

Relationship of Organizational Learning and Perceived Firm Performance Through Lenses of Low-Cost Price Strategy

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This study uses Organizational Learning (OL) and Low-Cost Strategy (LCS) theory to formulate a new organizational learning-low cost strategy – that can be used to enhance Firm Performance (FP) of the firms of textile sector listed on the Pakistan Stock Exchange. Moreover, this study also explores the moderating function of low-cost strategy on the relation between OL and perceived FP. By using the three-step regression model. Results were obtained on the basis of 300 responses obtained from textile sector firms operating in different areas of the host country. The empirical results indicated that perceived FP is significantly affected by OL and LCS. Furthermore, the results confirm that the OL and LCS have a positive relationship with perceived FP and low-cost strategy moderates the association among OL and perceived FP. The scope of this study is limited as this was only conducted by using the data from textile firms and with limited sample size. The findings of the study will open a new debate regarding the role of OL and LCS in improving FP.

Keywords: Organizational Learning, Exploration Learning, Exploitative Learning, Low-Cost Strategy, Perceived Firm Performance

INTRODUCTION

Organizational learning is related to acquiring, utilizing and observing both internal and external knowledge to improve organizational performance. There are two main learning forms, that is, explorative and exploitative learning (Crossan, Lane & White, 1999). Explorative learning encompasses variation, risk-taking, play discovery, experimentation variation and innovation, while exploitative learning included produce, choice, selection, efficiency, refinement, execution and implementation (March 1991).

Companies work to improve their financial performance that can be achieved by increasing sales that inputs from both financial and strategic factors (Katsikeas, Leonidou, & Morgan, 2000). There are chances of higher profit as compared to competitors in the market due to the learning environment of the organization and lower cost of distribution, a production, which represents ultimately low-cost strategy. To attain the low-cost advantage, the manufacturers are interested to invest more for gaining higher margins in the competitive market. In the current study, exploitative, explorative learning, as well as low cost, will be determined.

Organizational learning can be used to enhance firm performance. Organizational learning shows that firms are able to learn from competitors and customers and are able to find better opportunities in the market that in turn improves the financial performance of the company. Dunphy, Turner, and Crawford (1997) showed the same thing that the firm can improve its performance more than its competitors by developing learning skills. Along with organizational learning, it is necessary for firms to use a portfolio of strategies, like

lower cost, differentiated, or focus, rather than a single strategy (Acquaah & Yasai-Ardekani, 2008).

The purpose of this research is to help out the first-line managers of textile sector to provide a better understanding of lost-cost strategy and further insight into how firms' managers can achieve success in the market. There exists a huge literature about the organizational learning, differential strategy (innovation, quality and low cost) and perceived firm performance in developed countries (Levitt & March, 1988; Porter, 1980; Allen & Helms, 2006; Kang, Morris, & Snell, 2007; Demirbag & Tatoglu, 2008; Lages, Jap, & Griffith, 2008; Salavou & Halikias, 2009; Jiménez-Jiménez, & Sanz-Valle, 2011; Crossan, Lane, & White, 1999; Childs, 2017). They have determined the combined impact of differentiation strategy (innovation, quality, and low-cost strategy) indirectly and as a moderator but the individual impact is ignored. This study will highlight the importance of low-cost strategy in the relationship between organizational learning and perceived firm performance. However, research work is available in developing countries but one needs to investigate the role of low-cost in the relationship between organizational learning and perceived firm performance particularly in the textile sector. In Pakistan, a few researchers have tried to fill this gap (Ahmad, 2012; Malik & Danish, 2010), but they have overlooked the moderating role of low-cost strategy in the relationship between organizational learning and perceived firm performance.

Following research questions have been addressed in this study.

- First, how organizational learning is related to perceived

firm performance in textile sector of Pakistan?

- Second, what is the impact of low-cost strategy on perceived firm performance and whether low-cost strategy moderates the association among organizational learning and perceived firm performance or not in the textile sector of Pakistan.

Objectives of the Study

This study seeks to:

- First, to find out the influence of organizational learning on perceived firm performance in the textile area of Pakistan.
- Second, to find out the effect of low-cost strategy on perceived firm performance in textile sector of Pakistan.
- Third, to investigate the moderating effect of low-cost strategy on relationship organizational learning and perceived firm performance in textile sector of Pakistan.

SIGNIFICANCE OF THE STUDY

This study focuses on the research gap of the integrated relationship between organizational learning, low-cost strategy low-cost and perceived firm performance. This study has a special importance and significance for a number of reasons. First, this study would provide well indulgent of low-cost strategy and more awareness into how firm's administrators can attain successes in the markets. Second, stakeholders can increase their firm performance with the help of low-cost strategy and organizational learning as explorative learning comprises on variation, risk-taking, play discovery, experimentation variation, and innovation, while exploitative learning improves products, choice, selection, efficiency, refinement, execution and implementation. Third, this research would provide several managerial implications because managers can reduce costs, create innovation and can increase low-cost product efficiency. Fourth, this study will facilitate firm managers in recognizing the role of organizational learning in improving firm performance in the market. Fifth; in Pakistan, firm managers would able to understand the moderating function of low-cost strategy in the association among organizational learning and perceived firm performance.

LITERATURE REVIEW

Organizational learning results in improved firm performance through creating, using, managing and sharing the knowledge and understanding the changing environment (Lopze, Peon, & Ordas, 2005). Studies in the field of organizational learning have recommended that organizational learning played a vital role in achieving competitive advantage (López, Peón, & Ordás, 2005). Furthermore, López, Ordás & Peón, (2005) argued that organizational learning is also important in developing competency in the firms. Therefore, it helps them to outperform competitors. Yeoh (2004) categorized organizational learning into three distinctive types; social learning, market learning and technology and thus have positively impacted on the firm performance. March and Levitt (1988) and March (1991) classified organizational learning into exploitative and explorative learning. Calantone, Yalcinkaya, & Griffith (2007) suggested that explorative learning consists on the acquisition of new information and

knowledge, experimentation, risk-taking while explorative learning enhances firm performance due to the development of firm new technology, to adapt to new market opportunities and structural system. A similar study was conducted by Calantone, Garcia, & Levine (2003), who explained that organizational learning can increase due to new knowledge through explorative capabilities which ultimately increases firm performance and new product development.

The organizational knowledge in terms of the experience of low-cost has a significant effect on the financial performance and success of an organization (Fredriksson, & Jonsson, 2019).

H1: Organizational learning has a relationship with perceived firm performance.

Low-cost strategy leads to better customer fulfillment, more organizational performance and improvement in a competitive environment (Allen & Helm, 2006; Demirbag & Tatoglu, 2008; Parnell, & Koseoglu, 2009; Jonsson & Devonish, 2009). Low cost and innovation are considered the most important factors for success. A differentiation strategy contains design, product features, quality of service brand image; an affective differentiation strategy is that which is not easy to copy for others. With the help of differentiation strategy companies can improve their performance (Rivard, Raymond, & Verreault, 2006). Knowledge learning has a significant impact on both organizational and financial performance (Giampaoli, Daniele, Ciambotti, Massimo, Bontis, Nick 2017).

Zhou, Brown, and Dev (2009) explained that with the help of low cost and innovation strategies firms become more specialized in the market and are able to get better financial results. In the study of export firms of China, Korea, and Japan, the economy of Chinese was found most rapid growth in product quality while Japan is famous in most quality products in the world market, which shows that quality of the product has a significant impact on trade performance (Kang, 2008).

H2: low-cost strategy has a relationship with perceived firm performance.

The role of moderation is much important because it helps to enhance firm understating either impact of organizational learning on performance remains or not through low-cost strategy. On the basis of this information, firms can better express their low-cost strategy and organizational learning. Low-cost strategy and organizational learning theories can influence the moderating role and their combined effects on organizational performance (Kim & Atuahene-Gima, 2010). Kos Koklic, Mateja

Kukar-Kinney, Monika, Vegelj & Spela (2017 further identified that lower cost verses, provision significantly impact on the satisfaction.

Teeratansirikool, Siengthai, S., Badir, Y., & Charoenngam, C. (2013) explained that generally all competitive strategies significantly enhance firm performance through performance measurement. While cost leadership strategy that firms pursue does not directly affect firm performance. However, it does so

indirectly and significantly through financial performance measures.

Damanpour et al. (1989) explained that organizational effectiveness can be improved with the help of technical innovation, administrative innovation in performance is being less immediate than with the influence of technical innovation. The low-cost strategy moderation effects may be overtaken with a direct influence on performance. Kim and Atuahene-Gima (2010) described that quality and cost leadership moderate the association among new product performance and organizational learning. Jiménez-Jiménez & Cegarra-Navarro, (2007) elaborated a direct association between financial performance and learning orientation. Keskin (2006) explained that an increase in innovation learning orientation effects on performance. Baker and Sinkula (1999) elaborated that there exists a nonlinear association among organizational learning & firm performance and this relationship has a very complex nature. Julien & Ramangalahy (2003) found that a low-cost strategy moderates the association between information and firm performance. Ge and Ding (2005) explained that in the Chinese market low-cost strategy moderates the relationship between market orientation and firm performance. On the basis of this discussion, it shows that the low-cost strategy has an impact on the relationship between organizational learning and firm performance. In this research, the moderating role of low-cost strategy is emphasized on the association between firm performance and organizational learning.

H3: Low-cost strategy moderates the association among organizational learning and perceived firm performance

Conceptual Framework

As discussed earlier that the basic intention of the study is to study the moderating role of low-cost strategy on the association among organizational learning and perceived firm performance. A theoretical framework for the study is:

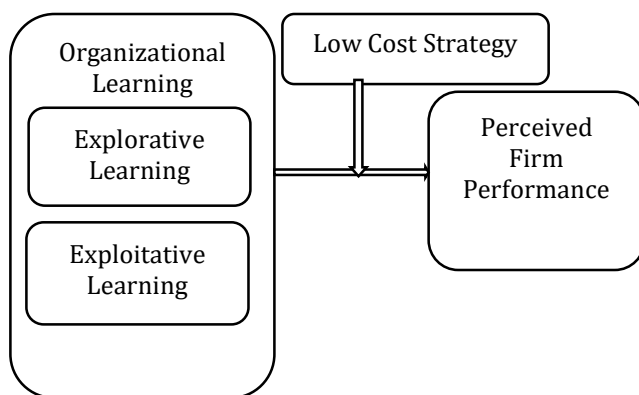


Figure1: Conceptual Framework

METHOD

This study is in quantitative nature to measure the organizational learning, lost cost strategy and firm performance variables relate to the first-line managers, so the population for this research, therefore, consists of first-line managers working as a full-time employee in textile sector

located in Lahore and Faisalabad.

Initially, 360 self-administrated questionnaires which were designed and dispersed in the designated textile companies. 320 managers returned the questionnaires back and the response rate is 89%. After removal of 20 partial questionnaires, 300 questionnaires were left with the researcher; the researcher tried to complete the process of questionnaire half from Faisalabad and half from Lahore based textile organizations.

In order to fulfill the objectives of this research, a convenience sampling technique is used through which data can be collected easily and quickly from people who are easy to reach. Through convenience sampling procedure thirty-six textile sector organizations were selected to work in Lahore and Faisalabad city. Three measurement instruments (two of organizational learning, one of low-cost strategy and two for perceived firm performance), already developed by researchers were taken. The items that are used to measure organizational learning through explorative and exploitative were developed by Kim and Atuahene-Gima (2010). Exploitative learning includes five items and explorative learning also includes five items. For measuring the low-cost strategy the questionnaire developed by (Allen & Helms, 2006; Jusoh & Parnell, 2008; Demirbag & Tatoglu, 2008) was used. This instrument was based on four items. The items used to measure perceived firm performance is developed by Powell, (1992). The perceived firm performance consists of financial & non-financial performance. The non-financial performance consists of six items and financial performance includes four items. These items were investigated on 5 Point-Likert scale ranging from (1 - Strongly Disagree; 5 - Strongly Agree).

As explained above, the researcher has used a self-administered questionnaire for the collection of data about organizational learning (OL), low-cost strategy (LCS) and perceived firm performance (PFP). The data were analyzed using SPSS version 20.

The numeric data about Organizational performance, Organizational learning and quality strategy has presented the form of Mean and standard deviation. Normality of data was checked by the Skewness and Kurtosis. Cronbach's Alpha uses to check the reliability of 26 items on the questionnaire. The researcher carried out a Pearson correlation test to investigate the correlation between independent and moderator variables, i.e. Organizational learning and low-cost strategy. The moderating effect of low-cost strategy on the relation of organizational learning and perceived firm performance and impact of organizational learning and low-cost strategy on perceived firm performance, using Andrew F. Hays Process data low-cost and parametric regression examination is utilized to examine the outcome of low-cost strategy on perceived firm performance.

RESULTS

To test the hypothesis that the perceived firm performance is a function of organizational learning, and more specifically whether low-cost strategy moderates the association among

organizational learning and perceived firm performance, the process by three-step regression model was used. Table 1 given in the appendix shows that all values of Cronbach's Alpha are more than 0.7 which shows that the instrument has internal consistency. Multicollinearity diagnostics were assessed by using correlation analysis and all values were within an acceptable range (Table 1).

Table 1: Means, Standard Deviations, Normality, Correlations, and Reliabilities

	M	SD	Skewness	Kurtosis	1	2	3
1 OL	3.36	0.50	-0.19	-0.69	(0.72)		
2 LCS	3.38	0.61	-0.10	-0.17	0.33	(0.70)	
3 FP	3.45	0.54	-0.11	-0.15	0.49	0.42	(0.74)

Note: $N = 300$; alpha reliabilities are presented in parentheses; OL = Organizational Learning; LCS = Low Cost Strategy; FP = Firm Performance

The overall model was significant, $R^2 = .499$, $F(3, 296) = 98.74$, $p < .001$ (Table 2).

Table 2: Results of Main Effects and Moderated Regression Analysis

	Step 1 B	Step 2 β	Step 3 B
Organizational Learning (OL)	0.536***	0.466***	0.708***
Low-Cost Strategy (LCS)		.137***	0.39**
OL \times LCS			0.73*
R^2	0.499***	0.518***	0.532***
ΔR^2		0.019***	0.014

Note: $N = 300$, All regression coefficients are standardized

* $p < 0.05$, ** $p < .01$, *** $p < .001$

In the first step, one variable Organizational learning was used and this accounted for a substantial quantity of variance in perceived firm performance, $R^2 = .499$, $F(1, 298) = 98.74$, $p < .001$. The results showed that organizational learning, $b = 0.536$, $t = 9.937$, $p < .001$, was a substantial forecaster of the firm performance (Table 2). The results confirm our hypothesis that organizational learning has a statistically significant impact on perceived firm performance. This supports with Calantone, Garcia, and Levine (2003) who explained that organizational learning can increase due to new knowledge through explorative capabilities which ultimately increases firm performance and new product development.

Low-Cost Strategy was entered in the second model. It added a significant amount of variance in the criterion accounted for, $\Delta R^2 = .019$, $\Delta F(2, 297) = 7.865$, $p < .001$, $b = 0.137$, $t = 2.804$, $p < .001$. This confirms our second hypothesis that financial performance is affected by the low-cost strategy. Various scholars have suggested that lowering cost should effect in the performance of the organization (Allen & Helm, 2006; Demirbag & Tatoglu, 2008; Parnell, & Koseoglu, 2009; Jonsson & Devonish, 2009).

In the final step of the regression analysis, an interaction term between low-cost strategy and Organizational Learning was created and entered in the model (Table 2). This interaction term has no significant impact on the firm performance score, $\Delta R^2 = .014$, $\Delta F(3, 296) = 4.647$, $p < .05$, $b = 0.73$, $t = 1.961$, $p < .05$. The results reveal that Low-Cost strategy has a direct impact on Firm Performance and furthermore, it also moderates the relationship between

organizational learning and firm performance.

DISCUSSION

This study was conducted to analyze the moderating consequence of low-cost strategy among organizational learning and perceived firm performance.

The results supported the hypothesis that organizational learning and low-cost strategy have a direct influence on perceived firm performance. Furthermore, results also confirmed that low-cost strategy moderates the association among organizational learning and perceived firm performance.

These results are consistent with Julien & Ramangalahy (2003), who proved that a low-cost strategy moderates the association of information search & firm performance. The results also confirmed that Organizational learning also plays an important role in developing competencies, (López, Peón, & Ordás, 2005; Dunphy et al., 1997; Lages, Jap, & Griffith, 2008). This study also supports that a low-cost strategy has a significant relationship with perceived firm performance.

In our study, the low-cost strategy significantly moderates the relation between organizational learning and perceived firm performance. On the basis of these findings, In the future, researchers should explore the role of organizational learning and low-cost strategy in improving strategic performance in the firms.

The findings of this research have several implications for managers. The finding of the study suggests that the application of the low-cost strategy of textile firms results in varied types of performance improvement. The finds of the study also have some implications for textile sector development in term of organizational learning along with low-cost strategy and their impact on perceived firm performance. Textile managers should undertake organizational learning while planning about the textile sector because it, along with low-cost strategy has an impact on perceived firm performance.

CONCLUSIONS

The relation among explorative/exploitative learning and perceived firm performance have, to date, received very little attention from researchers. This is particularly the case in regards to the relationship between organizational learning and low-cost strategy, for which the researchers find little existing literature that explored these two variables in depth.

The results of the Parametric Regression analysis and Andrew F. Hays support all of these hypothesized relations and low-cost strategy is moderating in the relationship between organizational learning and perceived firm performance. The first support is that organizational learning (explorative and exploitative learning) H1 has a direct impact on perceived firm performance. The second support is that a low-cost strategy has a positive relationship with perceived firm performance. H2 supported that lost cost strategy has a positive relationship with perceived firm performance. The third support is that H3 demonstrate that lost cost strategy significantly moderating relationship between organizational learning and perceived firm performance Furthermore,

although this research finds empirical support of a relationship between organizational learning and perceived firm performance, the low-cost strategy has been justified as playing an important role in moderating between organizational learning and perceived firm performance. This is consistent with Julien & Ramangalahy (2003), who noted that the low cost strategy moderates between information search and business performance. Organizational learning is an important source of development of competencies, which influences performance through enhancing firms' differentiation advantages (Dunphy et al., 1997; Lages, Jap, & Griffith, 2008; Lopez, Peon, & Ordas, 2005). This study also supports that a low-cost strategy has a significant relationship with perceived firm performance.

Recommendations

In future researchers may conduct research a large number of organizations to generalize the results. Future research can be conducted to evaluate the moderating effect of international market strategy on the association among organizational learning and perceived firm performance. Further, strategic performance indicators (gaining a foothold in the market, increase product awareness) may provide insight into the relationship between the independent variable and firm performance.

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