

# Organizational Learning and Performance of Nepalese Banks

Assoc. Prof. Bharat Bhusal<sup>1</sup>

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## Abstract

*This study delves into the significance of organizational learning in Nepalese public and private banking institutions, with a focus on understanding its impact on operational efficiency. Employing a Structural Equation Modeling (SEM) approach, the research scrutinizes the relationship between organizational learning and bank performance, utilizing primary data gathered through a descriptive methodology. Drawing from a sample of 3 public and 11 private banks, encompassing 560 questionnaires with 40 respondents from each institution, the investigation reveals a substantial and positive correlation between organizational learning and the performance metrics of banks in Nepal. These findings underscore the importance of fostering organizational learning initiatives, suggesting profound implications for enhancing operational efficiency and effectiveness within the Nepalese banking sector. Moreover, the research underscores the pivotal role of organizational learning as a fundamental driver of capable functioning in both public and private sector banks. By elucidating the symbiotic relationship between organizational learning achievements and banking performance, the study advocates for managerial attention towards cultivating a learning-oriented atmosphere within these financial entities. Ultimately, the study emphasizes the intrinsic value of organizational learning as a strategic force for enhancing the performance dynamics of Nepalese banks, advocating for sustained managerial investment in nurturing a culture conducive to continuous learning and knowledge acquisition.*

**Keywords:** Organizational Learning, Public Banks, Private Banks and Bank's Performance.

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## I. Introduction

In an organizational context, organizational learning has become a significant concept that has gained momentum in recent decades. This concept revolves around the idea that organizations can learn independently; separate from the individuals within the organization where it is originated (Kearns, 2014). Organizational learning is the process of creating, retaining, and transferring knowledge within an organization. The degree of knowledge sharing is critically important for organizational learning. Learning, an indispensable component, exerts a substantial impact on the performance of organizations and aids in the attainment of a competitive edge (Sung & Choi, 2012). Organizational learning facilitates the enhancement of quality-based performance inside businesses, thereby granting them a competitive advantage in the marketplace.

The process of organizational learning, as articulated by Brix (2017) encompasses acquiring, interpreting, and utilizing information to inform decisions. In the contemporary competitive landscape, organizational learning is deemed crucial for the survival of financial institutions, with many scholars underscoring its significance for organizational success. The organizational and administrative manifestations of factors that support learning processes and contribute to the enhancement of organizational performance are illustrated by Argot and Spektor (2011). In the modern era, organizational learning is characterized by several features that are considered vital for organizational performance. It involves organizational processes that adapt

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<sup>1</sup>Mr. Bhusal is currently working in Lumbini Banijya Campus, Nepal and he can be reached by <bharatbhusal05@gmail.com>

to environmental requirements, the idea that organizations learn from their experiences, and a fundamental distinction between double-loop and single-loop learning within organizations (Kirwan, 2013). The survival and development of any organization, particularly in the banking sector, hinge upon the effective orchestration of knowledge, learning, and culture. It's important to note that organizational learning and a learning organization are distinct concepts used for specific purposes (Carmeli & Tishler, 2004). Learning is an ongoing process within the organizational context that enables individuals at various levels of hierarchy to update their knowledge through innovative and creative processes, ultimately contributing to organizational performance (Hooi, 2019). Organizational learning is a continuous process that is essential for both public and private organizations in all contexts (King, 2009). Some researchers have proposed innovative ideas that have gained prominence, as they offer potential for growth and revitalization. These ideas incorporate both social and technical philosophies derived from dynamic systems developed by researchers over the past decades (Dierkes et al., 2003).

It is against this background that this study aims to add to what is already known by looking at how organizational learning and culture affect the link between knowledge management and organizational performance in the unique setting of Nepalese banks. The aim of the study is to examine the relationship of organizational learning on the performance of public and private banks of Nepal.

### **Research questions**

- Is organizational learning related to the performance of the public and private banks in Nepal?
- Does organizational learning influence the performance of the public and private banks in Nepal?

## **II. Theoretical Framework**

Organizational learning stands as a cornerstone for the survival and development of organizations, underpinned by its profound impact on various facets of organizational performance. Hasan (2023) emphasized the pivotal role of learning processes in facilitating the continuous updating of employees' knowledge, thereby catalyzing organizational improvement initiatives.

Lusthaus et al. (2002) and Redmon et al. (2013) have extensively documented the phenomenon of rivals' responses to competitive actions undertaken by organizations, highlighting the contextual nuances that shape competitive dynamics within industries. Likewise, Argote and Spekter (2011) emphasized the significance of continuous learning, knowledge acquisition, and skill development among organizational members, positing these elements as critical drivers of professional efficacy and organizational success. The synergistic alignment of individual competencies with organizational objectives amplifies organizational credibility and fortifies its competitive positioning within dynamic market environments.

Within the specific domain of banking, the imperatives of organizational learning assume heightened significance amidst the complex and dynamic landscape of financial services. Banks, as purveyors of financial intermediation, confront multifaceted challenges ranging from regulatory compliance and risk management to technological innovation and customer experience enhancement. The study exploring the nexus between organizational learning and bank performance shed light on the transformative potential inherent within learning-oriented strategies. Hasan (2023) highlights the salience of learning processes in augmenting banks' operational efficiency, fostering innovation, and enhancing service delivery standards.

The literature give emphasis to the need for banking institutions to hold a holistic approach towards organizational learning, exceeding simple compliance-driven training programs to promote a culture of knowledge sharing, experimentation, and continuous improvement. Such initiatives not only empower employees to navigate the complexities of modern banking but also position banks as adaptive and resilient entities capable of thriving amidst disruptive market forces.

Uddin et al. (2022) examined the influence of knowledge management and organizational learning on organizational innovation. In this perspective, the research findings indicated a robust positive correlation among knowledge management, organizational learning, and organizational innovation.

Rezaei et al. (2021) investigated the interrelationships between various research variables, including organizational learning, knowledge management, and organizational performance and organizational performance; organizational learning and organizational performance; and organizational performance and organizational learning. These connections facilitate a more thorough understanding of the research themes and the researchers' interrelationships. The significance of organizational learning in financial organizations becomes apparent when team members observe their colleagues proficiently implementing the processes they have learnt. They then proceed to the subsequent phase, which is critical to the success and legitimacy of the organization. Furthermore, organizational learning investigates the establishment of these learning processes and human skills across many organizational contexts, with an emphasis on their significance within the banking industry (Hamad & Yozgat, 2017). Additionally, it aids financial organizations in adjusting their processes in order to improve their overall reputation and performance. In the framework of learning processes, institutional performance is crucial for preserving institutional authority and integrity (Kalyar & Rafi, 2013). Hence, more investigation is warranted to elucidate the manner in which organizational ideas, including structure and culture, as well as self-efficacy and attitudes, impact the instructional processes of organizational learning.

By considering these notions in conjunction with their interdependent connections, one may get insight into the central topic of any given setting, which in this instance pertains to financial institutions. As a result, these notions assume more significance for the administration and leadership of financial institutions on account of the contribution they make to the progress of the organization. For organizations, survival and development hinge on various factors, with organizational learning being foremost among them. Learning processes help employees update their knowledge, which, in turn, contributes to the organization's improvement (Hasan, 2023). Organizations that fail to deliver satisfactory results, both financially and strategically, are unlikely to attract additional resources (Kyongwon & Ban, 2012). Therefore, organizational performance is not just about success but also about competitiveness, well-being, and long-term development (Ellis et al., 2012). Without adequate performance, organizations cannot secure a strong long-term market position and competitive strength, hampering their ability to meet strategic objectives (Zhou, 2023). Organizational learning within Nepalese financial institutions is a continuous undertaking that is motivated by the attitudes of personnel toward a forward-thinking and innovative learning environment. It entails the efficient use of organizational resources and expertise to harmonize the goals of individuals with those of the organization. For these institutions, activities related to organizational learning and knowledge management are crucial for gaining a competitive edge (Parajuli, Mahad, & Lingden, 2022). In developing countries like Nepal, many banking institutions have faced challenges due to employees' resistance to adopting new approaches aligned with organizational objectives (Parajuli et al., 2022). In contrast, learning institutions foster an environment where individuals continuously develop their skills to achieve their desired objectives. In such institutions, innovative thinking

patterns are nurtured, and individuals share common goals while learning together, ultimately contributing to institutional survival and growth in the competitive contemporary era (Gautam, 2013).

Banking institutions in Nepal require structural enhancements to meet the evolving demands of the technological era, thereby attaining competitive standing globally. This study aims to evaluate the effectiveness of Nepalese banking institutions as learning organizations in meeting stakeholder needs comprehensively. It seeks to assess their capacity to absorb, integrate, and apply new knowledge within operational frameworks. The evaluation examines the alignment between institutional learning efforts and dynamic environmental demands, including technological shifts and regulatory changes. By scrutinizing their ability to foster a culture of learning and innovation, the study informs strategies for enhancing resilience and competitiveness in the banking sector.

On the basis of what members of an organization have learnt from their institutions, companies may obtain a competitive edge via the thinking, abilities, knowledge, and ingenuity of individuals (Nepal Rastra Bank, 2022). In its most recent iterations, organizational learning is vital for Nepalese financial institutions to systematically address the needs of stakeholders and accomplish organizational objectives.

### **Hypotheses**

- There is a significant relationship between organizational learning and the performance of the banks
- There is a significant effect of the organizational learning on the performance of the banks.

## **II. Research Methodology**

The survey methodology was employed for data collection, involving the administration of structured questionnaires to employees across fourteen selected banks. Employing a survey-based approach, the study selectively targets a sample comprising managers, officers, and subordinate staff within Nepalese commercial banks. The criterion for inclusion in the study is predicated on the establishments' operational history, with a deliberate focus on institutions having tenure of 15 years or more. 560 of 750 questionnaires that were given were received and considered useable, which corresponds to a response rate of 74.67 percent for the entire population. The survey research focused on a representative sample of male and female personnel holding officer-level and non-officer-level positions inside commercial banks in Nepal, with a minimum tenure of one year. Banks in Nepal are classified according to the manner in which they are owned and the extent of government intervention. A five-point scale of semantic differential agreement/disagreement was utilized for this purpose, with 1 indicating significant disagreement and 5 indicating strong agreement.

## **IV. Results and Conclusion**

### **Validity and Reliability**

The study is conducted to analyse understand the perceptual judgment of the banking staff towards the knowledge management dimensions including organizational learning with respect to the bank performance. The constructs chosen for the study and the statements prepared for assessing the perceptual judgment of the respondents should be reliable and valid. The table indicates the internal consistency, reliability, and validity of the constructs. The Cronbach's Alpha value of all the constructs is above the critical value of 0.70. Further,

the rho\_A and composite reliability values of all the constructs are between 0.75 and 0.95 critical values (Hair et al., 2021). Additionally, the average variance extracted value of all the constructs is more than 0.50 which denotes more than 50% variance among the constructs (Bagozzi, 1981). Hence, there convergent validity and reliability of organizational learning and organizational performance are established.

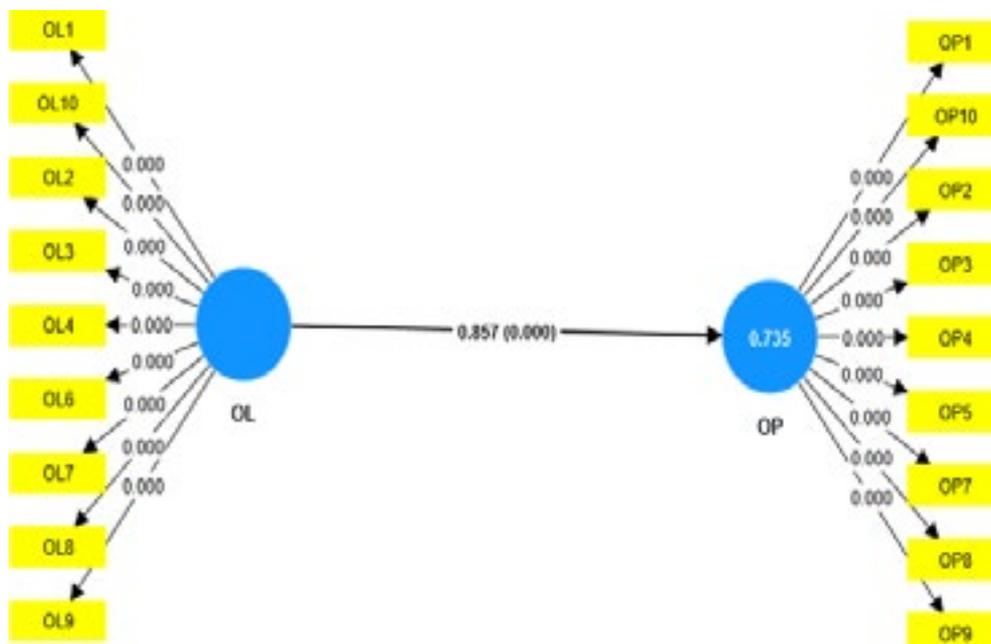
**Table 1**

*Reliability standards*

Reliability Standards	OL	OP
Cronbach's alpha	0.933	0.944
Composite reliability (rho_a)	0.935	0.945
Composite reliability (rho_c)	0.944	0.943
Average variance extracted (AVE)	0.653	0.692

**Figure 1**

*Relationship between organizational learning and performance of public sector banks in Nepal*



**Table 2**

*Relationship between organizational learning and performance of public sector banks in Nepal*

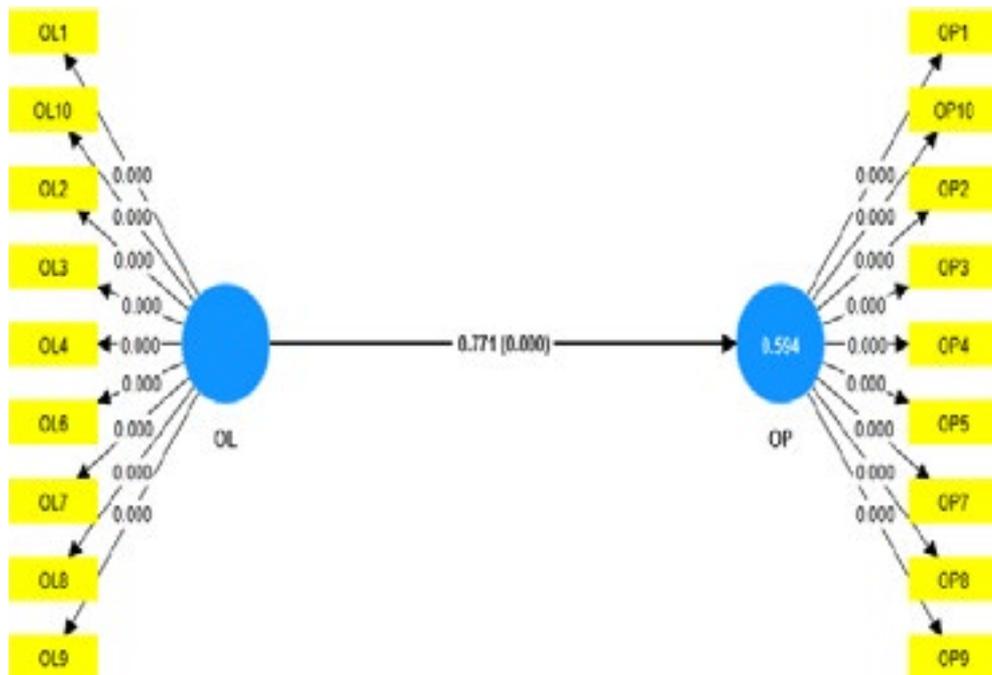
Hypotheses	$\beta$	Mean	SD	T Stat.	P Value	Decision
Organizational Learning -> Bank Performance	0.857	0.858	0.028	31.108	0.000	Reject Null

The figure1 and table 2 indicate the path relationship between organizational learning and the performance of the public sector banks in Nepal. The p-value reveals that there is sufficient statistical evidence to reject the null hypothesis ( $\beta=0.857$ ,  $t\text{-value}=31.108$ ,  $p=0.0000$ ). This means organizational learning significantly impacts the bank performance. This finding is close to the findings of Jasimuddin, et.al (2011), who conducted an empirical study in the context of Spanish organizations. They found that OL positively influence performance and innovation. This indicates that organizational learning has a significant and positive effect in the performance of the public sector banks in Nepal. Thus, organizational learning is an important component of the efficient performance of public sector banks in Nepal.

Organizational Learning and the Performance of the Private Banks in Nepal

**Figure 2**

*Relationship between organizational learning and performance of Private sector banks in Nepal*



**Table 3**

*Relationship between organizational learning and performance of Private sector banks in Nepal*

Hypotheses	$\beta$	Mean	SD	T Stat.	P Value	Decision
Organizational Learning -> Bank Performance	0.771	0.771	0.022	35.199	0.000	Reject null

The figure 2 and table 3 indicates the path relationship between organizational learning and the performance of the private sector banks in Nepal. The p-value provides statistical evidence that the null hypothesis is rejected ( $\beta=0.771$ ,  $t\text{-value}=35.199$ ,  $p<0.05$ ). According to Saunila, et al. (2015), the literature on performance has left out reflective work practices, where the members of the organization learning with the help of their own and other people's work experienced. This is concerning because these are essential aspects to achieve a better performance in the company, and since the learning process allows them to develop personally and professionally. Confirming the above, Longo, et.al (2009) affirm that an organization with a low capacity to develop learning is oriented to have a low performance. This indicates that organizational learning has a significant and positive effect on the performance of the private sector banks in Nepal. Thus, organizational learning is an important component of the efficient performance of the private sector banks in Nepal.

### Findings

There is positive and significant impact of organizational learning on public bank performance with a  $\beta$  coefficient of 0.857, a  $t$ -value of 31.108, and a  $p$ -value of 0.00, provides robust evidence to reject the null hypothesis.

With a strong  $\beta$  coefficient of 0.771, a  $t$ -value of 35.199, and a  $p$ -value less than 0.05, provides strong statistical evidence for rejecting the null hypothesis suggesting organizational learning significantly and positively influences the performance of private sector banks in Nepal. Results highlight the similarity between the findings for public and private sector banks, reinforcing the importance of organizational learning as a crucial component for efficient performance.

### Conclusion and Implications

The aim of this study was to investigate the relationship between organizational learning on organizational performance among banks operating in Nepal. A favorable correlation was found between organizational learning and the performance of banks that provide financial services, according to the findings. Through a rigorous empirical analysis, it is evident that organizational learning significantly influences various dimensions of bank performance, including operational efficiency, innovation, and customer-centricity. The findings highlight the essentiality for banks to embrace a culture of continuous learning and knowledge exchange as a strategic driver for sustained growth and competitiveness in the dynamic financial landscape of Nepal. This is in line with the conclusions reached by other scholars (Jyothibabu et al., 2010; Hussein et al., 2014; et al., 2010; Mazlumi et al., 2014; Johnson et al., 2001; Lokina, 2005; Munnaza, & Umair, 2014). Managers and authorities have to prioritize organizational learning in order to enhance the performance of the banking industry. Organizational learning emerges as a key player for fostering adaptive capacity and flexibility for evolving market dynamics and competitive pressures. By prioritizing investments in human capital development and cultivating a learning-oriented culture across all levels of the organization, banks can open new pathways for value creation and differentiation. The study's insights offer valuable guidance

for managers, policymakers, and stakeholders seeking to plot a course the complexities of the banking industry and capitalize on emerging opportunities for innovation and growth.

Managers should thus actively participate in the development of behaviors that contribute to a learning organization across all levels of management in order to improve the performance of their organizations. The positive relationship between organizational learning and performance in the study aligns with the human capital theory. Human Capital Theory asserts that investments in human capital, such as training and development, lead to improved organizational performance. The theoretical implication is that banks should invest in human capital by providing training and learning opportunities to enhance the knowledge and skills of their employees, thereby improving organizational performance.

The study extends across theoretical, practical, and policy domains within the banking industry. Drawing from the Human Capital Theory, the findings underline the strategic importance of investing in employee training and development initiatives as medium for organizational learning and performance enhancement. Banks are encouraged to adopt a holistic approach to talent management, emphasizing the acquisition, retention, and utilization of human capital resources to drive sustainable competitive advantage.

In addition, the study highlights the need for regulatory authorities and policymakers to create an enabling environment that promotes a culture of innovation and learning within the banking sector. By emphasizing learning-oriented practices and providing supportive frameworks for knowledge sharing and collaboration, policymakers can stimulate the emergence of a vibrant ecosystem conducive to long-term industry growth and stability.

The study draws the attention for banks to review their organizational structures and processes to facilitate continuous learning and adaptation. Managers are advised to hold proactive leadership styles that prioritize knowledge creation, experimentation, and reflective practice as means of driving organizational alertness and responsiveness to market changes. By institutionalizing mechanisms for capturing and disseminating best practices, banks can foster a culture of continuous improvement and innovation that resounds throughout the organization. Through a customer-centric approach to organizational learning, banks can cultivate enduring relationships and establish themselves as trusted partners in the financial well-being of their clients.

The study highlights the transformative potential of organizational learning as a catalyst for driving sustained performance improvements and competitive advantage within the Nepalese banking industry. By embracing a culture of innovation, collaboration, and continuous improvement, banks can arrange themselves as industry leaders poised to flourish in an increasingly dynamic and interconnected global economy.

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