Revisiting the learning organization: How to create it

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INTRODUCTION

Business leaders are facing whole new set of management challenges. Increasing uncertainty and environmental changes (e.g., global economic stagnation, terrorism, Brexit) must be dealt with to maintain competitive advantage, but the widely known and practiced techniques for leveraging physical and financial resources are no longer sufficient. Rather, innovation, flexibility, responsiveness, and the creative redefinition of markets and opportunities represent the new sources of competitive advantage.

The globalization and the rapid diffusion of information and communications technologies have transformed the economies of the developed world. Citing a 1997 OECD study, *The Economist* pointed out that ''more than half of the total GDP in the rich economies is now knowledge-based, including industries such as telecommunications, computers, software, pharmaceuticals, education and entertainment. High tech industries have nearly doubled their share of manufacturing output over the past two decades, to around 25%, and knowledge-intensive services are growing even faster ... knowledge workers ... from brain surgeons to journalists ... account for eight out of ten new jobs.'' As noted in a recent *Fortune* article, many of today's best-performing companies — Amazon, Alphabet, Facebook — use little financial and physical capital for their size. Some, such as Uber and Airbnb, use practically none. As the McKinsey Global Institute recently observed, ''The most profitable industries ... are asset-light in terms of physical capital.''

As the focus shifts to the more effective utilization of a firm's knowledge-based capital, new approaches and techniques have been proposed by strategists and management scholars. Leadership often takes center stage in this discussion, but while more capable leadership at the top — smarter managers — may be necessary, it cannot be a sufficient condition. Competing in an environment of increasing uncertainty and rapidly changing technologies requires that firms rely on the knowledge, skills, and experience of *all* of their people by creating a *learning organization*.

THE LEARNING ORGANIZATION

A learning organization doesn't rely on top management to tell it what to do, but challenges the status quo and engages the resources and talents of all of its employees to achieve its organizational goals. In a learning organization, leaders nurture cultures dedicated to excellence and ethical behavior, encourage knowledge-sharing and organizational learning, and every individual is motivated to share his or her talents to make a full contribution to the firm's goals.

Charles Handy, author of *The Age of Unreason*, *The Age of Paradox*, and *Beyond Certainty*, among others, shared a revealing experience:

> ''Do you have to work in these conditions?'' I asked the lady journalist who was interviewing me for an article in the *Atlanta Journal*. We were sitting in the middle of the huge newsroom. Nearly 100 people were in there, crowded in front of their screens and keyboards, phones cradled uncomfortably under their chins; smoke, clatter, and chatter everywhere. ''No, of course not,'' she said. ''I would do most of it much more efficiently and healthily at home but they (pointing to the two news editors behind their glass windows at the end of the room) need us here. Rather, they don't trust me to work where they can't see me!''

At first glance, it would appear that this story epitomizes the lack of empowerment — and trust — granted to the frustrated reporter: ''Don't ask questions, do as you're told!'' However, the implicit message was that learning, information sharing, adaptation, decision-making, and so on, *are not encouraged* within this organization.

By contrast, today's leading-edge organizations recognize the importance of having *everyone* actively involved in the process of learning and adapting. MIT's Peter Senge, a leading expert on learning organizations, emphasizes that the days when Henry Ford, Alfred Sloan, and Thomas Watson "learned for the organization" are gone:

> In an increasingly dynamic, interdependent, and unpredictable world, it is simply no longer possible for anyone to "figure it all out at the top." The old model, "the top thinks and the local acts," must now give way to integrating thinking and acting at all levels. While the challenge is great, so is the potential payoff. "The person who figures out how to harness the collective genius of the people in the organization," according to former Citibank CEO Walter Wriston, "is going to blow the competition away."

In a learning organization, the on-going questioning of an organization's status quo or "modus operandi" is supported and encouraged. Everyone — not just those at the top — is expected to reflect on *what* they are doing, and think about *why* and *how* they are doing it. Although this seems simple enough, it is frequently ignored. Zappos's implementation of the new system, Holacracy, as reported in *The New York Times*, aptly illustrates this issue:

> Tony Hsieh, the company's celebrated CEO, sent a 4,700-word email to the entire company with an ultimatum: *Embrace Holacracy or accept a buyout*. The financial terms were generous, and 210 employees, or some 14 percent of the work force, took the offer. After many employees left, Mr. Hsieh acknowledged that some of the remaining staff members wanted him to resign from the company he built ... *For all of the talk of self-management and consensus building, the decision to go down this path was Mr. Hsieh's alone*.

Most successful organizations are so caught up in their day-to-day activities that they rarely, if ever, pause to reflect and to think objectively about themselves and their businesses. They fail to ask the probing questions that might lead them to question their basic assumptions, refresh their strategies, or reengineer their work processes.

Reflection frequently involves "double loop" learning, a concept first articulated by Chris Argyris of Harvard University. In single loop learning — the foundation of most "traditional" control systems — actual performance is simply compared to a predetermined goal. Single loop learning works well in simple and unchanging competitive situations, but frequently breaks down in complex and rapidly evolving environments. Double loop learning is adaptive and fares better in turbulent environments: performance is compared to objectives, but in addition, the objectives themselves — the firm's assumptions, premises, goals, and strategies — are continuously monitored, tested and reviewed.

Successful learning organizations implement proactive, innovative approaches to unique problems and opportunities, solicit the involvement of employees at all levels, and empower everyone to use their full capacities to achieve organizational goals. A learning environment involves organization-wide commitment, an action orientation, the development of new skills across all levels, and the use of all applicable tools and methods. The entire firm must accept learning as a guiding philosophy, not just another "flavor of the month" change program.

Much has been written over the past few decades to inform research and practice on learning organizations. Several branches of inquiry have been advanced, including power and politics (e.g., moral suasion, negotiation, agenda setting), leadership (e.g., the role of transactional vs. transformational leadership), barriers to learning (e.g., lack of know-how, ambiguity over roles, misdirected goals), social processes (e.g., the role of intuition, interpretation, integration, and institutionalization), learning from failure, and standards and tools for assessment. These issues have been explored in various contexts and settings, including research and development, manufacturing, and partnerships and alliances.

A significant area of related inquiry focused on knowledge management explores the processes of the creation, transfer, and retention of knowledge and the extent to which it is distributed throughout the organization and among key stakeholders. A wide variety of topics have been explored such as the threats to learning during crisis, the effects of learning in joint venture success, the role of learning in generating entrepreneurial opportunities, and the relative advantages of bottom-up (based on experience) versus top-down (based on goals and tasks) decision-making processes. These endeavors draw on a variety of fields, including organizational behavior and theory, social psychology, sociology, economics, information systems, and strategic management.

THE LEARNING ORGANIZATION: FIVE CRITICAL ELEMENTS

Five critical elements and organizational processes are central to the development of a successful and sustainable learning organization:

- establishing and communicating a clear sense of direction and purpose
- empowering employees at all levels
- accumulating and sharing internal knowledge
- gathering and integrating external information
- challenging the status quo and enabling creativity.

Each is a *necessary* component in building a learning organization, but none by itself is *sufficient*. These critical elements are discussed and illustrated in the sections which follow. In order to assist the reader in relating these concepts to his or her own organization, we close with a *Strategic Inventory*, summarizing the key concepts in the form of a checklist.

Establishing and Communicating a Clear Sense of Direction and Purpose

A critical prerequisite for the creation of a learning organization is a clear, effectively communicated and broadly shared sense of direction and purpose. In the words of William O'Brien, formerly CEO of Hanover Insurance: "Before there can be meaningful participation, people must share certain values and pictures about where we are trying to go ... people have a real need to feel that they're part of an ennobling