

Does Organization Learning Capacity influence the Organization Effectiveness? Moderating Role of Absorptive Capacity

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Abstract: *Organizational learning capacity play significant role to boost up the organizational effectiveness. The purpose of this study is to explore the association between organizational learning capacity and organizational effectiveness by considering the moderating role of absorptive capacity. Study is descriptive in nature. Questionnaire survey method was used for data collection by applying simple random sampling technique. CFA and SEM were used for the statistical analysis. Results of study indicated that organizational learning capacity positively and significantly correlated with organizational effectiveness. Moreover, absorptive capacity also significantly moderates the relationship between organizational learning capacity and organizational effectiveness. The implications and limitation of research are discussed along with direction and suggestion for further research.*

Keywords: Organization effectiveness; absorptive capacity; organizational learning capacity.

1. INTRODUCTION

Organizational learning capacity is a key feature in an organizational development in both economic as well as organizational term. Organizational learning means the technique of successful actions all-encompassing recovering knowledge and understanding and so idea presented the essential obligation of knowledge management (Imran, Nisar, and Ashraf, 2014; Mubeen, Ashraf, & Nisar, 2016). Organizational Learning is an approach near continuous improvement by means of acquisition, distribution, and interpretation of knowledge directed at the development of lasting competences contributing to reasonable Organizational performance. Organizational learning capacity should contribute to a permanent, competitive organizational performance, as the prevailing importance for any organization is long-term survival. These implements can be improved with efficacy, managed, analyzed, organized and successfully refinement the management learning skills. Actual and continues learning indications to create an effectiveness that are move the organizational performance curve in upward trend. In addition, regardless of organizational learning literature of rapid growth, still there is no measureable efficient approach available for unique the components of the construct from each other and from innovation capacity. Organizational effectiveness should concentrate on organizations and human resources and help individuals to attain self-esteem and skills to adopt the new environment and find support and security.

There has been significant research in the literature to examine the influence of organizational culture on employee productivity and performance. As organizational effectiveness and learning has positive association so there should be culture of learning within the organization to improve advanced abilities and presentation. The results showed although organizational learning capacity has a significant positive influence on organization effectiveness, influence was considerably higher with absorptive capacity introduced as a moderator (Logbo & Chukwuekezie, 2013). Organizational effectiveness (OE) is positively connected to absorptive capacity (AC). Furthermore the interaction between absorptive capacity and employee ability has significant positive effect on organization effectiveness (Tsai, 2001). Similarly organizations improve their performance by acquiring knowledge (Halley et al., 2009). Preceding studies emphasizes that an increasing in the level of organizational learning capacity (OEC) has play an important role in increasing the level of organizational effectiveness.

Organizations are trying hard to survive in globalized and competitive environment. In business processes they are facing ambiguity and challengeable situations. Due to competitive environment organizations are facing many problems because of excessive economic pressure. Organizations with a view to gain competitive advantage they are penetrating different ways to increase their core competencies. Moreover the demanding competitive environment force organizations to keep updated their selves and learned about organizational atmosphere in which they operate. That's an issue that how organizations can enhance their learning capabilities and effectiveness with a view to maintain competition (Abdullah et al., 2013)

At the present, in management research learning capacity development is one of the most crucial zones and it has become an interdisciplinary field which advancement is topic to the helps made by collection of fields such as organizational theory, production management, organizational psychology, management science, and strategy. The main objective of this study is to check the influence of organization learning capacity on organizations effectiveness, ultimately, to explore the moderating role of

absorptive capacity in the relationship. Therefore, this paper provides a brief discussion on organizational learning capacity, organizational effectiveness, and absorptive capacity. These are the variables identified in our study.

Many researchers have already done a lot of work on organizational learning capacity and effectiveness with different variables and its dimensions nevertheless we have found that few literatures are available regarding banking sector in Pakistan. That's why we have conducted our research in banking sector. Because it's overlooked area regarding learning and effectiveness research. We have considered absorptive capacity as moderator that differentiated our research by others. In the scenario of Pakistan only few articles are available that are covering this part so we have observed that how learning capacity can contribute in increasing performance means effectiveness.

This study is conducted to examine/observe the absorptive capacity effect on organization learning capacity and organization Effectiveness. The core purpose of this study to explore the impact of organizational learning capacity on organizational effectiveness and demonstrate the role of absorptive capacity as a moderator. In this study we have developed the following research questions.

- What is the relationship among organizational learning capacity and organizational effectiveness?
- Does absorptive capacity moderate on the relationship of organization learning capacity and organization effectiveness?

To answer the questions developed we have the following objectives to be achieved by this study.

- To examine the relationship between organizational learning capacity and organization effectiveness.
- To examine the moderating role of absorptive capacity on the relationship of organization learning capacity and organization effectiveness.

2. LITERATURE REVIEW

2.1 Organizational learning capacity

Organizational learning is a type of process by which organization learns and this learning takes every alternative in organizational models that show the development and maintenance of organization performance (Chiva & Alerga, 2008). Furthermore it was argued that Organizational learning is inclusive of many organizational acts like organizational memory, knowledge acquisition, information delivery and information explanation that deliberately impact on the positive organizational alternative (Templeton et al., 2002). Organizational learning capacity is simply defined as an organizations capacity to progress the skills to increase new information and convert that information into useable knowledge (Ceylan & Aydin, 2009). In addition learning of organizations may be measured as power to do something and as a process. According to the organization context there can be found many factors that never facilitate and discourage the organizational learning process. A study (Lyles & Fiol, 1985) suggested four contextual components that effect organizational learning strategy, organizational structure, environment and corporate culture.

2.2 Organization Effectiveness

Organization effectiveness is simply a measure of how an organization achieves its organizational goals and objectives. In addition these goals can only be fully understood by information sharing, quick and timely decision making, shared tasks and responsibilities. Organizational effectiveness is one of the most extensively researched constructs considering the advance expansion of organizational theory (Rojas, 2000). Generally speaking the effectiveness of organizations describes the division to which an organization clearly understands her goals. According to a study (Vinitwatanakhuns, 1998) accompany that effective organizations should focus on human resources and also help the individuals to gain self-confidence and skills to adjust themselves in the new environment and find sport and security.

2.3 Absorptive capacity

Absorptive capacity of a firm as its capability to be acquainted with the worth of new external information understands it and relates it to commercial ends. The absorptive capacity segregate into four dimensional models. (Cohen & Leinthal, 1989). Similarly the four dimensions setup into two subset of absorptive capacity. Assimilation and acquisition provides the potential absorptive capacity of the organization, while exploitation and transformation provide the realized absorption capacity of the organization (George & Zahra, 2002). Assimilation referred as firms' usual operations that allow inspect process, understand and recognize the information obtained from outside sources (Szulanski, 1996; Zahra & George 2002). Exploitation defined as firm's capability to use new external knowledge to complete organizational objectives. Transformation referred to be the firm's capacity to enlarge and operate routines that make easy the move and mixture of obtainable knowledge with newly acquired and assimilated knowledge. Acquisition defined as firms' competence to recognize and gain externally generated knowledge that is significant to its operation (Zahra & George, 2002).

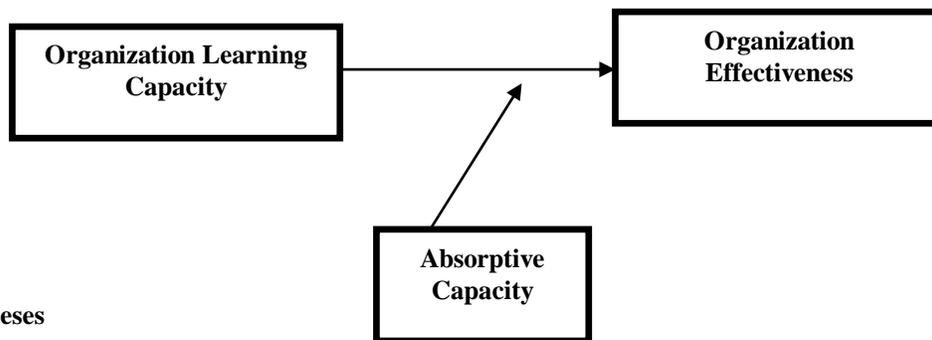
2.4 Organization learning capacity and organization effectiveness

The results showed although organizational learning capacity has a significant positive influence on organization effectiveness, influence was considerably higher with absorptive capacity introduced as a moderator (Logbo & Chukwuekezie, 2013). Organizational learning positively related to job satisfaction, work performance and organizational commitment. Moreover the job satisfaction and organizational commitment has a significantly positive impact on organization performance. According to study (Rose et al., 2011) learning capacity positively related to business performance, results showed organizations with highest learning capacity get hold of advanced effectiveness. Organizational learning has an impact on organizational commitment (Usefi & Nazari et al, 2013). Moreover, the organizational commitment and job satisfaction has a significantly positive effect on work performance (Rose et al., 2011). In addition studies showed the positive impact of organizational learning capacity on performance (Hernaus & Skerlavaj et al, 2008; Usefi & Nazari et al, 2013). We further use in our research different dimensions of organization on organizational performance learning capacity and organization effectiveness also increase sample size and change the sector of study.

2.5 The Moderating Role of Absorptive capacity:

Absorptive capacity of a firm is positively related to organizational effectiveness (Liao et al., 2010). Furthermore the interaction between absorptive capacity and employee ability has significant positive effect on organization effectiveness (Tsai, 2001). Similarly organizations improve their performance by acquiring knowledge (Halley et al., 2009). In addition the absorptive capacity effecting the effectiveness and innovation. Moreover absorptive capacity can help an organization achieve better organizational performance through the implementation of new ideas, processes, and products (Maçada & Luis). Similarly there is also exist a positive relationship between organizational effectiveness and employee ability .The concept of organizational learning has been closely connected with ideas of absorptive capacity. This relationship is observed in a diverse ways, and it is optional that the literature on these two concepts shares a theoretical attraction which needs to be explained. It is recommended that absorptive capacity (a dynamic capability) is a concrete example of organizational learning that concerns an organization's relationship with new external knowledge. Using the 4I Model for organizational learning (Crossan, Lane & White, 1999). An organizational learning background: this paper suggests an addition of the two concepts. Vera et al. [1], for example, sounds for more addition between covering concepts of organizational learning, knowledge management, absorptive capacity, and dynamic capabilities and recommends a background to do so. Therefore, this paper makes a significant contribution to theory by introducing absorptive capacity as a moderator to moderate the relationship between organizational learning capacity and organization effectiveness. We argue that the literature on absorptive capacity provides a fresh look at the problem of individual knowledge, and one that should prove very useful in formulating learning objectives for management education and we use further dimensions of absorptive capacity and organizational learning capacity. We also increase sample size and sector of study.

3. THEORETICAL MODEL



3.1 Hypotheses

- H1:** *There is a significantly positive relationship between organizational learning capacity and organizational effectiveness.*
H2: *Absorptive capacity significantly moderates the relationship of Organization effectiveness and organization learning capacity.*

4. METHODOLOGY

Purpose of the study is to explore the impact of organizational learning capacity on organizational effectiveness by concentrating the moderating role of absorptive capacity. Deductive approach has been used and study is descriptive and quantitative in nature.

4.1 Questionnaire design

Questionnaire is used in survey. Questionnaire consists of two sections. First section is related to demographic of respondents including their age, gender, education level, nature of employment and length of service which is considered by nominal scale. Second section is related to the question relevant to under study variables namely organizational learning capacities, organizational effectiveness and absorptive capacity measured by 5 point Likert scale.

4.2 Sampling

Our population is all banks in Gujranwala .For current study our sample size is 150 that is obtained by using, Hair et al (2010) described a thumb rule that sample size can be obtained by multiplying the total items in a questionnaire by 10.We used simple random sampling technique for the collection of data because this technique is adopted in most of the studies.

4.3 Measures

To check the relationship between under study variables by applying survey method. For the collection of data questionnaires was used. All the scales used in the study taken from previous research. Organizational learning capacity measured by adopting 4 item scale (Garcia-Morales, Llorens-Montes & Verdú-Jover, 2007). To measure the organizational effectiveness we adopted 5 item scale (Chen et al., 2011). Absorptive capacity measured by adopting scale (Jansen et al., 2005). Absorptive capacity measured with 14 items.

4.4 Data collection

We obtained the list of banks from official websites of banks registered under law.150 questionnaires are distributed in different banks. For the collection of responses we used questionnaire survey method. Then we get hold list of employees through HR department of banks through meetings. And then selected 150 employees randomly. Questionnaire distributed among employees and give one week. To take their responses by applied random sampling technique. We received 135 questionnaires out of 150 in which some have missing’s values some were incomplete. We used statistical tool to calculate appropriate results.

5. FINDINGS

Table 1 describing mean values for organizational learning capacity, absorptive capacity and organizational effectiveness are 3.89, 3.78 and 4.02 respectively. Similarly the values of standard deviation for all above mentioned variables are .638, .639 and .660 respectively. It also is showing correlation all among under study variables organizational learning capacity, absorptive capacity and organizational effectiveness. Organizational learning capacity positively and significantly correlated with absorptive capacity and organizational effectiveness with $r = 0.611$, $r = 0.682$ respectively. Absorptive capacity is positively and significantly correlated with organizational effectiveness valued at $r = 0.667$. It means that organizational learning capacity is highly correlated with organizational effectiveness.

Table 1

Construct	Mean	SD	α	1	2	3
1 Organizational Learning Capacity	3.89	.638	.73	--		
2 Absorptive Capacity	3.78	.639	.77	.611**	--	
3 Organization Effectiveness	4.02	.660	.90	.682**	.667**	--

5.1 Factor Loadings

Table 2

Items	Factor Loadings	AVE	CR
Organizational Learning Capabilities		0.662	0.855
OLC1	.756		
OLC2	.821		
OLC3	.799		

OLC4	.871		
Absorptive Capacity		0.697	0.715
AC1	.821		
AC2	.732		
AC3	.808		
AC4	.813		
AC5	.901		
AC6	.843		
AC7	.884		
AC8	.812		
AC9	.842		
AC10	.791		
AC11	.851		
AC12	.884		
AC13	.743		
AC14	.894		
Organization Effectiveness		0.710	0.742
OE1	.742		
OE2	.763		
OE3	.821		
OE4	.691		
OE5	.723		

The measurement model has been drawn for Confirmatory Factor Analysis. Table 2 demonstrates the CFA Model. In order to regulate the discriminant validity of data and convergent validity, this model and its fit indices has been demonstrated. In order to examine the validity there are three major steps as being demonstrated by (Larcker & Fornell, 1981) these include the factor loading constructs the AVE values should be greater than 0.5 and CR value should be greater than 0.5, value of CFI Model being greater than 0.7 and the majority values of factor loading are greater than 0.7 and significant at 0.001. While the AVE and CR values are all greater than 0.5 and 0.8. Thus, results describe the discriminant validity and convergent validity for model. This adds to the validity and reliability factor of the study and relationship of the variables elaborate.

5.2 Fit Indices for CFA & SEM

Table 3

Fit Indices	CFA	SEM
Chi-square/df	3.02	2.99
GFI	0.96	0.94
AGFI	0.80	0.82
CFI	0.93	0.95
RMSEA	0.06	0.07

Table 3 is illustrating the results of model fitness from both SEM and CFA dimensions. Goodness of fit index is specified at the first place which signifies the variance covariance matrix and as its value is greater than 0.90 so it is stating a good fit of the model. AGFI is adjusted GFI whose value is greater than 0.8 which is quite good to prove that model is good fit. CFI is demonstrating the comparative fit index which is presenting more realistic values that are proving that model is near to absolute fit due to greater than 0.9 value. RMSEA is root mean square error of approximation whose value is less than 0.10 so that is also showing the good fitness of model.

5.3 Moderating Role of Absorptive Capacity

Model Summary

Table 4

Model	R ²	Adj. R ²	F	df1	df2	P
1	.638 ^a	.407	.403	2	308	.000
2	.692 ^b	.462	.403	1	307	.001

Table 4 indicates the value of R² and the adjusted R² with corresponding values of F and degree of freedom at significant level of significance for model with interaction term (Model 2) and without interaction term (Model 1). Results recognize the difference in R² with $\Delta R^2 = 0.054$ with (p<0.05). It explains the additional variance in organizational effectiveness by adding absorptive capacity as moderator and depicts significant slope difference.

Table 5

Regression Equation Coefficients (organizational learning capacity and Absorptive capacity)

	B	SE	B	T	P
Constant	.815	.283		2.882	.005
Organization Learning Capabilities	.382	.084	.369	4.553	.000
Absorptive Capacity	.456	.080	.441	5.730	.000
Interaction Term (OLC*AC)	.292	.045	.003	.054	.024

P<0.05

Table 5 represents the moderating effect of absorptive capacity between organizational learning capacity and organizational effectiveness with ($\beta = .292$, $t = .054$, $p = .024$). Hence these results prove the significant moderating effect of absorptive capacity. These results indicates that in presence of absorptive capacity, relationship between organizational effectiveness and organizational learning capacity changed into positive which shows that if organization have high level of absorptive capacity while performing organizational learning they can increase their organizational effectiveness level. Results of interaction term reveal that relationship between organizational learning capacity and organizational effectiveness is become strong if organizations have high level of absorptive capacity.

6. CONCLUSION AND DISCUSSION

Our objective of study was to explore the impact of organizational learning capacity on organizational effectiveness and demonstrate the moderating role of absorptive capacity. Findings showed that organizational learning capacity has strong positive impact on organizational effectiveness. Which supported to H1; there is a significant relationship between organization learning capacity and organization effectiveness. The capacity of organizations to study, accomplish and utilised their information and organizational knowledge would help them become more productive and finally help them to achieve competitive advantage. Our findings highly supported by previous studies (Logbo & Chukwuekezie, 2013; Rose et al., 2011; Prieto & Revilla, 2003; Usefi, Nazari et al,2013 ;Hernaus& Skerlavaj et al, 2008). Furthermore increased learning capacity will activate people’s ability to utilize the learning opportunities. Therefore, if an organization that has a high level of organization learning capacity than it may have higher level of employee satisfaction which may revolve progress the financial performance of such an organization. (Aydin & Ceylan, 2009).

Similarly results also revealed that absorptive capacity positively and significantly moderated the relationship of Organization learning capacity and organization effectiveness which supported H3; Absorptive capacity significantly moderates the relationship of Organization learning capacity and organization effectiveness. The results disclosed if organizations maintain its absorptive capacity than organizational learning capacity (OLC) would go faster organizational effectiveness. Our results are in consistency with previous studies (Liao et al, 2010; Rebolledo, Halley et al., 2009; Chen et al, 2008; Zahra & George, 2002; Crossan, Lane &

White, 1999). An organization with high level of organizational learning capacity and absorptive capacity would have more knowledge sources incarnate in its employees and entrenched in the organization.

7. PRACTICAL IMPLICATIONS

This study provides close understanding and importance about organization learning capacity and absorptive capacity. So organizations can make use of our results and can use learning tools which increase their performance. As result enlighten that organizational learning capacity has positive association with organizational effectiveness with moderating role of absorptive capacity. So organizations can improve standards of learning. There is need for organizations to create a culture of learning, organizational culture that encourages knowledge creation and organizational learning provides avenues and operations that would increase the abilities, skills and competence of employees. So to attain the competitive advantage the management put greater stress on knowledge sharing and knowledge creation through different sources to give confidence learning activities which increase their effectiveness.

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