Organizational Learning, Innovativeness and Financial Performance of Small And Medium Enterprises (Smes) In Nigeria

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Abstract
This study examined the relationship and the impact of organizational learning and innovativeness on financial performance of small and medium enterprises (SMEs) in Osun State of Nigeria. The findings revealed that organizational learning components: system orientations, organizational climate for learning orientation, knowledge acquisition and utilization orientation, information sharing and dissemination orientation and financial performance are positively related. It was also revealed that system orientation, knowledge acquisition and utilization and information sharing and dissemination orientation are found to be the predictor of financial performance. Organizational innovativeness had no relationship with nor influence financial performance. The study recommended that firms should create enabling environment for the employees to be innovative in their operations in order to take its competitive advantage.

Keywords: Organizational learning, Innovativeness, Financial performance.

1. Introduction
Organizations thrive where they have competitive advantages based on efficient and strategic idea and innovation. Securing adequate strategies that gives competitive advantages is a continuous process. Achieving efficiency in stable environments depends on standardized routines, division of labor and management control, which is conventional strategies. However, business environments are dynamics with its unpredictable fast changing internal and external environments. The dynamic environment in which a business operates provides opportunities for it to grow, develop and create value and wealth. It also poses some threats to the business. (Obiwuru et al, 2011). Therefore, in today's dynamic business environment, an organization must stay competitive by thinking tactically and strategically. These have compelled firms to search for new strategies for competitive edge as the conventional strategies have become obsolete (Chirico & Salvato, 2008). Organizations have to learn, that is acquire new knowledge and skills that will improve their existing and future performance (Child, et al 2005; Ortenblad, 2001). This indicates that the only competitive advantage the company of the future will have is the ability of its managers to learn faster than their competitors. Many other researchers had supported this proposition by ascertaining that the effective strategy for sustaining and improving a firm’s competitive edge and performance is organizational learning and innovativeness (Mavondo, et al 2005; Senge, 1990; Idowu, 2012). Organizational learning enhances firm’s innovative capabilities by improving the level of firms’ competitiveness and performance. Organizations creative innovation dependent on their learning (Chen and Chen, 2010). Innovation is linked to the concepts of generation, acceptance, and implementation of new ideas, processes, products and services. Firm’s innovativeness are determined by the firm’s learning orientation, while organizational learning capacity has a key role on increasing the performance. Hence, it should be developed to increase the firm performance (Nevis, et al 1995; Hult & Ferrell, 1997; Hult, et al 2002; Teo & Wang, 2005). As organizational learning capacity has effect on creating innovations, consequently, innovations affect the organizational performance (Jansen, et al 2006). Kitapch, et al (2012) in their study concluded that organizational learning capacity affects innovativeness as well as financial performance. This study aims to examine how organizational learning capacity affects innovativeness as well as financial performance; and how innovativeness affects financial performance among the SMEs in Osun State Nigeria.

2. Concept of Organizational Learning
Learning can basically be seen as the process through which an individual acquires knowledge, skills, attitudes and opinions. Organizational learning has been defined by scholars from varying perspectives. There is no common definition of organizational learning which commands wide acceptance. However, some researchers studies on organizational learning specified that it is an ability that increases the firm’s performance with time (Ulrich, et al...
1994; and Fang, et al 2010). Kalkan (2006), defined organizational learning as “a conscious or unconscious process affecting the organizational action that contains its own factors by means of knowledge acquisition, reaching the knowledge and evaluating the knowledge with the help of organizational memory.”

Organizational leaning capability can then, be accounted for by means of two dimensions underlying the concept: what is learned (knowledge) and how it is learned (learning process). On what has been learned; organization learning includes descriptions of individual understanding, interpersonal communication (Argyris & Schon, 1996) and group decision making.

Learning starts from individuals; a learning organization is founded on the learning process of individuals in the organization. However, individual learning does not necessarily lead to organizational learning (Ikehar, 1999). Scholars have argued that unless individuals learn, the organization cannot learn (Argyris & Schon, 1996 and Senge, 1990). Organizational learning consists largely of individuals involved in learning activities, so it is easy to conclude that it is simply the aggregate of individual learning processes. Thus, the process of individual learning has a significant impact on the concept and practices of organisational learning. Senge (1990), differentiates adaptive from generative learning process, that is adaptive learning focuses on adapting to and coping with the external environment, and rarely involves the questioning of values.

According to Salim and Sulaimon (2011), adaptive learning and generative learning are complementary processes. It may lead the firm to identify new customers and markets to serve and new products and services to offer to both customers. Adaptive learning may lead the firm to identify ways to deliver these new products and services to all customers more efficiently and effectively. Organizational innovation depends on the knowledge at organization’s disposal and generated by organizational learning. It is a necessity variable to stimulate the development of factors that contribute to innovation and enable the introduction of new ideas, products, services, and systems ahead of other competitors in the industry.

2.1 Organizational Learning Component (OLC)

Organizational learning emphasizes developing and applying new knowledge that has the potential to change employees’ behavior, which by implication will strengthen the organization to achieve improved results, ensure adaptability to change, grow through innovation and create result-oriented employees. OLC enhances organization’s capacity to develop the capabilities to acquire new information and convert that information into knowledge (Aydin & Ceylan, 2009), which are vital ingredients for businesses to remain competitive. Organizations need to develop their productive learning capacity, which will position them for survival in the global business competition. According to Teo & Wang (2005), OLC have four components, systems orientation, organizational climate for learning orientation, knowledge acquisition and utilization orientation and information sharing and dissemination orientation.

i. Systems Orientation

According to Senge (1990), the most important characteristic of a learning organization is systems orientation, and each learning variable should be seen in the same frame within the organization. Systems orientation is, therefore, knowledge integration which shows the relationship between the organization variables and what affects them. Systems orientation makes the person a systems thinker, identifying the problems and solving them faster. A system cannot be solved by analyzing each of the parts differently. Also, Senge (1990) was of the opinion that system thinking is all about understanding the systems and interrelations between the subsystems which encourages the organizations to focus their strategic efforts on one system. System orientation makes us see the events holistically and helps us change these events effectively when necessary (Teo & Wang, 2005).

ii. Organizational Climate for Learning Orientation

Climate for learning orientation, according to Marquardt (1996) is a measure that encourages the learning in the organization, which is an important part of the organizational culture. It analyzes how the organization members’ learning is affected by the environmental conditions. Organizational climate orient average learning and adaptation of the organization that affects individual and group learning behaviors. The organizations reward learning activities and promote continuous learning for positive organizational culture, and a successful organization is measured not only by its outcomes depending on its performance, but also its cultural structure.

iii. Knowledge Acquisition and Utilization Orientation

Knowledge acquisition represents the extent to which an organization is skilled in obtaining knowledge, while utilization orientation is making that knowledge a part of the organization that is necessary for improvement and innovation. Acquiring knowledge and usage of it is part of learning culture and they should be taught together
Innovation is one of the most important determinants of firm performance as a result of the evolution of the competitive environment (Bueno & Ordoñez, 2004). Innovation can lead to increased market share, greater production efficiency, higher productivity growth, and increased revenue. Innovation enables firms to offer a variety of differentiated products that can improve financial performance. It can also influence the rate of employees’ job satisfaction and commitment, which will on the long-run reduce job turnover. Despite the positive relationship between innovation and performance reported in the previous studies, the link between firm’s innovation capability and performance has no conclusive finding. This shows that SMEs are dominated by informal work-based learning which may capture, acquire, manage and diffuse knowledge with aim to create new knowledge which will support to improve and deliver distinct kind of products and services.

The essence of innovation is to create value for the business. In today’s competitive era innovation is a soul to the business. Innovation in this competitive age characterized with rapid change in taste and preferences of the customers of emerging and developed markets. Tsai & Wang (2004) were of the opinion that when organization faces rapidly changed environment, innovative ability becomes its major reliance to maintain competitive advantage. However, organizations which are not capable of producing innovative products and services, risk total extinction from the industry by the competitors.

### The Influence of Organizational Innovation on Firm Performance

Innovation is one of the most important determinants of firm performance as a result of the evolution of the competitive environment (Bueno & Ordoñez, 2004). Innovation can lead to increased market share, greater production efficiency, higher productivity growth, and increased revenue. Innovation enables firms to offer a variety of differentiated products that can improve financial performance. It can also influence the rate of employees’ job satisfaction and commitment, which will on the long-run reduce job turnover. Despite the positive relationship between innovation and performance reported in the previous studies, the link between firm’s innovation capability and performance has no conclusive finding. This shows that SMEs are dominated by informal work-based learning as well as oral and informal communication. Therefore, adaptive learning is likely to be prevalent in SMEs (Dalley & Hamilton, 2000; Tsang, 1997).

### Research Methods

The data for the measures of the variables are collected through questionnaire using five-point Likert scale to measure the level of agreement or disagreement with the scale range from 1 as “strongly disagreed” to 5 as “strongly agreed.” 350 survey instruments were distributed while 319 (91%) were returned and found useful for the analysis. Data collected were analyzed using inferential statistics such as correlation, regression analysis and statistical package for social scientists (SPSS) 17.0.
4. Empirical Analysis and Results
4.1 Reliability Test
The level of reliability of the instrument that is the consistency of the variables was checked with the Cronbach’s alpha statistics. The Cronbach’s alpha’s values vary from 0.707 to 0.806. Cronbach’s alpha values of 0.7 to 0.8 are regarded as satisfactory, though lower thresholds are sometimes used in literature. Nunnaly (1978) believed that 0.5 is a sufficient value, while 0.7 is a more reasonable Cronbach’s alpha. Hence, the reliability level of the instrument was satisfactory (see Table 3).

4.2 Factor analysis
The rotated component matrix was used to extract the factors that measure organizational learning using the principal component analysis and Varimax rotation methods. The results were extracted as Table 2 below alongside their Cronbach’s alpha value. Prior to the extraction of the factors, the suitability of the respondents data for factor analysis was assessed using Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett’s Test of Sphericity. The KMO index, in particular, is recommended when the cases to variable ratio are less than 1:5. The KMO index ranges from 0 to 1, with 0.50 considered suitable for factor analysis. The Bartlett’s Test of Sphericity should be significant (p<0.05) for factor analysis to be suitable. The result as shown in Table 1 with KMO index of 0.871 shows the suitability of the data for factor analysis.

Table 1: KMO and Bartlett's Test

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>Approx. Chi-Square</th>
<th>Bartlett's Test of Sphericity</th>
</tr>
</thead>
<tbody>
<tr>
<td>.871</td>
<td>2224.519</td>
<td>df</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>

Factor analysis performed identified and reduced data to four patterns as seen from Table 2 below and the four patterns were in line with Teo & Wang (2005) classification. They were interpreted as system orientations, organizational climate for learning orientation, knowledge acquisition and utilization orientation, information sharing and dissemination orientation with total variance explained of 43.66%. There are three items for system orientation, four items for organizational climate for learning orientation, five items for knowledge acquisition and utilization orientation, four items for information sharing and dissemination orientation. There are nine items for organizational innovativeness and three items for financial performance. The factor loadings of organizational learning capacity are seen in Table 2 below.

Table 2: Factor Analysis

<table>
<thead>
<tr>
<th>Component</th>
<th>System Orientation</th>
<th>Organizational Climate for Learning</th>
<th>Knowledge Acquisition and Utilization</th>
<th>Information Sharing and Dissemination</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO1</td>
<td>.628</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO2</td>
<td>.567</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO3</td>
<td>.685</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLO1</td>
<td></td>
<td>.772</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLO2</td>
<td></td>
<td>.623</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLO3</td>
<td></td>
<td>.637</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLO4</td>
<td></td>
<td>.670</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KAU1</td>
<td></td>
<td></td>
<td></td>
<td>.615</td>
</tr>
<tr>
<td>KAU2</td>
<td></td>
<td></td>
<td></td>
<td>.661</td>
</tr>
<tr>
<td>KAU3</td>
<td></td>
<td></td>
<td></td>
<td>.508</td>
</tr>
</tbody>
</table>
Extraction method: Principal component analysis.
a. 4 components extracted.

### 4.3 Correlation analysis

Correlation analysis was computed to determine the level of relationship between organizational learning components, organizational innovativeness and financial performance. The correlation results presented in Table 3 indicate that organizational learning components of system orientations (r=0.743 p<0.01), organizational climate for learning orientation (r=0.648 p<0.01), knowledge acquisition and utilization orientation (r=0.682 p<0.01), information sharing and dissemination orientation (r=0.643 p<0.01) have a positive relationship with financial performance. An increase in any one of them strengthens their association with performance. These findings are in line with those made by earlier scholars like Kitapci, et al (2012). However, organizational innovativeness has no relationship with financial performance. The result shows further that it has insignificant relationship with financial performance and organizational learning respectively.

**Table 3: Cronbach Alpha and Pearson Correlation**

<table>
<thead>
<tr>
<th></th>
<th>Cronbach Alpa</th>
<th>FP</th>
<th>SO</th>
<th>CLO</th>
<th>KAU</th>
<th>ISD</th>
<th>ORG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Performance</td>
<td>.747</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System orientations (SO)</td>
<td>.707</td>
<td>.743**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate for learning orientation (CLO)</td>
<td>.764</td>
<td>.648**</td>
<td>.670**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge acquisition and utilization orientation (KAU)</td>
<td>.806</td>
<td>.682**</td>
<td>.567**</td>
<td>.620**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information sharing and dissemination orientation (ISD)</td>
<td>.704</td>
<td>.643**</td>
<td>.498**</td>
<td>.640**</td>
<td>.702**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Organizational Innovativeness (ORG)</td>
<td>758</td>
<td>.003</td>
<td>.022</td>
<td>.006</td>
<td>.053</td>
<td>.126*</td>
<td>1</td>
</tr>
</tbody>
</table>

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

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

### 4.4 Regression analysis

Coefficient of determination (R2) indicates the goodness of the fit of the regression model. The multiple regression results show that 67.5% (R square = 0.675) of the variance in financial performance (dependent variable) is jointly explained by the four organizational learning components which are the independent variables in this model (F = 165.959; Sig. = 0.000). In conclusion, system orientation (P<0.01 and β = 0.470), knowledge acquisition and utilization (P<0.01 and β = 0.235) and information sharing and dissemination orientation (P<0.01 and β = 0.211) has positive impact on financial performance. However, climate for learning orientation does not affect financial performance. The regression model data can be seen in Table 4.

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Table 4: Dependent Variable: Financial performance

<table>
<thead>
<tr>
<th></th>
<th>Standardized Coefficients (Beta)</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>System orientations (SO)</td>
<td>.470</td>
<td>10.524</td>
<td>.000</td>
</tr>
<tr>
<td>Climate for learning orientation (CLO)</td>
<td>.053</td>
<td>1.067</td>
<td>.287</td>
</tr>
<tr>
<td>Knowledge acquisition and utilization orientation (KAU)</td>
<td>.235</td>
<td>4.840</td>
<td>.000</td>
</tr>
<tr>
<td>Information sharing and dissemination orientation (ISD)</td>
<td>.211</td>
<td>4.366</td>
<td>.000</td>
</tr>
</tbody>
</table>

P<0.01; R² = 0.675; F = 165.959

Regressing organization innovation on organizational learning components of system orientations, climate for learning orientation, knowledge acquisition and utilization orientation, information sharing and dissemination orientation are independent variables, while organization innovativeness is a dependent variable. The result shows that only information sharing and dissemination orientation has positive relationship with exploratory innovativeness in the level of P<0.1 (P<0.1, β = 0.221) while system orientation, climate for learning orientation and knowledge acquisition and utilization orientation do not affect organization innovativeness. The data of constructed regression method are shown in Table 5.

Table 5: Dependent Variable: Organisational Innovativeness

<table>
<thead>
<tr>
<th></th>
<th>Standardized Coefficients (Beta)</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>System orientations (SO)</td>
<td>-.072</td>
<td>-.922</td>
<td>.357</td>
</tr>
<tr>
<td>Climate for learning orientation (CLO)</td>
<td>-.081</td>
<td>-.936</td>
<td>.350</td>
</tr>
<tr>
<td>Knowledge acquisition and utilization orientation (KAU)</td>
<td>-.012</td>
<td>-.138</td>
<td>.890</td>
</tr>
<tr>
<td>Information sharing and dissemination orientation (ISD)</td>
<td>.221</td>
<td>2.636</td>
<td>.009</td>
</tr>
</tbody>
</table>

P<0.1; R² = 0.28; F= 2.287

5. Conclusion

This study concluded that system orientations, organizational climate for learning orientation, knowledge acquisition and utilization orientation, information sharing and dissemination orientation have a positive relationship with financial performance. It was also revealed that system orientation, knowledge acquisition and utilization and information sharing and dissemination orientation affected the financial performance in positive manner.

Furthermore, we may conclude that information sharing and dissemination orientation has effect on innovativeness.

To provide the information sharing and dissemination orientation, the organization members should follow the technological changes in their industry and disseminate these to their colleagues. Also, members should learn to share and apply acquired information on their job activities in order to create synergy and add value to this organization. Enabling environment should be provided by the small medium scale (SME) firms in Nigeria.

References


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