

Inter-Organizational Learning and Strategic Renewal in SMEs

Extending the 4I Framework

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This article explores how mature SMEs which lack internal resources access external knowledge to facilitate strategic renewal. Organizational learning, in contrast to entrepreneurial learning, recognizes that owner-managers must distribute knowledge throughout the firm to achieve competitive benefits. Three case studies demonstrate how external 'knowledge providers' (customers, suppliers and educational institutions) help institutionalize 'new' knowledge. Initially, learning from inter-organizational relationships requires owner-managers to be proactive in accessing and extending appropriate inter-organizational relationships. Second, external organizations can play an active role by 'intertwining' knowledge to support the development of processes, systems and routines that distribute and institutionalize learning throughout the organization. The three cases have practical implications for owner-managers and add to academic knowledge via the extension of Crossan et al's 4I model of organizational learning.

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Introduction: challenges for SMEs

Senior managers' perceptions of environmental conditions have a significant influence on the exploitation of opportunities. Researchers must identify the influences on those key individuals responsible for decision-making if they are to understand the way in which organizations acquire and utilise new knowledge.¹ This is particularly important in SMEs where owner-manager (OM) influence is pervasive and will directly affect the ability of their organization to learn.² Limited managerial resources in smaller firms means that they are often dependent on knowledge from external sources, including feedback from customers and suppliers.³ However, organizational learning based on the systematic incorporation of new knowledge depends on the owner-manager's ability and willingness to encourage knowledge-sharing. Many SMEs operating in mature sectors lack the skills and knowledge to adopt modern management techniques and new technologies. If their firms are to survive in the long-term, owner-managers must develop mechanisms for identifying, acquiring and exploiting new knowledge.⁴

In this article we consider the following question: *how do mature SMEs acquire and institutionalize external knowledge?* We find that OMs attempting to promote strategic renewal must first acknowledge that their organization is actually facing a crisis. Crises may include declining sales or demands by customers and suppliers for new ways of working. Because most SMEs lack internal skills and resources, opening-up to external organizations is a crucial element in accessing knowledge. We also suggest that this may involve the OM ceding some control to enable customers, suppliers or other knowledge providers to help institutionalize learning mechanisms within the firm. Furthermore, delegating real responsibility to other managers and employees helps the shift from individual (owner-manager) learning to genuine organizational learning.

The article begins with a discussion of literature associated with the distinction between individual and organizational learning. We then utilise the work of Crossan *et al* as a basis for framing the institutionalization of learning in SMEs.⁵ Following a discussion of our methodology, we present data on three cases which illustrate key concepts and activities that illuminate the process of learning and change in mature SMEs. We then discuss our findings and make proposals related to strategic renewal in SMEs, and consider the implications for academic researchers and owner-managers.

Individual to organizational learning

While the topic of learning in SMEs has attracted considerable attention in recent years, much of this work focuses on learning associated with the entrepreneur or owner-manager.⁶ We actually know very little about the internal processes associated with organizational learning and strategic renewal in smaller firms.⁷ Crossan *et al.* posit that, while learning may start with individuals, for organizational learning to occur new knowledge must be interpreted, distributed and institutionalized in organizational routines. While human capital is important, strategic renewal requires that knowledge be embedded in routines, systems and structures so that it can be distributed throughout the organization.⁸ Consequently, to understand the processes of organizational renewal, managers must consider how to transfer individual knowledge to the collective level.⁹ Learning at an organizational level depends both on developing personal knowledge and skills (human capital), and on having effective systems for knowledge sharing (social capital).

Existing systems that support the application and exploitation of knowledge focus on the '*refinement, routinization, production and elaboration of existing experience*'.¹⁰ Strategic renewal, on the other hand, means that firms must break out of these path dependencies and shift from knowledge exploitation to knowledge exploration.¹¹ This requires routines and processes that support the recognition and assimilation of new knowledge.¹² Such systems can also provide the opportunity to encourage organizational adaptability and change. A quantitative study of SMEs by Sadler-Smith *et al*, for example, suggests that when existing routines encourage inter- and intra-firm information flow and experimentation they correlate with higher growth.¹³ A study of growth-orientated SMEs indicates that systems of knowledge acquisition and dissemination are more important for strategic renewal than the firm's strategic orientation or environmental turbulence.¹⁴ Mechanisms associated with the distribution and institutionalization of knowledge distinguish organizational learning from individual and group learning.¹⁵ While strategic renewal may begin with individual learning it is the organizational ability to assimilate and distribute knowledge at the collective level that is of primary importance.¹⁶

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