Organizational learning and performance

Understanding Indian scenario in present global context

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Abstract

Purpose – The purpose of this paper is to show that the role of organizational learning is increasingly becoming crucial for organizational performance. Based on the study of three Indian global firms operating in National Capital Region of Delhi, India, this study explores the correlation of organizational learning with organizational performance in the Indian scenario.

Design/methodology/approach – The sample of the study comprised of three Indian global organizations chosen through purposive sampling technique. A total of 100 senior managers were interviewed from these firms, out of which 72 were HR and 28 were line managers. The data collected from these managers were analyzed using SPSS 12 version.

Findings – The paper finds that the organizational learning, which largely gets reflected through HRM activities, has a positive correlation with organizational performance.

Research limitations/implications – The paper shows more samples from private, public and governmental Indian organizations could have made the study more interesting and would have presented Indian scenario better.

Originality/value – This paper will be useful to MNCs/global business organizations looking for investing and expanding in India, besides contributing to the understanding of organizational learning and organizational performance in Indian firms in present day global economic context.

Keywords Organizational performance, Learning organizations, Human resource management, Performance management, India

Paper type Research paper

Introduction

In the current global economic landscape, India has emerged as a fastest growing economy in the world after China. After the economic liberalization in 1991, Indian economy witnessed an upsurge in competition by overseas firms and continuous rush by foreign direct Institutions (FDIs) to invest in India. As a result, Indian organizations are under great pressure to prepare and develop their human resources according to the global standards in skills, efficiency and performance for survival, sustenance and successful existence. Successful Indian organizations in this scenario have emerged to be those that have institutionalized the necessary infrastructures and processes for encouraging the generation of innovative ideas and knowledge by their people (Sharma and Khandekar, 2004). They are now realizing that new learning requirements for the workforce development are to bridge the gap between what they already know and what they need to know for continuous improvement. Developing a critical mass of employees who are knowledgeable or skilled in a particular technology may constitute a potential source of competitive advantage in the long run for them (Sharma and Khandekar, 2005). The interest of the business community in India is clearly evident.
from the growth in number of business organizations adopting organizational learning techniques and strategies to maintain and improve their competitiveness.

Organizational learning prioritizes the creation and acquisition of new knowledge, and emphasizes the role of people in the creation and utilization of that knowledge (Denton, 1998). In this way, organizational learning presents an important route to performance, success and competitive advantage for the organizations (Dunphy and Griffiths, 1998; and Lei et al., 1999). On the academic front, most of the scholars are agreeing with Drucker (1993) assertion that “value is created by productivity and innovation” and organizations must acquire knowledge as a source of sustainable competitive advantage. Yet, this a recurring theme with little or no agreement as to how organizations can establish link between organizational learning, on the one hand, and organizational performance on the other. Many studies on the issue offer very little empirical evidences to substantiate this. In this study, we first present the argument that organizational learning, which largely gets reflected through HRM activities, is positively correlated to organizational performance. Then to study this relationship, we examined three widely diversified Indian global organizations. Finally, we consider two important methodological issues i.e. managerial assessment of the organizational learning and potential endogeneity of the firm’s financial performance, which could have biased our results.

Theoretical background and hypothesis

Organizational learning and organizational performance

The need for the organizations to learn as holistic entities became more pronounced with the onslaught of globalization, favouring organizational learning as a means of creating competitive advantage (Senge, 1990; Heracleous, 1995; Jackson et al., 2004). Even though the concept of learning, organizational learning and learning organization (e.g. Shrivastava, 1983; Levitt and March, 1988; Huber, 1991; Gopinath, 1994; Miner and Mezias, 1996; Easterby-Smith, 1997; Edmondson and Moingeon, 1998; Tsang, 1997; Sharma, 2001; Sharma and Sharma, 2002) has been accepted, no common theory or model has emerged due to the divergence in the perception and approaches. Although some authors maintain the theory about organizational learning and organizational theorists dates back to Taylor’s introduction to repetitive tasks to improve productivity in the early 1900s and Weber, who have examined the notion (Ulrich et al., 1993). Looking into the regular focus to organizational learning concept, it appears that it has existed since March and Simon, 1958; Cyert and March, 1963; Cangelose and Diil, 1965 discuss the topic about 30 years ago. A wide multitude of definitions and conceptions of organizational learning exists (see Crossan et al., 1999; Edmonson and Moingeon, 1998), many of them more implicit than explicit, and many of them substantially different if not incompatible. As such, the field of organizational learning remains to a large extent fragmented, disconcerted and difficult to penetrate (Easterby-Smith, 1997; Easterby-Smith et al., 1998; Garvin, 1993).

Theorists like Sadler-Smith et al. (1999) have openly criticized the field, and state that the perspective taken in organizational learning is sometimes a normative one, which presupposes that “something is wrong with organizations which do not conform to some ideal state” rather than “being based on trying to understand existing learning capabilities and orientations” (Dibella et al., 1996a). Huber (1991) points out in his review of organizational learning, learning can be characterize by adaptation to
changing environment events, by flexibility and responsiveness, by change within the organizations. In many ways, organizational learning has become an umbrella concept that encompasses many topics in the study of organizations. On the academic side, though recent popular management journals presented learning as a source of competitive advantage, definitions and mechanism involved in achieving this advantage are not specified (Ghosal, 1987; Edmonson and Moingeon, 1998). They also note the lack of empirical evidence to link learning with organizational performance and learning by organizations is essential for the success of the organizations, while at the same time recognizing the need to “inspire further work in this promising new area of inquiry”. In Indian context, no major empirical research has been carried out on the issue. It is often argued that organizational learning is concerned with collective capability and not merely with the capability of individuals in the organization.

In most of the literature on organizational learning and organizational performance, it is the ability of people to act together that matters for organizational performance. There is an extensive empirical literature in the HRM, which has investigated the relationship between HR and organizational performance i.e. stock market performance (e.g. yield), accounting measures (return on investment) and subjective measures. The relationship between organizational learning and business results is built on a rather simple premise that better deployment and use of HR should correlate with higher business performance (Ulrich et al., 1993). Pfeffer (1994) asserted that HR capabilities are the pre-eminent organizational resource and the key to achieving outstanding performance. Huselid and Becker (1997) found that firm effectiveness was associated with HR capabilities and its attributes. In a recent research, Karami (2002) argued, unlike conventional assets, strategic HR, as an intellectual or organizational capital, is largely invisible and, can not appear on the firm’s balance sheet (Tomer, 1987; Analoui, 1998). Such assets could only be found in a skilled, motivated and adaptable workforce, and in the HRM system that strategically develops and sustains it. Indeed, as intellectual capital has come to represent an increasing fraction of many firms’ total assets, the strategic role of the HRM system has also become more critical (Kakabadse et al., 1998), a source of organizational capabilities that allow firms to learn and capitalize on new opportunities. It is these limitations in the current state of knowledge that are addressed in this paper.

We attempt to analyze the prior empirical literature on this topic by focusing on the impact of overall organizational learning on organizational performance. It is difficult to establish a casual link between organizational learning and organizational performance. More conceptual and empirical work is needed to develop and test more comprehensive theories in this field. In the Indian perspective, no empirical research has been conducted to study how the learning and HR processes build the competitive advantage. Though there have been studies by researchers like Pareek’s (1988) Organizational Learning Diagnostics’s test, Akhilesh et al. (1995) on evolving performing organizations through people, Rastogi (1998, 1999); Nilkant and Ramnarayan (1998); Deshpande and Pendse’s (undated) a 25-item questionnaire on five aspects of learning organizations suggested by Senge (1990); and another 44-item questionnaire on four aspects suggested by Garvin (1993); and Rawani and Gupta (2000), about learning in Indian banks. In a recent study on organizational learning capabilities in Indian context, Bhatnagar and Sharma (2004), found that firm’s financial turnover was found to be a significant predictor of OLC, while firm’s profit as predictor
of OLC in Indian organizations was found to be insignificant. Theorists are primarily assuming that improving performance especially human at all levels will lead to improvement at the organizational level, but this assumption is seldom tested. The assessment of performance has been almost exclusively at the level of individual or team, little attention has been paid to the processes and structures by which individual or team level performance could be translated to organizational level performance (Jackson et al., 2004). Studies by Nevis et al. (1995) attempt to link learning to organizational capability and performance in an empirical fashion found to be in the minority. Miner and Mezias (1996) even judge that “the ratio of systematic, empirical research to learning theories is far too low”. These arguments suggest:

H1. Organizational learning, which largely gets reflected through HRM has a positive correlation with organizational performance.

**Method and research sample**

The sample of the study comprised of three Indian global organizations chosen through purposive sampling technique. The sample represented India’s leading organizations in the field of IT, Petrochemical, Infocom and Pharmaceutical. Initially the organizations as a whole was considered, then we looked more closely at the use of organizational learning methods in these organizations. We decided to do in depth study on the issue so we interviewed 100 senior managers from Indian global firms out of which 72 were HR and 28 line managers. In all the cases, the questionnaires were distributed and collected personally. On an average the questionnaires required about 45 minutes for completion. Then these survey responses were matched with the annual reports of the organizations and CMIE financial data reports, which was used for the organizational performance. The data was analyzed using SPSS 12 version.

**Measures**

Based on the extensive review of literature, the survey instrument included items that assessed organizational learning and organization. Miller (1996) work on organizational learning was modified and adopted for measuring organizational learning. Organizational learning is acquisition of knowledge by individuals and groups who are willing to apply it in their jobs in making decisions and influencing others to accomplish tasks important for the organizations, cumulative effects of continuous organizational learning that are much difficult to imitate and continuous learning as an important capability that can serve as a source of sustainable competitive advantage. The nine item scale on organizational learning consisted of items like HR strategies, training and learning, performance appraisal, rewards and incentives, supportive atmosphere, teamwork, knowledge creation, quality management and flexibility on five point Likert type scale varying from 1 (strongly disagree) to 5 (strong agree). Responses were calculated so that higher values indicate higher organizational learning in the organizations. Cronbach alpha (α) coefficient of these items was found to be ranging 0.78 for nine items. Organizational performance outcomes are the indicators that reflect the organizational efficiencies or inefficiencies in terms of corporate image, competences and financial performance etc. (Mabey et al., 1998). For measuring organizational performance, Beal’s scale (2000) was modified and adopted. This was measured by the ratings of the managers concerning the indicators
of organizational performance. The reported Cronbach alpha for this scale was 0.69 for four items. In this research, the value of the alphas for all the scales gave an indication of the internal consistency and stability of measurement generated by research scales (Malhotra, 1999). Therefore, we can say the data collected were quite reliable.

Results and analyses
Table I shows the organizational learning for each organization. The total is the average of rating given by the managers from each company. Each manager was given a set of questionnaire to rate his or her company for objective assessment. Out of 45 points, these three global companies seem to be doing reasonably well, with each company achieving high standards in most of the areas related to organizational learning. In Figure 1, we have tried to depict the responses of managers through bar chart in these three Indian global organizations.

Discussion
The findings of the study greatly supported the hypothesis that organizational learning, which largely gets reflected through HRM, has a positive correlation with organizational performance. In all the three global organizations, managers’ responses showed that the organizations are doing well in the area of organizational learning through HRM practices and their effectiveness gets reflected in their organizational performance and rating of the financial reports. Similarly, correlation among the measures of organizational performance and organizational learning was found to be positive and significant, although the correlation among them was a moderate one. Knowing that somebody works in an organization, that is doing well, could have biased our results. But the results were consistent with our four measures of organizational performance in the measure of the study. These findings, which are consistent across capital markets, financial reports, and accounting-based measures of the organizational performance, are sufficiently robust to deal with the selectivity biases. Combined with the evidence from recent studies, organizational learning covers all the things that must be in place, e.g., learning processes, HR systems and roles, and organization cultures – to build and enhance this capability (see Table II).

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<th>Companies</th>
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<td>Learning based HR strategies</td>
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<td>Training and learning</td>
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<td>Rewards and Incentives</td>
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<td>Supportive atmosphere</td>
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<td>Teamwork</td>
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<td>Knowledge creation</td>
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<td>Quality management</td>
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<td>Flexibility</td>
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<td>Total</td>
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<td>Managers interviewed</td>
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Table I
Organizational learning rating in three Indian global organizations
Our findings are in consonance with the earlier researches on the area. Akhilesh et al. (1995), while discussing about performing organizations, focused on the need to create learning organizations for building learn capabilities and competencies. Quinn (1992) suggests that looking beyond mere product lines to a strategy built around core intellectual or service competencies provides both a rigorously maintainable strategic focus and long term flexibility. He further suggests that looking beyond core intellectual or service competencies provides with a rigorously maintainable strategic focus and long term flexibility. Dibella et al. (1996a) emphasize individual skills vs skills in learning and working collectively. Simon (1991) feels that insight and innovative ideas occur to individuals not organizations, so ideas are shared actions taken and common meaning developed to be developed as organization artefacts (Argyris and Schon, 1978, 1996; Draft and Weick, 1984; Huber, 1991; Stata, 1989).
Continuous innovation leads to competitive advantage. According to Rastogi (1998), knowledge including core-competencies and capabilities are the most valuable crucial resources in the crucial resource in the context.

Organizations must, therefore design themselves as laboratories for learning in terms of acquiring, generating, sharing and using knowledge resources continuously towards innovation and performance enhancement and acquisition, sharing and use of knowledge resources must involve all members of the organization. Walton (1999) feels that the HRM plays a major role in the development and sustaining of the learning organization philosophy, as they are designs of systems and process, for leaving across the whole organization, as opposed to being purveyors of training. According to Garratt (1997) systems are required to move the learning to where it is needed. Ideas only occur to individuals, so organization learning needs to be considered at individual, group and organizational level (Crossan et al., 1999; Nonaka and Takeuchi 1995) with strategy encompassing the entire enterprise and HRM. So the critical managerial activities should focus and revolve around building the knowledge resource of the organization (Rastogi, 1998). Rastogi (1998) feels that the knowledge workers form an important proportion of the workforce in knowledge intensive enterprises.

Attracting, retaining, and motivating are must for ensuring the sustained success of an organization. Crossan et al. (1999) feel the necessity to link human resource management, strategic management and the management of information technology and systems as a mean to facilitate the flow of learning. Jones and Hendry (1994) draw links between training, development, wider human resource management and company performance and competitiveness. Beckhard and Pritchard (1992) refer to the encouragement of taking risks, giving feedback and learning lessons – the “softer” consensual side of HRM supports the change strategies as strategic objectives that are defined to include the learning as strategic objectives that one defined to include the learning that must take place in order to achieve them. Pedler et al. (1989) points out company’s policies and strategy formulation together with implementation evaluation and improvement are consciously structured as a learning process enabling continuous improvements through flexibility. Combined with evidence from recent studies linking organizational learning to superior organizational performance and sustainable competitive advantage, our results support the decade old arguments that investment in organizational learning and HR capabilities are a potential source of competitive advantage.

Conclusion
To conclude, from a modest sample of three global firms and 100 managers, our study suggests that the level of organizational learning in the organizations is going to be the one of the important criteria for determining their growth and success. We do offer our empirical evidence for organizational learning to determine the performance of the organizations. But this conclusion may not be generalized for number of reasons. First, smaller firms have both advantages and disadvantages compared to large organizations when considering organizational learning. They are more flexible and less centralized but at the same time they do not have good infrastructure and HRM. Second, most of the studies are done on the large companies so the applicability on the smaller firms becomes a problem. Third,
global firms’ policies are based on the institutional environment of the foreign countries so to develop a common model is a difficult task and lastly, organizational performance is a result of number of factors, even the strongest proponents of organizational learning would not claim it is the key to success in all the areas of organizational performance (Denton, 1998). These issues are very important for future work to address.

References


**Further reading**


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