

Linking Organizational Learning Culture and Service Innovation Performance: Mediating role of Dynamic Capabilities

BHAWANA PANDE*¹ AND SUSHIL PANDE²

¹Reserch Scholar and ²Professor

School of Management, Babu Banarasi Das University, Lucknow (U.P.) India

ABSTRACT

Purpose: The paper aims to analyze the relationship between organizational learning culture and service innovation performance with dynamic capabilities playing the mediating role.

Design/methodology/approach: The paper used the following database (EBSCO, Proquest, and Scholar Google) for searching literature.

Findings: The study indicates that organizational learning culture fosters innovation. Moreover, the impact of organizational learning culture on service innovation performance is mediated by dynamic capabilities.

Practical implications: Organizations should encourage a learning culture for effective innovation performance. A culture of learning also generates dynamic capabilities which are seen to have a strong and significant impact on innovation performance.

Originality/value: The study brings forth the little-researched link between organizational learning culture and service innovation with dynamic capabilities playing the mediating role.

Key Words : Organizational learning culture, Service innovation performance, Dynamic capabilities, Learning organization, Dynamic capability view

INTRODUCTION

Modern management is facing a threat to organizational sustainability due to ever increasing business and technological changes (Drucker, 1999), putting pressure on the organizations to innovate too often and too quickly to compete in the market. Innovations are crucial to organizations' long-term survival and growth and even more in today's rapid pace of market evolution (Santos-Vijande and Álvarez-González, 2007). Service sector plays a huge role in the generation and use of innovation (Ostrom *et al.*, 2010). For the past several years, innovations in services have led to tremendous growth and dynamism in terms of economic activity (de Brentani, 2001). In order to remain competitive in today's market, service organizations are constantly under competitive pressure to offer their clients new and

improved services, raise the quality and productivity levels of services, and respond to customer needs and expectations.

Service sector in India accounts for as the dominant factor in India's GDP. It has attracted significant foreign direct investment in the country recently and provides large-scale employment. In recent years, India is witnessing considerable changes; intensifying competition due to globalization, demographic changes, changing customer needs, and advances in technology, forcing the service industry in India to think of innovative ways to meet the demands of growing customer expectations for better facilities as well as unique service quality.

Even with this growing economic weight and significance of services, frameworks for the strategic management of service innovation remain scarce (Sundbo, 1996; Frei, 2008; Moller *et al.* 2008). Prior

research in the field of innovation have studied various impediments to innovation such as risk-averse culture, narrow customer insight, poor ideas, lack of knowledge and skills or poor allocation of resources to name a few. Though, all of these studies provide valuable insights into the problems of innovation, they do not address how the firm's ability to learn, embodied in its learning culture can influence the innovative process.

The studies of Alegre and Chiva (2008) suggested that organizational learning would enhance the innovative capacity of an organization and that firms can only innovate if they develop an efficient learning of their resources, competencies, and capabilities. Some studies have stressed on the importance of organizational culture in managing innovativeness. Studies on organizational innovation have increasingly focused on the role of culture in facilitating change and learning (Bluedorn and Lundgren, 1993). But with the exception of the research of Škerlavaj *et al.* (2010), there is not much investigation that would link organizational learning and organizational culture and examine the effect of organizational learning culture on innovation performance of the firm. Kotter and Heskett (1992) identified learning culture as one that fosters and nurtures innovation, and is optimal for organizations pursuing long-term innovation in dynamic environments.

It is suggested that every organization is to some degree a learning organization but their capacity to learn better, faster or more completely may differentiate them (Mai, 1996). Therefore there is a need to gain more insight into the firm specific routines and capabilities needed to successfully introduce service innovations repeatedly. Zollo and Winter (2002, p. 340) posit that dynamic capabilities reside in learning processes and routinized collective activities through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness. They have advanced our understanding by proposing a conceptual framework that posits an organization with learning culture as the key foundation for building dynamic capabilities. Augier and Teece (2007) also argued that dynamic capabilities are resident in a firm's processes and routines.

Innovation represents a great degree of uncertainty and change in the environment and since dynamic capability perspective is more specifically associated with change (Eisenhardt and Martin, 2000, Zollo and Winter, 2002; Zahra *et al.*, 2006), it would follow that dynamic

capabilities provide a useful theoretical lens for examining innovation management practices at the organizational level. As such the study uses the organizational learning and dynamic capability view to examine how the firm's ability to learn, embodied in its learning culture, can drive service innovation performance.

Theoretical support:

Dynamic-Capability view:

According to the resource-based approach (RBV), individual firms represent unique bundle of resources and capabilities which they deploy to gain competitive advantage and firm growth (Barney, 1986, 1991). However, this view is static and fails to explain firm growth in dynamic environments. More recently, this perspective has been extended to a dynamic capability view (DCV), which is described as the firm's ability to integrate, build and reconfigure resources in addressing rapidly changing environments (Teece *et al.*, 1997, p.516). The dynamic capability view explains how some firms gain competitive advantage even in constantly changing environments (Eisenhardt and Martin, 2000; Teece *et al.*, 1997). The DCV posits that the organization's ability to build, integrate and reconfigure resources to address changing environments lies at the heart of its ability to innovate (Teece *et al.*, 1997, p. 516).

Knowledge-based view:

The knowledge-based view (KBV) recognizes knowledge as the most strategically important resource of the firm. It is based on the assumption that the primary source of value is knowledge and all human productivity is knowledge dependent and machines are simply embodiments of knowledge (Grant, 1996). The view extends beyond the traditional concerns of strategic management to addressing nature of coordination within the firm, organization structure and culture, decision making authorities, theory of innovation and role of management.

Organizational Learning Culture (OLC):

An organization's culture strongly influences employees' behaviors beyond formal control systems, procedures, and authority (O'Reilly *et al.*, 1991). As such, it is a powerful tool to elicit desired organizational outcomes. Organizational learning theory argues that organizational capacity must be built on learning (Cohen and Levinthal, 1990; Zahra and George, 2002; Zahra *et al.*

al., 2006; Zollo and Winter, 2002). Learning is defined as a change in the range of an entity's potential behaviors through the processing of information (Huber, 1991). An organization that promotes and facilitates learning among its employees, encourages sharing and spreading of what is learnt for the purpose of development and success of the organization is said to have a learning culture (Rebelo, 2006). Consequently, a good organizational learning environment is recognized as a critical component to stimulate more innovation Tran (2008).

Numerous authors have attempted to define the characteristics of this culture in their own way (Ahmed *et al.*, 1999; Hill, 1996; Marsick and Watkins, 2003; Schein, 1992) but seem to converge at various points as noted by Rebelo and Gomes (2011a), such as learning as one of the core values of organization; concern for people and stakeholders; encouraging diverse opinions of people; experimentation; risk taking ability; open communication; tolerance for mistakes; information seeking and sharing behavior amongst people; error correction and detection and asking for help.

Dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness (Zollo and Winter 2002). Research claims that deliberate investment in learning facilitates the creation and modification of dynamic capabilities (Eisenhardt and Martin, 2000; Zollo and Winter, 2002). Although many refer to learning as a specific type of process underlying the evolution and development of dynamic capabilities in particular, the actual process through which organizations develop dynamic capabilities is lacking in empirical investigation (Easterby-Smith and Prieto, 2007; Priem and Butler, 2001; Williamson, 1999; Zahra *et al.*, 2006). As such, the study proposes organizational learning culture as an antecedent to the generation of dynamic capabilities in an organization which in turn influences the service innovation performance.

Dynamic capabilities (DC):

An important construct in strategic management in recent decades is the dynamic capability framework regarded as the behavioral orientation of the firm to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage

(Wang and Ahmed, 2007). They are 'a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness', Zollo and Winter (2002).

The dynamic capability view states that competitive advantages rest on firm's capability to constantly redeploy, reconfigure, rejuvenate, and renew its resources and capabilities in responding to the changing environmental conditions. As such, dynamic capabilities stretch beyond current routines to solve problems differently (Zahra *et al.*, 2006). The view offers a promising conceptual framework for the strategic management of service innovation because the service innovation process is less tangible and more interwoven with the capabilities embedded in the processes and routines throughout an organization. Hence, this study proposes a link between DC and service innovation performance.

Service Innovation Performance (SIP):

Innovation is multi disciplinary and defined from different perspectives and its role in the field of services has only recently proliferated and studied. The body of scholarly research on service innovation follows an established notion that service innovation differs from product innovation owing to the idiosyncratic characteristics of services that are widely recognized in the literature - heterogeneity, intangibility, and simultaneity (Johne and Storey, 1998). Scholars describe service innovation as unique service offerings that are new-to-the world or to company, new delivery process, service modification, and/or improvement of existing service (e.g., Avlontis *et al.*, 2001).

Organizational learning capability and exchange of information are seen as a source of employees' innovative behaviors because dissemination of knowledge initiates idea generation, the first step to innovation. If members of an organization have the required information, can correctly interpret it and translate it into action, this should mean that organizational members can be more innovative.

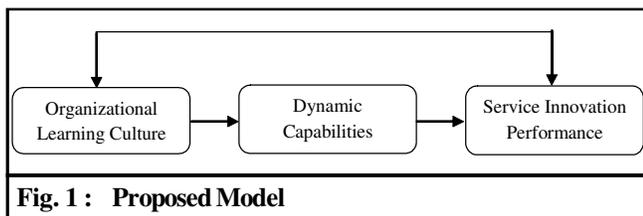
Mediating role of dynamic capabilities in the link between organizational learning culture and service innovation performance:

Existing literature not only suggests a positive effect of organizational learning culture on service innovation, rather supports that dynamic capabilities of the firm

mediate this relationship. In particular, some articles suggest that the learning culture of an organization allows the development of dynamic capabilities that enhance innovation performance (Baker and Sinkula, 1999, 2002; Han *et al.*, 1998; Hurley and Hult, 1998). It is posited by many researchers that organizational learning is an effective strategy to enhance firm's competitive advantage by honing the skills of its employees to learn faster than the competitors (Mavondo *et al.*, 2005; Senge, 1990; Sinkula *et al.*, (1997). Innovation is change-oriented. Firms should not just accumulate knowledge through static focus but transform it for the creation of new knowledge through dynamic focus (Nonaka and Takeuchi, 1995). When a firm is full of learning atmosphere, it acquires capabilities to sense and seize opportunity from external environment and reconfigure it for the creation and realization of innovation. The empirical study of Wilkens *et al.* (2004) proposed a model explaining that socio-technical processes of organizational learning culture can generate organizational dynamic capabilities and core competencies in order to gain competitive advantage.

Proposed framework:

The study aims to analyze the impact of organizational learning culture and dynamic capabilities on service innovation performance. Based on the extant literature review, it proposes a conceptual framework representing the three variables; organizational learning culture, dynamic capability and service innovation performance with DC mediating the link between the two (Fig. 1).



Discussion and managerial implications:

As discussed above, there is enough evidence to show that there is direct and positive link between organizational learning culture and service innovation performance. In addition, many studies have also analyzed the mediating role of dynamic capabilities to influence innovation performance in organizations and that dynamic capabilities are resident in a firm's learning environment.

This has implications for managers in the service industry. Managers should direct their attention not only in fostering a learning culture to influence innovation performance but also focus on developing dynamic capabilities of the firm in order to survive and gain competitive advantage in today's volatile environment which is prominent in a transition economy like India.

Conclusion:

The study contributes to the existing literature by advocating the link between a learning culture and innovation performance of the firm and that the link is mediated by the dynamic capabilities of the firm. Further, empirical evidence is further required to advance our understanding on the link between the variables. Finally, more longitudinal studies with reference to the Indian context need to be conducted to test and validate the linkages between OLC, DC and SIP as proposed in this paper.

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