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Influence of Organizational Learning on Organizational Performance of Commercial banks in Kenya

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Abstract: ***Due to rapid environmental change, globalization and competition, there has been a lot of emphasis on the link between human resource management (HRM) and firm performance. Published research generally reports positive relationship between HRM practices and business performance. However, there is lack of agreement on HRM practices that lead to superior performance and whether Human resource practices guarantees positive firm performance outcome. This study investigated the influence of organizational learning on organizational performance of commercial banks in Kenya. Four banks which represent 10% of commercial banks were sampled for the study. A sample of 96 employees was selected using stratified random sampling. Data was collected using self-administered questionnaires. Data was analyzed using statistical package for social science (SPSS). Data reliability was checked using the Cronbach's alpha index. Descriptive statistics inform of average, mean and standard deviation were used to present data. Analyzed data was presented using tables. Results of the study reveal that organizational learning has a significant influence on firm performance measured in both financial and non-financial terms. From the study, it is concluded that organizational learning has a significant positive effect on the performance of commercial banks in Kenya.***

Keyword: Organizational learning, organizational performance, commercial banks, HRM practices, Influence

1. Introduction

1.1 Background to the Study

Rapid environmental change, globalization, competition to provide innovative products and services, changing customer and investor demands have become the standard backdrop for organizations. To compete effectively, firms must constantly improve their performance by reducing costs, enhancing quality, and differentiating their products and services. The banking sector globally has been facing unprecedented challenges with the wave of privatization and globalization (Aldaibat & Irtaimeh, 2012). To survive and thrive in this competitive environment, organizations must adopt strategies that lead to competitive advantage.

There is a general consensus among practitioners and scholars that people are valuable resources for business success, and can be the source of sustainable competitive advantage of the firm (Taylor & Francis, 2008). This realization has propelled Human resource management as a major field of study and the renewed interest has facilitated the development of newer approaches in managing organizations and human resource (Wright, Moynihan & Allen, 2005). There is a growing body of research showing that the methods used by an organization to manage its human resources can have a substantial impact on organizational performance. Extant literature shows organizational learning as one of the HR practices that has some effect on the performance of organizations in various sectors particularly in the manufacturing sector. However, little research has been done about the effect of organizational learning on the performance of commercial banks in Kenya.

There are 43 commercial banks in Kenya and the industry has remained largely profitable despite the economy performing poorly in some years and facing adverse effects of the global financial crisis in 2008 (Central Bank of Kenya, 2014). The Commercial Banks in Kenya are under pressure to simultaneously improve the customer experience, meet, compounding regulatory requirements and reduce operating costs (Nyamongo & Temesgen, 2013). The fast growth in the banking industry despite the challenges makes the banking sector an interesting are of study to determine the influence of organizational learning n organizational performance of commercial banks in Kenya.

1.2 Statement of the Problem

Commercial banks in Kenya face many challenges in today's dynamic market place and in a global economy that has become increasingly competitive. To compete effectively, banks must constantly improve their performance. Organizational learning is one of the strategies used by organizations to improve organizational performance. Although several studies provide evidence of some form of link between Organizational learning and firm performance, most of the studies have been done in developed countries and particularly in the manufacturing sector. The reviewed literature indicates that few studies on influence of organizational learning on organizational performance have been done in developing economies in general and Kenya in particular. It is from this background that this study was conducted to determine the influence of organizational learning on organizational performance of commercial banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective was to determine the influence of organizational learning on organizational performance of commercial banks in Kenya.

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1.3.2 Specific Objectives

1) To establish the influence knowledge sharing on organizational performance of commercial banks in Kenya.
2) To determine the influence of customer surveys on organizational performance of commercial banks in Kenya
3) To establish the influence of research and development on organizational performance of commercial banks in Kenya

1.4 Scope of the Study

The study was done covering all the 43 commercial banks in Kenya. Four banks which represent 10 % of commercial banks were sampled for the study. 96 respondents were sampled for the study. The respondents were drawn from three employee groups; management, supervisors and general employees. The study was only limited to the influence of organizational learning on organizational performance of commercial banks in Kenya.

2. Literature Review

2.1 The Resource Based view (RBV)

The resource-based view of the firm has long provided a core theoretical rationale for Human resources' potential role as a strategic asset in the firm (Wright & McMahan, 1992). The basic argument of the RBV, as explained by Barney (1991) is that the firm's Human resource confer enduring competitive advantage to a firm to the extent that they remain scarce or hard to duplicate, have no direct substitutes and enable companies to pursue opportunities. This view of the firm infers that firms create competitive advantage by implementing unique combinations of resources and business practices that are difficult for competitors to imitate. Human resource practices may provide significant competitive advantage when they are used to create a unique or difficult to imitate organizational culture that institutionalizes organizational competencies throughout the organization (Bowen & Ostroff,2004).The firm's core competencies are created when Human resource programs improve a company's human capital through influencing the creation, transfer, and integration of knowledge (Wright, Dunford & Snell,.2001). Thus theoretical work on the resource based view of the firm supports the notion that Human resource management may be an important source of organizational performance.

2.2 Organizational Performance

Although performance has been traditionally conceptualized in terms of financial measures, some scholars have proposed a broader performance construct that incorporates non-financial measures.Dyer and Reeves (1995) proposed four possible types of measurement for organizational performance: Human Resource outcomes (turnover, absenteeism, job satisfaction), organizational outcomes (productivity, quality, service), financial accounting outcomes (ROA, profitability), and capital market outcomes, (stock price, growth, returns).

Boxall and Purcell (2003) build a framework for goal-setting and evaluation in Human Resource Management (HRM) and posit broad goals for business firms; viability with adequate returns to shareholders, sustained competitive advantage and superior profitability. In their model these business goals can be achieved by meeting critical HR goals (increased labour productivity, organisational flexibility, and social legitimacy) and critical non-HR goals (e.g. sales, market share)

Some scholars such as Paauwe and Boselie (2005) emphasised the need for multi-dimensional concept of organisational performance. This concept means that researchers may use multiple measures of performance to cover the multiple goals of HRM and the different stakeholders within or outside the organization. This study opted for a multi-dimensional concept of performance thus the performance indicators for the study are: profitability growth, revenue growth, customer satisfaction and Innovation.

2.3 Organizational Learning

Organizational learning is broadly defined in the literature as a learning process within organizations that involves interactions at multiple levels; individual, group, organizational, and inter-organizational (Örtenblad, 2004). Synthesizing the literature, Templeton, Lewis, & Snyder, (2009) proposed four inter-related elements of organizational learning: knowledge acquisition, information dissemination, information interpretation and organizational memory. The authors define knowledge acquisition as the process by which knowledge is obtained. They posit that knowledge may be obtained from a vast range of sources including customer surveys, research and development activities, performance reviews, scanning the organizational environment, analyzing competitors' products, internal and external networks and employee training programs. With the knowledge acquired, there is a potential for organizations to learn how to improve and innovate their products/services and processes, leading to competitive advantage (Therin, 2011)

Organization performance is said to be enhanced by an organization's ability to learn. Craig and Dibrell (2012) consider that organizational learning creates new knowledge and skills which are key strategic resources, which have the capacity to enhance firms' innovations. Calantone, Cavusgil, and Zhao,(2002) examined the relationships between organizational learning, firm innovation capability and firm performance in US technology companies and found a positive relationship between organizational learning and firm performance.Firms that are able to learn about customers, competitors and regulators stand a better chance of detecting and acting upon events and trends in the marketplace (Day,1994). Learning organizations are better versed in strategies for dealing with customers and competitors alike, which, in turn, should lead to superior profitability. A firm that actively learns about its customers is in a position to offer more appropriate and finely targeted products. This should result in customer satisfaction and higher level of sales growth (Tippins & Sohi, 2003).

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2.5 Conceptual Framework

Mugenda and Mugenda (2003) define a conceptual framework as hypothesized model identifying the relationship between the dependent and independent variables. Such a framework would help researchers define the concept, map the research terrain or conceptual scope, systematize relations among concepts, and identify gaps in literature (Creswell, 2003). The purpose of this study was to show the relationship between organizational learning and organizational performance of commercial banks in Kenya. Below is a figurative representation of the variables to be explored by this study.

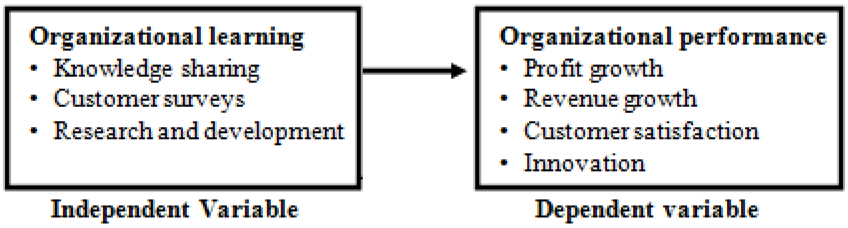

Figure 2.1: Conceptual framework

3. Research Methodology

3.1 Research Design

According to Kothari (2004) a research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in analysis, keeping in view the objective of the research and the availability of staff, time and money. In this study, a descriptive survey design was used.

3.2 Study Population and Sample

The study population for this study comprised of four banks which represent 10% of the commercial banks in Kenya as recommended by Kothari (2004). The study population and accessible population was drawn from; Barclays Bank, Kenya Commercial Bank, Family Bank and Spire Bank. Simple random sampling was used to select the four banks. Target and accessible population comprised of management, supervisors and general employees in the four commercial banks. This study used stratified random sampling and within each of the three strata, simple random sampling was used to identify individual respondents. A sample size of 96 respondents was determined by the Kothari (2014) formula for calculating small sample sizes. The sample was divided according to the numerical strength among the banks to avoid biasness. The population and sample size is shown in Table 3.1.

Table 3.1: Population Sample Size

Bank	*Population*	*Sample Size*
KCB	4700	48
Barclays	2700	28
Family	1800	18
Spire	200	2
Total	**9400**	**96**

Source: Commercial banks, 2016 and Researcher, 2016

3.3 Data Collection and Research Instruments

Questionnaires were designed based on the study objectives. Questionnaires were distributed to the respondents and duration of two weeks allowed to fill them. The researcher then made follow-up calls to ensure that adequate response was obtained from the respondents.

3.4 Validity and Reliability

An instrument is valid if it measures what it is intended to measure and accurately achieves the purpose for which it was designed (Patten, J. 2004).The draft questionnaire was given to a selected person knowledgeable in research to ascertain the items suitability in obtaining information according to research objectives of the study. Reliability of the instruments concerns the degree to which a particular instrument gives similar results over a number of repeated trials (Mugenda & Mugenda, 2003). The researcher pre-tested the questionnaire to a pilot sample. The respondents who participated in the pilot study were excluded from the main study.

3.5 Data Analysis and presentation

Data was analyzed using statistical package for social science (SPSS). The data reliability was checked using the Cronbach's alpha index. Descriptive statistics inform of average, mean and standard deviation were used to present data.

4. Results and Discussion

4.1 Response Rate

The sample for the study comprised of a total of 96 employees in 4 commercial banks in Kenya. Out of this, a total of 81 questionnaires were filled and returned by the respondents. This gives a response rate of 85 %. According to Mugenda and Mugenda (2003) a response rate of more than 10% of the sample is adequate for data analysis. Therefore, the 85 % response rate was considered sufficient for data analysis and generalization of the findings to the target population.

4.2 Reliability analysis

When reliability analysis was done using Cronbach's Alpha, a value of 0.864 was obtained. The closer Cronbach's alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2003). Kiln (2003) posit that Alpha value at 0.6 and above signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondents' opinions on the study problem.

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Therefore, the results indicate that the data collected was reliable and could be generalized to reflect the respondents' opinions on the study problem.

4.3 Influence of organizational learning on organizational Performance

The study sought to find out the perception of respondents as to whether organization learning influences organizational performance. Respondents were asked to indicate their level of disagreement or agreement on statements relating to organizational learning as they apply to their organization where; 1= strongly disagree2=Disagree 3=Neutral 4= Agree 5=strongly agree. The results are presented in Table 4.1 below

Table 4.1: Influence of oorganizational learning on organizational Performance

Statement	*Ave. %*	*Mean*	*SD*
Customer surveys are carried out to learn and understand customer needs.	79%	3.97	0.629
The bank has systems in place that enable knowledge sharing.	80%	3.99	0.694
Knowledge acquired, through customer surveys and research and development has enabled the bank to improve and innovate the products/services and processes.	82%	4.09	0.778
As a result of research and development the bank is better versed in strategies for dealing with customers and competitors leading to growth in revenue.	82%	4.1	0.639
As a result of research and development, the bank is better versed in strategies for dealing with customers and competitors leading to growth in profitability.	84%	4.18	0.634
There is a strong emphasis on Research and Development at our organization.	84%	4.21	0.7
As a result of customer surveys, the bank is in a position to offer more appropriate and finely targeted products and services leading to customer satisfaction.	84%	4.21	0.694
Employees are encouraged to share knowledge.	87%	4.33	0.569
Acquisition of new knowledge and skills has the capacity to enhance the banks' innovations.	87%	4.33	0.611

Source: Researcher (2016)

Based on the research findings, the respondents agreed that; Acquisition of new knowledge and skills has the capacity to enhance the banks' innovations (mean=4.33), Employees are encouraged to share knowledge (mean=4.33 each), As a result of customer surveys the bank is in a position to offer more appropriate and finely targeted products and services leading to customer satisfaction (mean=4.21) , There is a strong emphasis on Research and Development at their organization (mean=4.21), As a result of research and development, the bank is better versed in strategies for dealing with customers and competitors leading to growth in profitability(mean 4.18),As a result of research and development the bank is better versed in strategies for dealing with customers and competitors leading to growth in revenue (mean=4.10), Knowledge acquired, through customer surveys and research and development has enabled the bank to improve and innovate the products/services and processes (mean=4.09), The bank has systems in place that enable knowledge sharing (mean=3.99), Customer surveys are carried out to learn and understand customer needs (mean=3.97).

4.4 Discussion of Findings

The results of this study show that commercial banks in Kenya have sytems in place that enable knowledge sharing, carried out customer surveys and had a strong emphasis on research and development. From this research, it was found that organizational learning has a positive effect on profit growth, revenue growth, customer satisfaction and innovation. These findings concurred with Therin (2011) that with the knowledge acquired, there is a potential for organizations to learn how to improve and innovate their products/services and processes, leading to competitive advantage. The findings further concurred with Craig & Dibrell (2012) that organizational learning creates new knowledge and skills which have the capacity to enhance firms' innovations.

The findings further concurred with Day (1994) that firms that are able to learn about customers and competitors stand a better chance of detecting and acting upon events and trends in the marketplace. Thus, learning organizations are better versed in strategies for dealing with customers and competitors alike, which in turn, should lead to superior profitability (Tippins & Sohi, 2003). The capacity for change and continuous improvement to meet the challenges in the environment in which organizations operate has been associated with the capability of these organizations to learn (Armstrong & Foley, 2003).

5. Conclusions and Recommendations

5.1 Conclusion

Results of the study reveal that organization learning has a significant influence on organizational performance measured in both financial and non-financial terms. The findings are consistent with the basic proposition of Resource Based View (RBV) which suggests that firms perform well when they implement strategies that exploit their internal resources and capabilities. The findings supported Clanton, Cavusgil, & Zhao (2002) conclusion that there is a positive relationship between organizational learning and firm performance.

5.2 Recommendations

Top Management in Commercial banks in Kenya can apply the findings of this study to develop internal capacity in key areas of human resource management (HRM) in order to deliver sustained competitive advantage. However, as the capability to learn does not naturally and readily occur within organizations, it is imperative that commercial banks ensure that resources are allocated and efforts made to instill learning within organizations. Policy makers can use the findings of this study to evaluate how well the banking sector can be leveraged through learning organization practices in order to contribute to increased economic

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growth. Scholars and practitioners in human resources management can engage in joint research that will be used to assist human resources managers and bank Chief executives to effectively ensure the proper link between organizational learning and organizational performance.

5.3 Suggestions for Further Research

This study did not focus on all Human Resource practices. Further research can examine the influence of other HR practices on organizational performance.

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