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## **Effects of Organizational Learning on Firm's Flexibility, Competitive Strategy and Performance**

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### **ABSTRACT**

The objective of this research is to furnish proof for the possible of a firm's learning capability to improve its competitiveness through strategy performing. The present study considers OL to contribute not only to strategy design, as a key organizational capability, but also to the effective performing of competitive strategies (Dawson, 2000), since the capability to furnish a rapid and effective response to a highly competitive and successive changing business environment in itself include strategy performing. This research seeks to obtain thorough sympathetic of learning's contribution to a firm's competitiveness by analyzing how Organizational Learning (OL), implied as a dynamic capability, designs firms' strategic flexibility and competitive strategy performing to improve customer, financial and market-related performance. This study proposes that OL acts as a sign of a firm's capability to conform to developing market conditions (strategic flexibility) and that OL and flexibility at the same time encourage the performing of discrimination and cost-leadership strategies. This strategic conduct permits firms to reduce costs without harmful discrimination levels and to improve customer and business performance. The study activates Structural Equation Modeling (SEM) to evaluate the links that the research model describes. Data analysis follows from a sample of 362 medium-sized Iranian manufacturing firms. The results confirm the expected relationships and show OL to be an important instrument in modern markets to furnish customer value and to improve organizational performance by ways of effective competitive strategy design and flexible structure to rapid market development.

**Key words:** Organizational learning, dynamic capability, competitive strategy, strategic flexibility, Iran

### **INTRODUCTION**

In today's uncertain environment the implementation of Competitive Advantage (CA) depends more and more on firms' capability to furnish long-term customer value? The Resource Based View (RBV) announces that a company's rare variety of valuable, matchless and non-exchangeable resources and capabilities founded the foundation of difficult to copy value-creating strategies which can furnish a firm with CA or above-average returns (Wu, 2010). The RBV has progressively developed, recognizing that under fast changing and uncertain competitive environments CA may quickly move and that the existence at a special moment of time of a suitable set of resources and capabilities may not be sufficient to support a firm's above-average performance in the long-term (Helfat and Peteraf, 2003). Thus, firms need to successive refresh their skills and resources to support CA (Wu, 2010). Therefore, Teece *et al.* (1997) explain a dynamic capability as "the firm's capability to merge, create and reconfigure internal and external abilities to address quickly

changing environments". Dynamic capabilities symbolize a complex set of abilities through which organizations systematically change their functioning routines and reconfigure their resources and skills to obtain a sufficient structure to changing market necessities (Zollo and Winter, 2002). The concept of dynamic capability founds a dynamic direction into RBV and is a reminder that supporting a CA requires successive improvement and structure, under surround intellectual volatility. Since the publication of Cyert and March (1963) creative work, the related work respects Organizational Learning (OL) as a key strategic capability for explaining why successful firms exceed participates (Bapuji and Crossan, 2004). Kandemir and Hult (2005) announce that OL may be the only organizational capability of creating exceptional customer value in the long-term, since learning permits a successive structure to quickly changing market necessities as a true dynamic capability. Recent research direct to the benefits of OL, for example, in organizational performance (Azadegan and Dooley, 2010; Bell *et al.*, 2010), market orientation and relationship marketing (Stein and Smith, 2009), the strategic supply procedure (Hult *et al.*, 2002), service quality (Tucker *et al.*, 2007), innovation (Weerawardena *et al.*, 2006), alliance results (Liu *et al.*, 2010) and human resource performance (Bhatnagar, 2007). But the interrelationships between OL and firms' strategy performing have interested exceptionally little careful attention (Paisittanand *et al.*, 2007). The present study considers OL to contribute not only to strategy design, as a key organizational capability, but also to the effective performing of competitive strategies (Dawson, 2000), since the capability to furnish a rapid and effective response to a highly competitive and successive changing business environment in itself include strategy performing (Beer *et al.*, 2005). Thus, this research suggests that OL, as a dynamic capability, found one of the key bases firms have to consistently execute strategies leading to their taking advantage of surround intellectual environmental opportunities and avoiding threats (Barney, 1991). Therefore, the first objective of this research is to furnish proof for the possible of a firm's learning capability to improve its competitiveness through strategy performing. The study contributes to the few existing work on OL-strategy interface (Fang and Wang, 2006; Kaleka and Berthon, 2006) by analyzing the competitive strategies supported by OL: Specifically, whether OL at the same time encourages Porter (1980) competitive strategies and the suitability for accomplishing customer-related and organizational performance. A basic premise in this research is that key positional benefits of customer value and lower costs relative to participates can both help challenge in modern markets and furnish larger performance to firms than single strategies of cost leadership or discrimination (Acquaah and Yasai-Ardekani, 2008; Li and Li, 2008). Worried business environments also require increasing organizational flexibility, i.e., the firms' capability to keep pace with market development as well as to react quickly to uncertain and not expected market conditions. Some researchers purpose that OL can support a firm's capability to recognize opportunities, to follow new ventures efficiently and to obtain successive arrangement with its environment (Lumpkin and Lichtenstein, 2005). This reasoning supports the careful attention of OL as a dynamic capability which can, in quickly changing environments, "enable the firm to change itself so as to continue to produce, efficiently and market offerings for some market section(s)" (Madhavaram and Hunt, 2008). However, empirical proof on the OL-strategic flexibility interface is again few. Thus, the second objective of the present study is to enlarge this line of research by analyzing OL's influence on firms' real flexibility, together with the incomplete of an arbitrator role of the latter on the OL competitive strategy relationship.

**Conceptual model and hypotheses:** Researchers explain OL as a procedure process that includes four main stages: Information obtained knowledge distribution, shared explanation and organizational reminder (Kandemir and Hult, 2005; Tippins and Sohi, 2003). In the information obtained stage, information may begin from both internal and external sources. The sources of internally developed information are suited learning that comes from the company's founder/s (Lawrence, 1984), prior experience and indirect learning which the unlimited analysis of the actions is of participates in the marketplace (Hershey, 1980). Other reasons, firms actively search for external information (Dickson *et al.*, 2001) to identify key tendencies (Milliken, 1990), to solve problems (Katila and Ahuja, 2002) and to compare their performance with that of participates. The second stage of OL is the distribution of knowledge throughout the organization. This procedure process takes place through formal and informal interactions among individuals (Kofman and Senge, 1993). The creation of formal networks and databases supports communication by assuring both the accuracy and the rapid growth of information. These enterprises need more informal exchange mechanisms to complete them so that any tacit knowledge which individuals collect is changeable into clear knowledge. The third stage, shared explanation, purposes to analyze the information from a global viewpoint. For this reason, accomplishing majority respecting the meaning of the information and its indirect suggestion for the firm is a priority (Day, 1994). In this respect, firms develop shared intellectual models and conduct their operations by mutual adjustment. The richness of the communication tools encourages shared explanation. However, in order to explain information properly companies sometimes have to pledge unlearning procedures process. They must question the current intellectual models and stored knowledge and reject useless and misleading beliefs or data that can lead to errors or to in effective decision taking (De Holan *et al.*, 2004). This idea of collective learning has led to another dimension of the OL concept, namely, organizational reminder. This construct symbolizes all the knowledge that a firm collects. In this way, staff revolution does not lead to loss of knowledge (Cross and Baird, 2000). The focus of the present study is active reminder, the reminder that exists in individual and social networks rather than indifferent reminder which is dependent on computerized information technologies (Olivera, 2000). The reason is that the active reminder is that eventually finds how the firm should achieve its organizational objectives (Cross *et al.*, 2001). According to the RBV, organizational resources and capabilities found the foundation for the design of competitive strategies (Hunt and Morgan, 1995). Competitive strategies found the steps required to obtain a perfect arrangement with market conditions considering the organizational resources and capabilities available (Grant, 1991). Organizational capabilities show the capability of an organization to fit together, consequentially and in a synergistic manner, different substantial and insubstantial basic resources to perform a suited set of tasks for the purpose of accomplishing a special result (Helfat and Peteraf, 2003). Hunt (2004) proposes that one can view capabilities as working resources because they are packages of basic resources. In order to obtain CA, organizational resources and capabilities need to be valuable, rare, matchless and non-exchangeable (Barney, 1997). Thus, OL is valuable because this capability can help to take advantage of opportunities and counteract threats, resulting in a beneficial market situation (Hult *et al.*, 2003). Specifically, OL is a valuable capability to obtain a larger knowledge and deeper sympathetic of the surround environment and the firm as a whole, so that the firm can satisfy more efficiently its clients' hidden and real needs through its products and services (Day, 1994; Sinkula, 1994). In this sense, OL also helps to reduce the feeling of surround intellectual environmental complexity and delays the possibility of a deadlock in strategic decisions due to

uncertainty (Slater and Narver, 1995). OL is also complex and difficult to develop since the procedure process the concept symbolizes requires skills in both creating new knowledge and conforming the acquired knowledge (Huber, 1991). As few organizations are capable of facing these challenges at the same time, OL is a rare capability (Slater and Narver, 1995). Moreover, counterfeit and transfer is also difficult. OL depends on the stock of knowledge available to the organization and, although participates may observe the created conduct; the underlying logic behind such conduct is not pretended (Hult *et al.*, 2003). Similarly, OL does not have strategic equivalents and is difficult to replace in current markets (Hult *et al.*, 2000). These purposes suggest that, as a valuable, rare, matchless and non-substitutable (VRMN) capability, OL has a related role in the planning of strategies leading to CA (Kenny, 2006). Moreover, OL can result in the organization changing the market rather than just conforming to market changes, since creative learning is a key element in the development of fundamental innovations (Senge, 1990) which permit firms to create new markets and specify again the playing rules of the current ones (Darroch, 2005). The flexibility natural in learning directed organizations also permit them rapid resource re-allocation when detecting new market opportunities (Lumpkin and Lichtenstein, 2005; Slater and Narver, 1995). Therefore, a larger learning capacity is essential to challenge due to the pace of change in markets and technologies, the great difference of information available and the importance of acting in advance (Santos-Vijande *et al.*, 2005). In this sense, OL is supposed to have a related role in strategy performing, as a dynamic capability that permit a rapid structure to changing surround environment allow the firm to successive produce market offerings for different market sections (Madhavaram and Hunt, 2008) and efficiently react to developing market necessities (Beer *et al.*, 2005). In this context, the present study contributes to the existing work by analyzing OL's role as a proceeding of firms' competitive strategy performing and whether this effect is translated to exceptional customer-related and overall organizational performance. The research analyzes competitive strategy using Porter (1980) typology. For Porter, strategy symbolizes a consistent arrange of activities purposed at creating a specific form of competitive advantage (CA): Low cost or discrimination (Speed, 1993). By analyzing the effect of OL on Porter's strategies the study examines whether OL at the same time encourages key positional benefits of exceptional customer value and lower costs relative to participates. According to Day and Wensley (1988) model of CA, these positional benefits should result in above average performance results such as customer loyalty, profit capability and market share. Although, Porter (1980) did not originally permit for the concurrent performing of the two strategies, also recognizes that many firms have found the way to reduce costs not only without harmful their level of discrimination but also really increasing their discrimination (Porter, 1985), thus unlimitedly recognizing that the two strategies can coexist and symbolize a high level of competitive excellence (Vorhies, 1998). Indeed, prior research (Chrisman *et al.*, 1988; Day, 1990; Murray, 1988) focuses on the practical capability of adopting discrimination and cost leadership strategies at the same time. However, recent work (Acquaah and Yasai-Ardekani, 2008; Li and Li, 2008) is a reminder of the still important conversation on the question of whether cost leadership and discrimination symbolize mutually exclusive or compatible access. The present study therefore tries to contribute to this discuss by analyzing whether OL at the same time encourages the performing of leading cost and discrimination competitive strategies and whether the two strategies carried out together lead to exceptional performance. A discrimination strategy means product development with added benefits, noticed to be rare or different in the industry and to offer larger benefits to the customer. Discrimination strategies have a strong link with innovation activities. The work in this field

recognizes the influence of OL on innovation as a support for creativity and an motivation for new knowledge and ideas as well as increasing the capability to understand and carry out them (Aragón-Correa *et al.*, 2007; Weerawardena *et al.*, 2006). Indeed, the most progressive form of OL (i.e., creative learning) is decisive for the adoption of fundamental innovations. Therefore, the usefulness of OL for providing exceptional customer value by means of successive market-linking activities is specifically clear as OL strengthen a foundation firms' capability to carry out new ideas, methods, or devices to satisfy customer necessities (Kaleka and Berthon, 2006). Thus, OL likely contributes to the performing of discrimination strategies:

- **H1:** OL relates positively with the performing of discrimination strategies

A cost leadership strategy purposes to obtain lower costs than the competition without compromising quality, service, or other directions. This strategy tries to change internal productivity into lower costs or reduced prices for the customers. Bell *et al.* (2002) considers learning by doing work as one of the best mechanisms for obtaining an increase in companies' productivity. Increasing experience permits an organization to reduce the necessary amount of resources to expend to accomplish a task. The organization thus gains CA by exchanging this cost reduction into productivity gains. Moreover, Senge (1990) enlarges the influence of OL to manufacturing activities and Fang and Wang (2006) demonstrate that OL encourages the scope to which a firm works to reduce manufacturing costs, while supporting quality and credibility. Hence, learning organizations are more likely to carry out cost leadership strategies strengthen a foundation by learning curves.

- **H2:** OL relates positively with the performing of cost leadership strategies

The increased rates of change in markets with the successive breaking up of customer necessities make ability to be modified a basic requirement for contesting (Grewal and Tansuhaj, 2001). Therefore, the marketing and strategy work more and more recognizes strategic flexibility as an important organizational ability for accomplishing and supporting CA and exceptional performance (Matthyssens *et al.*, 2005; Zhang, 2006). Hitt *et al.* (1998) define strategic flexibility as "a firm's capability to react quickly to a changing competitive environment". Flexible organizations have, in sum, the capability to quickly identify major market changes, to perform resources to new strategic responses and to react immediately when the time comes to stop or reverse such resource preferment's (Shimizu and Hitt, 2004). OL enables firms to achieve a CA by improving information procedure activities which permit faster and more effective adjustment to changing environment and market conditions than the competition (Dickson *et al.*, 2001). Learning organizations are able to capture the related information at any given time more exactly, expecting in these respect market tendencies and discarding the routines that are no longer operative. Similarly, McNiff (2000) supporters the development of creative forms of learning to deal with an external reality in which everything is successive developing or becoming. This reasoning sees OL as permitting larger strategic flexibility to counteract surround intellectual threats, to take advantage of market opportunities and even to shape market development (Argyris and Schon, 1978). Therefore, the larger a firm's gathered experience, the larger its capability to successively restructure and react efficiently to the modern economic environment (Kenny, 2006):

- **H3:** OL relates positively with the development of strategic flexibility

Hitt *et al.* (1998) purpose that in modern markets firms face multiple irregularities that often occur at the same time and are not easily predicted which forces organizations without stopping rethink their operations to obtain a rapid structure. In this sense, strategic flexibility symbolizes the organizational capability to manage market changes by immediately reacting in a proactive manner to market threats and opportunities (Grewal and Tansuhaj, 2001). Dreyer and Grnhaug (2004) emphasize the increasing relatedness of strategic flexibility for researchers and managers in recent years as a source of CA in competitive, uncertain and dynamic markets. Rudd *et al.* (2008) also announce that, although the notion of flexibility has received much careful attention in the strategic management work given its key role in coping with developing market conditions. Thus, work prior to the present study has not investigated the relationship between strategic flexibility and competitive strategy performing. According to Dreyer and Grnhaug (2004) flexibility is a company specific skill and therefore found one of the bases that firms can resort to in developing their competitive strategy (Hunt and Morgan, 1995). From this view, strategic flexibility can be a proceeding of both of Porter's strategies. Respecting the relationship between strategic flexibility and the performing of a cost leadership strategy, the work finds that strategic flexibility is vital to several value-creating operational and manufacturing strategies, including mass customization, time-to-market, operational excellence, lean manufacturing and stockless inventory (Kotha, 1995; Stalk *et al.*, 1992), whose final purpose is to improve the firms' productivity and hence the opportunity to reduce costs. Strategic flexibility also include the capability, natural to the performing of a discrimination strategy, to quickly identify market tendency and react to new market demands (Hoskisson *et al.*, 2008). Flexible firms base their response capability on not carried out resources that can be mobilized as required which is especially valuable in developing entrepreneurial activities (Tan and Wang, 2010). The possible contribution of strategic flexibility to discrimination and cost leadership strategies is also supported since several scholars believe that strategic flexibility has the possible to contribute to both discrimination and cost leadership strategies by allow the firm to avoid the trade-off between the two in offering high-quality products and services at low costs (Hitt *et al.*, 2007; Li *et al.*, 1996):

- **H4:** Strategic flexibility relates positively with the performing of discrimination strategies
- **H5:** Strategic flexibility relates positively with the performing of cost leadership strategies

A cost leadership strategy furnishes customers with regular products and services at the most competitive prices, so that firms can lower prices to be compatible or strike their competitor and still make profits, since a discrimination strategy creates customer value by means of innovative products exceptional quality and technology, distinguished brand imagine and good service, thus allow the firm to set additional charge prices (Li and Li, 2008). In this sense, several studies verify the positive relationship between low cost and discrimination strategies and business performance (Acquaah and Yasai-Ardekani, 2008; Li and Li, 2008). However, from a marketing view, that which was mentioned previously signs may have only a limited capacity to capture the provision of exceptional customer value. The present study purposes to furnish empirical proof on this matter by moreover considering a customer related performance measure as a reconciliation variable in the competitive strategy business performance connection. Customer performance is a firm's capability to efficiently satisfy customers and develop a loyal customer base which eventually links

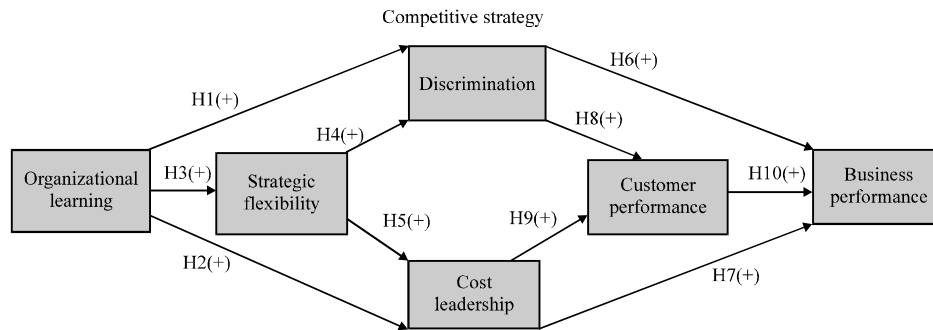


Fig. 1: Hypothesized model

to a higher level of business performance. Competitive strategy performing (both discrimination and cost leadership) will likely have a positive influence on customers' satisfaction, noticed added value and loyalty and eventually that better customer performance will result in improved business performance:

- **H6:** The performing of discrimination strategies relates positively with business performance
- **H7:** The performing of cost leadership strategies relates positively with business performance
- **H8:** The performing of discrimination strategies relates positively with customer performance
- **H9:** The performing of cost leadership strategies relates positively with customer performance
- **H10:** Customer performance relates positively with business performance

Figure 1 shows the theoretical model, describing the hypothesized relationships among OL, strategic flexibility, competitive strategies and performance.

## METHODS

**Sample and data collection:** The database of this research was used to found a population of 910 medium-sized manufacturing companies from a totally cross-section of industries (food; chemical and plastic; iron, steel and metal; machinery; electric and transportation equipment). In this way, the empirical results are less affected by the unmanageable, characteristic of effects of any special sector, thus permitting for a higher degree of external validity (Tippins and Sohi, 2003). The questionnaire was prepared following an exhaustive work survey and tested by ways of in-depth interviews with five outstanding academic scholars and three senior managers (Thorpe and Morgan, 2007). General Managers were used as key source. They are expected to have comprehensive knowledge of the firm's operations, strategy and performance (Weerawardena *et al.*, 2006). The final response rate was 31.32%, a total of 285 valid responses. This rate is comparable with prior survey-based studies carried out in the U.S. (Wu and Cavusgil, 2005). Possible non-response bias was studied following the procedure suggested by Armstrong and Overton (1977). All the signs of the hidden variables in the conceptual model were used for the non-response bias test. The results show that no statistically significant differences exist between early and late respondents.

**Measurement scales:** All the items are measured via five-point scales. All the model's constructs are measured using reflective signs. Respecting Organizational Learning (OL), to date no greatly



accepted scale exists for measuring this variable, although several attempts have been made to undertake this matter (Templeton *et al.*, 2002; Tippins and Sohi, 2003). OL is measured to be a procedure which include the obtained of information, distribution of knowledge, shared explanation and organizational reminder (Slater and Narver, 1995). This construct was measured using an existing scale developed by Lopez-Sanchez *et al.* (2010, 2011). Respondents were asked to rate their outlook on several items of the OL measurement scale (1 = disagree and 5 = agree). Also, to assure the component validity of this scale, both work survey and extensive conversations with academics and practitioners during the mentioned before pre-test were carried out. The strategic flexibility scale includes five items derived from prior research by Theoharakis and Hooley (2003) and Vorhies and Morgan (2003, 2005). Respondent were asked to rate to what scope their organizations were able to react quickly to new market and competitive conditions compared to their major participates (1 = hard and 5 = easy). The measurement of competitive strategy was by ways of a conformed adaptation of Slater and Narver (1996) scale which itself was built on in-depth studies of Porter (1980) and Dess and Davis (1984). In special, five items were occupied to measure discrimination and five items to evaluate cost leadership strategy. Respondent were asked to rate to what scope their organizations emphasize on various strategy performing activities (1 = less than participates and 5 = more than participates). These scales have proved to be reliable and valid, hence their use in the current study. Respondent were also asked to react how well their firms performed over the last 2 years compared to their major participates (1 = worse and 5 = better). This temporary comment permit the competitive benefits obtained to be estimated while minimizing the influence of short-term deviations on the reporting firm's performance (Acquaah and Yasai-Ardekani, 2008; Grant, 1991). The clear comparison with major participates permit industry effects to be minimized and reduces personal responses, introducing a comment against which to make the comparison (Kraft, 1990). Customer performance includes six items that estimate the firm's conform capability to customer needs and desires (Lings, 2004), the noticed added value (Vorhies and Morgan, 2005), the level of customer satisfaction (Hooley *et al.*, 2005), the level of customer loyalty (Zahay and Griffin, 2004), the communication obtained with customers, the reduction in the number of customer complaints and the customer's sense of the firm's imagine (Lings, 2004). The measurement of business performance focuses on sales growth (Greenley, 1995), market share (Yilmaz *et al.*, 2005) and profits (Theoharakis and Hooley, 2003).

## **RESULTS**

In this research we use the following measurements: Organizational Learning (OL), strategic flexibility, discrimination strategy, cost leadership strategy, customer performance and business performance. Following Gerbing and Anderson (1988) and Slater *et al.* (2010), the estimation of the measures activate a three step approach: First, a Confirmatory Factor Analysis (CFA) of the measures; second, an examination of the psychometric possessions (reliability and validity) of the measures and third, a test of whether or not common method variance is a possible problem. The first step of the analysis comprise of strong Maximum Probability (MP) estimation to avoid problems of non-normality with the data (Bentler, 1995). The procedure divides the measures into two subsets of variables: (a) OL's lower-order factors (i.e., information obtained, information distribution, information explanation and organizational reminder) and (b) strategic flexibility, discrimination strategy, cost leadership strategy, customer performance and business performance. The following indices attend to evaluate the fit of the measurement models: Bentler-Bonnett Non-Normed Fit Index (NNFI), Comparative Fit Index (CFI), Incremental Fit Index (IFI),

Table 1: Organizational learning measures

Measures	Standardaized lambda	Strong-value	Scale CR	Scale AVE	Scale CA
First-order measures					
IA1← direct IA	0.82	13.06	0.88	0.67	0.87
IA2← direct IA	0.78	8.89			
IA3← direct IA	0.80	9.67			
IA9← indirect IA	0.71	8.49	0.86	0.63	0.84
IA10← indirect IA	0.83	12.43			
IA11← indirect IA	0.78	9.82			
KD2← knowledge diffusion	0.74	9.38	0.92	0.67	0.90
KD4← knowledge diffusion	0.83	13.45			
KD5← knowledge diffusion	0.83	15.66			
SI1← shared explanation	0.78	11.35	0.91	0.65	0.89
SI2← shared explanation	0.83	13.08			
SI5← shared explanation	0.77	12.08			
OM4← organizational reminder	0.79	11.59	0.84	0.63	0.88
OM5← organizational reminder	0.82	10.56			
OM6← organizational reminder	0.76	8.56			
Second-order factor model					
Direct obtained IA← information	0.92	9.98	0.84	0.79	0.79
Indirect obtained IA← information	0.86	7.76			
Third-order factor model					
Information obtained←organizational learning	0.95	10.65	0.90	0.82	0.92
Knowledge diffusion organizational learning	0.94	9.76			
Shared explanation←organizational learning	0.91	10.98			
Organizational reminder←organizational learning	0.82	9.87			

Summery statistics, First-order model: S-B  $\chi^2 = 173.34$ ,  $df = 124$ , NNFI = 0.97, CFI = 0.98, IFI = 0.98, SRMR = 0.05, RMSEA = 0.06, AIC = -74.69 and CAIC = -601.9, Second-order model: S-B  $\chi^2 = 182.29$ ,  $df = 129$ , NNFI = 0.97, CFI = 0.97, IFI = 0.97, SRMR = 0.06, RMSEA = 0.06, AIC = -73.73 and CAIC = -611.13, Third-order model: S-B  $\chi^2 = 184.59$ ,  $df = 132$ , NNFI = 0.97, CFI = 0.98, IFI = 0.98, SRMR = 0.06, RMSEA = 0.06, AIC = -77.48 and CAIC = -622.27 Key: IA = Information obtained, CR = Hybrid reliability, AVE = Average variance extracted and CA = Cronbach's alpha coefficient

Standardized Root Mean Square Residual (SRMR) and Root Mean Square Error of Approximation (RMSEA) (Bentler, 1995; Hu and Bentler, 1999). First-order (NNFI = 0.97, CFI = 0.98, IFI = 0.98, SRMR = 0.05, RMSEA = 0.06), second-order (NNFI = 0.97, CFI = 0.97, IFI = 0.97, SRMR = 0.06, RMSEA = 0.06) and third-order (NNFI = 0.97, CFI = 0.98, IFI = 0.98, SRMR = 0.06, RMSEA = 0.06) CFA models verify the higher order measurement structure of OL (Table 1). The results of the measurement analyses, after dropping signs that performed poorly, Gerbing and Anderson (1988) produced satisfactory statistics. Moreover, the first-order and the second-order CFA models showed lower fit indices and higher comparative criteria-Akaike's Information Criterion (AIC) and the Consistent AIC (CAIC) (Steenkamp and Baumgartner, 1998) than the third-order CFA model. These results show that OL is a higher-order measurement structure. Compound reliabilities of the measures within the mentioned before CFA settings ranged from 0.84 to 0.95, while the standardized parameter estimates ranged from 0.73 to 0.95 and the average variances extracted ranged from 0.63 to 0.82. Respecting the CFA model with the other subset of variables (Table 2), after dropping signs that performed poorly, the fit of the CFA model was satisfactory (NNFI = 0.94, CFI = 0.95, IFI = 0.95, SRMR = 0.06, RMSEA = 0.05). Compound reliability estimates ranged from 0.84 to 0.91, with standardized parameter estimates ranging from 0.61 to 0.95 and

Table 2: Other measures used in the model

Measures	Standardized lambda	Strong-value	Scale CR	Scale AVE	Scale CA
First-order measures	0.77	0.52	0.86	7.24	0.62
FLEX1←strategic flexibility	10.92	0.78			
FLEX2←strategic flexibility	10.96	0.86			
FLEX3←strategic flexibility	4.78	0.60			
FLEX4←strategic flexibility	5.29	0.63			
FLEX5←strategic flexibility	0.80	0.45	0.85	6.39	0.62
STRATD1←discrimination strategy	9.67	0.77			
STRATD2←discrimination strategy	5.77	0.69			
STRATD3←discrimination strategy	8.86	0.69			
STRATD4←discrimination strategy	0.85	0.56	0.88	7.98	0.75
TRATC1←cost leadership strategy	5.88	0.59			
TRATC2←cost leadership strategy	8.99	0.75			
TRATC3←cost leadership strategy	10.79	0.89			
TRATC4←cost leadership strategy	0.82	0.45	0.85	7.87	0.74
CPERF1←customer performance	7.90	0.64			
CPERF2←customer performance	6.23	0.67			
CPERF3←customer performance	7.35	0.69			
CPERF4←customer performance	7.62	0.62			
CPERF5←customer performance	0.87	0.73	0.91	12.58	0.93
BPERF1←business performance	11.82	0.88			
BPERF2←business performance	9.98	0.75			
BPERF3←business performance					

First-order model: S-B  $\chi^2 = 348.77$ ,  $df = 255$ , NNFI = 0.94, CFI = 0.95, IFI = 0.95, SRMR = 0.07 and RMSEA = 0.04., CR = Hybrid reliability, AVE = Average variance extracted and CA = Cronbach's alpha coefficient

Table 3: Correlation matrix

Variables	1	2	3	4	5	6
Organizational learning	0.92					
Strategic flexibility	0.32	0.70				
Discrimination strategy	0.56	0.28	0.64			
Cost leadership strategy	0.046	0.26	0.42	0.74		
Customer performance	0.66	0.36	0.41	0.31	0.67	
Business performance	0.36	0.35	0.45	0.22	0.85	0.42

The square root of the average variance extracted (AVE) is in italics on the diagonal. Correlations are below the diagonal. The calculations of the correlation coefficients used the mean of the scores of the indicators that make up each of the latent variables

with the average variances extracted ranging from 0.47 to 0.76. In addition, within all the mentioned before CFA models, convergent validity was confirmed by the standardized parameter estimates and their associated strong t-values all being above suggested thresholds (Gerbing and Anderson, 1988; Slater *et al.*, 2010). For every pair of hidden variables, the square root of the AVE exceeds the correlations between the hidden variables, present the discriminant validity of the model (Fornell and Larcker, 1981). A *post hoc* check of the possible of common method variance using (a) Harman's single-factor test and (b) the hidden variable approach controlling for the effects of a single unmeasured hidden methods factor Podsakoff *et al.* (2003) showed that common method variance was not a problem in this study. Finally, all the measures displayed reliability as exceeding the standards for acceptance. Table 3 presents the correlation matrix, means, standard deviations and Cronbach's alpha co effectives for the hidden variables. The development and

Table 4: Structural model: Standardized path coefficients and strong t-values

Paths specified	Expected sign	Standardized path coefficients	Strong t-value	Results
H1: Organizational learning→discrimination strategy	+	0.54	4.90	Sig.
H2: Organizational learning→cost leadership strategy	+	0.33	4.15	Sig.
H3: Organizational learning→strategic flexibility	+	0.32	3.42	Sig.
H4: Strategic flexibility→discrimination strategy	+	0.13	2.08	Sig.
H5: Strategic flexibility→cost leadership strategy	+	0.20	2.79	Sig.
H6: Discrimination strategy→business performance	+	0.33	3.01	Sig.
H7: Cost leadership strategy→business performance	+	0.00	0.01	N.Sig.
H8: Discrimination strategy→customer performance	+	0.45	4.73	Sig.
H9: Cost leadership strategy→customer performance	+	0.14	2.21	Sig.
H10: Customer performance→business performance	+	0.21	2.02	Sig.

Sig. = Significant result at the 0.05 level and N.Sig. = Not significant at the 0.05 level

Table 5: Comparison of theoretical and competing models

Mod	Description	S-B $\chi^2$	df	NNFI	CFI	IFI	SRMS	RMSEA	AIC	CAIC
1	Theoretical	500.84	363	0.94	0.94	0.95	0.07	0.06	-230.04	-1769.90
2	W.R. OL→SF <sup>a</sup>	516.10	365	0.93	0.93	0.94	0.08	0.08	-215.76	-1759.84
3	W.R. OL→SF <sup>a</sup> and R. CL→DE	511.01	363	0.93	0.94	0.94	0.08	0.08	-218.91	-1758.74

W.R. = Without relationship, R. = With relationship, OL = Organizational learning, SF = Strategic flexibility, CL = Cost leadership strategy, Dis = Discrimination strategy, <sup>a</sup>Strategic flexibility is treated as outer

testing of the structural equation model were done by using a strong maximum probability estimation procedure. The results show that the model is a good symbolization of the data. The fit indices of the model as a whole are acceptable (S-B  $\chi^2$ = 500.96, df = 369, NNFI = 0.93, CFI = 0.93, IFI = 0.94, SRMR = 0.06, RMSEA = 0.06).

Table 4 lists the standardized path coefficients and strong t-values. The results support Hypotheses H1 and H2 relating to the positive effect of organizational learning on discrimination and cost leadership (0.60, strong t-value = 4.95 and 0.39, strong t-value = 4.20). The hypothesized relationship of organizational learning on strategic flexibility (H3) is also positive and statistically significant (0.38, strong t-value = 3.47). The analysis also confirms Hypotheses H4 and H5, that is, the positive effects of strategic flexibility on the performing of discrimination and cost leadership strategies (0.19, strong t-value = 2.13 and 0.26, strong t-value = 2.84). For H6 and H7, the results show that, while a discrimination strategy relates positively to business performance (0.39, strong t-value = 3.05), a cost leadership strategy does not (0.01, strong t-value = 0.05). The hypothesized relationships of strategy discrimination and cost leadership strategy (H8 and H9) have the predicted positive effect on customer performance (0.20, strong t-value = 2.26 and 0.27, strong t-value = 2.07). Moreover, customer performance also use a positive effect on business performance, supporting H10 (0.27, strong t-value = 2.07). The statistics of the comparison of the theoretical model with contesting models (Table 5) show that the theoretical model (Model 1) is preferable to the contesting models. For example, comparison of Model 1 with Model 2 which is a model that does not consider the causal connection between Organizational Learning (OL) and strategic flexibility (treating this variable as exogenous), shows the former to have lower levels of the information criteria (AIC = -233.07 and CAIC = -1773.92), providing proof for its strong ness.

## **DISCUSSION**

The purpose of this study is to test hypotheses and furnish proof on OL's role in the performing of firms' competitive strategies, their development of strategic flexibility and the improvement of their competitiveness. A basic theory in this research is that successive learning found a key dynamic capability to prefer firms' structure to worried and dynamic markets; hence OL promotes organizations' strategic flexibility, permit the performing of productivity-based operations and quality-based innovation through a successive flow of increasing experience and new knowledge that stimulate creativity and eventually, permit the implementation of CA. The study presents that learning organizations can carry out a double strategy, that is, that OL at the same time supports the performing of discrimination and cost leadership strategies. From this view, learning organizations have the capability to focus either on an absolute cost leadership strategy or on an absolute discrimination strategy. This is a related issue since, although the work has totally discussed the possible benefits of a double strategy, that is, a competitive strategy including high levels of emphasis on both cost leadership and discrimination strategies at the same time (Acquaah and Yasai-Ardekani, 2008; Li and Li, 2008), prior work does not explain how a firm can focus on both strategies at the same time since each strategy requires different resources and organizational arrangements (Porter, 1980). In this sense, one of the major risks that firms face is that of developing a stuck-in-the-middle strategy in which a firm fails to successfully follow either a cost leadership or a discrimination strategy. In this respect, Porter (1996) recognizes that rare product benefits to meet customer necessities and lower prices for the customer than the competition are determining factors for firms' competitiveness in modern markets. This research confirms that OL helps firms to carry out each of Porter's basic competitive strategies and therefore found a suitable foundation from which to approach a double strategy performing which has also verified to produce above average results in prior research (Li and Li, 2008). These results support the role of OL as an organizational capability that supports competitive strategy and contribute to better sympathetic OL's role in strategy performing. The study also shows that OL increase the firm's capability to react quickly to surround intellectual environmental contingencies, that is, strategic flexibility. Empirical proof on the preceding of firms' strategic flexibility is scarce. Learning organizations capture the related information at any time on current and future market tendency which they can then use to expect structure. Also, as OL include questioning the current intellectual models and organizational routines, learning organizations have an improved capability to reconfigure their operations. This finding is consistent with the work of Eisenhardt and Santos (2002) and Hitt *et al.* (1998), who show that successful firms need to learn quickly to be flexible in order to face unstable and uncertain business conditions. OL proves to be a solid indication of the firm's capability, relative to its main participates, to face the challenges of the 21st century markets which require quick reaction and structure. In this sense, the findings support the careful attention of OL as a true dynamic capability. As in the case of OL, the results of this inspection show that which possess strategic flexibility are in a better position to carry out both cost leadership and discrimination strategies. This proof supports the importance of strategic flexibility in avoiding the trade-off between discrimination and cost leadership strategies, that is, in carry out a double strategy if required. As an organizational capability, strategic flexibility merits the careful attention of forming a related foundation for competitive strategy design and performing (Dreyer and Grnhaug, 2004) but the precise mechanisms through which strategic flexibility leads to lower costs or larger discrimination have stayed unknown. In this research, flexibility refers to the capability to immediately react to changes in the market (consumers and

participates), in technology and in the economy. This use of the term is close to the operational and technological flexibilities recognized in the study of Rudd *et al.* (2008). As well as announced that “flexibility is the scope to which new and alternative decisions are created and measured in strategic planning, permitting positive organizational change and structure to surround intellectual turbulence” (Rudd *et al.*, 2008). Therefore, in this study, organizations that possess strategic flexibility can expect future changes in customer comments, competitor movements, technology development and economic tendencies and reposition themselves in a convenient style by reconfiguring their challenges. Strategic flexibility therefore increases the probability that a firm will be able of successfully adapting its marketing offerings, mix of products and/or services and production capacity and hence increases its possible to carry out both cost leadership and discrimination strategies. The results also show that strategic flexibility incompletely mediates the relationship between OL and a competitive strategy. One reason for testing arbitration is to try to understand the mechanism through which OL affects strategy performing. Arbitration shows that, together with the knowledge and experience furnished by OL, the performing of competitive strategies also benefits from the firm’s capability to perform resources in expectation of change. In addition, the study furnishes empirical proof that both cost leadership and discrimination strategies have a positive and significant influence on customer performance which in turn mediates the influence of those competitive strategies on business performance. Although the results show that a cost leadership strategy has less influence on customer performance than a discrimination strategy, the former is still positive. Therefore, in modern competitive markets where specialized customers quickly change their comments, cost control also proves to have a positive influence on competitiveness through customer performance. The findings of this research also show that the discrimination strategy use a positive, direct influence on business performance, unlike the cost leadership strategy which does not influence business performance, even though prior studies describe support for a positive link between the cost leadership strategy and various measures of business performance in different environment (Spanos *et al.*, 2004). A possible explanation for this pretended difference could be that different performance measures may apply better to different business strategy types (Matsuno and Mentzer, 2000). Acquaaah and Yasai-Ardekani (2008), for example, prove that carry out a cost leadership strategy positively influences firm performance in terms of Return on Sales (ROS) and Return on Assets (ROA) in a transition economy. Similarly, Li and Li (2008) find that the cost leadership strategy has a positive effect on ROA in an emerging economy such as China. However Menguc *et al.* (2007) proved that, while cost leadership contributes to firm productivity as measured in terms of profit capability, return on investments, ROS and ROA, this strategy does not relate significantly to firm effectiveness, a parameter which refers to the same business performance measures used in the present study: Growth in market share, in profits and in sales. In addition to this argument, Li and Li (2008) purposed that the effect of competitive strategies on performance is also depends on the arrangement of the strategy with contextual factors. In this respect, Murray (1988) suggested that a cost-leadership strategy does not work in full-grown industries; whereas, Ward *et al.* (1996) reported that this type of strategy works best in conditions of surround intellectual capability. More specifically, Li and Li (2008) find that, when market gathering is low (i.e., markets characterized by many smaller participates and wide growth opportunistic conduct), the positive effect of cost leadership on ROA weakens. Therefore, the absence of a positive direct relationship between the low cost strategy and business performance may be due to the type of business performance measures used or to the contextual factors that succeed in the sectors analyzed. This issue merits further research since the empirical

proof available is not always conclusive. The overall conclusion deriving from these results is that OL permit, with the collaboration of strategic flexibility, the concurrent performing of cost leadership and discrimination strategies which eventually produce above average customer and business performance relative to the competition. These results have several indirect suggestions for managers that may be especially valuable under the severe economic and industrial crisis that the Iranian economy is suffering. Research on economic crises shows that surviving firms, in comparison with failing firms, focuses on both external and internal environments which is a critical feature of OL and on the implementation of a balance between the two environments which is an important direction of strategic flexibility (Grewal and Tansuhaj, 2001).

## CONCLUSION

The results of this study show that by focusing on OL managers can improve their sympathetic of the external market, take advantage of the firm's gathered internal knowledge and experience and develop the capability to react more quickly to new market necessities by flexibly reconfiguring their resources in advance. During late 2009 and 2010 the Iranian economy has been grazing the edge of the specter of inflation; increasing prices require firms to improve their productivity. The empirical proof furnished in this research suggests that managers need to appreciate the combined effect of OL and strategic flexibility since both do not contribute to the performing of cost leadership strategies. Prior research notes the relatedness of innovation for organizational growth and refreshed in times of surround intellectual turbulence such as an economic crisis (Danneels, 2002). In this sense, in order to challenge firms can afford to reject discrimination strategies and here again managers can find in OL and strategic flexibility key instruments for the performing of those strategies. Both of Porter's two strategies does not furnish better results among customers and contribute to CA at the organizational level which is not supports the basic premise at the beginning adopted in this research: That exceptional customer value and higher costs relative to participates can both be key positional benefits with which to challenge in modern markets. Any generalization of the results of this research requires caution since, like in many empirical studies; they are subject to limitations. One limitation is that the study activates cross-sectional data. Thus a possibility exists that the causal relationships may vary or even lose their meaning over the long term. A longitudinal study would defeat these limitations and support the results. Other limitations are that the study relies on the senses of General Managers as key source functioning in a specific national and industrial context. Further research examining completer and contesting models may furnish additional insights into the causal relationships that the study investigates. In this respect, the reproduction of this research to learn whether or not the mentioned before causal relationships are dependent on different surround intellectual features, such as competitive strength and technological uncertainty and using different performance signs could be interesting. Similarly, the OL scale merits testing in other competitive environment. Also, although the study measured some hidden variables by means of founded scales, the AVEs in two of these cases (discrimination strategy and customer performance) fell below 0.5. Hence, in coordination with Slater *et al.* (2010): "these measures should be visit again if they are used in future studies". Finally, one needs to gain a more detailed sympathetic of how flexibility promotes strategy performing. In this task, the careful attention of the different types of flexibility recognized in the work (Dreyer and Grnhaug, 2004; Rudd *et al.*, 2008) together with their possible interactions may be of help.

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