

Organizational culture, organizational learning and performance of firms

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Abstract. Organizational culture has been identified as an effective factor that determines how things get done in an organization. It is intangible, provides direction and aligns to the business vision and mission, helping decision making, prioritizing activities and defining accountability thus becoming the most important word in the business boardroom. Organizational learning is the process of creating, retaining, and transferring knowledge within an organization and an organization improves over time as it gains experience. From this experience, an organization is able to create knowledge. Organizational learning capability is important to develop other capabilities. A learning organization is the term given to an organization or a firm that facilitates the learning of its members and continuously transforms itself. A firm need to accumulate past experience and transform individual knowledge into organizational knowledge and then with the aid of continuous learning the firm should develop competence required to adopt to environmental changes. Organizational performance comprises the actual output of results of an organization as measured against its intended outputs. Listed commercial organizations at the stock exchange trade for profits and performance indicates level of profitability. Organizational learning as a dynamic capability helps organizations in coordinating internal and external information to sustain their knowledge management systems and gain competitive advantage. Cultural values then impact what might be expected actions moderating performance of these organizations. Despite the value of these interactions, in business, there are few empirical studies that have tested the underlying assumptions of the influence of culture on the dynamic capability organizational learning. The aim of this study was to determine the moderating effect of organizational culture on the relationship between dynamic capability organizational learning, on organizational performance in commercial organizations listed in Nairobi securities exchange. A cross sectional research design was adopted, where the target population of the sixty-seven listed companies was to be focused making it a census survey. Data was collected using a 5 Likert –scale questionnaire, data was analyzed using descriptive and inferential statistics using multiple linear regression. The study indicated that organizational learning capability had a statistically significant influence on organizational performance ($\beta=0.348$, $p=.000$). Organizational culture had a moderating effect on the relationship between organizational learning capability and performance ($\Delta R^2=0.069$, $p=.000$). It is therefore recommended that organizational learning while important in managerial activities had an inverse relationship with organizational performance but the results were not significant, while entrepreneurial culture should be enhanced.

Keywords. Culture, Organizational learning, Performance

Introduction

Organizational Performance can be seen as a measure of how efficiently and effectively managers use available resources to satisfy customers and achieve organizational goals. Two words are important in this matter, Efficiency and Effectiveness; efficiency being a measure of how well or how productively resources are used to achieve a goal, while effectiveness is seen as a measure of the appropriateness of the goals an organization is pursuing and the degree to which they are achieved. According to Ibraimi (2014), the relationship between strategy and performance can contribute to greater effectiveness for individual firms and entire economies.

Organizational learning refers to how an organization improves over time, with the outcomes of knowledge creation, retention and transfer. The three elements are all an essential part of business knowledge management strategy. Reviewing past studies reveals a multidimensional conceptualization of organizational performance related predominately to stakeholders, heterogeneous product market circumstances, and time. A review of the operationalization of performance highlights the limited effectiveness of commonly accepted measurement practices in tapping this multidimensionality. Addressing these findings requires researchers to possessing a strong theoretical rationale on the nature of performance i.e., theory establishing which measures are appropriate to the research context and relying on strong theory as to the nature of measures of the theory establishing which measures should be combined and the method for doing so (Bryant & Widener, 2004).

The relation between organizational learning and positive results of organizational activities has long been an object of scholar's considerations. Perez Lopez et al. (2005) and Armstrong (2007), Imran et al. (2011) indicate that this relation is neither obvious nor clear. On the other hand, the view of the positive influence of organizational learning on organizational performance is arbitrarily assumed. Chen and Levinthal (1990) stated that absorptive capability is acquired by an organization on the basis of existing knowledge, as well as by recognizing, absorbing and using external knowledge. Zahra and George (2002b) further explained absorptive capability from the perspective of dynamic capability and noted that absorptive capability is a set of processes for analyzing knowledge accumulation and transformation, and that it can lead to competitive advantage (Liao & Wu, 2010; Tsai, 2010). Furthermore, knowledge sharing in an organization will increase its potential absorptive capability (Spender, 1996).

The American Productive and Quality Center stated that knowledge and management is a strategy to acquire appropriate knowledge which assists in internal information sharing and improves organizational efficiency. Wiig (1997) proposed his knowledge management model with a principle that states that knowledge can be useful if it is well organized and used to improve efficiency and maximize profits. Friendman, Lipshitz and Popper, (2005) argue that there is a mystification about organizational learning in literature. According to Wang and Ahmed (2003), organizational learning tends to cover several management fields of research and in this context different typologies and proposals. Learning at the individual level does not necessarily imply learning at the organizational level and vice-versa (Lahteenmaki, Toivonen & Mattila, 2001; Shipton, 2006).

Organizational culture has been found to play an important role in generating commitment and enhancing performance (Lee, 2008). In particular, studies in various industries and countries showed that innovative and supportive cultures had strong positive effects on commitment and job satisfaction, while bureaucratic cultures had a negative impact (Lee & Ahmad, 2009; Liu, 2007; Chen, 2007; Caykoylu, Egri & Havlovic, 2007). Culture represents an organizations internal environment and it consists of the assumptions, beliefs, values and goals of the managers and employees. Organizational culture manifested in beliefs and

assumptions, values attitudes and behaviors of its members is a valuable source of a firm’s competitive advantage (Zhang, 2009). Culture shapes organizational procedures, unifies organizational capabilities into a cohesive whole, and provides solutions to the problems faced by the organization and thereby hindering or facilitating the organizations achievement of its goals (Yilmaz, 2008).

According to the competing values framework of Zhang (2009), organizational culture is a continuous shift from one quadrant to another, characterized into four quadrants, corresponding to the four organizational cultures that differ strongly, internal focus and integration versus external focus and differentiation and stability and control versus flexibility and discretion.

Many studies investigate the culture performance relationship (Yilmaz & Ergun, 2008; Lunenburg, 2011; Ehtesham, Muhammad & Muhammad, 2011; Imran, Zahoor & Zaheer, 2012). Although these studies reveal the results that demonstrate the value of organizational culture, great complexities involved in investigations of culture performance relationship call for more studies.

The research evidence regarding the claimed predictive effect of organizational culture on organizational performance appears to be there but not convincingly so (Mathew, 2008). Most studies on culture and performance explore direct effects of cultural strength and it’s specific on performance (Gregory, Harris, Armenakis & Shook, 2009). Researchers pay inadequate attention to mediators and moderators that link organizational culture and performance (Gregory et al., 2009; Zheng, Yang & MacLean, 2010). A gap exists in understanding how dynamic capabilities deployment is moderated by organizational culture in resources transformation.

Methodology

The study was done through a census survey of commercial organizations listed at the Nairobi securities Exchange. The target population was 67 the whole population of listed companies. Four questionnaires were administered in each of the firms, making the sample population to be 268. The questionnaires were dropped to four heads of strategic business units that included finance, operations, corporate communication and human resources. The questionnaires were administered using drop-and-pick later method that facilitated ample time to respond. Primary data was collected through semi structured questionnaire with 5- point Likert-style scale strongly agree disagree questionnaire. The unit of analysis was commercial organizations listed in Nairobi Securities Exchange because the study was to identify the moderating effect of organizational culture on the relationship between dynamic capabilities deployment, and performance for commercial organizations listed in Nairobi Securities Exchange. The research was cross sectional as the data was gathered just once over a period of months. Analysis was done using descriptive and inferential statistics that entailed multiple linear regression and stepwise regression that yielded coefficients for interpretation and making conclusions. The following regression model was used in data analysis.

$$Y = \beta_0 + \beta_2 X_2 + \epsilon \quad \text{(Direct Relationship) (1)}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_7 (X_3 X_4) + \epsilon \quad \text{(Moderating Relationship) (2)}$$

- Y - Organizational performance
- β_0 - Constant
- β_1 -3: Beta coefficients for corresponding variables

X2: Organisational learning capability deployment

ε - Error term

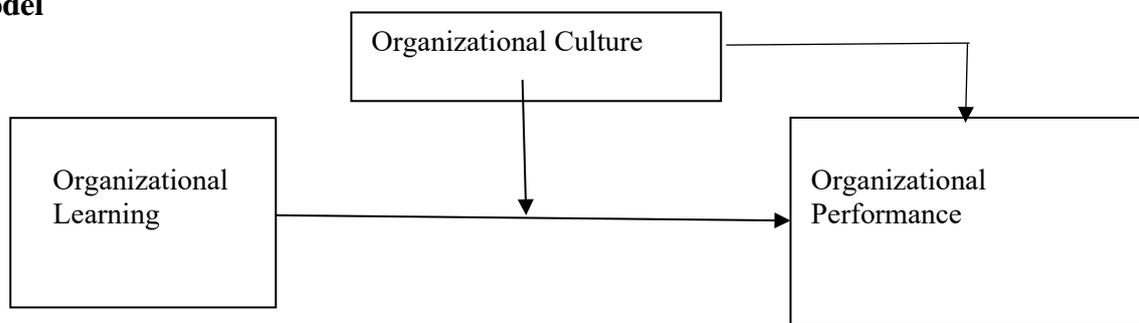
Hypotheses

To determine the effect of organizational learning capability on performance, and the moderating effect of culture on the relationship between dynamic capability deployment and organizational culture, the relevant null hypotheses were postulated as follows:

H₁: Organizational learning capability does not influence organizational performance of commercial organizations in Kenya listed at Nairobi securities.

H₂: Organizational culture has no moderating effect on the relationship between organizational learning capability and organizational performance of commercial organizations in Kenya.

Model



Source: Researcher, 2015

Results

The results presented in table 1 show that predictor variable organizational learning explain 46.5% of change in dependent variable organizational performance ($R^2=.465$).

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682 ^a	.465	.534	1.27661

a. Predictors: (Constant), Organizational learning capability

Analysis of variance (ANOVA) was used to test the fitness of the analysis model. The results of F value show that the analysis model used was fit and the results obtained were significant hence did not occur by chance ($F=57.612, p=.000$). These results are shown in table 2.

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	281.681	3	93.894	57.612	.000 ^b
	Residual	324.319	199	1.630		
	Total	606.000	202			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Organizational learning capability

The results show that the influence of organizational learning capability on organizational performance is statistically significant. This implies that we reject the null hypothesis that H_1 :

Organizational learning capability does not influence organizational performance of commercial organizations in Kenya listed at Nairobi securities.

Stepwise regression was used to establish the moderation effect of organizational culture. The following regression model was used for the analysis; $OP = \beta_0 + B_1(L) OC + \epsilon$. The results in table 3 show that R^2 change was statistically significant ($\Delta R^2 = 0.069, p = .000$). The results mean that introduction of organizational culture in the analysis model led to a change of organizational performance by 6.9%. This change was also statistically significant. The results also mean that we reject the hypothesis H_2 *Organizational culture has no moderating effect on the relationship between dynamic capabilities and organizational performance.*

Moderation Effect Results

Item	Model 1	Model 2		Model 3	
		Unstandardized Coefficients Beta		Unstandardized Coefficients Beta	
Constant	-5.613	-5.613		0.133	
Organizational learning capability	.348	.348		.025	
R	.682	.682		.731	
R Square	.465	.465		.197	
Adjusted R Square	.457	.534		.182	
Std. Error of the Estimate	1.27661	1.27661		1.20032	
R Square Change		.465		.069	
F change		57.612		9.701	
Sig.	0.000	.000		.000	
F	57.612	57.612		37.435	

Source: Developed for this Research, 2016

Discussion

The study indicated that organizational learning dynamic capability has a negative relationship with performance hence not rejecting the null hypothesis. This relationship was not statistically significant hence failing to reject the null hypothesis. It could therefore not be concluded that that organizational learning was inversely related to organizational performance. So organizational learning being the organizations process of gaining knowledge related to its functions and using that knowledge to adapt to a changing environment and increase efficiency the organization needs to harness this capability for long term success.

Conclusion and the implication of the study

This study indicates that learning at the individual level does not necessarily imply learning at the organizational level. As according to Demarest (1977), a successful knowledge management system plays an important role in company's success. According to Winter (2000) and Goh (2003), though some connections had been established between organizational learning and organizational capability, an integrative framework was missing in literature which would articulate learning dimensions and therefore in assessing the effect of organizational learning of performance there is need to take different temporalities into account which this research was not able to do. In the study of evolution of knowledge management practice, (Szulanski, 2003: Knorr-Cetina, 1999) posit that knowledge is socially constructed and as such proves challenging to transfer. Knowledge management strategies need thus to be employed for organizational learning to be effective. This study concludes that organizational learning does

not significantly influence organizational performance of firms listed at the Nairobi Securities exchange. However, we cannot conclude that organizational learning is inversely related to organizational performance.

Recommendations

This study recommends that firms listed in the Nairobi Securities Exchange should improve their dynamic capability in organizational learning capability by streamlining their internal operations and collaborating with external stakeholders. They should further leverage on strategies to improve knowledge management to benefit from organizational learning. Since organizations are already carrying through training and professional development isn't that enough? The business environment is changing faster than ever, the twenty first century has brought exciting new technology changing the way organizations operate. Organizations listed in Nairobi Securities have to keep a continuous pace of learning and adopting to stay appealing to their clients and managers have to take steps to promote organizational learning.

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