

**THE RELATIONSHIP BETWEEN THE CHOICE OF GLOBAL EXPANSION
STRATEGY AND MARKET ORIENTATION THROUGH ORGANIZATIONAL
LEARNING PERSPECTIVE¹**

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ABSTRACT

As organizations mature and grow, one of the best growth options would be to expand operations globally. While the choice of enter into foreign waters includes exporting, franchising, licensing, joint ventures and wholly owned subsidiaries, options for wholly owned subsidiaries may involve starting-up a completely new operation (greenfield investment) and acquiring a host-country company (acquisition). On the other hand, market orientation points out organization wide generation of market intelligence, and gain more value in today's business world. Similarly, in order to keep pace with changing competitive conditions, organizational learning becomes popular among organizations. Choosing the learning mode suitable for the organization should depend on market-orientation and the choice of global expansion strategy.. Different choices indicate different requirements for knowledge acquisition. Relying on these arguments, this study offers a factorial model to deduce learning modes of organizations according to their market orientation levels (high-low) and the choice of entry strategies (greenfield investments-acquisitions).

Keywords: Organizational Learning, Market Orientation, Global Expansion Strategy.

INTRODUCTION

Organizational learning has been a very popular topic since the 1990's (Bapuji and Crossan, 2004). Underlying reason behind this is the need of organizations to be learning centers to conform the changes in the environment and to satisfy the customer needs. Environment of organizations are not stable as it was before, rather dynamic, frequently changing, and organizations compete in global waters. Also, thanks to the development of information technologies, customers are more demanding and well-informed, now. Thus, in order organizations to reach competitive advantage, they have to focus on customers in all actions throughout value chain. Only market oriented firms survive and make profits in this century. This paper focuses on the relationship between the choice of global strategy, specifically the choice of start-up a new affiliate (greenfield investment) and horizontal integration with local firms through acquisitions, and the market orientation through the types of organizational learning Huber (1991) and Lane and Lubatkin (1998) proposed.

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1. MARKET ORIENTATION

Market orientation has gain more an more value in today's business environments since it focuses an organization gathering knowledge continuously from their customers and competitors, and using these knowledge to create superior customer value (Slater and Narver, 1995). Unless customers perceive products/services of an organization as valuable, it does not matter how valuable the offering is.

Kohli and Jaworski (1990:54) and Jaworski and Kohli (1993:3) define market orientation as *the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organizationwide responsiveness to market intelligence*. To put it in different way, they concluded that a market orientation requires (1) *one or more departments engaging in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them*, (2) *sharing of this understanding across departments*, and (3) *the various departments engaging in activities designed to meet select customer needs* (Kohli and Jaworski, 1990:54).

Slater and Narver (1995:67) define it as *the culture (1) places the highest priority on the profitable creation and maintenance of superior customer value while considering the interests of other key stakeholders; and (2) provides norms for behavior regarding the organizational development of and responsiveness to market information*.

There are numerous studies examining the relationship between market orientation, organizational learning, organizational performance, financial success, and innovativeness (e.g. Baker and Sinkula, 1999; Calantone et al., 2002; Hurley and Halt, 1998; Jaworski and Kohli, 1993; Keskin, 2006; Slater and Narver, 1995). While there are some contradicted results, generally market oriented organizations are expected to be more innovative and to achieve high business performance. Also, members of market oriented organizations are found to commit their organizations more and have esprit de corps more (Jaworski and Kohli, 1993). Besides, Slater and Narver (1995) argue that *a market orientation is inherently a learning orientation* since market-oriented firms anticipate well the needs of customers and respond them with innovative products and services quickly and effectively. They thought marketing fuction plays a key role in creating learning organizations. Many researchers beside Slater and Narver (1995) such as Baker and Sinkula (1999) argue that market-orientation only enhances performance when it is combined with a learning-orientation.

2. ORGANIZATIONAL LEARNING

The ultimate goal of every organization is to make profit. Even non-profit organizations try to reach more funds to accomplish their goals. Management literature is interested in competitive advantage which means having above average profitability than rivals competing for the same set of customers (Hill and Jones, 2008). It is claimed that one of the strategies to obtain competitive advantage is to create learning organizations. There are some underlying reasons, more specifically than just saying attain and sustain competitive advantage, for organizations to shift from their traditional organizational designs to learning organizations.

First of all, the most important factors of production is no longer machine or capital, it is labour. Thus, there is an increasing dissatisfaction with the traditional management approaches among both employees and managers of the organizations. Organizations experience struggles to sustain competitive advantage due to intense competition and accelerating pace of change. It raises the importance of knowledge as a source of competitive advantage, in parallel, the importance of intellectual labour. In addition, customers are more demanding, so organizations need to learn their ever-changing demands rapidly and respond them quickly. All of these antecedents lead organizations to make fundamental changes regarding their business environments. Management feel discomfort at first but try to reasoning the change. Academics and consultants advise management based on the comparisons between organizations' experiences. Then, new values, models and concepts are generated in the way to achieve organizational learning (Harvey and Denton, 1999).

What is organizational learning then? Senge (1994: 8) defines learning organizations as *“organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together.”* Also, according to Garvin (2003: 80), *“a learning organization is an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights”* and learning organizations are skilled at five main activities: Systematic problem solving, experimentation with new approaches (systematic searching for and testing of new knowledge), learning from their own experiences and past history, learning from the experiences and best practices of others, and transferring knowledge quickly and efficiently throughout the organization. Although organizational learning is mentioned, definitions for learning organizations are presented. The relation between them is that learning organizations are the ones that implement organizational learning. In other words, organizational learning points to the process of knowledge creation in different levels of organizations and dissemination this learning/knowledge through the organization; while learning organizations indicates the structure as a result of organizational learning processes (Thomas and Allen, 2006).

3. LEARNING ORIENTATIONS

Nevis et al. (1998) claim that all organizations are learning systems in some degree, learning conforms to organization's culture or subcultures, learning style varies between different learning systems, policies, structures and processes effect the degree and the easiness of embracement of learning. They argue that there are two main directions for enhancing learning. Organizations may embrace the existing style and improve it's effectiveness or they may change their learning orientations. They further suggested seven learning orientations, *the values and practices that reflect where learning takes place and the nature of what is learned*: Knowledge source, product-process focus, documantation mode, dissemination mode, learning focus, value-chain focus, and skill development focus.

Knowledge source learning orientation compares to whether the organization develop new knowledge from internal sources or look for external ideas. Basically, an organization may choose innovation or imitation. Product-process focus indicates whether the organization accumulate knowledge about product offerings or the processes behind these products. Documentation mode implies the attitudes as to the expansion and the location of knowledge. Knowledge may be seen in personal terms or as organizational memory that knowledge is shared by the whole members. Dissemination mode implies whether the organization learns through a structured or an informal approach. In structured approach, members share their knowledge in the way they are told by written communication or formal educational methods, while informal approach encourages people to learn through the established learning atmosphere. Learning focus points to what Senge classifies as “adaptive or generative learning” or Argyris classifies as “single-loop and double-loop learning”. An organization may concentrate on the existing work to improve its efficiency and effectiveness or it may concentrate on testing the underlying assumptions about existing work to enhance its capabilities. Value-chain focus looks for whether the organization focus on internally directed activities such as R&D, engineering, manufacturing (design and make) or externally focused activities such as sales, distribution, and service activities (sell and deliver) in the value-chain. The final learning orientation named skill development focus indicates whether an organization mostly focus on individual learning or collective learning in their processes (Nevis et al., 1998).

Another and may be the most popular classification in the organizational learning literature regarding the learning orientation of an organization is the one Senge (1994) offers: adaptive learning and generative learning. Organizations generally attempt to adapt their surroundings reactively in order to fit them. When a problem occurs or there is something outdated and has to be changed, they try to change the related specific parts, although it indicates much more complicated problems embedded in the organization. Attempts to solve existing problems without questioning the underlying fundamental issues in the organizations is called as “adaptive learning”. Adaptive learning is about coping and surviving, and an organization with such kind of an approach can not be said as a learning organization. Adaptive approaches to learning originated from our tendencies to see the world as a combination of separated and unrelated forces, and prevent us to make sense of the parts as a larger whole. In order to build learning organizations, adaptive learning should be supported with “generative learning”. Generative learning requires new perspective and holistic view, and enhances people’s capacity to create something new. It emphasizes a continuous learning experience throughout the organization (Senge, 1994).

Generative learning approach fits for learning organizations and stipulates five disciplines. These five disciplines are: Systems thinking, personal mastery, mental models, building shared vision and team learning. Personal mastery is the discipline of clarifying and deepening the personal vision continually, focusing one’s energy, developing patience and seeing the realities in an objective way. Mental models indicates to be open-minded and clear one’s mind against to the rooted assumptions, generalizations, or pictures and signs that influences one’s viewpoint about the world and actions.

Building shared vision suggests to build a shared identity feeling which people make efforts and present their abilities in order organization to reach its goals, without pressuring people. Team learning refers to the efforts of thinking and working together as one by sharing knowledge and complement others' skills and to produce more than the capacity of one member. Systems thinking, seeing and analyzing the whole not the fragments, is at the heart of these five disciplines and the discipline which holds all the other parts together (Senge, 1994).

March (1991) also classifies the learning orientation as exploration and exploitation. There is a trade-off between the choice of exploitation and exploration of learning since they compete for scarce resources. Exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation. Exploitation includes such things as refinement, choice, production, efficiency, selection, implementation, execution. Exploration means gaining new information and knowledge about possible alternatives and allocates resources to search for uncertain, risky alternatives. On the other hand, exploitation indicates using the existing information in best possible manner. Mutual learning model indicates that exploitation activities result in quick learning of organizational code, so organizations can quickly changes their practices to conform the environmental changes. On the other hand, exploration provides slow learning from the code, but produces much more diversity in beliefs in the long-run. The important thing in here is that organizations have to embrace both approaches if they want to succeed and make profit.

According to Huber (1991), organizational learning closely relates to four constructs: Knowledge acquisition, information distribution, information interpretation, and organizational memory. *Knowledge acquisition is the process by which knowledge is obtained. Information distribution is the process by which information from different sources is shared and thereby leads to new information or understanding. Information interpretation is the process by which distributed information is given one or more commonly understood interpretations. Organizational memory is the means by which knowledge is stored for future use.* Huber (1991) differentiates the acquisition of learning orientations into five distinct processes: Congenital learning, experiential learning, vicarious learning, grafting and, searching.

Organizations rely on congenital learning, especially during the foundation of an organization. They generally collect information about the new organization's environment and have the knowledge about the intentions of the founder. An organization gather these sources of knowledge to make them available for members of the organization's. Basically, an organization which has a congenital learning orientation learn from the experience of the industry. During the birth stage, founders also employ grafting and searching in behalf of the new organization (Huber, 1991).

As organizations become more mature, then they start to learn from their experiences. Experimental learning includes organizational experiments such as feedback about cause-affect relationships and organizational self-appraisal. It focuses on adaptability rather than adaptation to survive in fast changing and unpredictable environments, thus it points out unintentional or unsystematic learning through interpretation of archival data and experience based learning curves (Huber, 1991).

Vicarious learning orientation indicates an organization's attempts to learn from the experience of other firms about their strategies, managerial practices, and technologies. It is also labeled as acquiring second-hand experience, since acquiring information through vicarious learning orientation include consultants, professional meetings, trade shows, publications, vendors and suppliers, networks of professionals (Huber, 1991) and acquisitions (Bapuji and Crossan, 2004). The problem with vicarious learning is that organizations generally prefer to imitate other organizations, which they examine to learn. Imitation attempts are said to be ineffective and imitation is seen as a limited form of organizational learning (Huber, 1991).

Grafting process in organizational learning indicates acquiring the knowledge through new members. Sometimes it can occur on a large scale base such that a firm acquires another organization, thus acquires the whole knowledge in that organization (Huber, 1991).

Finally organizations may incline searching and noticing. Searching process of learning can occur in three forms: Scanning the organization's external environment, focused search of the organization's internal and external environment in a narrow segment, and performance monitoring of the effectiveness. Noticing, on the other hand, implies unintended acquisition of knowledge about the external and internal environment and conditions, and performance (Huber, 1991).

Furthermore, Lane and Lubatkin (1998) argue that there are three methods for learning new external knowledge: Passive, active and interactive. These different orientations provides different types of knowledge. Passive learning includes acquiring knowledge from a third party mostly through journals, seminars and consultants. More active learning includes benchmarking, occurs when an organization learn from the other competitors. Neither active nor passive learning provide much valuable knowledge since it generally results in imitation and does not add unique value to the organization. On the other hand, value-added knowledge transfer is possible through interactive learning. Interactive learning requires an organization to be close and get in touch with another firm, thus tacit knowledge, what makes the organization better than others, can also be transferred and learned in this way.

4. CHOICE OF GLOBAL LEVEL STRATEGIES REGARDING MO AND OL

As organizations mature and grow, they try to expand their operations. They may expand their operations through corporate-level strategies such as vertical and horizontal integration, diversification, and so on. Or they may expand their operations globally. The choice of enter into foreign waters includes exporting, franchising, licensing, joint ventures and wholly owned subsidiaries. The choice for wholly owned subsidiaries may involve starting-up a completely new operation (greenfield investment) or acquiring a host-country company (acquisition) (Hill and Jones, 2008).

An acquisition is defined as the takeover of an existing company; a greenfield is defined as setting up a subsidiary from scratch (Vermeulen and Barkema, 2001: 458). In the study, examining the underlying reasons behind the choice of international expansion through start-up or acquisition, Barkema and Vermeulen (1998) concluded that multinational diversity and product diversity provide alternative opportunities for learning and capability building, until an organization reaches its limits on information sharing and learning. They argue that organizations with high technological capabilities prefer start-ups over acquisitions since acquisition offers less, bringing these capabilities to the to-be-acquired organization is hard, and it is easier to build a learning curve than building an unlearning curve.

Although acquisitions are generally associated with unsatisfactory performance, implementation and convergence problems, and greenfield investments are found to perform better than acquisitions in some researches; organizations need both. Vermeulen and Berkema (2001) claim the reason the choice of greenfield investments, especially for the successful ones, is to exploit the existing knowledge base. They channel their resources for exploitation purposes which March (1991) proposes. The more the firm engages in greenfields, the more they escape from acquisitions. But in some point, all resources and capabilities will be exhausted, also in a changing environment it is necessary to develop new skills and acquire new knowledge. Exploitation of an organization's knowledge base through greenfields results in inertia and simplicity. When an organization's knowledge base deteriorating, the need for acquisitions increases. Also, acquisitions may broaden the knowledge base and decrease inertia. All in all, organizations need to balance the use of greenfields and acquisitions over time (Vermeulen and Berkema, 2001).

5. PROPOSED FACTORIAL MODEL

In view of these points, a factorial model, (see Figure 1) examining the choice of starting-up a new venture or acquiring a host company to expand foreign operations regarding the market orientation and learning orientations to acquire knowledge while using Huber (1991) and Lane and Lubatkin's (1998) classifications, is proposed. When the market orientation of a firm increases and/or when an organization chooses acquisitions over start-ups, knowledge base and learning level of this organization increases. Learning from other organizations' experiences provide much valuable knowledge and make a difference for the company. Also, highly market-oriented firms strive much harder for satisfying the customer needs and wants that they are much more capable of creating new knowledge.

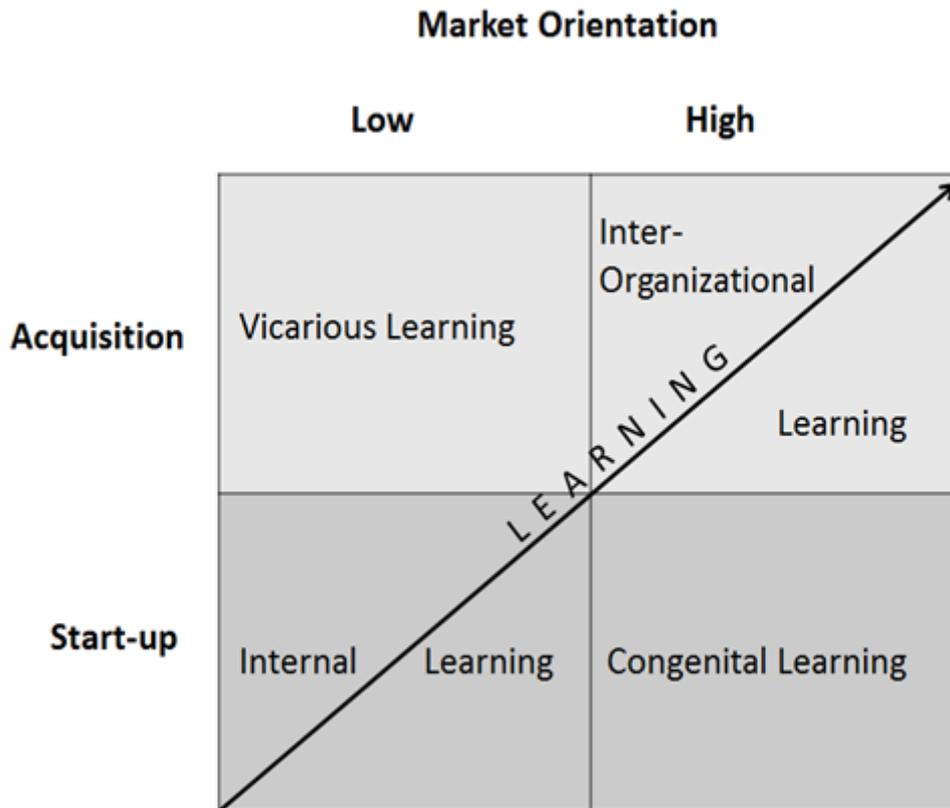


Figure 1: Proposed factorial model

DISCUSSION

This paper argues that, when an organization with a low level of market orientation choose to expand its operations globally, it would exploit the existing knowledge base, thus the learning orientation to acquire knowledge would be internal learning (which Huber called as “experimental learning”). This organization would use direct experiences encountered in the past.

When an organization with a high level of market orientation choose to expand through greenfield investments, this organization would not find direct experiences sufficient to meet the demands of customers that it would choose congenital learning. It would examine the industry to overcome the traps associated with exploiting an organization’s own existing knowledge.

On the other side, a company with a low level of market orientation decides acquiring a host company, it would use vicarious learning to acquire knowledge. It would try to make sense about the experiences of both the acquired firm and the other firms. They would acquire new knowledge through second-hand experiences through consultants, trade shows, publication etc. before they decide to operate in the specific region, but they would also learn from the firm they acquire. It is argued that low market orientation indicates that this kind of firms simply try to exploit the host firms’ resources and capabilities.

When a high market-oriented organization decides acquisition, it would consider making a synergy with the host organization and choose inter-organizational learning. Such organizations would strive for combining the knowledge bases of two organizations through interaction. They would try to broaden the understanding of the tacit knowledge behind the core capabilities what makes the host organization successful and unique.

As a result, market-orientation and the choice of global expansion strategy determine an organization's choice of knowledge acquisition or in other words, learning orientation. Different choices indicate different requirements for knowledge acquisition.

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