

Measuring the Impact of Learning Organization on Employee Retention, Competitive Advantage and Financial Performance in the BPO industry

Rajesh N. Pahurkar, Jaya Nair, Ashutosh Kolte

Abstract: *In knowledge intensive industries such as the Business process Outsourcing and the Offshoring or shared service centres, the approach to learning has a significant role to play in deriving competitive advantage from domain experts who have had exposure to multiple clients who may have had a presence across the globe. The organizational experience gathered over a period of time is most relevant when redesigning processes, leveraging automation and driving business impact through higher revenue for the clients. The BPO industry is at a point of inflection where retaining top performers to showcase deep domain expertise, access to technology and a learning culture can be a huge differentiator that influences client's choice of vendor partners. The current paper provides a Learning organization framework and establishes a link with indicators of organizational performance – employee retention, competitive advantage and financial performance. A questionnaire survey of managers from the BPO sector in India has been conducted. The findings indicate that a robust learning organization is critical to retaining talent and gaining competitive advantage both of which have a mediating effect on the financial performance of the organization. Conclusions have been drawn from the statistical analysis and implications for the industry have been recommended.*

Keywords : *Learning organization, Competitive advantage, Employee Retention, Financial Performance, Organizational performance.*

I. INTRODUCTION

Global competition, regulations, and changing technology reinforce the need for outsourcing companies to reinvent themselves and re-imagine business processes as they adapt to end-customer needs and adopt technological advances. Innovation can have an immediate impact on organizational performance (Hult et al., 2004; Kleinschmidt, Cooper, Elko, 2000; Erdil et al., 2004; Rubera and Kirca 2012). Innovation in products and services is crucial for sustained competitive advantage and organizational performance (Dougherty and Hardy, 1996). In the BPO industry where client demands and profit margins drive innovation, the ability to leverage experiential learning and domain knowledge can influence

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client confidence and contract renewal. Research in the past focused on external factors developing a market based view of competitive advantage (Porter 1985), and some focused on the internal factors developing a Resource based view of competitive advantage (Barney, 1991). Intangibles such as Organizational processes, attitude towards learning, Knowledge management practices, Organizational behaviour and Human Resource policies are as much a part of the internal resources as are the moveable and immovable assets. Building a robust learning and development process, is detrimental to encouraging Organizational Learning, Team learning and Individual learning. An organization that has developed these structures is able to successfully leverage the knowledge that resides within its teams to strategically align learning goals with the organizational objectives; these qualify as a Learning Organizations. Retaining employees who have a deep understanding of the domain is crucial to reimagining service delivery using automation tools to improve quality of service and impacting revenue. Offering a work environment that encourages self-development by providing learning opportunities can be a major retention strategy. Skilling for jobs of the future and building a environment that encourages constant up-skilling encourages high performers to stick with the organization and grow with it. This ability to innovate can be a source of competitive advantage as clients look for vendor partners who can engage with them in the digital transformation journey. The current study attempts to understand the link between Learning organizations and competitive advantage, employee retention and financial performance.

II. THEORETICAL BACKGROUND

The concept of Learning Organization was developed by Peter Senge (1990) to identify organizations which facilitate the learning of its members and continuously transform themselves by achieving personal mastery, team learning, overcoming mental models and nurturing a shared vision. Senge introduced the fifth element 'system's thinking' that integrated all the four elements together and helped see the bigger picture. David Garvin built on this idea and highlighted that continuous improvement requires a commitment to learning (Garvin, 1994). Organizational culture that is transparent, rewards performance and encourages experimentation is the hallmark of a Learning organization (Gephart, 1996). A mature leadership that mentors its team, ensures personal goals are aligned with the organizational goals and encourages and rewards shared learning is able to retain its best

talent. Integrating external learning with individual experience and evolving technology can stimulate novel ideas and usher in transformation (Levitt & March, 1996) managed through robust systems, processes and routines and become competitive (Argyris and Schon, 1996).

In the BPO industry, domain expertise developed over time can positively impact the success of the organization through innovative products and services that can be commercially exploited. Some of the gaps in the older models all of which have their origins in the west and the manufacturing world, were built in a static external environment. Senge freezes on a couple of variables to the exclusion of some other behavioural traits that can influence organizational learning. None of these models have been applied to the BPO industry, where talent mobility has been a major challenge. The 'what's in it for me' or the WIIFM factor has been given a complete miss. Some of these gaps have been addressed in the model for the VUCA world that has been proposed (Nair & Pahurkar, 2016). The attributes and characteristics of a learning organization applicable for the BPO industry are Organizational environment, External connect, Transformational Leadership, entrepreneurial orientation, Organizational Learning and Knowledge Management (Nair & Pahurkar, 2016). This model takes into account the need to stay constantly connected with the external environment where evolving technology is a constant threat, the role of transformational leader engaged with the team and creating a positive work environment; need for entrepreneurial mind-set to drive innovation from within; time for reflection and shared learning and robust knowledge management framework.

Developing the workforce in the BPO by investing in skill enhancement and leveraging latent capabilities dormant within the organization in order to gain competitive advantage becomes possible when the high performers are retained by the organization. Learning Organizations proactively, up-skill the workforce and empower them with the competencies required to re-imagine their business, innovate and provide value, that can bring in competitive advantage. BPO employees who are acutely aware of the threat posed by digitalization of work are seeking learning opportunities to up-skill themselves for the jobs of the future. With the arrival of disruptive technologies and changing workforce demographics, re-skilling by investing in Learning and development can become a great retention strategy since the high potential members on the team, who are capable of new ideas and creative thinking, and are constantly surveying the landscape to enhance their skills and stay relevant. Based on the observations presented we hypothesize that:

H1: Learning organizations and employee retention is significantly related

The capacity of the organization to coordinate, orchestrate and deploy its knowledge sources to create value as it pursues its vision for the future is the intellectual capital of the organization (Kaufmann and Schneider, 2004). The ability of organizations to acquire, integrate and reconfigure its resources in response to growing and changing customer demands can lead to sustained competitive advantage. The resource based view (RBV) (Barney, 2002) of competitive advantage proposes that sustained profitability of an

organization depends upon the creation, development and implementation of unique resources and capabilities. When organizations build efficient systems and processes that enable fast development of new products and services, and also have a high rate of employee retention, they are able to maintain a sustainable cost advantage which can result in high profitability, this is its 'competitive advantage'. As organizations garner unique capabilities to the exclusion of competitors, there is an improvement in its relative performance (Urbano & Yordanova, 2008), thus the intellectual capital is being deployed to create organization wealth (Arenas et, al, 2008). Based on the observations presented we hypothesize that:

H2: Learning organizations and competitive advantage is significantly related

Learning organizations focus on embedding learning in the DNA of the organization culture. This encourages reflection ideation and an entrepreneurial orientation amongst the members. The successful mobilization of this knowledge leads to competitive advantage, as the focus is on value maximization through agility, enhanced products, and dynamic capabilities (Freeman, 2001). The knowledge worker, develops a high innovation quotient that equips the organization with the ability to respond to change with agility (Watkins and Marsick, 1999). Learning organizations provide the right mechanism for enhancing, organizational effectiveness, by providing a nurturing environment for its workforce making it an attractive place with mentoring leaders and opportunities for development. Enhanced opportunities for value generation and a strong market position leads to increase in revenue and thereby positive influence on financial performance. Based on the observations presented we hypothesize that:

H3: Learning organizations and financial performance is significantly related

Research plan and survey instrument:

Interviews with employees from the BPO industry from functions such as Business development, Learning and development, Talent Acquisition, Talent Management and Delivery, helped gather insights into value placed on knowledge, experience, and innovation by the team. Informal discussions with clients had also helped develop an understanding on service differentiators and what clients expect from their vendor partner. The questionnaire was developed based on the six characteristics identified in the LO model – Knowledge Management, entrepreneurial Orientation, Transformational Leadership, organizational learning, external connect and organizational environment. Indicators of employee retention were learning opportunities built along the principles of adult learning principles, self-development and sensitivity towards employee grievance. The resource based view of competitive advantage (Barney (1991) was assessed by looking at how valuable, rare, inimitable and well organized were the organization's resources. The responses were measured on a five point Likert scale (Strongly disagree – Strongly Agree). Open ended questions were not included, but were replaced with multiple choice questions, the options for which were based on inputs received during the interviews. Questions that help

profile the respondents were added.

This model has been adopted to gauge the relationship between a learning organization and employee retention, competitive advantage and financial performance. The population for this pilot study comprised of 50 Managers from Domestic BPOs, Shared service centres, IT based Service provider, and pure play BPOs. The population of this study included 8 organizations, with respondents from 6 cities across India. The samples characteristics were reflective of all 3 outsourcing organizations (IT based, Pure play, domestic BPO and) and one offshoring organization (shared service centres also referred to as Captive centres) in India. 20% from Domestic BPOs, 20% Shared service centres, 30% IT based service provider, and 30% from pure play BPOs. The domains being supported by the in-scope organizations included BFSI, Healthcare Utilities, Telecom and Hospitality. Organizations providing tech- support from India were excluded from the current scope of study. The Methodology adopted for data collection involved in person meetings and telephonic interviews. Each discussion was preceded by a 10 minute context setting discussion, highlighting the importance and need for the study given the changing customer expectations and technological advances. The model fit, reliability and validity of the model was analysed using Fit indices such as Good fit index, Competitive fit index, and root mean residual; Cronbach's alpha, and Confirmatory path analysis technique with SPSS package.

III. DATA ANALYSIS AND RESULTS

The reliability and Validity of the survey instrument developed using the nine latent variables was established using Cronbach's α and Confirmatory Analysis. The relation between Learning organizations, Competitive advantage was established using the Canonical Correlation. To assess the link between Learning Organizations and Financial Performance was established through statistical Path analysis.

A. Establishing the Reliability and Validity of the questionnaire with sample data

I. Reliability

Reliability is the ability of the scale to produce consistent results. In the current study 9 latent constructs are used to seek answers to the research question, whether the learning strategies adopted by BPOs in India will bring them competitive advantage when competing for business in a rapidly changing environment.

These nine latent constructs are:

1. Organizational Environment (OE)
2. External Connect (EC)
3. Entrepreneurial Orientation (EO)
4. Knowledge Management (KM)

5. Organizational learning (OL)
6. Transformational leadership (TL)
7. Competitive Advantage (CA)
8. Employee Retention (Rt)
9. Financial performance (FP)

For latent construct reliability is the extent to which the latent constructs correlate internally. In the current study reliability is assessed using Cronbach's α . Cronbach's α is a largely used statistical technique to confirm reliability of the instrument.

Cronbach's α value >0.7 indicates that the items of the construct have high internal consistency.

The following table provides information on the number of items used to define each latent item under study and the Cronbach's α value.

Construct	Number of items	Cronbach's α
Entrepreneurial Orientation	5	0.795
Environment	5	0.772
External Connect	5	0.793
Knowledge Management	5	0.868
Organizational learning	5	0.830
Transformational leadership	5	0.837
Competitive Advantage	5	0.926
Employee Retention	5	0.854
Financial Performance	5	0.801

The above table reveals that it can be seen that all constructs have a Cronbach's α above the threshold value of 0.7. Hence it can be concluded that each instrument used to measure the construct is consistent and highly reliable.

II. Validity

Validity is the ability of the scale to produce accurate results and is the extent to which the scale measures what it is supposed to measure. Reliability and Validity are quality assessment for instruments measuring variables and constructs under the study. If the scale is not reliable and valid the results of the statistical analysis may be dubious.

Confirmatory factor analysis is used to assess validity for constructs under study.

Confirmatory Factor analysis is a special form of factor analysis used for testing whether measures of a construct are consistent with the researcher's understanding about the nature of construct or factor. It helps in testing if data fits the hypothesized model.

Confirmatory Factor analysis for the nine latent variables

Fit Indices	Criteria of Acceptance	EO	OE	EC	KM	OL	TL	CA	Rt	FP
CMIN/DF (Minimum discrepancy as indexed chi-square)	Less than 5	0.905	1.764	2.559	2.091	0.035	2.144	1.852	3.766	2.626
CFI (Competitive Fit Index)	More than 0.9 for good fit, between 0.9 to 0.8 for borderline fit	1	0.94	0.903	0.962	1	0.935	0.981	0.9	0.914
GFI (Goodness of Fit index)	More than 0.9	0.965	0.932	0.918	0.923	0.985	0.917	0.927	0.9	0.91
RMR (Root mean residual)	Less than 0.08 for adequate fit, between 0.08 and less than 0.1	0	0.077	0.099	0	0.035	0.091	0.042	0.1	0.1

All the above Fit indices suggest a good fit between sample data and hypothetical model; hence the validity of the instrument is established.

Retention is also a latent variable with 5 measureable indicators

B. Hypothesis testing

I. Learning organizations and employee retention is significantly related

Hypotheses:

H0: Learning organization and employee retention is not interrelated

H1: Learning organizations and employee retention is significantly related

Statistical Test: Canonical Correlation

$\alpha = 0.05$

Variables and Measurement:

Learning organization is a latent variable measured using 6 variables.

Canonical Correlations

Sr No.	Correlation	Eigenvalue	Wilks Statistic	F	Num D.F	Denom D.F.	Sig.
1	.670	.815	.361	1.526	30.000	158.000	.051
2	.421	.215	.656	.906	20.000	133.615	.580

- Since $p = 0.05$, null hypotheses is rejected and it is concluded that the two variables are inter related

Competitive Advantage is also a latent variable with 5 measureable indicators

$R^2 = 0.44$; this indicates that Learning Organization can explain 44.8% of the Retention Variables

Hypotheses:

H0: Learning organization and competitive advantage is not interrelated

H1: Learning organizations and competitive advantage is significantly related

II. Learning organizations and competitive advantage is significantly related

Statistical Test: Canonical Correlation

$\alpha = 0.05$

Variables and Measurement:

Learning organization is a latent variable measured using 6 variables.



Canonical Correlations

Sr No.	Correlation	Eigenvalue	Wilks Statistic	F	Num D.F	Denom D.F.	Sig.
1	.817	2.013	.181	2.809	30.000	158.000	.000
2	.623	.635	.545	1.341	20.000	133.615	.164

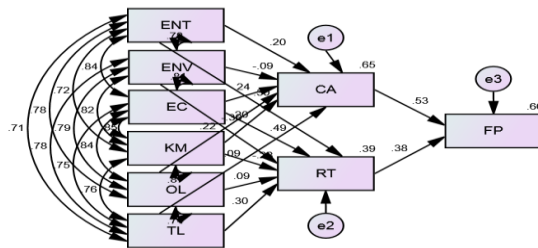
- Since $p = 0.05$, null hypotheses is rejected and it is concluded that the two variables are inter related
- $R^2 = 0.67$; This indicates that Learning Organization can explain 67.8% of the Competitive advantage variables

III. H3: Learning organizations and financial performance is significantly related

Statistical test: Path analysis

Path analysis is a minor version of structural equation model. It is an advanced statistical technique used to study several variables simultaneously. It is a family of equations since it can handle several relationships in a single analysis. In the current study Path analysis is used to establish relationship between variables: Organizational Environment, External Connect, Entrepreneurial Orientation, Knowledge Management, Organizational learning, Transformational leadership, Competitive Advantage, Retention, Financial performance.

The following path diagram indicates hypothetical path between the variables:



From the above 'Path diagram' it can be seen that Knowledge Management, Organizational learning and Transformational leadership are significant predictors of Retention and Organizational Environment, External Connect, Entrepreneurial Orientation are significant predictors of Competitive advantage. Competitive advantage and Retention is a significant predictor of financial performance.

Label	Item description	Beta	Significance
CA <--- ENT	Entrepreneurial Orientation on CA	0.201	0.244
CA <--- ENV	Environment on CA	-0.088	0.618
CA <--- EC	External Connect on CA	0.241	0.243
CA <--- KM	Knowledge management on CA	0.202	0.332
CA <--- OL	Organizational learning on CA	0.220	0.259
CA <--- TL	Transformational leadership on CA	0.094	0.527
RT <--- TL	Transformational leadership on retention	0.299	0.125
RT <--- OL	Organizational learning on retention	0.089	0.729

Model Fit Summary: Path Analysis

Fit Indices	Observed	Criteria of Acceptance	Result
CMIN/DF (Minimum discrepancy as indexed chi-square)	3.146	Less than 5	Acceptable fit
CFI (Competitive Fit Index)	0.966	More than 0.9 for good fit, between 0.9 to 0.8 for borderline fit	Acceptable fit
GFI (Goodness of Fit index)	0.920	More than 0.9	Acceptable fit
RMR (Root mean residual)	0.054	Less than 0.08 for adequate fit, between 0.08 and less than 0.1	Acceptable fit

All the above Fit indices suggest a good fit between sample data and hypothetical model

Assessing the significance of the paths

The hypothetical paths are tested for significance using standardized regression rates and 'p' value.

Factor loading is an important indicator of convergent validity. Factor loading that are significant and with a value more than 0.5 confirms validity of the construct. The following table shows factor loading and significance values for items of the construct.

RT <--- KM	Knowledge management on retention	-0.275	0.314
RT <--- EC	External Connect on retention	0.486	0.072
RT <--- ENV	Environment on retention	-0.298	0.200
RT <--- ENT	Entrepreneurial Orientation on retention	0.296	0.191
FP <--- CA	Competitive advantage on FP	0.528	***
FP <--- RT	Retention on FP	0.376	***

From the above table it can be seen that though the model fit is good and there is a link between Learning Organizations and Competitive advantage in BPOs. The path results show that Organizational Environment, Entrepreneurial Orientation, Knowledge Management, Organizational learning and Transformational leadership are not significant predictors of Retention and Competitive advantage, except External Connect which is a partial significant predictor of retention. Further Competitive Advantage and retention are significant predictors of Financial Performance.

IV. DISCUSSION AND CONCLUSION

The current study strengthens the theory that Learning Organizations can influence the overall organizational performance which could be measured in terms of several factors, three of which have been included in the current scope – Competitive advantage gained Employee retention and Financial Performance. Our findings affirm a relationship between Learning Organizations and Competitive advantage, alluding to the value placed on the knowledge workers ability to make a difference in the quality of service delivery and their ability to drive innovation.

The link between Learning Organizations and Employee Retention is also testimony to recent empirical studies that refer to reskilling being the need of the hour in the BPO industry, and this is driving high performers to seek employers who are willing to invest in them through learning opportunities. Needless to stay a happy employee who is satisfied with the current job will be more actively engaged and make a meaningful contribution at work. Findings from this study also confirm past research on how focus on learning and providing self-development opportunities makes an individual stay longer in the current organization and ensure their own performance meets with the organizations expectations (Weldy. 2009).

The results indicate that of the six characteristics of learning organization model in the VUCA world, (Nair.J & Pahurkar.R, 2017) for the BPO industry, External connect, Entrepreneurial orientation and Organizational Learning are three characteristics of a Learning organization that has the best model fit on all the four parameters- CMIN, CFI, GFI and RMR, when compared with Knowledge Management, Transformational Leadership and Organizational environment. This aligned with responses shared by industry experts on the encouragement offered to employees to come up with innovative solutions, the awareness of what is happening in the world technology and the threat from automation. Opportunities for knowledge sharing too, participating in domain sessions, and mandating time invested in individual skill development strengthen organizational learning.

Digitalization of work by leveraging evolving technology means the way the BPO industry understands work itself is going to go through a major change. Automation tools like Automation Anywhere, Blue Prism and several others have simplified the process of automation itself enabling domain process experts to reimaging processes and apply design thinking to simplify the end customer experience. Partial skills needed to do this reside within the BPO industry, it is about who is able to up-skill the non-technical knowledge worker on the new tools. Transparent communication from seniors and access to information has ensured the BPO employees are aware of the need to quickly re-tool to stay relevant, and are there constantly looking for opportunities to do so. A talent pool that can be quickly be deployed on these projects, and has the expertise to advise the client organization on its digital transformation journey can be a major competitive advantage.

As the nature of work changes from low skilled to high skilled activities being performed by a hybrid work force, the change to revenue models and increase in gain share pricing contracts means a direct impact on the financial performance of the organization.

The modern professional learns not only in a classroom or training course, but in several ways. They learn from formal structured events, or from their social interactions (Hart.J, 2019). To retain these high performers who learn not only to meet the mandatory requirements but for constant self-development, learning needs to be integrated into their normal work day. Learning content that is bite sized, on demand, and available on all devices can appeal to all demographics as it aligns perfectly with the adult learning principles (Knowles.M,)

Additional Scope for further research

Though the reliability and validity of the survey instrument has been achieved it is recommended that a larger sample size covering major cities in India be covered in the next phase of the research. The BPO industry has already embarked on a reskilling journey; hence it will be worthwhile to also assess the level of maturity of the BPO as a Learning Organization. Results for the initial study with a sample size of. 50 indicate a good model fit and 3 paths are significant. To further investigate the model with a larger sample size it is recommended that SEM (structural equation model) be used for the analysis and monitor the improvement in the results. There may be reasons to believe that the focus of learning will be different for each type of BPO, and also vary depending upon the city, since it links with the number of opportunities that may vary in Tier 1, 2 and 3 cities of India.

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Annexure

Variables of measurement

1. ENTREPRENEURIAL ORIENTATION (EO)

Latent Construct	Attributes
EO1	Rewards and recognition program for new ideas being generated by employees
EO2	Sharing innovative ideas and brain storming on feasibility and impact
EO3	Measuring Return on Investments from new ideas before implementation
EO4	Developing forums that encourage competition and ideation opportunities

	within the organization
EO5	A de-risking approach that encouraged compliance and alignment with the vision of the organization

2. ORGANIZATIONAL ENVIRONMENT (ENV)

Latent Construct	Attributes
ENV1	Formal process for idea review and cost benefit analysis
ENV2	Tolerance for errors and Psychological safety
ENV3	Amount of time devoted to training by the employees in a year
ENV4	Trainings that extend beyond current area of work
ENV5	Enabling employees to be 'future ready'

3. EXTERNAL CONNECT (EC)

Latent Construct	Attributes
EC1	Aware of risks and opportunities
EC2	Leveraging external experts
EC3	Customer connect
EC4	Talent acquisition
EC5	Technology partners

4. KNOWLEDGE MANAGEMENT (KM)

Latent Construct	Attributes
KM1	Systems and structures to code knowledge
KM2	Database of employee skills
KM3	Leverage technology to share Knowledge
KM4	Recording tacit knowledge
KM5	Multiple sources of knowledge acquisition

5. ORGANIZATIONAL LEARNING (OL)

Latent Construct	Attributes
OL1	Tolerance for errors
OL2	Team learning
OL3	New Knowledge

OL4	Effectiveness of learning strategies
OL5	Budget allocation for learning

6. TRANSFORMATIONAL LEADERSHIP (TL)

Latent Construct	Attributes
TL1	Never reprimand in public
TL2	Experimentation and open discussion
TL3	Articulate a common vision
TL4	Active listening and joint agreement on annual Learning goals
TL5	Coaching and feedback