Paradigms: A Research Journal of Commerce, Economics, and Social Sciences
Print ISSN 1996-2800, Online ISSN 2410-0854
2017, Vol. 11, No. 1 Page 67-71
DOI: 10.24312/paradigms110111

Organizational learning, differentiation strategy and perceived firm performance of textile firms

Muhammad Waqas
Punjab Higher Education Commission, Lahore
Saif Ullah
National University of Modern Languages, Lahore Campus
Muhammad Abid Nouman
Water and Power Development Authority (WAPDA)

ABSTRACT

With the rise of global competition, organizations must acquire new knowledge and enhance their capabilities in response to fast changing market requirements. In international markets, organizations can gather knowledge from both internal and external sources; however, few existing studies explore this topic in detail. This study employs organizational learning theory and differentiation strategy theory to formulate a new organizational learning-differentiation strategy- perceived firm performance theoretical model concerning firms operating in the textile sector. This research explores the moderating role of differentiation strategy in the relation between organizational learning and perceived firm performance and effect of organizational learning on differentiation strategies, and perceived firm performance, as well as the impact of differentiation strategy on perceived firm performance. The model was tested using of 300 Pakistani textile firms operating in a variety of host markets. The empirical results indicate that perceived firm performance is significantly affected by organizational learning (explorative and exploitative learning) and differentiation strategy (innovation, quality and low cost strategies). The results confirm the moderating role of differentiation strategy in the relation between organizational learning and perceived firm performance. The research provide a new direction for future research regarding organizational learning, differentiation strategy, and firm performance.

Keywords: Organizational learning, differentiation strategy, perceived firm performance.

INTRODUCTION

Organizational learning is concerned with acquiring, utilizing and assimilating internal and external knowledge to enhance organizational performance. Organizational learning has been divided into two main learning forms; exploitation, and exploration (Crossan, Lane & White, 1999). Exploitation learning comprises refinement, choice, product efficiency, selection, implementation and execution, while exploration learning includes search, variation, risk taking, experimentation, play discovery and innovation (March, 1991). Firm performance is company's achievements in terms of sales; however, this achievement actually encompasses both financial and strategic factors (Katsikeas, Leonidou, & Morgan, 2000). Differentiation strategy includes innovation, quality and low cost. Each strategy helps firms to create different types of differentiation advantages in the international marketplace (Hill, 1988). Differentiation involves the design and marketing of products that are considered unique by customers. The creation of superior quality is perceived as one of the most important characteristics of differentiation (Phillip, Chang, & Buzzell, 1983). Low cost, through lowering production and distribution costs, represents the possibility of higher margins than competitors.

Learning, through better knowledge and understanding of the changing market environment can lead firms to formulate a differentiation strategy that can improve their services and product offering and increase their value to customers (Lopze, Peon, & Ordas, 2005). Though important, the organizational learning-differentiation strategy-perceived firm performance relationships, as yet, not explored in the existing literature.

To fill this key research gap, this research explores the role of differentiation strategy in the relation between organizational learning and perceived firm performance. In this study, the antecedent roles of organizational learning in the differentiation strategy-perceived firm performance paradigm will be explored and highlighted. Similarly, this study also intends to widen the research scope concerning differentiation strategy. In this study, the components of innovation will be explored together with organizational learning and perceived firm performance. This inclusion is mainly based on research that has proposed that innovation is also a critical source that helps firms create differentiation advantage.

There exist a huge literature about the organizational learning, differentiation strategy and perceived firm performance in developed countries (Crossan, Lane, & White, 1999; Levitt & March, 1988; Porter, 1980, 1985; Allen & Helms, 2006; Demirbag & Tatoglu, 2008; Salavou & Halikias, 2009; Jimenez-Jimenez & Sanz-Valle, 2011; Lages, Jap, & Griffith, 2008). However, little research work is available on this topic in developing countries and Pakistan is no indemnified. In Pakistan, a few researchers have tried to fill this gap (Ahmad, 2012; Malik & Danish, 2010). But they have ignored the moderating role of quality strategy in relation between organizational learning and perceived firm performance.

To fill the research gaps left in the literature, this study will analyze the moderating effect of differentiation strategy on the relation between organizational learning and perceived firm performance. The impact of organizational learning and the influence of differentiation strategy on perceived firm performance will also be investigated.

This study have tried to focus on two research gaps. First, the integrated relationship between organizational learning, differentiation strategy and perceived firm performance. Second, different implications of explorative and exploitative learning on differentiation strategy and perceived firm performance. This study has special importance and significance for a number of reasons. First, this study would provide better understanding of differentiation strategy and further insight into how firm's managers can achieve successes in the markets. Second, stakeholders can increase their firm performance with the help of differentiation strategy and organizational learning because exploitation learning increases production efficiency, selection, implementation and execution of products, while exploration, learning provides search, variation, risk taking, experimentation, discovery and innovation in the competition. Third, this research would provide several managerial implications because managers can reduce costs, create innovation and can increase the product efficiency. Fourth, this study would especially useful for firm managers in understanding of how organizational learning achieves improvements in perceived firm performance in the market. Fifth; in Pakistan, firm managers would able to understand the moderating role of differentiation strategy in relation between organizational learning and perceived firm performance.

LITERATURE REVIEW

Organizational learning through knowledge management and understanding the changing environment results in an improvement in performance (Lopze, Peon, & Ordas, 2005). Studies on the theories of organizational learning have suggested learning is an important source of advantage (Lopez, Peon, & Ordas, 2005). Lopez, Peon, and Ordas (2005) proposed that learning is valuable to organizations in the corporate world in developing their competency. Therefore, it helps them to outperform their competitors. Yeoh (2004) classified organizational learning into three different types; technology, market learning, and social learning; which are all positively related to firm performance. March (1991) and March and Levitt (1988) distinguished organizational learning into explorative and exploitative learning. Yalcinkaya, Calantone, and Griffith (2007) proposed that explorative learning improves firm performance, because the firm should develop new technology and structural system to adapt to new market opportunities, as explorative learning involves inherent risk taking and experimentation, and is often considered to be the acquisition of new knowledge and information. This is consistent with the findings of Garcia, Calantone, & Levine (2003), who stated that firms can capture organizational capabilities by learning new knowledge through their explorative capabilities, thereby enhancing new product development and firm performance.

H_1: Explorative and exploitative learning has a relationship with perceived firm performance.

Quality strategy can lead to high organizational performance, customer satisfaction and an increase in competitive advantage in relation to competitors (Allen & Helm, 2006; Demirbag & Tatoglu, 2008; Jonsson & Devonish, 2009). Quality and innovation are often regarded as the most important factors for success. A differentiation strategy consists of brand image, quality of service, product features and design; however, a successful differentiation must rely on features that are difficult to copy. Therefore, companies can achieve better performance through the creation of differentiation strategy (Rivard, Raymond, & Verreault, 2006).

Zhou, Brown, and Dev (2009) revealed that a firm specializing in market innovation and quality can achieve high financial performance. By studying export firms in Japan, Korea and China, the Chinese economy was found to experience the most rapid growth in product quality since 1984, whereas Japan exported the most highly quality products in all industries, indicating that product quality has a large positive impact on trade performance (Kang, 2008).

H_2: Differentiation strategy has a relationship with perceived firm performance.

The revelation of the moderation role is important, as it can help firms understand whether or not the impact of organizational learning on performance is via differentition strategy. By having this information firms can better formulate their organizational learning and differentiation strategy. The uncovering of the moderating role can help the development of organizational learning and differentiation strategy theories and their joint effects on performance (Kim & Atuahene-Gima, 2010). According to Damanpour et al. (1989), technical innovation is a primary source of improvement in organizational effectiveness, with the influence of technical innovation being more mediate than administrative innovation in performance. The direct influence on performance may be overtaken by the differentiation strategy moderation effects. Kim and Atuahene-Gima (2010) found that cost leadership and differentiation moderate the relation between organizational learning and new product performance. Jimenez-Jimenez and Cegarra-Navarro (2007) found a significant indirect relation between learning orientation and financial performance. Keskin (2006) indicated that learning orientation influences performance by enhancing innovation. Baker and Sinkula (1999) indicated that the linkage between learning and performance is not linear, but instead is a very complex web of relations. Julien and Ramangalahy (2003) suggested that differentiation strategy plays a moderating role in explaining the impact of information searches on business performance. Ge and Ding (2005) suggested that the differentiation strategy moderates the relation between market orientation and performance in the Chinese market. Therefore, the finding regarding differentiation strategy is consistent with the previous studies. The moderating role of differentiation strategy in the relationship between organizational learning and perceived performance is highlighted in this research.

H_3: Differentiation strategy moderates the relationship between organizational learning and perceived firm performance.

H_{3a}: Innovation strategy moderates the relationship between explorative learning and perceived firm performance.

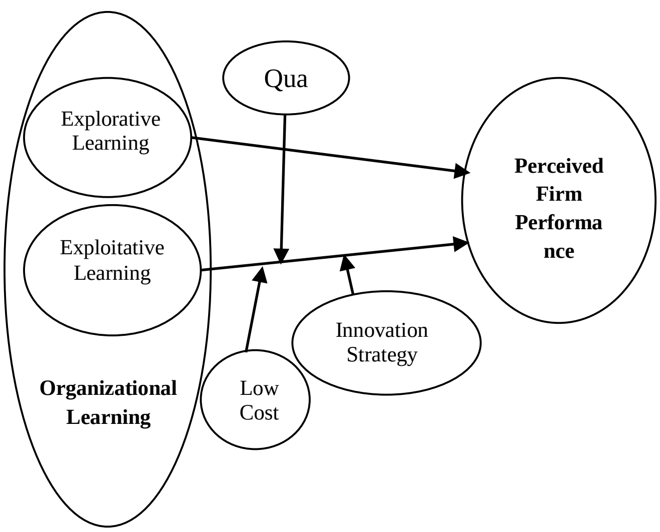
H_{3b}: Quality strategy moderates the relationship between explorative learning and perceived firm performance.

H_{3c} Low cost strategy moderates the relationship between exploitative learning and perceived firm performance.

CONSEPUTAL FRAMEWORK

As discussed earlier that the basic intention of the study is to study the moderating role of differentiation strategy on the relationship between organizational learning and perceived firm performance. Theoretical framework for the study is:

Independent Variable	**Moderator Variable**	**Dependent Variable**
Organizational Learning	Differentiation Strategy	Perceived Firm Performance



METHODOLOGY

This research relates 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 were designed and distributed in the selected textile organizations. Of this total, 320 respondents returned the filled questionnaires back and the response rate is 89%. After removal of 20 incomplete and partially-filled questionnaires, researcher was left with 300 questionnaires; researcher tried to have half of these from Lahore and half from Faisalabad based textile organizations.

Convenience sampling is a technique in 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 quality strategy and two for perceived firm performance), already developed by researchers were taken. The items used to measure exploitative and explorative learning is developed by Kim & Atuahene-Gima (2010). Exploitative learning includes five items and explorative learning also includes five items. For measuring the innovation, quality and low cost strategy the questionnaire developed by (Allen & Helms, 2006; Demirbag & Tatoglu, 2008; Jusoh & Parnell, 2008) is used. Quality includes six items, innovation further divided into product innovation and process innovations which includes six items and low cost includes four items. The items used to measure perceived firm performance is developed by Powell, (1992). Perceived firm performance is further divided into financial and non-financial performance. Financial performance includes four items and non-financial performance includes six items. All the responses were measured on 5 point Likert-type scale with (1 = Strongly Disagree; 5= Strongly Agree).

As explained above, researcher used self-administered questionnaire consisting of three constructs for collection of data on organizational learning (OL), differentiation strategy (DS) and perceived firm performance (PFP). The data was entered and analyzed in SPSS version 20.

The numeric data like innovation explorative learning, etc. was presented in Mean ± S.D and the numeric data was presented as frequencies and percentages. Histogram uses to check the normality of the data. Cronbach's Alpha uses to check the reliability of 26 items of the questionnaire. Researcher carried out Pearson correlation test to investigate the correlation between independent and moderator variables, i.e. explorative learning, exploitative learning and differentiation strategy. The moderating effect of differentiation strategy on the relation of organizational learning (explorative learning and exploitative learning) and perceived firm performance and impact of organizational leaning and differentiation strategy on perceived firm performance, the data were analyzed using Andrew F. Hays process and parametric regression analysis are used to test the effect of quality strategy on perceived firm performance.

DISCUSSIONS

The table 1 given in the appendix shows that all values of Cronbach’s Alpha are more than 0.7 which shows that the data is reliable.

The table 2 given in the appendix shows that explorative learning with exploitative learning and innovation strategy with quality strategy are positively correlated with each other while explorative learning with low cost strategy and exploitative learning with low cost strategy are weakly correlated with each other.

Regression and Moderator Test

The table 3.1 given in the appendix shows that for measuring the relationship between explorative learning and exploitative learning with perceived firm performance the model explains that 24.7% of the variation in the dependent variable (perceived firm performance). It means that a unit change in the dependent variable organizational learning contributes only 24.7%. And as the Durbin Watson, explains that there is no/ very weak correlation between the residual errors. The table 3.2 given in the appendix shows that the model is significant and contributing to this research because P-Value <0.05, Reject $H_{o.}$ The regression model shows that there is a positive relationship between dependent variable perceived firm performance and independent variables explorative learning and exploitative learning, the model is statistically significant (p-value <0.001). The table 3.2 given in the appendix in which the model shows that unit change in explorative learning causes 0.435 times change in perceived firm performance and similarly exploitative learning changes dependent variable 0.646 times alone. There are no colliniarity issues in the model as the predictor variables are not highly correlated with each other. H1 is supported, with the results indicating that explorative learning and exploitative learning have a direct impact on the perceived firm performance.

The table 4.1 given in the appendix shows that with the relationship between differentiation strategy and perceived firm performance the results show that this model is significant and contributing to this research because the p-value <0.05. The model also explains 24.7% of the variation in the dependent variable (perceived firm performance). It means that a unit change in the dependent variable differentiation strategy contributes only 24.7%. Durbin Watson explains that there is no/ very weak correlation between the residual errors. The table 4.3 given the appendix shows that the one unit increases in differentiation strategy increases 0.339 units of change in the perceived firm performance. The table 4.2 given in the appendix shows that the regression is statistically significant (p-value <0.05). There are no co-linearity issues. H2 hypothesis is supported, with the results indicating that differentiation strategy has a direct impact on the perceived firm performance.

The table 5.3 given in the appendix shows that the innovation strategy is not moderating between explorative learning and perceived firm performance which shows that the innovation strategy is not a significant moderator because the value of p= .6298 is greater than 0.05. The table 6.3 given in the appendix shows that the quality strategy is moderating between explorative learning and perceived firm performance which shows that the quality strategy is a significant moderator because the value of p= .0035 is less than 0.05. The table 7.3 given in the appendix shows that the low cost strategy is moderating between exploitative learning and perceived firm performance which shows that the lost cost strategy is a significant moderator because the value of p= .0240 is less than 0.05. H3 is supported, with the results indicating that quality and low cost strategies are in relationship between explorative / exploitative learning and perceived firm performance while innovation strategy is not significantly moderating between explorative learning and perceived firm performance.

CONCLUSIONS

The relation among explorative/exploitative learning, differentiation strategy and perceived firm performance has, to date, received very little attention from researchers. This is particularly the case in regards to the relation between organizational learning and differentiation 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 except the moderating role of innovation strategy in the relationship between explorative learning and perceived firm performance. The first support is that explorative and exploitative learning H1 has a direct impact on perceived firm performance. The second support is that differentiation strategy has positive relationship with perceived firm performance. H2 supported that differentiating strategy has a positive relationship with perceived firm performance. The third support is that H3 (b) demonstrate that quality strategy significantly moderating relationship between explorative learning and perceived firm performance and H3 (b) demonstrate that low cost strategy also positively moderating in the relationship between exploitative learning and perceived firm performance while H3 (a) explains that innovation strategy is not positively moderating in the relationship between explorative learning and perceived firm performance. Furthermore, although this research finds empirical support of a relation between organizational learning and perceived firm performance, quality strategy has been justified as playing an important role in moderating between explorative learning and perceived firm performance. This is consistent with Julien & Ramangalahy (2003), who noted that differentiation 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 support that differentiation strategy has a significant relationship with perceived firm performance.

RECOMMENDATIONS

In our study, differentiation strategy significantly moderates the relation between explorative learning and perceived firm performance. In future, it is expected that researchers should examine the role of explorative and exploitative learning on differentiation strategy and strategic performance in large firms in greater detail.

The outcomes of this research have several managerial implications. The finding suggests that the selection of the differentiation strategy of textile firms results in varied types of performance improvement. This research has important implications for textile market development in term of organizational learning and its relationship with differentiation strategy. Textile mangers should undertake both explorative and exploitative market learning when they conduct a textile project, because these two types of market learning's influence the differentiation advantage in different directions because differentiation strategy significantly moderates the relationship between explorative learning and perceived firm performance.

REFERENCES

Ahmad, M. S. (2012). Impact of organizational culture on performance management practices in Pakistan .*Business Intelligence Journal* (19182325), *5*(1).

Allen, R. S., & Helms, M. M. (2006). Linking strategies practices and organizational performance to Porter's generic strategies. *Business Process Management Journal*, *12*(4), 433–454.

Crossan, M., Lane, H., & White, R. (1999). An organizational learning framework: From intuition to institution. *Academy of Management Review*, *24*(3), 522–537.

Damanpour, F., Szabat, K. A., & Evan, W. M. (1989). The relationship between types of innovation and organizational performance. *Journal of Management Studies*, *26*(6), 587–601.

Demirbag, M., & Tatoglu, E. (2008). Competitive strategy choice of Turkish manufacturing firms in the European Union. *Journal of Management Development*, *27*(7), 727–743.

Dunphy, D., Turner, D., & Crawford, M. (1997). Organizational learning as the creation of corporate competencies. *Journal of Management Development*, *16*(4), 232–244.

Garcia, R., Calantone, R. J., & Levine, R. (2003). The role of knowledge in resource allocation to exploration versus exploitation in technologically orientated organization. *Decision Science*, *34*(2), 323–350.

Ge, G. L., & Ding, D. Z. (2005). Market orientation, competitive strategy and firm performance: A empirical study of Chinese firms. *Journal of Global Marketing*, *18*(3/4), 115–142.

Jimenez-Jimenez, D., & Sanz-Valle, R. (2011). Innovation, organizational learning and performance. *Journal of Business Research*, *64*(4), 408–417.

Julien, P. A., &Ramangalahy, C. (2003). Competitive strategy and performance of exporting SMEs: An empirical investigation of the impact of their export information search and competencies. *Entrepreneurship Theory and Practice*, *27*(3), 227–245.

Katsikeas, C. S., Leonidou, L. C., & Morgan, N. A. (2000). Firm-level export performance assessment: Review, evaluation, and development. *Journal of the Academy of Marketing Science*, *28*(4), 493–511.

Kim, N., & Atuahene-Gima, K. (2010). Using exploratory and exploitative market learning for new product development. *Journal of Product Innovation Management*, *27*(4), 519–536.

Lopze, S. P., Peon, J. M. M., & Ordas, C. J. V. (2005). Organizational learning as determining factor in business performance. *The Learning Organization*, *12*(3), 227–245.

Lages, L. F., Jap, S. D., & Griffith, D. A. (2008). The role of past performance in export ventures: A short-term reactive approach. *Journal of International Business Studies*, *39*, 304–325.

Levitt, Barbara, and James G. March. "Organizational learning." *Annual review of sociology* (1988): 319-340.

Lopze, S. P., Peon, J. M. M., & Ordas, C. J. V. (2005). Organizational learning as determining factor in business performance. *The Learning Organization*, *12*(3), 227–245.

Malik, M. E., & Danish, R. Q. (2010). Impact of motivation to learn and job attitudes on organizational learning culture in a public service organization of Pakistan. *South Asian Studies 25*(2), 1026-678.

March, J. G. (1991). Exploration and exploration in organizational learning. *Organizational Science*, *2*(1), 71–90.

Phillip, L. W., Chang, R. D., & Buzzell, Phillips, L. W., Chang, D. R., & Buzzell, R. D. (1983). Product quality, cost position and business performance: a test of some key hypotheses. *The Journal of Marketing*, 26-43.

Rivard, C., Raymond, L., &Verreaul, D. (2006). Resourced based view and competitive strategy: An integrated model of the contribution of information technology to firm performance. *The Journal of Strategic Information Systems*, *15*(1), 29–50.

Salavou, H. E., & Halikias, J. (2009). Strategy types of exporting firms a view on the basis of competitive strategy. *European Business Review*, *21*(2), 144–158.

Yeoh, P. L. (2004). International learning: Antecedents and performance implications among newly internationalizing companies in an exporting context. *International Marketing Review*. *21*(4/5), 511–535.

Yalcinkaya, G., Calantone, R. J., & Griffith A. (2007). An examination of exploration and exploitation capabilities: Implication for product innovation and market performance. *Journal of International Marketing*, *15*(4), 63–93.

Zhou, K. Z., Brown, R. J., & Dev, C. S. (2009). Market orientation, competitive advantage and performance: A demand-based perspective. *Journal of Business Research*, *62*(11), 1063–1070.