DOES ORGANIZATIONAL LEARNING ORIENTATION MATTER? 
INVESTIGATING THE IMPACT OF LEARNING ORIENTATION ON SMES PERFORMANCE 

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Abstract. The purpose of this study was to conduct an investigation into the link between organizational learning orientation and business performance in small and medium sized enterprises (SMEs). Data were analysed using sample of 213 SMEs belonging to the manufacturing sector in Sialkot, Pakistan. The findings indicated that learning orientation is positively and significantly associated with the organizational performance of SMEs. The implications and limitations of the study are discussed and possible future research directions are provided.

Key words: Learning orientation, Performance, SMEs, Sialkot, Pakistan

Introduction

Business organizations are in continuous search to embrace and practice those strategies that could enable them to obtain greater performance and sustainable competitive advantage. Learning orientation is one of the key strategies that affects the creation of knowledge and results in shaping the behaviour of employees and improved performance (Dada & Fogg, 2014; Spicer & Sadler-Smith, 2006). According to Argyris and Schöen (1978) organizational members are the main learning agents who disseminate the accumulated knowledge in the organization. This shared knowledge makes the organization effective in responding to the external and internal environmental changes. Learning orientation refers to the willingness and acceptance of learning by the members of an organisation (Rhee, Park, & Lee, 2010). In order to rapidly respond to the challenges posed by external environment, organisations are required to continuously learn new ideas, skills and processes (Kim & Atuahene-Gima, 2010). Embracing learning capabilities are crucial for ensuring long term survival and growth of the organisation (Bharadwaj, Varadarajan, & Fahy, 1993). Understanding these learning capabilities helps organisations in interpreting the effects of environmental changes and providing an insight to organisations to better deal with these changes (Daft & Weick, 1984). Learning has been highlighted in the strategic management literature as a fundamental strategic factor that improves the company performance and results in competitive advantage (Real, Roldán, & Leal, 2014).

Nevertheless, majority of the empirical studies on learning orientation-performance relationship have focused on the large-scale organizations in developed countries (Fang, Chang, Ou, & Chou, 2014; Wang, 2008). The SME sector has been paid less attention by the scholars in terms of learning orientation (Dada & Fogg, 2014; Sanzo, Santos, García, & Trespalacios, 2012). Moreover, research focusing on the learning
oriented behaviour of SMEs in developing countries is scant. Thus, the present study fills the gap in the literature by examining the relationship between learning orientation and organizational performance in the context of SMEs in Pakistan being a developing country.

Literature Review

Learning orientation

Organizational learning has been considered vital for attaining greater organizational performance and sustainable competitive advantage for large organizations (Choi, 2012; Lukas & Maignan, 1996) and SMEs in particular (Dada & Fogg, 2014). Organizational learning is clearly linked to learning orientation in order to indirectly measure organizational learning. An organization is said to have learning orientation if it has a set of values that encourages its employees to create and use new knowledge and also promote a culture wherein proactive learning occurs (Sinkula, Baker, & Noordewier, 1997). Organisations undertake learning activities to increase their ability to effectively compete in the changing market through creation of knowledge. Learning orientation has been highlighted in the research as a mean for collection, interpretation, evaluation and dissemination of information for organizations (Moorman & Miner, 1998). Prior research has highlighted that an organisation’s quest to obtain new knowledge reflects the presence of learning orientation (Sinkula et al., 1997).

Notably, learning orientation is the basic mechanism to share the knowledge about the past experiences among the organisational members (Lipshitz, Popper, & Oz, 1996). The attitude and inclination of the individuals toward the process of learning play an important role in its effectiveness. According to Slater and Narver (2000), the organisation may change the attitude of the employees by taking steps like directing employees towards learning through introducing new mental models, ingenuousness, knowledge sharing, supporting the workers to try innovative methods to get their work done and discarding the obsolete methods.

A culture which is conducive to generative learning is developed when a particular organisation motivates and creates such an atmosphere wherein employees learn and enable them to think creatively or out of box (Baker & Sinkula, 1999; Fang et al., 2014; Sinkula et al., 1997). Here organisation is required to raise the learning level of internal employees either through counselling by senior employees or hiring experts with updated knowledge (Simon, 1991). According to Celuch et al. (2002), learning at individual level is required to make the firm market oriented. Learning orientation and market orientation jointly improve the capabilities of a firm and create superior performance (Eris & Ozmen, 2012). It is the learning orientation aspect of an organization that causes the creation of new knowledge and insights enabling the organisation to behave as the market demands and ensures its due share in the available market opportunities (Fang et al., 2014).

Learning orientation consists of commitment to learning, open-mindedness and shared vision (Baker and Sinkula, 1999). “Commitment to learning is the readiness of the organization to change the way it does things by combining existing knowledge or incorporating new knowledge. It includes the acquisition, communication, acceptation
and assimilation of the knowledge in the organization” (Jolly & Thérin, 2007, p. 237). Committed organizations consider learning as an important factor for the survival and growth of the organization. Open mindedness refers to questioning the traditional ways of viewing market information and seeking the new ways of looking at market phenomena (Troy, Szymanski, & Varadarajan, 2001). Open-mindedness injects new ideas into the firms, strengthens creativity and ability to yield new opportunities that favor product innovation (Calisir, Gümüşsoy, & Guzelsoy, 2013). Open-mindedness promotes firms to achieve competitive advantage and gain great organizational performance (Usaahawanitchakit, 2011).

Shared vision refers to an organisation-wide focus on learning (Sinkula et al., 1997). Shared vision provides direction to organisational learning. It encourages the organisational members to use their potential and exhibit commitment to make the learning process successful (Day, 1994). Shared vision brings employees at a similar level of understanding. This commonness in understanding creates commitment and alignment with the learning direction taken by the organisation. This alignment is necessary for creating motivation and a sense of responsibility to learn among the employees (McKee, 1992).

**Organisational performance**

Performance is the difference between the actual and the expected outcomes. Researchers generally use two methods to measure the organisational performance. One is subjective method and the other is objective methods. Generally, objective method measures the performance by three main indicators, i.e. growth, profitability and market share. These indicators can also be measured as non financial indicators. it is more appropriate to use non-financial indicators to bridge the gap created by the insufficiency of information (Dess & Robinson, 1984). Jantunen et al. (2008) recommend using subjective measures of performance because the collection of data becomes easier using subjective approach. Generally the managers/ owners of the firms hide the financial data and are reluctant to disclose the information to outsiders. Apart from this, subjective measures provide reliable, correct, and accurate measure while measuring the organizational performance from the perspective of SMEs (Escribá-Esteve, Sánchez-Peinado, & Sánchez-Peinado, 2008; Khan & Khalique, 2014). Moreover, a positive correlation exists between the outcomes obtained from objective and subjective measures in the previous studies (Love, Priem, & Lumpkin, 2002). The study of Kirca et al. (2005) have identified four types of performance outcomes that are “organisational (financial) performance, customer related outcomes (customer satisfaction), innovative outcomes (innovation) and employee related outcomes (employee satisfaction). The current study is confined to only non-financial performance of the organisations, that are customer satisfaction, employees’ satisfaction, service quality, growth and innovation respectively” (p. 27).

**Learning Orientation and Organisational Performance**

Learning orientation facilitates the organizations to acquire knowledge to enhance organizational performance and gain sustainable competitive advantage (Baker & Sinkula, 1999; Bing & Zhengping, 2011; Celuch et al., 2002; Kaya & Patton, 2011;
Slater & Narver, 1995; Suliyanto & Rahab, 2012). Organizations that are prone to accepting new ideas, skills and process are better able to efficiently respond to market environment changes (Baker & Sinkula, 1999; Calantone, Cavusgil, & Zhao, 2002; Fang et al., 2014) and results in maintaining greater firm performance and sustained competitive advantage in the long run (Alegre & Chiva, 2013; Hussain, Ismail, & Akhtar, 2015; Jiménez-Jiménez & Sanz-Valle, 2011). Organization that adopt and practice learning orientation are better able to adapt to the evolving business environment by developing new products that meet the emerging consumer needs (Lonial & Carter, 2015; Wang, 2008).

Some studies provide evidence on a positive relationship exists between learning and firm’s performance. For example, Spicer and Sadler-Smith, (2006) reported that the relationship of the learning orientation on firm performance is positive. Keskin (2006) found a positive impact of learning orientation on innovation and firm performance in developing countries. Baker and Sinkula (1999) indicated that learning orientation has a direct effect on organizational performance. However, few studies reported the indirect relationship between learning orientation and performance. Frank et al. (2012) found that high level of learning orientation results in higher organizational performance. However, both highly dynamic environments as well as hostile environments absorb possible performance effects of a high learning orientation in SMEs. Rhee et al. (2010) indicated indirect relationship between learning orientation and performance. They found that learning orientation influences innovation performance, which in turn improves organizational performance. Lee and Tsai (2005) found that learning orientation effect market orientation positively that in turn has significant impact on innovativeness and performance. Lonial and Carter (2015) found learning orientation of SMEs as indicator of positional advantage which in turn is linked to firm performance. The literature presented above leads to the development of the following hypothesis:

HI: Organization’s learning orientation is positively and directly related to organizational performance of SMEs

Methodology

This study is a survey type study wherein the researchers have used a questionnaire for data collection from the target population. The questionnaire developed for this study has been administered personally to the 367 respondents through mail and self-visitations. The respondents of the study were the top management such as CEO, Director, and Managing Directors of the SMEs belonging to manufacturing sector of the Sialkot region, Province of Punjab, Pakistan.

This study used already tested, reliable and validated self administered questionnaires for data collection. For learning orientation 15 item scale developed by Sinkula et al. (1997) was adapted to measure the construct. The scale had been previously validated by several studies (Hakala, 2013; Nasution, Mavondo, Matanda, & Ndubisi, 2011; Real, Roldán, & Leal, 2012; Wang, 2008). Non-financial measures like employee satisfaction, innovation, customer satisfaction, service quality, and growth were used for measuring organizational performance and were adapted from Kirca et al. (2005).
Non-financial measures were used for organizational performance because often managers or owners of the SMEs are reluctant to provide the financial data. Moreover, subjective measures provide correct, reliable and accurate information than objective measures (Escribá-Esteve et al., 2008; Khan & Khalique, 2014). The survey instrument was based on 5-point Likert scale for the data collection. Recent studies on the Likert scale have shown that the optimal option for Likert scale is 5-points. The survey also consisted of demographic profiles of the respondents including gender, age of the firm, number of employees and sector of the organization (leather, surgical goods, sports etc). A total of 239 questionnaires were returned. Out of them, 26 questionnaires were discarded because those were found to be incorrectly filled. Thus, analysis has been conducted on the remaining 213 questionnaires. This constituted 58% response rate which is generally considered good for analysis.

Cronbach alpha reliability test was performed to check the reliability and internal consistency of the instrument. Researchers highlight that if the value of Cronbach alpha is more than 0.6 then it is considered good and all items of a construct can be analyzed by summing them up as one measurement. It was necessary to check for the reliability and internal consistency because though validated questionnaires were used, adaptation was made according to the cultural context. The reliability results indicate that the composite constructs (learning orientation, 0.768 and organizational performance, 0.926) are reliable and there is internal consistency in the items. Thus, the survey instrument was reliable and could be used in Pakistani context. The Cronbach alpha values were generated after the principal component analysis was performed.

Analysis and Results

Sample profile

The profile of respondent SMEs is provided in Table 1. The gender distribution indicates that 88 percent of respondents were male and only 12 percent were female.

Table 1  Demographic of the Firms (N=213)

<table>
<thead>
<tr>
<th>Gender of Respondents</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>188</td>
<td>88.3</td>
</tr>
<tr>
<td>Female</td>
<td>25</td>
<td>11.7</td>
</tr>
<tr>
<td>Total</td>
<td>213</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line of Business</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Surgical Goods</td>
<td>12</td>
<td>5.6</td>
</tr>
<tr>
<td>Leather Goods</td>
<td>43</td>
<td>20.2</td>
</tr>
<tr>
<td>Electrical Appliances</td>
<td>50</td>
<td>23.5</td>
</tr>
<tr>
<td>Earthenware</td>
<td>26</td>
<td>12.2</td>
</tr>
</tbody>
</table>
Majority of the respondent firms were from the Electrical Appliances manufacturers having frequency of 50 (23.5%). Garments and Apparels manufacturer firms are at second highest frequency with 22.1 percent of the respondents. Leather products manufacturer SMEs are at third highest participators with the frequency of the 43 (20.2%). In the firm age category, it was found that most of the firms were 7 to 10 years old (26.3%). The respondent SMEs were asked to indicate the number of full time employees working in their businesses. The results indicate that 93 enterprises (43.7%) employee up to 50 employees; while 65 enterprises (30.5 %) employ between 50 to 75 employees. The results further indicate that 37 enterprises (17.4%) have an employee strength of more than 75 but less than 100 employees; whereas, only 18 enterprises (8.5%) has more than 100 full time employees. The employment trend indicates that majority of the enterprises can be categorized as small enterprises.

**Correlation**

Pearson correlation was calculated to ascertain the relationship between the variables. The results are provided in Table 2. The results indicate that there exists a strong and statistically significant relationship between the variables of the study.

<table>
<thead>
<tr>
<th>Silver Ware</th>
<th>17</th>
<th>8.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garments and Apparels</td>
<td>47</td>
<td>22.1</td>
</tr>
<tr>
<td>Sports</td>
<td>18</td>
<td>8.5</td>
</tr>
<tr>
<td>Total</td>
<td>213</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25</td>
</tr>
<tr>
<td>25-50</td>
</tr>
<tr>
<td>51-75</td>
</tr>
<tr>
<td>76-100</td>
</tr>
<tr>
<td>More than 100</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
</tr>
<tr>
<td>3 to 5 years</td>
</tr>
<tr>
<td>5 to 7 years</td>
</tr>
<tr>
<td>7 to 10 years</td>
</tr>
<tr>
<td>More than 10 years</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Table 2: Correlation Matrix (N=213)

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>Learning orientation</th>
<th>Organizational Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Learning Orientation</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Organizational Performance</td>
<td>0.875**</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: P< 0.01 level (2 tailed)

Hypothesis Testing

To test the hypothesis of the study, regression analysis was performed to find the direct effect of predicting variable (IV) learning orientation on the criterion variable (DV) of organizational performance. Table 3 provides the results of the subject analysis. These results demonstrate that learning orientation (β = 0.608, t = 12.431, p < 0.001) has positive and significant relationship with the performance of the organization. Hence, these results support the current study hypothesis. It means these results validate such results in the previous studies (Sinkula et al., 1997; Keskin, 2006; Spicer and Sadler-Smith, 2006; Michna, 2009; Rhee et al., 2010; Frank et al., 2012; Hakala, 2013).

Table 3 Regression of Learning Orientation-Performance (N=213)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Adjusted R-square</th>
<th>Beta</th>
<th>t-statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning Orientation</td>
<td>0.420</td>
<td>0.608</td>
<td>12.431</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Sig p < 0.001

Discussion and Conclusion

This study examines how learning orientation can affect the organizational performance of SMEs in Pakistan. Significant conclusion from this study is that learning orientation has a significant positive effect on business performance. The results of the study conclude that with increase in the level of learning orientation, the degree of organizational performance also increases. The results of the study posit that strong learning orientation facilitates the achievement of sustainable competitive advantage and yields greater organizational performance. The study also highlights that when organization stops learning; it may not able to absorb the external pressure and would be badly affected. This study guides the owners/ managers of SMEs to promote and encourage learning in organization in order to ensure improved performance. The findings would also help them to better understand the effects of organizational learning through commitment to learning, open mindedness and shared vision of the employees on business performance. The study has limited sample size belonging to only Sialkot District of Punjab Pakistan. It is strongly advised that a larger sample size from SMEs operating in various districts of Pakistan should be taken in order to generalize the results of the study. Moreover, the longitudinal study is suggested to be undertaken in future for the findings of the study to be validated.
References


