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Impact of Learning Organizations' Applications and Market Dynamism on Organizations' Innovativeness and Market Performance

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ABSTRACT

To survive in rapidly changing technological, economic and social arenas, organizations must be able to change quickly. "Learning organizations" are those which are able to keep up with change and constantly renew themselves by accomplishing necessary transformation when needed, and in which there are no organizational learning insufficiencies. This study examines the impacts of learning organizations on company performance and explains the effects on performance of market dynamism, organizational learning, company innovativeness, and market performance by examining operational performance.

Key words: Learning organizations, Company Innovativeness, Market Dynamism, Operational Performance, Market Performance

INTRODUCTION

Learning, including internal learning and external learning, is a vital prerequisite for the development of organizational learning (Yang, 2004, 421). Organizational learning depends on individuals, so the spread of learning organization-wide occurs when individuals learn. Therefore, in order to understand organizational learning precisely, it is necessary to understand individual learning. Learning Organizations, as a concept, was first mentioned in Peter Senge's *The Fifth Discipline* (1990), which presented it as if it were magic bullet, helping company managers achieve a kind of utopia. However, organizational learning is simply a concept that provides competitive advantages to organizations by encouraging them always to strive to improve and progress.

1. LEARNING ORGANIZATIONS

Learning organizations have an environment in which people continuously improve their capacity to obtain results, in which new and challenging styles of thought are created, and in which people learn together moment-by-moment (Senge, 1990, 11). In an attempt to define the process by which organizations learn, the field of organizational theory has proposed many definitions based on general learning processes. Most of these have approached individual learning from a single perspective and have examined only one aspect of the subject. However, a few have made important, multi-faceted contributions.

Argyris and Schon (1978) differentiated three types of learning process: single-loop, double-loop, and deuterio-loop. Single-loop learning is adaptive, while double- and deuterio-loop learning are generative (Yang, 2004, 422). Kim defined learning as "an individual's increasing capacity to act more effectively" (Kim, 1993, 38). Schein stated that learning is not a singular concept but that three different kinds of learning exist (Schein, 1993: 87). The first is obtaining knowledge and comprehension, which can be a very slow process, like memorizing and reading, or a comprehension moment in which the answer is suddenly animated in the brain. The second type of learning is obtaining habits of behaviors or skills, which is motivated by encouragement and rewarding good behaviors. This kind of learning is always slow because it requires continuous practice and the ability to remain motivated past failures. Schein's last learning type is, the most powerful one, which is known as classic stipulation. Dodgson stated the differences between strategic and tactical learning (Dodgson, 1993, 381). Marquardt defined four kinds of learning as adaptive, anticipatory, deuterio and active learning; since these learning types are not mutually independent, an individual or an organization can use more than one learning type at the same time. (Marquardt, 1996, 37-43). Many other studies have also divided learning in terms of types and levels of learning from the management perspective.

Organizational learning is more complex and dynamic than individual learning (Kim, 1993: 40) because the degree of complexity increases exponentially as learning progresses from a single individual to a broad society. As

the differences between individual and organizational learning became evident, academicians sought a better definition for organizational learning. However, the variety of definitions that have been proposed demonstrate that just one definition may not be possible. Definitions proposed in management literature include: "Organizational learning is a process of determination and correction of errors (Argyris, 1977); "A learning organization is a place where the people discover their realities, regarding how they create and how to change" (Senge, 1992,12); and "A learning organization is an organization which is able to change its behaviors to reflect new know-how, to obtain and transfer knowledge, to create and to comprehend intuitively" (Garvin, 1993, 80).

The Learning Organization Concept

A learning organization is a mental model—a change in managers and other employees' minds—more than a traditional organizational model. The learning activity in learning organizations spreads through all channels to all employees. Accordingly, for an organization which wants to become adaptable and flexible to change and innovation, a model in which only senior managers learn and then tell subordinates what to do is no longer enough. "All employees in all organizations should continuously learn and follow the technologic and economic innovations.

Peter Senge's *The Fifth Discipline* proposed that the learning organization is a mental model shift (Senge, 1996, 22). To realize that shift, organizations must obtain learning skills, one of which is "the five disciplines": (a) common sense (b) the capacity to make shared visions, (c) the ability to see broad models ("system thinking") (d) an understanding of mutual interdependency (teamwork), (e) awareness of one's knowledge and the capacity to share (Gibson, 1997,116). According to Garvin, there are five main learning processes forming the base of learning organizations: systematically solving problems, trying new approaches, learning by experience, learning by others' experiences, and transferring knowledge (Garvin,1993,81). Within this framework, learning organizations are defined as "organizations which enlarge the people's capacities to create the results they want, nurture new and enthusiastic thinking styles, encourage co-workers and continuously teach how to learn together (Senge, 1996, 11).

The phases of transformation into a learning organizations go from the "knowing organization" to the "understanding organization" to the "thinking organization" to the "learning organization" (McGill and Slocum, 1993, 68.). Learning organizations enlarge their capacity by experience. The organization becomes a social (or societal) foundation on which knowledge is gathered, shaped, and changed. The power stemming from knowledge increases as it is communicated, changed, and applied (Hamel and Prahalad, 1990, 79-91). The members of an organization not only learn themselves but also transfer the knowledge to others and shape what they have learned within the organization's standard procedures. From this point of view, then, it can be said that the organization learns: It benefits from members' learning, passes the learning through the transformation process to make the knowledge into a standard application, and so functions as a learning and innovating system (Compton, 1999, 242).

Even though organizational learning occurs by means of individuals, it is more than merely a sum of individuals' learning. Just as individuals improve their personalities, habits and beliefs, organizations shape their own viewpoints and ideologies as well. Even as new recruits enter and existing employees leaver, organizational memory retains norms, behavioral forms and values to share with new employees.

2. FIRM PERFORMANCE

Performance is the most important component in obtaining an enterprise's desired results. Companies use different methods for raising and evaluating performance, and many factors affect it. A company's financial, operational and employee performance are integral to the overall firm's performance.

Company performance is a multidimensional structure containing financial performance, operational performance, and organizational performance (Hart and Banbury, 1994). Measures of economy, liquidity, profitability (Hart and Banbury, 1994) and sales growth activity (Ceylan, 2001: 37; Hart and Banbury, 1994; Morgan and Strong, 2003) are generally used to appraise management's financial capability. Product innovations, new products and market segmentation measures are used to determine operational performance—how efficiently a production unit transforms its resources into a product or service output. Because it is often difficult to obtaining objective data to appraise company performance in these terms, subjective data taken from participants is often laid over empirical data (Matsuno et al., 2002).

Ratios such as return on assets (Dess and Robinson, 1984; Hart and Banbury, 1994; Hitt et al., 1997; Yamin et al., 1999; Li et al., 2000; King and Zeithamel, 2001; Rozenzweig et al., 2003; Yammeesri and Sudhir,

2004), return on investment (Yamin et al., 1999; Matsuno et al., 2002), and return on sales (Baird et al., 1994; Hitt et al., 1997) have a strong correlation with companies' objective performance data (Dess and Robinson, 1984; Vickery et al., 1997; Ward et al., 1994; 1998). When researchers cannot access objective data, they use these ratios.

In many studies, for the purpose of gathering data related to company performance, participants in certain industry sectors are questioned about the growth of sales (Dess and Robinson, 1984; Hart and Banbury, 1994; Baird et al., 1994; Hitt et al., 1997; Anderson and Sohal, 1999; Chang et al., 2003; Morgan and Strong, 2003; Rozeinzwieg et al., 2003; Yammessri and Sudhir, 2004), the sales rate of new products (Slater and Narver, 1993; Matsuno et al., 2002; Chang et al., 2003; Rozeinzwieg et al., 2003), quantity of exports (Anderson and Sohal, 1999), cash flow (Anderson and Sohal, 1999), employment rates (Anderson and Sohal, 1999), market/book value (Yammessri and Sudhir, 2004), growth of market share (Slater and Narver, 1993; Yamin et al., 1999; Anderson and Sohal, 1999; Matsuno et al., 2002; Morgan and Strong, 2003), net average profit (Chang et al., 2003), customer satisfaction (Morgan and Strong, 2003; Rozeinzwieg et al., 2003), and general performance (Morgan and Strong, 2003; Anderson and Sohal, 1999).

Many studies measure company performance using financial ratios, like return on assets (Dess and Robinson, 1984; Hart and Banbury, 1994; Hitt et al., 1997; Yamin et al., 1999; Li et al., 2000; King and Zeithamel, 2001; Rozeinzwieg et al., 2003; Yammessri and Sudhir, 2004), return on investment (Yamin et al., 1999; Matsuno et al., 2002; Morgan and Strong, 2003), return on sales (Baird et al., 1994; Hitt et al., 1997), stock price (Smith and Reece, 1999), the acid test ratio (Hitt et al., 1997), and financial achievement indicators, like quantity of the new product presented to the market, production quantity, sold production quantity, and sales profits (Yamin et al., 1999). Return on assets is the most basic and generally accepted scale for measuring financial performance.

3. RESEARCH METHODOLOGY AND APPLICATION

Research Objective

This study examines the impact of learning organizations on company performance and explains the effects on performance of market dynamism, organizational learning, company innovativeness, and market performance by examining operational performance.

Sample Selection for the Research

The present study used a survey conducted among mid- and upper-level managers of companies in the Marmara region between July 2005 and June 2006. Lower-level managers and their subordinates were not included. 54% of the respondent companies were medium-scale and 46% were large-scale.

The questionnaire method was used to collect data, with the items in the questionnaire form constructed with a five-point Likert-type scale. Questionnaires were filled out via face-to-face interviews with the participants, resulting in 261 completed questionnaires. The SPSS 11.0 for Windows package program was used to evaluate the data. Questionnaire items were subject to reliability analysis to check the internal consistency of test items, with a Cronbach's Alpha coefficient higher than .73 required for each factor.

Cronbach's Alpha reliability test, mean value, regression, factor and correlation data analyzing techniques were used to evaluate our hypotheses.

Research Model

The study set up a model by which to explain (1) the effects of market dynamism and firm innovations on organizational learning (2) the effects of market dynamism, firm innovations and organizational learning on operational performance (3) the effects of market dynamism, firm innovations, organizational learning and operational performance on market performance in the light of literature. The model is shown in Figure 1.

In addition to demographic questions, the questionnaire consisted of 30 variables under five factor headings. Table 1 shows how many questions were asked for each factor.

Measures

This study used a structured questionnaire to obtain data from the firms, and the constructs in this study were measured using measurement scales adopted from prior studies in the literature.

Organizational Learning: Learning orientation is a set of organizational values that defines the ability to create, disseminate and utilize knowledge (Sinkula, Baker and Noordewier, 1997). Learning can be considered as a process whereby members in an organization are stimulated to strive continuously for new approaches and to acquire and share knowledge (Argyris, 1977, 1991). Researchers have concluded that organizational learning is associated with the development of new knowledge, which is crucial for firm innovation capability and firm performance (Calantone et al., 2002, 516). Questionnaire items for measuring learning orientation were adopted from Sinkula et al. (1997) and Hult and Ferrell (1997).

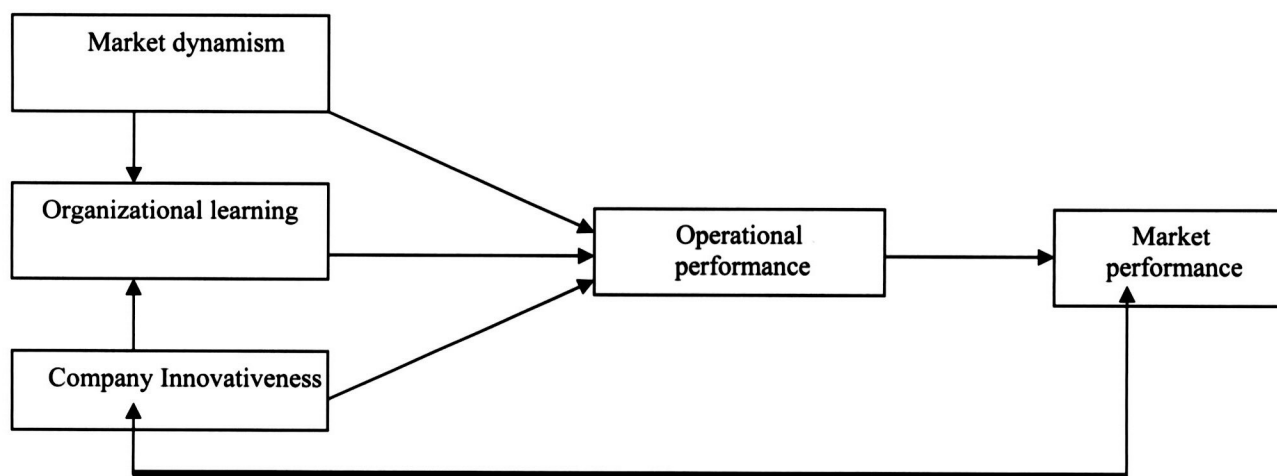


Figure 1. General Research Model

Company Innovativeness: Grant (1998) and Teece et al. (1997) indicated that, for survival and growth in a technologically sophisticated and highly competitive environment, firms must be innovative and flexible; in other words, they must be a first user of new ideas, new processes, new products, and so on. The five-question scale adapted from Hult et al. (2003) was used to measure innovation capability as a dimension of organizational culture, which is the most important factor affecting learning organizations and company performance (Calantone et al., 2002, 518). Empirical studies on organizational innovation have shown that there is a positive and direct relationship between innovation and business performance (Damanpour, et al., 1989, 587-601; Han et al., 1998, 30-45).

Market Dynamism: Dynamism—sometimes referred to as turbulence—reflects the level, degree of novelty, and speed of environmental change (Ansoff, 1979). According to the information uncertainty perspective, increasing levels of environment dynamism will lead to greater environmental uncertainty, a concept that includes the degree of predictability concerning the changes and their effects on the organizations (Milliken, 1987, 133-43). Measures for market dynamism were compiled from Zahra and Garvis (2000) and Goll and Rasheed (1997).

Operational Performance : Preparation of the questions to measure operational performance benefited from the studies performed by Fuentes, Saez and Montes (2004) and Rahman and Bullock (2004).

Market Performance: All items in this scale were developed based on a literature review (Prajogo and Sohal, 2004). These items consist of the number of innovations, the speed of innovation, the level of innovativeness (novelty or newness of the technology) and being first in the market. We also used sales growth and market share growth (Kaynak, 2003; Fuentes, Saez and Montes, 2004)

Research Analysis and Results

Data Analysis : The data used in this study were obtained from a survey performed on 261 people from 140 Turkish manufacturing companies that operate in a competitive environment. SPSS 11.00 statistical software was used to evaluate the data. Factor analysis, correlation, confidentiality tests, means of variables and regression analysis techniques were used to analyze the relationship among variables that were in research model. While the

descriptive analysis method was used in the questions which carried ordinal (like education status) and nominal scales (for demographics like gender), factor analysis was used for the questions which carried five-point Likert scales and ordinal scales (1=strongly disagree, 5=strongly agree). Confidence levels were determined according to Cronbach's Alpha, and the relationships between and among factors were explained by the correlation analysis. In order to test our research hypotheses, regression analysis was applied.

Factor Analysis: The variables subjected to factor analysis performed by SPSS software and the number of questions for each variable are shown in Table 1. The explained total variance of factors is 66.418., which means that those factors explain the % 66 of market performance in that survey.

Reliability Analysis : Reliability can be defined as the intrinsic consistency of measurement, which takes into account the relationships among questions in a variable. Cronbach's 0.70 Alpha coefficient is accepted as sufficient for intrinsic confidentiality for Social Sciences. As shown in Table 1, the fact that alpha coefficients are higher than 0.70 shows higher confidence for our scales; stated another way, our variables have intrinsic confidence.

Evaluation of Correlation Analysis

In considering the correlation coefficients shown in Table 1., it is notable that a strong correlation on significance level $\alpha < 0,01$ exists between all pairs of variables and that all pairs of variables are positively correlated. Thus, the following results were obtained from the correlation analysis:

- Market Dynamism and Market Performance are correlated directly and positively.
- Company Innovativeness and Market Performance are correlated directly and positively.
- Company Innovativeness and Operational Performance are correlated directly and positively.
- Organizational learning and Market Performance are correlated directly and positively.
- Organizational Learning and Operational Performance are correlated directly and positively.
- Market Dynamism and Company Innovativeness are correlated directly and positively.
- Organizational Learning and Company Innovativeness are correlated directly and positively.
- Operational Performance and Market Performance are correlated directly and positively.
- Market Dynamism and Operational Performance are correlated directly and positively.

Table 1. Alpha Values Belonging to Variables, Correlation Coefficients and Number of Questions for Factors

Variable	Mean	SD	Number of Questions	Alpha	Correlation with Market Performance	Correlation with Company Innovativeness	Correlation with Operational Performance	Correlation with Market Dynamism	Reliability Value
Operational Performance	3.82	.74	4	(0.90)	.531**	.481**	.475**	.146*	(0.89)
Organizational Learning	3.77	.81	7		.585**	.531**	.475**	.146*	(0.83)
Market Performance	3.97	.63	5						(0.84)
Company Innovativeness	3.93	.71	3		.510**	.531**	.475**	.146*	(0.84)
Market Dynamism	3.56	.78	4		.133*	.283**	.179**	.146*	(0.73)

** Correlation with 1% significant level (two-tailed). * Correlation with 5% significant level (two-tailed).

() Numbers in parenthesis are Cronbach's Alpha reliability values

Results of Hypotheses and Regression Analysis

Hypotheses formed to test the research model shown in Table 2, were stated as:

H1: Organizational learning and Market Dynamism are correlated directly and positively.

H2: Organizational learning, Market Dynamism, Company Innovativeness and Operational Performance are correlated directly and positively

H3: Organizational Learning, Market Dynamism, Company Innovativeness and Market Performance are correlated directly and positively

H4: Organizational Learning, Market Dynamism, Company Innovativeness, Operational Performance and Market Performance are correlated directly and positively.

Table 2. Regression Analysis of Relationships among Organizational Learning, Market Dynamism, and Company Innovativeness

Independent Variables		β	Sig	R ²	F
Organizational Learning	Organizational Learning	.533**	.000	0.282	50.734
	Market Dynamism	-.005			
Dependent Variables	Company Innovativeness,				

** Significant at the level of $p < 0.01$

As Table 2 shows, H1 was not significant at the interval $\text{Sig} = 0.000$, and the hypothesis was accepted. There was a positive and direct relationship between Organizational Learning and Company Innovativeness, with an explanatory percentage of H1 at 0.282. Accordingly, Organizational learning affects Company Innovativeness positively, but the result that Market Dynamism had an effect on Company Performance was not obtained.

Table 3. Company Regression Analysis of Relationships among the Factors of Company Innovativeness, Organizational Learning, Market Dynamism, and Operational Performance

Independent Variables		B	Sig	R ²	F
	Organizational Learning	.368**	.000	0.355	47.101
	Market Dynamism	-.018			
	Company Innovativeness	.317**			
Dependent Variable	Operational Performance				

** Significant at the level of p<0.01 * Significant at the level of p<0.05

As shown in Table 3, since the H2 hypothesis is not significant at the interval of Sig=0.000, the hypothesis is accepted. Because a direct and positive relationship between Company Innovativeness and Operational Performance is significant at the interval of ($\beta =.368$) p<0.01, it is accepted. Therefore, there is direct and positive relationship among Organizational Learning, Company Innovativeness and Operational Performance. However, our results show Market Dynamism has no effect on Operational Performance.

As shown in Table 4, since the H3 hypothesis is not significant at the interval of Sig=0.000, the hypothesis is accepted. No significant relationship between Market Dynamism and Market Performance was found. Because the direct and positive relationship between Company Innovativeness and Market Performance is significant at the interval of ($\beta =.306$) p<0.01, it is accepted. In addition, a direct and positive relationship between Organizational Learning and Operational Performance within the interval of ($R^2=.305$) p<0.01 is found and accordingly accepted. Therefore, there is a direct and positive relationship among Organizational Learning, Company Innovativeness and Market Performance. However, Market Dynamism shows no effect on Market Performance.

As shown in Table 4, since the H3 hypothesis is not significant at the interval of Sig=0.000, the hypothesis is accepted. No significant relationship between Market Dynamism and Market Performance was found. Because the direct and positive relationship between Company Innovativeness and Market Performance is significant at the interval of ($\beta =.306$) p<0.01, it is accepted. In addition, a direct and positive relationship between Organizational Learning and Operational Performance within the interval of ($R^2=.305$) p<0.01 is found and accordingly accepted. Therefore, there is a direct and positive relationship among Organizational Learning, Company Innovativeness and Market Performance. However, Market Dynamism shows no effect on Market Performance.

Table 4. Regression Analysis of the Factors of Company Innovativeness and Organizational Learning, Showing their Effects on Market Performance

Independent Variables		B	Sig	R ²	F
	Organizational Learning	.306**	.000	0.301	36.833
	Market Dynamism	.048			
	Company Innovativeness	.305**			
Dependent Variable	Market Performance				

** Pearson Correlation is significant at the level of p<0.01

Table 5. Regression Analysis Of The Related Hypotheses And The Effects Of Factors Of Organizational Learning And Market Dynamism, Company Innovativeness And Operational Performance On Market Performance

Independent Variables		β	Sig	R ²	F
	Organizational Learning	.157*	.000	.406	43.689
	Market Dynamism	.055			
	Company Innovativeness	.177**			
	Operational Performance	.403**			
Dependent Variable	Market Performance				

** Significant on the level of p<0.01

As shown in Table 5: Since the H4 hypothesis is not significant at the interval of Sig=0.000, the hypothesis is accepted. No significant relationship between Market Dynamism and Market Performance was found. While a significant relationship between Company Innovativeness and Market Performance on the level of ($R^2=.177$) p<0.01 was observed, the hypothesis that there is a direct and positive relationship between Organizational Learning and Market Performance ($R^2=.157$;p<0.01) is supported. A direct and positive relationship between Operational Performance and Market Performance was found to be significant at the interval of ($\beta =.403$) p<0.01, and it is accepted.

3. RESULTS AND SUGGESTIONS

Today's organizations need to be resilient and apply new management models to adapt to change and industry dynamics. Information obtained by the companies, which is often indefinite and uncertain, has been relied upon heavily. In those environments in which market components changes continuously, new technologies are presented constantly, product life cycles are short, products become indistinguishable quickly and competitors appear and disappear rapidly, companies must rely upon the development of new information, spread it organization-wide, and apply it quickly to produce new products and processes.

To achieve these abilities, enterprises must become learning organizations. In a learning organization, companies adapt to environmental conditions by using employee learning to become a changing and dynamic organization, in a constant state of renewal. Opportunities for the organization to "learn" are revealed primarily at the end of the feedback process, after an action is taken and while results are monitored. Negative results will be inevitable if organizations learn the wrong thing because not all information is honestly evaluated or presented or if they do not learn quickly. In the learning organization concept, achieving desired results depends on how learning is accomplished and spread and on what it is learned in terms of speed, economy, and accuracy. To keep pace with changing conditions and new technologies, organizations should be able to learn by experience, try new approaches, solve problems systematically, learn by others' experiences, provide the knowledge to be used widely, and share and improve the knowledge.

The first step of organizational learning depends on individuals, so managers should develop necessary conditions for organizational learning by creating the conditions that will promote employees from an unaware-insufficient mode to aware-sufficient mode. The success and sustainability of companies depend on communicating a vision which can be shared with employees, setting up environments which facilitate team learning, taking lessons from past experience and history, utilizing a management structure that takes employees' opinions into consideration, and using system thinking and reacting appropriately and quickly. The essence of the learning organization concept consists of personal mastery, the discipline of working with mental models, building shared visions, team learning and system thinking. Companies having an understanding of system thinking are often those that last and become leaders in their industries.

Our research results show that a strong, positive correlation among Organizational Learning, Company Innovativeness, Operational Performance and Market Performance, while there is no significant correlation between any of these variables and Market Dynamism.

We also provide suggestion below according to survey findings.

- Our survey findings are limited by research sample size. So sample size can be enhanced for the future research.
- The relation may get stronger when survey is conducted on large-scale firms.
- The scope of the survey may expand through the addition of the other variables

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