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Linking an unlearning context with firm performance through human capital

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ABSTRACT

The purpose of this paper is to examine the relationship among organisational unlearning, human capital and firm performance. In doing so, this paper comprehensively reviewed the literature on the unlearning concept, and developed and validated a model to measure unlearning in 112 companies listed on the Spanish Stock Exchange. The methodology involved the construction and analysis of a structural model using both subjective and objective criteria in our measurement variables, developed from a relevant literature review. Our findings show that managers need to develop an unlearning context process to create human capital, which is a primordial asset to improve firm performance.

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1. Introduction

Human capital can be defined as the stock of competencies, knowledge, social and personality attributes, including creativity, embodied in the ability to perform human labour so as to produce economic value (Bogdanowicz & Bailey, 2002). Human capital has been recognised as a key factor for maintaining company's positions and its improvement is linked to improved performance in both financial and non-financial dimensions (Cheng, Lin, Hsiao, & Lin, 2010). As Unger, Rauch, and Frese (2011) indicated, human capital increases employees' capabilities of discovering and exploiting business opportunities, and such knowledge helps organisational members to identify and acquire other useful beneficial resources, such as related knowledge.

As talents, skills, abilities or experiences accumulate over the years, organisational members become so complacent in what they know that they barely learn anything new (Nystrom & Starbuck, 1984). However, in order to survive in an increasingly turbulent environment, such as the Spanish Stock Exchange sector (most studied companies were financial institutions and were more adversely affected by the economic crisis than others), organisations need to 'unlearn', or rule out, old knowledge or routines to make way for new ones (Hedberg, 1981; Tsang & Zahra, 2008). This

study posits that an organisational unlearning context is necessary in order to develop and exploit employees' capabilities and knowledge; i.e., create human capital and thus improve firm performance.

The success of creating an effective human capital depends on organisational unlearning because gaining new knowledge requires abandoning obsolete values or behaviours (e.g. Becker, Hyland, & Acutt, 2006; Becker, 2008; Becker, 2010). By way of example, when being promoted to higher positions, organisational members are asked to put aside the technical skills that were useful for previous situations, but are ineffective in a higher position. This suggests that one of the key factors that affects the extent and quality of a company's human capital is the degree to which it effectively updates knowledge structures.

Developing human capital, i.e. the knowledge, skills and abilities contained individually and collectively in the firm's human resources, directly influences performance outcomes (Buller & McEvoy, 2012). In a study of large Spanish firms, Lopez-Cabrales, Valle and Herrero (2006) found that valuable and unique core employees (i.e., those with firm-specific knowledge, skills, and abilities) were positively associated with the firm's competitiveness and efficiency.

The purpose of this paper is to examine the relationship that links organisational unlearning, human capital effectiveness and firm performance. To this end, our study addresses the following questions: "What is the nature and strength of the relationship between the existence of an organisational unlearning context and human capital?" and "What is the nature and strength of

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the relationship between the existence of human capital and firm performance? These relationships are examined by empirically investigating 112 companies listed on the Spanish Stock Exchange. The theoretical framework is proposed in the next section. Details of the survey used to collect appropriate data to test the model are presented in Section 3 and the results of testing the model are shown in Section 4. Finally, the discussion is presented in Section 5.

2. The conceptual framework

Unlearning is a process that happens when people need to update knowledge structures (e.g. routines, processes or protocols) which have become outdated with time. It is similar to what happens to someone when (s)he buys a new coat and needs to make room for it inside his/her crammed wardrobe. When this happens, getting rid of unwanted stuff could be a prior step. Unlearning can be operationalised through three processes and one context (Cegarra & Dewhurst, 2006). Although each person can unlearn in a different way, researchers (e.g. Becker, 2010; Cegarra, Wensley, & Sanchez, 2014) have suggested that unlearning can be operationalised through three different processes: (1) awareness is the process by which someone becomes aware of outdated rules, routines or processes. This can be done by identifying his/her own mistakes or errors; (2) relinquishing allows people to stop remaking the same old mistakes, especially when they happen unwillingly; (3) relearning involves being able to learn new things, while someone is doing something new (e.g. a new routine); in fact (s)he is unlearning and putting aside what is old.

The problem with unlearning is that you cannot measure it (e.g. Howells & Scholderer, 2015). One of the rules of management is, if you cannot measure it, you cannot do it. The best way to address this problem is by an organisational unlearning context (hereafter OU context). As Azmi (2008) noted, an unlearning context can be embedded in the organisational structure by creating and supporting a culture in which people consciously acquire new skills and knowledge at the same time as they create both the time and opportunity to examine and explore existing and new knowledge.

Bringing unlearning into a context enables organisation to identify mistakes, errors or partial truths that may need to be put aside or ignored. For instance, when managers learn from their own mistakes and modify their decision-making patterns, they are ignoring their wrong or old patterns (Zhao, Lu, & Wang, 2013). In line with this, Cepeda, Cegarra, and Leal (2012, p. 1552) argue that “replacement of old knowledge could be essential for organisations which wish to create new products or services that require new points of view and ideas.” Therefore, organisational unlearning helps prepare the necessary groundwork to acquire and generate new knowledge (Wang, Lu, Zhao, Gong, & Bai, 2013).

2.1. The effect of organisational unlearning on human capital

Human capital refers to the (explicit or tacit) knowledge that individuals and teams have and is useful for the company, and to its ability to regenerate; that is, their capacity to learn (Bueno, 1998). Knowledge can be found in organisations in either a tacit or explicit form: (1) tacit knowledge: knowledge that is inimitable, valuable, underutilised, unarticulated, and lies in employees' brains; (2) explicit knowledge: knowledge that is distributable, easy to handle, documentable and storable (Suppiah & Singh, 2011).

In order to enable inaccurate knowledge to be identified and replaced with new or modified knowledge, an OU context is necessary (Ortega, Cegarra, Cepeda, & Leal, 2015; Wensley & Cegarra, 2015). In this paper, we followed the suggestion of Cegarra and Sánchez (2008) by considering that an OU context requires the

presence of three subdimensions: (1) an examination of lens fitting (ELF): this refers to a disrupting employees' habitual state of comfort to raise awareness of new insights; (2) a framework to change individual habits (CIH): this refers to the challenge of inhibiting bad habits and inappropriate values when an individual has not only understood the new idea, but is quite encouraged to make the change; (3) a framework for consolidating emergent understandings (CEU): this refers to the organisation process that can free employees from applying their talents by implementing new ways of thinking based on adaptation to new knowledge structures.

According to Cepeda, Leal, Ortega, and Leal (2015), by means of the OU context, companies enable individuals to fit their thought patterns and the nature of the beliefs shared in order to break away from the modern workplace culture. As inappropriate and obsolete knowledge can hinder adaptation to new settings, managers need to create a continuous unlearning context. In this way, employees can unlearn outdated knowledge and be able to relearn and develop updated knowledge. So employees must have the ability to unlearn in order to learn something new (Durst & Edvardsson, 2012), which is the fundamental key for real learning that lie in reviewing and removing old habits and routines that are no longer suitable for the company (Grant, 1991).

It should be noted that, according to Nevis, DiBella, and Gould (1995), organisational learning is divided into three phases: acquisition, distribution and use of knowledge. Knowledge acquisition requires constant attempts and continual experimentation by all the employees of the organisation. When an employee acquires knowledge, the company has to promote the distribution of this knowledge among the other organisation members. This distribution consists in transmitting the acquired knowledge at an individual level, principally through individual dialogues, conversations and interrelations among the employees of the organisation, which are encouraged by managers (Kofman & Senge, 1993). Finally, in the knowledge use phase, individuals integrate aspects of knowledge that are not usual for them through shared understanding and coordinated decision making. Not only is knowledge acquisition important, but also the firm has to have up-to-date databases and processes in order to unlearn obsolete habits and routines.

On the basis of above ideas, companies must adopt different strategies in order to remove obsolete knowledge and to build new organisational knowledge by exploiting employees' knowledge. The organisational learning literature states that organisational knowledge originates from an individual level (Birasnav, 2014). So people must consider the internal processes, such as reflection, intuition or interpretation, that are needed to satisfy workers if companies wish the desired exchange views and opinions that facilitate human capital creation to occur (Fornell, 2000). Consequently, the OU context contributes by preparing the ground for updating knowledge and knowledge structures (Wensley & Cegarra, 2015). Therefore, as employees learn and share knowledge with other employees, human capital is created and organisational learning emerges.

The above considerations led us to formulate the first hypothesis of our study:

H1. The extent to which a company achieves an unlearning knowledge context will be positively associated with the extent to which human capital is created.

2.2. The effect of human capital on firm performance

The question to consider now is whether human capital directly affects firm performance. About this matter, the relevant literature stresses that human capital is a fundamental and inimitable significant resource that helps companies maintain their competitive

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