Examining the Relationship Between Dimensions of Organizational Learning and Firms’ Financial and Knowledge Performance in the Korean Business Context

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Abstract

Many scholars and practitioners have emphasized the importance of learning within and by organizations to respond to changing conditions in the global marketplace and to sustain competitive advantage. As a result, organizational learning has become an important capability for many organizations to remain viable. Although the importance of organizational learning has been growing in response to the rapidly changing business context, limited empirical research on organizational learning has been conducted. In addition, research examining the linkage between firms’ financial performance has been limited. Therefore, more empirical research is needed to fill the literature gap on the relationship between organizational learning and firms’ financial performance in the business context.

The purpose of this empirical study was to examine the relationship between Templeton, Lewis and Snyder’s (2002) organizational learning dimensions and firms’ perceptual financial and knowledge performance and firms’ objective financial performance such as return on investment (ROI) and return on asset (ROA) in the Korean business context. A survey research design was used for this study. Two research questions guided this study: (1) what is the relationship between Templeton et al.’s (2002) organizational learning dimensions and perceptual organizational outcome variables as defined by financial performance and knowledge performance in the Korean business context; (2) what is the relationship between Templeton et al.’s (2002) organizational learning dimensions and objective outcome variables as defined by two objective measures of financial performance, return on investment (ROI) and return on assets (ROA) in the Korean business context?
The population for this study was 708 Korean companies which were listed on the Korean Stock Exchange market. Eight firms were removed because of small sizes. The remaining 700 firms represented the population for which a systematic sample process was used to select 350 companies for the study. Within these selected companies, two key respondents, an HR manager and Marketing manager were identified to serve as key respondents. The Organizational Learning Construct developed by Templeton et al. (2002) was used for this study. The original English instrument was translated into Korean using a rigorous forward-backward translation process. A total of 109 Korean companies of the 350 systematic sample participated in this study with a total of 218 respondents (109 HR managers and 109 Marketing managers). A confirmatory factor analysis technique was used to examine the validity and reliability of the Korean translated instrument. Canonical correlation was used to investigate the linkage between organizational learning dimensions and firms’ perceptual knowledge and financial performance and firms’ objective financial performance.

The results of the confirmatory factor analyses suggest that the Korean translated instrument has some utility as an organizational learning measurement tool in the Korean context. The findings of this study support the limited existing empirical research which has suggested that there is a positive relationship between organizational learning and firms’ perceptual and objective financial performance. The findings revealed a significant relationship between seven organizational learning dimensions and perceptual measures of financial and knowledge performance. There was also a significant relationship between the seven organizational learning dimensions and firms’ two objective financial performance measures.

The findings from the current study support the limited empirical research on the positive relationship between organizational learning and firms’ perceptual performance. Additionally, the findings from this study also expand the organizational learning literature by adding empirical research on the linkage between organizational learning dimensions and firms’ objective financial performance as measured by ROI and ROA. From a pragmatic perspective, promoting and developing certain learning activities by human resource professionals and business managers may improve organizational performance in the Korean business context. As a result, Korean companies may need to establish a strategic approach for developing knowledge, skills and other intellectual capital based upon long-term gains. From a research perspective, it is recognized that organizational performance is influenced by many factors in addition to organizational learning dimensions. Therefore, additional research is needed to investigate the impact of other factors on firms’ performance in the Korean context. Furthermore, future research may need to also consider other objective performance outcome variables. Lastly, while the current study reported that the Templeton et al. (2002) instrument has potential utility in the Korean context, additional revision may be necessary. It is also possible that indigenous organizational learning practices can be examined to build a more robust organizational learning instrument or to enhance the Templeton et al. (2002) organizational learning construct.

Keywords: Organizational learning, financial performance, knowledge performance, South Korea
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Introduction

Many scholars and practitioners have emphasized the importance of learning within and by organizations to respond to changing conditions in the global marketplace and to sustain competitive advantage. As a result, organizational learning (OL) has become an important core capability for enhancing organizational performance (Flores, Catalanello, Rau, & Saxena, 2008; Khandekar & Sharman, 2005, 2006). While there is conceptual agreement that OL improves an organization’s performance, empirical research on OL was rarely reported in the 1990’s and has been constrained by a lack of measurement instruments (Bapuji & Crossan, 2004; Easterby-Smith & Araujo, 1999). Only in the past decade has research on OL begun to increase (Bapuji & Crossan, 2004). Consequently, a small number of empirical studies have been conducted that suggest there is a positive relationship between OL and performance.

These studies have suggested that OL plays an important role in improving a firm’s performance over time such as return on investment, customer retention, sales growth; and, non-financial performance such as customer’s satisfaction, customer’s growth, employee satisfaction, quality in products and services, and the organizational reputation and financial performance such as sales growth, profitability, average productivity, and cost reduction (Bapuji & Crossan, 2004; Prieto & Revilla, 2006; Sorensen, 2003; Tippins & Sohi, 2003). Some of the empirical research has also suggested that organizational learning moderates the effect of other variables on firm performance. Organizational learning has been found to improve the effectiveness of acquisitions, diversifications and foreign entries (Barkema, Bell, & Pennings, 1996); to develop customer orientation (Hult, Hurley, Giunipero, Nicholas, 2000); to facilitate innovation (Ahuja & Lampert, 2001; Lopez, Manuel, Peon, & Ordaz, 2005); to improve information management capabilities (Chaston, Badger, & Sadler-Smith, 2001); to increase employee competence (Yeo, 2003); and to increase the efficiency of product design management and, short-term or long-term project performance (Murray, 2003).

However, of the limited empirical research that has been conducted to investigate the linkage between OL and firms’ performance, industry contexts have been narrow. Such research has focused on the construction industry (Murray, 2003); service industry (Lopez, Peon, & Ordaz, 2005); ceramic industry (Chiva-Gomez, Camison-Zornoza, & Lapiedra-Alcamí, 2003); and manufacturing industry (Santos-Vijande, Sanzo-Perez, Alvarez-Gonzlez, & Vazquez-Casielles, 2005). Another limitation is common method bias. Although some empirical research has reported a positive relationship between OL and firms’ performance, most of this empirical research has relied upon perceptual data drawn from the same respondents (Lopez, Peon, & Ordaz, 2005; Murray & Donegan, 2003; Tippins & Sohi, 2003). Additionally, in these studies, performance has been variously defined as return on investment, customer retention, and sales growth (Tippins & Sohi, 2003).

While many of these studies have focused on performance more generally, several researchers have pointed out the need to explore OL and firm’s financial performance more specifically because very limited empirical research has investigated the relationship between learning practices in organizations and firms’ financial performance (Davis & Daley, 2006; Ellinger, Ellinger, Yang, & Howton, 2002). Although the number of empirical studies on OL has...
been growing, empirical work on the exploration between OL and firms’ financial performance is in the early stages in the literature (Chaston et al., 2001; Morgan, Katsikeas, & Appuh-Adu, 1998; Prieto & Revilla, 2006).

Lastly, from an international perspective, some non-U.S empirical studies conducted in Singapore, Spain, Canada and Taiwan have revealed that there is a positive relationship between OL and performance. Although a few empirical studies in Korea have explored the relationships between HRM and firms’ performance and between OL and performance in educational settings, limited attention has been given to the Korean business context. Therefore, to address these various shortcomings in the literature, the purpose of this empirical study was to examine the relationship between organizational learning dimensions and firms’ perceptual financial and knowledge performance and firms’ objective financial performance such as return on investment (ROI) and return on asset (ROA) in the Korean business context.

Conceptual Framework and Research Questions

This research adopted Templeton, Lewis, and Snyder’s (2002) OL definition. Templeton et al. (2002) have defined OL as the set of actions which include knowledge acquisition, information distribution, information interpretation, and organizational memory within the organization that intentionally and unintentionally influence positive organization change. The researchers have stated that Huber’s (1991) four constructs: knowledge acquisition, information distribution, information interpretation, and organizational memory were used to inform their definition of OL. Templeton, Lewis, and Snyder (2002) have explained that their OL definition is related to Huber’s definition because the extensive review of literature for defining OL reveals that many OL definitions include Huber’s taxonomy. Additionally, Templeton (2000) stated that it was appropriate to use Huber’s taxonomy (1991) to define the domain of OL. In order to develop the instrument for measuring OL, Templeton (2000) captured the essence of Huber’s OL framework which focused on the process aspect of OL. Templeton (2000) also explained that the process-oriented perspective is the most appropriate approach to advance OL research. Huber’s seminal conceptual model of OL (1991) informed the development of Templeton et al.’s (2002) framework which undergirded this study.

Based on Huber’s (1991) framework, Templeton (2000) reconstructed OL as being reflected by eight distinct dimensions. The first dimension is awareness. It means that organizational members know the sources of important organizational information and its relevance to current problems. Awareness consists of Huber’s two constructs: knowledge acquisition and information distribution. Knowledge acquisition and information distribution include four subconstructs: searching and noticing, experiential learning, knowledge logistics, and knowledge dissemination. The second dimension of Templeton’s (2000) framework is communication. It represents the extent of communication that exists among organizational members. Huber’s two constructs, organizational memory and information interpretation, are the content of this dimension. There are three subconstructs for this dimension: computer-based organizational memory, media richness and cognitive maps and framing. Performance assessment is the third dimension. This dimension explains the contrast of process and outcome-related performance to organizational goals. This dimension includes Huber’s three constructs: knowledge acquisition, organizational memory, and information interpretation. The subconstructs of this dimension are: searching and noticing, storing and retrieving information, and cognitive maps and framing. Templeton’s (2000) fourth dimension is intellectual cultivation
which explains the development of experience, expertise, and skill among current employees. Huber’s three constructs are elements of this dimension: knowledge acquisition, organizational memory, and information distribution. There are four subconstructs for this dimension: vicarious learning, knowledge dissemination, searching and noticing, and human knowledge bases.

The fifth dimension is *environmental adaptability*. It refers to organizational reactions to environmental change. This dimension contains Huber’s three constructs: information distribution, organizational memory, and information interpretation. Four subconstructs of this dimension are: knowledge dissemination, computer-based organizational memory, unlearning, and storing and retrieving information. *Social learning* is the sixth dimension. It represents the extent to which organizational members gain knowledge of organizational concerns from social channels. It combines Huber’s three constructs: information distribution, information interpretation, and knowledge acquisition. This dimension includes three subconstructs: knowledge dissemination, unlearning, and experiential learning. The seventh dimension is *intellectual capital management* which means that an organization administers knowledge, skill, and other intellectual capital for long-term planned gains. This dimension contains Huber’s two constructs: knowledge acquisition and organizational memory. The subconstructs of this dimension are: grafting and storing and retrieving information. The eighth and final dimension is *organizational grafting* which suggests that an organization takes advantage of knowledge, practices, and internal capabilities of other organizations. Knowledge acquisition is the construct for this dimension. There are two subconstructs for organizational grafting: vicarious learning and grafting. Table 2 presents Templeton’s (2000) organizational learning framework.

Two research questions guided this study: (1) what is the relationship between Templeton et al. ’s (2002) organizational learning dimensions and perceptual organizational outcome variables as defined by financial performance and knowledge performance in the Korean business context; (2) what is the relationship between Templeton et al. ’s (2002) organizational learning dimensions and objective outcome variables as defined by two objective measures of financial performance, return on investment (ROI) and return on assets (ROA) in the Korean business context? Figure 1 represents the conceptual framework that undergirded this study.
Figure 1. Conceptual framework depicting the relationships between the theoretical framework and research questions.

Design of the Study

A survey research design was used for this study. The population for this study was 708 Korean companies which were listed on the Korean Stock Exchange market. Eight firms were removed because of small sizes. The remaining 700 firms represented the population for which a systematic sampling process was used to select 350 companies for the study. Within these selected companies, two key respondents, an HR manager and Marketing manager were identified to serve as key respondents. The Organizational Learning Construct developed by Templeton et al. (2002) was used for this study. The dependent variables were perceptual outcome variables measuring financial and knowledge performance. These perceptions were assessed using the Watkins and Marsick (1997) constructs. In terms of objective financial performance, return on investment (ROI) and return on asset (ROA) were obtained from the Korean Information System web site. The original English instrument was translated into Korean using a rigorous forward-backward translation process. A total of 109 Korean companies of the 350 systematic sample participated in this study with a total of 218 respondents (109 HR managers and 109 Marketing managers). The two responses of the HR managers and Marketing managers were combined as one response following an independent t-test to ensure that there were no statistical significant differences between HR managers and Marketing managers.

Consistent with Dorsch, Swanson, and Kelly (1998), the researchers assessed non-response bias by comparing respondent firms and non-respondent firms on the following demographic variables drawn from each company’s annual report as submitted to the Korean Stock Exchange Market on number of employees and sales revenue. The mean score for respondents and non-respondents on number of employees was 5607.51 (SD = 1145.92) and 687.59 (SD = 1233.11) respectively. The mean score for respondents and non-respondents on firm sales revenue was 4.4 billion dollars (SD = 8.0 billion dollars) and 437 million dollars (SD = 1.0 billion dollars) respectively. Independent t-tests revealed statistically significant differences
between the respondent and non-respondent groups’ mean scores at the p<.000 level for both number of employees and firm sales revenue. These differences between group mean scores indicate the presence of non-response bias in that respondent firms in the sample had significantly higher numbers of employees and firm sales revenue than non-respondent firms. Thus, it appears that larger firms listed within the Korean Stock Exchange Market were more likely to participate in the study than smaller firms.

Data Analysis

Descriptive statistics were used to describe the sample of the personal variables such as age and number of employee years at the position and in the company. A confirmatory factor analysis technique was used to examine the validity and reliability of the Korean translated instrument. Canonical correlation was used to analyze the relationship between organizational learning dimensions and firms’ perceptual financial and knowledge performance and firms’ objective financial performance. Canonical correlation measures the strength of the overall relationships between the linear composites of the independent and dependent variables (Hair, Anderson, Tatham, & Black, 1998).

Results

The sample for this study had an average age of 34.60 (SD = 4.39) years. The minimum age of a respondent was 26. The maximum age of a participant for this study was 48. The mean of length of time for the current position was 36 months (SD = 21.73). The average length for the current position of HR managers was 36 months (SD=22.87). The average length for Marketing managers in their current position was 35 months (SD=20.59). A confirmatory factor analysis was performed to examine whether the items on the Korean translated instrument still fit into the original factor loadings of the Templeton et al. (2002) construct. According to Templeton et al. (2002), the statistical analysis procedures revealed that there were eight reasonable dimensions to describe organizational learning in the original English version: Awareness, Communication, Performance assessment, Intellectual cultivation, Environmental adaptability, Social learning, Intellectual capital management, and Organizational grafting. Since some of the items showed a low value of variance in the factor, a second confirmatory factor analysis was conducted to check the loading of items on each factor in the Korean translated instrument after six items were removed for the second confirmatory analysis because of the low value of the r-square. The results revealed that 84.98% of cases were under the range between -0.1 and 0.1. The Korean translated instrument ultimately consisted of 7 factors (the original Organizational grafting dimension was not a significant construct in the current study) with 22 items based upon the second confirmatory factor analysis. The comparative fit index (CFI) is .85 and the root mean-square error of approximation (RMSEA) is .06. Overall, the value of the CFI and RMSEA of the Korean translated instrument for the second confirmatory factor analysis was improved by the removal of items which had a low R-square value.

To address the first research question, the results of the canonical correlation analysis suggested that there was a significant relationship between the seven organizational learning dimensions and the two perceptual organizational performance outcome variables (p < .05). Thus, the results presented in Table 1 indicated that there was a positive relationship between the seven organizational learning dimensions and firms’ perceptual knowledge and financial performance in the Korean business context. Based on the results of the canonical correlation
analysis, 16 percent of the variance in perceptual financial and knowledge performance was explained by seven organizational learning dimensions. Overall, findings from the canonical correlation suggested a significant relationship between the seven organizational learning dimensions and perceptual measures of financial and knowledge performance.

Table 1. Tests of Significance of Canonical Correlation

<table>
<thead>
<tr>
<th>Tests</th>
<th>Wilk’s</th>
<th>Chi-Sq</th>
<th>DF</th>
<th>Sig.</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>.759</td>
<td>58.500</td>
<td>14.000</td>
<td>.000</td>
</tr>
<tr>
<td>2</td>
<td>.963</td>
<td>8.066</td>
<td>6.000</td>
<td>.233</td>
</tr>
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</table>

To address the second research question, Table 2 reports the results of the canonical correlation which suggested that there was a significant relationship between the seven organizational learning dimensions and firms’ two objective financial performance, return on assets (ROA) and return on investment (ROI) ($p < .05$). The amount of variance between the two objective measures of financial performance and the seven organizational learning dimensions was 7 percent.

Table 2. Tests of Significance of Canonical Correlation

<table>
<thead>
<tr>
<th>Tests</th>
<th>Wilk’s</th>
<th>Chi-Sq</th>
<th>DF</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>.891</td>
<td>24.389</td>
<td>14.000</td>
<td>.041</td>
</tr>
<tr>
<td>2</td>
<td>.976</td>
<td>5.079</td>
<td>6.000</td>
<td>.543</td>
</tr>
</tbody>
</table>

Discussion

This research examined the relationship between seven organizational learning dimensions and perceptual measures of knowledge and financial performance and objective measures of firms’ financial performance in the Korean business context. The findings of this study have demonstrated that seven organizational learning dimensions had a positive relationship with firms’ perceptual knowledge and financial performance and the seven organizational learning dimensions had a positive relationship with firms’ two objective financial performance in the Korean context. The results of this study have demonstrated that OL dimensions such as Intellectual cultivation enrich firms’ perceptual financial and knowledge performance in the Korean business context. The findings have also indicated that Intellectual capital management has a strong relationship with firms’ objective financial performance in the Korean business environment.

The findings from the current study support the existing limited empirical research on the positive relationship between OL and firms’ perceptual performance (Bontis, Crossan, & Hulland, 2002; Hult, Ketchen, & Nicholas, 2003; Murray, 2003; Murray & Donegan, 2003; Santos-Vijande, Sanzo-Perez, Alvarez-Gonzalez, & Vazquez-Casielles, 2005; Tippins & Sohi,
Additionally, one of the limitations of previous empirical research on the relationship between organizational learning activities and firms’ financial performance has been the use of subjective financial performance measures and the limited use of specific objective measures that have been selected (Day, 1994; Lopez et al., 2005; Murray, 2003; Tippins & Sohi, 2003; Slater & Narver, 1995). However, this study reported a positive relationship between organizational learning dimensions and firms’ financial performance using firms’ perceptual and objective financial performance measures. This study provides empirical research that reports the positive relationship between OL and firms’ objective financial performance as measured by return on assets (ROA) and return on investment (ROI). This study also expanded empirical research on the OL literature in terms of scope and context because data were collected from various industries in the Korean business settings using two key respondents.

Lastly, several researchers have acknowledged that the empirical research on OL has been hampered by a lack of valid and reliable instruments to measure organizational learning (Chaston, Badger, & Sadler-Smith, 2001; Easterby-Smith, Crossan, & Nicolini, 2000). Although the researcher tried to minimize the internal threats when using the Korean translated instrument for this study, the results of a confirmatory factor analysis have revealed that the Korean translated instrument needs to be modified for future usage given the need to remove some items along with the organizational grafting dimension in Korea. The instrument was developed for a different cultural base so some of the western concepts may be difficult for Korean business people to recognize. In addition, the developers of the original instrument have suggested that further research must be carried out to enhance the internal quality of the instrument (Templeton et al., 2002). The results of the validity analysis for the Korean translated instrument have indicated that it demonstrates potential utility in the Korean context but several items need to be revised to enhance the internal quality of the instrument.

Despite the contributions of this study, there are several limitations associated with this study. First, the researchers collected data from two key respondents from each systematically selected firm that participated in this study. It is possible that the two key respondents may not have had enough knowledge and information to evaluate OL activities in the firm. However, holding the HR manager or the Marketing manager position typically means that the person may have spent five or ten years to prepare for the current position. Hence, the two key respondents should have appropriate knowledge, experience, or ability to judge OL in the firm. The researchers acknowledge, however, that the perceptions of the two key respondents may not reflect the perceptions of other employees in the organization. Second, although a systematic sampling approach was used to obtain the sample by industry category from the population of firms listed on the Korean Stock Exchange Market, non-respondent bias analyses suggested that differences between respondent and non-respondent firms did exist and respondents tended to participate from larger organizations. Therefore, the findings are more applicable to larger firms and should not be generalized to the population of firms on the Korean Stock Exchange Market. Third, although the developers of the instrument (Templeton et al., 2002) reported that the instrument had acceptable reliability and validity, further investigations of reliability and validity are needed to establish the appropriate psychometric properties of the instrument.

Implications for Practice and Future Research

Human resource professionals are often regarded as learning facilitators in organizations (Kontoghiorghes, Awbrey, & Feurig, 2005) so they may contribute to developing organizational performance by taking initiative in promoting organizational learning. This study has provided
some tentative evidence to support scholars’ contentions about the impact of organizational learning on firms’ performance. Since many Korean business people often doubt the impact of HR activities in their organizations, HR professionals and HR departments have had a difficult time taking initiative in their roles in their organizations because of limited empirical research that has demonstrated the linkage between organizational learning and organizational performance. However, this study has suggested a positive relationship between organizational learning dimensions and firms’ performance which may encourage HR professionals and HR departments to increase and support learning practices in their organizations. Therefore, HR professionals may need to develop a systematic and strategic approach to promote organizational learning activities as well as to enhance organizational performance in the organization. Additionally, business managers may benefit from the findings of this study which has suggested that specific organizational learning dimensions are related to organizational performance. Thus, promoting and developing certain organizational learning activities by HR practitioners and business managers may improve organizational performance in the Korean business context. Specifically, these findings would suggest that the development of organizational learning dimensions like Intellectual cultivation and Intellectual capital management in an organization may play a key role in enhancing firms’ performance in Korean corporate settings. Thus, Korean companies may need to be aware of the empowerment of existing human resources to bring about a better performance for the organization by developing knowledge and skill of employees. As a result, Korean companies may need to establish a strategic approach for developing knowledge, skills, and other intellectual capital based on long-term gains. These findings may require HR professionals in the business field to take on more responsibilities in developing existing human resources such as skills, knowledge, expertise, or intellectual capital and to create a strategic plan to develop human resource capability on a long-term basis.

The results of this study have suggested that there is a significant relationship between OL dimensions and perceptual financial and knowledge performance and firms’ objective financial performance. However, organizational learning dimensions may impact on firms’ performance along with several other factors such as employee competence (Yeo, 2003); IT competency (Tippins & Sohi, 2002); market orientation (Santos-Vijande et al., 2005); and product design (Chiva-Gomez et al., 2003). Therefore, more research would be needed to investigate the impact of other factors on a firm’s performance in the Korean business context. Additionally, more empirical research among OL, other mediator and moderator variables, and organizational performance would contribute to establishing a framework or model for OL in the literature. In order to develop empirical research in the OL literature, researchers (Bapuji & Crossan, 2004; Easterby-Smith et al., 2000) have emphasized the development of reliable and valid methods for capturing organizational learning as well as development of accurate measurements. The current study has reported that the Organizational Learning Construct may have some potential use in the Korean context. If some items and dimensions in the Organizational Learning Construct are revised to enhance the reliability of the instrument, the Organizational Learning Construct may become an improved measure to be used for the organizational learning research in Korea. Thus, more practitioners and researchers may need to work on confirming the reliability and validity of the existing instrument and further refining it. To understand indigenous OL practices of Koreans, it would seem that a qualitative research approach such as interviews or observations could be used to identify OL practices to build a more robust OL instrument or to enhance the Templeton et al.’s (2002) organizational construct.
In terms of sampling, differences between group mean scores on the characteristics of employee size and firm sales revenue indicated the presence of non-response bias in that respondent firms in the sample had significantly higher numbers of employees and firm sales revenue than non-respondent firms. Thus, it appears that larger firms listed within the Korean Stock Exchange Market were more likely to participate in the study than smaller firms. Therefore, future research should consider obtaining responses from firms that are smaller in employee size and sales revenue to determine if the findings of this study are also applicable to smaller firms. This research used objective financial performance variables such as return on investment (ROI) and return on asset (ROA). However, there are various financial outcome variables to measure organizational performance so future research may need to consider other objective performance outcomes such as market share, customer satisfaction, or brand recognition ratio. The addition of other objective financial performance measures would enhance the findings on the relationship between organizational learning activities and firms’ performance in the OL literature. Lastly, another possible research approach would be a longitudinal study. Organizational learning activities ideally do not have a one-time effect on the organization so a longitudinal study needs to be conducted to examine the long term effects of organizational learning activities on the organization.

References


