

The Business Value of Learning

Two leading researchers say when companies develop a market orientation and a learning orientation, they increase employee and customer engagement

by Jennifer Robison

Customer and employee engagement are straightforward concepts. Fully engaged customers, for example, are so psychologically connected to the companies they do business with, they'll often go out of their way to get to their favorite outlet, bypassing its competitors along the way. Engaged employees are highly productive and committed because they feel a deep emotional attachment to their work. What's more, engaged customers and employees help companies deliver better financial performance.

But companies can realize greater -- and more rapid -- gains in performance when these two powerful concepts are brought together onto a single platform called HumanSigma. HumanSigma is a management approach and metric that examines the combined impact of employee and customer engagement at a

local level within an organization. An optimized workgroup, one in which workers *and* customers are deeply engaged with the company, not only has a high HumanSigma score, but it also returns significant business benefits to the organization -- benefits that are exponentially better than focusing on either employee or customer engagement alone.

Improving HumanSigma performance, however, requires disciplined hard work and isn't always easy. It may require a company to reorganize to better align itself with HumanSigma management principles. Or it may require the company to transform itself by finding new ways to do things while learning to do the things it already does better. Or it may require the organization to rethink some of its core assumptions.

Two professors, William Baker, Ph.D., of San Diego State University, and James Sinkula, Ph.D., of the University of Vermont, suspect that they know what at least a few of those assumptions may be. "A company could have a false sense of security that it's doing what it's supposed to do: looking at customers, looking at competitors, looking at employees, doing research, and basing strategy on research findings," says Baker. "But if they're not learning correctly, they could be basing what they do on a set of false assumptions."

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And false assumptions can throw a business seriously off course. A perfect, and perfectly ironic, example of this is Encyclopædia Britannica, Inc. The company has been publishing its celebrated encyclopedia since 1768, and it has continued to build on its success in the succeeding centuries. But Encyclopædia Britannica stumbled in the 1980s, as emerging technologies increasingly drove knowledge sources online. Customers saw no need to buy 32 heavy books when they had access to information on the Internet. Encyclopædia Britannica could have gone under.

"They stayed an encyclopedia company too long," says Baker. "[As] an encyclopedia company, they could do everything right: monitor their customers and the competition, make improvements to encyclopedias. But they still missed the bigger picture."

Though right in the office they had "the sum of human knowledge," as the company's ads once touted, they no longer understood the market. What saved Encyclopædia Britannica was a new owner who not only injected cash but also changed the company's definition from being a publisher to being a "leading provider of learning and knowledge products." "They shifted from a narrow view of being an encyclopedia company," says Baker, "to a broad view of being a knowledge company." In other words, Encyclopædia Britannica changed its market orientation.

A market-oriented culture

Market orientation is essentially a philosophy for using market-based information "as a major tool in the strategic decision-making process," says Baker. A market-oriented company knows its customers' preferences, the environmental factors that influence customers, its relative abilities to satisfy customers, and what the competition is doing.

Sinkula and Baker's research turned up an interesting fact about market orientation: Young companies tend to be better at it than established organizations. "Smaller, younger organizations acquire less market research information, but they use it more," says Sinkula. "Maybe it's because they have more to learn, and market information is more precious to them. As organizations grow and become successful, they tend to become acquiescent and put information acquisition on auto pilot."

Many companies believe they use market information well, but organizations that really aren't market-oriented don't do it right. "They routinely listen to what consumers have to say," says Sinkula. "They survey consumers and follow consumer demands, but they do that in a mechanistic way." Their shortcomings include: asking survey questions that sound good but don't get at the customer's level of emotional attachment, asking questions because the company knows it's supposed to ask them, or failing to evaluate customer feedback.

But even companies that genuinely listen to customers may not handle the next step effectively. Market orientation is more than just obtaining information -- it's about using it to gain competitive advantage. A market-oriented company doesn't just get the right information -- it gets it to the right people and responds to it in the right way.

What prevents that right acquisition, dissemination, and responsiveness to market information, say Baker and Sinkula, are rigid mental models and management arrogance. A company that is

too sure of what it currently *is* to care about what it *could* be, or a company that is so sure it's impregnable that it doesn't check its defenses is not market-oriented and is thus vulnerable.

Know thyself -- and everyone else

Sinkula says Procter & Gamble is an excellent example of a market-oriented company. "P&G is active at listening to the voice of the customer; they realize that's the key to their success," says Sinkula. "When you look at their array of products, the innovations they come up with are brilliant. And the products are based on a sound understanding of who their consumer is."

One risk of failing to understand the customer -- or failing to act effectively on that knowledge -- is that the company becomes some competitor's lunch. "If you're not market-oriented, you run the risk of missing some other competitor on the horizon that's going to come in and blindside you," says Baker. "If something is going on, you better take notice of it. If you don't, it's going to bop you on the side of the head."

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This doesn't imply that a company should manufacture products to meet the whims of every customer. But companies should exploit opportunities in the market to their advantage, and identifying them requires vigilance.

All this, however, is predicated on another straightforward idea: A market-oriented culture is one that values analysis of its environment. That kind of company must also value learning.

A learning-oriented company

Baker and Sinkula define learning orientation as "the degree to which a company rigidly adheres to its mental models and theories-in-use, and hence, the degree to which proactive learning occurs." All companies have mental models, and all of them have theories-in-use. They have to, otherwise they would all be reinventing the wheel every morning.

But a company's ability to get past its mental models and theories and accept new ones defines its ability to learn. To be learning-oriented, a company must value learning, be open-minded, and have a vision shared by every member of the organization.

Baker and Sinkula say that rigid mental models, such as the one Encyclopædia Britannica maintained, prevent learning. These models force organizational thinking into such a narrow box that the people in it are unable to see beyond it. This foreshortened view cripples the effectiveness of its market-oriented activities. That kind of thinking can take a business like Encyclopædia Britannica under.

Theories-in-use function in much the same way. A theory-in-use is the plan of attack that a company organizes itself around. If too stolid, the theory-in-use becomes dangerously confining -- whatever a company believes or does becomes all it *can* believe or do. Those theories often start out as a good idea but inadvertently ossify into a straitjacket.

"We can't sit around and micro-analyze everything we do every day of our lives," says Baker. "And it's not that people and companies are stupid. But the [roots of] different procedures, and organizational memory itself, are so deep that often people don't really understand where they came from."

For example, a company has a policy of putting its product on price promotion every six weeks. They've done it for so long that nobody in the company questions it -- nor does anybody understand why. The reality is that the promotion schedule trains consumers to only buy during sales, and the company hasn't noticed. A company with a strong learning orientation makes it its business to understand the cause and effect of all of its policies, even the legacy ones.

Learning bottlenecks

"A learning organization is one that truly values [an understanding of] cause and effect in the marketplace," says Baker. "The single greatest thing a company can do to make [learning] happen is create a reward system that embraces that type of attitude. A lot of companies [think] the opposite holds true, making people fearful to speak up."

The freedom to "speak up" is key. A company can be chock-full of brilliant learners, but their talent is wasted if the company's leadership doesn't want to, or doesn't have a system in place, to hear it. A similar result comes from a lack of shared vision. Useful information and innovative ideas may be obtained, but they are useless if no one uses or implements the intelligence. "If everybody's not on the same page," says Sinkula, "the organization becomes dysfunctional."

Of course, for open-mindedness and shared vision to have value, the company must care about learning. "If [companies] view learning as a key to their competitive advantage," says Sinkula, "they'll find ways to do it. The firms that are really into learning and re-learning and un-learning are the ones that will survive. Many of the other drivers of competition -- price, promotion, distribution, etc. -- anyone can replicate them. It's the firms that can learn the quickest that'll make it. And they know it."

Sinkula says that Procter & Gamble also provides an excellent example of a learning-oriented company. "They listen to the customer through a lens of expertise that allows them to sift through information that may not be valid," he says.

Though Procter & Gamble uses traditional methods of customer research -- surveys, retail environments observation -- the company doesn't stop there. "They also employ anthropologists who go into households and watch how customers use products," says Sinkula. "They get very rich and interesting information from getting as close as they can to the application of their products in the household."

The straightforward concept

So what do market and learning orientation have to do with HumanSigma? Companies that are market-oriented and learning-oriented, according to Baker and Sinkula, are likely to have superior HumanSigma performance. "[Market and learning orientations] are very complementary, because HumanSigma operates at the individual level, and what we're talking about operates at the cultural level," says Baker. "If a company has the right kind of culture, it will be easier for them to improve customer and employee engagement because they're going to have the right kind of beliefs and values in place to make it happen. The right climate exists inside the company to make changes easier."

In other words, engaged companies don't become good learners and listeners; their culture-deep tendency to analyze their environment and use what they learn creates a setting in which it's easy to become emotionally attached.

The evidence suggests that engaged employees are more aware of what's happening in the workplace and more inclined to provide their companies with good ideas if they have them.

Baker and Sinkula believe that in market-oriented and learning-oriented organizations, great managers are great learners, and they encourage learning in their employees. Engaged employees are inclined to think deeply about their companies and what their customers want. Those qualities are an essential component of -- and result in -- market orientation. Market and learning orientations result in behaviors that engage customers.

Testing in progress

Baker, Sinkula, and Gallup will be testing this hypothesis in great depth. That's because if there's a data-driven basis for it, the results will be enormously valuable to companies. Businesses that want to accelerate their HumanSigma performance improvements would have an additional diagnostic tool to measure success and additional insights into creating that success. If Baker and Sinkula are right, understanding that your company is unwittingly giving the market the cold shoulder could do a lot to improve employee and customer engagement too.

Jim Asplund, Gallup's chief scientist, strengths-based development, is one of the leading scientists on the project. "I think this is a solid hypothesis," says Asplund, who is coauthoring a book on HumanSigma that will be published in fall 2007. "The evidence of employee engagement in particular suggests that engaged employees are more aware of what's happening in the workplace and more inclined to provide their companies with good ideas if they have them."

Market share and variation

Though testing will take some time, Baker and Sinkula's research on market and learning orientation has turned up some information that companies can use right now. One of the most

interesting facts about market and learning orientation is their effect on market share. (See "Investors, Take Note: Engagement Boosts Earnings" in the "See Also" area on this page.)

"What we've found is that when a company had both a strong market orientation and a strong learning orientation," says Baker, "there was a positive effect on market share." Interestingly, this market share doesn't exist in companies that are market-oriented but aren't learning-oriented. "Those two ingredients are both necessary to create a competitive advantage," Baker says.

Asplund thinks he knows why. Engaged employees are personally and deeply involved in their company's well-being, and they think about ways to improve it. Engaged customers are not only company advocates, they're avid, albeit amateur, beta testers of innovations and new solutions. On the other hand, "If the work environment's miserable," says Asplund, "there's no way you're going to get useful information from the staff. And if the customers hate you, good luck getting them to try something new from you."

Baker and Sinkula have also tested and found that a company that's both market-oriented and learning-oriented is better equipped to smooth variance. By and large, companies aren't a seamless organizational whole; they're more an amalgamation of departments and workgroups. Some work efficiently and are highly productive; some aren't. "If the cultural behaviors and values of market and learning orientation exist, it's also going to make it easier to fix variance," says Baker. "You're going to start off in a better place, and it's going to take less effort, because you won't have the impediments that might be there to keep people from improving."

Survival of the smartest

So will invigorating a company's fondness for understanding the market and valuing learning suddenly make it the Goliath of its field? Not necessarily. "There's not going to be a magic bullet for any business," says Baker. "There are so many other factors that influence whether or not a company's going to be successful and whether it's going to be a market leader. However, market and learning orientation are two factors that are identified that work together and that increase the likelihood that companies will be able to develop a competitive advantage in the marketplace."

And as Sinkula noted, price, promotion, and distribution are not competitive actions because they're easily replicated. Culture isn't. Cultures that value and encourage smart moves, people, and ideas are the ones that will survive.

Market orientation and learning orientation bolster the likelihood that the moves, people, and ideas *are* smart -- and doing the right thing at the right time. Nonetheless, if you still doubt whether Baker and Sinkula are on to something, you can always use the Encyclopædia Britannica as a reference.

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