

## August 2007 Editorial

### Organizations and Learning

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The Knowledge Economy aligns well with a different kind of institution--one that can create relevant deliverables in the marketplace AND that can implement best organizational practice effectively. The Knowledge Economy also requires a new definition of leadership—one that facilitates a culture of continuous improvement and confronts the brutal facts.<sup>1</sup> In this sense, the Knowledge Economy affords high value to the activities surrounding corporate learning, the process of making sense out of what the organization knows, and then does what is effective, efficient and relevant in today's markets.

This intangible asset, organizational learning is the result of a myriad of organizational learning interactions. Organizational learning is a product based in the social sciences, but it is not a “soft” activity in the Knowledge Economy. In fact, it is highly regarded in today's knowledge marketplace and has been for quite a while. For example, over a decade ago, market valuations generally far exceeded the book values of organizations due to the inclusion of the traditional measures of financial capital and the emerging understanding of the importance intellectual capital, of which organizational learning is a subset. McElroy provides the following evidence of the proliferation of intellectual capital as a part of the bottom line, “The aggregate price of the Dow Jones 30 Industrials in 1997, for example, exceeded the combined book values of the member companies by a factor of three-to-one.”<sup>2</sup>

Leaders who think of intellectual capital and organizational learning as a deliverable are eager to facilitate new systems, methods and protocols in order to produce this new form of capital. This is done by examining all venues for improving both intellectual and financial capital valuations of their organizations and making learning a way of life. Cross (2007) describes this phenomena as making learning a part of the organizational DNA, “While training continues to play an essential part of organizational life, most successful organizations know that corporate learning is no longer just about training. In today's hyper-intensive workplace, forward-thinking organizations are turning to enterprise learning in their quest to be better informed, better skilled, supported, and more competitive in their respective marketplaces.”<sup>3</sup>

Leading for organizational learning is largely regarded as the competitive edge for organizations in all sectors. Leaders interested in this benchmark engage in the mining of enterprise learning and use technological solutions to foster the sharing of organizational knowledge in succinct, real time ways. Failure to mine this learning—and value--misses demands of the Knowledge Economy. In the private sector, the evidence that learning is a critical strategy to success has been developing for a while, where the average lifespan of a Fortune 500 company is 14.5 years.<sup>4</sup> Organizations must develop intellectual capital as a survival mechanism or suffer the fate of irrelevancy.

There is clear intangible value in creating intellectual capital through organizational learning. This value continues to take on importance in the Knowledge Economy. This learning process is typically associated with transformational leadership or change navigation. Worline provides the excellent example of Microsoft Corp. navigating change through organizational learning, “Microsoft navigated from being one of the competitors in the computer operating system arena to virtually dominating the category,” she says. “Then, after establishing leadership in the office software category, the company moved into the Internet platform race with its browser development. Now, Microsoft is continuing its change management with forays into games and handheld technology.”<sup>5</sup> The inside story is surprising in that Microsoft did not originally understand the value in the Internet, but because the organization had a culture conducive to change navigation and organizational learning, a few visionaries in the company were successful in convincing management of the value of moving in a new direction.

What is proposed here is the challenge for leaders to do a new kind of work, not simply engaging in change for change’s sake, but rather in leading to organizational learning, the benchmark of an organization disciplined enough to collectively identify and forge self-imposed metrics for success and to emerge, re-emerge and emerge again for success in the hyper-paced marketplace. To do this, leaders must know how to mine intellectual capital by facilitating learning of the organization. Organizational learning requires a highly interactive process, a transformational engagement that uses debate and reinforcement so that meaning can be constructed. N. R. Narayana Murthy, chairman of the board and former chief executive of India’s Infosys states, “The first responsibility of a leader is to create mental energy among people so that they enthusiastically embrace the transformation.”<sup>6</sup>

An organization’s ability to identify, mine and develop its collective intellectual capital requires engagement in learning. McElroy states, “Popularized by Peter Senge in his hugely influential book, *The Fifth Discipline* (1990), organizational learning has attracted an enormous following and is widely regarded as a reference to the only sustainable advantage in business: *the ability to learn faster than your competitors.*”<sup>7</sup> Organizational learning results in shared and explicit understandings of common knowledge and values. This organizational learning process enables participant stakeholders to be collaborative on a sophisticated level, engaging in methods that result in added market value. This type of engagement involves people learning together in alignment with organizational outcomes to intensify, enrich and sustain critical benchmarks of success. The alignment process—is not just concerned with operational issues—but also includes critical issues that reside in the minds and hearts of participants, a quantitative and qualitative learning engagement. This value-added learning process requires both emotional and technical leadership and it can result in transforming cultures in a deep and enduring way. Toyota is a good example of transformation from crisis in the 1950’s, to the use of Lean production as an organizational learning system, to its present day status of surpassing General Motors in sales, which occurred April, 2007, “for the first time and ending one of the longest runs of dominance in all of global industry,”<sup>8</sup> according to the New York Times. They built their entire organizational structure and culture around organizational learning or Lean production.

Organizational learning is based on two simple principles. The first is using the right methods in the right way to get the right results. The second is the willingness to navigate through a process of some complexity to get to a simple, focused and relevant result. Interestingly, troubled companies tend to elicit opposing behaviors to these two principles. Instead of changing in the right way to get the right results, they tend to rely on previous ways of thinking and acting. This is a common pitfall of success, thinking past achievement has a relationship to future markets, as McKinsey & Co. reports in 2007. Sheth explains the distinctive behaviors of successful companies in this regard, “A hallmark of these companies is their willingness to embrace new technologies and new market realities,” he says. “Instead of simply trying to hold onto old markets, they’ll court new ones. But some companies that have had success in the past find it difficult to leave that past behind.”<sup>10</sup>

As to the second principle, instead of staging learning from complex to simple, troubled companies tend to look at simple casual effects for organizational woes as the problem, when those effects are

most likely a symptom, and then incorrectly draw conclusions from that narrow analysis. This also is a common pitfall, sometimes known as the “curse of cluelessness.” Sad examples of this are that behaviors become explicit when companies are in turmoil and the chief executives can report no idea as to what caused the company’s decline and demise.

The Knowledge Economy has created a new reality for leaders. The reality is that while we all know that there is knowledge in learning—there is also a great deal of wisdom in learning—and that wisdom is a pearl of great price.

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