

INFLUENCE OF ORGANIZATIONAL LEARNING ON PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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Abstract: The performance of listed firms is critical to economic growth and development. This however has not been the case to some of the listed firms at Nairobi Security Exchange (NSE) where firms have been recording losses and declined profit margins. This is alarming to both investors and the economy at large where declining firm performance signifies loss in revenues for the investors, job losses for employees, reduced foreign direct investments (FDI) and reduced tax collections for the government. While tough economic conditions and volatile operating environment have been blamed for the poor performance of firms, it raises questions on why some of the listed firms are still doing better hence the need to understand the underlying internal factors. Organizational learning has been termed as a key aspect in determining the performance of firms in the modern business World. Organizational learning is the process of aligning the right skills, competencies, knowledge and capabilities to enable the organizations to cope with the modern dynamics and steer performance. This study sought to establish the relationship between organizational learning and performance of listed firms at NSE. Descriptive research design was used while the 64 listed firms at NSE were targeted. A census was applied where all the firms were surveyed while 4 employees at management level were purposively selected from every listed firm. The main data collection instrument for primary data was a structured questionnaire. Data analysis was done using descriptive statistics where frequencies, percentages mean and standard deviation were computed based on the research questions. The findings revealed that organizational learning significantly and positively influenced firm performance. The study concluded that organizational learning through group level, individual level and organizational level played a critical role in steering the performance of the listed firms. The study recommended that firm managers should take effectively embrace organizational learning through employee training and encouraging teamwork as a firm performance strategy.

Keywords: Organizational learning, organizational performance, listed firms, Nairobi Securities Exchange.

1. INTRODUCTION

To remain viable in an environment characterized by uncertainty and change, organizations and individuals alike depend upon an ability to learn (Edmondson & Moingeon, 1998). Organization learning is a dynamic process of creation, acquisition, and integration of knowledge aimed at the development of resources and capabilities that contribute to better organizational performance (Lopez, Peon, & Ordas, 2005). Through learning, organizations can adapt to the environmental constraints, avoid the repetition of past mistakes and preserve crucial knowledge that might otherwise be lost. To cope with the 21st century dynamics in the business operating environment, modern companies ought to learn by acquiring new knowledge and skills that will improve their existing and future performance (Shi, Sheng, & Liu, 2013). In fact, it is proposed that the only competitive advantage the company of the future will have is the ability of its managers to learn faster than the competitors. Many other researchers suggest that the effective strategy for sustaining and improving a firm's competitive edge and performance is organizational learning (Bolivar-Ramos, Gracia-Morales, & GarciaSanchez, 2012). The organizational learning processes emphasize the individual or group involvement, interactions, participation and networking.

Organizational learning as an internally dynamic process within an organization aims to create organizational knowledge and integrate resource capabilities. It mainly focuses on creating knowledge, knowledge acquisition and other cognitive

process. Organizations are becoming important partners in this learning society (Sambrook & Stewart, 2000). Appelbaum and Reichart (1998) view the organization as a learning system and focus on three key characteristics of a learning organization. They are the learning process, the learning orientation, and the facilitating factors within the organization. Organizations provide both formal and informal processes and structures for acquisition, sharing and use of knowledge and skills. Learning is no longer regarded solely as a classroom activity. It is necessary to enable employees to become more proficient at a certain task by focusing more on the learning orientation of an organization. Moreover, more resources should be put on the facilitating conditions such as communication platform and training programs for promoting organizational learning. Consequently, organizations are striving to create more opportunities for continuous employee learning, for instance, through teamwork, empowerment, and broader job structures and design (Arumugam, Iis, & Munusamy, 2015).

In order to better meet the rapid changes in technology and the business environment, learning is increasingly seen primarily as a continuous work-based activity for knowledge as a source of value, dynamic market place, increasing competition, greater customer demands, and easily imitable products/processes. Thus, employees need to learn or unlearn quickly in order to enable the company to sustain its competitiveness (Slater and Narver, 1995; Stata 1989; Senge, 1990; De Geus, 1988; Calantone, Cavusgil, and Zhao 2002). This will help these individuals identify innovative ways of working and make it easier to adopt new technology, which in turn permits the organization to differentiate from its competitors.

Organizational performance is an aspect that focuses on the need for organizations to improve their value. There are several dimensions of organizational performance. One is the financial performance. This is a way to satisfy investors profitability, growth in asset size and market value (Cho & Pucik, 2005). These three aspects complement each other. Profitability measures a firm's ability to generate returns (Miller, Washburn & Glick, 2013), growth in asset size demonstrates a firm's ability to increase revenue generation (Whetten, 1987). Increasing in size, even at the same profitability level, indicates, increase in absolute profit and cash generation capacity. In addition, a large-sized entity precipitates economies of scale and market power, leading to enhanced future profitability. Market value represents the external assessment and expectation of firms' future performance. It has a correlation with historical profitability and growth levels, but also incorporates future expectations of market changes and competitive moves.

The Nairobi Securities Exchange (NSE) is Africa's fifth largest securities exchange in terms of market capitalization as a percentage of Gross Domestic Product (GDP); which stood at 25% as at 2009 and 31% in 2012; Kenya was ranked seventh behind South Africa (212%), Ghana (61%), Morocco (59%), Egypt (53%), Mauritius (55%) and Botswana (32%) (CMA Report 2008-2009, 2012). The country was placed fourth largest in terms of trading volumes in Africa (World Bank, 2012). The NSE facilitates the Kenyan economy by creating an enabling environment for intermediation of scarce financial resources to investment in productive enterprises. The paper focused on NSE listed firms because these firms have well-established formal structures and systems and in addition, their financial and operational data is publicly available.

Statement of the Problem

The listed firms play a critical role in enhancing the economic growth and development. Despite their immense role in the economy, the listed firms continue to face tremendous challenges with many firms getting delisted in the past decade. Between the year 2012 and 2016, 28% of firms listed at the NSE issued profit warnings. Inability of firms to sustain performance is a critical issue to the investors, the general public and the economy at large (McKinsey, 2011). Previous evidence has revealed that the ability of firms to overcome challenges arising from environmental dynamism, is driven by organizational learning which equips the employees and the management with the right skills to cope the over changing business World (Arumugam, Iis, & Munusamy, 2015). While organizational learning has been known to steer firm performance, there is no available literature to link organizational learning with performance of the listed firms at NSE. This paper therefore sought to fill the existing gaps by assessing the influence of organizational learning on the performance of listed firms at NSE.

2. LITERATURE REVIEW

Husein, Mohamad, Noordin, and Ishak (2013) carried out a study on the effect of organizational learning on organizational performance and organizational innovativeness. Their study focused on Malaysian public institutions of Higher Education. A descriptive research design was used and the findings revealed that organizational learning positively and significantly contributed to firm performance. According to Husein *et al.* (2013), through continued

learning and enhancement of knowledge and skills, employees gained more competence to be innovative thus steering organizational performance.

Kit-Yu (2007) did a study on the relationship between organizational learning and business performance of quantity surveying firms in Hong Kong. The scholar utilized multiple-linear regression method and established that under dramatic business environment, organizations should have capacity to learn faster than competitors in order to sustain its competitive advantage. Kit-Yu (2007) indicated that there was an association between organizational-level learning and performance. Individual-level learning contributes significantly to better business performance in private organizations as well. Moreover, provision of formal channels for sharing information at consultancy firms can help the implementation of organizational learning. However, the size and structure of organizational teams and the effectiveness of information & knowledge flow within an organization's ranks, are the potential factors obstructing organizational learning.

Torkestani, Mazloomi, and Haghigat (2014) studied the relationship between information systems success, organizational learning and performance of insurance companies. Their study sought to assess the role played by organizational learning in steering firm performance. They used a cross-sectional research design and established that through enhanced learning in the organization, there was more operational efficiency thus enhancing performance. According to Torkestani *et al.* (2014), information acquisition, information distribution, information interpretation, and information memory processes through organizational learning, there is more professionalism which steers performance.

Theoretical Review

The study was informed by the learning theory and learning matrix theory. The learning theory was proposed by Thorndike (1911). The theory states that learning occurs if and only when the response has some "effect" upon the environment. When people receive the stimulus from the environment, then they would give the corresponding response. Learning involves ideas, appreciation of experience, awareness of logical relations, and so on. Thorndike put forward the 'law of effect' which posits that any behaviour that is followed by a pleasant consequence or outcome is likely to be repeated while on the other hand any behaviour followed by unpleasant consequence is likely to be stopped.

It is believed that organizational learning can improve business performance (Lopez, Peon & Ordas, 2005). According to Kit-Yu (2007), under a dynamic business environment, an organization should have capacity to learn faster than competitors in order to sustain its competitive advantage. Learning theory spells out how learning takes place and the essential components or drivers for learning. Stimulus and response are the two central ideas for creating learning. Thorndike (1911) and Guthrie (1935) are two popular theories that try to explain organizational learning.

The learning matrix theory defines organizational learning as the process of change in individual and shared thought and action, which is affected by, and embedded in the institutions of the organization (Crossan & Hurland, 1996; Senge, 1990; Huber, 1991). The Learning Matrix framework is premised on the understanding that organizational learning happens at three levels; individual, group and organization. Organizational learning is more complex than the sum of learning at the level of individual members. The Learning Matrix defines the organization level as the systems, structure, procedures, strategy, culture and other non-human organizational artefacts that are storehouses of learning. The organizational level embeds learning that flows from individual and group learning systems and procedures (Nemeth, 1997).

Conceptual Framework

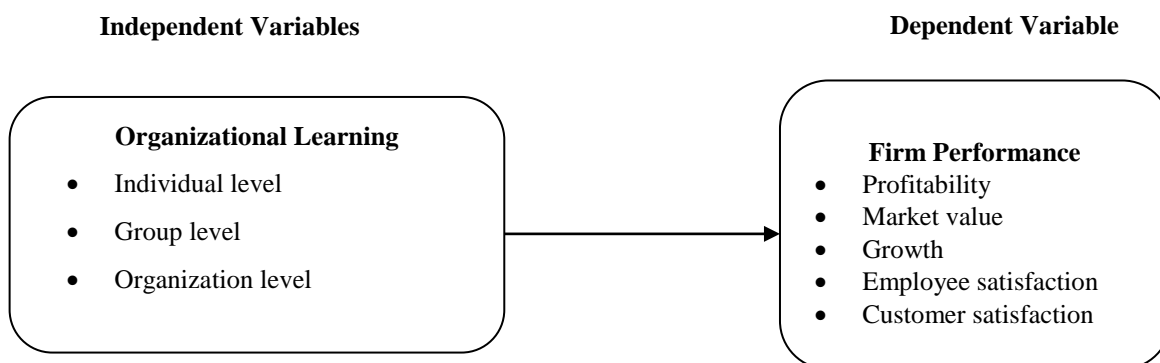


Figure 1: Conceptual Framework

3. RESEARCH METHODOLOGY

Descriptive research design was used. Descriptive survey research design is a systematic research method for collecting data using questions, observations, and interviews. It is a most popular and widely used non-experimental research design across multiple disciplines. Descriptive survey design seeks to portray accurately the characteristics of a particular individual, situation or a group (Orodho, 2003; Kothari, 2004). This research sought to present facts as they are and therefore descriptive research design that is confirmatory in nature is deemed most appropriate.

Population and Sampling

The target population for this study was firms listed at the NSE and were actively trading as at December 31st, 2015. The choice of NSE listed firms was informed by two main reasons one, there is a positive correlation between performance of listed firms and the performance of a national economy. The population for this survey was derived from the list of publicly quoted firms provided by Nairobi Securities Exchange and contained in the NSE Handbook 2013. There were 64 publicly listed companies. A census was used on the publicly quoted firms in the Nairobi Securities Exchange. According to the NSE Handbook, out of the 64 listed firms at the NSE only 58 were actively trading as at December 2017. These 58 firms formed units of analysis for this study. This research adopted a key informant approach meaning responses were solicited from individuals who have first-hand knowledge about each of the firms under study.

Data Collection and Analysis

A questionnaire was used to collect data for the study. The questionnaire was administered to senior executives preferably the chief executive officer and where not possible, general managers or senior executive directors from each of the listed firms.

Data analysis was subsequently conducted through a four-stage process; data coding and response analysis, descriptive analysis on demographics, confirmatory factor analysis and model development and testing, hypothesis testing.

Regression model was used in the study to test the hypotheses. Every independent variable was regressed with the dependent variable and the results presented using correlation (r), variance (ANOVA), regression (R^2) and regression coefficients.

4. FINDINGS

The study obtained a response rate of 75% (180 respondents) and the data used for analysis. This therefore makes the study appropriate to make conclusions and recommendations since according to Creswell (2005) and Kingslay (2012) a response rate of 30-60% in a study is adequate for making conclusions and recommendations.

Individual Level Learning

The study sought to find out the respondents' views on the level at which the organizational learning at individual perspective was done in their respective firms. Likert's scale questions were used whereby the respondents were asked to indicate their levels of agreement as shown in table 4.1. The respondents were requested to indicate whether they 'Strongly Disagree (SD)', 'Disagree (D)', 'Neutral (N)', 'Agree (A)', 'Strongly Agree (SA)' to various statements. The findings revealed that majority of the respondents agreed that individuals in their respective organizations had a clear direction of the work area as evidenced by a mean of 3.80 and a standard deviation of 0.71. The findings concur with the argument by Huber (1991) and Ashtari and Salehi-Sadaghiani (2014) that organizational learning starts at individual level and that not unless the individuals are ready to learn, the firm may not achieve the set goal of organizational learning.

Table 1: Agreement with statements on Individual level of Learning

Statement	SD	D	N	A	SA	Mean	Std. Deviation
Individuals in my organisation have a clear sense of direction of their work area	1.1	3.9	18.3	66.7	10.0	3.80	0.70
Individuals look for new and better ways to improve their work and are strongly encouraged to do so	0.0	3.3	11.7	36.1	48.9	4.30	0.80
Individuals in my organisation are empowered to scan the external environment for purposes of assessing risks and opportunities with a view of addressing them	1.7	3.9	24.4	58.9	11.1	3.73	0.77
Individuals clearly understand how their work contributes to the performance of the organisation	1.1	4.4	21.1	41.1	32.2	3.98	0.90

Group Level of Organizational Learning

The respondents’ views on their levels of agreement on specific statements on group level learning were sought. The findings as shown in table 2 revealed that on the first statement that working in groups had been institutionalized as the most effective way to implement and execute strategies across the organization, majority of the respondents agreed with the statement with a mean of 3.87 and a standard deviation of 0.97 while on the second statement that group decision making is an important step in making or effecting organisation wide changes, the respondents agreed with a mean of 3.80 and a standard deviation of 0.96. It was established that through working in the groups is the most ideal way innovative ideas arise that would not occur to any one individual, and that group dynamics encourage divergent views which enable an organisation to make the most appropriate and optimal decisions.

Table 2: Agreement Level with Group Learning Aspects

Statement	SD	D	N	A	SA	Mean	Std. Dev.
In my firm, working in groups has been institutionalized as the most effective way to implement and execute strategies across the organisation	0.6	10.0	21.1	37.8	30.6	3.87	0.97
In my organisation, group decision making is an important step in making or effecting organisation wide changes	0.6	10.0	25.0	37.8	26.7	3.80	0.96
The decisions made by the group are reflected in changes to organisational systems and procedures	1.7	8.9	18.3	40.6	30.6	3.89	0.99
Working in the groups is the most ideal way innovative ideas arise that would not occur to any one individual	2.2	6.7	21.7	40.0	29.4	3.87	0.98
Group dynamics encourage divergent views which enable an organisation to make the most appropriate and optimal decisions	2.2	5.0	12.2	45.0	35.6	4.06	.93

The findings compare with those by Richard *et al.* (2009) who found that as a measure of firm performance, learning could be enhanced by better strategies flowing from the groups which in many times tend to be more effective in promoting learning than an individual. From the responses, it is indent that organizational learning is a key driver of firm performance of NSE listed firms and that group based approach to organizational learning enhances the execution of organizational strategy, decision making and cultivation of innovativeness.

Organizational Level of Learning

The respondents’ levels of agreement on the statements regarding the organizational level learning in their respective firms were sought. The findings are as shown in table 3. The findings portray that majority of the respondents agreed that past success and past failures strongly inform the future strategy and that operational procedures and governance structures that are designed to support organisational learning.

According to Skerlavaj *et al.* (2007), the learning in an organization is mainly enhanced by the motive in availability of the systems and mainstreams to foster learning within the firm. Skerlavaj *et al.* (2007) contend that for learning to contribute to firm performance, it has to be allied with the firm itself where the learnt attributes are directly transformed to firm operations.

Table 3: Level of Agreement with Statements on Organization level of learning

Statements	SD	D	N	A	SA	Mean	Std. Dev.
Past success and failures strongly inform the future strategy	1.7	3.3	26.7	56.7	11.7	3.73	0.77
The operational procedures and governance structures are designed to support organisational learning	0.6	2.8	10.6	48.9	37.2	4.19	0.77
The firm’s management style strongly advocates for experimentation and innovation	0.0	11.1	22.8	35.0	31.1	3.86	0.98
The firm’s investment in knowledge is a critical success factor in the organisation	1.1	6.7	13.9	38.9	39.4	4.08	0.94
Firm leadership strongly believes in investing in learning is investing in a better future performance	0.6	8.3	15.0	40.6	35.6	4.02	0.94

The responses strongly indicate that past experiences influence present management style, formulation of operation procedures and ways of doing things and most importantly organizational structures that guide decision making. It also derives the proposition that organizational knowledge is a critical driver of organizational success.

Average Return on Equity (ROE) and Return on Assets (ROA)

The study sought to establish the performance of the firms in terms of ROA and ROE. The study found that majority of the firms (43.3%) had more than 25% growth rate of the Return on Equity while 13.9% of the respondents had below 5% growth rate in the ROE. On the other hand, majority of the firms (56.7%) had between 5 and 10% growth rate in the Return on Assets while 7.2% of the firms had a growth rate on ROA below 5%.

Table 4: Average Return on Equity and Return on Assets

ROE			ROA		
	Frequency	Percentage		Frequency	Percentage
Below 10%	16	8.9%	Below 5%	13	7.2%
10%-30%	139	77.2%	5-10%	102	56.7%
Above 30%	25	13.9%	Above 10%	65	36.1%
Total	180	100%	Total	180	100%

Firm Average Market Growth

The study sought to find out the Market share of the firms listed at the NSE. To address this, the respondents were asked to indicate the average growth in market share and number of times their respective companies carried out market research to ascertain the market share. The findings as shown in table 5 revealed that majority of the firms (62.2%) had a market share growth rate of between 3 and 10%. The findings showed that majority (52.8%) of the firms carried out market research to ascertain market share after every 5 years. The findings compare with those of Chong (2014) who found that market growth among modern organization is mainly below 10% especially in the already developed markets whereby aspects such as competition and increased costs of operation and new entrants make the market hard to capture.

Table 5: Market Share

Average Market Growth			Period of ascertaining Market Share Growth		
	Frequency	Percentage		Frequency	Percentage
Below 3%	11	6.1%	Every Year	24	13.3%
3%-10%	112	62.2%	After 3 Years	61	33.9%
Above 10%	57	31.7%	After 5 Years	95	52.8%
Total	180	100%	Total	180	100%

Market Capitalization

The respondents' views on market capitalization (market value) of their respective firms were sought. The findings revealed that majority (52.2%) of the firms had a growth rate in the market capitalization of between 3% and 10% while 42.8% had an average growth rate in the market capitalization above 10%. On the other hand, majority of the firms (79.4%) had dividend yield of between 3% and 10% as opposed to 8.9% who had a dividend yield of less than 3%. On the average growth of shareholders, the study revealed that majority of the firms (61.1%) had a growth rate above 5% of the shareholders while 8.3% had a shareholder growth rate below 3%.

Table 6: Market Capitalization

	Market Capitalization		Dividend Yield		Shareholder	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
Below 3%	9	5.0%	16	8.9%	15	8.3%
3%-10(5)%	94	52.2%	143	79.4%	55	30.6%
Above 10(5)%	77	42.8%	21	11.7%	110	61.1%
Total	180	100%	180	100%	180	100%

Inferential Statistics

The Structural Equation Modelling (SEM) was used to analyze the structural relationship between measured variables and latent constructs. Confirmatory Factor Analysis through SEM helps to confirm validity of underlying observable variables to the latent variables. The structural equation modelling on figure 2 revealed that individual level learning, group level learning and organizational level learning influences the performance of listed firms at NSE.

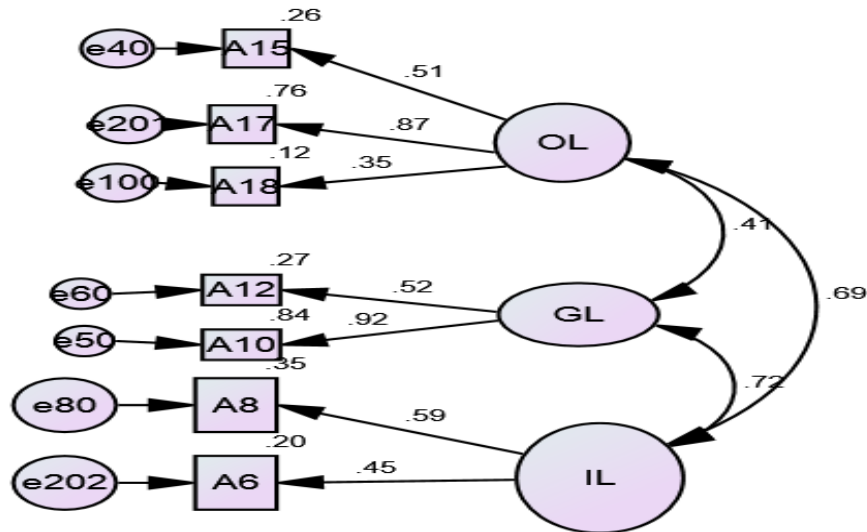


Figure 2: SEM on relationship between Organizational Learning and Firm Performance

Hypotheses Testing

H₀: There is no significant relationship between organizational learning and performance of firms listed at the NSE

The study sought to find out the relationship between the variable organizational learning and performance of firms listed at the NSE. A regression model of the form; $Y = \beta_0 + \beta_1 X_1$ was used to determine the relationship. The model summary results on table 6 reveal a correlation coefficient R value of 0.651 and a coefficient of determination R² value of 0.423 an indication that a unit change in organizational learning could explain up to 42.3% increase in firm performance.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.651 ^a	.423	.420	.25584

- a. Predictors: (Constant), Organizational learning
- b. Dependent Variable: Performance of firms listed at NSE

The ANOVA results on table 7 revealed that the F calculated was 130.745 and the P-value was 0.000 an indication that organizational learning significantly influences the performance of firms listed at the NSE.

Table 7: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.558	1	8.558	130.745	.000 ^b
	Residual	11.651	178	.065		
	Total	20.209	179			

- a. Dependent Variable: Performance of firms listed at NSE
- b. Predictors: (Constant), Organizational Learning

The findings from the regression coefficients as shown in table 8 revealed that at the coefficient of determination, 49.9% of the firm performance could be explained by a unit change in organizational learning as evidenced by the Beta coefficient of 0.499. With these results the null hypothesis that organizational learning has no influence on firm performance was rejected.

The model so derived was; $Y = 1.036 + 0.499X_1$. The findings also reveal that the P-value for organizational learning is 0.000 which is less than the standard p-value of 0.05 thus implying that organizational learning positively and significantly influences performance of firms listed at NSE.

Table 8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.036	.172		6.035	.000
Organizational Learning	.499	.044	.651	11.434	.000

a. Dependent Variable: Firm Performance

The study sought to prove the relationship between organizational learning and the performance of the firms listed at the NSE using the scatter plot diagram as herein shown on figure 3. The findings revealed that the scatter plots had a positive gradient an indication that organizational learning positively influenced the performance of firms listed at the NSE.

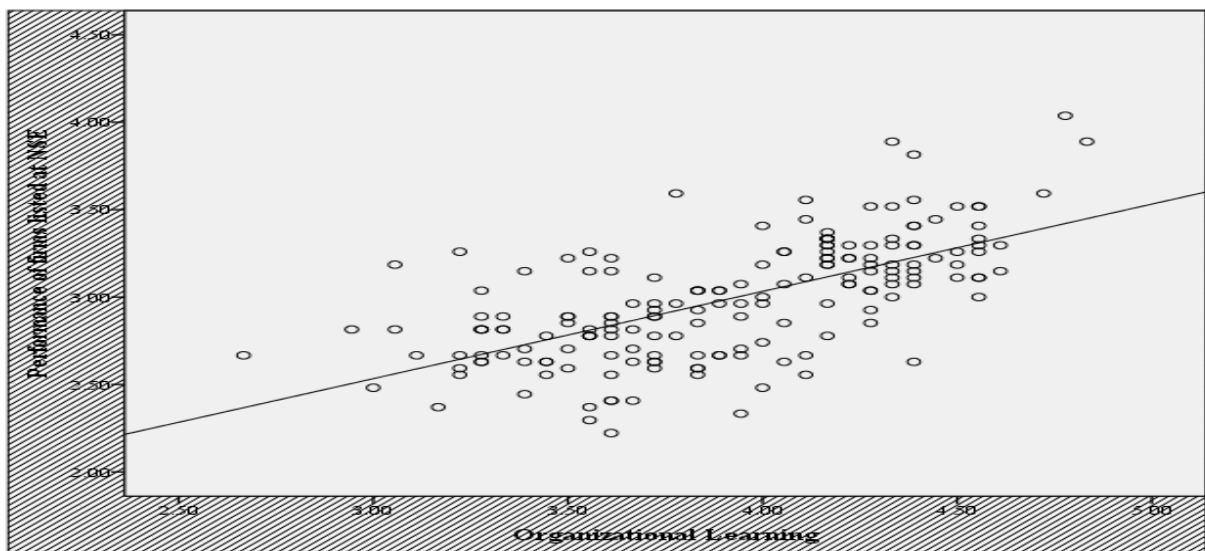


Figure 3: Scatter Plot; Organizational Learning

These findings agree with the findings of Namanda (2017) who studied the same relationship (influence of organisational learning on firm performance) for firms located in the Kenya’s Export Promotion Zone (EPZ). The conclusion of Namanda’s study was that, there was a positive and significant influence of organizational learning on non-financial performance measures. Similar findings by Amiri *et al.* (2010) argued that organizational learning improves business performance which can be explained by both financial and non-financial performance. Bontis, Crossan and Hulland (2002) concluded that organizational learning had significant and positive influence on organizational learning on mutual funds entities in Canada.

5. CONCLUSION AND RECOMMENDATIONS

The study concluded that learning at individual level had a positive impact on the performance of firms listed in the NSE through equipping the employees with the necessary skills to perform their daily roles. Through group level learning, firm performance is enhanced where tasks are performed more competently and collectively. Group participation in decision making and strategy execution cultivates organizational camaraderie and team cohesion that creates an environment for better firm performance.

Listed firms should focus on organizational learning by promoting employee training at the personal level, training and encouraging team participation in decision making. Firms should establish mechanism for documenting corporate learning and experiences for this can form a strong foundation for shaping future strategic initiatives. Organizational learning is a key ingredient in enhancing firm competitiveness which culminates in better firm performance.

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