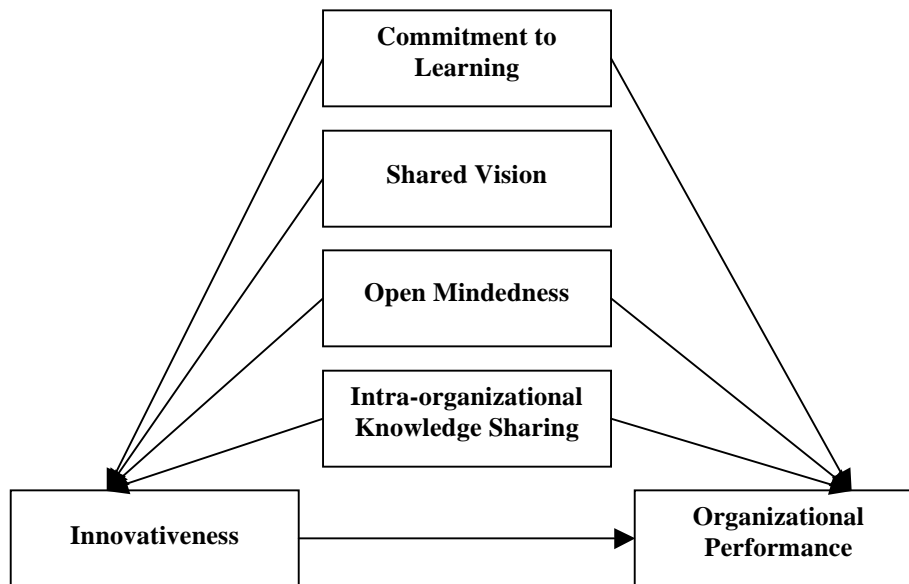
The importance of new ideas and over looking them in organization research was first identified by Drucker; innovation capability of organization is described in literature on innovation diffusion. According to scholars a firm needs to be adapted to newness in order to survive in the unstable environment (Johnson et al. 1997; Hurt et al. 1977) innovation is referring to the degree an organization is adapted compared to others. This however is an individual definition rather than collective one .according to scholars; Hurley and Hult () it's a collective vision of firm. There are two view points to analyze firm innovativeness; first one relates to the behavior i.e. how much adaptive behavior a firm has. Secondly, it keeps track of how willing an organization is to adapt the change (Hurt et al. 1977).

2.3 Learning Orientation and Firm Innovativeness

Innovation means to create, acknowledge and execute the new ideas, process, goods or services. It is a universal truth that learning orientation and firm's innovation is so closely related to each other that intellectuals suggest that organization must give learning to its employees about the importance of innovation (Damanpur 1991; Verona 1999; Cahill 1996, and Day 1991). Uncertainty of technology, customer wants and competitor's strategy in relation to innovation should also be considered and interrelated with the firm's atmosphere so that learning may prevail. An organization if wants to increase its innovation ability must focus on these three factors, it should be dedicated to innovation having high level of developed technology and utilize that technology in pursue of innovation. Organization should also be focused on market and customer demands (Damanpur 1991; Cahill 1996). According to Urban and Hauser organization must be adaptive to the changing market demands by analyzing customers' verbalized and concealed needs and wants. This described under the term of "core benefits propositions". It will also help the organization in developing the shared vision and in following the target market's preferences while creating some new product (Urban and Hauser 1993). By analyzing the competitor's strategy an organization can gain advantage

over its competitors (Damanpur 1991) and that can only be possible by promoting and communicating the learning. So organization must be aware of competitor's strategy related to the market (Damanpur 1991). By analyzing the competitor's moves an organization will be able to know the strong and weak points of them and also enable it to learn from their mistakes (Slater and Naver 1994, Lant 1987).

Figure I: Conceptual Model



2.4 Learning Orientation, Innovativeness and Organizational Performance

The recognized importance of learning orientation around the world is not hidden anymore (Slater and Naver 1994). Now days most of the organizations not only gather the knowledge but also operate it by gaining the response from customers, competitors and other parties involved in the business. It not only makes them adaptive with the environmental and market variability but also helps them in getting the core competency (Sinkula et al. 1997, Hunt and Morgan 1996). The literature tells that no single tactic allow organization to have long-term profits (Jacobson 1992). It also helps them to forecast the future conditions of the market. This strategy is followed by lot of automobile companies who create the design years before it expose to the world. An

organization which gives importance to learning also focuses on the systems operating in the organization and the basic ways of conducting those operations (Mone et al. 1998; abd Senge 1990). These sorts of strategies not only make the organization to achieve core competency but also make them the leader of the market who drives the market.

Ability of firms to Innovate is very important pronominal of firm performance (Mone et al. 1998), this is revealed by many experimental studies (Cooper 2000).The broadcast of innovations text also confirms this analysis (Rogers 1983; 1995) and argue that firm must be novel to achieve a competitive advantage in order to carry on business(Li and Calantone 1998).this important connection i-e firms innovativeness and performance has not been tested adequately (Capon et al. 1992). The conceptual model of this study is presented in Figure I. The model narrates the theoretical relationship existing between the variables.

The following hypotheses can be developed on the basis of previous discussions.

Table I: Hypotheses Statements

Hypotheses statements	
H1a	There is positive association between commitment to learning and organizational innovativeness
H1b	There is positive association between shared vision and organizational innovativeness
H1c	There is positive association between open mindedness and organizational innovativeness
H1d	There is positive association between of intra-organizational knowledge sharing and organizational innovativeness
H2a	There is positive association between commitment to learning and organizational performance
H2b	There is positive association between shared vision and organizational performance
H2c	There is positive association between open mindedness and organizational performance
H2d	There is positive association between intra-organizational knowledge sharing and organizational performance
H3	There is positive association between organizational innovativeness and organizational performance

Research Methods

Sample and Sampling

This is an exploratory study based on primary data. Data is collected through structured questionnaire survey. The survey was personally administered and total 300 questionnaires were distributed, out of which 171 received back were leaving a 57 % response rate. The respondents were bank employees including officers and managers whose perceptions were measured regarding learning orientation of organization, organizational innovation capability and their effects on organizational performance.

Measurement and Instrumentation

The dependent variables in this study were organizational innovation capability and organizational performance. The instrument to measure organizational performance was adopted from Jimerez and Navarro (2007) whereas the instrument to measure organizational innovativeness capability was also adopted from literature. The independent variable was learning orientation and the instrument was derived from Galler and van der Heijden (1992); Hurt, Joseph and Cook (1977); Hollenstein (1996) and Hurt and Tiegen (1977); Chenhall (2007). All questions were gauged on 5 point Likert scale (1 Strongly Disagree to 5 Strongly Agree).

Data and Analysis

The data collected through primary survey was analyzed through SPSS and AMOS. Structural equation modeling technique was used to test hypotheses. Structural equation modeling technique is much popular in developing theoretical model and testing hypotheses.

Results and Discussions

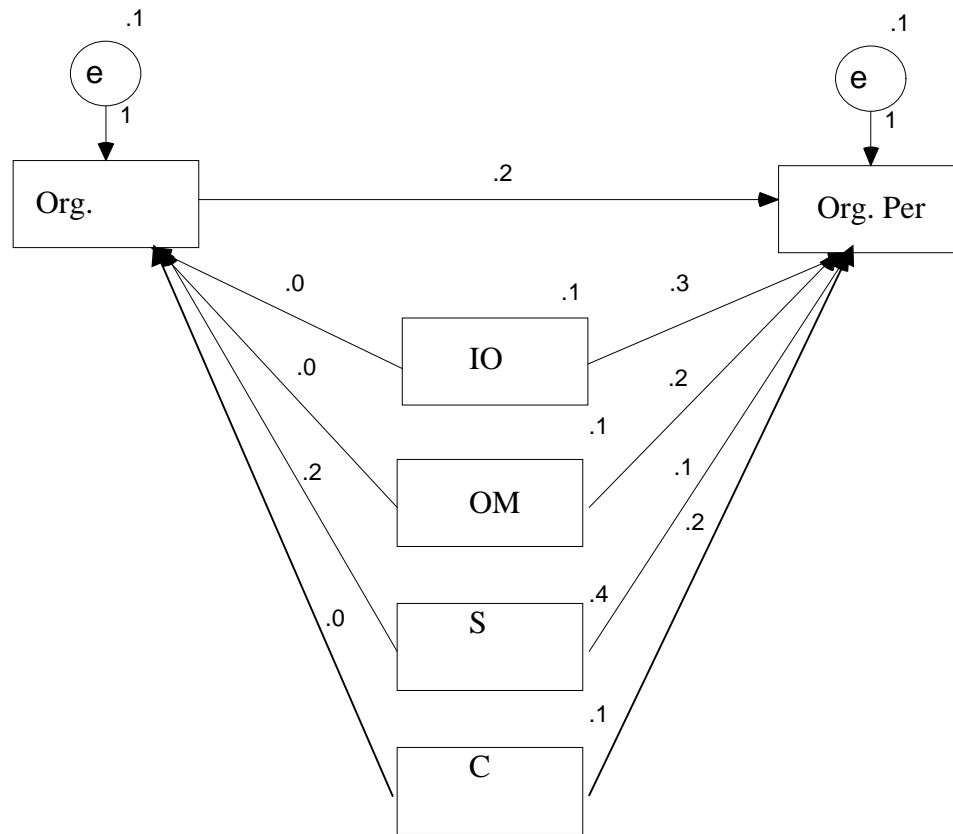
The results of model fit are quite acceptable because the probability is highly significant. The reliability tests also show encouraging results with the value of Cronbach's Alpha .742. Table II shows the self-explaining results of multiple regressions of this study. In order to accept any hypothesis the value of P should be lesser than .05. The study found significant results of all four dimensions of learning orientation i.e. commitment to learning, shared vision, open mindedness and intra organizational learning on innovation capability. We therefore accept our *H1a*, *H1b*, *H1c* and *H1d*. The study also found significantly positive influence of organizational learning orientation on organizational performance; therefore we accept our *H2a*, *H2b*, *H2c* and *H2d* as well. Finally the Table II depicts strongly positive association between organizational innovativeness capability and organizational performance leaving our *H3* accepted too. The results are very logical and contribute to the existing body of literature in this field.

Table II: Regression Weights

		Estimate	S.E.	C.R.	P	Decision
<i>H 1a</i>	Org Inn – Commitment to learning	.19	.07	2.47	.042	Accept
<i>H 1b</i>	Org Inn – Shared vision	.42	.04	4.15	.001	Accept
<i>H 1c</i>	Org Inn – Open mindedness	.29	.07	3.29	.021	Accept
<i>H 1d</i>	Org Inn – Intra organizational learning	.21	.06	3.74	.023	Accept
<i>H 2a</i>	Org Performance – Comm. to learning	.34	.06	2.24	.011	Accept
<i>H 2b</i>	Org Performance – Shared vision	.22	.13	2.03	.022	Accept
<i>H 2c</i>	Org Performance – Open mindedness	.34	.14	2.37	.017	Accept
<i>H 2d</i>	Org Performance – Intra org. learning	.32	.16	3.41	.041	Accept
<i>H 3</i>	Org Performance – Org. inn.	.28	.05	3.10	.000	Accept

Figure II depicts the structural equation model of this study and presents positive associations between learning orientation, innovation capability and organizational performance.

Figure II: SEM of learning orientation, innovation capability and organizational performance



Conclusion

This study was conducted to investigate the dynamic relationship among learning orientation, innovation capability and organizational performance in the banking sector of Pakistan. The findings of this study are important for decision makers in banking industry of Pakistan because it shed light on important aspect which can be used as competitive advantage by banking organizations. The study found significantly positive association between learning orientation, innovation capability and organizational performance. The study proposed that learning culture should be developed across the organization. Managers should be encourages to learn and latest skills and knowledge for application in their decision making and trouble shooting. The higher rate of organizational learning leads to higher level of innovative capability and hence affects positively organizational performance. The study also provides important contribution in the literature of this subject and direction for future researchers.

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