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The Impact of Learning Organization Practices on the Subjective Performance of Employees: The Case of the Islamic Financial Institutions (IFIs) of Developing Countries

Muhammad Abdul Rehman Shah¹, Meher Bano², Shaherbano³

¹COMSATS University Islamabad, Pakistan

²International Islamic University Islamabad, Pakistan

³University of Engineering and Technology, Taxila, Pakistan

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Contact Information



INSTITUTE OF ISLAMIC BANKING (IIB)
UNIVERSITY OF MANAGEMENT AND TECHNOLOGY



C-II, Johar Town, Lahore



+92-42-3521-2801-10 (Ext – 3418)

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The Impact of Learning Organization Practices on the Subjective Performance of Employees: The Case of the Islamic Financial Institutions (IFIs) of Developing Countries

Muhammad Abdul Rehman Shah^{1*}, Meher Bano² and Shaherbano³

¹COMSATS University Islamabad, Pakistan

²International Islamic University Islamabad, Pakistan

³University of Engineering and Technology, Taxila, Pakistan

Abstract

Drawing upon the transformative learning theory, the purpose of this study is to explore the relationship between learning organization practices and the subjective performance of employees (moderated by employee engagement) in the emerging financial markets of Malaysia, Pakistan, and Indonesia. There are seven dimensions of learning organization practices including continuous learning, collaborative and team learning, system to capture learning, empowering employees, connection with the organization, strategic leadership, and inquiry and dialogue. All of these dimensions have various impacts on the subjective performance of employees. Following the cross-sectional research design, the hypotheses were tested using structural equation modeling. A survey of 602 employees working in different departments of various Islamic financial institutions (IFIs) of three developing countries namely Malaysia, Pakistan, and Indonesia was conducted. The findings of this study highlight the importance of learning organization practices in the organizations. The results revealed that learning organization practices affected the subjective performance of employees with the maximum coefficient of $\beta=.681$, which shows that an increase in learning organization practices affects the subjective performance of employees positively in the emerging Islamic financial markets of Malaysia, Pakistan, and Indonesia. The current study recommends that the impact of learning organization practices remains crucial in increasing the subjective performance of employees in the IFIs of the developing countries. In previous studies, the association between learning organization practices and subjective performance was explored through the transformative learning theory with a special focus on the conventional financial institutions of the developed countries Whereas, the current study explores the impact of learning organization practices on the subjective performance of employees in the case of the IFIs of three developing countries.

*Corresponding author: abdul.rehman.vt5211@iiu.edu.pk

Keywords: employee engagement, Islamic finance, learning organization practices, subjective performance

Introduction

Technology affects the learning environment of an organization that allows it to compete in the modern world. Indeed, learning marks the process of continuously enhancing and utilizing one's knowledge in developing one's skills and capabilities. In the current decade, business instructors have been facilitating and handling organizational learning as a tactic to support their respective organizations to remain competitive (Kim et al., [2017](#)). Henceforth, leading organizations have developed an ideal learning environment and they remain a place where employees get the opportunity to continuously learn new practices which are in accordance with the organizational goals (Lemmetty & Collin, [2020](#)). It helps the employees to be creative, innovative, to take initiatives, and to introduce innovative ideas in the organizational culture. In a learning organization, employees work as a unified team, having a common purpose and with the same directions, to achieve the desired goals and objectives of their respective organization in the modern world (Moore & Klein, [2020](#)). Furthermore, a learning organization constantly expands its capacity to learn (Mohamed & Saifudeen, [2016](#)).

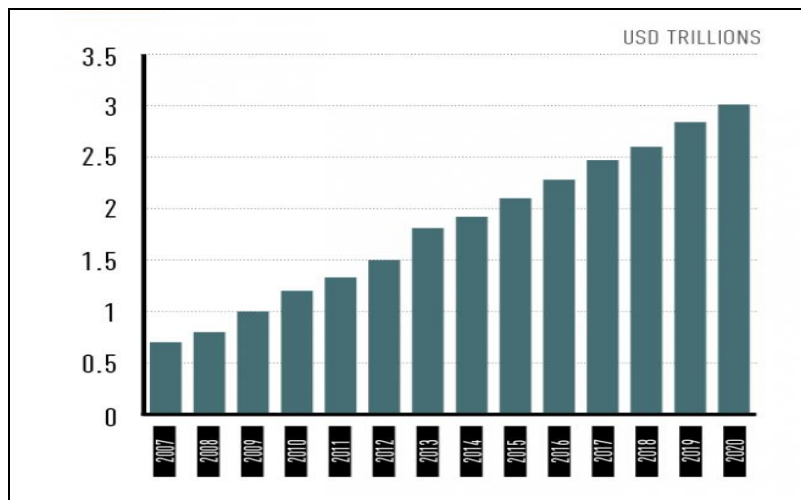
The global Islamic financial market is mounting temperately due to the huge investments in the halal sectors, Islamic mutual funds, infrastructure development, and Sukuk bonds (Raza et al., [2019](#)). There are growing trends especially in the development of products and services in compliance with the Shariah. These driving factors are bringing investment towards an inclusive growth of the economy (Nawaz et al., [2019](#); Shah & Raza, [2020](#)). Interestingly, Islamic banking has developed extensively during the last few years and is growing all over the globe day by day. In Young's IFIs Report 2013, it was mentioned that the size of the Islamic finance industry was expected to increase from \$1.66 trillion to \$2.1 trillion in 2015.

We can see the actual and expected growth of the Islamic financial assets globally from 2007 to 2020 in Figure 1. In 2009, these assets recorded a value of 1 trillion USD and afterwards, their value reached 2.5 trillion USD. Their value was forecasted to hit 3 trillion USD in 2020 according to the report of *IJIMS*. The development and stability of the Islamic financial industry benefits Muslim countries particularly and the rest of world generally in terms of economic development, poverty reduction, business opportunities, trade balances, capital formation, financial inclusion, and the circulation of conserved wealth. Shah et al. ([2017](#)) noted that the contribution of the IFIs to economic growth is well-

documented and profound as compared to the interest-based institutions in the same economy because the IFIs are quite different in the nature and composition of their assets and liabilities.

Figure 1

Expected Islamic Assets Globally



Source: International Journal of Internet Manufacturing and Services (*IJIMS*)

The purpose of the current study is to investigate how learning organization practices affect the subjective performance of employees in the emerging IFIs of Malaysia, Pakistan, and Indonesia. In the current decade, IFIs have been growing rapidly with an important role to play in the economy. So, to gather such procedures and variables which enhance the performance of the IFIs is the major concern of the current study.

The significance of this study is paramount in the literature as it helps the IFIs to focus on increasing organizational performance because learning organization practices constitute the most critical and crucial factor that significantly influences the performance of the employees, working individually or in teams, as well as the performance of the organizations (Suganthi, [2019](#)). It also helps the IFIs to identify measures that enhance the engagement of the employees with the organization, as only those employees learn and perform better who are highly engaged (Ali et al., [2020](#)). Similarly, this study also contributes to the literature by investigating the relationship of learning organization practices with the subjective performance of

employees in the IFIs of three different countries, as this relationship was not studied before.

The subject matter of the study is put forth in the first section labelled 'introduction' and the relevant literature is reviewed in the second section. The third section explores the data and the research design. In the fourth section, the findings of the study are discussed in detail. In the last section, the authors conclude the subject, recommend the policies, and highlight the limitations of the study.

Literature Review

Learning Organization Practices

Learning organization practices change with the passage of time and develop different dimensions in diversified organizations (Kim *et al.*, [2017](#); Manuti & Giancaspro, [2019](#)). Senge ([1990](#)) elaborated the learning organization as "An organization in which people continuously expand their abilities and capacity to create results, exploring innovative ideas of teamwork new and liberal patterns of thinking are nurtured; collective aspirations are fixed free; people are learning to work collaboratively." Further, Malik and Garg ([2020](#)) posited that the concept of learning organization practices is a very popular and attention-generating concept. It has attracted many theorists from sociology, anthropology, social psychology, management and philosophy, who have made significant efforts to define it. According to Antunes and Pinheiro ([2020](#)), the key factor in a learning organization is that the managerial practices are processed by the organization. In fact, a learning organization is a combination of both adaptive learning (coping) and generative learning (creating). Adaptation to change is not sufficient for an organization coping with it; rather it is a major issue (Kim *et al.*, [2017](#); Malhotra *et al.*, [1996](#); Song & Chermack, [2008](#)).

Some authors have used the terms 'learning organization' and 'organizational learning' interchangeably, while others have stated major differences among them and have also established various relationships among both the concepts. The existing literature emphasizes the processes of a learning organization. In a comparative sense, learning organization depends upon implementation as compared to organizational learning. The latter concentrates on using definite diagnostic and evaluative methodological tools which assist in modifying and evaluating the eminence of the learning processes in the organization (Dodgson, [1993](#); Easterby-Smith & Araujo, [1999](#); Manuti & Giancaspro, [2019](#); Moore & Klein, [2020](#); Ortenblad, [2001](#); Tsang, [1997](#)). Similarly, McHugh and Slavney ([1998](#)) found that organizational learning creates stress on human resource

management, training, knowledge and skill achievement, whereas learning organization calls for organizational capability. Reynolds and Ablett (1998) postulated that learning organization is aimed to improve the ability of learning; it is learning at organizational level which leads to the creation of a work environment that supports learning. Therefore, learning organization exists where individuals continuously learn to gain efficiency and effectiveness in order to develop themselves as professionals and to enhance their skills and capabilities. In short, learning is simply not just for survival but is also aimed to enhance one's ability to create.

In line with the existing knowledge stream, learning organization can be understood as having the following seven dimensions.

Creating Continuous Learning Opportunities

It refers to effective planning and investing in giving enticements to support learning and providing a platform to learn and solve problems (Eraut, 2004; Marsick & Watkins, 1999).

Promotion of Inquiry and Dialogue

It involves learning from others and their experiences. It enhances the analytical skills required to articulate opinions and also strengthens our acceptance of the ideas emanating from teamwork and the workplace. It enables us to communicate efficiently, thus creating an environment which leads to individual as well as organizational growth (Dewey, 1986; Goldstein, 2003; Manuti & Giancaspro, 2019).

Encouraging Collaboration and Team Learning

Effective collaboration is a very important aspect and it is more likely to occur in decentralized organizations. It enables the lower level employees to feel free to speak and express their ideas in the presence of the higher management of the organization and vice versa. Similarly, team learning involves knowledge sharing among peers to achieve higher goals and organizational objectives. Teams are established on different levels to enhance the capacity to work effectively. People get a chance to learn collaboratively through teamwork. It helps an organization to achieve the common goals (Marsick & Watkins, 1999; Trabona et al., 2019; Watkins & Marsick, 1997).

Establishment of a System to Capture Shared Learning

Watkins and Marsick (1997) imply that through a continuous learning system, organizations find ways to secure learning practices and to use them in the future

through high employee turnover and business culture changes (Levitt & March, [1988](#); Marsick & Watkins, [1999](#); Moore & Klein, [2020](#); Pokharel & Dudley, [2010](#)). A system of shared learning is necessary for creating and maintaining information to improve organizational performance (Malik & Garg, [2020](#); Tippins & Sohi, [2003](#)).

Towards a Collective and Empowering Vision

Organizational structure is significant in any firm of the modern world. Argote ([2012](#)) stated that a rigid and firm structure of an organization provides less opportunities for its employees to intermingle, so they cannot achieve collective vision. Further, Card ([2020](#)) posited that collective vision helps organizations in defining various learning processes and uniting them to achieve organizational goals with a firm determination.

Connecting the Organization to its Environment

The most difficult phase in an organizational setup is to cope with the changing environment and then surviving successfully (Ferreira et al., [2020](#); Levitt & March, [1988](#); Lipshitz, [2006](#)). The longer an organization takes to identify changes in the environment, the less are its chances to strengthen its position in the business world (Porter & Kramer, [2006](#)).

Further, Garvin ([1993](#)), Song et al. ([2009](#)) and Nica et al. ([2016](#)) stated that for the survival of the organizations, they need to share learning in order to enhance their capacity in a competitive environment.

Strategic Leadership

Barney ([1991](#)) and Peteraf ([1993](#)) explained that the purpose of the strategic leadership is to provide strategic benefits to the organization in a dynamic environment through the reallocation of organizational resources and employees' capabilities (Boal & Hooijberg, [2000](#); Covin & Slevin, [2017](#); Marsick & Watkins, [1999](#); Porter & Kramer, [2006](#); Weldy, [2009](#)). The strategic leadership can maneuver organizational rituals, raise limitations, alter symbols, and award bonuses to improve the performance of an organization (Carter & Greer, [2013](#); Shao, [2019](#)).

Subjective Performance

Mackie et al. ([2010](#)) defined organizational performance as “the effectiveness of the organization in fulfilling its purpose.” Performance is the fundamental aim of all organizational activities. An organization's survival depends upon its performance in the economy. It is crucial for the organization to develop

appropriate means and methods to achieve the targeted performance and to determine accurate performance measures (Becker & Gerhart, [1996](#); Dess & Robinson Jr, [1984](#); Soulliard et al., [2019](#)).

Increasing organizational performance is an issue of major concern and organizations strive to find ways to maximize their performance. Cohen and Bailey ([1997](#)), Stock ([2004](#)), DeChurch and Mesmer-Magnus ([2010](#)), and Dyson et al. ([2020](#)) have stated that organizations are focusing on team performance and effectiveness which will eventually lead them to surge their organizational performance. Furthermore, Demere et al. ([2019](#)) defined the concept of team performance as the matter of how well a team achieves the esteemed objectives.

For a successful team, Bell ([2007](#)) mentioned that team members need to achieve team goals by putting in their efforts with complete expertise and through direct team processes, efficiently. Notably, a model has been developed with a systematic framework to examine the behavior of team members and their performance in the field of management which is referred to as input - process - output model (Cannon-Bowers & Salas, [1997](#); Dyson et al., [2020](#); Helfert, [1998](#); Stewart & Barrick, [2000](#); Stock, [2004](#)). The basic notion of the model is that a good number of input variables contribute to team performance, which in turn influences the outcome of the variables. Furthermore, it is presumed that an individual's vision of his job tasks and psychological position affect his ability to get engaged in work. Several researchers have postulated different psychological conditions for engagement (Barrick et al., [1998](#); Demere et al., [2019](#); Goldstein, [1997](#); Kahn, [1990](#); Nica et al., [2016](#); Sundstrom et al., [1990](#); Weldy, [2009](#)).

Employee Engagement

Kahn ([1990](#)) elaborated engagement as the synchronized employment and appearance of a person's self-assertion, that is, a persons' 'preferred self' in job behaviors. This specific behavior helps organizations to work and to support others for personal survival (physical, cognitive, and emotional) along with the accomplishment of full performance. Employee engagement is crucial for an organization's success. It is a process in which employees are expected to work proactively and collaborate with others while remaining committed to their organizational goals and objectives and meeting high performance standards, which shows that organizations prefer engaged employees (Attridge, [2009](#); Bakken & Torp, [2012](#); Bakker et al., [2005](#); Dyson et al., [2020](#); Schaufeli et al., [2006](#); Soulliard et al., [2019](#)).

Engaged employees perform better as compared to non-engaged employees. They have a positive attitude and behavior, a healthy lifestyle and the potential to share their knowledge and skills with others. Indeed, engagement has a strong relationship with job performance. Moreover, job performance is the accumulated value of an organization determined by a set of behaviors contributed by employees, directly or indirectly, for achieving the organizational goals (Macey & Schneider, 2008; Rich et al., 2010). Although, Kahn (1990) did not establish a relationship between job performance and engagement; however, there are several theories that provide evidence about the existence of such a relationship. Those employees who are fully committed to their jobs not only put in their physical efforts but also exert cognitive and emotional energies (Ashforth & Humphrey, 1995; Kahn, 1990; Nica et al., 2016; Tippins & Sohi, 2003). On the contrary, the employees who are disengaged do not prefer putting in their energies whether physical, cognitive and emotional and it is reflected in the tasks performed by them (Demere et al., 2019; Goffman, 1961; Hochschild, 1983; Kahn, 1990).

Theoretical research links three types of energies to job performance. Firstly, physical energy has a high impact on achieving organizational goals because it enables the execution of organizationally esteemed behaviors at an amplified level of efforts (Kahn, 1990). Moreover, people's work roles to a large extent depend upon the behavioral expectations of others in their organization (Katz & Kahn, 1978; Malik & Garg, 2020). Secondly, the investment of cognitive energy into work roles stimulates behavior which is more focused, observant and dedicated (Goldstein, 2003; Kahn, 1990; Manuti & Giancaspro, 2019). An increase in cognitive investment eventually results in an increased performance. Finally, investing emotional energy into work goals contributes towards enhancing the performance of an organization in numerous ways. It eventually leads to increased performance because of the effective relations among the co-workers in the achievement of organizational goals (Ashforth & Humphrey, 1995; Manuti & Giancaspro, 2019; Ortenblad, 2001). It also helps the employees to meet the emotional needs of their work roles (Boal & Hooijberg, 2000; Covin & Slevin, 2017; Kahn, 1990; Porter & Kramer, 2006).

Overall, we found that there was no study conducted to explore the relationship between learning organization practices and the subjective performance of employees of the IFIs of the developing economies of Malaysia, Pakistan, and Indonesia moderated by employee engagement. The dimensions of learning organization practices affect the subjective performance of employees equally in every organization. Yet, until now, no comprehensive study has explored the said area in the emerging IFIs of the developing economies. After reviewing the

literature, the following hypotheses were proposed about the nature of the relationship between the above explained variables.

H¹: Learning organization practices are significantly correlated with the subjective performance of employees of the IFIs.

H²: Employee engagement moderates the relationship between learning organization practices and the subjective performance of employees of the IFIs.

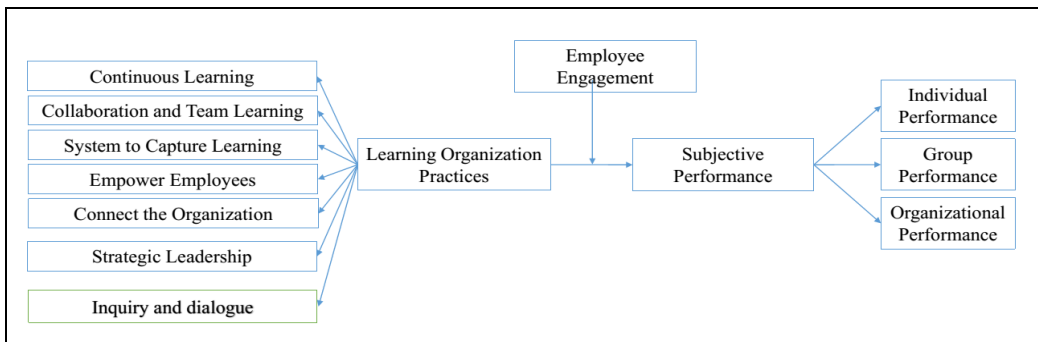
Research Methodology

Research Model

We intended to explore the relationship between learning organization practices and the subjective performance of employees moderated by employee engagement in the IFIs of the developing economies of Malaysia, Pakistan, and Indonesia. In the current research model, the relationship between learning organization practices and the subjective performance of employees was developed by following Di Milia and Birdi (2010) and moderated by employee engagement in line with Chang (2016), as shown in Figure 2.

Figure 2

Research Model



Sample and Procedures

We selected a sample of 850 participants working in the IFIs of three developing countries namely Malaysia, Pakistan, and Indonesia. The IFIs included Islamic banks, Takaful operators, and *Modarb'ah* companies of these countries. Henceforth, 286 questionnaires were distributed in the IFIs of Pakistan, 280 in the IFIs of Indonesia and another 280 in the IFIs of Malaysia. Questionnaires were distributed in five Islamic banks, four Takaful operators and one *Modarb'ah* company. We received 602 usable questionnaires, 226 from Pakistan, 190 from

Malaysia and 186 from Indonesia with a response rate of 70%. Non-probability sampling (convenience sampling) was used to collect the data on the basis of the easy availability of the employees. The questionnaires were formulated in English as the targeted employees in all the three countries had a bachelor's degree and most of them were serving at managerial posts.

Measures

We consulted the literature in order to obtain reliable measures. We used the tools validated and compared in the literature. The questionnaire included thirty-four statements and additional questions about the demographic and professional background of the respondents.

It was mentioned earlier that the questionnaire was adopted. It was divided into four sections. The first section contained the questions and statements related to the demographics and the work background of the respondents. The second section comprised the questions no. 1-21 which were related to the learning organization practices. The questions were designed according to the Dimensions of Learning Organization Questionnaire (DLOQ). Watkins and Marsick (1997) developed DLOQ which has seven dimensions including continuous learning (CL), team learning and collaboration (TLC), embedded systems (ES), empowerment (EMP), systems connections (SC), strategic leadership (SL) and dialogue and inquiry (DI). Each dimension was measured using three questions. DLOQ has been validated and used in various research settings in many countries (Jamali et al., 2009; Lien et al., 2006; Song et al., 2009; Yang et al., 2004; Zhang et al., 2004).

The third section was related to the subjective performance of employees and it comprised 10 questions. Following Triguero et al. (2012), the questions were designed in accordance with the learning organization practices aimed at seeking the moderating effect of employee engagement on their subjective performance in our selected organizations. The questionnaire measured the three dimensions rather than the levels of subjective performance, including individual level performance (ILP) using 3 questions, that is, ILP1-ILP3, group level performance (GLP) using 3 questions, that is, GLP1-GLP3 and finally, organization level performance (OLP) using 4 questions, that is, OLP1-OLP4.

The fourth section of the questionnaire measured the effects of the moderating variable, that is, employee engagement. It comprised 4 questions developed by Medlin and Green (2009). Several researchers have used it in various studies, such as Bakken and Torp (2012), Rich et al. (2010) and Schaufeli et al. (2006).

Analysis

In Table 1, we can find the frequencies of the demographics. The table depicts that most of the respondents were males and belonged to the age group 40-50 years. Most of them had been serving in their respective organization for 5-7 years. The maximum educational level observed was masters with a frequency of 250.

Table 1

Demographics and Frequencies

S #	Demographics	Frequency	
1.	Gender	Male	432
		Female	170
			602
2.	Age	20 – 30	111
		30 - 40	207
		40 – 50	275
		50 and Above	9
			602
3.	Qualification	PhD	95
		MPhil	82
		Masters	250
		Bachelors	175
			602
4.	Tenure	Less than 1 year	47
		1-2 years	212
		2-5 years	233
		5 – 7 years	53
		7 above	56
	602		

Correlation Analysis of Variables

Correlation analysis shows the interdependency of variables, that is, how much the dependent variable is correlated with the independent variable. Pearson's correlation analysis was performed to examine the relationship between the research variables illustrated in Table 2.

As illustrated in Table 2, a significant relationship exists between learning organization practices and the subjective performance of employees with the moderating influence of employee engagement. Learning organization practices

have a significant and positive relationship with the subjective performance of employees, which means that learning organization practices can increase the organizational performance of employees. Employee engagement also significantly influences this relationship, which suggests that learning organization practices lead to an increased performance in the IFIs of developing countries when the employees are more engaged in their work roles.

Table 2

Pearson's Correlation Analysis of Variables

Independent Variable	Dependent Variable		
	AVG LO	AVG SP	AVG EE
LO	1	.584**	.637**
	100		
SP	.584**	1	.553**
		101	
EE	.637**	.553**	1
			101

*. Correlation is significant at 0.05 level (2-tailed)

**. Correlation is significant at 0.01 level (2-tailed)

Regression Analysis

A direct regression analysis between the independent and dependent variables was conducted. However, we did not introduce moderation in the analysis and the results of the model are presented below in Table 3.

Table 3

Regression Results without Moderation

Variables	Coefficients	Significance	Model Specifications	
<i>Constant</i>	.937	.003	R^2	.349
			R^2_{adj}	.343
<i>Learning organization</i>	.681	.000	$F Value$	52.592
			Sig	0.000
			Dependent Variable: Subjective Performance	

The results of the regression analysis show that the model is significant with F value 52.592. Learning organization practices explain around 34 percent variance in the dependent variable, that is, subjective performance ($R^2 = 0.349$; $R^2_{\text{adjusted}} = 0.343$). The results of the regression analysis with the moderation of employee engagement are shown in Table 4. Significant results were depicted after performing the regression analysis with moderation.

Table 4

Regression Results with the Moderation of Employee Engagement

Variables	Coefficients	Significance	Model Specifications	
<i>Constant</i>	.769	.210	R^2	.389
<i>Learning organization</i>	.427	.000	R^2_{adj}	.377
<i>Employee engagement</i>	.281	.007	<i>F Value</i>	22.055
<i>LO x EE</i>	.145	.025	<i>Sig</i>	0.000 ^b
			<i>R²Change</i>	0.019

Dependent Variable: Subjective Performance

In Table 4, the regression results depict the impact of learning organization practices on the subjective performance of employees. Accordingly, the model was found to be statistically significant ($F = 22.055$; $p < 0.01$). All the explanatory variables included in the model explain around 37.7 percent variance in the dependent variable ($R^2 = 0.389$; $R^2_{\text{adjusted}} = 0.377$). Learning organization has the coefficient ($\beta = .427$; $p \leq 0.01$) and employee engagement has the coefficient ($\beta = .281$; $p \leq 0.01$). All of them have a significant effect on the subjective performance of employees in the IFIs.

The relationship between variables was found to be strong and statistically significant as learning organization affected employee performance positively with a coefficient value of 0.681. It implies that a one-unit change in the learning organization brings 0.681% change in the employees' performance in the IFIs of the selected developing countries. Similarly, it also implies that a one-unit change in employee engagement affects their performance by 0.281%.

Pearson's correlation showed that learning organization practices, subjective performance and employee engagement are significantly correlated with each other (Becker & Gerhart, [1996](#); Dyson et al., [2020](#); Soulliard et al., [2019](#)). These findings

imply that the IFIs need to consider learning organization practices and employee engagement in order to improve the performance of their employees at all levels.

Discussion

A significant correlation was found between learning organization practices and the subjective performance of employees in the IFIs of three developing countries namely Malaysia, Pakistan and Indonesia. Furthermore, employee engagement moderates this relationship on individual, team and organizational levels. Learning organization practices have a positive impact on the subjective performance of employees only when employees are engaged in their work roles and job tasks in the IFIs of the selected developing countries. Although, previous research on the same subject was conducted mostly in non-financial institutions; however, we found a positive relationship between learning organization practices and the subjective performance of employees and also found a significant correlation among the independent and dependent variables in financial institutions.

Practical Implications

This study is useful for the IFIs as it highlights the importance of learning organization practices and employee engagement in order to improve the performance of employees individually, in groups and overall, in the organization. Our regulatory authorities need to improve learning organization practices and introduce new and innovative ways of learning to improve the subjective performance of employees in the IFIs of the selected developing economies. They also need to plan new and innovative strategies to enhance the engagement level of the employees as engaged employees are enthusiastic in learning and show better output as compared to the employees who are not engaged.

Limitations and Future Research

This research has many limitations as it was conducted in the IFIs where employees hide the relevant information because of their personal interest. Therefore, the extracted results cannot be generalized. Future research is recommended here to be carried out in other industries and different departments using job satisfaction, leadership and financial incentives as moderators. The various dimensions of learning organization practices can also be studied separately to further investigate their individual impact on the subjective performance of employees.

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