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How organizational learning affects a firm's flexibility, competitive strategy, and performance☆

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ABSTRACT

An organization's ability to learn is a key strategic capability to compete in modern markets. This research seeks to achieve an in-depth understanding of learning's contribution to a firm's competitiveness by analyzing how organizational learning (OL), understood as a dynamic capability, shapes firms' strategic flexibility and competitive strategy implementation to ultimately improve customer, financial, and market-related performance. This article proposes that OL acts as a forerunner of a firm's ability to adapt to evolving market conditions (strategic flexibility), and that OL and flexibility simultaneously foster the implementation of differentiation and cost-leadership strategies. This strategic behavior allows firms to reduce costs without damaging differentiation levels, and to improve customer and business performance. The study employs structural equation modeling (SEM) to evaluate the causal links that the research model depicts. Data analysis follows from a sample of 181 medium-sized Spanish manufacturing firms. The results confirm the expected relationships and reveal OL to be an important instrument in modern markets to provide customer value and to improve organizational performance by means of efficient competitive strategy design and flexible adaptation to rapid market evolution.

1. Introduction

In today's turbulent and unpredictable environments the achievement of competitive advantage (CA) depends increasingly on firms' ability to provide greater long-term customer value. The resource-based view (RBV) states that a company's unique assortment of valuable, rare, inimitable, and non-substitutable resources and capabilities constitutes the basis of difficult to duplicate value-creating strategies which can provide a firm with CA or above-average returns (Barney, 1991; Grant, 1991; Mahoney & Pandian, 1992; Wu, 2010).

The RBV has gradually evolved, acknowledging that under fast changing and unpredictable competitive environments CA may rapidly shift, and that the existence at a particular moment of time of an appropriate set of resources and capabilities may not be sufficient to sustain a firm's above-average performance in the long-term (Helfat & Peteraf, 2003).

Thus, firms need to permanently renew their skills and resources to maintain CA (Wu, 2010). Consequently, Teece, Pisano, and Shuen (1997, p. 516) define a dynamic capability as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments". Dynamic capabilities represent a complex set of abilities through which organizations systematically modify their operating routines and reconfigure their resources and skills to achieve an adequate adaptation to changing market requirements (Zollo & Winter, 2002). The concept of dynamic capability introduces a dynamic aspect into RBV, and is a reminder that maintaining a CA requires constant improvement and adaptation, especially under environmental volatility.

Since the publication of Cyert and March's (1963) seminal work, the relevant literature regards organizational learning (OL) as a key strategic capability for explaining why successful firms surpass competitors (Bapuji & Crossan, 2004; Kao & Lee, 1996). Kandemir and Hult (2005) state that OL may be the only organizational ability capable of generating superior customer value in the long-term, since learning allows a continuous adaptation to rapidly changing market requirements as a true dynamic capability.

Recent research addresses the benefits of OL, for example, in organizational performance (Azadegan & Dooley, 2010; Bell, Mengüç, & Widing, 2010), market orientation and relationship marketing (Santos, Sanzo, Álvarez, & Vázquez, 2005; Stein & Smith, 2009), the strategic supply process (Hult, Ketchen, & Slater, 2002), service quality (Tucker, Nembhard, & Edmonson, 2007), innovation (Akgün, Lynn, & Yilmaz, 2006; Weerawardena, O'Cass, & Julian, 2006),

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alliance outcomes (Liu, Ghauri, & Sinkovics, 2010), and human resource performance (Bhatnagar, 2007).

However, the interrelationships between OL and firms' strategy implementation have attracted remarkably little attention (Paisittanand, Digman, & Lee, 2007). The present study considers OL to contribute not only to strategy design, as a key organizational capability, but also to the effective implementation of competitive strategies (Dawson, 2000), since the ability to provide a rapid and effective response to a highly competitive and constantly changing business environment in itself involves strategy implementation (Beer, Voelpel, Leibold, & Tekie, 2005). Thus, this research proposes that OL, as a dynamic capability, constitutes one of the key bases firms have to consistently implement strategies leading to their taking advantage of environmental opportunities and avoiding threats (Barney, 1991).

Accordingly, the first objective of this research is to provide evidence for the potential of a firm's learning capability to improve its competitiveness through strategy implementation. The study contributes to the sparse extant literature on OL-strategy interface (Fang & Wang, 2006; Kaleka & Berthon, 2006; McGuinness & Morgan, 2005) by analyzing the competitive strategies supported by OL: specifically, whether OL simultaneously fosters Porter's (1980) competitive strategies, and the suitability of the latter for achieving superior customer-related and organizational performance. A basic premise in this research is that key positional advantages of superior customer value and lower costs relative to competitors can both help compete in modern markets and provide greater performance to firms than single strategies of cost leadership or differentiation (Acquaah & Yasai-Ardekani, 2008; Li & Li, 2008).

Turbulent business environments also require increasing organizational flexibility, i.e., the firms' ability to keep pace with market evolution as well as to respond rapidly to unpredictable and unexpected market conditions. Some researchers argue that OL can strengthen a firm's ability to recognize opportunities, to pursue new ventures effectively, and to achieve continuous alignment with its environment (Beer et al., 2005; Lumpkin & Lichtenstein, 2005). This reasoning reinforces the consideration of OL as a dynamic capability which can, in rapidly changing environments, “enable the firm to modify itself so as to continue to produce, efficiently and/or effectively, market offerings for some market segment(s)” (Madhavaram & Hunt, 2008, p. 69). However, empirical evidence on the OL-strategic flexibility interface is again sparse. Thus, the second objective of the present study is to extend this line of research by analyzing OL's impact on firms' actual flexibility, together with the partial mediatory role of the latter on the OL–competitive strategy relationship.

The article has the following structure. Section 2 presents the theoretical background of a model that connects OL, flexibility, competitive strategy, and performance, as shown in Fig. 1. The definition of the dimensions of OL seeks to incorporate the most recent literature on this issue. The contribution of OL to competitive strategy includes the evaluation of its properties as a valuable, rare, inimitable, and non-substitutable (VRIN) resource, and reinforces the notion of OL as a dynamic capability. The performance analysis uses market and financial indicators (sales, market share, and profits) and customer-related outcomes (customer satisfaction, loyalty, and value added perceptions). The customer-related outcomes construct acts as a partial mediatory variable between competitive strategy and business performance in order to study the mechanisms whereby competitive strategies help to achieve CA. Section 3 outlines the study's methodological approach based on a sample of 181 Spanish manufacturing firms. Section 4 discusses the empirical results. Finally, Section 5 presents some conclusions and managerial implications.

2. Conceptual model and hypotheses

2.1. Organizational learning

OL is achievable when the transfer of individual knowledge occurs through social interactions to different groups of individuals as a result of a shared interpretation. In turn, the accumulated knowledge allows individuals to learn from the organization, thus generating an on-going, two-way process of knowledge transfer among individuals, groups, and the organization. Recent research defines OL as a process that comprises four main stages: information acquisition, knowledge dissemination, shared interpretation, and organizational memory (Huber, 1991; Hult & Ferrell, 1997; Kandemir & Hult, 2005; Sinkula, 1994; Slater & Narver, 1995; Tippins & Sohi, 2003).

In the information acquisition stage, information may originate from both internal and external sources. The sources of internally developed information are congenital learning that comes from the company's founder/s (Lawrence, 1984), previous experience, and indirect learning which is the implicit analysis of the actions of competitors in the marketplace (Hershey, 1980). On other occasions, firms actively search for external information (Dickson, Farris, & Verbeke, 2001) to identify key tendencies (Milliken, 1990), to solve specific problems (Katila & Ahuja, 2002), and to compare their performance with that of competitors. Looking for information outside the firm also includes grafting, that is, acquiring other organizations, creating joint ventures, or incorporating new organizational members from other entities (Simon, 1991).

The second stage of OL is the distribution or dissemination of knowledge throughout the organization. This process takes place through formal (e.g., departmental meetings, discussion of future needs, and cross-training) and informal interactions among individuals (Koffman & Senge, 1993). The creation of formal networks and databases encourages communication by guaranteeing both the accuracy and the rapid spread of information. These initiatives need more informal exchange mechanisms to complement them so that any tacit knowledge which individuals gather is transformable into explicit knowledge.

The third stage, shared interpretation, aims to analyze the information from a global viewpoint. For this reason, achieving consensus regarding the meaning of the information and its implications for the firm is a priority (Day, 1994). In this regard, firms develop shared

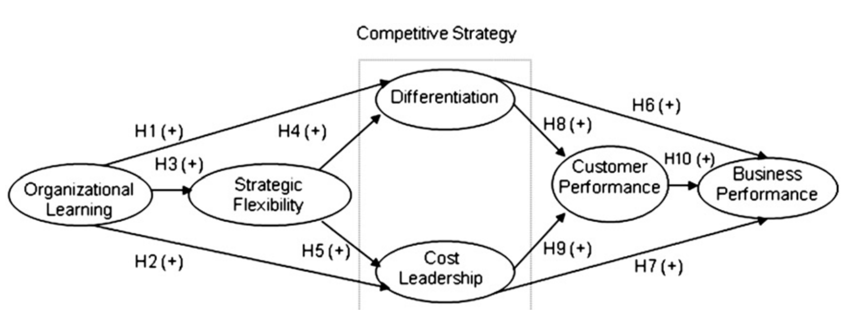

Fig. 1. Hypothesized model.