

# STRATEGY AND PERCEIVED FIRM PERFORMANCE OF TEXTILE FIRMS

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## Abstract

*This study uses organizational learning (OL) and quality strategy (QS) theory to formulate a new organizational learning-quality strategy – that can be used to enhance firm performance (FP) of the firms of textile sector listed at the Pakistan Stock exchange. In addition to that, this study discovers the moderating role of QS in the relation between OL and perceived FP. By using the process developed by Hayes, results were obtained on the basis of 300 responses obtained from the financial managers working at textile sector firms operating in different areas of the host country. The empirical results indicated that perceived FP is significantly affected by OL and QS. Furthermore, the results confirm that the OL and QS have a positive relationship with perceived FP and quality strategy moderates the relationship between OL and perceived FP. The findings of this research would provide a new direction for future research with research to quality strategy, perceived firm performance and organizational learning.*

**Keywords:** Organizational Learning, Quality Strategy, Firm Performance, Textile

**JEL Classification:** L 670

## Introduction

Organizational learning is related with assimilating both internal and external knowledge, acquiring and utilizing to increase organizational performance. There are two main learning forms i.e., exploration and exploitation learning (Crossan, Lane & White, 1999). Exploration learning encompasses variation, risk taking, play discovery, experimentation variation and innovation

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exploitation learning included produce, choice, selection, efficiency, refinement, execution and while implementation (March, 1991). Firm performance consists of both strategic and financial factors which is accompany's accomplishments to relations of sales (Katsikeas, Leonidou & Morgan, 2000). Quality is based on marketing and design of products that are reflected exclusively by customers (Phillip, Chang & Buzzell, 1983). Differentiation is based on one of the most significant characteristics which creates superior quality (Phillip, Chang & Buzzell, 1983). There exist a huge literature about the organizational learning, quality strategy and perceived firm performance in developed countries (Levitt & March, 1988; Porter, 1980, 1985; Jimenez-Jimenez & Sanz-Valle, 2011; Crossan, Lane & White, 1999; Allen & Helms, 2006; Salavou & Halikias, 2009; Lages, Jap & Griffith, 2008; Demirbag & Tatoglu, 2008). There is little research work available on this topic in developing countries and Pakistan is not indemnified. Only few researchers have tried to fill this gap in Pakistan (Ahmad, 2012; Malik & Danish, 2010), but they have ignored the moderating role of quality strategy in relation to organizational learning and perceived firm performance. Both kinds of organizational learning are included in this study to fill out the gaps which are missing in the literature. Based on the previous literature, this study evaluate the moderating role of quality strategy on the relation between organizational learning and perceived firm performance. Furthermore, the effect of organizational learning and the impact of quality strategy on perceived firm performance is also examined.

The following research questions have been addressed in this study. First, how organizational learning is connected to perceived firm performance in the textile sector of Pakistan. Second, weather quality strategy moderates the association among organizational learning and perceived firm performance or not in the textile sector of Pakistan. Third, is there any association among quality strategy, organizational learning and perceived firm performance in the textile sector of Pakistan. The research objectives of this study are: First, to find out the influence of explorative and exploitative learning on perceived firm performance in the textile sector of Pakistan. Second, to investigate the moderating effect of quality strategy on relationship between organizational learning and perceived firm performance in the textile sector of Pakistan. Third, to find out the effect of quality strategy on perceived firm performance in the textile sector of Pakistan.

### **Significance of the study**

This study has tried to focus on two research gaps. First, the integrated relationship between organizational learning, quality strategy and perceived firm performance. Second, different implications of exploitative and explorative learning on quality strategy as well as on perceived firm performance. This study has special importance and significance for a number of reasons. First, this study would deliver well the understanding of quality strategy and more understanding into how a firm's managers can attain achievements in the markets. Second, stakeholders can increase their firm performance with the help of quality strategy and organizational learning because exploitation learning increase product selection, efficiency, execution of products and implementation while exploration learning provides risk taking, variation, discovery, experimentation 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 research would be beneficial for managers of firms in knowing of how organizational leading can be achieved in perceived firm performance in the markets. Fifth; in Pakistan, firm managers would be able to understand the

moderating role of quality strategy in association among organizational learning and perceived firm performance.

### Literature Review

Organizational learning through understanding the changing environment and knowledge management result in an improvement in performance (Lopez, Peon & Ordas, 2005). Previous literature on the theories of organizational learning have recommended that learning is a main source of improvement (Lopez, Peon & Ordas, 2005). Peon, Lopez and Ordas (2005) suggested that for development of competency in the corporate world learning is valuable for organizations. Yeoh (2004) classified organizational learning into technology, social learning and market learning and suggested that all these types significantly effects on firm performance. Levitt (1988) and March (1991) divided the organizational learning among exploitative learning and explorative learning. Calantone, Yalcinkaya & Griffith (2007) suggested that explorative learning consists of acquisition of new information and knowledge, experimentation, risk taking while explorative learning enhances the firm performance due to development of firm new technology, to adopt to new market opportunities and structural system. This was inline with the findings of Calantone, Garcia and Levine (2003), who explained that organization learning can increase due to new knowledge through explorative capabilities which ultimately increases firm performance and new product development.

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

Quality strategy can lead to high customer fulfillment, organizational performance and a rise in competitive advantage in relation to competitors (Demirbag & Tatoglu, 2008; Allen & Helm, 2006; Jonsson & Devonish, 2009). Innovation and quality are considered the most important factors for success. A differentiation strategy consists of 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 attain well performance (Rivard, Raymond & Verreault, 2006). Zhou, Brown and Dev (2009) explained that with the help of quality and innovation firms specializing in market can get better financial performance. With the study of export firms of China, Korea and Japan, the economy of Chinese was found with the most rapid growth in product quality while Japan is famous in most quality products in the world market which shows that quality of product has a significant impact on trade performance (Kang, 2008).

*H2: Quality strategy has a relationship with perceived firm performance.*

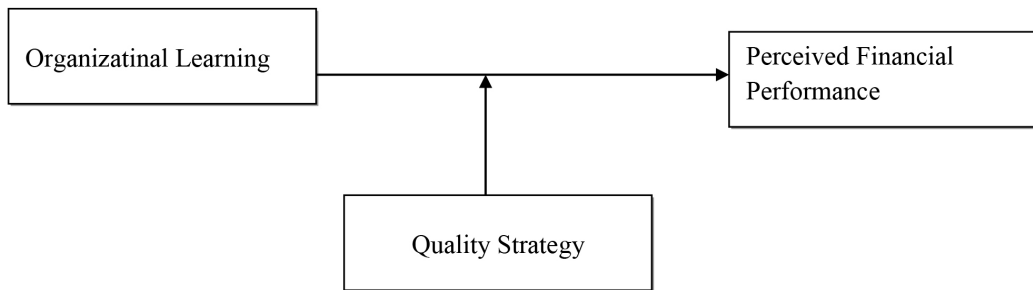
The role of moderation is much important because it helps to enhance firm understating either impact of organizational learning on performance remains or not through quality strategy. On the basis of this information firms can better express their quality strategy and organizational learning. Quality strategy and organizational learning theories can be influenced with the moderating role and their joint effects on performance (Kim & Atuahene-Gima, 2010). 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 quality strategy moderation effects may be overtaken with the 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. Jimenez-Jimenez and

egarra-Navarro (2007) elaborated a direct association among financial performance and learning orientation. Keskin (2006) explained that by increasing innovation learning orientation effects on the performance. Baker and Sinkula (1999) elaborated that the relation among performance and learning is not significant but it is a placement of a very composite network of relations. Julien and Ramangalahy (2003) found that quality strategy shows a moderating effect in describing the affect of information on the business performance. Ge and Ding (2005) explained that in the Chinese market quality strategy moderates the association among performance and market orientation. On the basis of this discussion it shows that quality strategy is similar with the previous studies as described. In this study the moderating role of quality strategy is emphasized in the association among firm performance and organizational learning.

*H3: Quality 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 qualitative strategy on the association among organizational learning and perceived firm performance. A theoretical framework for the study is:



*Figure 1*

### Method

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 the textile sector located in Lahore and Faisalabad.

#### *Participants*

Initially, 360 self-administrated questionnaires were designed and was distributed in the nominated textile organizations. Out of the 360 questionnaire, a total of 320 duly filled questionnaire were returned, and the response rate is 89%. After removal of 20 partially-filled questionnaires, researcher were left with 300 questionnaires; the researcher tried to have half of these from Faisalabad

and half from Lahore based textile organizations.

### *Materials*

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 from Lahore and Faisalabad. Three measurement instruments (two of organizational learning, one of quality strategy and two for perceived firm performance), already developed by the researcher were taken. The questions used to measure explorative and exploitative learning is developed by Kim and Atuahene-Gima (2010). For measuring the quality strategy the questionnaire developed by (Demirbag & Tatoglu, 2008; Jusoh & Parnell, 2008; Allen & Helms, 2006) is used. The items used to measure perceived firm performance is developed by Powell, (1992). The items used to measure explorative and exploitative learning is developed by Kim and Atuahene-Gima (2010). Exploitative learning includes five items and explorative learning also includes five items. For measuring the quality strategy the questionnaire developed by Allen and Helms (2006), Jusoh & Parnell (2008), Demirbag & Tatoglu (2008) is used. Quality includes six 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).

### *Procedure*

As elaborated above, the researcher have used self-administered questionnaire consisting of three constructs for the collection of data on organizational learning (OL), quality strategy (QS) 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  $\pm$  S.D and the non-numeric data was presented as frequencies and percentages. Histogram was used to check the normality of the data. Cronbach's Alpha was used to check the reliability of 26 items on the questionnaire. Researcher carried out Pearson correlation test to investigate the correlation between independent and moderator variables, i.e. organizational learning and quality strategy. The moderating effect of quality strategy on the association of perceived firm performance and organizational learning and impact of organizational leaning and quality strategy on perceived firm performance, the data were analysed using Andrew F. Hayes process (2013) and parametric regression analysis are used to check the outcome of quality strategy on perceived firm performance.

## **Results**

To test the hypothesis that the perceived financial performance is a function of organizational learning, and more specifically whether Quality strategy moderates the association among organizational learning and perceived firm performance, process 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 is reliable. Multicollinearity diagnostics were assessed by using correlation analysis and all values were within an acceptable range (Table 1). The overall model was significant,  $R^2 = .319$ ,  $F(3, 296) =$

46.203,  $p < .001$  (Table 2).

In the first step, one variable Organizational learning was used and this accounted for a significant amount of variance in the financial performance,  $R^2 = .249$ ,  $F(1, 298) = 98.74$ ,  $p < .001$ . The results showed that organizational learning,  $b = 0.536$ ,  $t = 9.937$ ,  $p < .001$ , was a significant predictor of the financial performance (Table 2). The results confirm our hypothesis that organizational learning has a statistically significant impact on the perceived firm performance. Quality strategy was entered in the second model. It added a significant amount of variance in the criterion accounted for,  $\Delta R^2 = .06$ ,  $\Delta F(2, 297) = 25.68$ ,  $p < .001$ ,  $b = 0.277$ ,  $t = 5.068$ ,  $p < .001$ . This confirms our second hypothesis that financial performance is affected by quality strategy.

At the end regression analysis, an interaction term among Quality Strategy and Organizational Learning was created and come in the model (Table 2). This interaction term accounted for a significant proportion of variance in the financial performance scores,  $\Delta R^2 = .01$ ,  $\Delta F(3, 296) = 4.467$ ,  $p > .01$ ,  $b = -0.183$ ,  $t = -2.114$ ,  $p < .01$ . The results reveal and confirms that quality strategy moderates the association among organizational learning and financial performance.

### Discussion

This research was conducted to analyze the moderating outcome of quality strategy among organizational learning and perceived firm performance.

The results supported the hypothesis that organizational learning and quality strategy have a direct impact on perceived firm performance. Moreover, the finding of this research shows that quality strategy moderates the association among perceived firm performance and organizational learning. This is the same as found by Julien and Ramangalahy (2003), who further explained that quality strategy moderates among business performance and information search.

Organizational learning is a vital cause of expansion of abilities, which ultimately effects performance through increasing firms' quality rewards (Peon, & Ordas, 2005, Dunphy et al., 1997; Lages, Jap, & Griffith, 2008). This study also support that quality strategy has a significant relationship with perceived firm performance.

In our study, quality strategy significantly moderates the relation between organizational learning and perceived firm performance. For recommendation in future, its is likely that researchers should investigate the role of exploitative and explorative learning on strategic performance and quality strategy on firms in large size. The findings of this study have different managerial suggestions. On the basis of the findings of this research, it seems that quality strategy of textile firms outcomes in different types of performance improvement.

This research has significant suggestions about improving market performance through organizational learning and its association with quality strategy. Textile mangers should undertake organizational learning when they carry a textile project, as organizational learning improves quality and quality moderate significantly between explorative learning and perceived firm performance.

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### Appendix

Table 1

*Means, Standard Deviations, Normality, Correlations, and Reliabilities*

		M	SD	Skewness	Kurtosis	1	2	3
1	OL	3.3603	.50930	-.190	-.699	(0.723)		
2	QS	3.4355	.57574	-.043	-.505	0.499	(0.809)	
3	FP	3.4510	.54714	-.117	-.150	0.542	0.545	(0.745)

Note: N = 300; alpha reliabilities are presented in parentheses; OL = Organizational Learning; QS = Quality Strategy; FP = Financial Performance

Table 2

*Results of Main Effects and Moderated Regression Analysis*

	Step 1	Step 2	Step 3
	$\beta$	$\beta$	$\beta$
Organizational Learning (OL)	0.536***	0.365***	0.97**
Quality Strategy (QS)		.277***	0.912**
OL $\times$ QS			-2.83**
$R^2$	0.249***	0.301***	0.391***
$\Delta R^2$		0.06***	0.10**

Note: N = 300

All regression coefficients are standardized

\*\*p < .01, \*\*\*p < .001