

# THE RELATIONSHIP BETWEEN ORGANIZATIONAL LEARNING AND FINANCIAL PERFORMANCE: A STUDY OF SMALL-SIZED BUSINESSES IN TURKEY

**Metin KAPLAN**  
(Ph.D.)  
Nevşehir Hacı  
Bektaş Veli  
University,  
Nevşehir,  
TURKEY

**Adem ÖĞÜT**  
(Ph.D.)  
Selçuk University,  
Konya, TURKEY

**D. Mehmet**  
**BIÇKES (Ph.D.)**  
Nevşehir Hacı  
Bektaş Veli  
University,  
Nevşehir, TURKEY

**Aslı KAPLAN**  
Nevşehir Hacı  
Bektaş Veli  
University,  
Nevşehir,  
TURKEY

## ***Abstract***

*In this study, we investigate the relationship between organizational learning (commitment to learning, shared vision, open-mindedness and intra-organizational knowledge sharing) and financial performance in printing companies in Konya, Turkey. The findings of the research indicated that commitment to learning and intra-organizational knowledge sharing were positively and significantly correlated with financial performance. No significant relationship between shared vision, open mindedness and financial performance was found out. Regression analysis results show that intra-organizational knowledge sharing had positive effect on financial performance. Moreover, practical implications are discussed, and suggestions for the future research are made.*

*Key words: Organizational learning, financial performance, printing companies.*

## **INTRODUCTION**

Today's organizations carry on a business in complicated surroundings and under intense competition that rapid change canalize. Rapid change has an impact on economic operators and leads in different expectations regarding other economic operators. On such an occasion, businesses produce new approaches to sustain their existence and flourish with highest performance. Considering continuous change, organizational learning is of vital importance in the process of adaptation and internalising changes. Businesses obtaining information through learning increase their ability of perceiving environmental changes and adaptation. With increasing adaptation, businesses have an opportunity to follow differences of customer expectations, create more valuable things and launch the right product at the right place. Within this framework, Nonaka (1994) draws attention to the relationship between learning and performance emphasizing that organizational learning settles changes in industrial surroundings and customer expectations and improves the adaptation skills of businesses.

Increasing financial performance is based on some antecedents. This study focuses on organizational learning. In this frame, the aim of the study is to investigate the relationship between organizational learning (commitment to learning, share vision, open-mindedness and intra-organizational knowledge sharing) and financial performance in the printing businesses in Konya, Turkey.

## **2. ORGANIZATIONAL LEARNING**

Organizations as an open system have not a physiological brain as individuals have. But, they have cognitive systems and memories. Although members come and go, organizations are constant with their norms, values, and policies (Taylor, 2008:129). However, some changes in organizations have been gained through changing personal attitudes and behavior (Morin, 1972: 53). Being a learning organization depends on learning of the individuals the smallest part of the system and changing their behavior through learning (Wang and Ahmed, 2003: 9). A whole system changes with alteration of sub systems (Ozdevecioglu, 2003: 25). Therefore, learning in an organization results from an accumulation of individual learning (Calantone et al., 2002: 517). In this frame, organizational learning is defined as “to transfer individual learning to the working space” (Zehir et al. (2008: 422). On the other hand, Lopez et al. (2005: 228), define organizational learning as a dynamic process of creation, acquisition and integration of knowledge aimed at the development of resources and capabilities that contribute to better organizational performance. In today’s competitive climate, organizational learning is considered a key factor of business success and is seen as the foundation of competitive advantage (Zehir et al., 2008: 422).

Organizational learning can be characterized in terms of four dimensions (Calantone et al., 2002: 516-517): commitment to learning, shared vision, open-mindedness and intra-organizational knowledge sharing. The dimensions are defined as follows:

### **2.1. COMMITMENT TO LEARNING**

Central to the organization’s learning orientation is the fundamental value it holds toward learning. This value influences whether an organization is likely to promote a learning culture. If an organization places little value on learning, little learning is likely to occur (Sinkula et al., 1997: 309). Commitment to learning is associated with a long-term strategic orientation (Calantone et al., 2002: 516).

### **2.2. SHARED VISION**

Shared vision refers to an organization-wide focus on learning (Calantone et al., 2002: 516). Shared vision influences the direction of learning (Sinkula et al., 1997: 309) and leads to increase in the quality of learning. In fact, without shared vision, learning of individuals in organization will be extremely meaningless. In the other words, even though individuals are stimulated for learning, their problem is that they don’t know what to learn unless they have a shared vision (Eshlaghy and Maatofi, 2011: 116).

### **2.3. OPEN-MINDEDNESS**

Open-mindedness refers to the critical evaluation of organization’s daily operations and the acceptance of new ideas. In the other words, it is a process through which organization starts deleting the existing knowledge or the repetitive assumptions and habits (Eshlaghy and Maatofi , 2011: 116).

### **2.4 INTRA-ORGANIZATIONAL KNOWLEDGE SHARING**

Intra-organizational knowledge sharing refers to collective beliefs or behavioral routines related to the spread of learning among different units within an organization (Calantone et al., 2002: 517). Knowledge is the most important strategic resources for organizations to acquire competitive advantage. Thus, organizational learning can enhance competitiveness and improve organizational performance (Chen et al., 2009: 489).

The literature views organizational learning as the basis of gaining a sustainable competitive advantage and key to firm performance (Kocoglu et al., 2010: 702-703).

### 3. FINANCIAL PERFORMANCE

Business Performance, which reflects the perspective of strategic management, is a subset of the overall concept of organizational effectiveness (Venkatraman and Ramanujam, 1986: 803) and can be defined as the achievement of organizational goals related to profitability and growth in sales and markets share, as well as the accomplishment of general firm strategic objectives (Hult, Hurley and Knight, 2004: 430-431).

Firm performance is classified into two dimensions namely objective and subjective performance. Subjective performance deals with organizational culture, setting, human resources and other abstract outputs; on the other hand, it comprises employee satisfaction, customer satisfaction, quality and innovation performance. Unlike subjective performance, objective performance that is measured with numbers easily includes revenue growth dependent on marketing and financial management success profitability and market share. As understood from the explanations, financial performance in the study is dealt with objective criteria.

Financial performance refers to a management initiative to upgrade the accuracy and timeliness of financial information (Chiliya et al., 2008: 97). Financial performance measures the organization's basic economical targets (Zehir et al., 2010: 1313) and financial indicators usually include profit, efficiency trend, sales trend, return on investment and market share (You et al., 2010: 798).

### 4. ORGANIZATIONAL LEARNING AND FINANCIAL PERFORMANCE

In literature, it is emphasized that organizational learning has a positive relationship with firm and financial performance. Some of the research is explained as follows:

Kitapci et al. (2012), in the study on metalworking industry in the Marmara region of Turkey, found out that there is positive relationship between four dimensions of organizational learning capacity (system orientation, climate for learning orientation, knowledge acquisition and utilization orientation and information sharing and dissemination orientation) and financial performance. Additionally, system orientation and climate for learning orientation have not affected financial performance. On the other hand, according to the study carried out by Koçoğlu et al. (2010), on various industries in Turkey, firm performance is positively influenced by shared vision. Likewise, Zehir et al., (2008) carried out study on 18 different sectors in and around Istanbul and determined that there was a positive and significant relationship between organizational learning and firm performance and firm innovation was a moderating variable between organizational learning and firm performance. Chen et al (2009) also investigated the links between organizational learning, innovation and performance. According to the results, organizational performance was positively affected by administrative and technical innovation and organizational learning also positively and significantly influenced firm performance. Similarly, Jiang and Li (2008), tested the relationship between organizational learning and firm-level financial performance in the context of strategic alliances and found out a significant, positive and strong relationship between organizational learning and financial performance. Lopez et al (2005), found out positive relationship between organizational learning and financial performance in the research on large Spanish companies from the industrial and service sectors. Lastly, Calantone et al. (2002), investigated the effect of learning orientation on firm performance in a broad spectrum of US industries. In connection with the results, learning orientation has a direct influence on firm performance.

In the light of these findings, the following hypothesis will be tested:

**H1:** There is a positive relationship between commitment to learning and financial performance.

**H2:** There is a positive relationship between shared vision and financial performance.

**H3:** There is a positive relationship between open-mindedness and financial performance.

**H4:** There is a positive relationship between intra-organizational knowledge sharing and financial performance.

## 5. METHODOLOGY

### 5.1. SAMPLE

The sample of the research covers the printing house companies in Konya, Turkey. “**The Complete Inventory Method**”, identified as the observing (Serper and Aytac, 2000: 1) all of the units of the community in which the survey is carried out for obtaining information is taken as a basic method. According to data acquired from Konya Chamber of Commerce and Industry, it was determined that 153 businesses have been operating in printing sector. In this context, the survey form has been sent to all of the units of the sampling frame. The number of the returned survey is 89. But four of them didn't include to the assessment process. The number of evaluated survey is 85. The rate of return of the surveys is 56%. This rate is an acceptable response rate for this kind of study (Lewin et al., 1995).

Out of many businesses participated in the study, 82,4% of the businesses operate in regional area, 11,8% in national area, and 5,9% in international area. Considering business years, 17,9% of the businesses operate in 5 years and less, 22,6% between 6-10 years, 15,5% between 11 and 15 years, 8,3% between 16 and 20 years and 37,5% in 21 years and more. 90,6% of the businesses is managed by proprietors, only 9,4% of the businesses is managed by proprietors and professional managers. In total budget in terms of research and development activities, most of the businesses (82,4% ) remains inactive for R&D activities, 10,6% of the businesses allocate 3-4 percent and less of the total budget, %7 of the businesses allocate 4-6 percent of the total budget for R&D activities. Taking into the numbers of employees consideration, 98,8% of the businesses employ 49 and less employees, only 1,2% of the businesses employ 50-149 employees. Respondents consisted of 94,1 percent females and 5,9 percent males. In terms of educational levels, 35,3% of the respondents had graduated from primary school, 34,1% from secondary school, 10,6% from high school, 17,6% held Bachelor of Science degrees, and 2,4% had Master's degrees.

### 5.2. MEASURES

The survey has been used as a data collection method in the research. Financial performance was designated as the dependent variable in this study, while organizational learning (commitment to learning, shared vision, open-mindedness and intra-organizational knowledge sharing) were considered as the independent variables. To measure organizational learning, we used Organizational Learning Scale with 17 items developed by Calantone et al. (2002). The items were classified in terms of the four dimensions of commitment to learning (4 items), shared vision (4 items), open-mindedness (4 items) and intra-organizational knowledge sharing (5 items). Each of these variables was measured by a five-point Likert-type scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Cronbach's alphas were as follows: 0.81 for commitment to learning, 0.80 for shared vision, 0.74 for open-mindedness and 0.62 for intra-organizational knowledge sharing.

On the other hand, financial performance was measured with six items 5-point Likert scale (1=strongly decrease, 5=strongly increase) developed by Karabag (2008). The Participants compared their performance today to performance three years ago. The scale showed adequate reliability. The Cronbach's alpha coefficient was 0.80.

## 6. RESEARCH FINDINGS

Table 1 reports means, standard deviations, correlations among variables, and cronbach's alpha coefficients.

**Table 1. Descriptive Statistics and Inter-correlations among Study Variables**

	Mean	Std. Dev.	1	2	3	4	5
1. Commitment to learning	3,83	0,61	(0,81)				
2. Shared vision	4,17	0,53	,229*	(0,80)			
3. Open-mindedness	4,00	0,42	,215*	,383**	(0,74)		
4. Intra-organizational knowledge sharing	3,85	0,48	,509**	,540**	,214*	(0,62)	
5. Financial performance	3,14	0,59	,251*	,120	,114	,345**	(0,80)

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed).

As it seen in Table 1, commitment to learning ( $r=0,251$ ;  $p<0,05$ ) and intra-organizational knowledge sharing ( $r=0,345$ ;  $p<0,01$ ) were positively and significantly correlated with financial performance. The results supported H1 and H4. In this frame, these results were consistent with the study results of Kitapci et al. (2012), found out positive relationship between four dimensions of organizational learning and financial performance. Likewise, Jiang and Li (2008), found out a significant, positive and strong relationship between organizational learning and financial performance. Besides, Lopez et al (2005), found out positive relationship between organizational learning and financial performance in the research on large Spanish companies.

Observations and obtained data show that the businesses included in the survey are generally operating on a local scale and small scale enterprises directed by traditional approaches and learn from their experiences. It is widely known that in small scale enterprises intra-organizational communication and cooperation are very powerful. Within the framework of these explanations, the positive relationship between commitment to learning and financial performance can be explained as: the businesses, which internalize the environmental changes via learning, increase the adaptation capabilities, perform their activities in a very impressive and productive way and fulfill the customer's expectations in an effective way, experience a decrease on their production cost and increase on their market share. Consequently, learning and learning outcomes lead to improvement on financial level. The positive relationship between intra-organizational knowledge sharing and financial performance can be explained with these assumptions: intra-organizational knowledge sharing enhances the usage efficiency by sharing the acquired knowledge within the whole organization and enable the organization an inimitable ability. Besides, intra-organizational knowledge sharing coordinates on a business scale and by this means, the organizational flexibility will increase. Obtained outcomes enable organization a competitive advantage and contribute to the increase of financial performance.

But, correlation analysis results indicate that shared vision ( $r=0,120$ ;  $p>0,05$ ) and open-mindedness ( $r=0,114$ ;  $p>0,05$ ) were not significantly correlated with financial performance. Thus, H2 and H3 were not supported.

The regression analysis was carried out to determine the efficacy level of the subdimensions of organizational learning on financial performance. Multi-collinearity should be analysed for a better regression model. In order to detect the presence of multi-collinearity, the tolerance and the variance inflation factors (VIFs) values (Akman et al., 2008: 108) are calculated. Small tolerance and high variance inflation factors (VIFs) values denote that there is a multi-collinearity problem among independent variables (Kalaycı, 2009: 268). We can assume that multi-collinearity is not a problem in data since all significant variables in Table 2 have much higher tolerance values than 0.10 (Ozgener and Iraz, 2006: 1362) and have lower variance inflation factors (VIFs) than 5.0 (Bozic, 2007: 117).

**Table 2. The results of regression analysis for financial performance**

<u>Independent variables</u>	<u><math>\beta</math></u>	<u>S.E.</u>	<u>t-value</u>	<u>Sig.</u>	<u>Tolerans</u>	<u>VIF</u>
Commitment to learning	0,086	0,120	0,702	0,485	0,720	1,389
Shared vision	-0,112	0,147	-0,852	0,397	0,626	1,598
Open-mindedness	0,064	0,159	0,562	0,576	0,833	1,201
Intra-organizational knowledge sharing	0,348*	0,172	2,478*	<b>0,015*</b>	0,549	1,821
F			3,129			
Adjusted R <sup>2</sup>			0,092			
R <sup>2</sup>			0,135			
Std. Error of the Estimate			0,56473			
Significance level				<b>0,019</b>		

Dependent variable: **Financial performance**

\*  $p<0,05$

As for the regression analysis results in Table 2 suggest that the overall model was significant (Adjusted R<sup>2</sup>= 0,092; F(4,80)= 3,129;  $p<0,05$ ). The interrelation of four independent variables (commitment to learning, shared vision, open-mindedness and intra-organizational knowledge sharing) was taken into account, and the R<sup>2</sup> (0,135) was significant at the 0,05 level. This means that 13,5% of the variance in financial performance was significantly explained by the independent variables. Among independent variables, intra-organizational knowledge sharing was found to be the most important in explaining the variance in financial performance as the highest beta value was 0,348 ( $t=2,478$ ;  $p=0,015$ ).

## 7. CONCLUSION

The field search reveals a positive relationship between commitment to learning and intra-organizational knowledge sharing and financial performance; while unexpectedly it does not reveal a relationship between shared vision and open-mindedness and financial performance. This data that no relation between these two dimensions of organizational learning and financial performance is evaluated as the infirmity of the businesses included especially in the sample and in general the whole businesses in Turkey. The underlying reasons of this infirmity are that these businesses have not adopted modern managing perception and approaches, they have no common and focused vision and mission goals and learning efforts of them are based on the experiences instead of developing new ideas. Experimental learning includes small adaptations related to orientation and does not include radical, quizzical and creative changes. This situation may be sufficient for the businesses adopted similar learning processes with local/regional markets and for experimenting small financial improvements. Yet, it is obvious that this approach has no chance to survive when they confront seriously with global competition. These findings indicate the difficulties in the process of creating "learning organizations" and absence of "organizational learning" perception of the

businesses included in the sample and their markets. Within this framework, it is necessary for businesses to reshape the traditional management approaches and organizational structures with modern perspectives, create a common vision in order to gather their workers for a long term goal, and require conceptual abilities in addition to their technical skills during the recruitment process and lead them to learn and to develop new ideas.

The findings of this study need to be interpreted with the following limitations in mind. First limitation is that the results can not be strictly construed to be representative of all small-sized businesses, because this study has been conducted in a specific region of Turkey, Konya. Therefore, the study needs to be replicated in different industries and countries to be able to generalize the findings. Secondly, the financial performance of the firm in this survey was tested on the basis of business managers' perceptions. Within this context, participants may have been biased to present positive aspects of their businesses. More accurate data can be obtained from the financial indicators of the businesses.

This research aimed to investigate the relationship between organizational learning and financial performance in printing companies. For the upcoming research, it is possible to investigate the issue of organizational learning in different industry settings. Moreover, it would also be interesting to analyze the possible relationships between organizational learning and knowledge management, change, competitive advantage, leadership, innovation for different industries or organizations.

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