

Organizational learning culture—the missing link between business process change and organizational performance

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Abstract

The aim of this paper is to present and test a model of organizational performance improvement based on the impact of organizational learning culture. The concept of organizational learning culture (OLC) is proposed and defined as a set of norms and values about the functioning of an organization. They should support systematic, in-depth approaches aimed at achieving higher-level organizational learning. The elements of an organizational learning process that we use are information acquisition, information interpretation, and behavioral and cognitive changes. Within the competing values framework OLC covers some aspects of all four different types of cultures: group, developmental, hierarchical, and rational. We use data from 203 Slovenian companies employing more than 50 people. The impact of OLC on organizational performance is empirically tested via structural equation modeling (SEM). The results show that OLC has a positive direct impact on all three aspects of non-financial performance included in the model: performance from the employee, customer, and supplier perspectives. The effect of organizational learning culture on financial performance is still positive, but indirect (through non-financial performance from the employee perspective).

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1. Introduction

Business and technological changes are threatening organizational sustainability and modern management faces many challenges (Drucker, 1999). Organizations are continually under competitive pressures and forced to re-evaluate their business models and underlying business processes. Operations management thus focuses on the careful management of internal processes along with processes in the supply chain, particularly by

improving their efficiency and effectiveness, which are today needed more than ever. Yet, despite this, not enough attention has been paid to this topic (Hammer, 2004).

The extensive literature on business process change (e.g. Davenport, 1993; Hammer and Champy, 1993; McCormack and Johnson, 2000; Burlton, 2001; Harmon, 2003) suggests that organizations can enhance their overall performance by adopting a process view of business. However, what is too often neglected is that most problems regarding business process management are not technical but arise from an inappropriate organizational culture that may impede innovations being implemented

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and superior performance being achieved (see e.g., Terziovski et al., 2003; Hammer, 2004).

The basic idea behind this paper is that organizational culture is very important when trying to improve organizational performance by business process change. The paper addresses organizational learning culture, which is proposed and defined as a set of norms and values about the functioning of an organization. It is a combination of different culture types within the competing values framework (Denison and Spreitzer, 1991; McDermott, and Stock, 1999). The purpose of the paper is to present and test a model of organizational performance improvement. Hence, the focus of this study is on the impact organizational learning culture has on organizational performance.

The outline of the paper is as follows: Section 2 reviews the relevant literature in order to demonstrate our specific contributions. Section 3 conceptualizes the research model leading to the development of suitable hypotheses. Section 4 aims to present a methodological framework for the study, while Section 5 provides results of data analysis. Section 6 concludes with a summary of the main findings, discusses them from theoretical and practical standpoints, and outlines directions for future research together with the limitations of the study.

2. Literature review

2.1. Business process change and organizational culture

Business process change can take many forms, ranging from continuous improvement with total quality management (TQM) to radical business process reengineering (BPR) (Harmon, 2003). However, the expected results have not been achieved in many cases. During the 1990s many firms undertook BPR projects and, despite its promising scheme, the success rate was well below the desired one. Different studies report different failure rates of the BPR project ranging from 60% to an almost 80% failure rate (Holland and Kumar, 1995; Smith, 2003; Terziovski et al., 2003). The outcomes of these studies fuelled new ones in order to identify the reasons for the failures.

The idea of determining the critical success factors (CSF) of business process change emerged as a response to the low success rates of BPR projects. One characteristic common to many CSF

frameworks is the notion that organizational culture is key to any change initiative. Altering the way people perceive changes and react to them plays an important role in such efforts (Grover et al., 1995; Marchand and Stanford, 1995; Wells, 2000). Culture has been shown to have a significant impact on how the objectives of a BPR project are accomplished (Clemons et al., 1995; Guimaraes, 1997; Al-Mashari and Zairi, 1999; Terziovski et al., 2003). Similar relationships have been studied for TQM. Researchers have consistently argued that any company choosing to adopt TQM must redefine its culture to some extent (Lewis, 1996; Abraham et al., 1997; Pool, 2000; Kekäle et al., 2004) and that success in implementing TQM depends on the organizational culture (Laszlo, 1998; Prajogo and McDermott, 2005).

Many different people have used the word 'culture' to explain a variety of phenomena. As each one tends to adopt a slightly different perspective, there is no universally accepted definition (Rollinson and Broadfield, 2002). Ott (1989) identified over 70 different words or phrases used to define organizational culture. One of the first attempts was by Jacques (1952) who claimed that organizational culture is the customary and traditional way of doing things, which is shared to a greater or lesser degree by all members, and which the new members must learn and at least partially accept in order to be accepted for the firm's services. Harrison (1972) focused more on culture itself rather than on its effects and defined it as ideologies, beliefs, and deep-set values that occur in all firms and are prescriptions for the ways in which people should work in these organizations. Peters and Waterman (1982) saw culture as a dominant and coherent set of shared values conveyed by symbolic means such as stories, myths, legends, slogans, anecdotes and fairy tales. Deal and Kennedy defined organizational culture as 'the way things get done around here' (Deal and Kennedy, 1982, p. 90).

Schein (1992) perceived organizational culture as a pattern of basic assumptions—invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration. Such a pattern has worked well enough to be considered valuable and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems. Wiener claimed that 'most researchers of organizational culture agree that shared values

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