

Competitive Strategy, Organizational Learning and SMEs Performance

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Abstract

Organizational learning and competitive strategy have been one of the most significant topics for discussion in Small and Medium Enterprises (SMEs) context. However, this service-based contemporary organizations, i.e. SMEs, and their key strategic tasks are investigated in this domain. The study investigates the mediating effect of competitive strategy towards the relationship between organizational learning and SME performance. From the population of 3,477 service-based SMEs in Brunei Darussalam, 275 valid responses were collected from the questionnaire survey. The collected data was processed using SMART Partial Least Square (PLS) – Structural Equation Modelling software to analyze the measurement model, namely the reliability and validity of data, as well as structural model assessment for hypothesis testing. The results revealed using Preacher and Hayes mediation analysis a momentous effect of organizational learning on SME performance. The study found using structural model evaluation, organizational learning as having significant positive impact on SME performance ($\beta = 0.207$, $t = 2.843$, $p < 0.004$). From these findings, this paper not only offers useful implications for SME owners/managers by outlining the importance implementing organizational learning based on the appropriate competitive strategy, but also made theoretical contributions to the body of knowledge in the field of strategic management, under SMEs context. Finally, this paper recommended other combinations of organizational factors as potential future research.

Keywords: Strategic Management, Organizational Learning, Competitive Strategy, SMEs, Contingency Theory

1.0 Introduction

The context for management debates has faced increasing turbulence and uncertainty about the future. It is suggested that learning perspective should be given attention to the conditions of ambiguity and uncertainty concerning the future which requires the traditional strategy approaches to be ignored (Starkey *et al.*, 2004:p. 7). The business organizations are expected to adapt quickly with the

dynamic and uncertain business environment. There are various organizational factors within the small and medium enterprises (SMEs) which can be utilized to adapt with the current business environment. Particularly, organizational learning plays a significant role towards influencing SME performance by creating and sustaining competitive advantage through knowledge accumulated from prior experiences (Altinay *et al.*, 2015; Chung *et al.*, 2019).

While organizational learning has been discussed in literature for decades (Lenart-Gansiniec & Sulkowski, 2020), majority of the information is based on large business organizations (Matthew *et al.*, 2017). From the SMEs context there is scarcity of knowledge on how competitive advantage can be generated from organizational learning (Matthews *et al.*, 2017; Tam & Gray, 2016). While simplifying suitable learning procedures organizational learning is conveyed as having significant impact on SME performance (Hooi & Ngui, 2014; Liao, 2017; Matthews *et al.*, 2017). Without adequate knowledge, SMEs can become “brittle and unchangeable” in the long run (Matthews *et al.*, 2017). Hence, better understanding on organizational learning concept is necessary, especially under SMEs context.

The differences between SMEs and large business organizations are well-established, majority of the studies on competitive strategy and organizational performance derived from large business organizations (Parnell *et al.*, 2015). This led to information under SMEs context to be fragmented and stagnant (Bilal *et al.*, 2017; Zakaria *et al.*, 2016). Moreover, SMEs have tendency to implement unconstrained competitive strategy (Blackburn *et al.*, 2013) by incorporating a mixture of competitive strategy (Cadez & Guilding, 2012; O’Regan & Ghobadian, 2004; Parnell *et al.*, 2012). Hence, various researchers have recommended such unconstrained competitive strategy by the SMEs to be investigated (Blackburn *et al.*, 2013).

It is beneficial to identify characteristics which allowed SMEs to adapt with the business environmental changes, particularly in relation to organizational learning and competitive strategy. In line with the above discussion, the Department of Economic Planning and Development Brunei (2012) stated one of the main objectives for Brunei Darussalam is becoming a sustainable economy. However, the Gross Domestic Product for early 2019 in Brunei Darussalam is down to -1.2% (Trading Economics, 2019). The paucity of studies in Brunei context despite emphasis of SMEs development (Ministry of Finance, 2017), the study attempts to

investigate “service-based SMEs in Brunei Darussalam on the variables?” this will extend the knowledge of organizational learning and competitive strategy under SME context as well as addresses the limitation of contingency theory.

2.0 Review of Related Literature

2.1 SME Performance

This study considered SME performance as “the past, present and future accomplishments by SMEs which are evaluated with monetary and non- monetary measurement indicators” (Saunila, 2016; Yousaf & Majid, 2016). In view of this definition, various types of monetary and non- monetary measurement pointers have been incorporated to evaluate SME performance. Different measurement indicators have been implemented by the SMEs to benchmark their overall performance. For instance, past studies by Fabi *et al.* (2009) and Hargis *et al.* (2011) incorporated both financial measurement indicators (sales growth and return on equity) and non-financial measurement indicators (productivity, employee turnover rate and quality improvement) to evaluate organizational performance.

In line with the above discussion, this study also incorporated both financial and non-financial measurement indicators for analyzing the SME performance. Such combination is essential for articulating long-term planning with short-term actions as well as resolving the deficiency found in traditional management system (Chen *et al.*, 2016; Jusoh & Parnell. 2008). Furthermore, this avoids any evaluation biasness which arises from the sole dependent of financial measurement indicators (Chen *et al.*, 2016). Undoubtedly, non-monetary indicators compliments monetary indicators by accurately reflecting the performance of SME subjectively (Chen *et al.*, 2016; Jusoh and Parnell, 2008), while accounting for the primary and secondary objectives.

2.2 Organizational Learning

Organizational learning defined as the “managerial characteristics which facilitates learning process” (Ho *et al.*, 2013). Such definition highlights the ability of SMEs to integrate knowledge for adapting with the business environment (Gomes & Wojahn, 2017) as well as to preserve crucial knowledge for avoiding repetition of past mistakes (Tohidi *et al.*, 2012).

Organizational learning is deemed necessary for achieving superior performance and competitive advantage (Gomes & Wojahn, 2017; Tam & Gray, 2016).

Although organizational learning allows SMEs to cope with open-ended changes, it is well-documented that SMEs incorporate informal, non-systematic and inconsistent form of learning (Michna, 2009; Tam & Gray, 2016). Such characteristic stemmed from the lack of resources and less complex management skills (Dutot *et al.*, 2014; Rodriguez-Gutierrez *et al.*, 2015). This led to the SMEs adopting a reactive behavior which is amplified by the lack of ideal management system (Dutot *et al.*, 2014).

In line with the above discussion, it is difficult to identify the key learning process for SMEs. However, past studies have reported significant relationship between organizational learning and SME performance. Altinay *et al.* (2015) and Gomes and Wojahn (2017) observed non-significant relationship between organizational learning and organizational performance. Meanwhile Yu *et al.* (2017) and Chung *et al.* (2019) reported partial significant impact of organizational learning on organizational performance.

From the finding's, mixed results have been reported among organizational learning and SME performance. However, compilation abovementioned findings did not specify how and why such relationship has occurred. It is possible to address this knowledge gap by incorporating a mediating variable. Hence, it is necessary for this study to establish the association of organizational learning by proposing the followings:

H1: Organizational learning has a significant positive impact on SME performance

2.3 Competitive Strategy Concept

Although organizational learning is established to yield significant impact on SME performance, the details of how and why such relationship has occurred were not specified. The reasoning which emphasized how and why organizational learning process resulted to different level of organizational performance can be explored by incorporating a third facilitating variable. This demonstrates the concept of learning is not just becoming central to many content areas of strategy but also as a model for strategy process (Leavy, 2004)

Although business organizations generally aimed for efficiency or differentiation, generic strategy literature have shifted the discussion on relying mixed strategies to gain sustainable competitive advantage (Kaya, 2015). Thus, SMEs to adapt with

the globalized business environment by implementing a mixture of competitive strategy (O'Regan & Ghobadian, 2004). The lack of sophisticated managements in SMEs has led to difficulty in clarifying the relationship between organizational learning, competitive strategy and SME performance (Parnell *et al.*, 2015). This led to the SMEs shunning from long-term formal planning (Blackburn *et al.*, 2013; Parnell *et al.*, 2015). Despite this, organizational learning capability must compliment with the competitive strategy requirements. In view of this, competitive strategy is defined as “the set of commitments and actions integrated to achieve competitive advantage through exploiting the core competencies” (Liao, 2005).

The concept of learning is claimed to influence by the perspective on strategy (Leavy, 2004). In retrospective, the combination of low growth, international competition and poor diversification have forced many companies to concentrate on revitalizing their core businesses (Peters and Waterman, 1982; Drucker, 1985). This is supported by past studies from Ebben and Johnson (2005) which observed SMEs utilizing a mixture of competitive strategy to gain superior SME performance. Furthermore, observations by Liao (2005) and Schuler and Jackson (2014) indicated (i) cost reduction is associated with minimal risk and high stability, (ii) quality enhancement required modest amount of cooperation and intermediate observation; and (iii) innovation involved high risk which are addressed by creative solution and high level cooperation. Meanwhile, studies by Liao *et al.* (2017) reported organizational innovation is significantly mediated by organizational learning.

Despite the above mentioned findings suggest crucial association among competitive strategy and SME performance, Megicks (2007) observed a partial significant impact of retail business strategy on performance which derived from pursuing specialization, low cost and diversification. Meanwhile, Teeratansirikool *et al.* (2013) and Yuliansyah *et al.* (2017) reported partial significant impact of competitive strategy on firm performance stemmed from implementing cost-leadership strategy. As for Kaya (2015), cost leadership strategy is shown to have non-significant impact on firm performance.

In view of the above discussion, mixed findings can be observed between competitive strategy and organizational performance. This suggests the implemented competitive strategy is shaped by the objectives of the SMEs. However, the abovementioned findings mainly focused on the direct impact of

competitive strategy towards organizational performance. This suggests the strategic orientation of SMEs influence the implementation of organizational learning to increase the awareness of employees in terms of the main priorities. Thus, the study deemed competitive strategy to be appropriate mediator and proposed as below:

H2: Competitive strategy mediates the relationship between organizational learning and SME performance

2.4 Contingency Theory Concept

The contingency theory depicts organizational performance is determined by fit among organizational factors (Parisi, 2012). The application of contingency theory has been discussed within strategic management literature to provide an understanding towards organizational factors interdependencies in relation to how successful firms gained superior organizational performance (Blettner *et al.*, 2012; Fabi *et al.*, 2009). In this regard, this paper incorporated the contingency theory to expand the knowledge on the relationship between organizational learning and SME performance, with competitive strategy as the mediating variable.

Several findings have indicated such connections have enhanced the organizational performance. For instance, Twoney and Harris (2000) and Fabi *et al.* (2009) observed the fit between human resources and strategic capabilities enhanced the innovation. Similarly, findings by Liao (2005) detailed the combination of human resources and strategic capabilities emphasized on facilitating optimal performance. Additionally, past findings by L'Ecuyer and Raymond (2017) described the effectiveness and efficiency of business performance is derived from ensuring the employee's capability fits with the routines of business organizations.

Given the empirical support for contingency theory across various research settings, there is enormous diversity of approaches to achieve sustainability. Although one of the shortcomings of contingency theory is the assumption of a single structural design which best fits for achieving superior performance (Cadez & Guilding, 2012), the abovementioned past findings suggest the high level of fit is beneficial for SME performance. Therefore, this study addresses the limitation of contingency theory by incorporating competitive strategy as the mediator.

3.0 Methodology

This paper implemented probability sampling method to provide the sample population with a predetermined chance of being selected (Sekaran & Bougie, 2016). Based on the statistics by the Department of Economic Planning and Development (2017), the sampling population of the service-based SMEs in Brunei Darussalam totaled to 3,477. From this sampling population, the recommended sample size by Saunders *et al.* (2009) is 346 based on the confidence level of 95% and 5% margin of error.

The questionnaire survey, conducted between June 2018 and August 2018, was distributed personally by the researcher to 346 service-based SMEs in Brunei Darussalam. Of the 346 distributed questionnaires, 275 questionnaires yielded valid responses which contributed to this study with the response rate of 79.5%. The questionnaire survey incorporated Likert scale to analyze favorable and unfavorable attitudes from respondents (Creswell, 2012). This serves as measurable behavior towards the research concept (Sekaran & Bougie, 2016) by explaining the relationship between the variables.

This study considers organizational learning, competitive strategy and SME performance as unidimensional variable. Such decision allows this paper to achieve parsimony in the variables by integrating disjointed areas into a clear pack (Blalock, 1979; Kura *et al.*, 2015). Therefore, this paper incorporated SME performance variables from Gates and Langevin (2010) and Huang (2001); organizational learning from Garcia-Morales (2006) and Tamayo-Torress (2016); and competitive strategy from Huang (2001) and Liao (2005).

The Structural Equation Model (SEM) was utilized for data analysis, using the SMART PLS 3.0 software. The SEM is advantageous for identifying measurement errors from the observed variables, depicting the relationship between multiple variables, incorporating unobservable variable which are measured indirectly, assessing load values in the construct and testing hypotheses (Hair *et al.*, 2011; Ringim & Reni, 2018).

The explicit model is specified as:

$$SMEP_{i,t} = \alpha_0 + \beta_1 CS + \beta_1 OL + \varepsilon_{i,t} \dots \dots \dots (1)$$

Where:

$SMEP$ = SME performance

CS = Competitive strategy

OL= Organisational learning

β_1 , = the coefficient of the variables, and

$\varepsilon_{i,t}$ = the random disturbance term

4.0 Results and Findings

4.1 Assessment of Measurement Model

Following the measurement model assessment, the composite reliability (CR) values for the variables, which ranged between 0.873 and 0.917, are above the required value of 0.7 (Hair *et al.*, 2011; Ringim & Reni, 2018). As such, this study has achieved satisfactory internal consistent reliability and Figure 1.0, illustrates the reliability and validity results

Secondly, the indicator reliability was assessed by evaluating the outer factor loadings. Although majority of the results has satisfied the required loading value of 0.70 (Hair *et al.*, 2011), items such as CS05 (0.694), CS06 (0.610), SMEP04 (0.587), SMEP05 (0.613), SMEP07 (0.539) and OL03 (0.674), were the suggested loading value. However, Hair *et al.* (2011) assured factor loadings which are below 0.70 can be used for analysis if the CR value is above 0.70. In view of this, items with loading value less than 0.70 are used for further analysis since the CR value requirement has been satisfied.

Thirdly, the convergent validity was tested by examining the average variance extracted (AVE). The AVE value, which ranged between 0.502 and 0.679 are higher than required value of 0.50 (Hair *et al.*, 2011; Ringim & Reni, 2018). Hence, the convergent validity of this study has been satisfied.

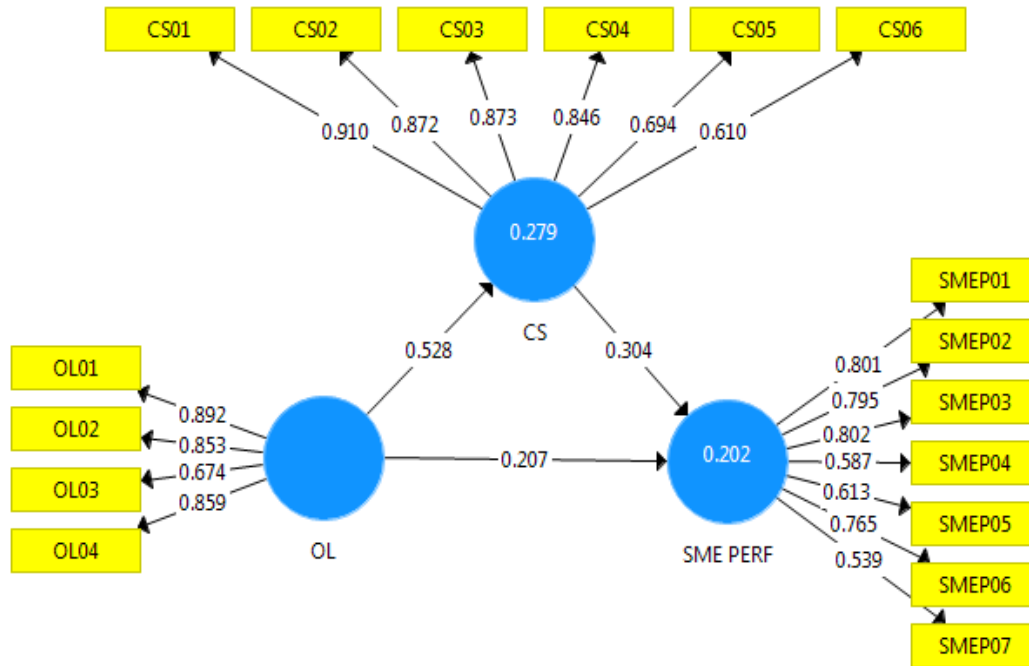


Figure 1.0: Measurement Model

The appropriateness of the measurement model being established, this paper proceeds with the discussion of the structural model in the following section.

4.2 Evaluation of Structural Model

The structural model of this paper, illustrated as Figure 2.0, was examined in relation to the structural path coefficient (β) and effect size (f^2). As such, this paper followed the recommendation by Hair *et al.* (2011) and Ringim and Reni (2018) by setting the bootstrap samples of 5,000.

This paper hypothesized organizational learning to yield significant positive impact on SME performance. Following the structural model evaluation, organizational learning is shown to have significant positive impact on SME performance ($\beta = 0.207$, $t = 2.843$, $p < 0.004$). Hence, H1 is supported. The impact of organizational learning on SME performance can be assessed based on the effect size (f^2), in which, the f^2 values are interpreted as small (0.02), medium (0.15) and large (0.35) respectively (Ringim and Reni, 2018). Following this benchmark, extent of result

of organizational learning on SME performance is determined to be small at 0.039. This means the significant impact of organizational learning on SME performance is considered to be minimal.

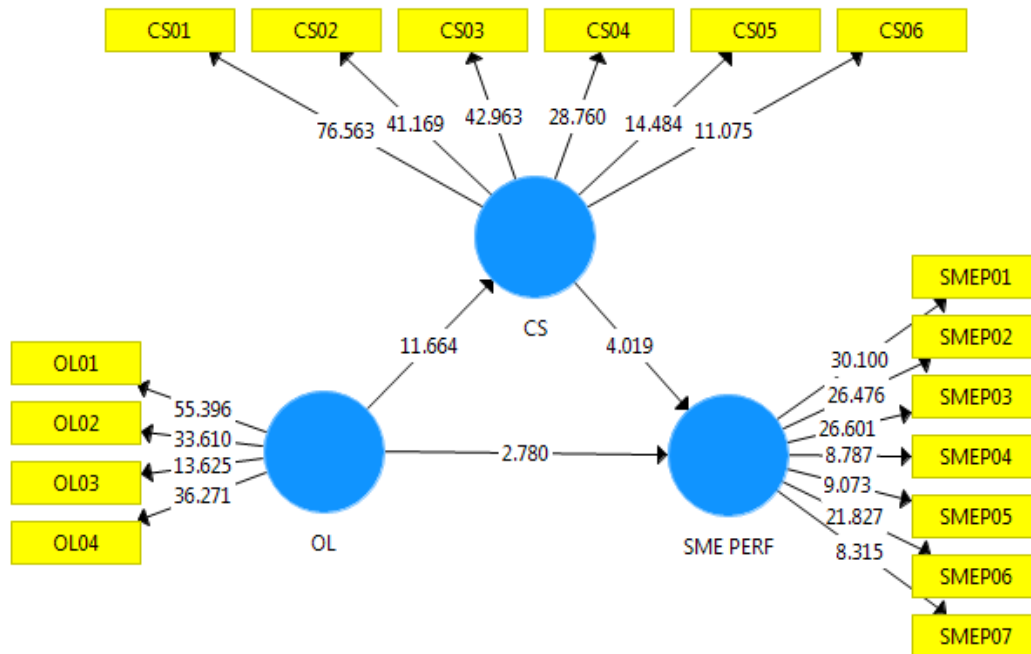


Figure 2.0: Structural Model

After the significant connection among the variables has been recognized, this study proceeds with the mediation test. This paper followed the suggestion by Ringim and Reni (2018) by incorporating the Preacher and Hayes test to analyze the mediating effect of competitive strategy on organizational learning and SME performance.

As suggested by Ringim and Reni (2018), this paper maintains the bootstrap sample of 5,000 to ensure the mediating effect has maintained the normal distribution (z) of ± 1.96 and significant p -value of $p < 0.05$. The mediation result indicated the indirect effect exceeded the standard normal distribution and p -value requirements with $z = 4.2206$ and $p = 0.0000$ respectively. Thus, H2 is supported.

The mediation analysis established the impact of organizational learning on SME performance is eased by competitive strategy suggesting the strategic resource of SME becomes valuable when leveraging the knowledge of employees based on the strategic needs to outsmart competition (Sanchez *et al.*, 2015; Yanuarti & Murwatiningsih, 2019). Therefore, competitive strategy sets the conditions which enable the relationship between organizational learning and SME performance.

5.0 Conclusion

This study investigated organizational learning and performance of service-based SMEs in Brunei Darussalam using competitive strategy as a mediator. In doing so, this paper has made a few contributions to the current literature. This paper presents and verified the mediating impact of competitive strategy in the relationship between organizational learning and SME performance within the context of service-based SMEs in Brunei Darussalam.

Competitive strategy is introduced as the mediating variable due to its purpose of directing organizational factors towards achieving sustainable competitive advantage (Parnell *et al.*, 2015; Smith *et al.*, 2019). The connection amid learning and keenness has been intensified with the development to the prominence of resource-based view of the firm (Wenerfelt, 1984; Barney, 1991; Grant, 1991) to challenge the traditional dominance of the industry-organization perspective. This reflects the notion of building strategy on core competencies (Prahalad and Hamel, 1990) by attributing the aspects of organizational learning to facilitate knowledge accumulation and to motivate employees towards exchanging ideas (Tam and Gray, 2016; Tamayo-Torress *et al.*, 2016). This is due to the effectiveness of organizational learning in SMEs, derived from achieving fit with the appropriate competitive strategy, reduces the chance of accumulated knowledge being replicated (Gruber *et al.*, 2010). Hence, it is only then SME owners/managers can facilitate favorable organizational learning environment which is compatible with the competitive strategy for achieving superior SME performance.

The findings of this paper are in accordance to the contingency theory by establishing competitive strategy to have mediating impact on the relationship between organizational learning and SME performance. Contingency theory depicts the level of organizational performance is determined by fit among organizational factors (Parisi, 2012). The generic strategy has suggested the reliance on mixed strategy to gain sustainable competitive advantage (Kaya, 2015). This is granted that none of the competitive strategy is universally superior and the

benefits from the implemented competitive strategy derived from the current business environment (Prajogo, 2016; Zakaria *et al.*, 2016). In doing so, this enables the SMEs to create a hybrid strategy which offset any incompatible characteristics trade-off (Cadez & Guilding, 2012; Parnell *et al.*, 2012). In other words, the combination of organizational learning and competitive strategy within one SME may not be appropriate for another SME due to the differences in overall objectives. Given the obtained findings and discussion, this study can conclude that the SMEs is said to have achieve fit when the implementation of organizational learning.

However, this paper is not without any limitations. It can be argued that there are other possible combinations of organizational factors which can yield superior SME performance. Future studies should consider different combinations to gain further insights. This study affirmed the unidimensionality of organizational learning, competitive strategy and SME performance. This can assume that organizational learning and competitive strategy is ideal for every type of situations. The SMEs differ in terms of their objectives resulting in requiring specific learning capabilities and resources. This can be addressed by identifying and validating which aspects of these variables yield better performance to further support the concept of contingency theory. The paper suggests a longitudinal study to check the current status of the variables.

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