



Organizational unlearning, innovation outcomes, and performance: The moderating effect of firm size



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ABSTRACT

Purpose of the research: Many studies uphold innovation as a key factor in creating and sustaining a firm's competitive advantage. This research explores this topic by developing the links between a firm's innovation outcomes, overall performance, and process of organizational unlearning. This study empirically tests the mediating role of innovation outcomes in the relationship between organizational unlearning and overall performance. Furthermore, this study recognizes the moderating role of firm size in reducing the strong link between organizational unlearning and innovation outcomes.

Methodology: This study constructs a conditional process model and uses a sample of 145 firms from Spanish automotive components manufacturing sector. This study employs variance-based structural equation modeling and the PROCESS tool to analyze data.

Principal results: Results show that innovation outcomes partially mediate organizational unlearning influence on overall performance, and that firm size negatively affects this indirect effect.

Major conclusions: Findings can guide managers to establish policies that foster unlearning, allow for new knowledge, and enable innovation, which may in turn enhance firm performance.

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1. Introduction

Literature is replete with suggestions that organizational learning and its outcome, organizational knowledge, are positive influences on a firm's innovativeness (Cohen & Levinthal, 1990; Jiménez-Jiménez & Sanz-Valle, 2011). Firms compete in a highly dynamic, turbulent context. Under these circumstances, firm's products and services, as well as knowledge they embody, quickly become obsolete. Having a greater ability to renew knowledge would favor a firm over competitors in the innovation race, improving firms' performance (Sanz-Valle, Naranjo-Valencia, Jiménez-Jiménez, & Perez-Caballero, 2011). According to Senge (1990), the capacity to learn faster than competitors is perhaps the only way of obtaining sustainable competitive advantage. According to Akgün, Byrne, Lynn, and Keskin (2007a), however, organizational learning alone is insufficient to develop and foster organizational knowledge because a process of organizational unlearning may also be necessary.

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Innovation enables firms to protect themselves from highly uncertain, unstable scenarios, making firms more capable of seeking new opportunities and exploiting existing ones more efficiently (Matzler, Abfalter, Mooradian, & Bailom, 2013). Innovation becomes even more important for companies that operate within Spanish economic crisis. Moreover, innovation is a key factor in creating and sustaining a firm's competitive advantage, which in turn improves firms' overall performance. The more innovative firms tend to be, the more flexible their structures are. Consequently, firms find the adaptation process to business environment easier. This adaptation enables firms to leverage opportunities better than competitors (Damanpour & Gopalakrishnan, 2001).

To generate economic value, firms should sustain capabilities by infusing new knowledge and innovation into their operations, a process which requires multiple skills and competences (Zahra, Abdelgawad, & Tsang, 2011). This study posits that organizational unlearning can induce learning that enables these firms to develop and exploit capabilities (e.g., innovation) for gaining competitive advantage and better overall performance.

This study has the following structure: Section 2 presents theoretical background and research hypotheses. Section 3 contains research

methodology to test hypotheses and sets results of data analyses. Section 4 brings together the implications, limitations, and directions for future research.

2. Theoretical background

2.1. The effect of organizational unlearning on the firm's overall performance

Under Cegarra and Sanchez's (2008) framework, organizational unlearning (OU) is a multidimensional construct. The three dimensions that comprise OU are the examination of lens fitting, the consolidation of emergent understandings, and the framework for changing individual habits. The first dimension implies a perspective change, disrupting employees' usual state of comfort to raise awareness of new perceptions. The second dimension involves processes within firms that allow employees to apply and develop problem-solving abilities. Specifically, this dimension concerns individuals performing a critical assessment of problems instead of following instructions. Last dimension addresses firm's attempts to inhibit bad habits and inappropriate values or attitudes before coming up with ideas or knowledge-based changes into a firm's operations (Cegarra-Navarro, Sánchez-Vidal, & Cegarra-Leiva, 2011).

March (1991) suggests that organizational learning is essential in improving business performance and reinforcing competitive advantages. Subsequent studies focus on the relationship between organizational learning processes and business performance (Vijande, Pérez, González, & Casielles, 2005). Few studies examine the link between organizational unlearning and business performance. Cegarra-Navarro et al. (2011) demonstrate that unlearning contexts mediate the effects of knowledge exploration and exploitation on organizational performance. This finding suggests that OU can enable employees to use existing knowledge and generate new knowledge, factors which are essential issues for embracing innovation. Therefore, unlearning precedes learning that drives successful transformations (Tsang & Zahra, 2008).

Organizations face the challenge of how to cope with environmental turbulence to reduce the failure risk (Calantone, García, & Dröge, 2003). Innovation management literature highlights the essential role of unlearning in coping with environmental changes and turbulence regarding firms' activities (Akgün, Lynn, Byrne, & Keskin, 2006). Particularly, unlearning, as the embodiment of changes in beliefs and routines (Akgün et al., 2007a), fosters flexible responses to rapidly changing markets and technologies.

Several studies suggest that OU comes from individual unlearning. Individual unlearning refers to the capacity of individuals to reflect on their own performance to identify and foster actions resulting in performance improvement (Cegarra-Navarro & Rodrigo-Moya, 2005). Individual and group-level unlearning serves as a framework for the improvement of the firms' learning capabilities, encouraging business performance enhancement. Some scholars argue that firms with the highest levels of business performance seem to learn and unlearn simultaneously through an unlearning context (Akgün et al., 2007a). Therefore, OU affects organizational performance via new knowledge.

H1. Organizational unlearning relates positively to firm's overall performance.

2.2. Mediating role of innovation outcomes in the relationship between organizational unlearning and overall performance

Damanpour (1991) defines innovation as the generation and development of new products, services, or processes. Fiol (1996) argues that the potential of organizations to generate innovation outcomes (IO)

depends on previous knowledge accumulation that they absorb. The emergence of knowledge management enhances reciprocity between innovation and knowledge, since innovative efforts result from firms' endeavor and investment in knowledge and knowledge workers. Similarly, outcomes from innovation processes regarding new products and processes contribute to create new knowledge (Prajogo & Ahmed, 2006). Several studies suggest that the ability to effectively exploit external knowledge constitutes a critical factor for companies with an interest in achieving IO (Cohen & Levinthal, 1990). A company's absorptive capacity enables turning knowledge into new products, services, or processes to support innovation (Cepeda-Carrión, Cegarra-Navarro, & Jimenez-Jimenez, 2012).

Rampersad (2003) believes in knowledge quick obsolescence, the reason why individuals and organizations should adopt an attitude of continuous learning. An organization achieves better results if its members can learn and apply knowledge faster than their competitors do. Cegarra-Navarro et al. (2011, p. 7) argue that, "although organizational memory and technology infrastructure potentially facilitate information sharing and joint sense making, if organizational memory is not updated appropriately individual learning is likely to suffer causing a reduction in the value of knowledge."

According to Casillas, Acedo, and Barbero (2010, p. 163), "learning is the process of acquisition, integration and interpretation of new knowledge with the objective of a later use." De Holan and Phillips (2004) describe an unlearning context as the context in which firms want to ignore knowledge that forms a barrier to the achievement of organizational goals. In a turbulent and dynamic scenario, knowledge quickly becomes obsolete (Hedberg, 1981). This rapid obsolescence forces companies to renew this knowledge periodically. This renewal is unlearning, and one of the core weaknesses of many firms is precisely the inability to unlearn.

Organizational learning literature states that learning is a dynamic process in which forgetting knowledge, old logics, behaviors, and routines leads to new knowledge acquisition (Hedberg, 1981). De Holan and Phillips (2004) believe that organizations should abandon certain knowledge, practices, and routines before acquiring new knowledge. This process of organizational unlearning as a dynamic process whereby the firm can identify obsolete knowledge and routines and then eliminate them is a prerequisite for the acquisition of new knowledge. McGill and Slocum (1993, p. 67) state, "The first step to learning is to challenge these ways of thinking that worked so well in the past." Cepeda-Carrión, Cegarra-Navarro, and Leal-Millán (2012, p. 1552) argue that, "the replacement of old knowledge could be essential for organizations that wish to create new products or services that require new points of view and ideas."

Therefore, a company that encourages innovative products, services, or processes may absorb new knowledge (Leal-Rodríguez, Ariza-Montes, Roldán, & Leal-Millán, 2014). A company's absorptive capacity enables the firm to turn knowledge into new products, services, or processes to support innovation (Cepeda-Carrión, Cegarra-Navarro, & Jimenez-Jimenez, 2012; Cohen & Levinthal, 1990). Knowledge management literature sustains that IO enhancement reflects firm's endeavor and investment in the acquisition of new knowledge.

Firms that foster creativity and struggle for innovation are more likely to identify and attract interesting opportunities that might lead to beneficial outcomes. Innovation always involves risk and its implementation never ensures success. Literature and most empirical studies posit that a positive link between a firm's innovativeness and business performance exists.

An innovative approach lets organizations deal with a turbulent and dynamic environment and enables them to achieve and sustain long-term competitive advantages. Consequently, embracing innovation as a proactive strategy signals a response to changes within sector, technological advancements, or anticipation of customers' new needs and demands. The ultimate purpose is differentiating firms from

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