

DETERMINANT FACTORS FOR SMALL AND MEDIUM SIZE BUSINESS TO ACHIEVE INNOVATION, HIGH PERFORMANCE AND COMPETITIVENESS: SYSTEMIC PLANNING, ORGANIZATIONAL LEARNING AND TRANSFORMATIONAL LEADERSHIP

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Abstract- Within the globalization context characterized by unstable settings involving strong competition, small and medium size firms in developing countries face a growing and urgent demand for technological catching up and innovation. Therefore, taking the dynamic capacities, as central concept of the resource-based view, and after observing the failure of some developing countries to take advantage of the growing international movement of production factors as well as knowledge and technology, this paper argues that in order to achieve innovation, high performance and competitiveness it is necessary to build an strategy consisting of a synergic combination of organizational learning with an appropriate leadership style framed by a context of systemic planning.

By using analytical-synthetic methodology, in the first part, after the introduction, this paper provides and analyses empirical evidence which sustain that organizational learning is an important strategy that enable organizations to respond in an expeditious way to market opportunities. Following this, in the second section, the paper provides and analyses the arguments and empirical evidence in favor of competing leadership styles: transformational /transactional, and their impact on organizational learning to achieve innovation, high performance and competitiveness. The following section discuss the important role of systemic planning using a success case study, which shows how using organizational learning, under a unique leadership style and within a systemic planning context Korea was able to achieve innovation levels and sustainable industrial development. The final section concludes proposing a strategy to achieve innovation, high performance and competitiveness which considers systemic planning as essential context for an organizational learning process under the appropriate leadership style.

Keywords - organizational Learning; transformational leadership; transactional leadership; systemic planning; innovation; international innovation systems; competitiveness

I. INTRODUCTION

The globalization context, characterized by unstable an increasingly uncertain settings, which involves strong competition based on innovation, push the firms to desperately search for strategies that could help them to acquire dynamic capacities, rare and difficult to imitate, in order to be able to compete in the global market and achieve high performance (Barney, 1991). Despite the important flows of knowledge and technology that characterize the growing internationalization through foreign direct investment, outsourcing, and international supply chains that give place to technological spillovers, not all countries have been able to take advantage of this phenomenon. While there are successful countries such as Ireland, India, China and Brazil, which according to Arora and Gambardella (2005) have passed from being underdogs to being tigers, there are countries such as Mexico and all the rest of Latin American countries, with the exception of Brazil, that have not been able to take advantage of these international flows of knowledge and technology despite of the important potential exhibited, given their qualified human resources provision and therefore their absorption capacity, which are part of a national innovation system more or less articulated, such is

the case of Mexico. Where despite some efforts such as The Program for the Development of the Software Industry (PROSOFT)¹, the public policy's indiscriminate support to the entrepreneurial activity in general, without distinction of foreigners from endogenous firms, as long as it promotes jobs creation and increase in exports has favor only those companies with major negotiation power, mainly the foreigners. Therefore, the institutional national factors or the public policy have neither favor or protected any organizational learning process for technological catching up nor created the conditions for the endogenous business to take advantage of the international flow of knowledge and technology to become competitive in the international market.

Therefore, based on the dynamic capacities concept proposed by the resource-based view, and the evidence found about the impact of organizational learning on innovation and competitiveness; the findings about the most appropriate

¹ It is a program which general objective is to promote the national economic development by providing financial support to projects which main objective is the development, creation and consolidation of productivity and competitiveness of firms in Information and Technology Sector (IT) and related services.

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leadership style to lead an innovation processes as well as the account of the role that systemic planning has play in the Korean organizational learning process for technological catching up, this paper argues that organizational learning process with an appropriate leadership style is a synergic combination and a determining strategy for firms to build their dynamic capacities, achieve innovation, high performance and competitiveness within unstable settings and strong competition. However, it points out that this strategy alone is not enough if it is not supported by a process of systemic planning orchestrated by the government, so it becomes a necessary condition to leverage the strategy and make it viable.

By using analytical-synthetic methodology, in the first part, after the introduction, this paper provides and analyses empirical evidence which sustain that organizational learning is an influential strategy that enable organizations to respond in an expeditious way to market opportunities by helping to create the optimal innovation environment and consequently promoting high performance and sustainable competitive advantage not only in large enterprise, but also in small and medium size firms. Following this, in the second segment, the paper provides and analyses the arguments and empirical evidence of competing leadership styles: transformational / transactional or a blend of the two types of leadership and their impact on organizational learning to achieve innovation, high performance and competitiveness. The third section of this paper discuss the important role of systemic planning using a success case study, which describe a process of organizational learning under a unique leadership style where Korea step by step achieve innovation, competitiveness and sustainable industrial development but these achievements were feasible because of the support of the systemic planning measures orchestrated by the government. The final section concludes proposing a strategy to achieve innovation, high performance and competitiveness which consider systemic planning as essential strategy to support and make viable an organizational learning process under the appropriate leadership style with this purpose.

II. ANALYTICAL FRAMEWORK

2.1 Organizational Learning high performance and competitive advantage

Organizational learning has been conceived by several authors (Baker and Sinkula, 1999a; Ismail, 2005; Thomas and Alien, 2006), among others, as a process that enable organizations to respond in an expeditious way to market opportunities by helping to create the optimal innovation environment and consequently promoting high performance and sustainable competitive advantage not only in large enterprise, but also in small and medium size firms. Other authors, among them Sinkula, (1994) as well as Slater and Narver, (1995) have declared that to meet the challenge of innovation, numerous organizations have opted to introduce the concept of organizational learning.

Baker and Sinkula (1999b, 2002) have firmly demonstrated that organizations need organizational learning for the successful launch of new products or services into the market to meet consumer requirements and thus achieve enhanced performance and sustainable competitive advantage. Many authors coincide as to the positive link between organizational learning and innovation, among many others

(Hurley and Hult, 1998; Weerd-Nederhof, Pacitti, Da Silva, and Pearson, 2002; Ismail, 2005). Barret, Balloun and Weinstein (2005) have been assessing the impact of organizational learning on performance, while Burt and Taylor (2003) as well as Voss, Montoya-Weiss, and Voss, Z. (2006) have examined the relation between innovation and performance.

With regard to the impact of organizational learning on performance, empirical works linking organizational learning to performance in for-profits organizations have traditionally established that the greater the level of organizational learning, better the performance, particularly in unstable settings involving strong competition.

There are some studies in developing and new industrialized countries that also have been able to demonstrate how organizational learning contributes to build innovation capability and how this determines firm performance. Among these studies, Salim and Sulaiman (2011) investigate the effect of organizational learning on innovation as well as the impact of innovation on company performance in the small and medium size firms of Information, Communication and Telecommunications Industry (ICT) in Malaysia. By analyzing 320 small and medium size enterprises operating in the ICT industry these authors found evidence that organizational learning contributes to innovation capability, and that innovation is positively related to firm performance. Naghi, Gholamrez, Mehdi, Reza, and Majid, (2010) tested empirically the role of organizational learning in the increasing of intellectual capital components. They conducted the study using correlation and regression analysis in a sample of 49 Iranian high-tech firms (larger than 50 employees). The results increased the understanding of the role of organizational learning in creating intellectual capital and building sustainable advantage for companies in emerging economies. Concretely, the findings of this study support the hypothesis that organizational learning has a positive impact on firms' intellectual capital. More specifically, they found that individual learning has positive impact on human capital; group learning has positive impact on relational capital, and organizational learning has positive impact on structural capital.

Chiva, Alegre and Lapidra (2007) investigating about the organizational learning capability were able to identify five fundamental features that characterize a more effective process, among those are: **experimentation, risk taking, interaction with the external environment, dialogue,** and **participative decision making** as the most underlined facilitating factors for innovation within an organizational learning process in the literature. Mat and Che Razak (2011) demonstrate that there is a significant relationship between three of these five underlying dimensions of organizational learning such as **participative decision making, interaction with external environment,** and **risk taking** in a cross sectional study that involves a correlation empirical methodology to explore the relationship between organizational learning capability and their impact on success of technological product innovation implementation in the electrical and electronics (E&E) companies in Malaysia.

Moreover, Sinkula, Baker, and Noordewier (1997) identified within an organizational learning process the *'learning*

orientation values² such as **commitment to learn**, **open mind**, and **shared vision**, as well as **intra-organizational knowledge sharing** proposed later by Calantone, Cavusgil, and Zhao (2002). Garrido and Camarero's (2010) empirical study used these learning orientation values and analyzed the relationship between learning orientation, innovation and performance for the case of 386 British, French and Spanish museums. Concurring with the literature which links learning orientation to organizational performance, these authors found that learning orientation is reflected in greater financial and social performance. Thus, the influence of learning orientation values on technological innovation, is also confirmed. The authors further explain that organizational innovation affects mainly technological innovation and, to a lesser extent, product innovation. As regards the impact of innovation on financial performance, the findings of these authors show significant differences depending on the size of the museum. Their study confirms that learning orientation determines the implementation of organizational innovations although the effect is noticeably higher for large museums than for small ones. Also Chiou and Chen's study (2012) in Taiwan's Information, Telecommunications and Electronic industry demonstrates by using Structural Equation Modeling (SEM) that three out of the four organizational values of learning orientation mentioned above, such as **open-mindedness**, **shared vision**, and **intra-organizational knowledge sharing** except **commitment to learning**, have a positive effect on innovation capital³, and innovation capital has a positive effect on firm performance.

Although there is a limited number of studies addressing the impact of leadership and organizational learning (Senge, 1990; Swieringa and Wierdsma, 1992; Lei, Slocum, and Pitts, 1999; Llorens, 2005). There are some studies that have reported evidence indicating that certain type of leadership style and vision do have a positive influence on organizational learning such as transformational leadership and risk taking (Peters and Waterman, 1982; Slater and Narver, 1995; Kim, 1998; Hurley and Hult, 1998; Maani and Benton, 1999; Snell, 2001; Shin and Zhou, 2003; Kurland and Hertz-Lazarowitz, 2006). Some of them consider transformational leadership as one of the most important means for developing learning organizations (Slater and Narver, 1995; Maani and Benton, 1999; Snell, 2001). While there are several studies pointing out the positive impact of transformational leadership on organizational learning, there

are others that have determined this positive impact on organizational learning under transactional leadership, or even other researchers have reported the convenience of the alternative use of both type of leadership styles, and will be analyzed below in this paper.

2.2 Transformational or Transactional Leadership for Organizational Learning

According to Simic (1998), Bass (1985) proposed a formal transformational leadership theory, building upon early ideas advanced by Downton (1973) and McGregor (1978). Transformational leadership rests on the bases of transactional leadership (Avolio, Bass, and Jung, 1999). Bass (1985) compares these two styles of leadership, and deduces that transactional leaders predetermine what their followers should do to realize their personal and organizational aims. Bass considers transactional leadership as a process in which the relationship leader - follower is reduced to simple exchange of a certain quantity of work for an adequate price. According to Bass (1985) as well as Avolio and Bass (1991) the transactional leadership process builds upon exchange: the leader offers rewards for the performance of desired behaviors and the completion of certain tasks or goals, however, in the event of the contrary the leader threatens with punishments. This type of leadership controls specific transactions with the followers by imposing rules and directions while offering incentives, but according to them, this type of leadership may result in followers' compliance, however, they sustain, it is unlikely to generate enthusiasm and commitment to task objectives in followers within this type of leadership style. On the other hand, Bass conceives transformational leadership as a far more complex process, the realization of which requires more visionary and more inspiring figures. This style centers in the leader's ability to inspire trust, loyalty, and admiration in followers. He said, "transformational leaders motivate their followers to do more than they really expect they can do, increasing the sense of importance and value of the tasks, stimulating them to surpass their own interests and direct themselves to the interests of the team, organization or larger community and raising the level of change to a higher level" (1985 p. 489). Transformational leaders help individuals transcend their self-interests for the sake of the larger vision of the firm. They inspire others with their vision, create excitement through their enthusiasm, and question obsolete assumptions (Bass and Avolio, 1990). These authors conclude that since transformational leadership build relationships focusing on intangible qualities such as vision, shared values, and ideas, give greater meaning to separate activities, and provide common grounds in order to recruit followers for the transformation process (1990).

Bass and Avolio's (1994) classification of skills of transformational leaders is known as "Four I's" and includes the following skills: *Idealized Influence*, *Inspirational Motivation*, *Intellectual Stimulation*, and *Individualized Consideration*. These authors conceptualize **Idealized Influence**, as the ability of building confidence in the leader and appreciation of the leader by his followers, which forms the basis for accepting radical change in any organization. The authors believe that without such confidence in the leader an attempt to redirect the organization may cause great resistance. In other words, they consider that a leader who

² Defined as a series of organizational values affecting an organization's willingness to create and use said knowledge, and are considered as an indirect measure of organizational learning (Sinkula, Baker, and Noordewier, 1997).

³ Understanding innovation capital as the capability to create products, services or processes possessed by an enterprise which includes explicit intelligent properties (Bass and Van Buren, 1999) or implicit R&D abilities such as internal research and development (Edvisson and Malone, 1997).

possesses idealized influence, represents "The Roll Model" to his followers, that is, the followers try to imitate the leaders with idealized influence.

Inspirational Motivation, according to them, is the ability of transformational leadership, which qualifies a leader as a figure, which inspires and motivates the followers to appropriate behavior. They explain that when transformational change is being conducted in an organization, the leader has the task of stimulating others to follow a new idea. Transformational leaders should, therefore, behave in such a way, which motivates and inspires followers. Such behavior includes implicitly showing enthusiasm and optimism to followers, stimulating team work, pointing out positive results, advantages, and emphasizing aims.

Intellectual Stimulation, is conceived by Bass and Avolio as the ability of transformational leaders, that has an important role in the transformation process of the organization. According to them, transformational leaders stimulate the efforts of their followers as regards innovativeness and creativity, stimulate permanent reexamination of the existent assumptions, stimulate change in the way of thinking about problems, request the use of analogy and metaphor, etc., as strategies to get new and creative ideas for solving problems. If the ideas and the solutions of problems suggested by followers differ from the ideas represented by leaders, the followers are not criticized, nor the leaders' ideas are imposed at any cost.

Individualized Consideration, as a feature of a transformational leader, is reduced to the ability of individual analysis of followers. According to the authors, inclusion of followers into the transformation process of an organization implies the need to diagnose their wishes, needs, values and abilities in the right way. They explain that an activity like this tends to preserve the high level of interest of followers in action and the high level of their trust in the leader (Bass and Avolio, 1994).

Also, Tichy and Devanna (1986) in his empirical research identify certain characteristics of transformational leaders that differentiate them from transactional leaders. Those characteristics are a) *Qualities of the agents of change*, b) *courage*, c) *openness and faith in the followers*, d) *led by values*, e) *life long learning*, f) *ability to face the complex, ambiguous and uncertain situations*, and g) *visionary abilities*. These authors conceive the mentioned characteristics as follows:

b) Qualities of the agents of change: Transformational leaders create adaptive, entrepreneurial, innovative and flexible organizations. Their personal and professional image makes it possible for them to successfully lead people in such an environment, i.e. to stimulate changes and to realize them successfully.

b) Courage: Transformational leaders are ready and able to assume an appropriate attitude, to take a risk and face the status quo in the organization. Their intellectual abilities allow them to face the reality, even though it is not pleasant.

c) Openness and faith in the followers: In the relationship with the others (followers), transformational leaders are open and sincere and ready to give confidence when required. Although they possess great power, transformational leaders are sensitive as regards their followers and they do their best to empower them whenever it is possible.

d) Led by values: Transformational leaders formulate a set of essential values, which are to be achieved, and behave in congruence with the values framed.

e) Life-long learning: Transformational leaders try to draw a lesson from their own experience for some future situations. In that sense they are ready, when necessary, to perform radical changes in their own attitudes, approach, behavior, etc.

f) Ability to face the complex, ambiguous and uncertain situations: Transformational leaders are ready to face almost every situation they find themselves in. Considering the complexity level and the level of uncertainty of contemporary conditions and atypical situations.

g) Visionary abilities: Transformational leaders are good visionaries. Their ability to create a future state, to articulate successfully that state and its successful communication with the followers, with a lot of work enthusiasm on achieving such a state.

To these abilities of transformational leaders identified by Tichy and Devanna (1986), and those described by Bass and Avolio (1994), Parry (1996) adds one more. According to him the **managerial ability** is the first and essential part of transformational leadership. So, while anybody can be a transactional leader, a transformational leader can be only the one who is, at the same time, a good manager too. In that sense, The listed abilities and skills represent the essence of the so called transformational leadership according to the aforementioned authors (Bass and Avolio, 1994; Tichy and Devanna, 1986; Parry, 1996). Those, in turn represent the qualities, which differentiate the so-called transformational leaders from the so-called transactional leaders, and make the essence of transformational management and the key to successful management of transformational organizational changes.

Also McGregor (1978) studied transformational and transactional leadership as opposing management styles, while other researchers, most particularly Howell and Avolio (1993) as well as Bass (1998), advocated the conception of blended leadership styles. They argue that the truly effective managers must be capable of utilizing either transformational or transactional leadership styles.

The theoretical arguments in the leadership literature claim that transformational leadership is a much more effective type of leadership in various settings, and although the empirical literature is scarce, it provide evidence in a variety of cultural settings coinciding with it, nonetheless other studies show contradictory results. There are empirical studies showing that transformational leadership has a

significant positive direct impact on organizational learning, while others have proved positive direct impact on organizational learning for both leadership styles, and even slightly stronger influence of transactional leadership.

Among the first position, Kurland and Hertz-Lazarowitz (2006) study the school sector in Israel and found that transformational leadership has a significant positive direct effect on organizational learning ($\beta = .21$), showing stronger effect than the obtained by transactional leadership, which was rather lower ($\beta = .15$), although still positive.

Also, the study of Aragon, Garcia and Cordon, (2005), which analyze the impact of transformational leadership and the role of organizational learning in innovation and performance in a sample of 408 large Spanish firms, found that transformational leadership facilitates innovation.

Song, Kolb, Lee, and Kim (2012) study the mediating effect of employees' work engagement level to explain the relationship between transformational leadership and organizational knowledge creation practices in the Korean business context. They study 432 cases of Korean for-profit organizations. By using hierarchical multiple regression analysis and structural equation modeling along with basic descriptive analysis and interconstruct correlation analysis they examined the structural relationships and the mediating effect among the constructs, finding transformational leadership to be statistically significant. Therefore, concluding that transformational leadership has an impact on employees' work engagement and organizational knowledge creation practices.

On the other hand, among the studies showing major impact of transactional leadership on organizational learning is Judge and Piccolo (2004) meta-analysis, which examines the effectiveness of leadership behaviors on six outcome criteria, although organizational learning was not included as one of those, it found that contingent reward leadership, as part of transactional leadership, was more effective than transformational leadership for three of the six outcome criteria analyzed, among them are: a) follower job satisfaction; b) follower motivation; and c) leader job performance, which are relevant for organizational learning. Both transformational as well as transactional leadership styles impact strong and positively the organizational learning process according to Zagorsek, Dimovski, and Skerlavaj (2009) study. This study found that transformational as well as transactional leadership have strong impact on all four constructs of organizational learning such as: (1) information acquisition; (2) the distribution of information; (3) information interpretation; and (4) the resulting behavioral and cognitive changes⁴. In spite of this, they found evidence of a direct impact only regarding information acquisition and behavioral and cognitive changes. But, according to this study, contingent reward leadership, as important element of transactional leadership, proves to be even slightly more effective in facilitating organizational learning than transformational leadership.

⁴ According to Huber (1991) organizational learning consists of four constructs (1) information acquisition; (2) information distribution; (3) information interpretation; and (4) organizational memory. Kim (1993), Dimovski (1994), Crossan (1995), and Sanchez (2005) extend Huber's information-processing perspective to include behavioral and cognitive changes.

2.3 Transformational / transactional leadership as simultaneous styles for organizational learning

Coinciding with the proposition advanced early by Howell and Avolio (1993) as well as Bass (1998), that "effective managers must be capable of utilizing either transformational or transactional leadership styles", Vera and Crossan (2004) found that at certain times the process of organizational learning prosper more on transactional leadership, and there are other times and circumstances when the process benefits more from transformational leadership. They study the impact of top management transformational and transactional leadership style on organizational learning and explain further that in times of change, when it is evident the need to alter the firm's institutionalized learning, it suits better transformational leadership style. However, according to their findings, transactional leadership style is more appropriate during periods of stability, when the organizational learning process objective is mainly to refresh, reinforce and refine current learning.

Given the assumption that every organization faces the challenges of both change and stability (Tush-man and O'Reilly, 1996), Vera and Crossan conclude that:

"There is evidence that leaders may possess both transactional and transformational behaviors... an ideal strategic leader would be able to identify and exercise the leadership behaviors appropriate for the circumstances, since an effective CEO would be able to recognize when feed-forward or feedback learning is called for, and what type of leadership style would best accomplish that objective" (2004 p.5).

Furthermore, Vera and Crossan agree with Tush-man and O'Reilly, who sustain that given the speed and complexity of today's competitive environment, strategic leaders need to be 'ambidextrous' meaning that leaders need the capacity to simultaneously implement diverse courses of action regarding the *environment, strategy, prior firm performance, and stage of organizational life* in order to facilitate organizational learning. Their proposition is based on the argument that in the empirical studies of Bass and Avolio (1993) as well as Avolio, Bass, and Jung (1999) which compare transformational / transactional framework, they have found a high correlation of 0.7 – 0.8 between behaviors of transformational leadership and those of transactional leadership, specifically contingent reward leadership. They explain this by indicating that both sets of behaviors are likely to exist in the same individuals, only in different amounts and intensities. According to them these findings are consistent with Quinn's (1988) competing values model, in which Quinn argues that executives must develop "behavioral complexity" or the ability to play competing leadership roles simultaneously, see also Denison, Hooijberg, and Quinn (1995).

3. Systemic Planning and Organizational Learning: The case of Korea

According to Leleur (2012) systemic planning is the idea and method that can be applied to make better strategic decisions. It can assist decision-makers in dealing with complex planning and decision making tasks. Based on the meaning of "interconnectedness" and "holism" systemic planning framework comprises several levels that are

interconnected in a way where soft and hard methodologies are used in combination for what becomes a kind of holistic handling of complex planning problems.

The Korean organizational learning process represents the achievement of innovation by several industries and involves an extraordinary jump, not only expressed in its technological and industrial achievement, but also, in its educational and economic performance. Thus, this organizational learning process for capacity building described by Kim's study (1998) is a living case confirming not only the strong effectiveness of organizational learning for capacity building and innovation, but also, the essential role played by systemic planning in this process under the far-sighted and risk-taking leadership style of Korean entrepreneurs. Therefore, it is a suitable case to illustrate the role played by the three factors being analysed and proposed here: organizational learning, leadership style and systemic planning.

3.1 Case Study Analysis

The Korean Technological Learning Process

According to Kim's description (1998) the Korean technological learning process for catching up exhibits a learning orientation characterized by different and subsequent learning focus such as duplicative imitation, creative imitation and innovation. Beginning from the assimilation of assembly operations, all these four subsequent phases were fed by the assimilation of foreign technology. Therefore, at the heart of the Korean catching up process could be identified an organizational learning process, enriched by national innovation systems' interactions, particularly with MNCs through which Korean firms engage in assembly operations, as an initial phase. This is the case of Hyundai, Samsung and more than two hundred firms in different industries—not just electronics (Kim, 1980), but also automobiles (Kim, 1998), semiconductors (Kim, 1997), shipbuilding (Amsdem, 1989; Kim, 1985), iron (Amsdem, 1989; Amsdem and Kim, 1985), and machinery (Amsdem and Kim, 1986). Firms in all these different industries followed a similar expeditious learning pattern for catching up based on a process of organizational learning. Using the case of Hyundai, as described by Kim (1998). The following section depicts this technological learning process for catching up in its subsequent phases within a context of systemic planning.

Kim analyses very closely and reports how the first three subsequent learning stages were based and achieved through learning by doing and learning by using foreign packaged and unpackaged technology, while the innovation stage was achieved through learning by research, after the company have become proficient in the three previous phases.

Hyundai began by assimilating mature technologies from developed countries, especially through contract agreements on assembly operations with MNCs. Without previous experience in automobile production, Hyundai assimilate and improve packaged and unpackaged technology through learning by doing and learning by using. The mastering of these capacities enabled Hyundai to challenge more advanced technologies and progressively be able to learn by research and attain innovation. Hyundai develops its technological learning process mainly going through the mastering of more simple to more sophisticated capabilities, such as, acquisitive

capability, operative capability, adaptive capability and finally, innovative capability; capacities which in Kim's conceptual framework were described as the mastering of operative, duplicative imitation, creative imitation and innovation capacities, which could be equivalent, and also represent stages going from the simpler to the more complex or from minor to major level of understanding in the technologies they were dealing with as Dahlman and Westphal (1983, p.7) as well as Shiowattana (1991) classify them.

Therefore, the depiction of the technological learning process followed by Hyundai as described by Kim (1998) shows how first, it acquires operative capability, then, on the basis of the former it acquires duplicative imitation capacity, once the imitation capacity was mastered, its absorptive capacity and prior knowledge base developed provided a platform for the third stage, during which it gains creative imitation capacity, and finally all that prior knowledge base developed provided the platform to learn by research and achieve innovative capacity. All of those learning stages were based on an organizational learning process, which was structured by forming taskforce groups with team members from Hyundai' several divisions according to background and specialties required, as well as with direct training provided by outside auto producers with more experience in automobile production.

These taskforces teams began the first phase in the organizational learning process described here: *assimilation of assembly operations* in 1967 without any experience in automobile production (Kim, 1998). Subsequently these teams were through the second, third and fourth phase of the organizational learning process. During the process of acquiring the first three capacities, mentioned before, Hyundai increases its absorptive capacity to assimilate technology mainly through learning by doing and learning by using relying on different sources of explicit knowledge provided by technology suppliers such as technical specifications, production manuals, blue prints, received with the acquisition of packaged and unpackaged technology, but also increasingly by research on international literature reviews.

The company was able to convert this explicit knowledge gained through the sources described above into tacit knowledge by organizing study groups by task and objective and promoting an expeditious organizational learning process with the help of specific training and specific visit tours offered by technology providers, or by foreign experts with previous work experience in multinationals car producers, as well as expatriates with doctoral degrees earned at United States Universities (Kim, 1998).

This efficient organizational learning process was led by a unique leadership style which will be analysed after the completion of the description of the process. This was enhanced with organizational strategies from which outstands sociocultural factors such as the *intensity of efforts* and *proactively constructed crisis*. The first, materialized by working sixteen hours a day, seven days per week, as Kim (1998) reports. The second, were primarily team crises which were very well focus and with clear goals.

These crises serve to intensify the efforts among organizational members to expedite learning, elevating the absorptive capacity of the organization, and therefore, were

very effective in turning crises into opportunities. These organizational strategies were present in every of the four stages of the Korean organizational learning process reported here, which sometimes were exacerbated by externally conjured crises and therefore increasing even further the intensity of efforts to convert explicit into tacit knowledge; to translate tacit to explicit knowledge; and also through the translation of tacit to tacit knowledge (socialization) as well as to the conversion of explicit to explicit knowledge, understood as a combination of discrete pieces of knowledge into a new whole, according to Nonaka (1994) and Nonaka and Takeuchi (1995).

The externally aroused crisis were originated in the domestic as well as in the international context. Domestically, the crisis originated in the *government demands*, as part of the systemic planning strategy, which will be depicted further below. Internationally, the crises were induced by the presence of *market turbulences* and *technological barriers*, respectively. The domestic originated crises happens during the second stage of the process, when Hyundai faced a major challenge imposed by the Korean government radical demand to jump from assembly production of foreign cars to the development of locally designed Korean cars. The first international crisis appears when there was a turbulence in the international market due to rising gasoline prices and falling car sales, which, during the third stage of its learning process, demand Hyundai to manufacture a car to meet the most rigorous safety and environmental requirements to compete in the North American market. The second international crisis, faced by Hyundai at the fourth stage of its learning process, consisted of a technology barrier imposed by technology providers, which prompted Hyundai to reach innovation capacity through learning by research relying on its international research and development network (R&D) that it had begun to build step by step since 1978, but it was not until 1984 when it began to materialize with the establishment of the Advanced Engineering and Research Institute, created to develop its own engines and transmissions (Kim, 1998).

The learning process examined here shows that prior knowledge base, developed and registered during and at the end of each phase, increased the absorptive capacity of Hyundai, providing a platform for the succeeding phase while representing an increase in its absorptive capacity. That is to say, that the mastery of operative, duplicative, and creative imitation capacities served as prior knowledge base to reach innovation capacity at Hyundai.

Going beyond the organization boundary where this organizational learning process was taking place, there is a complementary and supportive strategy that work in partnership with this impressive process of technological catching up, and therefore, it is also the other determinant factor of Korean organizational learning process achievements, it is identified as *systemic planning*. There is evidence of systemic planning efforts beyond that frontier that work together to achieve the main goal of innovation and Korean industrialization. These systemic planning efforts are expressed in the government provision of incentives, in the form of protection barriers and promotion plans for strategic industries. Specifically, the strategic industrial plans coordinated by the government, which design anticipated market, technological and governmental impacts, as well as

external factors and conditions such as: protection of the local market from new entrants and from new foreign knock-down imports, a significant tax reduction, promotion of vertical integration leading to new business opportunities, preferential financing, tax concessions and administrative decree to guarantee a large market share for the indigenous Korean car model demanded by the government during the first external and domestic crises.

There was confluence and coordination in all the industrial plans, which were conducted, coordinated, and focused to reach the great goal established for the Nation State: to industrialize and develop through the acquisition of technological capability. In addition, the systemic planning efforts involved in this technological learning process can be detected in the congruence and convergence of the industrial, educational as well as science & technology policies issued and coordinated by the government *inter alia*, the investment in R&D, education and human resource development all directed to support the organizational learning process for technological catching up. As a result of the systemic planning identified as one of the crucial factors that made possible this unique Korean learning process, just depicted, it is important to register the availability of well-trained human resources, as very relevant and indispensable factor. According to the United Nations report, Korea is the only developing country that made a double jump - from low to medium and from medium to high level- in terms of the human development index between 1960 and 1992 (United Nations Development Program, 1994). In addition, by the beginning of the 1990's the number of scientists and engineers per 10,000 population is the highest among the developing countries and closer to that of developed countries such as France and United Kingdom (Ministry of Science and Technology, 1994). The Korean evidences of human resource development are not easy to match and undoubtedly requires a long-term investment in education, science and technology infrastructure, nutrition, health, housing, and security, among others. Therefore, the systemic planning strategy and the role played by the Korean government and the entrepreneurial group leaders as planers and organizers of it, were crucial in the success of the organizational learning process described.

III. ANALYSIS AND DISCUSSION

The findings of empirical studies as well as the description of the Korean case have provided overwhelming evidence supporting that organizational learning contributes to acquire innovation capability and enable organizations to respond in an expeditious way to market opportunities by helping to create the optimal innovation environment and consequently promoting high performance and sustainable competitive advantage in firms.

Also, it has been reported evidence indicating that certain type of leadership style and vision do have a positive influence on organizational learning. Although at this respect there are still contradictory findings, it has been logically supported the proposal advanced by several authors that the strategic leader should have the ability to play competing leadership roles simultaneously in order to facilitate organizational learning, or as expressed by others: "leaders need the capacity to simultaneously implement diverse courses of action regarding a) *environment*, b) *strategy*, c)

prior firm performance, and d) stage of organizational life” (Quinn, 1988; Bass and Avolio, 1993; Denison, Hooijberg, and Quinn, 1995; Tushman and O’Reilly, 1996; Avolio, Bass, and Jung, 1999). However, analyzing Bass (1985) and Avolio and Bass (1991) contention that transactional leadership may result in followers’ compliance, but, it is unlikely to generate enthusiasm and commitment to task objectives, may put in doubt the appropriateness of this style to lead an organizational learning process to achieve innovation, high performance and competitiveness. But in addition, bearing in mind that within the globalization context the small and medium size firms are facing times of instability and strong competition, appears more inclined the balance to consider that transformational leadership could be dominantly more appropriate to lead an organizational learning process to achieve innovation, competitiveness and high performance. This is further supported by the conclusion of Vera and Crossan (2004), when they explain that “in times of change, when it is evident the need to alter the firm’s institutionalized learning, it suits better transformational leadership style” (p. 5).

But in addition, the characteristics, abilities or behaviors proper of the transformational leadership style, as pointed out by the literature analyzed in section 2.2 coincide with the five fundamental features that characterize a more effective process of organizational learning to achieve innovation that Chiva, Alegre and Lapiedra (2007) were able to identify such as: *experimentation, risk taking, interaction with the external environment, dialogue and participative decision making*, and were confirmed by several empirical studies, among them the study of Mat and Che Razak (2011) depicted in section 2.1, which confirm significant positive relationship for three of these five fundamental features, which are: *risk taking; interaction with external environment; and participative decision making*.

Moreover, the features, conducts or qualities allude to the transformational leader on the leadership literature, also correspond with the ‘*learning orientation values*’⁵ advanced by Sinkula, Baker, and Noordewier (1997) such as *commitment to learn, open mind, and shared vision*, as well as the value proposed later by Calantone, Cavusgil, and Zhao (2002) namely *intra-organizational knowledge sharing*, as this study has shown there is empirical evidence confirming positive relationship of these learning orientation values on innovation and high performance provided by the studies of Garrido and Camarero (2010) and Chiou and Chen’s (2012). The first was able to confirm positive relationship of the learning orientation values on innovation and high performance, while the later validates that three out of the four organizational values of learning orientation, such as *open-mindedness, shared vision, and intra-organizational knowledge sharing* have a positive effect on innovation

capital⁶, and innovation capital has a positive effect on firm performance, as reported in section 2.1.

Therefore, as there is empirical evidence confirming the strong and positive impact on innovation, high performance and competitiveness of an organizational learning process characterized by at least three of the five fundamental features as well as three out of four learning orientation values cited by the literature such as: *risk taking, interaction with external environment and participative decision making* as well as *open-mindedness, shared vision and intra-organizational knowledge sharing*, and as all of them are behaviors, characteristics or qualities that characterize a transformational leadership style, it is reasonable to refer to this style, as the one which seems to dominantly impact more, further, and deeply an organizational learning process in order to achieve innovation, high performance and competitiveness.

Moreover, the leadership style that conducted the Korean organizational learning process for technological catching up described here also exhibits most of the fundamental features and learning orientation values that have been confirmed by the empirical studies cited above and furthermore show evidence of several of the characteristics and skills that Bass & Avolio (1994) recognized in the transformational leaders and were known as the “Four I’s”: *Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration*. Coinciding with the former, in the leadership of this Korean organizational learning process also can be identified most of the characteristics of the transformational leadership style identified by Tichy and Devanna in his empirical research (1986) such as: a) *Qualities of the agents of change*, b) *courage*, c) *openness and faith in the followers*, d) *led by values*, e) *life-long learning*, f) *ability to face the complex, ambiguous and uncertain situations*, and g) *visionary abilities*, as well as the managerial ability added later by Parry (1996) as the essential part of transformational leadership.

Although in Kim’s description of the Korean technological catching up process depicted in section 3.1 he does not describe minutely the leadership style, from the analysis of this process and its achievements it can be recognized undoubtedly, that there was a leadership style capable of creating an adaptive, entrepreneurial, innovative and flexible organization. And consequently these leaders have shown the ability of building confidence in his followers, which was necessary to form the basis for accepting the radical change they were working for, so it could be said that there was idealized influence. In this process also can be register the existence of inspirational motivation and intellectual stimulation, because without them could not be achieved the stimulating team work that was functioning intensively 16 hours per day the 7 days of the week. This team work was

⁵ Defined as a series of organizational values affecting an organization’s willingness to create and use said knowledge, and are considered as an indirect measure of organizational learning (Sinkula, Baker, and Noordewier, 1997).

⁶ Understanding innovation capital as the capability to create products, services or processes possessed by an enterprise which includes explicit intelligent properties (Bass and Van Buren, 1999) or implicit R&D abilities such as internal research and development (Edvisson and Malone, 1997).

thinking about problems and proposing creative ways of solving problems.

As has been documented by Kirk (1994), the leadership of the Hyundai group, was recognized by many as far-sighted and bold in terms of risk taking. As it could be inferred from the description above, the leaders of this process were ready and able to assume an appropriate attitude, to take risks and face the status quo in the organization, as well as face the challenges despite they were enormous. Equally can be concluded from this description, that they were ready to perform radical changes through learning, thus, promoting life-long learning. Subsequently, after the analysis of those challenges faced and goals accomplished, what to say about the managerial ability?

IV CONCLUSION

The findings of empirical studies have provided overwhelming evidence supporting that organizational learning contributes to acquire innovation capability and enable organizations to respond in an expeditious way to market opportunities by helping to create the optimal innovation environment and consequently promoting high performance and sustainable competitive advantage, even for small and medium size firms.

But in addition, bearing in mind that within the globalization context the small and medium size firms are facing times of instability and strong competition, appears more inclined the balance to consider that transformational leadership could be dominantly more appropriate to lead an organizational learning process to achieve innovation, competitiveness and high performance. This is further supported by the conclusion of Vera and Crossan (2004), when they explain that “in times of change, when it is evident the need to alter the firm’s institutionalized learning, it suits better transformational leadership style. To support further this proposition, it could be said that all those characteristics that qualified transformational leaders, according to several authors, among them Tichy & Devanna (1986); Bass & Avolio (1994) and Parry (1996) were abilities and skills confirmed in the Korean organizational learning process for catching up described above.

In addition, the crucial role played by systemic planning in the Korean organizational learning process, as was depicted in section 3 led to the conclusion that without it the organizational learning process goal to industrialize and develop through the acquisition of technological capability could not succeed.

Therefore, within the context of unstable settings involving strong competition, this study proposes systemic planning, organizational learning and transformational leadership style as a synergic combination and a determining strategy to achieve innovation high performance and competitiveness in small and medium size firms.

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