

The performance effect of organizational learning and market orientation

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Abstract

In recent decades an important set of articles on management has focused upon the marketing concept and the related construct of market orientation. The next challenge is to understand how this organizational orientation can be achieved and maintained. Using data from 451 companies and through structural equation models, this study considers that organizational learning represents the capacity of a company to move from a given situation to another desired situation of market orientation and performance. The results suggest that the influence of market orientation on performance is only significant when it is mediated by organizational learning. The results also indicate that organizational learning has a positive effect on performance.

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1. Introduction

Over the last few decades there have been an increasing number of studies focusing upon the fields of organizational learning and market orientation as precursors of organizational performance (Hult & Ketchen, 2001), and both can be viewed as resources that a firm might employ to attain competitive advantage (Baker & Sinkula, 1999b; Celuch, Kasouf, & Peruvembac, 2002; Day, 1994a,b; Dickson, 1996; Hunt & Morgan, 1996) and a key to successful product innovation and performance (Dickson, 1996; Slater & Narver, 1995).

The relationships among organizational learning, market orientation and organizational performance can be explored from the resource-based view of the firm (Barney, 1986a,b; Prahalad & Hamel, 1990; Wernerfelt, 1984). The resource-based view perceives the firm as a unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize value through the optimal deployment of existing

resources and capabilities, while developing the firm's resource base for the future (Grant, 1996). Thus, the resource-based view provides a firm-specific perspective wherein the importance of tangible and intangible resources and capabilities that are valuable, rare and not easily imitated or substituted by a firm (Barney, 1991) are emphasized as the source of competitiveness.

In this context, market orientation (Day, 1994b; Hult & Ketchen, 2001) and organizational learning (Grant, 1996; Spender, 1996) are some of the capabilities that allow firms to attain a stronger positional advantage. On one hand, 'market orientation' could be understood as a philosophy and behavior directed toward determining and understanding the needs of the target customer and adapting the selling organization's response in order to satisfy those needs better than the competition, thereby creating a competitive advantage (Saxe & Weitz, 1982). On the other hand, 'organizational learning' is a mechanism by which the organization transforms the individual knowledge of employees into social knowledge (Grant, 1996; Spender, 1996).

Although there are many overlaps between a market orientated company and a learning organization (Baker & Sinkula, 1999b; Slater & Narver, 1995), the two constructs are not identical. The purpose of this paper is to contribute to the understanding of the links between these constructs and their effects in performance.

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Specifically, we show how organizational learning is considered to be a main factor in the achievement competitive advantage. This paper is organized as follows: Firstly, we briefly review organizational learning and market orientation and their relationships with organizational performance. Next, we present the model and the hypotheses that are going to be tested in the last part of this research. Finally, the results, discussion of their implications and future research directions are presented.

2. Organizational learning

Few topics in management have received more attention over the last decade than that of The Learning Organization (see Crossan, Lane, White, & Djurfeldt, 1995; Dixon, 1992; Dodgson, 1993; Jones & Hendry, 1994; Slater & Narver, 1995 for reviews of relevant literature). Thus, from the original studies focused on organizational learning (Argyris, 1976; Cangelosi & Dill, 1965; Chapman, Kennedy, Newell, & Biel, 1959; Cyert & March, 1963; Hirschman & Lindblom, 1962; March & Olsen, 1975) there is a very rapidly growing interest from a diverse variety of academic perspectives on this subject (Bontis, Crossan, & Hulland, 2002; Crossan, Kane, & White, 1999; Jones & Hendry, 1994; March, 1991; Romme & Dillen, 1997; Senge, 1990; Stata, 1989). The continuing popularity of this paradigm has resulted in two main perspectives:

- 1) Learning organizations can be seen as "...organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together" (Senge, 1990). This concept, according to Matlay (1997), gains recognition amongst high profile, innovative organizations that set out to increase their market share through highly successful, learning-based human resource and knowledge management strategies.
- 2) Organizational learning may be seen as a process whereby empirical measurement is easier than a stock perspective (Sinkula, Baker, & Noordewier, 1997) and besides "an understanding of what is known is of less value to the organization than understanding what it is capable of knowing, because a stock of knowledge that is not continually updated rapidly depreciates in value" (Bell, Whitwell, & Lukas, 2002).

The capacity of organizations to learn has long intrigued researchers and has motivated an increasing number of these studies. However, there is no extended agreement about the concept of organizational learning due to the diversity of research domains in which learning phenomena have been explored (Crossan et al., 1999) and the concept of organizational learning is embedded in different schools of thought, including contingency theory, psychology, organizational development, Management Science, social anthropology, information theory and system dynamics, sociology, industrial economy, production and operation management systems theory, organizational theory and strategic management that are founded on very different theoretical assumptions and should be viewed as complementary to

each other in understanding organizational learning (Dodgson, 1993; Easterby-Smith, 1997; Romme & Dillen, 1997; Shrivastava, 1983).

Examining the organizational learning concepts, Huber (1991) noted that "an organization learns if any of its units acquire knowledge that it recognizes as potentially useful to the organization", understanding organizational learning as the development process of new knowledge or insights that have the potential to influence behavior. In this case, "organizational learning occurs when members of the organization act as a learning agent for the organization, responding to changes in the internal and external environment of the organization by detecting and correcting errors" (Argyris & Schon, 1978). It is necessary for the individual knowledge to be transferred to the organization, so that it can be used by individuals other than the progenitor (Sinkula, 1994). Thus, there is a link between the learning of the employees of a company and the learning of this organization (Sinkula et al., 1997). Also, the literature usually distinguishes between single-loop or adaptive learning and double-loop or generative learning. In former individuals and groups adjust their behavior to fixed goals, norms and assumptions, but in the latter, all these goals, norms and assumptions, as well as their behavior, are open to change (Argyris & Schon, 1978; Senge, 1990), and consequently, employees are always questioning their assigned roles and targets rather than merely realizing them.

Although there is some variance in the specifics, organizational learning scholars typically conceptualize organizational learning as including four primary constructs: information acquisition, distribution, interpretation, and memory (Crossan et al., 1999; Day, 1994a; Dean & Snell, 1991; Dixon, 1992; Huber, 1991; Nevis, Dibella, & Gould, 1995; Romme & Dillen, 1997; Sinkula, 1994; Slater & Narver, 1995; Snell, Youndt, & Wright, 1996). Organizational learning needs the creation and control of both external and internal knowledge for both current and future operations (Leonard-Barton, 1992). Thus, knowledge acquisition requires constant effort and continual experimentation from all employees of the organization. Then, when an individual acquires knowledge, the company has to foster the distribution of this knowledge among the rest of members of the organization. This distribution consists in the transmission of the acquired knowledge at an individual level principally through individual conversations and interrelations between employees of the organization (Brown & Duguid, 1991; Koffman & Senge, 1993). Before the organization can use the distributed knowledge, it must first be interpreted. For this to happen, knowledge is translated, developing models of understanding, bringing out meaning, and assembling conceptual schemes among key managers (Daft & Weick, 1984) developing a shared understanding and the taking of coordinated action by members of a workgroup (Crossan et al., 1999). Finally, organizational memory is the collective knowledge of an organization and contains theories in use, shared mental models, information databases, formalized procedures and routines, and formal cultural mores that guide behavior (Slater & Narver, 1995), have effect on performance (Walsh & Ungson, 1991), are based on past knowledge and experience (Stata, 1989) and can be brought to bear on present decisions (Walsh & Ungson, 1991).

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