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Learning Orientation and Firm Performance: A Review of Literature

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Abstract:

Examining the relationship between learning orientation (LO) and business performance has received considerable attention in both strategic marketing and management literature. This study is aimed to examine the relationship of learning orientation and performance in the context of small and medium sized enterprises (SMEs). It suggests that a strong learning orientation results in high business performance. LO is a multidimensional construct operationalized in terms of open mindedness, shared vision and commitment to learning. Objective measures of performance should be used for accurate measurement of performance. Various strategic orientations like entrepreneurial orientation and market orientation, and environmental elements should be taken as mediating and moderating variables while studying the relationship of LO with performance.

Keywords: Learning orientation, open mindedness, performance, shared vision

1. Introduction

Learning orientation has been an area of interest for many researchers (W. M. Cohen & Levinthal, 1990; Nonaka, 1994). Learning orientation has experienced exponential growth after the seminal work of Argyris and Schön (1978). A number of researchers have contributed to this emerging and demanding area during the past two decades. The main driver that forced the researchers to focus on learning is its importance in increasing the adaptability of the organisation in today's dynamic environment that has reshaped the patterns of competition (Moingeon and Edmundson, 1996). Learning orientation is known as the acceptance of learning in the organisation (Rhee, Park, & Lee, 2010). Learning orientation can be defined as, "a process of information acquisition, information dissemination and shared interpretation that increases both individual and organisational effectiveness due to the direct impact on the outcomes" (Kaya & Patton, 2011, p. 206). According to Argyris and Schön (1978, p. 23) "Organisational learning occurs when members of the organisation act as learning agents for the organisation, responding to changes in the internal and external environments of the organisation by detecting and correcting errors in organisational theory in use, and embedding the results of their inquiry in private images and shared maps of the organisation".

The basic principle underlying in the organisational learning is its facilitation of growth opportunities and flexibility for attaining the superior performance in the long run. It enhances the organisational capabilities and increases the adaptation capabilities in the changing face of competition. Through learning orientation the organisation can better understand the exogenous factors and devise effective policies to deal with these changes (Calantone, Cavusgil, & Zhao, 2002). This understanding helps organisation in interpreting the effects of environmental changes and providing an insight to organisation to better deal with these changes (Daft & Weick, 1984). Learning capabilities are vital for ensuring the long term survival and growth of the organisation (Bharadwaj, Varadarajan, & Fahy, 1993). According to Crossan *et al.*, (1999), learning is a process, where knowledge is the desired outcome of this process (Nonaka, 1994). This knowledge helps organisation to bring innovation and search for solutions to the existing problems. Learning process has four dimensions that are intuiting, interpreting, integrating and institutionalizing respectively (Crossan, et al., 1999). The last two components are more likely to convert learning into knowledge as they explain the transition of learning into knowledge. In the light of these arguments, LO is more likely to produce more beneficial knowledge that can lead the organisation towards innovation and generating workable solution to the problems. LO is a guiding philosophy that guides the organisation in its actions and brings superior firm performance (Sinkula, Baker, & Noordewier, 1997).

2. Literature Review

2.1. Learning Orientation

Organisational culture and values are the key components that encourage the learning process in any organisation. Learning orientation can be described as the management's ability to raise questions about the effectiveness of ongoing practices and beliefs that are supposed to enhance the performance of organisation (Argyris & Schön, 1978). The availability, dissemination and elucidation of information are made possible by learning orientation (Moorman & Miner, 1998; Sinkula, et al., 1997). Learning orientation is an organisational value that is important for generation and sharing the knowledge within the organisation. It strengthens the learning norms within the organisation and encourages the members to learn new knowledge in order to increase the organisational capabilities for creating superior performance. Thus, learning orientation promotes the learning behaviour of the organisation and ensures its long term survival and growth (Baker & Sinkula, 1999a). The attitude and inclination of the individuals toward the process of learning play an important role in its effectiveness. According to Slater and Narver (2000), the organisation may change the attitude of the employees by taking some steps like the employees can be directed toward the learning process by introducing new mental models, ingenuosness, knowledge sharing, supporting the workers to try innovative methods to get their work done and discarding the obsolete methods.

Organisations undertake learning activities to increase their ability to effectively compete in the changing market through creation of knowledge. Learning orientation is considered as a means for collection, interpretation, evaluation and dissemination of information (Moorman & Miner, 1998). An organisation's quest to obtain new knowledge reflects the presence of learning orientation (Sinkula *et al.*, 1997). Learning orientation is the basic mechanism to share the knowledge about the past experiences among the organisational members (Lipshitz, Popper, & Oz, 1996). Organisational learning is a Meta construct consisting of pre-disposition to learning, learning facilitation and exploitation of learning taking place through adaptation capability of the organisation (Sinkula *et al.*, 1997). They describe that pre-disposition is the cultural aspect of organisation learning. They termed it as "learning orientation" construct. The second aspect of learning is learning facilitation that enables the organisation to recognize, obtain, understand and implement the new knowledge. The term "absorptive capacity" is used to express this dimension of learning. The third dimension of learning is exploitation learning which implies that learning changes the existing perceptions of the organisation and provides a new vision to members that was not previously established. This insight changes the patterns of the organisational actions and strategies. The present study has only focused on the first element of learning i.e. learning orientation as termed by Sinkula *et al.* (1997).

Learning orientation is the organisation's quest for creation of knowledge and enhancement of its capabilities through learning (Sinkula *et al.*, 1997). Learning orientation indicates that organisation is undertaking steps for increasing its learning capabilities. It helps organisation to devise a framework for creation and sharing of knowledge to enhance its capabilities and perform better (Hult & Ketchen, 2001). However, questions are raised by researchers about the individual learning in terms of organisational process (M. D. Cohen, 1991). Learning at individual level should take place in a learning oriented firm. The organisation must raise the learning level of internal employees either through counselling by senior employees or hiring experts with updated knowledge (Simon, 1991). According to Celuch *et al.* (2002), learning at individual level is required to make the firm market oriented. Learning orientation and market orientation jointly improve the capabilities of a firm and create superior performance (Eris and Ozmen, 2012). According to Farrel (2000), a firm may gain competitive advantage by following the learning orientation strategy. Therefore, the firms should make the process of learning smoothen and understandable. Therefore, learning should be the main priority of the firm. Management actions should be aimed at developing the organisation culture where learning and market orientations are facilitated (Bing & Zhengping, 2011a; Eris & Ozmen, 2012). Both of these concepts lead the organisation towards innovation. This innovation in turn provides firm with market differentiation. Such a firm occupies a prominent position in the market place and becomes able to remain one step ahead of its competitors (Mark A Farrell, 2000). Some researchers view learning orientation as a single dimensional construct (Calantone, et al., 2002), while others are of the opinion that it is a multi dimensional construct (Moorman & Miner, 1998; Sinkula, et al., 1997). These dimensions are: open mindedness, shared vision and commitment to learning.

2.1.1. Open Mindedness

Open mindedness refers to questioning the traditional ways of viewing market information and seeking the new ways of looking at market phenomena (Troy, Szymanski, & Varadarajan, 2001). The different mental models being followed in the business world do not allow employees to think beyond the familiar means of acting and considering about a certain phenomenon (Day & Nedungadi, 1994). The past incidents regarding the success and failure of the organisations foster to develop the mental models that help to understand the mechanism of the market. These models may become redundant with the passage of time. However, most of the organisations keep following these models unless someone has the permissiveness to raise questions about their application and effectiveness (Day, 1994). This permissiveness is referred to the open-mindedness. Open-mindedness is a concept that fosters to unlearn the previously learned mental models. Open-mindedness is a pre-requisite for the learning process. The organisation must have the willingness to raise questions on the routine practices and the assumptions that develop these mental models (Senge, 1990). These models shape the beliefs and actions of the individuals (Sinkula *et al.*, 1997). The ability of the organisation to question the effectiveness of routines practices, deep rooted assumptions and beliefs enables it to undertake heuristics and non-routine practices. These changes in the existing patterns provide the organisation with insights that facilitate it to deal with hazy challenges (Lei, Hitt, & Bettis, 1996).

Open-mindedness plays a key role in the unlearning mechanism in organisation. Those organisations that do not follow the open-mindedness philosophy are unable to unlearn the previously followed models, thereby, leading towards the retention and

following of existing mental models (Calantone, et al., 2002). This situation restricts the learning process in the organisation and creation of new knowledge becomes difficult or impossible in some circumstances. An organisation's ability to question the currently followed beliefs, practices and assumptions is the first step towards the unlearning process that leads to learning of new mental models with fresh and refine knowledge (Sinkula, et al., 1997). Open-mindedness injects new ideas into the firms, strengthens creativity and ability to yield new opportunities that favor product innovation (Calisir, Gumussoy, & Guzelsoy, 2013). Open-mindedness promotes firms to achieve competitive advantage and gain great organisational performance (Usahawanitchakit, 2011).

2.1.2. Shared Vision

Shared vision refers to an organisation-wide focus on learning (Sinkula *et al.*, 1997). Shared vision provides direction to organisational learning. Market orientation increases the intensity of organisational learning. The combination of both dimensions (intensity and direction) is important for building a comprehensive learning orientation construct. Shared vision provides foundation to effective learning mechanism. It encourages the organisational members to use their potential and exhibit commitment to make the learning process successful (Day, 1994). Shared vision brings employees at a similar level of understanding. This commonness in understanding creates commitment and alignment with the learning direction taken by the organisation. This alignment is necessary for creating motivation to learn among the employees (McKee, 1992). The shared vision also helps to make employees aware of the expectations of the organisation and the intended outcomes of learning process. Motivation cannot yield the desired results if employees do not know what they are required to learn.

Organisations without shared vision is like a scattered mix of ideas (Eris & Ozmen, 2012). The employees without shared vision cannot perform well in the organisation. Without shared vision learning by members of an organisation is less likely to be meaningful (Verona, 1999). The ambiguities prevailing in the system, structure and culture of the organisation raise serious questions on the success of the learning process (Calantone, et al., 2002). Numerous studies (Calisir, et al., 2013; García-Morales, Llorens-Montes, & Verdú-Jover, 2006; Lynn, Abel, Valentine, & Wright, 1999; Molina-Morales & Martínez-Fernández, 2010; Usahawanitchakit, 2008) have reported positive effect of shared vision on the organisational performance.

2.1.3. Commitment to Learning

Commitment to learning is the readiness of the organisation to change the way it does things by combining existing knowledge or incorporating new knowledge. It includes the acquisition, communication, acceptance and assimilation of the knowledge in the organisation (Jolly & Thérin, 2007). Committed organisations consider learning as an important factor for the survival and growth of the organisation. Employees also have the motivation to pursue learning activities (Calantone, et al., 2002). Furthermore, as the stickiness of knowledge, that is the opposite of transferring knowledge, decreases within the firm, organisations remain competitive with learning of capabilities and best practices (Szulanski, 1996).

According to Morgan (1986), commitment to learning can be conceptualized as a cultural dimension of the organisation that fosters to execute the learning as a continuous process in the organisation. These cultural values relating to learning process are fragile in a mechanistic organisation as compared to an organisation with organic network. The learning process is hard to be executed without the presence of these cultural values (Sinkula, et al., 1997).

Organisational values that foster the organisation to create a learning environment are important for the effectiveness of learning process. The nature of these values determines the intensity of the learning process. The nominal values of learning are likely to result in a slight level of learning (Sackmann, 1991). The manifested values in the learning process determine the level of commitment that an organisation has towards learning. This commitment shows that what kinds of efforts are being undertaken by the organisation for promoting the learning. Moreover, organisational commitment provides the basic foundation on which learning culture may grow up (Sinkula, et al., 1997). Commitment to learning creates a supportive environment for learning. The understanding of the environment is increased when the organisation has a culture that is acquiescent to the learning process (Galer & Van Der Heijden, 1992). According to Shaw and Perkins (1991), companies which pursue an efficient learning mechanism are insightful as they understand that what kind of outcomes they can bring.

2.2. Organisational Performance

Performance is the difference between the actual and the expected outcomes. Researchers generally use two methods to measure the organisational performance. One is subjective method and the other is objective methods. Generally, subjective method measures the performance by three main indicators, i.e. growth, profitability and market share. These indicators can also be measured as non financial indicators. It is more appropriate to use non-financial indicators to bridge the gap created by the insufficiency of information (Dess & Robinson, 1984). Jantunen *et al.* (2008) recommend the use subjective measures of performance because the collection of data becomes easier using subjective approach. Generally the managers/ owners of the firms hide the financial data and are reluctant to disclose this information to outsiders. Apart from this, subjective measures provide reliable, correct, and accurate measure while measuring the organizational performance from the perspective of SMEs (Escribá-Esteve, Sánchez-Peinado, & Sánchez-Peinado, 2008; Khan & Khaliq, 2014). Moreover, a positive correlation exists between the outcomes obtained from objective and subjective measures in the previous studies (Love, Priem, & Lumpkin, 2002). The study of Kirca *et al.* (2005) have identified four types of performance outcomes that are organizational (financial) performance, customer related outcomes (customer satisfaction), innovative outcomes (innovation) and employee related outcomes (employee satisfaction). The current study is confined to only non-financial performance of the organizations, that are customer satisfaction, employees satisfaction, service quality, growth and innovation respectively.

3. Learning Orientation and Organisational Performance

Slater and Narver (1995) suggest that the impact of market orientation on organisational performance is intensified when it is combined with learning orientation. Many researchers describe that learning orientation facilitates market orientation that in turn enhances organisational performance (Baker & Sinkula, 1999b; Mark Anthony Farrell & Oczkowski, 2002). Learning orientation and market orientation are the key strategic aspects within an organisation. They are conceptualized as second order constructs, and are viewed as forms of organisational culture and firm-level resources that's lead to sustainable competitive advantage. They affect marketing capabilities and firm innovativeness, which in turn affect firm performance (Baker & Sinkula, 1999a; Celuch, et al., 2002; Hult, Hurley, & Knight, 2004; Slater & Narver, 1995). Both orientations are also related to specific and routine processes that create superior values to customers. However, market orientation influences the scope of market activities, while learning orientation challenges the very nature of the market activities. Therefore, learning orientation is broader in scope than market orientation because it focuses not only on learning about external issues, but also on internal issues (Jaworski & Kohli, 1996). Thus, learning orientation enables the organisation to think beyond the market sphere (Calisir, et al., 2013). Moreover, Hurley and Hult (1998) depicted that learning orientation is a pre-requisite for market orientation and entrepreneurial orientation. Researchers have developed consensus that learning orientation facilitates the organisations to acquire knowledge that can be helpful in understanding the changing needs of the customers (Baker & Sinkula, 1999a; Bing & Zhengping, 2011a; Celuch, et al., 2002; Kaya & Patton, 2011; Slater & Narver, 1995; Suliyanto & Rahab, 2012). Several studies (Sinkula *et al.*, 1997; Foley and Fahy, 2004; Keskin, 2006; Spicer and Sadler-Smith, 2006; Michna, 2009; Frank, Kessler, Mitterer, and Weismeyer-Sammer, 2012; Hakala, 2013) have reported positive relationship between learning orientation and organisational performance. However, few studies (Lee & Tsai, 2005; Rhee, et al., 2010) indicated the indirect relationship and reported that learning orientation influence innovation performance positively that in turn increases the organisational performance. Similarly, according to Keskin (2006) found it has direct effect on innovation and firm performance in developing countries.

4. Conclusion and Suggestion

On the basis of extensive review of literature and by considering the arguments of various researchers, the paper acknowledges LO as a key ingredient for organizational success as, LO helps organisation to devise a framework for creation and sharing of knowledge to enhance its capabilities and perform better. The review suggests that LO is a multidimensional construct operationalized in terms of open mindedness, shared vision and commitment to learning. The literature on business performance reveals that two types of performance measures, i.e., objective and subjective measures (financial and nonfinancial), are used across the studied, which have resulted in high variation in LO-performance relationship. It is observed that the subjective measures of performance are more appropriate than the objective measures of performance, because, the respondents generally hide sensitive information from outsiders on financial data of like profitability, return on investment and turn over. The paper suggests that a strong LO results in high business performance and competitive advantage. The review also highlights the importance of configuration framework to better understand a more accurate picture of LO-performance relationship. Instead of focusing on bivariate relation, future research on LO-performance relation should adopt a configuration approach emphasizing on two- and three-way interaction effect by introducing various strategic orientation like EO and environmental elements as mediating or moderating variables.

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