

## Organizational Learning and Competitive Advantage in Banking Sector of Pakistan

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### Abstract

*Organizational learning is one of the major characteristic of high performing work systems. Organizations are depicted as intelligent organizations when they focus on constant organizational learning. In the dynamic era of digitalization, securing a competitive advantage over competitors has moved beyond the effective utilization of organizational resources to effective management of organizational knowledge. This research aims to study the impact of organizational learning as a competitive advantage in the banking sector of Pakistan. OLCA (Organizational learning and Competitive Advantage) model is applied and empirical evidence is collected from the banking sector of Pakistan. Reliability analysis, correlation, Mean, standard deviation, linear regression and step wise regression analysis are used to collect the statistical viewpoint. The results of the study show positive and reliable scores. The result of the study confirms the OLCA model comprehensions in the selected sector of study. The study concludes that rather focusing on increasing the resource efficiency to gain competitive advantage, organization must focus on organizational learning as a resource to gain a lasting competitive advantage.*

**Key Words:** Organizational Learning, Competitive Advantage, OLCA model, Banks

### Introduction

The ever changing environment inside and outside of the firms due to globalization, advancement of technology and regional level projects such as CPEC or OBOR put extra pressure on firms to be competitive continuously. The expansion of knowledge-based economy added significant amount of fuel to the prevailing cut throat competition (Mujtaba, Marschke & Nguyen, 2012). Another aspect to this is shortage of skilled and learned human resource which are no longer available for longer period of time for the firms. This tricky

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situation demands firms to institutionalize the learning in a way that firms can eat the fruits of being learning organizations and translate it to competitive advantage.

Learning within organizations is not a stagnant rather a continuous process. It is claimed in literature that a firm achieves a competitive advantage through organizational Learning (Milia & Birdi, 2009). The empirical evidence to this prospect is still insufficient including the support from Pakistan context.

This research is focused to gauge the relationship of organizational learning with competitive advantage. The empirical evidence is collected from *Banking Sector of Pakistan*. This model help understand the role of organizational learning to achieve competitive advantage. The research help establish a strategic link between learning organization and achieving a competitive advantage. The empirical evidence from this research helps managers to establish standards within organizations to become learning organizations and trickle this down to the employee to meet the contemporary challenges of industrial rivalry and competition.

## Literature Review

Recent literature supporting the theory of competitive advantage discusses the importance of a resource (Fahy, 2000) Operational definition of resource illustrates that resource is something that is of strength or weakness to a firm (Wernerfelt, 1995). Werner felt coined the term Resource Based View (RBV). RBV analyse the strengths and weaknesses of a firm's managers, leaders and its growth rate for gauging its competitive advantage (Barney, 2002).

Organizational resources are categorized into three main categories, these are physical, Human and organizational (Maar, 2006; Chase, Aquilano, & Jacobs, 2004; Barney, 2002; Grant, 1996). All organizations acquire these three resources which are either tangible or intangible which further assist organizations to acquire other complementary resources. These set of diversified resources equip organizations for achieving a cutting edge in the industry in the race of survival and growth.

Heterogeneity within organizational strategic resources complements each other. As long as resources are diverse, heterogeneous and partly mobile across the firm in that situations resources are long last and advent to occupy competitive advantage.

Firms belong to a same industry and are competing with each other, in that scenario competitive advantage is only achieved when actions of a firm produce economic value into the system (Barney, 2002).

The performance of an organization cannot be measured by one single entity. There are multiple resources upon which an organization is built. And these are the resources that craft strategies to manage and lead. Keeping this

notion into consideration multiple approaches are utilized for the strategic analysis of the organization. These multiple approaches to measure the competitive strategies of organization are deduced from the literature and past researchers.

To resolve the ambiguity between the terminologies that are used interchangeably like resources, capabilities and competencies. Authors have made the argument in the literature that these three terms delivers similar concepts when it comes to competitive advantage. (Chase, Aquilano, & Jacobs, 2004). illustrates in his study that resources are the fundamental building block of an organization and these are the resources upon which organizations build strategies (Ray, Barney, & Muhanna, 2004)took the discussion forward by proposing that strategies that are built upon organizational resources becomes the competitive strategies of the organization for its success in the market. Competencies are the competitive resources for the organization (Prahalad & Hamel, 1996). Therefore competencies, competitive advantage strategies, organizational resources, organizational skill sets all delivers the similar concept hence they can be replaced by one term organizational resources to avoid any confusion and ambiguity (Fahy, 2000).

Comprehending and converging alternative terms for resources within the organization into organizational resources the next step is to discuss the various kinds of resources that are available to the organization for leading its competitive edge. Discussing researcher's viewpoints in a chronological order, the first resources for competitive advantage is going for low cost production equipment (Porter & Millar, 1985). However, this does not means compromising on the quality rather achieving economies of scale or first mover advantage to cater for cost leadership business strategy. Cost – Leadership competitive advantage focuses primarily on minimizing the economics cost and gaining advantages over the competitors and rivals in the market. A detailed research and development is required to acquire this competitive advantage (Barney, 2002).

Differentiation is the second most widely discussed phenomenon. Differentiation refers to be unique in an aspect that is a cross cutting theme among the rivals. With the revolt of supply chain into a value chain, views on organizational resource shifted and new aura is created which assures that differentiation can not only be achieved by creating value rather it can also be achieved by optimizing the economic costs that are incurred in the supply chain (Barney, 2002). Adjusting the economic rents in the supply chain creates more value than applying a blue ocean theory for competitive advantage.

The tangible dimensions organizations for its competitive advantage are discussed, the organization is alone not operating on tangible resources only. Advancement in intangible resources are also need to be catered for to become competitive within the market. Thinking on these lines of advancement on intangible grounds makes an organization a learning organization (Mahdi &

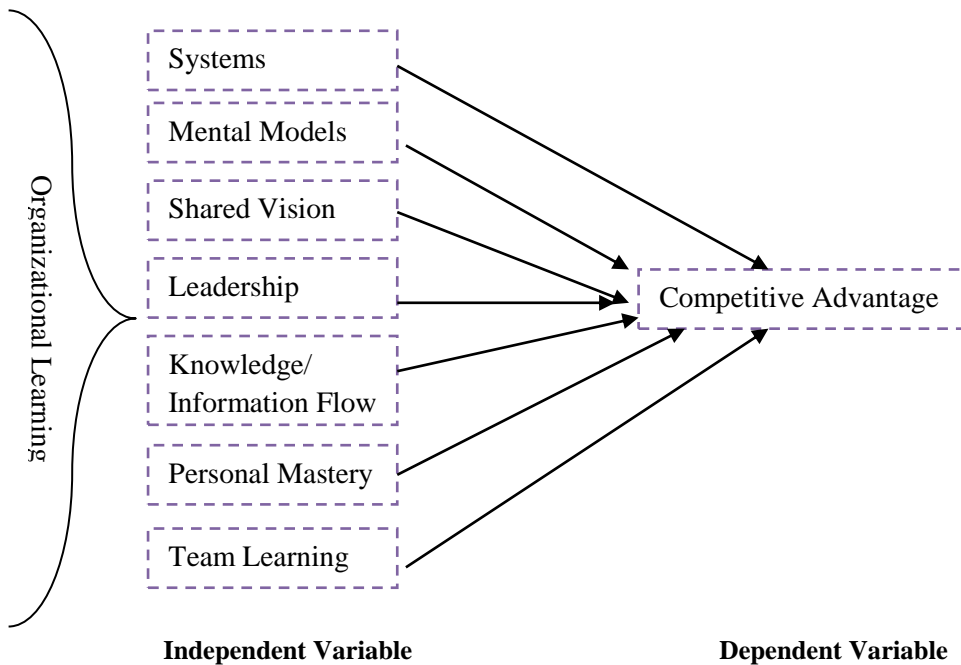
Almsafir, 2014). Catering for the intangible resources in the organization includes brand image, customer’s loyalty and managerial skill set (Mahdi & Almsafir, 2014).

The most expensive resource for an organization is its knowledge. In today’s business environment the most complex and expensive resource is knowledge management. Creation, implementation and restoration are the intangible yet most expensive resource for gaining competitive advantage among the competitors (King, 2009). The organizations which investment is made in knowledge are categorized as learning organizations (King, 2009).

In Pakistan little importance is given towards intangible organizational resources and among these intangible resources the most acknowledged are brand image and customer’s loyalty. Knowledge is the most deprived aspect in organizations to ponder on to strengthen it as a competitive advantage. Past researchers on using organizational learning as a competitive advantage in Pakistan gives a very thin literature. The few of the researchers conducted refers to manufacturing sector and pharmaceutical sector. This study fills the gap in the literature and aims to identify the role of organizational learning on competitive advantage in the Banking sector of Pakistan.

Based on literature, the theoretical framework (Figure 1) and hypotheses of the study are as below:

**Figure 01: Theoretical Model**



- H1: System Thinking is positively related with competitive advantage
- H2: Mental Models is positively related with competitive advantage
- H3: Shared Vision is positively related with competitive advantage
- H4: Leadership is positively related with competitive advantage
- H5: Knowledge/ Information Flow is positively related with competitive advantage
- H6: Personal Mastery is positively related with competitive advantage
- H7: Team Learning is positively related with competitive advantage

## **Research Design and Methodology**

Based on positivist research philosophy, present study is cross-sectional, non-contrived and hypothesis testing. For hypothesis testing, Marczyk, DeMatteo, & Festinger (2005) suggested to use quantitative research approach therefore researchers used already developed research instruments data collection through questionnaire.

### **Population & Sample**

The target population of study was banking sector both include public and private. The public and private sector organizations from banking were selected from list of traded companies at Islamabad Stock exchange 2017. Participants include both mid-level and upper level management. Convenient sampling technique is used for data collection by respondents were busy schedule to deal directly with customers having less time to participate in survey.

The methodology applied to examine the various constructs of organizational learning and its association with competitive advantage (OLCA model) is as follow (OLCA model). Since researchers used the already developed scale therefore validity of measure is not required. The reliability of the whole instrument is measured through Cronbach's coefficient alpha. Linear and Multiple regression technique was applied to test OLCA-model using standard and stepwise method. As indicated by Chatterjee & Hadi (2006) testing of assumptions of multiple regression analysis was checked before conducting the multiple regression technique and testing the hypotheses.

## **Data Analysis and Discussion**

### **Sample**

The study is based on 250 samples (68% were males & 32% were females). Out of 250 respondents, 149 (59.6%) were belong to 31 to 40 age group, followed by

30% from 20 to 30 years of age group and rest were above 40 years of age (10.4%). With respect to management level, 52% were in middle level, 31.6 % were in lower management level and only 16.4% were in upper level of management.

### **Instrument Reliability**

The instrument reliability was checked by the Cronbach’s alpha as indicated in table 1. The reliability measures for each construct are above 0.72 indicating that instrument is reliable to measure the constructs. Overall questionnaire reliability is 0.941.

**Table 01: Instrument Reliability**

<b>Constructs</b>	<b>Cronbach’s Alpha (<math>\alpha</math>)</b>	<b>No. of items</b>
Systems Thinking	0.851	7
Mental Models/Culture	0.856	6
Shared Vision	0.865	8
Leadership	0.815	8
Knowledge/Information Flow	0.810	8
Personal Mastery	0.726	9
Team Learning	0.841	7
Competitive Advantage	0.799	8
<b>Questionnaire Reliability (8 Constructs)</b>		<b>0.941</b>

**Table 02: Mean, Standard Deviation and Correlation**

**Mean, SD and Correlation among various Constructs**

Constructs	Mean	SD	ST	MM	SV	L	KIF	PM	TL	CA
Systems Thinking (ST)	3.6549	.88410	1							
Mental Models/ (MM)	3.5480	.90497	.746**	1						
Shared Vision (SV)	3.4820	.78790	.733**	.773**	1					
Leadership (L)	3.4045	.72797	.727**	.621**	.718**	1				
Knowledge/Information F (KIF)	3.4045	.72797	.727**	.621**	.718**	.740**	1			
Personal Mastery (PM)	3.4538	.84389	.560**	.612**	.670**	.648**	.648**	1		
Team Learning (TL)	3.5171	.79632	.691**	.670**	.703**	.718**	.718**	.735**	1	
Competitive Advantage (CA)	3.3200	.69942	.427**	.426**	.630**	.636**	.636**	.687**	.668**	1

\*\*Correlation is significant at the 0.01 level (2-tailed)

Table 02 highlights the mean, standard deviation and correlation among various constructs. The mean and standard deviation of all eight constructs indicate respondents’ general agreement to the dimensions of the model. For discriminant validity, pairwise correlations was suggested by many researchers and marked cutoff pairwise correlation value < 0.85(Harrington, 2009). The pairwise correlation value of all the four constructs are <0.80 hence, indicating that measure passed the test of discriminated validity and suggested that elements are different from each other.

Before applying Linear and multiple regression method to test the hypotheses, regression analysis assumptions such as linearity, normality, multi collinearity, and homoscedasticity were checked and data met all the assumptions. The findings of linear regression were presented in Table 3. The researcher applied both Standard and stepwise regression technique to identify the model fit between Competitive Advantage and various independent variables of Organizational Learning.

**Table 03: Findings of Linear Regression among Dependent and Independent Variables**

**Linear Regression Analysis**

Independent Variables	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Sig. F Change	Beta
System Thing	.427	.182	.179	.63366	55.356	.000	.338
Mental Model	.325	.106	.104	.63418	54.859	.000	.229
Shared Vision	.630	.397	.395	.54409	163.464	.000	.560
Leadership	.605	.367	.365	.54078	168.515	.000	.590
Knowledge	.636	.405	.402	.54078	168.515	.000	.611
Personal Mastery	.687	.472	.470	.50909	221.981	.000	.570
Team Learning	.668	.447	.445	.52125	200.306	.000	.587

All the seven DVs of Learning organization were regressed on predicting variable “Competitive Advantage”. The predicting variable, Competitive Advantage significantly predicted by Personal Mastery,  $F(1, 248) = 221.981$ ,  $p < 0.000$ ,  $Beta = 0.570$ ,  $p < 0.01$ ,  $R\ Square = 0.472$ . The value of R square indicates that model explained 47.2% of variance by Personal Mastery. Whereas Out of seven DVs Mental Model explained only 10.6 variance in complete advantage with  $F(1, 248) = 54.859$ ,  $p < 0.000$ ,  $Beta = 0.229$ ,  $p < 0.01$ ,  $R\ Square = 0.106$ .

Table 4 present the findings of multiple regression analysis between Organizational Learning and Complete advantage. The adjusted R square value shows that when adjusted with respect to degree of freedom, the model predicts 62% variance in the independent variables. The model is fit with F value of 68.758.



**Table 04: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Sig. F Change
1	.793 <sup>a</sup>	.629	.620	.43105	68.758	.000

Dependent Variable: Competitive Advantage (CA)

Based on coefficients of dependent variable below equation was derived which is significant with P< 0.000.

$$\text{Competitive Advantage} = 0.793 + (-0.207\text{ST}) + (-0.199\text{MM}) + 0.343\text{SV} + 0.261\text{K} + 0.268\text{PM} + 0.278\text{TL}$$

The beta value of Shared Vision is 0.343, which indicate that it had the most impact of the seven explanatory variables followed by Team Learning at 0.278. The negative value of System Thinking and Mental Models indicate inverse relationship with Competitive advantage.

The stepwise multiple regression method identified 6 models as presented in Table 5. The model 1 based on Personal Mastery explained 47% variance in complete advantage with F (1,248) = 221.980, p< 0.000 at 0.01. the beta value is 0.570 and t = 14.899. Furthermore together with Personal Mastery, Leadership indicate 54% variance in dependent variable of Competitive Advantage with F (1,248) = 142.087, P<0.000 at 0.01 and beta value is 0.393 and 0.316 for Personal Mastery and Leadership respectively. The t-value is 8.232 and 5.770 respectively. The ANOVA Table of Stepwise Multiple Regression Analysis (Table 6) and Coefficients of Stepwise Multiple Regression Analysis (Table 7) is presented in Annexure.

**Table 05: Model Summary of Stepwise Multiple Regression Analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	<b>.687<sup>a</sup></b>	<b>.472</b>	<b>.470</b>	<b>.50909</b>
2	<b>.731<sup>b</sup></b>	<b>.535</b>	<b>.531</b>	<b>.47887</b>
3	<b>.745<sup>c</sup></b>	<b>.555</b>	<b>.549</b>	<b>.46964</b>
4	<b>.763<sup>d</sup></b>	<b>.582</b>	<b>.576</b>	<b>.45561</b>
5	<b>.780<sup>e</sup></b>	<b>.608</b>	<b>.600</b>	<b>.44218</b>
6	<b>.793<sup>f</sup></b>	<b>.629</b>	<b>.620</b>	<b>.43105</b>

a. Predictors: (Constant), Personal Mastery

b. Predictors: (Constant), Personal Mastery, Leadership

c. Predictors: (Constant), Personal Mastery, Leadership, Team Learning

d. Predictors: (Constant), Personal Mastery, Leadership, Team Learning, System thinking

e. Predictors: (Constant), Personal Mastery, Leadership, Team Learning, System thinking, Shared Vision

f. Predictors: (Constant), Personal Mastery, Leadership, Team Learning, System thinking, Shared Vision, Mental Model

g. Dependent Variable: Competitive Advantage

## **Discussion and Conclusion**

The foremost objective of study is to explore and examine the relationship various dimensions of Organizational Learning to Competitive Advantage in light of OLCA Model originally developed by *Akhtar N (2010) and further improved by Akhtar, Khan, & Mujtaba (2013)* in Banking Sector. The results of the study are consistent with previous researches and identified the link between various determinants of Organizational Learning and its relationship with Competitive Advantage. The present result contributed to already develop OLCA model with an aim to see the generalization of research instruments across various sectors and professions.

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