

# The Investigation of Mediating Role of Organizational learning in Relationship between Business Strategies and Organizational Performance

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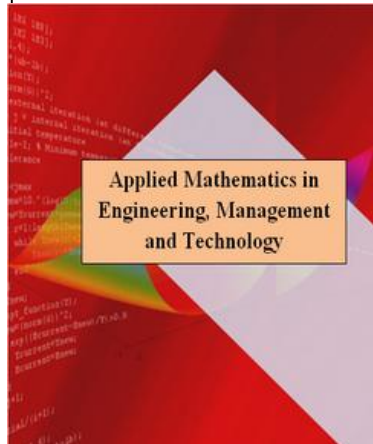
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## Abstract

The aim of this study is to examine the effect of cost leadership and different strategies on performance of middle-size and large-size manufacturing companies with the intermediation role of organizational learning. This research is a survey-descriptive and practical study. Questionnaire has been used for collecting data. Content and construct validity and Cronbach's  $\alpha$  method have been used for evaluating the validity and reliability of the questionnaire. The population of this study contains medium-sized and large-sized manufacturing companies of Mashhad industrial town and we have used simple random sampling in this study. PLS software has been used for data analyzing. The analysis of 89 firms confirmed the mediating role of organizational learning between knowledge management and organizational performance. Furthermore, cost leadership strategy has a direct and significant relationship with organizational performance and organizational learning. There are a significant relationship between differentiation strategy and organizational learning and between organizational learning and organizational

performance. Moreover, there is not a significant relationship between differentiation strategy and organizational performance.

**Keywords:** Cost Leadership Strategy - Differentiation Strategy - Organizational Learning - Organizational Performance.

## 1.Introduction

Today's' world especially the world of organizations, face with continuous and various changes and all dimensions of organizations from internal environment to external environment, from human factors to nonhuman factors and so on are changing from one state to another rapidly (Jiang & Li, 2008). In this situation, organization try to survive and continuously removed from static forms and move towards learning development and creation of learning organization in order to maintain in this changing and uncertain environment(Adair, 2002).

Manufacturing companies has encountered ongoing changes. Their interactions with different factors such as government, private sector, financial supporters, and other national and international organizations, social, economic, political, and cultural factors cause them to face with various wants. Thus, it is essential for them to improve their performance through organizational learning and other scientific methods in order to keep their statue and achieve their missions. Creation of learning organization keeps companies in the face of environmental changes. It is essential to assert that creation of learning manufacturing companies with the characteristics that their inventors counts, is an endless route. Therefore, creation of a learning organization means moving forwards from one stage to another stage. Learning organizations are the purposeful institutions that have been seeking growth and improvement through different ways during the time (Kiim, 2003).

According to the importance of the effect of business strategies on organizational performance, this influence is accompanied with the intermediating role of organizational learning in this study and its effect on performance of middle-size and large-size manufacturing companies of Mashhad industrial town is measured. This is a new subject in the field of business strategy and organizational performance. Theoretical principals were reviewed in the following, and then research methodology has been explained in the form of research method, the data collection method, population, sampling, validity, and reliability. Then the discussion and conclusion has been explained.

## **2.Literature Review**

### **2.1. Cost Leadership Strategy**

Michael Porter (1987, quoted from Fered R, 1379), claimed that codifying a competitive strategy is representation of a developed formula for explaining how to compete in a business, goals determination and essential policies to achieve goals. He introduced cost leadership and differentiation strategies as the main strategies to surpass other competitors.

Cost leadership strategy, which is common from 1970, is a way to be pioneer in cost through sets of practical ways that have been designed for reaching this goal. Cost leadership requires the provision of efficient equipment, efforts to reduce costs through experience, strict control of current expenditure and costs, avoidance of final accounts of customers and cost minimization (Porter, 1387).

In cost leadership strategy, the company may reduce short-term income in order to gain more market share and finally the increase in revenue and profits. Low price leads to huge demands and increase in market share (Helms, Clay & Peter, 1997). When a company attempt to gain cost leadership in the industry, the main and general mission of the company is cost reduction strategy. Low cost strategy is related to all parts such as facilities, up lines operations, cost saving due to the experiences, and thrift in spaces like R&D, services, sale force, education, development, and advertising (Wagner, Hlavacka, bacharova & Rusnakovn, 2001).

### **2.2. Differentiation Strategy**

In this strategy, the company strives to be unique in the aspects of interested dimensions for buyers. In differentiation strategy , the products and services that are represented by the company are different from competitors of a same area and this fact have to be evaluated by customers and value added have to influence on customer selection and their satisfaction (Aker, 1386).

An effective differentiation strategy is done when the market represents a unique and wonderful value to the costumers through high quality products, different attributes and characteristics and after sale services. The companies, which use differentiation strategy, can offer higher price for their products and service based on product characteristics, delivery service, service quality or distribution channels. The quality can be real or be based on fashion, brand, imagination and customer perception (Allen & Helms, 2006).

### **2.3.Organizational learning**

Probest and Bchell (1997) defined organizational learning as following:

The ability of organization to recognize errors and correct them modification of knowledge and organizational values in order to create new problem solving skills and new work capacities. Given this definition, organizational knowledge modification, increase in possible confines, change in individual mind are the characteristic of organizational learning process. Organizational learning contains different levels and classifications such as individual level, team and organizational levels. (Gorelick, 2005).

Organizational learning capability refers to the capacity of creation and popularization of ideas in face with various organizational bounded through innovations and particular managerial styles (Yeung et al, 1999). Dibella and colleagues (1996) stated that learning capability are formal and informal processes, appropriate structures, using and sharing knowledge and skills in organization. On the other hand, they considered organizational learning capability as managers' capacity to generate and extend ideas.

Organizational learning process is characterized by a set of basic features. First, learning is a process of evolution and changing which is constantly building and rebuilding (Kolb, 1984). Second, organizational learning is increasing. It means that the amount of knowledge at a particular point in time is a function of the accumulated and gained knowledge until that moment. Third, organizational learning is a process that its goal is to improve organizational development using new designs (Argyris & Schon, 1978).

#### 2.4. Organizational Performance

Researchers have used different items to measure organizational performance and some of the researchers have grouped related items of performance together. For example, Neely et al (2002) defined organizational performance as following: "the process of explanation the quality of effectiveness and efficiency of previous functions." According to this definition, performance divided into two components: 1- Efficiency that describes how the organization uses resources in service or product manufacturing; it means the relation between real and desired combination of inputs in order to produce determined outputs 2- Effectiveness that describes the capability of reaching the organizational goals. These goals are commonly specified in the form of being appropriate (the degree of output adaptation with customer needs) and accessible in some aspects like frequency and quality (the degree of achievement to the required standards).

Nine items have been used for performance measurement in this study, through revising previous studies and considering the type of population of the study. These items classified in three groups:

Financial performance: contains the items for return investment rate.

Market domination; contains of sale growth, market share, customer satisfaction and customer value.

Firm's effectiveness in market; contains of the success of new product, customer maintenance, quality of the product and innovation.

#### 3. Hypotheses and conceptual model

Following hypotheses have been represented in order to examine the relationship between main variables of the study, business strategies and organizational performance with considering the mediating role of organizational learning through literature review and considering the issue of this study.

With the use of competitive strategy, it is possible to represent a product unique in the eyes of buyers. In this situation, the new product make it possible for the organization to achieve higher performance due to long term presence in the market as a result of being inimitable product and a market share (Khakbiz, 1386). Pavertz and Haan examined the relationships among competitive methods, general strategies and organizational performance in their study, which titled as "competitive methods, general strategies and organizational performance" in 2003 in bank industry. The results showed that there are significant relationships between competitive methods in bank industry and cost leadership, differentiation and focus strategies. Moreover, performing cost reduction strategy in banks, produce significant performance advantages for banks in comparison with the others, which are using combined strategies?

H<sub>1</sub>. There is a positive and significant relationship between business strategies of medium and large size manufacturing companies and their performance.

H<sub>1a</sub>. There is a positive and significant relationship between adoption of cost leadership strategy of medium and large size manufacturing companies and their performance.

H<sub>1b</sub>. There is a positive and significant relationship between adoption of differentiation strategy of medium and large size manufacturing companies and their performance.

Moreover, existing competitive environment experience more competition in comparison with the past. In this environment, intensity and improvement of existing competitive forces and widespread relations among them is such that the lack of understanding of these forces and their effects on organizational performance can cause organizational failure. Many organizations in this environment are attempting to reach competitive advantages through codifying competitive strategies and providing organizational growth and improvement through increasing their products competitiveness (Alavi Darabi, 1387). Today, different social systems encounter with complex challenges. Changes are made rapidly, people make new relationships with each other and different forms of competition are appearing. In past, capital and work force was the base of a successful organization, but today, successful organization is a learning, innovator and service-oriented organization (Shokri, Kheirgoo, 1388). We can define organizational learning as an organizational capability to maintain and improve

performance based on previous experience. This capability is the ability to gain and exploit Implicit and explicit knowledge, share knowledge and use it in the organization.

H<sub>2</sub>. There is a significant and positive relationship between business strategies of medium and large size manufacturing companies and their organizational learning.

H<sub>2a</sub>. There is a significant and positive relationship between adoption cost leadership strategy of medium and large size manufacturing companies and their organizational learning.

H<sub>2b</sub>. There is a significant and positive relationship between adoption differentiation strategy of medium and large size manufacturing companies and their organizational learning.

Lopez and colleagues (2005) introduced organizational learning as a four stages continuous process: knowledge obtaining, knowledge interpretation, knowledge distribution and organizational memory, which are adopted from Haber's model (1991). In a study of 190 Spanish organizations, it is found that this model has a positive relationship with innovation, competitiveness, financial and economical results of the organizations. Although, some others believed that the relationship between organizational learning and organizational performance is intangible and insignificant. For example, Kidrooski (2006), in a study, after performing the principles of organizational learning in an organization, compared the results of employee's empowerment before and after the implementation of project. The results did not show any difference.

H<sub>3</sub>. There is a positive and significant relationship between organizational learning of medium and large size manufacturing companies and their organizational performance.

The results of shahabi and Jalilian's study (1390) show that organizational learning has a positive and significant influence on organizational learning. Organizational learning leads to better organizational performance in innovation of product and process and organizations have to consider organizational learning in planning and evaluation of innovation as a mediating variable in order to reach better performance.

H<sub>4</sub>. Organizational learning mediates the relationship between business strategies and performance of medium and large size manufacturing companies.

H<sub>4a</sub>. Organizational learning of medium and large size manufacturing companies mediates the relationship between adoption of cost leadership strategy and performance of these organizations.

H<sub>4b</sub>. Organizational learning of medium and large size manufacturing companies mediates the relationship between adoption of differentiation strategy and performance of these organizations.

Therefore, theoretical model of this study has been formed with the study of literature review.

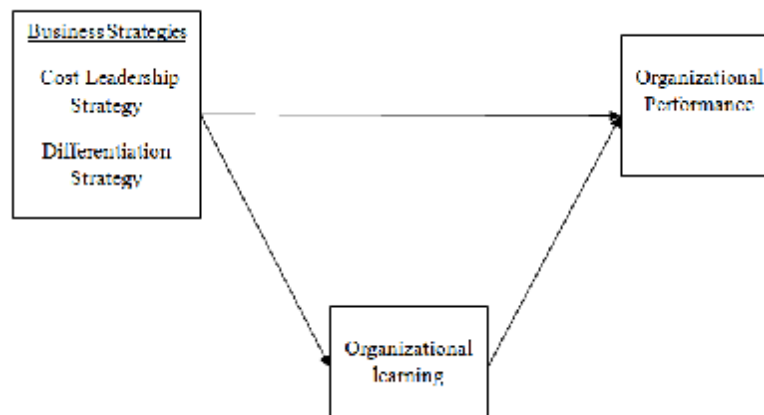


Figure 1: Conceptual model of research

#### 4. Methodology

As this research develops practical knowledge about relationship quality and variable effects, it is considered as a practical study in terms of aim and a descriptive study in terms of data collection method. This is a survey research because it describes the situation of variables and relations between them.

##### 4.1. Data collection method

Using questionnaire is one of the common methods for data collecting in survey studies. Given that how variable are measured is specified and with respect to the degree of required accuracy in data collection, research period and other costs, questionnaire was considered as a best method for data collecting.

The questioner contains of 32 items in three parts: business strategies, organizational learning and organizational performance. The answers classified in five-point Likert scales. First part (business strategies) contains eight items that consists of two parts: cost leadership and differentiation and were adopted from the research of Lao and Zao (2004). Second part (organizational learning) contains 12 items that were adopted from Pérez López, Montes Peón, Vázquez&Ordás (2004) and consists of four parts: knowledge obtaining, information distribution, information interpretation and organizational memory. Third part is related to organizational performance and consists of 12 items, which is adopted from Langrak (2003).

#### 4.2. Population and sample

Given that manufacturing companies have played a major role in the economy and could have a big impact on the country's macroeconomic goals improvement, all medium-sized and large-sized manufacturing companies of Mashhad industrial town, which are 120 companies according to Industries and Mines Organization of Khorasan Razavi statistics, have been selected as the population of this study. As the organization's top managers are the most knowledgeable person in the organization, they were chosen as the population of this study. Since the exact number of companies are existed base on adopted list of industries and mines organization of Mashhad, random sampling has been used for this study. Thus, 110 questionnaire have been distributed which 89 complete questioner have been returned.

#### 4.3. Validity and reliability of instrument

Although we used a standard tool in this study, in order to ensure compliance of items with real situation of the firms, the questioner was given to some management professor for improving the sentences then the correcting steps have been done. Construct validity has been examined using discovery factor analysis that is shown in following table. As it is clear, the items that their loading factor is lower than 0.3 have been removed (Planet, 2009). Thus, P5 of performance construct has been removed in the first stage of factor analyzing. Finally, table 1 displays the values of remaining items in the questioner after doing the stages of factor analysis and removing the cases lower than the quorum.

Table 1: Results of Exploratory Factor Analysis

|                                |               |               |               |               |              |              |              |              |              |               |               |               |
|--------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Cost Leadership Strategy (CLS) | CLS1<br>0.508 | CLS2<br>0.696 | CLS3<br>0.643 | CLS4<br>0.493 |              |              |              |              |              |               |               |               |
| Differentiation Strategy (DS)  | DS1<br>0.392  | DS2<br>0.682  | DS3<br>0.570  | DS4<br>0.383  |              |              |              |              |              |               |               |               |
| Organizational Learning (OL)   | OL1<br>0.694  | OL2<br>0.656  | OL3<br>0.625  | OL4<br>0.525  | OL5<br>0.756 | OL6<br>0.591 | OL7<br>0.579 | OL8<br>0.675 | OL9<br>0.673 | OL10<br>0.638 | OL11<br>0.682 | OL12<br>0.561 |
| Organizational Performance (P) | P1<br>0.465   | P2<br>0.645   | P3<br>0.526   | P4<br>0.330   | P6<br>0.655  | P7<br>0.479  | P8<br>0.474  | P9<br>0.510  | P10<br>0.559 | P11<br>0.396  | P12<br>0.523  |               |

Cronbach's alpha, which is the most common internal adaptation test for multifactor scales, was used to measure the reliability test. Table 2 displays this coefficient for research variables after doing factor analysis stages and removing the unacceptable values.

Table 2: Results of the reliability study

| CLS   | DS    | OL    | P     |
|-------|-------|-------|-------|
| 0.757 | 0.659 | 0.701 | 0.900 |

## 5.Data Analysis

### 5.1. Examining the demographic attributes of respondent

The average age of the respondents to the questionnaire is 41 years, the average of work experience is 16 years, and the average of serving in managerial posts is 12 years. The minimum of management experience of respondents is 1.5 years and the maximum is 45 years. 84.3% of reliable respondents were male and 15.7% were female. The educational levels of total 89 respondents are as following: 15 people were diploma, 7 people had associate degree, 43 people had bachelor, 17 people had master, and 7 people had PhD degree. In the case of industries, food industry with 29.2% has the more frequencies, and agricultural industry, machine building, and pharmacy industries with 2.2% have the lowest frequencies.

### 5.2. Hypotheses test

Figure 2 shows structural equation model and research path diagram. As it is determined in the model, path coefficients of relations between variables and their significance has been specified in the figure. P-value is the probable value that path coefficients' significance is checked by that. If p-value is more than 0.05, path and path coefficient are not significant and the related hypothesis is rejected.

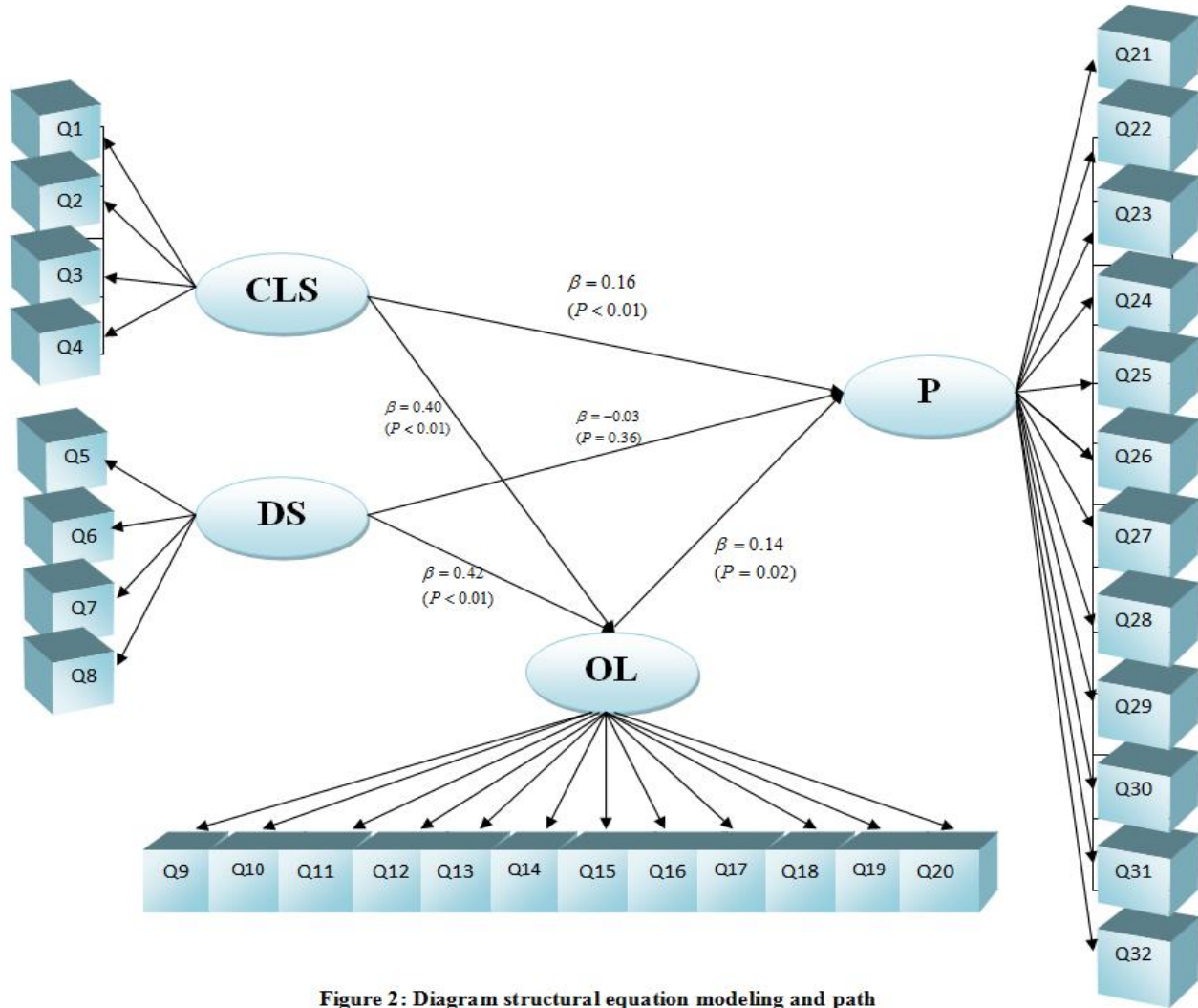


Figure 2: Diagram structural equation modeling and path

### 5.3. Research hypotheses examination

In order to evaluate the research hypotheses, we have used path coefficients, significance levels, and the results of intermediate variables. P-value is the probable value that path coefficients significance is checked by that. If p-value is more than 0.05, path and path coefficient are not significant and the related hypothesis is rejected (Fornell & Larcker, 1981).

According to the data of table 3, path coefficient between cost leadership strategy and organizational performance is 0.164. Thus, considering the significance level  $P=0.001$ , which is lower than 0.05, the related hypothesis is confirmed. Furthermore, path coefficient between differentiation strategy and organizational performance is -0.028 with the significance level of  $p=0.358$ , which is more than 0.05, this hypothesis is rejected. Since this table shows, path coefficient between cost leadership strategy and organizational learning is 0.391 with significance level of  $p<0.001$ , which is lower than 0.05, the related hypothesis is confirmed. In addition, path coefficient between differentiation strategy and organizational performance is 0.420, with the significance level of  $p<0.001$ , which is lower than 0.05, the mentioned hypothesis is approved. Moreover, path coefficient between organizational learning and organizational performance is 0.142 with the significance level of  $P= 0.020$  this hypothesis is confirmed.

Table 3: Results of hypotheses

| Direct path | Path coefficient | S.E   | Significant level | Hypotheses      | Results   |
|-------------|------------------|-------|-------------------|-----------------|-----------|
| CLS → P     | 0.164            | 0.053 | P=0.001           | H <sub>1a</sub> | Confirmed |
| DS → P      | -0.028           | 0.076 | P=0.358           | H <sub>1b</sub> | Rejected  |
| CLS → OL    | 0.391            | 0.028 | P<0.001           | H <sub>2a</sub> | Confirmed |
| DS → OL     | 0.420            | 0.32  | P<0.001           | H <sub>2b</sub> | Confirmed |
| OL → P      | 0.142            | 0.079 | P=0.020           | H <sub>3</sub>  | Confirmed |

After examining the relations between variables in the former hypotheses, it is possible to discuss about associated hypotheses with considering the role of mediating variables.

Since the direct relations between cost leadership strategy and organizational performance, business strategies and organizational learning, organizational learning and organizational performance and no relationship between differentiation strategy and organizational performance have been confirmed, we can conclude that the relationship between business strategies and organizational performance is significance through organizational learning.

Table 4: The results of the relationship between Business Strategies and organizational Performance with the mediator role of organizational learning

| Indirect path | By variable | Hypotheses      | Results   |
|---------------|-------------|-----------------|-----------|
| CLS → P       | OL          | H <sub>4a</sub> | Confirmed |
| DS → P        | OL          | H <sub>4b</sub> | Confirmed |

The final model of this study is represented based on confirmed or rejected hypotheses. As it can be seen in figure 3, confirmed and rejected relationships are displayed with straight lines and dotted lines, respectively.

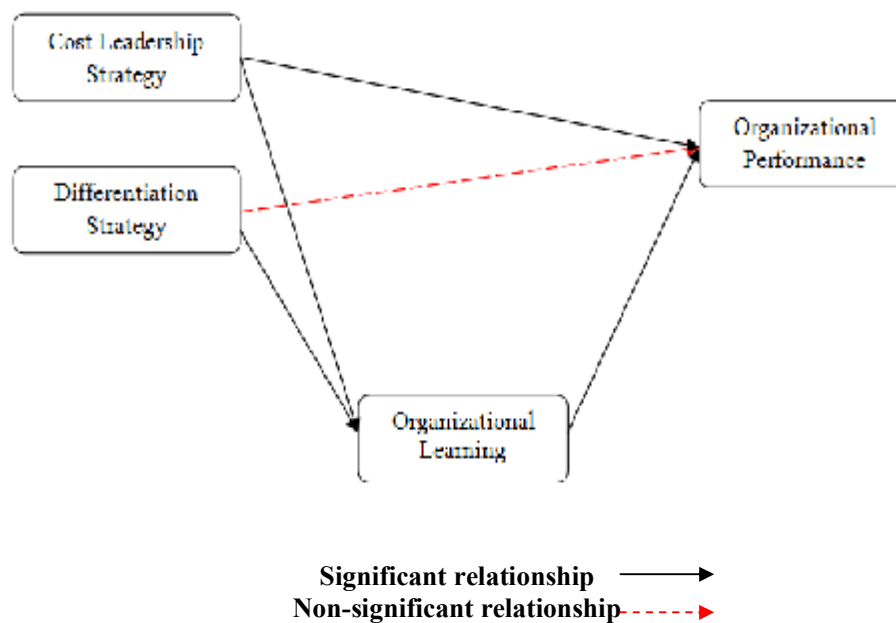


Figure 3: The final result of the research model



## 6. Discussion, conclusion and suggestions

The aim of this study is to examine the mediating role of organizational learning in relationship between business strategies and organizational performance of medium and large size manufacturing companies of Mashhad industrial town. As it is displayed, there is a direct relationship between cost leadership strategy and organizational performance. Furthermore, cost leadership strategy has an indirect and positive influence on organizational performance through organizational learning. Since the results show, path coefficient between cost leadership and organizational learning with the intermediating role of organizational learning is 0.055. Thus, cost leadership can improve the performance of companies well through recognizing of knowledge needs, knowledge exchanging and publication, adding knowledge to the current knowledge systems and emphasis on knowledge institutionalizing.

Based on extracted conceptual model, differentiation strategy has a positive and significant relationship with organizational performance only through organizational learning. The path coefficient between differentiation strategy and organizational performance through intermediating role of organizational learning is 0.059 that we can claim that differentiation strategy has a powerful relationship with organizational performance through creation of knowledge obtaining ( recognizing and collecting useful information), using knowledge ( practical use of knowledge) and knowledge transfer ( distribution and publication of knowledge in organization).

Finally, based on data analyses and these findings, we can claimed surly that the existence of business strategies in medium-sized and large-sized manufacturing companies of Mashhad industry town can improve their performance through mediating role of organizational learning.

Considering the findings and the positive and significant relationship between cost leadership strategy and performance of those companies, it is suggested that managers in different levels of organization reduce the current costs through controlling their span of control appropriately and implement long term plans such as correct supply chain management in order to represent products with a suitable price for customers. Furthermore, exploring the mediating role of market orientation in the relationship between focus strategy and organizational performance and in the relationship between product innovation development and organizational performance can be very useful.

This study was conducted at the time that the activities of many companies have been affected by the sanctions and managers were unwilling to answer to the questionnaire.

In addition, since, researcher has difficulty in collecting completed questionnaire, the process of data collecting took a long time.

Finally, this study contains a large numbers of different manufacturing companies, thus, be cautious about generalizing these findings to a specific industry.

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