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## **Impact of Organizational Learning on SME Performance: Mediating Effect of Competitive Strategy**

**Chin Han Wuen<sup>1</sup>, Fahmi Ibrahim<sup>2</sup>, Kabiru Jinjiri Ringim<sup>3</sup>**<sup>1</sup> School of Business, Universiti Teknologi Brunei, Brunei Darussalam  
hanwuen@gmail.com<sup>2</sup> School of Business, Universiti Teknologi Brunei, Brunei Darussalam  
fahmi.ibrahim@utb.edu.bn<sup>3</sup> ABU Business School, Ahmadu Bello University, Zaria, Nigeria  
kibirujinjiri@gmail.com

### **Abstract**

Organizational learning and competitive strategy in small and medium enterprises (SMEs) have been one of the most significant topics for discussion in academia. To further contribute to the discussion, the main objective of this paper is to investigate the impact of organizational learning on SME performance with competitive strategy as the mediating effect. From the population of 3,477 SMEs operating in service industry, 275 valid responses were collected from the questionnaire survey. The collected data was processed using Smart Partial Least Square (SMART PLS) – Structural Equation Modeling software to analyze the measurement model in terms of the reliability and validity of data, followed by structural model assessment, in which, the path coefficient for hypothesis testing was conducted. The results revealed that there are significant impact of organizational learning and competitive strategy on SME performance. Also, the competitive strategy has a significant mediating effect on organizational learning and SME performance in Brunei Darussalam. The conclusion of the findings suggests the organizational learning activities should compliment with the requirement of competitive strategy. In addition, the paper made recommendation for future research. Furthermore, this paper extends the knowledge of organizational learning by combining competitive strategy in SME performance with the use of SMART PLS analysis.

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

### **1 Introduction**

The Department of Economic Planning and Development Brunei (2012) stated one of the main objectives for Brunei Darussalam is becoming a sustainable economy with the gross domestic product (GDP) of 5.0% to 6.0%. However, the recent GDP for early 2019 in Brunei Darussalam is down to -1.2% (Trading Economics, 2019). To overcome this, the Brunei Government emphasized the importance of small and medium enterprises (SMEs) development

(Ministry of Finance, 2017). The development of SME is crucial for improve the country's economy (Ebben & Johnson, 2005; Garg & Goyal, 2012).

The business organizations adapted various strategies within business environment by combining different organizational factors (Simon & Hitt, 2009). According to the contingency theory, the key aspect for any business performance derived from the interdependence between organizational factors (Blettner et al., 2011). The level of fit between the organizational factors is essential for optimal business performance (Parisi, 2012). However, one of the shortcomings of contingency theory is the assumption of a single structural design which best fits for business organizations to achieve optimal performance (Cadez & Guilding, 2012). By reviewing past studies under SMEs context, it is possible to address the limitation of contingency theory.

There are various organizational factors within the SMEs which can be improved to adapt with the current business environment. For instance, organizational learning has a significant role in influencing the SME performance. Although organizational learning has been discussed in literature for decades, there is limited knowledge available under the SME context (Michna 2009; Tam & Gray, 2016). Majority of the organizational learning study is derived from large business organizations (Matthew et al., 2017). However, it is evident that organizational learning has a significant impact on SME performance (Hooi & Ngui, 2014; Liao, 2017; Michna, 2009). This is mainly attributed to the organizational learning activities involve knowledge management to adapt and survive in the business environment (Tam & Gray, 2016).

The competitive strategy is another organizational factor which influences the SME behavior (Kerr & Jackohsky, 1989). A competitive strategy is considered as a set of commitments and actions integrated by business organizations by exploiting the core competencies to achieve competitive advantage (Liao, 2005). This depict the competitive strategy reflects the belief of business organizations to compete with the business rivals. However, Blackburn et al. (2013) observed the SMEs implement flexible and unconstrained competitive strategy rather than formal competitive strategy. Past findings from Liao (2005) and Schuler and Jackson (2014) supported this observation by highlighting the requirement of competitive strategy should be complimented with the organizational factors to achieve the full effect of competitive strategy. A further insight is required to understand how SMEs implement such competitive strategy to yield successful results.

It is beneficial for SME leaders to invest resources in organizational learning and support the requirement of competitive strategy. The ability to adapt with the business environment changes is an important characteristic found in successful business organizations (Chaston et al., 2001). However, the main problems associated with organizational learning activities include maintaining balance in exploiting knowledge as well as pursuing and developing new ideas (Barlow & Jashapara, 1998). In addition, it is interesting to investigate how SMEs implement a mixture of competitive strategy to adjust with the globalized business environment. From these arguments, this paper addresses the core question of "To what extend does organizational learning impact the SME performance with competitive strategy as the mediating variable".

## **2 Literature review**

### **2.1 SME performance concept**

The SME performance can be identified as the past, present and future achievement of the business organizations (Wandongo & Abel-Kader, 2014; Yousaf & Majid, 2016). In addition, these accomplishments can be assessed based on their efficiency and effectiveness (Gharakhani & Mousakhani 2012; Radnor & Barnes, 2007). These can be operationalized as financial indicator and non-financial indicator (Gharakhani & Mousakhani, 2012; O'Regan & Ghobadian, 2004; Saunila, 2016). Many researchers have identified various types of financial and non-financial indicator to evaluate the firm performance.

Past studies have implemented different types of measurement indicators to reflect the organizational performance. The implemented measurement indicators allow the business organizations to benchmark their performance. For instance, Fabi et al. (2009) and Hargis et al. (2011) assessed the organizational performance based on sales growth and return on equity as the financial indicators, while productivity, employee turnover rate and quality improvement as the non-financial indicators. Hooi and Ngui (2014) utilized similar financial and non-financial indicators to examine the impact of human resource management and organizational learning towards the organizational performance. In addition, L'Ecuyer and Raymond (2017) utilized operation cost as financial indicator, whereas the non-financial indicator being productivity, production efficiency and employee turnover rate to assess the organizational performance. This implies different business organizations utilized different indicators to assess their performance. Based on these indicators, this paper can assess the level of SME performance based on the financial and non-financial indicators.

Many researchers have highlighted how the SMEs operate differently from their large counterparts. For instance, Marlow (2000) and Dutot et al. (2014) described the key SME characteristics derived from informal learning, employing generalist and the ideology of the SME owners. Furthermore, Dutot et al. (2014) and Rodriguez-Gutierrez et al. (2015) reasoned for such behavior is attributed to the lack of resources, non-bureaucratic management structure and less management complex skills. This implies the majority of the SMEs have similar level of performance.

As a result, many SMEs are encountering similar problems (Peteraf & Bergen, 2003). According to Garengo and Bernadi (2007), the poor strategic planning and lack of formalized decision making processes the result of the SMEs reactive behavior. This can be attributed to the lack of ideal management system for SMEs to perform optimally (Dutot et al., 2014). To address this problem, this paper investigates the impact of organizational learning and competitive strategy on SME performance.

### **2.2 Organizational learning concept**

There are various definitions for organizational learning. Chiva-Gomez et al. (2003), Hooi and Ngui (2014) and Liao et al. (2017) defined organizational learning as the process of acquisition, sustaining and changing of knowledge shared by a group of people through cultural devices and

collective actions. Similarly, Chiva et al. (2007) and Ho et al. (2013) described organizational learning by highlighting the importance of facilitating learning process as well as processing knowledge to adapt with the fast-paced changing business environment. Furthermore, Tan et al. (2014) stated organizational learning as the development process for new knowledge which influences the behavior of the business organizations.

Although various definitions have been identified, the aspect of knowledge acquisition through learning process can be derived as the key concept of organizational learning. Chiva-Gomez et al. (2003) and Hooi and Ngui (2014) further reasoned organizational learning being a dynamic process which is shaped from the structural and social context of the business organizations. Martin (2001) described organizational learning as an essential process which allows the SMEs to cope with open-ended changes for experiencing growth. This is attributed to the process of frequent configuration to reinvent new capabilities for achieving competitive advantage (Ho et al., 2013).

The level of organizational learning within the SMEs reflects their internal development for new systems, structures and learning condition to improve performance (Tam & Gray, 2016). However, Michna (2009) and Tam and Gray (2016) observed non-systematic and inconsistent form of learning practices being a common phenomenon for the SMEs. This implies the difficulty in identifying key learning process which allows SMEs to develop a systematic organizational learning process. However, various past findings dictated organizational learning being significant towards SMEs performance.

Michna (2009) observed organizational learning having positive correlation to SME performance as the result of the collaboration and team learning, leader's attributes and empowerment of employees. Similarly, past findings by Hooi and Ngui (2014) supported this observation by reporting a strong organizational learning exerts significant effect on SME performance. Furthermore, past findings by Liao et al. (2017) reported organizational learning enhances organizational innovation by guiding the key individuals through learning changes, organizational legitimacy, administrative support and training tools.

These past findings suggested the level of organizational learning is crucial for SMEs. Ho et al. (2013) justified these findings by highlighting participative decision making, honest interaction and system perspective as important dimensions of organizational learning to enhance SME performance. Matthews et al. (2017) further clarified the improvement process resulted from organizational learning is derived from the contribution of key individuals and management support towards problem solving process as well as establishing formal organizational procedures. As a result, this determines how organizational learning capability and commitment determines the overall SME performance. Thus, this paper hypothesizes the following:

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

### **2.3 Competitive strategy concept**

Competitive strategy is defined as the strategic ideal articulated within the business organizations to achieve the main objectives (O'Regan & Ghobadian, 2004). Liao (2005) explained competitive strategy as a set of coordinated commitment to achieve competitive advantage. As for Parnell (2011) and Shavarini et al. (2013), competitive strategy is described as the formulated plan outlined by the business organizations to compete in the market industry for achieving the main objectives. Similarly, Teeratansirikool et al. (2013) identified competitive strategy by highlighting the set of decisions implemented by the business leaders for achieving superior business performance. According to these definitions, it can be summarized that competitive strategy is a set of coordinated and comprehensive plan formulated for gaining competitive advantage to achieve the main objectives. In other words, the main function of competitive strategy is guiding the business organizations towards the intended objectives.

The SMEs adapt with the globalized business environment by implementing a mixture of competitive strategy which consist of cost reduction, superior quality and innovative flexibility (O'Regan & Ghobadian, 2004). Parnell et al. (2012) further explained the selection of competitive strategy ranged from being focus-orientated to being niche market. The combination of competitive strategy can result in a hybrid strategy which offset any incompatible characteristics trade-off (Cadez & Guilding, 2012; Parnell, 2011; Parnell et al., 2012).

Additionally, organizational learning capability must compliment to a particular competitive strategy to support the flexibility of the business organizations by achieving a dynamic attribute (Chaston et al., 1999). This is supported by past findings from Ebben and Johnson (2005) which reported SMEs utilizing a combination of competitive strategy to achieve superior performance, albeit addressing short-term problem, which in turn, can be counterproductive in the long run. Furthermore, Liao (2005) and Schuler and Jackson (2014) reported (i) the cost reduction supported is by repetitive behavior, low level of risk taking and high stability; (ii) the innovation strategy is supported by creative behavior, high level of cooperation and high level of risk taking; and (iii) quality enhancement is supported by relatively repetitive behavior; intermediate perception, modest amount of cooperation and low level of risk taking. Similarly, Liao et al. (2017) observed organizational learning has a mediating effect on organizational innovation. Therefore, these past findings depicted the competitive strategy has significant impact on SME performance as well as mediate the relationship between organizational learning and SME performance. Thus, this paper hypothesizes the followings:

**H2:** Competitive strategy has a significant impact on SME performance

**H3:** Competitive strategy mediates the relationship between organizational learning and SME performance

### **2.4 Contingency theory concept**

The concept of contingency theory focuses on how business performance is determined by the level of fit among the organizational factors (Parisi, 2012). This opens the possibility of the analysis of fit among different combinations of organizational factors for adapting the business

environment (Simon and Hitt, 2009). Furthermore, the concept of fit is frequently discussed in strategic management topics by understanding the complex interdependencies between organizational factors in relation to firm performance (Blettner et al., 2011). However, one of the shortcomings of contingency approach is the assumption of a single structural design which best fits for optimal performance (Cadez & Guilding, 2012).

The contingency theory allows the researchers to better understand how successful firms achieved competitive advantage by complementing the requirements of the organizational factors to achieve high level of fit (Fabi et al., 2009). Several findings have indicated such connections which enhanced the organizational performance. For instance, Twoney and Harris (2000) and Fabi et al. (2009) observed how the fit between human resources with strategic capabilities of firm enhanced the innovation aspect of organizational performance. Furthermore, Liao (2005) reported similar findings by highlighting the combination are not exclusive but rather aim to facilitate optimal organizational 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, beliefs and tradition of business organizations.

Although the contingency theory has been criticized for the lack of empirical evidence, the past findings suggest the level of fit is beneficial for SME performance. Based on these discussions, this conceptual framework is developed and illustrated as Figure 1 which fits the purpose of this paper.

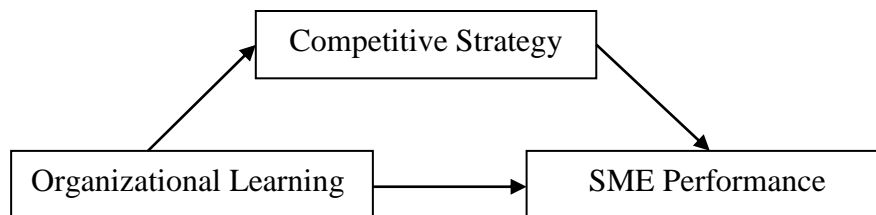


Figure 1  
*Conceptual framework*

### 3 Methodology

This paper conducted an exploratory study to understand and explain the current research phenomenon. The main objective of an exploratory study is providing insights for researchers to assess the research phenomenon (Saunders et al., 2009) and investigating a research area with limited information (Psychogios et al., 2016). An exploratory study is considered appropriate for this paper due to the argument of limited organizational learning and competitive strategy information found in the SMEs context.

This paper implemented probability sampling method, in which, the sample population has an equal chance of being selected (Sekaran & Bougie, 2016). According to the recent statistics by the Department of Economic Planning and Development (2017), the sampling population of the



SMEs service industry in Brunei Darussalam consisted of 3,477. Based on this sampling population, Saunders et al. (2009) recommended the sample size of 346.

The questionnaire survey was conducted to collect data for developing descriptive and inferential statistics to explain relationship among the variables (Sreejesh et al., 2014). The questionnaire were distributed by the researcher to 346 SMEs, in which, 275 questionnaires provided valid responses. This contributed to a high responses rate of 79.5%.

Additionally, the questionnaire survey provided insights on the SME performance level, the level of organizational learning and competitive strategy implemented in the SMEs in Brunei Darussalam. This is conducted by implementing the Likert scale to analyze favorable and unfavorable attitudes derived from equal intervals by the respondents (Kothari, 2004; Creswell, 2012). This serves as observable and measureable index to assess the behavior towards the research concept (Sekaran & Bougie, 2016).

#### **4 Results/Findings**

This paper utilized the SMART PLS 3.0 software to conduct the Structural Equation Model (SEM) for analyzing the data. Hair et al. (2011) and Ringim and Reni (2018) stated that SEM is advantageous in analyzing complex model by indicating the measurement errors of the observed variables, illustrating the relationship among multiple variables, including unobservable variables which are indirectly measured, assessing loading of observed items on the construct and testing hypotheses with empirical data.

##### **4.1 Assessment of measurement model**

The reliability and validity of the variables were evaluated through the measurement model. This involved the assessment of internal consistency reliability, indicator reliability, convergent validity and discriminant validity (Hair et al., 2011; Ringim & Reni, 2018; Sabiu et al., 2019). The full measurement model is illustrated as Figure 2 and Table 1 respectively.

The internal consistent reliability was assessed based on the composite reliability (CR) coefficient. The CR values for all the variables ranged between 0.873 and 0.917, which is above the requirement value 0.7 (Hair et al., 2011; Ringim & Reni, 2018). This means a satisfactory internal consistent reliability has been achieved.

The outer factor loadings were evaluated for indicator reliability, in which, the majority result has met the requirement factor loading value of 0.70 (Hair et al., 2011). Although some items, such as CS05 (0.694), CS06 (0.610), SMEP04 (0.587), SMEP05 (0.613), SMEP07 (0.539) and OL03 (0.674), were below the recommended 0.70, Hair et al. (2011) argued that any factor below 0.70 can still be used for analysis when the CR values are above 0.70. Therefore, items with factor loading below 0.70 remained useful for further analysis due to the CR values being above 0.80.

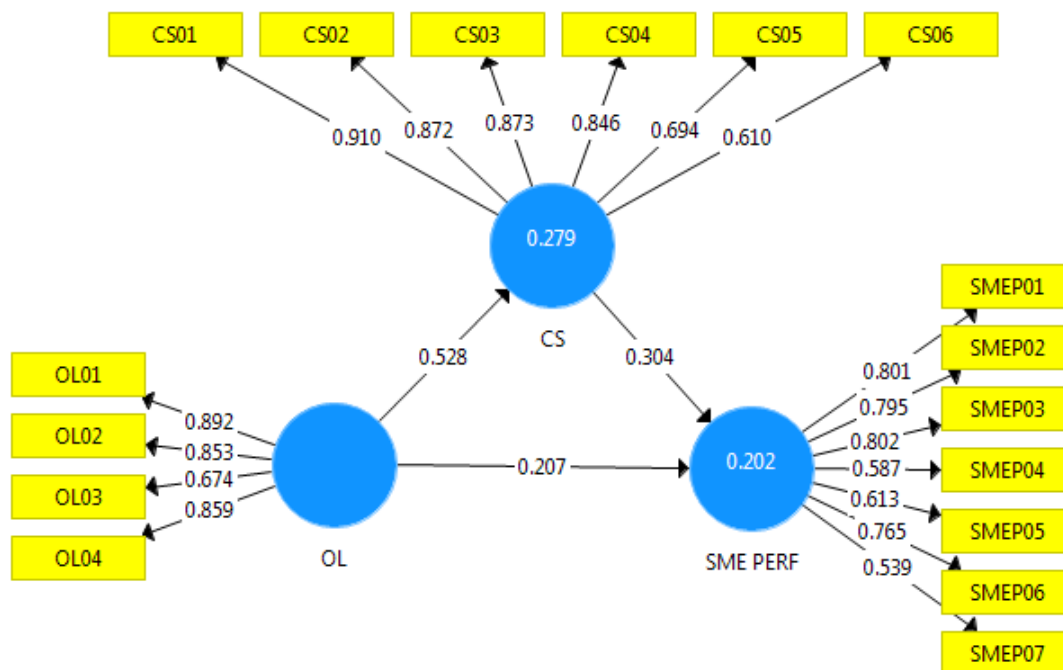


Figure 2  
Measurement Model

Table 1  
Measurement model results

Variable Items	Factor Loadings			rho_ A	CR	AVE
	Competitive Strategy	SME Performance	Organizational Learning			
CS01	0.910			0.897	0.917	0.653
CS02	0.872					
CS03	0.873					
CS04	0.846					
CS05	0.694					
CS06	0.610					
SMEP01		0.801		0.845	0.873	0.502
SMEP02		0.795				
SMEP03		0.802				
SMEP04		0.587				
SMEP05		0.613				
SMEP06		0.765				
SMEP07		0.539				
OL01			0.892	0.841	0.893	0.679
OL02			0.853			
OL03			0.674			
OL04			0.859			



Finally, the discriminant validity is evaluated by using the Fornell-Larcker criterion. The requirement of the Fornell-Larcker criterion is met when the square root of AVE value is above any other variables (Hair et al., 2011; Ringim & Reni, 2018). The result, illustrated in Table 2, shown an adequate discriminant validity has been achieved due to the square root of the AVE being above the correlation among the constructs.

Table 2  
*Fornell-Larcker Criterion*

	Competitive strategy	Organizational learning	SME Performance
Competitive strategy	0.808		
Organizational learning	0.528	0.824	
SME performance	0.413	0.368	0.708

#### 4.2 Evaluation of structural model

Once the appropriateness of the measurement model was established, this paper evaluated the structural model based on the structural path coefficient ( $\beta$ ) and effect size ( $f^2$ ) (Sabiou et al., 2019). This involved the bootstrap samples of 5,000, which was recommended by Hair et al. (2011) and Ringim and Reni (2018). The full result of the structural model is illustrated as Figure 3 and Table 3 respectively.

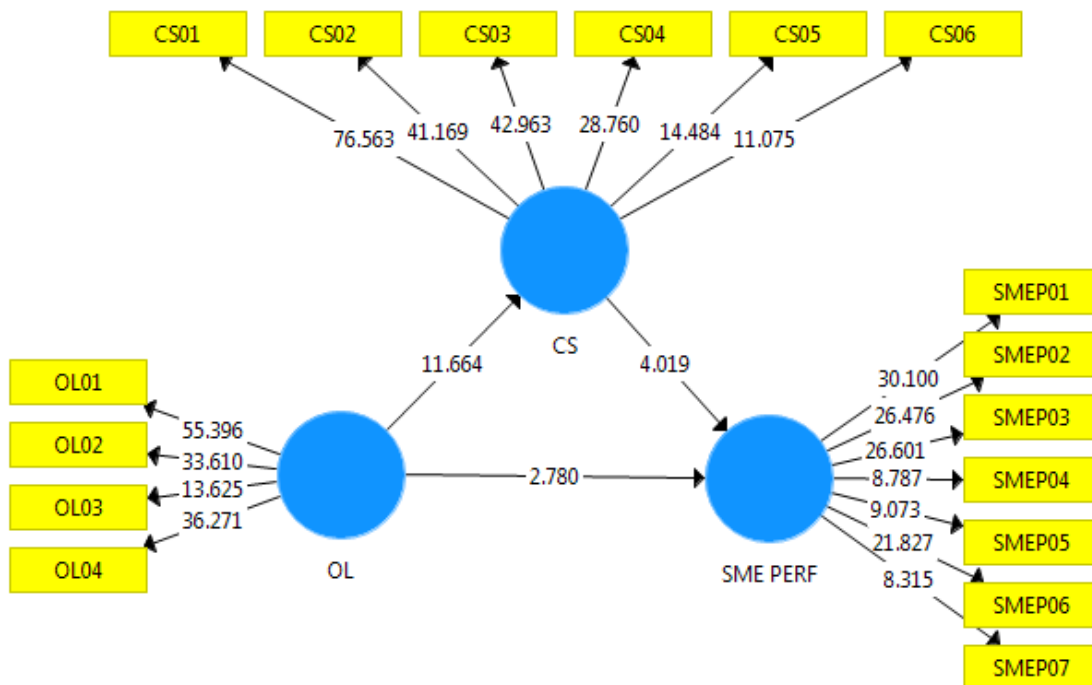


Figure 3  
*Structural model*

Table 3

*Structural model results (Direct effect)*

Hypothesis	$\beta$	Standard Deviation	t-stat	p- value	Findings
OL $\rightarrow$ SME Performance	0.207	0.073	2.843	0.004	Supported
CS $\rightarrow$ SME Performance	0.304	0.076	3.978	0.000	Supported

The paper hypothesized that organizational learning and competitive strategy have significant impact on SME performance. Based on the result in Table 3.0, both of the hypotheses were supported by using the significant level of  $p < 0.01$  (Ringim & Reni, 2018). Organizational learning has a significant impact on SME performance ( $\beta = 0.207$ ,  $t = 2.843$ ,  $p < 0.004$ ). Additionally, competitive strategy has a significant impact on SME performance ( $\beta = 0.304$ ,  $t = 3.978$ ,  $p < 0.000$ ). Therefore, H1 and H2 are supported.

After the significant impact of organizational learning and competitive strategy on SME performance have been established, the paper began addressing the mediation effect of competitive strategy within the relationship between organizational learning and SME performance.

Ringim and Reni (2018) recommended Preacher and Hayes methods of mediation analysis by using the Sobel test approach. Ringim and Reni (2018) further explained Sobel test approach is executed with the bootstrap sample of 5,000 to ensure the mediation effect has reached the required normal distribution ( $z$ ) of  $\pm 1.96$  and significant  $p$ -value of  $p < 0.05$ . The mediation analysis in Table 4 revealed the result of the indirect effect have exceeded the standard requirement of the normal distribution and  $p$ -value with  $z = 4.2206$  and  $p = 0.0000$  respectively. Thus, H3 is supported.

Table 4

*Result of indirect effect and significant using normal distribution*

Hypothesis	Value	S.E.	LL95CI	UL95CI	Z	Sig (two)	Findings
OL $\rightarrow$ CS $\rightarrow$ SME Performance	.1163	.0276	.0623	.1704	4.2206	.0000	Supported

### 4.3 Assessment of effect size ( $f^2$ )

The effect size ( $f^2$ ) examines the impact of the independent variables on the dependent variables. According to Cohen (1988) and Ringim and Reni (2018), the  $f^2$  values of 0.02, 0.15 and 0.35 is operationalized and interpreted as having small, medium and large effect sizes respectively. The result, shown in Table 5, indicated the effect size of organization learning and competitive strategy towards SME performance to be small. Interestingly, the effect size of organizational learning to competitive strategy is indicated to be large.

Table 5  
*Effect size ( $f^2$ )*

Correlation between variables	Path coefficient	Effect size ( $f^2$ )	Remarks
Organizational learning → SME performance	0.207	0.039	Small
Competitive strategy → SME performance	0.304	0.083	Small
Organizational learning → Competitive strategy	0.528	0.387	Large

## 5 Discussion and conclusion

### 5.1 Discussion

The objective of this paper is to examine the impact of organizational learning on SME performance with competitive strategy as the mediating variable. Based on the results, it established organizational learning and competitive strategy to be significant for influencing the SME performance. Furthermore, the competitive strategy mediates the relationship between organizational learning and SME performance.

Firstly, the analysis established organizational learning has a significant impact on SME performance ( $\beta = 0.207$ ,  $t = 2.843$ ,  $p < 0.004$ ). This results is consistent with past findings from Michna (2009), Hooi and Ngui (2014) and Liao (2017). Collectively, these findings observed a significant influence from organizational learning to SME performance. The result implies that a sufficient level of organizational learning positively influence the SME performance. Furthermore, the study established organizational learning is an essential requirement for enhancing SME performance by developing resources and learning capabilities.

Secondly, the result indicated competitive strategy has a significant impact on SME performance ( $\beta = 0.304$ ,  $t = 3.978$ ,  $p < 0.000$ ) which is consistent with past findings. The result indicated that how SME performance differs based on the implemented competitive strategy. This implies the implementation of the ideal strategy is efficient when the SME has the proper capability and resources. Additionally, this suggests the level of performance differs based on the implemented competitive strategy in the SMEs.

Lastly, the result shown the effect size of organizational learning and competitive strategy towards SME performance to be small ( $f^2 = 0.039$  and  $f^2 = 0.083$  respectively). However, the effect size between organizational learning and competitive strategy has a large effect size ( $f^2 = 0.387$ ) which support the concept of contingency theory that the SMEs can achieve superior performance by ensuring a level of fit. This finding suggests a level of fit between organizational learning and competitive strategy is essential, since the effect of organizational learning differs based on the implemented competitive strategy.

### 5.2 Implication, limitation and conclusion

This result underscores the importance of organizational learning and competitive strategy towards SME performance. It is recommended for the SME owners to implement competitive

strategy which facilitate organizational learning activities. Substantial efforts are required to facilitate organizational learning environment which complements the requirement of the competitive strategy. By doing so, a high level of organizational learning is achieved which allows the SME members to have deeper understanding of their work and develop faster learning process.

Firstly, the result suggests the SME leaders to stimulate an appropriate level of learning to stimulate knowledge sharing within the SMEs. To begin, the SME leaders should identify the factors which either weaken or strengthen the organizational learning when improving the SME development. This is due to organizational learning improve SMEs performance by knowledge accumulation (Tam & Gray, 2016). By doing so, the effect of organizational learning can be achieved by creating an open learning environment which allows the exchange of ideas and opinions.

Additionally, the result established the relationship between competitive strategy and organizational learning towards the SME performance. This suggests the formulation of effective competitive strategy derived from the SMEs learning capabilities. Although the relationship between organizational learning, competitive strategy and SME performance seems to be complex, it is a continuous effort to establish the appropriate fit among these variables to achieve the ideal SME performance.

Furthermore, the paper addressed the limitation of contingency theory by establishing a level of fit between organizational learning and competitive strategy to achieve superior performance. The organizational learning and competitive strategy implemented within one SME may not be effective for another SME. This is attributed to the differences in the overall SME objectives. Hence, the understanding of the SMEs learning capabilities and pre-requisite requirement of the competitive strategy is essential to achieve an ideal level of fit.

However, this paper is not without any limitations. This paper focused on the combination of organizational learning and competitive strategy. It can be argued that there are other possible combinations of organizational factors which can yield superior SME performance. Future studies should consider these combinations to gain further insights. Secondly, the study validates organizational learning, competitive strategy and SME performance as a uni-dimensional variable. This can be too simplistic to assume that a single set of 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.

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