

Influence of personal mastery on organizational performance through organizational learning and innovation in large firms and SMEs

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Abstract

This paper analyzes the influences of personal mastery on organizational performance, both directly and indirectly through the dynamic capabilities of organizational learning and innovation. Although these indirect interrelations are very important for improving organizational performance, they are not usually explored in research. We confirm these influences empirically in both large firms and SMEs, basing our research on a sample of 401 Spanish firms. The results reveal that in both types of firms: (1) personal mastery influences organizational performance directly and indirectly through organizational learning and innovation; (2) organizational learning influences organizational performance positively, both directly and indirectly through organizational innovation; (3) organizational innovation influences organizational performance positively.

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1. Introduction

This research seeks to analyze several influences on organizational performance in both large firms and small and medium enterprises (SMEs): first, how personal mastery influences organizational performance positively, not only directly but also indirectly through organizational learning and innovation; secondly, how organizational learning affects organizational performance positively, both directly and indirectly through innovation; and thirdly, how innovation influences organizational performance positively.

In today's knowledge society, personal mastery (personal and professional development), organizational learning and innovation are three key capabilities that enable the firm to identify, create, exploit, renew, and apply knowledge flows in new ways to obtain improvement in organizational performance (Nonaka and Takeuchi, 1995). Managing these capabilities effectively can provide

firms with a source of sustainable competitive advantage, since these capabilities are usually valuable, rare and difficult to imitate or replace (Barney, 1991; Grant, 1996).

Personal mastery is the capability to grow and learn on a personal level. It concentrates on the aspects of learning in the learning organization that belong to the individual. It enables us to delve deeper into our personal vision, into what we truly desire, concentrating all our efforts on developing our personal and professional skills and capabilities (Senge, 1990; Senge et al., 1994). Firms should produce wealth but should also enable personal development and values in the firm's human resources (e.g., workers, middle management, upper management), as these are the foundation and starting point of all entrepreneurial competencies (Senge et al., 1994).

Organizational learning is the firm's capability to maintain or improve performance based on experience. This activity involves the acquisition of explicit and tacit knowledge (development or creation of skills, insights, relationships), knowledge sharing (dissemination to others of what has been acquired by some), and knowledge use (integration of learning so that it is assimilated and broadly available and can be generalized to new situations) (Dibella

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et al., 1996). Such learning facilitates behavioral change that leads to improved performance (Fiol and Lyles, 1985; Senge, 1990). Senge (1990, p. 3) notes that ‘we can then build this learning organization when people continually expand their capacity to create the results they truly desire’; in other words, their personal mastery is encouraged. The dynamics of mastery and organizational learning are inseparable.

From this newly learned knowledge, innovation capability generates a base for the improvement of organizational performance (Hurley and Hult, 1998; Larsen et al., 1991). Among the different definitions of innovation that have been proposed (Dooley and O’Sullivan, 2003; Knight, 1967; Pierce and Delbecq, 1977; Zaltman et al., 1973), this study will use the definition of innovation given by the Product Development and Management Association (PDMA, 2004): a new idea, method, or device. The act of creating a new product or process. The act includes invention as well as the work required to bring an idea or concept into final form. This capability is closely linked to organizational learning and personal mastery (Leonard-Barton, 1992; Senge, 1990). The most innovative firms are effective learning systems where human resources are developed and where firms learn to maintain today’s competitive advantages while aggressively preparing for tomorrow.

Firms that foster these capabilities are widely described as firms that improve organizational performance. However, many firms do not or cannot develop capabilities properly, for they focus on direct effects and forget the indirect interrelations between these capabilities. Although these indirect influences are very important, research often neglects them. Our study seeks to address the need to investigate how personal mastery influences performance through organizational learning and innovation; and how organizational learning influences performance through organizational innovation. Only so can we enable the organizational synergy between them.

We seek to confirm that these capabilities are necessary in both large firms and SMEs. Because large-firm management is fundamentally different from that of SMEs, conclusions drawn from many studies cannot be applied to SMEs without empirical confirmation. Other problems arise concerning the accurate measurement of personal mastery, innovation and organizational learning in SMEs. This fact highlights the need for research that uses both large firms and SMEs to generate new ideas concerning the impact of these variables on business performance and the interrelations between them.

Finally, we should emphasize the fundamental role of the CEOs’ perceptions of these strategic variables in stimulating organizational performance. CEOs play a major role in informing and molding these variables by determining the types of behavior that are expected and supported (Baer and Frese, 2003). Although numerous actors may be involved in the management process, the CEO is ultimately responsible for plotting the firm’s

direction and plans, as well as for guiding the actions undertaken to achieve them (Westphal and Fredrickson, 2001). Therefore, the CEO’s perception of personal mastery, organizational learning and innovation is fundamental to encouraging these capabilities. To make sense of the complex environment surrounding them, CEOs tend to form simplified internal cognitive representations (mental models). Using these models, CEOs focus on certain variables that they judge to be critical. They make decisions and measure performance or innovation based on these variables (Porac and Thomas, 1990).

This article is divided into several sections. Section 2 introduces the background research and suggests a series of hypotheses in a global model. Section 3 presents the data and the method used to achieve an empirical analysis of the hypotheses developed in Section 2 using Spanish firms. Section 4 presents the results obtained. Section 5 discusses the results. Finally, Section 6 outlines the implications for research and practices and points out some limitations of this study and directions for future research.

2. Research background and hypotheses

The sources responsible for the creation of wealth and improvement of performance have changed over time, evolving from the ‘Agricultural Society,’ where the main sources were the land and manual labor, to today’s ‘Society, Era or Economy of Knowledge,’ where the key factors of competitive advantage are related to knowledge (Drucker, 1993). Knowledge is the result of a combination of experiences, values, information and know-how that form a framework for the inclusion of new experiences and information useful for action (Nonaka and Takeuchi, 1995).

In the Knowledge Society, numerous special issues of the journals with the greatest scientific impact in management (Management Science, Strategic Management Journal, Journal of MIS) have focused on knowledge management. They indicate the need to analyze the strategic variables related to knowledge that influence the improvement of organizational performance. As tangible assets and resources offer fewer competitive advantages, we are starting to concentrate on the development of distinctive capabilities, on intangible assets and resources related to knowledge that enable the improvement of organizational performance (Whitehill, 1997). As resource- and capability-based perspectives show, these strategic variables must be valuable, rare, imperfectly imitable, and not substitutable (Barney, 1991). Personal mastery, organizational learning and innovation are among the factors most frequently recommended in the literature on knowledge management as it influences organizational performance (Glynn, 1996; Nonaka and Takeuchi, 1995; Senge et al., 1994). Our main focus has been the simultaneous and global consideration (direct and indirect) of the relevant antecedents of organizational performance.

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