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Organizational learning, innovativeness and performance of financial service firms in an emerging market: Examining the mediation effects of customer-focused strategy

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Abstract

Purpose -- The study investigates the extent to which organizational learning and innovativeness can improve the firms' performance through a customer-focused strategy.

Design/methodology/approach – Data was collected from Indonesian financial service firms using a questionnaire-based survey. The 157 usable survey responses were analyzed to test the proposed hypotheses using SmartPLS.

Findings – This study finds that both organizational learning and innovativeness have a positive effect on performance. The effect of organizational learning on performance depends on the variations of the customer-focused strategy. However, innovativeness does not mediate through customer-focused strategy to enhance performance.

Theoretical implications -- As one of the types of dynamic capabilities, organizational learning and innovativeness are also important antecedents of performance.

Practical implications -- In firms that implement business model innovation, managers should focus on resource flexibility. Where it is responsive, managers need to be concerned with ensuring various usage of existing resources to understand the performance effectively.

Originality/value -- This study extends the business innovation model from the adaptability of customer-focused strategy. The findings confirm that organizational learning has a prominent role in meeting customer needs for a dynamic market.

Keywords: *Customer-focused strategy, Organizational learning, Innovativeness, Organizational performance, Knowledge management*

1. Introduction

As an essential element of knowledge management, organizational learning is recognized as a resource that results in superior performance and provides firms with a competitive advantage (Muneeb et al. 2019, Castaneda, Manrique and Cuellar 2018, Salmador and Florin 2013). Sher and Lee (2004) suggest that knowledge builds competitive advantages in three ways, by reducing operational costs, by lead times getting shortened, and introducing various products, which helps organizations retain existing customers and attract new ones. It can be argued that the knowledge

creation to meet customers' expectations is a primary driver for innovation in organizations (Watad 2019, Santos-Vijande and Álvarez-González 2007). Priem, Li and Carr (2012) suggest that the needs of consumers are dynamic and heterogeneous; thus, learning and continuous innovation are critical in the creation of new products and exploration of new markets to meet the needs of existing customers and to increase the customer base by attracting new consumers.

Many studies highlight organisational learning and learning organisation that nudge organisations towards greater competitiveness and sustained survival (Abdulkader et al. 2020, Senge 2006). This is further supported by previous studies that demonstrate the link between organizational learning and performance, or innovativeness and performance (Ferraresi, Quandt, dos Santos and Frega 2012), the relationships between a customer-focused strategy, innovation and performance remain under-researched (Sanchez, Vijande and Gutierrez 2010). The issue is especially pertinent to firms in the services sector, where the service offerings can be individualized and customer-centric, and there is an increased emphasis on service innovation (Schiavone, Leone, Sorrentino and Scaletti 2020, Witell, Gebauer, Jaakkola, Hammedi, Patricio and Perks 2017). Sindakis, Depeige and Anoyrkati (2015) attempted to address this issue and produced a framework based on the review of the literature and proposed that customer-centric knowledge management practices aim to support customer needs through the delivery of innovative services and practices.

There have been mixed results about the drivers of innovation and how they influence the operations of firms that have a presence in countries with varying economic, political and social conditions (Sanchez et al. 2010). However, knowledge management is generally seen as the main organizational strategy for creating new business processes that help organizations achieve superior performance (Wu and Chen 2014). Hence, taking the theoretical perspective of organizational learning, this study attempts to answer the following question:

"What are the effects of learning on performance through the drivers of innovation, in particular, customer-focused strategy, in service organizations operating in emerging economies?"

The services sector in Indonesia was chosen for this study as previous research on organizational learning, business processes, and innovativeness has primarily focused on developed countries, and the issue remains under-researched in emerging economies (Guo, Jasovska, Rammal and Rose 2020). Indonesia is the largest economy in Southeast Asia and the 10th largest economy globally in terms of purchasing power parity (PPP) (World Bank, 2020). The country experienced rapid

changes in the political system and regulations related to business ownership and operations in the 1960s (Yuliansyah, Rammal and Rose 2016). Although the economy of the country is proliferating and is tipped to become the fourth-largest economy in the world by PPP by 2050 (Galloway 2020), little is known about business strategy practices in Indonesia. Therefore, by studying Indonesia, not only does this research add to the limited literature on business practices in the country, but it also contributes to the literature on services firms in emerging economies contributing significantly to ASEAN region.

The remainder of the paper is organized as follows. Section 2 provides a review of the literature and Section 3 provides the development of hypotheses about the inter-correlation among variables. Section 4 presents the research methodology, and Section 5 reports the results. The last section, Section 6, discusses the findings, limitations, and suggestions for further study.

2. Literature Review

The issue of organizational learning has received much attention in the academic literature (Watad 2019). Castaneda, Manrique and Cuellar (2018) reviewed the literature in the field and found that organizational learning has been absorbed into knowledge management. While there are differences in the way organizational learning is explained, the emphasis on knowledge is central to all definitions (Attia and Essam Eldin 2018). Most authors agree that the process of organizational learning involves understanding the alignment of operational practices with the business environment of the host country, the distinctions between individual and organizational learning, and the contextual factors that could influence the learning. Lombardi (2019) explains that the knowledge acquired by organizations can influence the performance as long as it is managed, monitored, and communicated in relation to the companies' outcomes.

The influence of learning on organizational performance has long been assumed to exist. Positive relationships between organizational learning or its antecedent – learning orientation and firms' business performance have been found in previous studies (Real, Roldán and Leal 2014). Oh (2019) study how organizational learning processes influence organization performance and find that organizational justice and trust in managers moderate this relationship. Obeso, Hernández-Linares, López-Fernández María and Serrano-Bedia Ana (2020) find that organizational learning mediates the relationship between knowledge generation and performance, and between

knowledge flow and performance. Organizational learning acts as an antecedent of improved business performance and plays a mediating role in the relationships between learning orientation, organizational culture, strategy, and performance (Zheng, Yang and McLean 2010). It has also been found that the relationship between organizational learning and business performance could be moderated by factors such as firms' size and age, and the operating market conditions (Jiménez-Jiménez and Sanz-Valle 2011).

Empirical evidence supporting the positive impact of organizational learning on performance has also been found in some emerging economies. For instance, the findings of 607 firms in China showed that learning enhances firm performance (Zhao, Li, Lee and Chen 2011). Similar results were also found between organizational learning and the performance of manufacturing firms in emerging markets such as India and Pakistan (Malik and Kotabe 2009). Through the case studies of Singapore firms, Yeo (2003) explained that organizational learning enhances employees' competence, resulting in improved business performance. In summary, recent empirical examples from emerging markets have strengthened the assumption about the positive relationship between organizational learning and business performance.

The study adds to the literature by applying organizational learning in the context of a customer-focused strategy and its relationship to innovation and performance of service firms from emerging economies.

3. Hypotheses development

The ability to learn and create new knowledge is crucial to gain a competitive advantage, while resources are a source of capability. The capability and learning of the organization implicitly and explicitly are part of any strategies in the firm (Ray et al., 2004). Under the theory of capability-based view, the capability of the organization is 'the firm's capability to perform repeatedly productive tasks directly or indirectly directly to the firm's ability to create value by transforming input into outputs (Wang, 2014). A company can gain a competitive advantage from its capability to apply and perform important activities within the organization.

3.1. Organizational learning and innovativeness

Organizational learning has been highlighted as a key indicator of performance as it fosters innovation and increases competitiveness. Organizations with the capacity and ability to learn can

respond to challenges they face and alter their operations accordingly to promote innovativeness and ensure the provision of new ideas, products, or business processes (Kloot 1997). The capability to learn can stimulate innovation, even if this is achieved by organizations seeking information from customers about their needs and then developing ways to meet them. If an organization can focus on the customers' needs, it can be regarded as a pioneer in creating value for the customers (Grawe, Chen and Daugherty 2009).

Organizational learning can help improve the quality of services and products, increases employee retention, and leads to new knowledge and skills (Dixon 2017). The development of knowledge can provide the impetus to improve operational innovation in organizations, leading to operational efficiencies (Blazevic and Lievens 2004, Hatch and Dyer 2004) and improved service quality for customers. Similarly, García-Morales et al. (2012) suggest that long-term success is predicated on the firms' ability to produce changes in organizational values and practices.

Therefore, we hypothesize that:

Hypothesis 1: There is a positive relationship between organizational learning and innovativeness.

3.2. Organizational learning and customer-focused strategy

The ability to attract and retain customers is considered a critical success factor for organizations following a market-focused strategy (Tajeddini 2010). These customer-focused firms achieve their goal by (1) seeking relevant information from customers; (2) actively meeting customer needs; and (3) innovating proactively towards customers' future (Ruekert 1992).

To sustain this competitive advantage, organizations are more likely to highlight market differentiation by offering new products and/or services to distinguish them from competitors and maximize customer satisfaction (Zhou, Brown and Dev 2009). A study by Yuliansyah and Khan (2015) claims that the customer-focused strategy is similar in its emphasis on uniqueness found in the differentiation strategy. . Hence, in this study, the differentiation strategy is added as a construct of the customer-focused strategy. Besides, with learning, the organization works more efficiently even when the goals and targets are ambitious (Khatri, Baveja, Agrawal and Brown 2010), and by doing so, the firm can eliminate customer risks by controlling the quality of products and service (Das and Joshi 2007). Hence, we posit that:

Hypothesis 2: There is a positive relationship between organizational learning and customer-focused strategy.

3.3. Organizational learning and performance

Learning is found to boost organizational performance in both the quantity and quality of goods and services produced as well as in sales, which leads to enhanced profitability (Balasubramanian and Lieberman 2010). Organisational learning is considered as one of the fundamental sources of competitive advantage in the context of strategic management (Lopex, 2005). Numerous studies have found that learning improves performance. For example, Skerlavaj, Stemberger, Skrinjar and Dimovski's (2007) study on Slovenian companies found a positive association between organizational learning and performance. Thus, creating an organizational culture of learning encourages proactivity in new product and service development and improves company outcomes. We postulate that:

Hypothesis 3: There is a positive relationship between organizational learning and performance.

3.4. Innovativeness and customer-focused strategy

Innovativeness can be defined as an organizational ability to turn ideas through innovation into new products or services. Innovativeness enhances customer-oriented strategy (Grissemann, Plank and Brunner-Sperdin 2013), and therefore firms are more likely to invest in innovation (Han, Namwoon and Srivastava 1998).

Several studies support the positive relationship between customer-focused strategy and innovativeness (Foroudi, Jin, Gupta, Melewar and Foroudi 2016). According to this consideration, we hypothesize that:

Hypothesis 4: There is a positive relationship between innovativeness and customer-focused strategy.

3.5. Innovativeness and performance

It is argued that innovation has a positive association with a firm's performance (Hult et al. 2004). In an emerging market with rapid changes, an organization should continuously monitor the

internal and external changes in its environment, and innovation is one way for an organization to respond appropriately to these changes (Ngo and O'Cass 2012).

Furthermore, using the market-based theory's notion that innovation creates profit, the current view is that an organization with a high ability to develop new ideas will enhance its competitive advantages (Kong 2015). However, a lack of innovation by a firm may be a response to the economic reality in which they operate. Webster (2004, p. 734) argues that "*lack of innovation may accordingly be a well-chosen decision by a firm and may be entirely appropriate given its operating environment and internal capabilities*."

We, therefore, contend that:

Hypothesis 5: There is a positive relationship between innovativeness and performance.

3.6. Customer-focused strategy and performance

Extant literature suggests that a customer-focused strategy is one of the most important ways for a firm to achieve a competitive advantage (Lin, Tan and Geng 2013). Customer-focused organizations tend to offer excellent service quality and differentiated products in order to retain existing customers and attract new ones (Cheng and Krumwiede 2012), leading in turn to improved financial performance (Grawe et al. 2009). We expect that organizational learning will enhance innovativeness to enhance a customer-focused strategy that will improve performance (Webster 2004). Hence, we hypothesize that:

Hypothesis 6: There is a positive relationship between customer-focused strategy and performance.

Figure 1 illustrates the research framework and identifies the hypothesized relationships between the various variables identified from the extant literature.

INSERT FIGURE 1 HERE

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4. Method

4.1. *Data collection and sample*

Data was collected through a survey questionnaire distributed to service sector firms listed on the Indonesian Stock Exchange. We used purposive sampling and selected firms from the financial services sector in Indonesia. The financial services sector in Indonesia has experienced regulatory changes, most significantly since the Asian financial crisis. In 2010, Indonesia undertook the Financial Sector Assessment Program (FSAP), and today the financial system assets reflect 72 per cent of the country's GDP and the International Monetary Fund (IMF) has declared the sector to be stable (International Monetary Fund 2017). With financial inclusion stated to be one of the key enablers for the UN's 2030 Sustainability Development Goals (SDG), the financial sector is expected to play a critical role in the development of the society and the economy. Hence, we studied the sector in this research.

Poor response rate has been identified as an issue when conducting research in emerging economies. To address this issue, we took a number of steps to maximize the survey response. First, since response to electronic surveys in developing economies tend to be poor, we relied on distributing paper questionnaires. Next, we worked on the aesthetics to facilitate the respondents in completing the survey and designed our questionnaire as a booklet with a cover letter on its first page. Finally, the strategy applied by Yuliansyah, Saputra and Alvia (2016) in their survey study on Indonesia and visited the offices of companies after making appointments with the appropriate person in each company is replicated. The questionnaires were delivered by hand and we visited the premises again over a period of two weeks to collect the completed questionnaires.

As suggested by Lau and Sholihin (2005), we distributed two questionnaires to 355 service organizations in Indonesia. By sending two sets of questionnaires to each company, we were able to collect data that allowed us to generalize the findings to the various functional areas, and helped reduce common method bias (Jakobsen and Jensen 2015). Out of the 710 survey questionnaires distributed, 176 responses were returned from 88 firms. We removed incomplete responses and were left with 157 usable questionnaires. As a result of these steps, we were successful in achieving a high response rate. The final response rate of 22.1 per cent was higher than the average response rate of below 20 per cent in Indonesia for survey studies (e.g., Mardiyah and Gudono 2001). Table 1 provides demographic information about the respondents.

INSERT TABLE 1 HERE

Details about the survey instrument and measurement are presented next.

4.2. Measures

Organizational learning. In order to assess organizational learning, we used the four-item instrument proposed by Hult et al. (2004) and Hurley and Hult (1998). This instrument is a construct of learning orientation, and respondents were asked to rate the degree of emphasis on learning in their organization using a seven-point Likert scale ranging from 1 (not at all) to 7 (to a great extent).

Innovativeness. The scale for innovativeness was taken from Hurley and Hult (1998) and has previously been applied in studies by Tajeddini (2010) and Henri (2006). During Exploratory Factor Analysis (EFA) testing, we found three of the items (INNO 3, INNO 4 and INNO 5) had a lower factor loading score, suggesting correlation. Thus, we took out these items from further analysis.

Customer-focused strategy. Scholars who emphasize differentiation strategy tend to use customer-focused strategy in a broad sense. Porter (1980) separates the competitive strategy of organizations into two streams: low-cost strategies and differentiation strategies. These issues are captured in previous studies and we used the instrument developed by Auzair and Langfield-Smith (2005).

Organizational performance. To measure organizational performance, we used four basic financial indicators: return on assets (ROA), the rate of revenues, return on investments (ROI), and profitability. We derived our questions from the study by Yuliansyah, Gurd and Mohamed (2017). In this construct, respondents indicated their organizational achievement during the years (compared to prior years). Table 2 summarizes the list of measures used in the survey.

INSERT TABLE 2 HERE

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5. Analysis and results

Structural Equation Modelling (SEM) was employed to analyse the data. Unlike multiple regression analysis, where the relations between variables can be recursive or non-recursive, SEM allows recognition of a range of variables and adopts a more holistic approach to theory building. SEM also provides opportunities to overcome the limitations of multiple regression analysis and can account for the measurement error in latent variables (Hair Jr, Sarstedt, Hopkins and Kuppelwieser 2014).

Measurement models

Prior to assessing the SEM, exploratory analysis and test for uni-dimensionality were undertaken to ensure that each variable reduces to several factors. Table 3 shows that all variables are represented into one factor.

INSERT TABLE 3 HERE

The next step involved assessing the SEM. In this step, Partial Least Square (PLS) was applied because 1) PLS allows for data analysis in a small sample (Mahmood, Bagchi and Ford 2004) and 2) there are fewer restrictive assumptions in PLS about measurement scales (Vinzi, Trinchera and Amato 2010).

Hulland (1999) suggests analysing SEM in two phases: (1) the assessment model, and (2) the structural model. As identified in the literature, the measurement model was assessed by testing (a) the reliability of the individual items, (b) the convergent validity, and (c) the discriminant validity. The reliability test of individual items was determined from the scores of Cronbach's alpha and composite reliability (internal consistency). Table 3 shows that the scores of all variables ranged between 0.721 and 0.877, which is higher than the threshold 0.7 required to be deemed satisfactory (Hair, Hult, Ringle and Sarstedt 2013).

Next were the measurements of convergent and discriminant validity. Convergent validity was assessed by using the average variance extracted (AVE). Validity is deemed to be adequate when the score of AVE is higher than 0.5 (Henseler, Ringle and Sinkovics 2009). Table 4 shows that all variables exceeded 0.5. Thus, the convergent validity was satisfied.

The Fornell-Larcker measure and cross-loading were used to assess discriminant validity. The AVE's square root was compared with the correlation of latent variables to calculate the Fornell-Larcker criterion. To obtain the discriminant validity of the Fornell-Larcker criterion, the square root of the AVE along the diagonal should be higher than the correlations between the constructs. Table 4 shows that the square roots of the AVE were higher than the both the rows and columns of the off diagonal. Hence, discriminant validity was satisfactory.

INSERT TABLE 4 HERE

Measurement of the validity of discriminant using cross loading is considered adequate when each item from the construct is higher than any item of other constructs (Henseler, Hubona and Ray 2016). As shown in Table 5, all items were higher than any other constructs, and hence we concluded that the measurement model through reliability and validity were adequate.

INSERT TABLE 5 HERE

Finally, the assessment of the structural model used the mean values of the R2 of dependent variables and path coefficient tests. A test of the structural model for R2 and path analysis are presented in Table 5. The next step involved the testing of the hypotheses.

Tests of hypotheses

The first hypothesis explored the relationship between organizational learning and innovativeness. As shown in Table 6, organizational learning does not have a relationship with innovativeness (β=0.131, t = 1.034, $p < 0.10$). Thus, hypothesis 1 was not supported.

We also assumed that organizational learning had a positive association with customer-focused strategy. Regarding our hypothesis (*H2*), we found that organizational learning enabled an organization to focus on customer-oriented strategy. The statistical result of the relationship is strong (β=0.307, t = 3.125, $p < 0.01$). Thus, hypothesis 2 is supported. Additionally, we hypothesized that organizational learning has a direct effect on a firm's performance (hypothesis 3). Our structural equation model result revealed that these relationships did not exist in this study.

Further, the results of the path coefficient and t-test are β=0.283, t = 2.743 at p< 0.01. Thus, our study found support for *H3*.

Hypothesis 4 (*H4*) attempted to show that innovativeness had a positive association with customer-focused strategy. The results showed that innovation and customer-focused strategy had no association (β=-0.097, t = 0.722, p < 0.10). Thus, we did not find support for the *H4*. Similarly, Hypothesis 5 (*H5*) suggests that innovation has a direct effect on firm performance. Our study finds support for *H5* (β=0.322, t = 3.555, p < 0.01). In the final hypothesis (*H6*) we proposed that customer-oriented strategy had a positive relationship with firm performance. The finding showed that innovation does indeed have a positive effect on firm performance, although the effect is observed to be weak (β=0.168, t = 1.508, p < 0.1). Table 6 shows the results of the PLS structural model.

INSERT TABLE 6 HERE

Overall, the research study found support for hypotheses 2, 3, 5, and 6, but not for hypotheses 1 and 4. Table 7 presents a summary of the hypotheses testing.

INSERT TABLE 7 HERE

A path analysis of the relationship between organizational learning and firm performance through innovativeness and customer-focused strategy shows that organizational learning enhances a firm's performance both directly, and also indirectly through customer-focused strategy.

6. Discussion and Conclusion

Previous studies found that customers are the primary reason why a company increases its profits (Priem et al. 2012). Some scholars note that customer-orientation develops when a company focuses on learning and on creating new products or services. Learning, then, is a tool to achieve sustainable competitive advantage as claimed in many previous studies. However, as mentioned at the beginning of this paper, there is some confusion about those relationships. This research

aimed to investigate the extent to which organizational learning influenced both innovativeness and customer-focused strategy, and how they, in turn, lead to higher financial performance.

The findings show that organizational learning enhances performance directly, and organizational learning enhances performance indirectly through customer-oriented strategy, but organizational learning does not affect performance through innovativeness. This finding is in contrast to what previous literature has found about organizational learning leveraging innovativeness (Ferraresi et al. 2012). As Webster (2004) suggests, the lack of innovativeness by firms may be a reflection of the environment in which they operate. In the case of Indonesia, we find that even though it is the largest economy in Southeast Asia, it is ranked 85 in the Global Innovation Index, well below the neighbouring countries of Singapore (ranked 8), Malaysia (33), Vietnam (42), Thailand (44), and Philippines (50) (Global Innovation Index 2020). Hence, the lack of relationship between organizational learning, innovativeness, and performance is a reflection of the level of innovation in the country.

This study contributes to the innovation dissertation literature by testing the robustness of hypotheses in this study from the organizational performance perspective. By testing the mediation hypothesis, we provide an in-depth understanding on customer-focused strategy. From a practical perspective, this study suggests that managers need to improve their learning and emphasize meeting the expectations of customers as a way to improve their business practices. This understanding is expected to contribute to a better performance made by the management. Indonesia is one of the fastest-growing emerging economies in the world and shares similarities with other emerging markets in the region and beyond (Abbeloos 2013). The country's economy and institutions have transitioned from a high-centralized military dictatorship, where many industrial sectors were nationalized, to a democratic economy (Mietzner and Misol 2013). As a result of deregulations and liberalized economic policies, the middle-class has rapidly grown, and the increased purchasing power of the population has attracted new competitors in the market.

These socio-economic trends have been observed in other emerging economies, including Vietnam (Dang, Jasovska and Rammal 2020) and Pakistan (Rammal and Parker 2013). Thus, the findings can be generalized to other emerging economies, and help organizations improve their performance by following a more customer-focused strategy, and in the case of manufacturing firms, focusing on servitization. Following Grissemann et al. (2013), this research's findings

suggest that for organizations that want to leverage their performance, learning should focus on the existing products and services that meet the needs of customers. Hence, innovativeness in the context of service firms in emerging markets does not enhance customer satisfaction as a driver of performance.

This study is subject to several limitations. One limitation of the study is its research methodology. A questionnaire-based survey has several advantages as it facilitates the testing of relationship. Therefore, to develop further theoretical understanding, mixed methods could be applied to understand the reasons for the strategic choices of the firms. Future research can be undertaken to include other organizational factors such as internal control, accountability and structure through which innovation and organizational learning promote business performance (Anita et al., 2020; Said et al., 2020; Shafie et al., 2019). Although we find that both can enhance performance, they may promote higher through different mediating effects. Addressing on this perspective can extend our understanding on the underlying mechanisms for improvement of performance.

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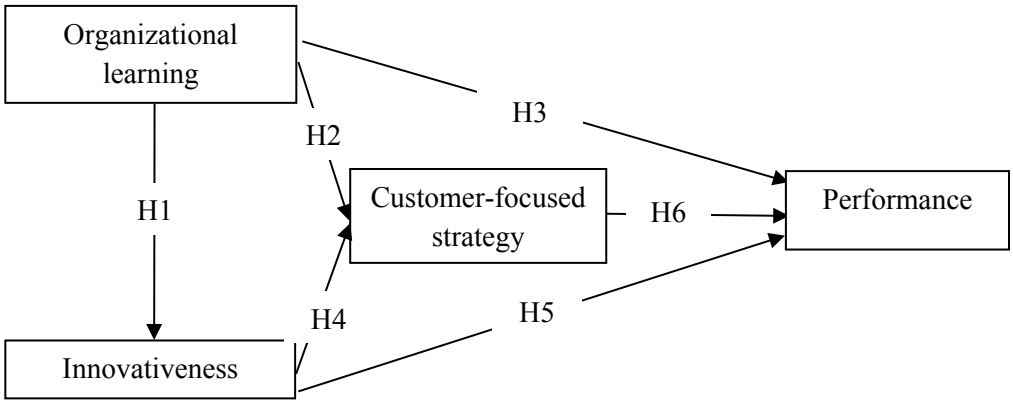

Figure 1: Conceptual framework: relationship between organizational learning, innovativeness, customer-focused strategy and performance

Table 1: Demographic information of respondents

		n	*Cumulative*	*%*	*Cumulative (%)*
Gender	Men	94	94	59.9	59.1
	Women	63	157	40.1	100
Age	< 35	49	49	31.2	31.2
	36-40	43	92	27.4	58.6
	41-45	36	128	22.9	81.5
	> 46	29	157	18.5	100
Division	Accounting & finance	52	52	33.1	33.1
	General	24	76	15.3	48.4
	Human resources	43	119	27.4	75.4
	Marketing	15	134	9.6	85.4
	Others	23	157	14.6	100
Type of Business	Banking Industry	60	60	38.2	38.2
	Financing	28	88	17.8	56.1
	Insurance	56	144	35.7	91.7
	Others	13	157	8.3	100

Table 2: List of measures

Construct	*Variable*	*Item*
Organizational Learning	OL1	Employee learning is an investment, not an expense
	OL2	Basic value includes learning as a key to improvement
	OL3	Once we quit learning we endanger our future
	OL4	Ability to learn is the key improvement
Innovativeness	INNO1	People are penalized for new idea that don't work
	INNO2	Innovation is perceived as too risky and is resisted.
	INNO3	Management actively seeks innovation and idea.
	INNO4	Technical innovation (research results) is readily accepted
	INNO5	Innovation is readily accepted in program/project management
Customer-Focused Strategy	CFS1	Making services/procedures more cost efficient
	CFS2	Improving the utilization of available equipment, services and facilities
	CFS3	Providing high quality services
	CFS4	Providing after-sale service and support
	CFS5	Customizing services to customers need
	CFS6	Introducing new services/procedures quickly
	CFS7	Providing services that are distinct from that of competitors
	CFS8	Improving the tim*e taken* to provide services to customers
	CFS9	Offering a broader range of services than the competitors
Firm Performance	FP1	Return on Assets (ROA)
	FP2	Rate of income/revenue
	FP3	Return on Investment (ROI)
	FP4	Profit

Table 3: Factor loading for organizational learning, innovativeness, customer-focused strategy and firm performance

No.	*Factors*	*Items*	***Factor loading***			
			OL	*Innovation*	*CFS*	***FP***
1	Organizational Learning (eigenvalue =1.615, % variance = 67.208)	OL1	**.611**	.334	.078	.238
		OL2	**.869**	.178	.244	.368
		OL3	**.829**	.030	.285	.310
		OL4	**.625**	.048	.227	.273
2	Innovativeness (eigenvalue =2.236, % variance = 59.518	INNO1	.121	.941	.056	.362
		INNO2	.118	.884	-.048	.249
3	Customer-focused strategy (eigenvalue =7.315, % variance = 34.832)	CFS1	.378	-.150	**.786**	.133
		CFS2	.191	-.139	**.815**	.196
		CFS3	.139	-.077	**.640**	.286
		CFS4	.332	.131	**.585**	.213
		CFS5	.224	.066	**.740**	.190
		CFS6	.153	.069	**.704**	.327
		CFS7	.072	-.045	**.690**	.263
		CFS8	.263	-.122	**.670**	.217
		CFS9	.262	-.073	**.774**	.301
4	Firm performance (eigenvalue =2.948, % variance = 48.871)	FP1	.334	.353	.324	**.900**
		FP2	.438	.290	.286	**.882**
		FP3	.278	.328	.339	**.845**
		FP4	.348	.184	.208	**.815**

Table 4: average variance extracted, composite reliability and Cronbach's alpha

	AVE	*CR*	*Cronbach's Alpha*
Organizational Learning	0.552	0.828	0.721
Innovativeness	0.834	0.909	0.806
Customer-focused strategy	0.506	0.901	0.877
Performance	0.741	0.919	0.883

AVE = average variance extracted; CR = composite reliability

Table 5: Discriminant validity of latent variables correlations

	Organizational Learning	*Innovativeness*	*Customer -focused strategy*	*Performance*
Organizational Learning	**0.743**			
Innovativeness	0.131	**0.913**		
Customer-focused strategy	0.294	-0.057	**0.712**	
Performance	0.406	0.343	0.341	**0.861**

Table 6: The result of PLS structural model: path coefficient, t-statistics and R^2

Dependent variables	**Independent variables**			R^2
	Organizational learning	*Innovativeness*	*Customer-focused strategy*	
Innovativeness	0.131 (1.034)*			0.017
Customer-focused strategy	0.307 (3.125)***	-0.097 (0.722)*		0.096
Firm performance	0.283 (2.743)**	0.322 (3.555)***	0.276 (2.683)***	0.320

*** significant at 1% (one-tailed)
** significant at 5% (one-tailed)
* significant at 10% (one-tailed)

Table 7: Summary of results

Hypothesis	*Description*	*Findings*
1	The relationship between organizational learning and Innovativeness	Not Supported
2	The relationship between organizational learning and customer-focused strategy	Supported
3	The relationship between organizational learning and firm performance	Supported
4	The relationship between Innovativeness and customer-focused strategy	Not Supported
5	The relationship between Innovativeness and firm performance	Supported
6	The relationship between customer-focused strategy and firm performance	Supported