ORGANIZATIONAL LEARNING AND MARKET ORIENTATION FOR ALGERIAN SMES INNOVATION: THE KEY FOR SMES COMPETITIVENESS

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Abstract

Confronting a complex, dynamic and extremely changing environment, innovation has been of center interest in recent years as a crucial indicator of organizations' performance and survival, and as a critical success factor in getting a competitive advantage. This research explores the impact of organizational learning and market orientation on innovation, as well as the influence of innovation as a mediating variable on competitive advantage.

Using a hypothesis testing approach, the research examines the effect of the organizational learning process and organization's market orientation on innovation, which in turn impacts competitive advantage. With a judgment sampling, this research targets managers from small and medium enterprises 'SME's, asked to respond to questionnaires. Hypotheses are analyzed using structural equation modeling methodology by using AMOS program.

This research is of great originality and importance in that it provides evidence of the extent to which Algerian SME managers are conscious of the prominence of being innovative in order to sustain competitive advantage. Also, findings indicate that fostering organizational learning process, as another crucial indicator of firms' performance, with a strong market orientation, would help managers in achieving organizations' innovations, and sustaining competitive advantage but only via innovation which mediates the relationship.

Key words: *Innovation, Competitive Advantage, Organizational Learning, Market Orientation.*

Introduction

The contemporary economic events have been of great influence on the ways of conducting businesses. Innovation has been of centre interest. Managers have taken this element as a critical strategic factor that would provide the organizations a competitive advantage and then enhance their performance.

Innovation is identified as the key for organizations' long-term survival. The organizations with an innovation capability can adapt and react effectively to environmental changes and develop a flexibility that put these organizations ahead of competition.

Numerous researches have been conducted in an attempt to explore the main determinants of organizations' innovation success. Market orientation and organizational learning are the major ones that may be considered as two of the most important processes in relation to primary and secondary functions. They entailed the primordial processes and success factors of the organizations' business and are identified as antecedents of organizations' innovation.

This research sheds lights on the importance of market orientation and organizational learning, and the extent to which these two factors influence the success of an innovation strategy.

Research Significance

As innovation becomes the contemporary subject of debates, tremendous researches have been conducted to explore the success factors of such competitive strategy. Because of The usual prospect that most innovation strategies failed, uncovering the success factors before any innovation strategy implementation would provide important insights for

managers decision making and a key for innovators to get best practices in order to reach the innovation objectives and succeed, which in turn would achieve the organization's competitive advantage.

Due to the extreme role of organizational learning and market orientation, these two factors have attracted interest of researchers and professionals, taking into study their impact on different innovation inquiries (innovation types, innovation speed, innovation levels …) (Jimenez-Jimenez et al., 2008; Wang & Ellinger, 2011; Sanz-Valle, 2011; Liao et al., 2008; Siguaw et al., 2006; Choi, 2002). This is why; this research chooses and takes into study the impact of these two factors on the success of an innovation initiative within the Algerian context, and the extent to which an innovation initiative may sustain a competitive advantage.

Theoretical Framework

Many studies have focused on building models to explain success and failure of innovation contributing to the growing knowledge base of innovation and advancing innovation propositions and theories. Another stream focused on innovation adoption and diffusion of new product or service, production process, technology, structure, or administrative system, plan or program; which may be internally generated or purchased.

The process of innovation is usually treated as the "Black Box" with factor inputs and outcomes. From managers' perspectives, there is a prospect that most innovations failed. Chesbrough (2003) argued that:

> "Most innovations fail. And companies that don't innovate die. . . . In today's world, where the only constant is change, the task of managing innovation is vital for companies of every size in every industry. Innovation is vital to sustain and advance companies' current businesses; it is critical to growing

new businesses. It is also a very difficult process to manage."
(De León, 2010)

But the rules of the contemporary business environment oblige the organizations to innovate. So to innovate is no more a choice. As pointed out by Drucker: "Any existing organization … goes down fast if it does not innovate". He added that not innovating is major reason of their failure and decline.

First works on innovation can be traced back to Schumpeter (1934) as the economic development driver. He emphasized the importance of the different dimensions of innovation. He provided the various innovations that could be developed by the organization like developing new products or services, new methods of production, identifying new markets, discovering new sources of supply, or developing new organizational forms.

Innovation is often seen as an organization's capital. It is defined by Rogers (1995 as reported in Wang & Ellinger, 2011) as "an idea, a product, or process, system or device that is perceived to be new to an individual, a group of people or firms, an industrial sector or a society as a whole". Amabile, Conti, Coon, Lazenby, and Herron (1996, p.1155 as reported in Mauchet, 2011) defined innovation as the "successful implementation of creative ideas within an organization". It is conceptualized as an objective-oriented organizational change in response to environmental change, giving the organization higher performance and profitability, economic growth and then better market position over competitors.

Innovation has been taken into study from different constructs: innovation adoption, innovation creation or innovation diffusion. Innovation adoption relates to the use of already existing innovation. In the other hand, innovation creation refers to the generation of new knowledge and ideas, and requires creativity and newness (Goktan, 2005). Whereas innovation diffusion is concerned by the speed and how widely an innovation is

accepted by the targeted users. It is a process of communicating and increasing the use of an innovation in order to realize its economic goal.

Innovation has been categorized into different classifications: technical/administrative, product/process/business systems, radical/incremental (Leavengood, 2011; Mauchet, 2011; de León, 2010; Goktan, 2005). Considered as the engine of growth and organizations' adaptability in the tremendous researches on innovation, and in addition to innovation frequency, product, process and business systems innovation types are selected as a part of this study.

Product innovation is about introducing new products that the organizations produce, sell, or serve. "A product's degree of innovativeness can be determined by the product's newness to the firm that develops the product and to the industry within which the firm operates" (Goktan, 2005). It is similar to invention or open market, characterized by radicalness and taken for "breakthroughs" in the market. Secondly, process innovation involves performing a work activity in a new, innovative way. It entails applying new process improvement, and characterized as incremental, stepwise and ubiquitous (Lee & Park, 2006). Both, product and process innovations represent technical innovation, whereas business systems are encompassed within administrative innovation which includes any innovation that does not fall under product or process innovation like innovative management, organizational forms and marketing techniques.

Innovation frequency refers to how often organizations deliver new products to the market or how often they introduce process or business systems innovations in the organization. Because of the shorter products and services life cycle and the increasingly changing and growing customers demand, the organizations are obliged to increase their innovations frequency in order to keep up in competition and maintain a level a profitability giving them a sustainable competitive advantage.

In 2009, Hardi and Newell have developed a value tree of contributing factors to technical innovation within construction small and medium enterprises. The tree encompassed factors that may be taken into account within each process of the innovation. The tree was tested using analytical hierarchy process methodology and findings revealed that successful innovators emphasized more on regulatory climate, in that government regulators may inhibit or drive innovation. Innovators put also more importance on client and end-user influence. Industry network was seen as supporting factors of innovators efforts.

1. Organizational learning and innovation

Confronting a hostel and turbulent business environment, the organizations focused their efforts on the development of a powerful process, that of the organizational learning. Defined by Argyris and schon (1978: p.28-29), the organizational learning is "a metaphor whose spelling out requires us to reexamine the very idea of organization" … it "occurs when members of organization act as learning agents for the organization, responding to changes in the internal and external environment of the organization by detecting and correcting errors in organizational theory-in-use, and embedding the results of their inquiry in private images and shared maps of organization".

This definition makes organizational learning more related to generative, double-loop learning, which provides possibility of the development of new knowledge, insights, skills and relationships, putting in question long-held assumptions about the organizations' mission, customers, capabilities and strategies and experimenting new alternatives that would promote the organizations' competencies and effect behaviors. This learning represents the underpinning behind organizations' innovation.

Slater and Narver (1995 as cited in Jones, 2006) added that organizational learning "includes information acquisition, dissemination,

shared interpretation and organizational memory". So, the process includes four sub-processes. The acquisition enables the organization generates new knowledge and information, either internally or externally, through interactions and communication processes and experiences of its members. The obtained knowledge is then diffused to all the organization's members, and transformed from its tacit nature to more explicit form. The third phase is the development of a shared interpretation of the diffused knowledge at the individual and organizational level, through formal networks and databases or informal interactions, making from it a common knowledge integrated in routines and enhanced through single or double-loop learning. The fourth is the organizational memory, in which knowledge is embedded in the theory of use of the organization, transformed into action and stored and committed in declarative and procedural memory for prospective use (García-Morales et al., 2011; Jiménez-Jiménez & Sanz-Valle, 2011; Santos-Vijande et al., 2011; Jones, 2006).

Diverse literature have taken into study and demonstrated the positive relationship between organizational learning and innovation (Camisón & Villar-López, 2011; García-Morales et al., 2011; Jiménez-Jiménez & Sanz-Valle, 2011; Aragón-Correaet al., 2007; Chen, Lin, & Chang, 2009; Mavondo et al., 2005; Calantone et al., 2002; Hurley & Hult, 1998). Wang and Ellinger (2011) highlighted the importance of organizational learning for organization's strategic renewal. 268 senior R&D project team members revealed the significant effect of organizational learning on either individual or organizational-level innovation performance.

So the more organizations' emphasize on the organizational learning to generate critical capacities, skills, relevant and new knowledge, the more they become innovative. Hence, being able to understand customer needs and competitors' strength and weaknesses, to possess a better state-of-art technology, analyze critically this knowledge and use this technology would generate greater innovation and then take advantage of markets' opportunities. In 2008, a research targeting 1600 CEOs investigated the

impact of market orientation and organizational learning on innovation performance. From 744 valid surveys, study results provided evidence and support for the positive relationship between market orientation and organizational learning with innovation. Organizational learning was found to have the greatest impact on innovation, in that it enables the company acting proactively and facilitate radical innovation.

In short, organizational learning allows the acquisition, development, transformation and exploitation of new knowledge and ideas that enhance organizational innovation.

Considering the above agreements, researchers develop the following hypothesis:

H.1. Organizational learning has a positive impact on innovation.

2. Market Orientation and innovation

Besides Narver and Slater's (1990) work, being the most recognized model of market orientation, Kohli and Jaworski (1990, p. 3 as cited in Jime´nez-Jimenez et al., 2008) defined it as ". . . the organization-wide generation, dissemination, and responsiveness to market intelligence". It is "an organization's business philosophy on its market concept, which puts stresses on satisfying customers and market needs effectively and efficiently" (Huang & Wang, 2011). The core of market orientation focus is the customer. It is a behavioral and cultural aspect of the organization by which it can collect pertinent information on its markets, competitors and customers' needs, diffuse this information within its different departments, so as to react and response to the business environmental changes to maximally satisfy its customers.

Market orientation represents a source of new ideas for changes, improvements and motivations to respond to the market and mainly before competitors do, by delivering continuously superior customer value.

For this purpose, market orientation has been considered, in many prior studies, as an antecedent of innovation, as founded in results of Choi (2002). Using trangulation method on 804 US small-businesses, he explored the impact of market orientation on business innovation and the impact of business innovation on business performance. Choi found that market orientation led innovation for these businesses and that innovation was critical for small-businesses performance.

Also, Corbonell and Rodriguez (2010) studied the impact of market orientation on innovation speed. They emphasized the positive impact of speed-to-market on product performance and success. Researchers developed a questionnaire targeting 1650 manufacturing firms. From 247 respondents, results indicated a positive relationship and effect of the three market orientation components on innovation speed: intelligence generation, intelligence dissemination and responsiveness. Researchers indicated also that responsiveness has the greatest impact.

Therefore, to investigate the impact of market orientation on innovation, Researchers propose the following hypothesis:

H.2. Market orientation has a positive impact on innovation.

3. Innovation and sustainable competitive advantage

An extensive body of literature argued the primordial impact of innovation on firm performance and thus on sustaining a competitive advantage (SCA) (Camisón & Villar-López (2011); García-Morales et al., 2011; Jiménez-Jiménez & Sanz-Valle, 2011; Chen et al., 2009; Arago´n-Correa et al., 2007).

Barney (1991, p.102) defines SCA as implementation by a firm of a value-creating strategy that is not simultaneously implemented by any current or potential competitor and for which such other firms cannot duplicate the benefits of this strategy. Based on Barney framework (2002), a

competitive advantage can be sustained if the organization has the capability of exploiting resources and developing competencies with the following attributes: value, rareness, imitability and organization (wheelen & Hunger, 2008). These attributes and characteristics are the essence of innovation by which the organizations gain important profit margin and sustain their competitive advantage. So, the more valuable, perfectly inimitable, rare and greater innovations are the more better can organizations response and keep up in an ever changing environment.

Studies conducted on relationship between innovation and firm performance and competitive advantage were either favorable, exhibiting a positive significant relationship (Corbonell & Rodriguez (2010); Mol & Birkinshaw, 2009; Jime´nez-Jimenez et al., 2008; Mazzanti, Pini, & Tortia, 2006) or insignificant by rejecting the idea that organizational innovation is a factor leading to superior performance (Staw & Epstein, 2000; Walker et al., 2010) (Camisón & Villar-López, 2011).But despite these conflicting findings, most theories and studies see innovation as a key driver that leads long term organizations' success, and suggest a positive relationship between innovation and firm performance and competitive advantage. For this purpose, researchers postulate the following hypothesis:

H.3.Innovation has a positive impact on sustaining competitive advantage

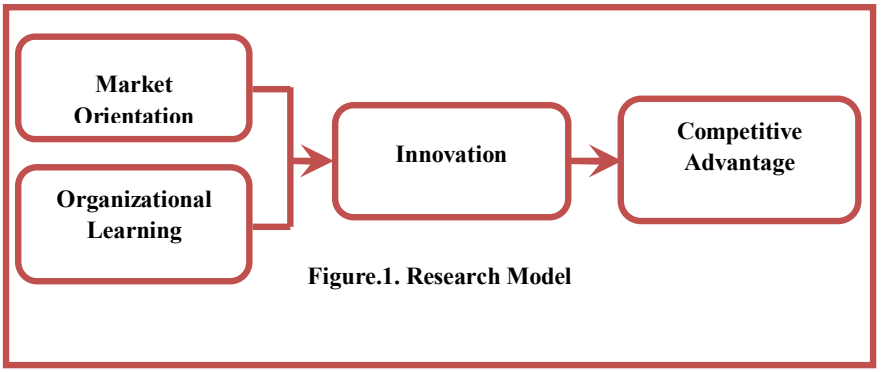

Figure.1. Research Model

Research Methodology

This research adopted a hypothesis testing approach to test the proposed model. Furthermore, the research is a non-contrived, cross-sectional research, exploring the effect of market orientation and organizational learning on innovation, and the effect of this later on competitive advantage.

The SMEs located in Algeria represent the unit of analysis. Researchers use a non-probability purposive judgment sampling, in which the SMEs represent the population of interest.

For Data collection, Primary data was collected using a theoretically grounded questionnaire, including the different items that measure the best the research variables, calling for response from Algerian SMEs' manager.

To examine participants' responses to survey's statements, five likert scales were used. Measurement of organizational learning, market orientation, innovation and sustained competitive advantage were adopted from Camisón & Villar-López (2011), García-Morales et al. (2011), Jime´nez-Jimenez et al. (2011) and Wang and Ellinger (2011). The questionnaire was developed in English and then translated to French, making it more understandable for participants. A total of 51 questionnaires were collected and valid for analysis.

To assess dimensions' internal consistency reliability, a Cronbach's alpha test was used. Table (1) exhibits the test results in which the alpha values range from 0.674 to 0.916, making them acceptable.

Table.1. Cronbach's Alpha

Variable	Dimensions	No. of Cases	No. of Items	Alpha
Organizational Learning	Acquisition	51	06	0.774
	Distribution	51	05	0.841
	Interpretation	51	05	0.843
	Organizational Memory	51	07	0.828
Market Orientation	Intelligence Acquisition	51	04	0.845
	Intelligence Dissemination	51	05	0.884
	Responsiveness	51	05	0.864
Innovation	Product Innovation	51	05	0.674
	Process Innovation	51	11	0.869
	Business systems Innovation	51	07	0.809
	Innovation Frequency	51	06	0.905
Competitive Advantage		51	09	0.916

Data Analysis and Results

The AMOS program (Analysis of Moment Structure) examining the Linear Structural Relationship Model, was used to analyze the research model. The research examines the suggested model goodness of fit using six common model-fit indices.The comparision of model values indices with the recommended values in table (2)provides evidence of a good model fit. As a result, this goodness of fit makes possible the examination of the path coefficients of the structural model.

Table.2. Goodness of fit

Fit Indices	Model Value	Recommended Value
CMIN/df	1.6	< 3.00
Root mean square residual (RMR)	0.02	≤ 0.05
Goodness of fit (GFI)	0.97	≥ 0.90
Adjusted goodness of fit (AGFI)	0.85	≥ 0.80
Normed fit index (NFI)	0.97	≥ 0.90
Comparative fit index (CFI)	0.99	≥ 0.90

Source: Byrne (2010)

Hypotheses Testing

To examine the estimated coefficients of the causal relationships between constructs, the researchers tested the hypotheses and determine the path coefficients based on suggested model using AMOS. Statistically, all of the path estimates are significant. Figure (2) demonstrates the coefficients of determination (R^2) of variables.

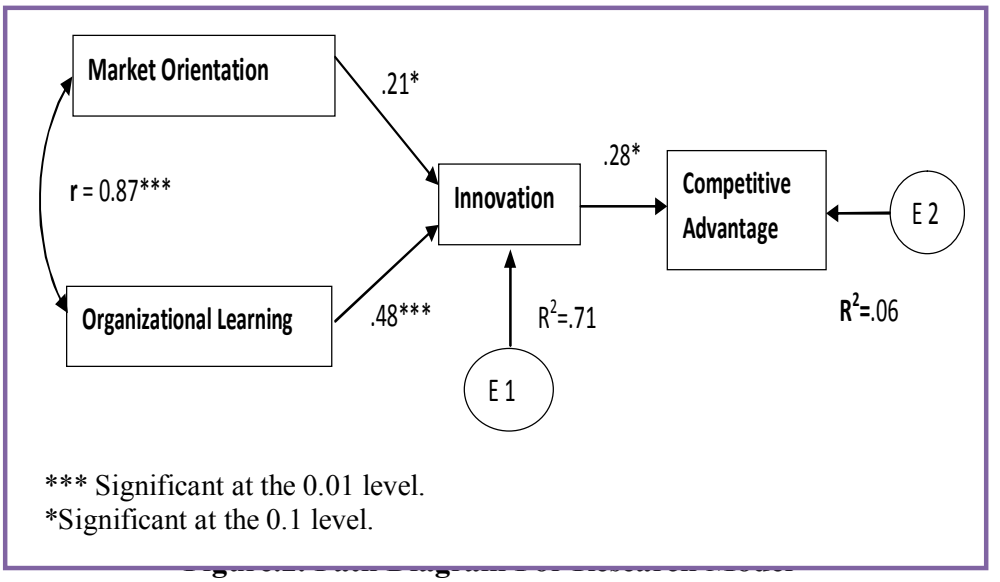

Figure.2. Path Diagram For Structural Model

In addition to figure (2), table (3) illustrates the results of Structural Equation Modeling as follow:

Table.3. Results of structural equation modeling

Path		Estimate	S.E.	C.R.	P-value
Market Orientation	**Innovation**	.205	.117	1.74	.080
Organizational Learning	**Innovation**	.475	.120	3.94	.000
Innovation ⟶	**Competitive Advantage**	.279	.166	1.67	.093

S.E: *Standard Error.*

C.R: *t-value obtained by dividing the estimate of the covariance by the standard error*.

Table (3) indicates significant positive effect of Organizational Learning on Innovation ($\beta = 0.48$, $t = 3.94$,$p = .000$). This impact is stronger than that of Market Orientation on Innovation which is also statistically significant ($\beta = 0.21$, $t = 1.74$, $p = .080$). Besides, Innovation has a positive statistically significant impact on sustainable Competitive Advantage ($\beta = 0.28$, $t = 1.67$, $p = .093$).

So far, for deeper understanding of the nature of the impacts that each variable influences with one another, table (4) shows the direct and indirect effect between model's constructs.

Table.4. Decomposition of effects

Variable	Market Orientation	Organizational Learning	Innovation
Innovation			
Direct effect	**0.205**	**0.475**	**----**
Indirect effect	**----**	**----**	**----**
Total effect	**0.205**	**0.475**	**----**
Competitive Advantage			
Direct effect	**----**	**----**	**.279**
Indirect effect	**0.057**	**0.133**	**----**
Total effect	**0.057**	**0.133**	**.279**

The decomposition of the effects into direct and indirect one (Table (4)) indicates that Market Orientation has positive direct effect (β= .20) on Innovation, without indirect effect, where the total effect equals (β = .20). Similarly, Organizational Learning has positive direct effect (β = .47) on Innovation, without having an indirect effect, making a total effect of Organizational Learning on Innovation equal to (β = 0.47). What is clearly apparent is the stronger positive effect that plays Organizational Learning on innovation, compared to that of Market Orientation. Both independent variables explain 71% of the variance in innovation (See figure (2)). These results are consistent with those of Camisón & Villar-López (2011), García-Morales et al. (2011), Jiménez-Jiménez & Sanz-Valle (2011), Chen, Lin, & Chang (2009), Aragón-Correa et al. (2007), Mavondo et al. (2005), Calantone et al. (2002) and Hurley & Hult (1998).

Innovation has only direct positive effect (β= .27) on Competitive Advantage, that explains only 6% of the variance in sustainable competitive advantage (See figure (2)). These findings support those of Camisón &

Villar-López (2011), García-Morales et al. (2011), Jiménez-Jiménez & Sanz-Valle (2011), Corbonell & Rodriguez (2010), Mol & Birkinshaw (2009), Chen et al. (2009) and Arago´n-Correa et al. (2007).

While both, Market Orientation and Organizational Learning have indirect positive effects of (β= .057) and (β = .13) respectively, on Competitive Advantage mediated by Innovation. Likewise, the comparison between the two indirect effects reveals that Organizational Learning has greater effect on Competitive Advantage than Market Orientation.

What is also interesting in the results, is the strong correlation between MarketOrientation and organizational learning where (r = 87%). This result is not surprising as it is always highlighted in previous studies but without clear evidence and strong arguments (Jime´nez-Jimenez et al., 2008).

In general, all the research proposed hypotheses H.1, H.2, and H.3 are accepted. The analysis of effects shows that Algerian SMEs focus more on Organizational Learning as a pillar to enhance and motivate the innovation. Market Orientation is a critical factor in developing Innovation and sustaining competitive advantage in Algerian SMEs but it is less important than Organizational Learning. Organizational Learning and Market orientation has an indirect influence on sustaining the SMEs' competitive advantage which is clearly mediated by fostering innovation.

Conclusion

Nowadays, fostering an innovation strategy has become a must rather than a choice. In order to survive in a highly competitive business environment, innovation is considered as a source of higher organizations' performance and gained competitive advantage. Furthermore, literature has focused on the key success factors of an innovation strategy. Organizational learning and market orientation rise as the most important factors that would enable fostering successfully innovations. But most studies revealed a lack

of empirical research regarding the relationship between, together, the four aspects of organizational learning, market orientation, innovation and sustained competitive advantage.

This research provides an empirical investigation of the influence of organizational learning and market orientation on successful innovation, and the impact of this later as mediator on sustaining competitive advantage. Findings reveal a significant positive effect of organizational learning and market orientation on innovation. This indicates that Algerian SMEs' managers are conscious of the necessity of developing an organizational learning process within their SMEs and a market oriented culture to foster and enable innovations.

Having a market oriented behavior would provide valuable and pertinent generated information on customers, competitors, markets… Then, disseminating it within all the organization permits faster understanding to analyze and develop new products, processes or business systems more frequently, which would in turn give to the organization stronger and faster responsiveness to the market and keep it ahead of competitors. Market orientation is in the core of innovations. It enables finding a fit between the organization and its business environment, by exploiting its own resources to take initiatives and seize market opportunities. Market orientation and organizational learning are highly correlated, and may be seen as dependent, where each one complement the role of other, for a more added value.

Furthermore, Algerian SMEs' managers exhibited more interest on organizational learning than on market orientation. This result is on line with that of Dahou (2010) who developed a learning organization model of the major factors favoring transformation into learning organizations. She found that Algerian managers pay great attention on building a learning infrastructure within their organizations. This infrastructure would motivate employees to learn and run the cycle of transforming individual learning into team learning and then to the organization level. She also recommended

the implementation of a powerful knowledge management system, install up-to-date information and communication technology, aligned with some organizational factors like strategy, culture and teamwork. These factors facilitate organizational learning process from acquisition to dissemination to interpretation to organizational memory opening opportunities to all the organization's members for either single-loop learning or more generative double-loop learning. Thus, managers have to master the equation learning/innovation to possess critical core and distinctive competencies, if they want to cope with change and survive.

Organizational learning and market orientation have an indirect effect on competitive advantage, generated to an acceptable extent by innovation. This means that Algerian SMEs' managers view innovation as one of the many other factors that could give a competitive advantage to their SMEs.

As a result, this research provides high contribution to the innovation literature, giving empirical evidence about innovation and its antecedents: organizational learning and market orientation, within organizations located in an Arab developing country like Algeria.

For future research, researchers recommend pursuing a triangulation method, using a qualitative and quantitative analyses would strengthen the research's findings. Second, the research is conducted in the Algeria SMEs and expanding the population of study would allow the generalization of the research results. Third, this research is a cross-sectional study, meaning that a longitudinal research is highly recommended in future studies. Fourth, the research indicates that 71% of the variance in innovation is explained by organizational learning and market orientation, thus, 29% of the variance in innovation is explained by other variables. Exploring these additional factors would be interesting. Finally, testing the research model in another developing context would provide it more validity and shed lights on new unknown insights.

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