

# Does Organizational Learning and Innovation Influence Performance?

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**Abstract** This research aims to examine relations among organizational learning, innovation and organization's performance in Banking sector of developing country. A survey questionnaire was analyzed by Partial least squares. The results show that organizational learning has an effect on performance. Understanding the importance of organizational learning will provide more insight on how Banking sector can achieve better performance. Most of the empirical studies were conducted in manufacturing firms and ignored Banking sector. The contribution of this research is a better understanding by exploring the relationship between Organizational Learning, Innovation and organization's Performance.

**Keywords:** organizational learning, innovation, organizational performance, service sector, Indonesia

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## 1. Introduction

An effective strategy for sustaining and improving firms' competitiveness and performance, particularly in dynamic business environments is Organizational learning [1]. In an Organization, concept of organization learning has been linked to innovation and performance [2]. Organizational Learning used to improve competitiveness, productivity and innovativeness in uncertain technological, market and environmental circumstances [3]. Organizational learning has a positive relationship with innovation and firm performance in US manufacturing and service industries [4]. There is positive relationships among organizational learning, innovation and firm performance in logistic service provider in Hongkong [5]. Organizational Learning has a direct relationship with performance and innovation in automotive & Chemical firms in Spanish [6].

Financial globalization, intensified competition, Information and Communication Technology (ICT) developments, deregulation and (re)regulation are the principal drivers for change in Banking sector. It's pressing top management to rethink their business strategies [7]. Competition in the banking industry is increasingly stringent is also shown by the increasing number of branches of foreign banks operating in Indonesia. For that, innovation is no longer an option but it is a must to compete in the current era <http://finansial.bisnis.com/read/20180315/90/750188/industri-keuangan-kian-terbuka-inovasi-perbankan-mutlak>

The lack of research in this area highlights a knowledge gap. This study is aimed to contribute to the literature includes a better understanding by exploring the

relationship between Organizational Learning, Innovation and Performance.

## 2. Literature Review and Hypothesis Development

### 2.1. Theories and Concepts

According to Resource Based View, competitive advantage is the new perspective expects firms to compete based on their unique or distinctive internal capabilities, competencies and resource capabilities, the Knowledge-Based View is an extension of the Resource-Based View. It advances the critical role of internal resources and focuses on differentiated knowledge inventories as a basis for competitive advantage [8]. A firm can develop hard to imitate knowledge resources and capabilities that create value which in turn lead to superior performance through organizational learning [9]. Organization learning is defined as organization where people continually develop their capacity to achieve results they desire, whereby new patterns of thinking are nurtured, collective aspirations are freed and people learn to learn together [10]. The notion of learning orientation, which was developed by Reference [1] shows that it includes three dimensions which is commitment to learning, open-mindedness and shared vision. The first dimension of organizational learning is commitment to learning. Organizations commitment to learning is the amount to which an organization considers learning as worthy and thus tries to not only promote the process of learning. Commitment to learning concerns the values placed on learning activities

within an organization, and the extent to which these values are viewed as axiomatic for the firm, employee training, management development [11].

Reference [1] shows that Open-mindedness refers to the critical evaluation of organization's daily operations and the acceptance of new ideas, shared vision refers to the concentration of all members of organization on learning which leads to strengthening their energy, commitment and purposefulness.

Innovation defined as "applying new ideas that create value" that refers to different types of innovation such as product development, the dissemination of new process technologies, as well as management practices. This means the adoption of new products or processes to improve overall competitiveness and profitability, based on customer needs and requirements [12]. Among the many typologies of innovation added in the literature, three have gained the greatest attention: (a) administrative and technical, (b) products and processes, and (c) radical and incremental [13].

## 2.2. Previous Study and Hypothesis Development

### 2.2.1. The Relates of Organizational Learning on Innovation

Learning organization could be described as an organization that regularly creates, disseminates and integrates knowledge, transforms itself and modifies its action based on new knowledge, perceptions and experience in order to meet its strategic objectives [14]. Organizational Learning in Greek Advertising Sector is a crucial predictor of both employee job satisfaction and individual performance [15]. Reference [10] shows that the development of a shared vision is an important step because it fosters a long-term orientation and demonstrates the importance of learning in relation to achievement of the firm's vision and [4] stated that without shared vision, learning of individuals in organization will be extremely meaningless, even though individuals are stimulated for learning, their problem is that they don't know what to learn unless they have a shared vision. Therefore, it is due to lack of shared vision that organizations are unable to perform creative ideas [16]. A relationship exists between organizational learning and innovation [17], therefore hypothesis is:

H1. Organizational learning relates positively to innovation.

### 2.2.2. The relates of Innovation on Performance

The most typologies attention of innovation are administrative and technical, product and process, and radical and incremental. Whereas an administrative innovation relates to management oriented processes such as structure, human resource management, and accounting systems, a technical (or technological) innovation is directly related to the production of a product using new or upgraded technology [13]. Research result by [17] shows that effective innovation serves as a key instrument for firm performance. Reference [13] shows that there is a positive relationship between innovation and performance of firm.

H2. Innovation relates positively to performance.

### 2.2.3. Organizational Learning and performance

Reference [7] noted that Organizational learning has a positive relationship with performance. Organizational learning impacts on a firm's performance [18]. Therefore:

H3. Organizational learning relates positively to performance.

## 3. Study Methodology

### 3.1. Sample and Data

The study investigated the effects of organizational learning on innovation as well as the effect of innovation on performance of Bank in Indonesia. The sample was drawn from a list of OJK's Bank registered. Data were collected by administering questionnaires mainly during office hours. Justified Random sampling was adopted by distributing the questionnaires across various departments and levels of employees. Questionnaires were distributed to 86 participants. 65 valid responses were returned. A week's time was given for filling the questionnaires. All survey items were rated on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

### 3.2. Operational Definition of Variable

Operational variable of commitment to learning was measured by 4 questions [19]. 4 questions to measure open-mindedness [16]. Sshared vision was measured by 4 questions using the scale of [1]. To examines the management's idea regarding the acceptance of new and innovative ideas in organization, innovation is measured through 5 questions [20]. In order to examine the performance of firm, four scales of sales growth, sales margin, profit growth, and profitability were used [21]. Measures were subjected to assess their reliability, unidimensionality, and discriminant validity [22].

## 4. Study Result

### 4.1. Data Analysis

To test our hypotheses, we analyses using the Partial Least-Squares (PLS)-based on Structural Equation Modeling (SEM) technique. The Partial Last Square method appears to be the most suitable, particularly because the technique is effective with small samples [23]. Reference [23] suggested that a PLS model should be developed in two stages: the measurement model and the structural model. The measurement model is focused on the evaluation of the validity and reliability of the constructs in the model. Loadings are generally above the accepted threshold of 0.7 [24]. In this research, all outer loadings are above 0.70, meaning the data is eligible and valid. The assessment of the construct reliability is measured by the composite reliability and Cronbach's alpha. All constructs exhibited Composite Reliability and Cronbach's alpha greater than the minimum acceptable level of 0.70 [22]. Our latent variables represent a composite reliability of around 0.80. AVE value of a

latent variable should be higher than 0.50, in order to explain more than half of the variance of its indicators on average [23]. It means that the measures and constructs used are valid and reliable enough to continue with further analysis. Discriminant validity is defined as the extent to which the measure is novel and not simply a reflection of some other construct or variable [25]. Reference [22] suggested that as a means of evaluating discriminant validity, the AVEs of the latent variables should be greater than the square of the correlations among the latent variables, which indicates that more variance is shared between the latent variable components and their block of indicators than with another component representing a different block of indicators. The AVE's of construct is >0.50.

The structural model assessment estimated by path coefficients, their significance via bootstrap tests, the  $R^2$  value for predictive relevance. The bootstrap procedure was used to obtain t-statistics in order to evaluate the significance of the parameters. The bootstrapping procedure was conducted to evaluate the structural model and particularly, the statistical significance of all parameter estimates [26]. The results of the parameter estimation are shown in Figure. 1.

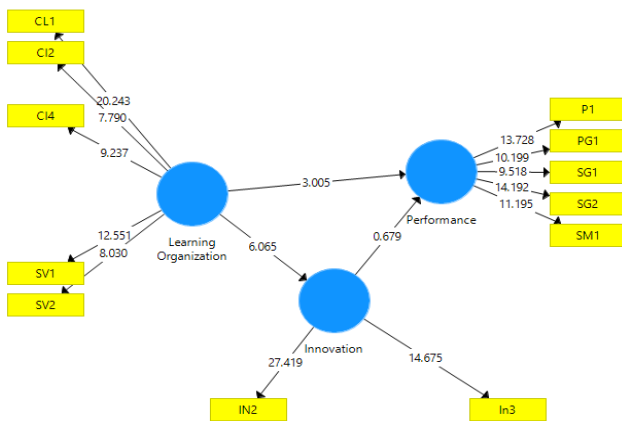


Figure 1. Structural model of Learning Organization, Innovation and Performance

**Hypothesis testing.**

The PLS structural model is mainly evaluated by  $R^2$  of endogenous Latent Variable [26]. The  $R^2$  value used for predictive relevance. Employee performance can be predicted by 2 independent variable (innovation and organization learning) equal to 0,466. Other variables were not researched in this study.

Table 1. R Square

	R Square	R Square Adjusted
Innovation	0.466	0.457
Performance	0.418	0.399

The path coefficients (estimates) of the hypothesized model are shown in Table 2. Judging from the original sample of 0.126, it means that innovation has a positive effect on the performance or the better innovation then the better the organization's performance. Judging from the

value of T statistic (value to see the effect of significance of independent variables to the dependent variable). The value of t statistic organization learning 6,065>1.96, then Organization Learning on innovation have positive and significant effect. Thus, H1 was supported. T statistic of innovation 0.679 < 1.96, means that H2 was not supported. T statistic organization learning 3.005>1.96. Thus, H3 was supported. This research provides additional support for prior research works reporting a strong positive correlation between organization learning and organizational performance [4,17,18].

Table 2. Path Coefficient

	Original Sample	Sample Mean	Standard Devia...	T Statistics (O...	P Values
Innovation -> ...	0.126	0.108	0.186	0.679	0.498
Learning Orga...	0.682	0.666	0.113	6.065	0.000
Learning Orga...	0.554	0.563	0.184	3.005	0.003

**5. Conclusion and Suggestion**

The primary aim of this study is to test hypotheses and provide evidence on organizational learning, innovation and performance in Banking sector of developing country. The study provides empirical evidence that organizational learning has a strong positive correlation with organizational performance. Limitation of this study is using few samples, so further research may use much larger sample sizes and with longitudinal data and should further investigate wide variety of financial and non-financial indicators of firm performance.

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