

Effect of Organizational Learning and Knowledge Management Practices on Organizational Performance

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ABSTRACT

This Study is an attempt to investigate that whether two of the organizational practices i.e. Organizational Learning and Knowledge Management System of organization have the power to affect the Performance of Organization or not? For this purpose work of the practitioners and academicians relating to this topic has been reviewed and conclusion shows that in this rapidly changing business environment it has become inevitable for the organizations to invest in the organizational learning and knowledge management system to enhance their employees' knowledge base. This knowledge affects the financial and non-financial performance of the employees. So both of the considered factors directly influence the performance of organization. This study has also indicated the different dimensions of organizational learning and knowledge management system.

KEY WORDS: Organizational Learning, Knowledge Management System, Organizational Performance

INTRODUCTION

The organizational environment is changing rapidly because the world is turning into a global village. Globalization and increased workforce diversity have entirely changed the internal and external environment of organization. All organizations are running behind the scarce resources and core competencies. And the organizations who become able to win the race can gain the competitive advantage over its competitors. Those who are fast enough to keep themselves with the pace of changing world can survive in global market. So there is a constant need for organizations to keep themselves update about the fluctuations happening in the business environment through gaining knowledge and increasing the Organizational learning Opportunities and practices in the organization. Organizational learning and Knowledge Management are two important factors that directly influence the performance of the organization now a day.

First of all it is very necessary to have a clear idea about the terms Organizational Learning and Knowledge Management and Organizational Performance.

"Learning" is a dynamic concept and history shows that learned individuals has been proven as an asset to that nation.

"Learning can be defined as achieving knowledge, new ideas, different habits, skills and different methods of problems solving and it is same as acquisition of good or bad behaviour and actions"

(Seif, 2001; Koupahi, Fakhri, & Ghanimat, 2013)

Organizational learning is the ability of an organization to gain insight and understanding from experience through experimentation, observation, analysis, and a willingness to examine successes and failures (Serrat, 2009). According to Wikipedia (2012), organizational learning is a characteristic of organization that shows that how quickly an organization senses its external and internal environment and adapt accordingly.

Sobhani Nejad, 2001; Koupahi, Fakhri, & Ghanimat, 2013 explained the Organizational Learning in following words:

"Organization learning is achieved by explicit and implicit knowledge combination by interaction between stuff and different parts of an organization"

The second factor of the study is knowledge Management. In general knowledge management refers to the process of how organizations create, retain and share knowledge (Argote, 1999). Another comprehensive definition states the Knowledge Management is a process of discovering, developing, utilizing, delivering and absorbing the knowledge outside and inside the organization through a proper management process to fulfil future and current needs (Ouintas et al. 1997).

This study is investigating the impact of both of above discussed variables on the organizational performance through reviewing the literature on this topic. Organizational Performance is a multi-dimensional process, conceptualized differently by different writers and practitioners but there is no second opinion on the importance to measure organizational performance. Dess & Robinson, (1984) explained the framework to measure organizational performance. These two measures are Return on Asset and Growth in Sales. Business Dictionary, (2012) analysed Organizational Performance through three outcomes: market performance, financial performance and shareholders' value. So there are number of measures and items to measure

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organizational performance but this study is not focusing on scales to measure the organizational performance but the focus of the study is on organizational performance as the purpose of all scales is to measure organizational performance. So this study discusses that how the organizational learning and knowledge transfer can be increased in organization that will ultimately result in increasing the performance of organization.

Purpose of the Study

The major reason behind this study is to investigate that what the existing literature says about the linkage of Organizational Learning and Knowledge Management Practices with Organizational Performance. Organizational Learning and Knowledge Management Processes have become the inevitable for organizations existing in 21st Century but it is important to investigate whether these two variables affect the organizational performance or not. So this study is an effort to assemble the literature about this linkage.

LITERATURE REVIEW

In this era of globalization, corporations are focusing on increasing its knowledge base and intellectual assets. The newly emerged concept in this regard is Human capital Management. This concept focuses on the skills, knowledge, know how, experience and capabilities of workforce (Baron & Armstrong, 2007). Different training programs are initiated in organizations to increase the learning and knowledge of its workforce. So the attentions of corporate world are shifting from human resource to intellectual assets. It is perceived that if the organizations make investment in Organizational Learning and Knowledge Management Practices then their performance can be increased substantially so this study is investigating this hypothesis. To meet the ever increasing demands of customer, organizations have to reduce their costs, improve product quality, bring innovative products in market and expand their business (BECKER & GERHART, 1996). All the above mentioned factors directly influence the Organization's Outcomes while there are some factors that indirectly affect the Organizational Performance so this study will investigate whether Knowledge Management Practices and Organizational Learning are one of these indirect factors or not?

Organizational Learning and Organizational Performance

In past, different scholars have researched to link the organizational learning with organizational performance.

As the study of Imran, Rizvi, & Ali (2011) shows that continuous learning and empowerment are the most important factors that affect the organizational performance. In this study although some other factors were also considered to measure their relationship with organizational performance but the above mentioned factors were most significantly influences the performance of organization so it is concluded that these two factors must be given the prior importance while strategy formulation. In this article Organizational Performance was measured through a self-developed 11 items Likert Scale.

The research of (Zhang, Tian, & Qi, 2006) is also conducted for the same purpose to find out the relationship of organizational performance and organizational learning. The results show that organizational learning is a dynamic process significantly correlated with the organizational performance.

Another research of (Cho, 2007) shows that organizational learning helps to increase the performance of employees by increasing their satisfaction and motivation level that ultimately helps the organization to adopt and implement new technologies in organization.

The findings of the above mentioned research is quite similar to the study of (Goh & Ryan, 2002), which states that learning capabilities of the organization is strongly related with the non-financial performance of the organization i.e. job satisfaction. Different dimensions of learning capabilities are identified in this research that are learning culture, leadership, teamwork, ability to transfer knowledge and clarity of mission.

Other researches have also indicated the dimensions of organizational learning. The most famous work in this regard is of (Watkins & Marsick, 2003) that presented DLOQ (Dimensions of Learning Organization Questionnaire). The 7 major dimensions identified are Strategic Leadership, Empowerment, Team learning, Inquiry and dialogue, Continuous learning, Embedded system, system connection.

Study of Koupahi, Fakhri, & Ghanimat, (2013) confirms the above mentioned findings that there is positively significant relationship in learning and organizational performance.

Seven Dimensions of Learning Organization

| <i>Dimension</i> | <i>Description</i> |
|----------------------|--|
| Continuous learning | Opportunities for ongoing education and growth are provided; learning is designed into work so that people can learn on the job. |
| Inquiry and dialogue | The organizational culture supports questioning, feedback, and experimentation; people gain productive reasoning skills to express their views and the capacity to listen and inquire into the views of others. |
| Team learning | Work is designed to use teams to access different modes of thinking; collaboration is valued by the culture and rewarded; teams are expected to learn by working together. |
| Embedded system | Necessary systems to share learning are created, maintained, and integrated with work; employees have access to these high- and low-technology systems. |
| Empowerment | People are involved in setting and implementing a shared vision; responsibility is distributed so that people are motivated to learn what they are held accountable to do. |
| System connection | The organization is linked to its communities; people understand the overall environment and use information to adjust work practices; people are helped to see the effect of their work on the entire organization. |
| Strategic leadership | Leadership uses learning strategically for business results; leaders model, champion, and support learning. |

Adopted from: (Song, Joo, & Chermack, 2009)

Knowledge Management on Organizational Performance

The other important factor that may affect the performance of an organization is Knowledge Management. Different researches have been conducted in the past to find out that how the knowledge management is linked with organizational performance.

As the study of (Bhatti, Zaheer, & Rehman, 2011) shows that now the knowledge has become a very important asset of the organization through which organizational performance can be enhanced by effectively conversion of knowledge into core competency. This study also suggests a model named PICS model through which knowledge management system can be effectively utilized. This model also highlights the factors which effect the knowledge management system of organization that are strategy, culture, processes and intellectual capital.

The study of (Lee & Choi, 2000) presents an indepth analysis on Knowledge Management. This study investigates the effects of knowedge management practices on the financial and non-financial performance. Findings state that knowledge management results in effective utilization of organizational creativity that ultimately brings the economic and strategic benefits of organization.

The importance of knowledge management system remains the same in the public sector organizations too. As the study of (Gayton, 2009) conducted in the Army enviroment shows that new methods and tools of traning bring fruitful results in knowledge gain that ultimately increases the performance of organization. Even the study of (Kasim, 2008) declares the Knowledge Management practices the prerequisite of successful organizational performance.

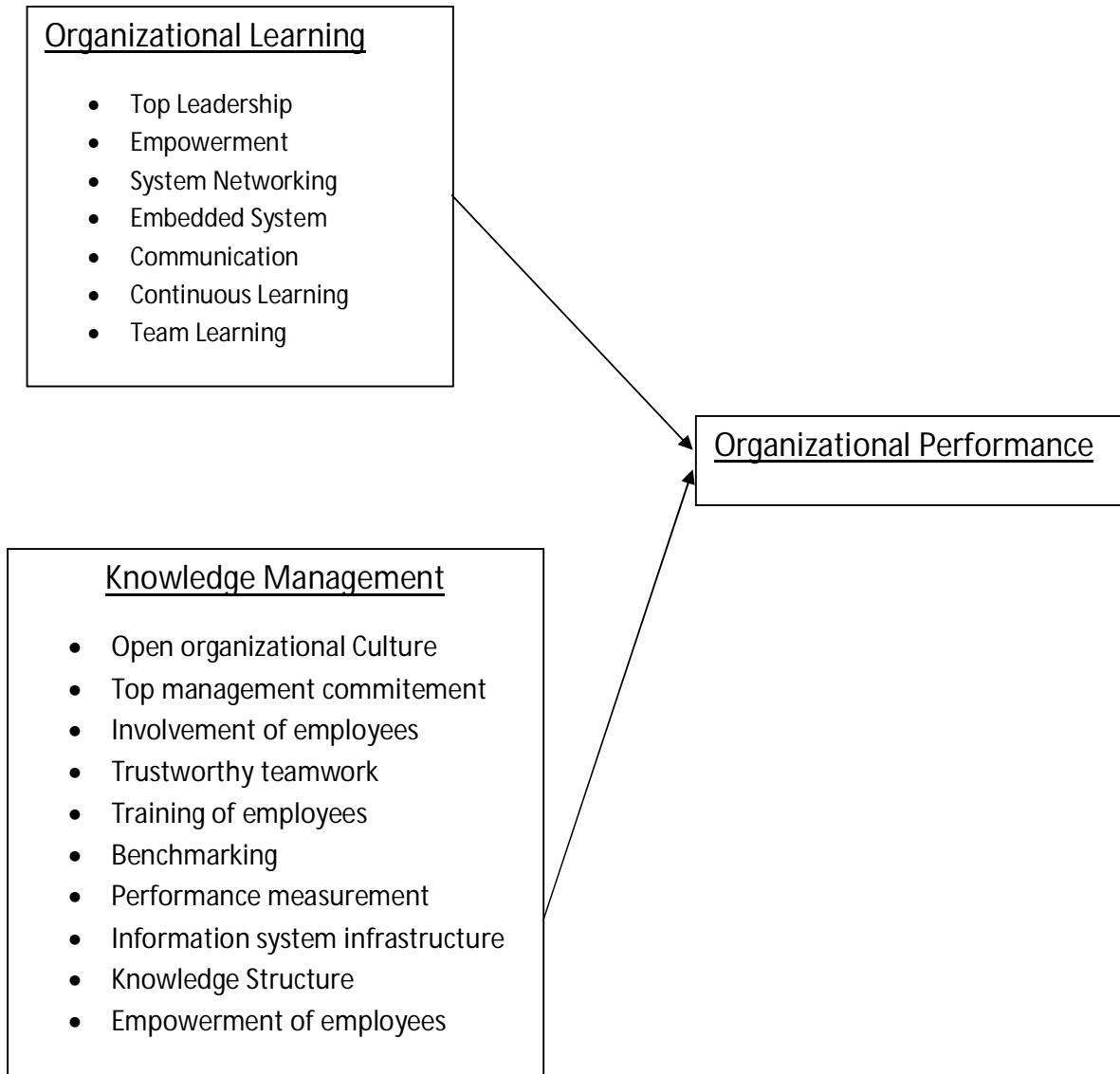
Different dimensions of the Knowledge Management System are indicated by different researchers. Different studies are summed up by the (Kanagasabapathy, Radhakrishnan, & Balasubramanian, 2006) to findout the dimesions of Knowledge Management System on which most of scholar have consensus and these dimensions are An open organizational Culture, Top management commitement, involvement of employees, trustworthy teamwork, Training of employees, Benchmarking, Performance measurement, Information system infrastructure, Knowledge Structure, empowerment of employees.

PROBLEM STATEMENT

In this era of globalisation, change is occurring very rapidly. Therefore, it has become a necessity of the time for every organization to keep them updated and learned about their environment in which they are operating. However, it is still a debatable issue that how an organization can increase its intellectual asset. This study answers this question by showing the linkage between two main important factors that can be served as a base for increasing the overall learning of organization that ultimately enhances organizational performance.

Theoretical Framework

This study investigates that how organizational learning and knowledge management (Independent Variables) influence the organizational performance (Dependent Variable). This study also indicates the different dimensions of organizational learning and knowledge management through which these both factors can be boost up in an organization.



RESEARCH METHODOLOGY

The study is a qualitative review of the literature on the Organizational Learning and Knowledge Management Practices. The unit of analysis of the study is the expert opinion gathered from the recognized journals and internet on the organizational learning and knowledge management effects of the organizational performance. The selection is based on the random sampling. For this purpose extensive literature is reviewed including working papers, journal articles, review papers, books, interviews, conference proceedings. Moreover the papers published by the reputable organizations as Emerald, Science Direct, Elsevier and Google Scholar browsing through keywords etc. are also referred in this paper. On the basis of this reviewed literature conclusion is drawn.

FINDINGS OF THE STUDY

The findings of all the above discussion state that the both factors organizational learning and knowledge management directly influence the performance of the organization. Mostly researchers indicate that organizational learning influences the organizational performance but mostly the performance is non-financial that is in the form of employees satisfaction and motivation. The second factor under consideration is Knowledge Management System of the organization. All the observed researches state that effective and well organized knowledge management system results in increasing the organizational performance and here the organizational performance includes both financial and non-financial performance of the organization. Here it is important to note that both of these factors result in reaping the same benefits in private and public sector organization. Moreover the theoretical framework contains the components that help the organizations to design an ideal organizational learning and knowledge management system.

Implication and limitation of the Study

If the findings of the study are considered seriously by the organizations and proper efforts are made by them to improve the knowledge management and organizational learning processes, it would definitely enhance the financial and non-financial performance of the organization. And for the successful implementations this study has also mentioned some dimensions or factors of Knowledge Management Practices and Organizational Learning. In the real world Shell, Apple Inc, Pratt and Whitney airline Engine Company, General Electronics are good examples of the companies who are successfully implementing the organizational learning and knowledge management system in their organizations. This study opens the different directions for the future researchers to explore more on the benefits of organizational learning and knowledge management. Very beneficial studies can be conducted on the dimension indicated in the study.

But the major limitation is that the study is relying on the past studies and previous researchers instead of empirical data from the corporate world. So the study can provide us with a theoretical aspect of situation instead of showing a practical picture of business world.

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