RELATIONSHIP BETWEEN ORGANIZATIONAL LEARNING AND PERFORMANCE: A SURVEY OF INSURANCE AND REINSURANCE COMPANIES IN KENYA

By

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DECLARATION

This project is my original work and has not been submitted for a degree in any other university.

-- 26/11/08

Stephen O. Wandera Date

This project has been submitted for examination with my approval as University Supervisor.

-- 26/11/08

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DEDICATION

This project is dedicated to my late father, Jephthah David Wandera, my mother, Lorna Auma Omolo Wandera and my dear wife Regina Rosalind Wandera. To God be all the Glory.

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My interest in the subject of organizational learning was ignited in the management of strategic change class conducted by Mr. Maalu. This interest was rekindled during the strategic management seminar class conducted by Prof. E. Aosa. The exchange of ideas in the class between Paul Kamaku, Charles Kariuki, Joseph Omenya and I turned out to be the most exciting in the entire class as far as I was concerned. I could barely wait to research the topic and sure enough this project is the result.

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At the end of the day it must be acknowledged that God the Creator holds all things in His control and I thank Him.

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ABSTRACT

Today's world has more than ample evidence of unprecedented changes in the environment that have lent a new sense of urgency to business of the need to incorporate learning in the very cusp of company strategy in order to survive and prosper. Organizational learning is thought to provide a self-perpetuating competitive edge to organizations in an ever changing environment. However, success stories about the effect of organizational learning on organizational performance border on rare. Moreover published work in Kenya is too sparse to inspire confidence about the relationship between organizational learning and performance.

The Kenya insurance industry comprising insurance and reinsurance companies has been facing challenges of over-capacity, price undercutting and uneconomical returns to shareholders. The industry is also witnessing coalescence of financial services and the formation of strategic alliances between financial institutions so as to leverage performance. In this competitive context the research question was posed as to whether there is a relationship between organizational learning and performance. The research objective was to determine the said relationship.

A descriptive survey was used to compare data collected from a census study target population of 45 insurance and reinsurance companies. The type of data was opinions, specifically Chief Executive Officer (CEO) assessments of their own companies organizational learning and performance. The data was gathered by a self-administered questionnaire. Data analysis was by means of descriptive and inferential statistics, factor analysis and Pearson's product moment correlation.

The study realized a return of 37 companies representing a response rate of 82.2%. The study showed that insurance and reinsurance companies in Kenya greatly depend on chief executives to take responsibility for driving change through organizational learning. Chief executives make their companies embrace and entrench organizational learning,

cultivate a culture that provides psychological safety for staff to freely discuss and exchange ideas and thereby enhance financial performance. The CEO is first to acknowledge his or her own potential to err and listens to alternative views from junior staff. Chief executives also use their power to coercively persuade their staff to learn. The learning process is clearly initiated from the office of the CEO before embedding at lower levels.

The study shows that the pedagogy that yields financial performance is rooted in learning by doing. Hierarchies are not strictly adhered to and employee autonomy is granted in pursuit of successful organizational learning. The results of the study show unequivocally that organizational financial performance is leveraged by organizational learning.

Limitations of the study included the fact that a large percentage of the respondents had been with the organization for up to five years making it challenging to accurately and objectively assess the learning experiences of their organizations. Some organizations had been in existence for a relatively short time with the result that their learning and performance experiences were limited. Low actual populations of a few specific segments may have been a limitation despite the overall good response rate.

Further research, particularly case studies, of life insurance and composite insurance companies should shed light on apparent unique challenges faced with respect to organizational learning. Detailed study of organizational learning processes will also shed light on concrete learning practices. Case studies of the segments that have low actual population particularly reinsurance and motor companies should provide further insights into their specific organizational learning approaches and practices.

CHAPTER ONE

INTRODUCTION

1.1 Background

Today's world has more than ample evidence of unprecedented changes in the environment that have lent a new sense of urgency to business of the need to incorporate learning in the very cusp of company strategy in order to survive and prosper. Business thought now has a distinct genre of scholars who may be described as pundits of organizational learning. Organizational learning according to this stream of thought should provide a self-perpetuating competitive edge to organizations in an ever changing environment. Some scholars are prudent regarding the challenges of organizational learning whilst the earnest advocacy of other scholars makes a case so compelling that it cannot be ignored by any reasonable business student.

The efficacy of the concept would best be addressed by proof. Empirical findings would be the remedy to pontificating and what skeptics, practitioners and managers might regard as high-sounding arguments. Such practitioners desire direction from scholars that is practical including tools which they might be able to apply in their organizations. In other words good performance of organizations should demonstrably be linked to learning and vice versa. Instances of such a linkage are few generally. The case of Toyota, for example, is recycled in texts and classroom discussion almost as if there is no other. It is precisely this paucity of concrete examples that makes the discussion fascinating, exciting and compelling. Research is clearly needed. Research can serve to provide confidence to the business student. Such research can also provide validation to the concept within the Kenyan context.

1.1.1 Learning Organization

In an interview with McKinsey & Co. Senge (1992) described the idea of the learning organization as a vision and suggested that a vision works through articulating a picture so compelling that people's interest motivates them to take action to make the vision real. He describes the vision of the learning organization as an organization that is continually expanding its capacity to create its future. Senge describes learning as the enhancement of the capacity to create. Clearly Senge's vision has served its intended purpose, been taken literally, provided the basis of further thinking and research by scholars and has thereby acquired a life of its own.

Senge expresses concern that the phrase "systems thinking" is complicated and states that it is all about the ability to see through complexity to what is really essential. He suggests wisdom as a better term. He insists that such wisdom is critical to the survival of an organization because the world has become too complex and rapidly changing for an individual to figure it all out from the top. It is important to surface the assumptions and reasoning behind decisions for reassessment and redevelopment by others – an impossible task in an authoritarian environment (Senge 1992).

The appropriate environment for learning is another interesting aspect. Schein contends that the paradox that surrounds learning is anxiety. Learning anxiety comes from being afraid to try something new for fear that that it will be too difficult or that the person may look stupid, will have to part from old ways, affect the group's perception of the individual or threaten his or her self-esteem. Survival anxiety is the unpleasant realization that in order to survive one is going to have to change. Survival anxiety must be greater than learning anxiety for learning to happen. Survival anxiety can be increased by threatening people with loss of jobs or valued rewards whilst learning anxiety can be decreased by creating a safer environment for learning and unlearning (Schein 2002).

The learning organization has been defined in several ways by different scholars but is primarily an ideal. It is about improving actions in the workplace through continuous learning processes. In this way, members of staff acquire knowledge to develop in their specialized areas of work. Some of the key definitions that seem to define the learning organization are: an organization skilled at creating, acquiring and transferring knowledge, and at modifying behaviour to reflect new knowledge and insights (Garvin, 1993); one capable of continual regeneration from the variety of knowledge experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose or vision (Johnson, Scholes and Whittington 2006); an entity learns if through its processing of information, the range of its potential behaviour is changed (Huber 1991), an organization that facilitates the learning of all its members and continually transforms itself (Pedler, Burgoyne and Boydell 1991); 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 to learn together (Senge, 1990).

The important point to note about these definitions is that the phrase is used not just as the great vision but also to describe those organizations seen to be on the path to the ideal, a product or enactment of the vision so to speak. Learning organizations are adaptive to their external environment, continually enhance their capability to change/adapt, develop collective as well as individual learning and use the results of learning to achieve better results.

1.1.2 Organizational Learning

Some of the key definitions by scholars as quoted in Burnes (2004) that seem to define organizational learning are: organizational learning is the process by which the organizations knowledge and value base changes, leading to improved problem-solving ability and capacity for action (Probst and Buchel, 1997); organizational learning means the process of improving actions through better knowledge and understanding (Fiol and Lyles, 1985); organizational learning occurs through shared insight, knowledge and mental models and builds on past knowledge and experience, that is, on memory (Stata 1989).

McGill and Beaty (1995) do not distinguish between Learning Organization and Organizational Learning. They define Organizational Learning as the ability of an organization to gain insight and understanding from experience through experimentation, observation, analysis, and a willingness to examine both successes and failures. According to Burnes (2004) the term organizational learning is often used interchangeably with the term learning organization. Tsang (1997) says that organizational learning is a concept used to describe certain types of activity that take place in an organization while the learning organization refers to a particular type of organization in and of itself. A learning organization is one which is good at organizational learning.

Though Burnes (2004) seems not to draw a line between the two concepts, he appreciates the view that organizational learning describes attempts by organizations to become learning organizations by promoting learning in a conscious, systematic, synergistic fashion that involves everyone in the organization. A learning organization being the highest state of organizational learning, in which an organization has achieved the ability to transform itself continuously through the development and involvement of all its members.

In a state of the art article Garvin, Edmondson and Gino (2008) argue that the ideal of the learning organization had not been realized due to three impediments: Early discussions about learning organizations were not concrete prescriptions and overemphasized the forest with little attention to the trees. Consequently recommendations were difficult to implement – no sequences of action had been identified. Secondly the concept was aimed at CEOs and senior executives rather than managers of the smaller organizational units where the work is actually done. These managers had no way of assessing how their teams' learning was contributing to the organization as a whole. Finally, standards and tools of assessment were lacking. As a result claims of progress or victory might in fact be imprecise, premature or false.

1.1.3 Organizational Performance

There are a number of indicators by which company performance may be judged. According to Johnson, Scholes and Whittington (2006) the balanced scorecard offers both qualitative and quantitative measures that acknowledge the expectations of different stakeholders and relate an assessment of performance in choice of strategy. In this way performance is linked both to short-term outputs and process management.

Kaplan and Norton (1992) argue that an organization's measurement system strongly affects the behavior of managers and employees. Traditional financial accounting measures can give misleading signals for the continuous improvement and innovation required by today's competitive environment demands. The balanced scorecard allows managers to look at the business from four important perspectives: the customer perspective; the internal business perspective; the innovation and learning perspective and the financial perspective. The importance of the innovation and learning perspective lies in the direct link between the company's value and the company's ability to innovate, improve and learn. The ability to launch new products, create more value for customers and improve operating efficiencies continually results in penetration of new markets, increase in revenues and margins.

According to Kaplan and Norton (1992) there are four perspectives into which critical success factors fall, namely, the financial perspective, the customer perspective, the internal perspective and the innovation and learning perspective. Critical success factors in the financial perspective may include survival, profitability and revenues. In the customer perspective critical success factors may include market share, customer retention rates and relevant products. In the internal perspective critical success factors may include ICT systems development, process cycle times, and productivity or capacity utilization. In the innovation and learning perspective critical success factors may include training, quality improvement and service leadership. It is possible to determine suitable measures for each critical success factor that apply to an industrial context.

1.1.4 Organizational Learning and Performance

The link, if any, between organizational learning and company output or performance has sparse literature at the present time. Out of the top performers in the McKinsey survey of over 1500 executives 55 per cent said that their transformation was successful in mobilizing energy and 57 per cent said that sustenance of that energy was also successful. The mechanisms emphasized for the mobilization and sustenance of energy were the impact of clear, comprehensive and compelling communication. Two thirds of the top performers said that they integrated the goals of the transformation programme into key processes such as budgeting, performance management and recruiting. Respondents in the most successful cases opined that theirs were more effective than other companies at raising expectations about future performance, addressing short-term performance and engaging people at all levels of the organization (McKinsey 2006).

With the rise of knowledge-based organizations in the information age performance is increasingly determined by factors that cannot be overseen including intelligent experimentation, ingenuity, interpersonal skills, and resilience in the face of adversity among others. Critical ideas and information fail to rise to the top when employees find it risky to disturb senior officers' emphasis and preoccupation with speed, efficiency and timely performance. Companies delay, discourage or understaff investments in areas where learning is critical because switching to a new approach can lower performance in the short run. Rewards and recognition may be exclusive to individuals or teams with the highest efficiency resulting in a competitive reluctance of people to share ideas or best practices with their colleagues (Edmondson 2008).

Isern and Pung (2007) argue that the two issues that are particularly pressing for CEOs and top teams are setting a vision or inspiring aspiration for change, and mobilizing and sustaining the flow of energy and ideas needed to drive the organization forward. They propose that leaders must define the aspiration at outset, break it down into clear themes and initiatives, spell out what it looks like at stages along the journey and translate it into an exciting story. They contend that the catalysts for mobilizing and sustaining positive energy are managing the pace of change through an economical set of high-impact briskly-moving initiatives; embedding change; making change personal through reward system and building capabilities through learning.

Senge (1992) cites an insurance company's claims processing function as a specific example of successful learning. After the CEO introduced a retired philosophy professor to teach a course that helped participants appreciate systems thinking managers received the course well but were initially stumped as to its applicability. Soon however the claims managers, local office managers, regional managers and general managers came together to examine the upstream and downstream effects of the decisions made in settling a claim. In facing the challenge of replicating such successes cross-functionally Senge cautions that functional hierarchies in large organizations prevent them from learning across functions. Multi-disciplinary models that capture the entire system and all its complexities in effect modeling the problem should therefore be avoided and the emphasis should be placed on fostering teams that have a genuine commitment to tackling difficult, long term cross-functional problems. In order to foster wisdom or systems thinking at the lowest levels of the organization Senge believes that an appeal must be made to people's intuitive sense of causal relationships by visiting or shifting the organizational structure or design. He cites the reorganization of the insurance company into localized units with internal boards to the unit that synergise learning and vision. The concept is acknowledged as an experimental approach.

Toyota's real achievement is argued to be the making of all work a series of nested ongoing experiments. Regular work is coupled to experiments as a result of which there are ongoing improvements in reliability, flexibility, safety, efficiency and hence market share and profitability. The explicit specification of how work is going to be done before it is performed is coupled with testing work as it is being done, gaps between expectations and reality are investigated, deeper understanding of the product process and people are gained and a new specification is attained until a new problem is discovered. Managerial training at

Toyota is partly aimed at helping managers understand their role namely to help workers understand their own responsibility in improving operations and to carry it out, how to construct work as experiments, how to yield continuous learning and improvements and teach others to do the same. Direct observation of machine operations, explicit precision in problem solving and tentativeness of solutions, focus on quick simple experiments so as to bound the scope for failure and encourage risk-taking, and unique collaboration by workers and managers in constantly solving problems with the manager as an enabler have contributed to Toyota's success (Spear, 2004).

1.2 Insurance Industry

The first insurance company to be incorporated in Kenya was the Pioneer General Assurance Society Ltd, in 1930. This was followed by Jubilee Insurance Company in 1937. The third insurance company to be locally incorporated was Pan Africa Insurance in 1946 1. According to The Insurance Institute of Kenya (2000) it was not until the 1978 speech of the then Minister of Finance Hon. Mwai Kibaki that local branches of insurance companies were required to be locally incorporated. The Insurance Act Cap 487 of 1984 was a real watershed in the history of the insurance industry establishing as it did a definition of insurance that notably includes reinsurance, namely:

"the business of undertaking liability by way of insurance (including reinsurance) in respect of life and personal injury and any loss or damage, including liability to pay damage or compensation contingent upon the happening of a specified event". (p.18)

According to Swiss Re Sigma (2007) both insurance density per capita and insurance penetration as a percentage of GDP in Kenya in 2006 were very low. The Association of Kenya Insurers (AKI) Report (2007) notes that life insurance penetration in 2007 was 0.8% of GDP whilst General insurance penetration was 1.82% of GDP. This suggests that there is great potential for the growth of insurance in Kenya. The challenges and experiences of insurance companies ought therefore to be of special interest. Understanding both the challenges and experiences of firms is therefore fairly important.

The Insurance Act provides for the licensing of insurance and reinsurance companies as entities that undertake liability by way of insurance and reinsurance. These companies are distinct from other entities that may be licensed such as insurance brokers, insurance agents, loss adjusters, reinsurance companies, loss assessors among others. Life insurance companies are required to have a paid up capital of Shs. 50m, general insurance companies are required to have a paid up capital of Shs.100m, composite insurance companies are required to have a paid up capital of Shs.150m; the Finance Act 2007 provided for the increase in paid up capital requirement for these companies to Shs.150m, Shs.300m, and Shs450m respectively by July 2010. This is an important move whose significance rides on observations that there is overcapacity in the insurance industry.

The industry faces rampant price-undercutting, product commoditization and nearly twenty companies have in the past been known to have earned uneconomic returns for shareholders (KPMG 2004).

Recent trends in the insurance industry seem to set the background for a new round of competition in which traditional players will be competing against financial services conglomerates. The CFC Stanbic merger has brought CFC Stanbic Bank, CFC Life Insurance Co., CFC Financial Services Ltd and Heritage Insurance Co. under the single ownership of CFC Stanbic Holdings. They join the First Chartered Securities Group which bring Insurance Company of East Africa, ICEA Investment Managers, NIC Bank, Lion of Kenya Insurance Co. under single ownership. Family Bank has bought Kenya Orient Insurance whilst British-American Investments Co. has portfolio investments in Equity Bank and Housing Finance apart from owning British- American Asset Managers and British-American Insurance Co. as subsidiaries. Pan Africa Insurance Holdings owns

Sanlam Investment Managers and Pan Africa Insurance. It will be interesting to observe the extent to which organizational learning has been factored into past, current and future competitive strategies in the insurance industry, if at all.

1.3 Statement of the Problem

It is contended that there is a link between organizational learning and performance. At least one eminent scholar, Schein (2002), is very prudent about corporate learning and change despite many who suggest that organizational learning is a source of sustainable competitive advantage that firms should not ignore. Govindarajan and Trimble (2005) also describe learning as a most difficult challenge. There are few instances where successful transformational change in an organization has been attributed to learning. Certainly the case of Toyota seems to belie the pessimists. The knowledge industry, Edmondson (2008) seems to suggest, is also utilizing learning to enhance performance. Although the available literature puts a lot of emphasis on the strategic importance of organizational learning, there is no conclusive evidence of its effect on organizational performance. As mentioned above there are success stories from companies such as Toyota; but these are too few to inspire confidence in the students of organizational learning. This creates gap in knowledge.

In Kenya little published work is available on the link between organizational learning and performance. In her study of donor agencies Amulyoto (2002) found that knowledge acquisition, information distribution and information interpretation as features of learning organizations had been embraced. Kirimi (2006) concluded that private recruiting agencies in Nairobi had adopted the concept of organizational learning. The KPMG Kenya Insurance Survey (2004) described significant portions of the Kenya insurance industry as facing challenges of over-capacity, price undercutting and uneconomical returns to shareholders. The industry is witnessing coalescence of financial services including formation of strategic partnerships with banks and asset management companies so as to leverage better performance. The Kenya insurance industry is clearly a competitive industry in which a survey should yield evidence of the linkage. Thus, the proposed study is intended to contribute to the efforts aimed at filling this gap. The research question then is whether there is a relationship between organizational learning and performance in the insurance industry in Kenya.

1.4 Research Objective

The objective of this study is to determine the relationship between organizational learning and organizational performance in the Kenya insurance industry.

1.5 Importance of the Study

The identification or failure to identify organizational learning aspects in the performance of insurance and reinsurance companies may serve to validate or fail to validate the efficacy of organizational learning in the selected context. The implications of the findings will likely be of interest to insurance strategists and managers, to thinkers of organizational theory, business scholars and the academic community, to human resource specialists and training consultants, to psychologists, marketing consultants, strategic consultants among others.

CHAPTER TWO

LITERATURE REVIEW

2.1 Challenges for companies

The key to success in business is said to be action. An inertia that plagues many companies is the so-called knowing-doing gap. This is the inertia of knowing too much and doing too little. It is also controversially described as excessive smart talk at the expense of action characteristic of the products of management education all over the world. Organizations that are not plagued with the knowing-doing gap are characterized by people who talk smart and then do smart things, have leaders who know and do the work, have a bias for plain language and simple concepts. They also frame questions by asking "how" and prevent the development of a culture of criticism, have strong mechanisms that close the loop and believe that experience is the best teacher in which the process of doing is an opportunity to learn (Pfeffer and Sutton, 1999).

Companies are facing what has been described as adaptive challenges. These include changes in societies, markets, customers, competition and technology around the globe. These changes require organizations to clarify their values, develop new strategies and learn new ways of operating. Without the adaptation of behaviours that will enable an organization to thrive in the changing or new business environment a company will falter or fail altogether (Heifetz and Laurie, 2001).

McKinsey & Co. published the results of a survey of over 1500 executives worldwide who gave reasons for the need for organizational transformations. A transformation was defined as a coordinated programme in companies or business units that typically involves fundamental changes to the organization's strategy, structures, operating systems, capabilities and culture. Whilst just over half of the respondents agreed that cost cutting was a major goal half also said that their company's goal was moving from good performance to great performance (McKinsey, 2006).

The idea that change comes about through company-wide change programmes has been described as the fallacy of programmatic change. The challenge is that grassroots change presents senior managers with the paradox of directing a non-directive change process where their roles are redefined as facilitators of a climate for change. They should specify the general direction of change for the company without insisting on specific solutions. Change is about learning we are told (Beer, Eisenstat and Spector, 1990).

Strategic experiments have been described as crucial for long-term growth, constitute the highest-risk/return type of innovation and require a unique managerial approach. They are seen as an answer to the dramatic forces of globalization, digital technology, biotechnology and demographic change that are rendering non-linear shifts to economies thereby threatening stability but also opening up opportunities. A new business unit within an organization has the triple challenge of forgetting, borrowing and learning. Forgetting and borrowing relate to the existing business units but learning is from scratch. The learning challenge is seen as the most difficult challenge (Govindarajan and Trimble, 2005).

Whilst many executives today may believe that relentless execution is the sure way to both customer satisfaction and financial results such flawless execution cannot guarantee enduring success in the knowledge economy. The influx of new knowledge in most fields is dichotomous to the mind-set that enables efficient execution which is itself inhibitive to employee ability to learn and innovate. Execution-as-learning is advocated because of its focus on making sure a process is evolving and not just being carried out (Edmondson, 2008).

An attempt has been made to address the question whether it is possible for an organization to simultaneously execute current activities to survive today's challenges whilst adapting those activities to survive tomorrow's. This yin-yang theme or tension has raised questions whether today's sources of competitive advantage are temporary and new sources have to be created to prevent the decline that many companies have experienced. Three critical barriers to adaptability are a lack of flexibility in individual mental models, complexity catastrophes and path dependence in resources.

The two ways of overcoming these barriers are organizational hardware fixes and organizational software fixes. The hardware fixes are reduction of hierarchy, increase of autonomy and encouragement of diversity. The organizational software include cooperating norms that ensure that people share information and co-ordinate tasks; performing norms in which individual employees will go the extra mile, be honest and transparent and believe that success is rewarded; innovating norms comprise structures and processes that support experimentation, diversity and ideas from anywhere or anyone (Beinhocker 2006).

Indeed a globalized world has impacted markets through the evolution of global customers with similar needs and preferences. In the area of products there is an emergence worldwide of a global customer segment that wants products of global quality, with global features and is willing to pay global prices for them (Khanna and Palepu, 2006). Apart from the products globalization has impacted distribution and marketing communications. Cost globalization is characterized by economies of scale, sourcing efficiencies and advantages of country-specific costs. Governments have adopted market economies and compete in attracting the hosting of global firms into their countries (Johnson, Scholes and Whittington, 2006).

Increasing dynamism, flux and unprecedented change have provided ammunition for those scholars advancing the need to embrace volatility within organizational thought. In the face of sheer unpredictability Garvin, Edmondson and Rino (2008) argue that due to their cultivation of tolerance, open discussion, holistic and systemic thinking learning organizations would be able to adapt more quickly than their competitors. They urge the establishment of the learning organization for a company to confront intensifying competition, advances in technology and shifts in customer preferences.

2.2 Recent studies

The state of knowledge is limited and only two studies in Kenya that are rather similar have been conducted so far. In her analysis of organization learning process in donor agencies in Nairobi Amulyoto sought to establish the extent to which donor agencies embraced the features of learning organizations. The study concluded that knowledge acquisition, information distribution and information interpretation had to a great extent been embraced. However the process of organizational memory was found not to be so well grounded (Amulyoto 2002).

A survey of organizational learning in private recruitment agencies along similar lines was conducted by Kirimi. Kirimi sought to establish the extent to which private recruiting agencies in Nairobi embraced organizational learning as well as determining the factors that influence the adoption of organizational learning in the recruitment firms. She concluded that the concept had been adopted but needed improvement in some aspects (Kirimi 2006).

The focus of the said studies was not the strategic assessment of the contribution of organizational learning to organizational performance. Such an assessment would involve capturing top leadership perspectives of their own organizational performance and perhaps their view of the performance of competing organizations.

In order for a firm to establish whether a unit is indeed a learning organization Garvin, Edmondson and Gino (2008) present what they describe as a comprehensive concrete survey instrument that measures the learning that occurs in an organizational unit of any size. The scores are compared against benchmark scores gathered from other firms because the comparison rather than the absolute score is the essence of the tool's usefulness.

In what they refer to as the building blocks of the learning organization Garvin, Edmondson and Gino (2008) suggest that there are three broad factors that are essential for organizational learning and adaptability. Clearly taking the view of Burnes and others before them that organizational learning are steps that may lead to the ideal of the learning organization, they describe these factors. The first factor is an implicit acknowledgement of Schein's insight namely, a supportive learning environment that is distinguished by four characteristics. These are: Psychological Safety that enables employees to feel comfortable expressing their thoughts about the work at hand without fear of marginalization on disagreement with authority or peers or fear of being belittled; appreciation of differences in which people recognize the value of what is described as competing functional outlooks and alternative worldviews for driving energy, fresh thinking and countering drift and lethargy; openness to new ideas – the crafting of novel approaches with encouragement for risk-taking and experimentation by employees; time for reflection – rising above the stress and pressures of schedules and deadlines that compromise analytical thinking and creativity. A supportive learning environment allows time to pause during action and to thoughtfully review processes.

According to Garvin, Edmondson and Gino (2008) the second building block is concrete learning processes and practices. Knowledge must be shared in systematic and clearly defined ways. It should move laterally and vertically within the firm. It may be internally focused with the aim of taking corrective action. It may be externally oriented to include regularly scheduled customer forums or subject-matter experts to gain their perspectives on the company's activities and challenges. They cite the U.S. Army's After Action Review process (AAR) of systematic debriefing as being widely used by many companies.

One of the training techniques used by the U.S. Army is to bring its different brigades to face the U.S. Opposing Force Brigade (OPFOR) in mock battles. As a training unit OPFOR has virtually perfected itself into becoming an almost unbeatable foe despite being smaller and less well-equipped than its opponents. The After Action Review (AAR) process is a method used by the U.S. Army's OPFOR for extracting lessons from one event or project and applying them to others. The AAR review originated in the U.S. Army's National Training Centre and was brought into Shell Oil at the suggestion of board member Retired General Gordon Sullivan. The technique has since been adapted by Colgate Palmolive, Harley-Davidson among others (Darling, Parry &Moore, 2005).

Garvin, Edmondson and Gino (2008) contend that the third building block is leadership that reinforces learning. Organizational learning like other practices is strongly influenced by the behaviour of leaders. Leaders who actively listen to and question their employees, prompting dialogue and debate, will encourage people to learn. If the leaders spend time on problem identification, knowledge transfer and reflective post-audits then these activities are likely to flourish. When leaders demonstrate willingness to entertain alternative views employees will feel emboldened to offer new ideas and actions.

2.3 Experimentation and Enablement

Govindarajan and Trimble (2005) emphasise the importance of strategic experiments as crucial for long term growth and requiring a unique managerial approach. They simultaneously acknowledge that learning is a most difficult challenge. Schein (2002) warns that almost any company is being labeled a learning organization when in fact not much is known about organizational learning, particularly in respect of an entire organization. He contends that it is still not known how to systematically intervene in the company's culture to create transformational learning across the organization. Schein's warning that not much is known leads one to conclude that organizational learning must be a challenging if not daunting process.

Deliberate learning processes are regarded as key to the success of organizational learning. The scope of these processes includes experimentation, intelligence gathering, customer and technological information, systematic analysis and interpretation to solve problems and training and education for new and existing staff (Garvin, Edmondson and Gino 2008).

While General Motors placed its faith in execution efficiencies Toyota allowed any employee who saw a problem to stop the line. Psychologically safe environments need to be nurtured where employees are willing to offer ideas, questions, concerns and even fail without being penalized. Such an environment is a recognition that high performance actually requires openness, flexibility and interdependence. Tough feedback and discussions can then be held in the safety of trust and respect without tiptoeing around the truth. Organizations that adopt an execution-as-learning model seek out best practices so that their processes facilitate learning; foster face-to-face collaboration and make concurrent collaborative decisions in response to unforeseen, novel or complex problems; pay attention to process data that describe how work unfolds; institutionalize disciplined reflection and analysis of what goes right and wrong in order to prevent recurrence of failures and embedding of improvements (Edmondson 2008).

Toyota has been credited with the achievement of making all its work a series of nested ongoing experiments. In this firm there is explicit specification of how work is going to be done before it is performed coupled with testing work as it is being done. In this way problems are contained and prevented from propagating, gaps between expectations and reality are investigated, a deeper understanding of the product process and people is gained, and that understanding is incorporated into a new specification which becomes a temporary best practice until a new problem is discovered (Spear 2004).

It is postulated that Toyota's preeminent manufacturing performance may be attributed to several lessons namely: firstly the involvement of management in direct observation of factory employee work and machine operation with the result being improved ability to assess and anticipate problems with the machines; secondly, the structuring of solutions as explicit testable assumptions using the scientific method of hypothesis and results on a weekly time bound basis. In this way an attempt to achieve full understanding of both the problem and the solution is made. Thirdly, the focus is on frequent experiments that are numerous quick and simple. In this way small incremental changes are made, the learning cycle is kept small and bounded, the learner can make mistakes whose consequences will not be severe and the learner becomes willing to take risks and to learn by doing. Finally, managers are enablers and coaches whilst workers and low-level managers constantly solve problems. The manager does not explicitly state what is to be learnt or actual process improvements. He or she provides the resources for the process improvements to take place (Spear 2004).

2.4 Leadership

It is suggested that successful examples of learning organizations are not the result of a quick fix but the products of carefully cultivated attitudes, commitments and management processes that accrued slowly and steadily over time. Be that as it may the process can begin by top management deliberately fostering an environment that is conducive to learning, opening up boundaries and stimulating exchange of ideas and the creation of learning forums in the new environment (Spear 2004).

According to Senge wisdom or systems thinking is best when it starts both at the top of the organization as well as at the bottom. Learning is most rapid when senior executives challenge top-level strategic assumptions while groups at local operating levels simultaneously challenge operational practices and processes (Senge 1992).

Real change does not begin until the organization experiences some real threat of pain that in some way dashes its expectation or hopes. The threat of pain creates high levels of learning anxiety and survival anxiety prompting the leadership of the organization to launch a serious change programme. The psychological safety necessary for learning is argued to be difficult to create especially when pushing for employee productivity at the same time. Psychological safety is dramatically absent when a company is downsizing or undergoing major structural change. Schein emphasizes the inhibitive and survival anxieties that accompany learning which need to be addressed by the leadership through creation of psychological safety for unlearning and new learning. He emphasizes that leaders must become learners themselves, acknowledging their own vulnerabilities and uncertainties, be seen as genuine, set a good example and help to create the desired psychologically safe environment. Employee commitment is lacking if management adopts an approach of learning by force i.e. increasing the survival anxiety. Workers should instead be educated about economic realities in a way that makes the message from management credible. (Schein 2002)

An organization is said to have three choices in regard to change: direct action to achieve outcomes without having to change the way that people work; an objective where employees may need to adjust their practices or adopt new ones and outright cultural change where the organization's people have to change their behavior across the board. In order to change mind-sets employees must see the point of change and agree with it; surrounding structures including reward and recognition systems must be in tune with the new behavior; employees must have the skills to do what is required and finally they must see people that they respect modeling it actively (Lawson and Price, 2003).

Adaptive change is distressing to the people going through it who have to take on new roles, relationships, values, behaviours and approaches to work. Six principles for leading adaptive work include what is described as getting on the balcony (contextual perspective), identifying the adaptive challenge, regulating distress, maintaining disciplined attention, giving the work back to the people and protecting voices of leadership from below (Heifetz and Laurie, 2001).

Leadership behaviours help create and sustain supportive learning environments whilst such environments make it easier for managers and employees to execute concrete learning processes and practices smoothly and efficiently. Concrete processes provide opportunities for leaders to behave in ways that foster learning and to cultivate that behaviour in others. People in the organization feel encouraged to learn when leaders actively question and listen to staff thereby prompting dialogue and debate. If leaders signal the importance of spending time on problem identification, knowledge transfer and reflective post-audits these activities will flourish. When those in power demonstrate a willingness to entertain alternative points of view employees feel emboldened to offer new ideas and options (Garvin, Edmondson and Gino 2008).

2.5 Psychological Safety and Coercive Persuasion

Schein does not underrate the difficulty of the learning process and takes the view that it is still not known how to systematically intervene in the culture in order to create transformational learning across an organization. He emphasizes the inhibitive and survival anxieties that accompany learning which need to be addressed by the creation of psychological safety for unlearning and new learning. He emphasizes that leaders must become learners themselves, acknowledging their own vulnerabilities and uncertainties, be seen as genuine, set a good example and help to create the desired psychologically safe environment. When new things run counter to an organizations culture then top management must coercively impose new beliefs and practices on the entire membership (Schein 2002).

According to Schein learning gets started on the back of anxiety. The anxiety is itself created only when the organization experiences some real threat of pain that in some way dashes its expectations and hopes. This threat of pain creates high levels of learning anxiety and survival anxiety that ultimately prompts the organization to launch a serious change programme. Schein cautions that managers may take inappropriate approaches to learning with the result that perceived employee resistance or response may be insightful on occasion. Schein advises that culture being the taken for granted assumptions that are the result of years of successes and failures it is necessary for a leader who is serious about changing fundamental assumptions and values to recognize that he or she will face levels of anxiety and resistance that that can only be addressed by coercive persuasion. He defends the use of power and coercion in the service of learning as inseparable from history (Schein 2002).

2.6 Execution – as – learning

Experience is the best teacher in which the process of doing is an opportunity to learn (Pfeffer and Sutton, 1999). The scope and process for experimentation embedded so successfully in a firm like Toyota is critical. But the difficulties anticipated by Schein (2002) are real. According to Beinhocker (2006) the demands of execution create deep barriers to adaptability. These include: increased rigidity of mental models as experience is gained by individuals; interdependent systems can become so complicated as to go into gridlock and prevent change; resource dependency as determined by the choice of the company to exploit particular opportunities – the flip side being that company resources define and limit its ability to explore (Beinhocker 2006).

Efficient execution can be inhibitive to employee learning and innovation. The focus on getting things done and done right can crowd out experimentation and reflection. Execution-as-learning uses the best knowledge available (understood to be a moving target) to inform the design of specific process guidelines; enable employees to collaborate by providing information when and where it is needed; routinely capture process data to discover and study how work is done in an effort to improve. Performance is therefore increasingly being determined by factors other than traditional supervisory oversight, including intelligent experimentation, ingenuity among others (Edmondson 2008).

A study of hospitals, presented as a basis for understanding knowledge organizations, led to the concept of execution-as-learning. The best hospital organizations have figured out how to learn quickly while maintaining high quality standards. These organizations use the best knowledge available to inform the design of specific process guidelines. They enable employees to collaborate by making information available where and when needed, routinely capture process data to discover how work is really being done and study these data in an effort to find ways to improve (Edmondson 2008).

2.7 Tracking performance

The McKinsey survey asked executives to judge organizational performance in terms of profitability, return on capital employed, market value, upgraded capabilities, closer relationships with customers or suppliers, positive shift in organizational culture or other indicators of organizational health. More than 55 percent of the top performers in transforming their organizations attested that mobilization of energy was done through defining clear goals for the next 1 – 2 years, , comprehensive and compelling communication, offering an inspiring view of better long-term future. They said that sustainment of that critical personal and organizational energy was done by integrating goals into key processes, regularly and publicly acknowledging successes, building new capabilities, monitoring progress constantly through dedicated resources and introducing new incentive systems (McKinsey 2006).

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

A descriptive survey was used. This is because the research objective implied a comparative analysis of data collected from a cross section of the firms in the insurance industry.

3.2 Target Population

This study was a census study. The target population was 45 comprising 7 life insurance companies, 1 motor insurance company, 20 general insurance companies, 15 composite companies and 2 reinsurance companies as indicated in the Appendix 1.

3.3 Data Collection

The type of data required in this study was opinions. More specifically, the assessment by individual companies of organizational learning in their performance as expressed by the opinions and insights of the top management.

The primary data collection instrument was a self-administered questionnaire. The questionnaire was divided into two parts. Part one was concerned with biographical data whilst part two focused on the objective of the study, namely the relationship between organizational learning and firm performance.

The data was collected by use of multichotomous questions with 5-point scale of responses. The respondents for this study must have had access to the necessary information to respond appropriately to the questions. Given the strategic nature of required information, assessments and insights the respondents were specifically the chief executives of the insurance and reinsurance companies.

The key financial indicators in organizational performance in the insurance industry were readily available from secondary data. The operational definition of variables is shown in the Appendix 2.

3.4 Data Analysis

The data was analysed by means of descriptive and inferential statistical methods. These included frequencies, means, standard deviations, and percentages, factor analysis and Pearson's product moment correlation analysis.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter presents the results of the study on the relationship between organizational learning and performance of insurance and reinsurance companies in Kenya. The operational definitions of performance are the Return on Assets (ROA) and Return on Investment (ROI). Organizational learning variables have been designed around the operational measures of leadership, experimentation and enablement, psychological safety and coercive persuasion and execution-as-learning.

4.1.1 Distribution of Companies by Line of Business

This study was designed as a census survey and the respondents were chief executive officers of 45 insurance and reinsurance companies in Kenya. The study realized a return of 37 companies constituting a response rate of 82.2%. The companies cut across various lines of insurance and reinsurance business, namely: life, motor, general, composite and reinsurance. The composition of these companies is shown in Figure 1 below:

Figure 1: Composition of insurance and reinsurance companies surveyed

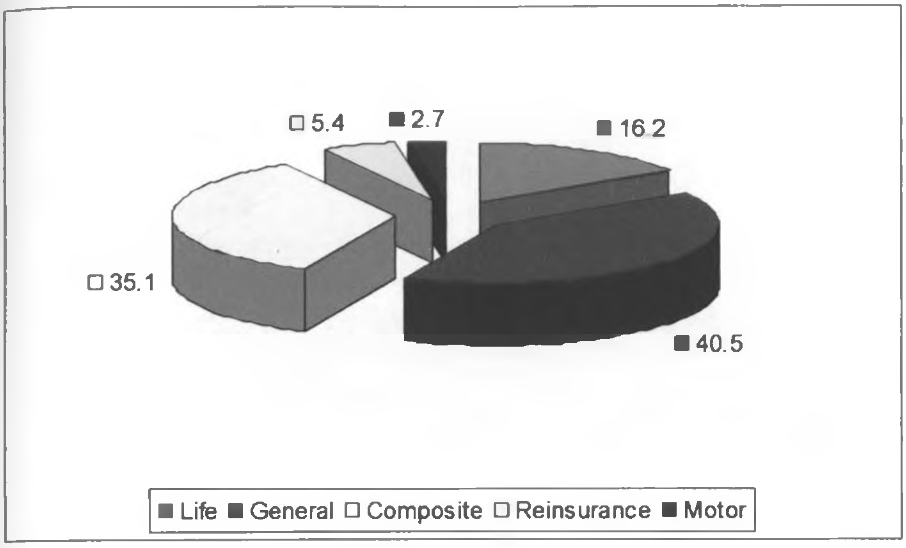
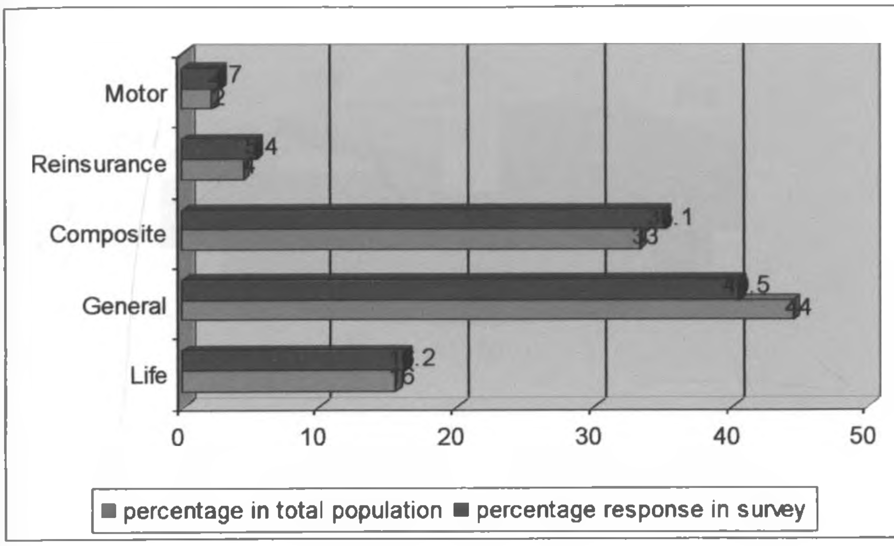


Figure 1 shows that companies in the general and composite business were the majority, between themselves accounting for slightly over three-quarters (75.6%) of all the organizations surveyed. Companies in the life, reinsurance and motor business comprised 16.2%, 5.4%, and 2.7% of the total respectively. The actual percentage of licensed insurance and reinsurance companies compared with the survey percentage response shows that the study achieved a high level of response rate in the respective lines of business, and is as shown in Figure 2 below:

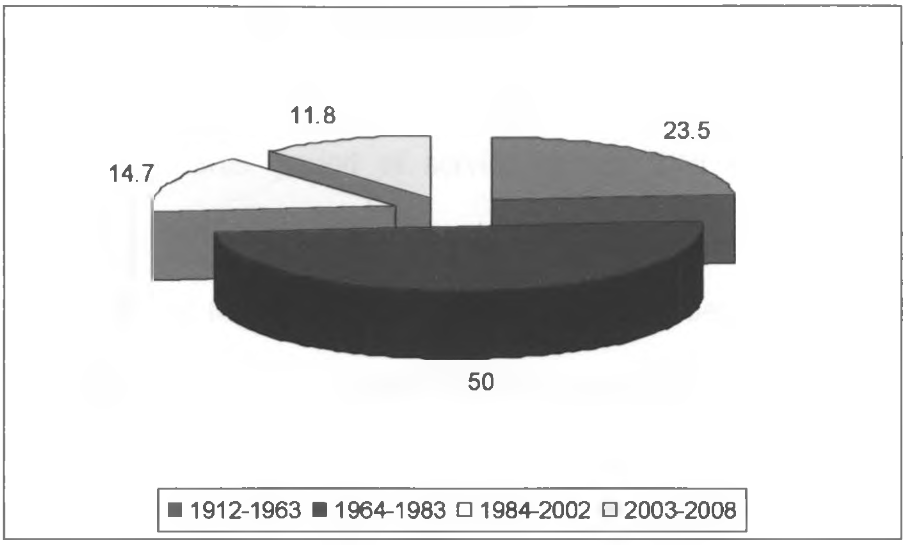
Figure 2: Comparison of percentage response with actual percentage in population



4.1.2 Distribution of Companies by Years in Operation

These companies have operated for varying periods. The periods were grouped broadly to represent significant milestones in the country's business and political developments, as follows: companies incorporated before independence (1912 to 1963), post-independence but before the Insurance Act (1964 to 1983), post-Insurance Act up to end of the 24 year Moi era (1984 to 2002), and since 2003 to the present (2008). The composition of companies which were established during each of these eras is shown in Figure 3:

Figure 3: Composition of surveyed companies by era of incorporation



From figure 3, about a quarter of all surveyed companies commenced operations in the pre-independence period, while half commenced business immediately after independence but just before the coming into force of the Insurance Act in 1984. Companies which began operations in the period immediately following the coming into force of the Insurance Act but before the change of political regime in 2002 comprise 14.7% of the total. Companies that began operations in the current political dispensation (2003 to the present) account for 11.8% of the total surveyed.

4.1.3 Distribution of Respondents by Length of Service

Respondents have served their organizations for widely varying time periods. These range from a minimum of one (1) year to thirty (30) years. The mean period is 8.58 years with a standard deviation of 8.13 years, indicating a very wide variation in the period of service. The variation represents both the disparity in age of the companies themselves (with young companies necessarily implying a shorter period of service of the chief executive) and executive turnover patterns. In some companies, organizational policy provides that the chief executive must be replaced every given number of years. Table 1 shows the distribution of period of service of the respondents:

Table 1: Distribution of respondents' period of service

Period respondent has served (years)	*Percentage in period of service (%)*
0 to 5	44.4
6 to 10	30.6
11 to 20	16.7
21 and over	8.3

4.2.0 Insurance and Reinsurance Companies' Current Level of Organizational Learning

The operational measures for organizational learning are heuristically discussed under four major categories, namely: leadership, experimentation and enablement, psychological safety and coercive persuasion, and execution-as-learning. The study finds that surveyed companies have made significant steps in adopting organizational learning practices. The overall satisfaction with current level of organizational learning stands at 3.05 (representing an "Agree") level. The contribution of the various organizational learning operational indicators is presented next.

4.2.1 Strategic Leadership

Aspects of strategic leadership considered under organizational learning include crafting the organization's mission and vision, taking leadership in strategy change, and the role and responsibility of the chief executive officer in driving the learning process. Table 2 shows the extent to which insurance and reinsurance companies in this study have adopted strategic leadership practices as part of the organizational learning imperative.

Table 2: Role of strategic leadership in promoting organizational learning

Operational extent					
Strategic leadership variable	*Very strongly agree*	*Strongly agree*	*Agree*	*Disagree*	*Strongly disagree*
Strategic planning periodically carried out		√			
Consultants help in strategic planning			√		
Strategic planning involves middle managers		√			
Middle management participates in crafting mission and vision		√			
Organization has faced challenge in making major change in strategy .		√			

The table shows that insurance and reinsurance companies in Kenya have generally institutionalized strategy formulation, implementation and control as part of their organizational learning process.

4.2.2 Personal Leadership at the Level of Top Management

Table 3 next shows the contribution of the CEO's personal leadership in driving the organizational learning imperative:

Table 3: Role of CEO personal leadership in promoting organizational learning

Operational extent					
Personal leadership variable	*Very strongly agree*	*Strongly agree*	*Agree*	*Disagree*	*Strongly disagree*
CEO has had to focus staff's attention on need for change		√			
CEO has had to cultivate and encourage exchange of ideas		√			
CEO sets example as leader who can make mistakes		√			

The CEO's personal leadership of the learning imperative in his or her organization shows a consistently higher score (at strongly agree). This high score demonstrates the critical role that top level leadership contributes to strategic leadership of learning and its place in exploiting the competitive advantages of a learning organization.

4.2.3 Psychological Safety and Coercive Persuasion

Psychological safety is concerned with the leader's putting in place mechanisms to create an environment that looks at failure as a necessary part of learning. Accordingly, employees are not punished when they fail but are encouraged to learn from their failures and become better next time. The coercive element of persuasion relates to the leader pointing to employees the threats the organization will have to face if changes are not successful. This is demonstrated in Table 4 next:

Table 4: Role of psychological safety and coercive persuasion in organizational learning

Operational extent					
Psychological safety and coercive persuasion variable	*Very strongly agree*	*Strongly agree*	*Agree*	*Disagree*	*Strongly disagree*
Genuine mistakes tolerated as part of the learning process		√			
CEO has explained to staff threats faced if changes not successful		√			
Free exercise of opinions by junior staff on sensitive issues			√		
Reward systems are periodically aligned to support organizational priorities			√		
New staff are trained whenever they join the organization		√			
Existing and experienced staff are periodically exposed to external training		√			
Existing and experienced staff periodically undergo in-house training		√			

Table 4 shows that psychological safety is cultivated whilst coercive persuasion is leveraged as part of the drivers of learning within insurance and reinsurance companies in Kenya. Coercive persuasion serves to compel employees to progress learning experiences in the knowledge that if they fail, then the organization will face severe competitive challenges, some of which may be fatal.

4.2.4 Execution – as - Learning

The study finds that insurance and reinsurance companies in Kenya have utilized execution – as - learning aspects of organizational learning. This is shown in Table 5.

Table 5: Role of Execution - as - Learning in organizational learning

Operational extent					
Execution as Learning variables	*Very strongly agree*	*Strongly agree*	*Agree*	*Disagree*	*Strongly disagree*
Sufficient time for improving systems and processes available			√		
Continuous feedback from employees taken seriously		√			
Learning forums during working hours impracticable				√	
Discussion and exchange of ideas impracticable				√	
Alternative views among staff accepted			√		

Table 5 shows that companies have put in place procedures and processes that promote execution - as - learning. These include: providing sufficient time to improve organizational processes and systems, putting in place a system to capture continuous feedback from employees and acting on their suggestions, promoting learning during working hours, allowing for discussion and exchange of ideas during working hours and upholding a culture of tolerating alternative views among staff.

4.2.5 Experimentation and Enablement in Promoting Organizational Learning

Experimentation allows for testing to see whether a proposed procedure works and discovering its role in advancing the culture of innovation within the organization. Enablement refers to the element of the required learning environment whereby employees freely exercise initiative. the necessary environment Thus, an organization that desires to be on the leading edge of innovation must promote experimentation (by actively encouraging employees to experiment) as well as actively incorporate improvements into its service offerings. The state of experimentation and enablement in insurance and reinsurance companies in Kenya is shown in the next table:

Table 6: Experimentation and enablement practices as they support learning

Operational extent					
Experimentation and enablement variables	*Very strongly agree*	*Strongly agree*	*Agree*	*Disagree*	*Strongly disagree*
Experimentation in processes and practices encouraged			√		
Processes and practices have improved because of experimentation			√		
Organization has improved its capabilities and services through experimentation			√		

Table 6 shows that insurance and reinsurance companies have incorporated experimentation and enablement as part of their learning processes. However, there appears to be sufficient room to leverage these practices to a greater extent (strongly agree and very strongly agree) than is the case currently.

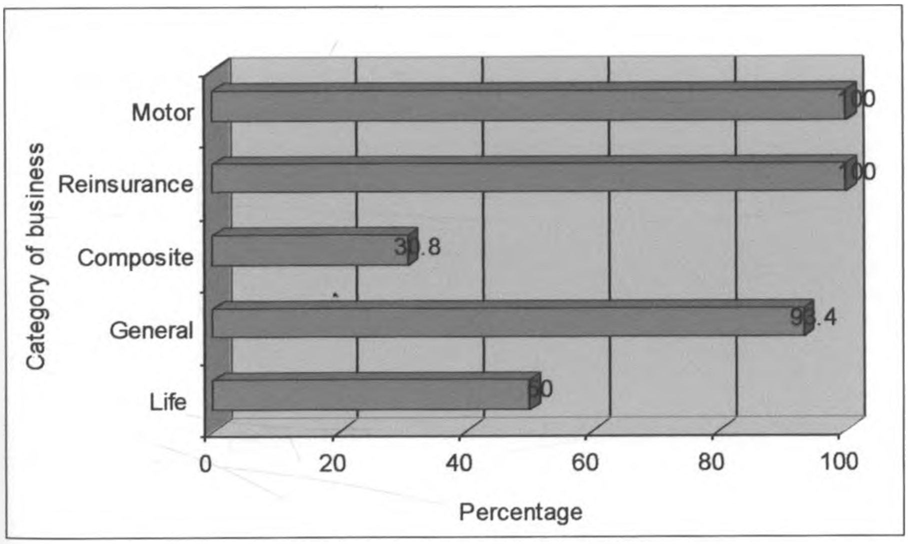
4.3 Relationship between Organizational Learning and Performance

The surveyed companies report that they have experienced improved financial performance, measured by the return on assets and the return on investment, as a result of adopting aspects of organizational learning. Companies agree that their ROA and ROI have improved as a result of instituting learning practices in their operations (mean score is 2.74).

4.3.1 Overall Assessment of the Learning Mode of the Company

A significant percentage of surveyed companies (63%) agree or strongly agree that they are satisfied with their respective current learning mode. This shows that although organizational learning is practiced by many insurance and reinsurance companies, there is sufficient room to grow the learning imperative in organizations in this sector. The study further finds that the level of learning varies widely across the different lines of insurance business. Companies in the composite insurance business report the least satisfaction with current level of organizational learning (30.8%), while reinsurance business companies have the highest satisfaction level (100.0%). This information is shown in Figure 4 below:

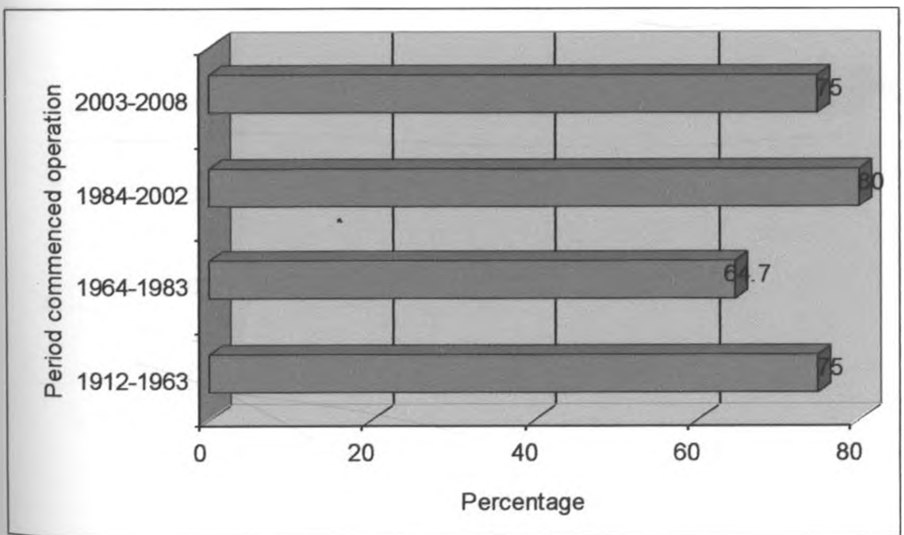
Figure 4: Satisfaction with current level of organizational learning by type of business



From Figure 4, companies in the reinsurance, general insurance, and motor business show relatively higher levels of satisfaction with their current level of organizational learning compared with companies doing composite and life business. Because composite companies undertake both life and general business lines, it appears that the life component of the business poses unique challenges to the learning imperative.

There does not, however, seem to be any significant difference in satisfaction with current level of organizational learning on the basis of company's period of operation. Companies which have been in operation before independence, for example, report the same level of satisfaction with their current learning mode as do companies which commenced operations in the period covering only the past five years, as shown in Figure 5.

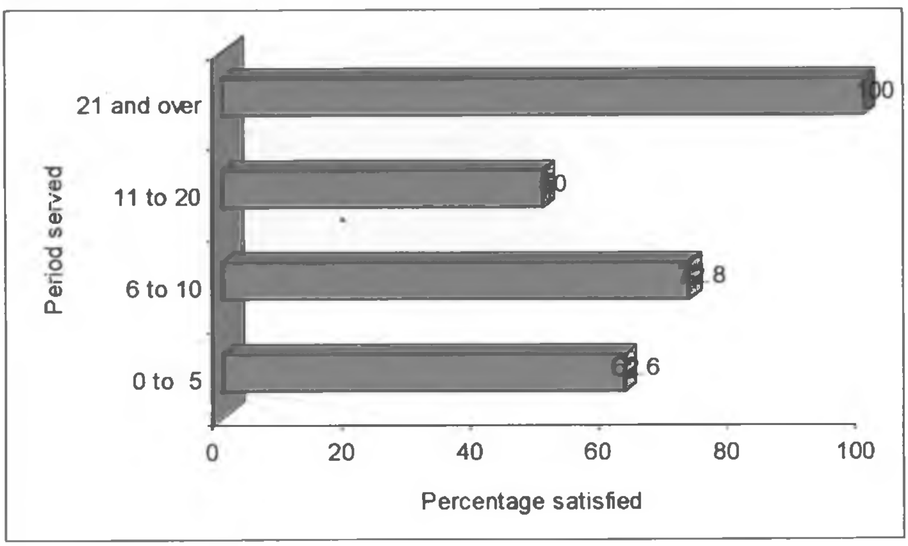
Figure 5: Satisfaction with current level of organizational learning by period of operation



Based on information in Figure 5, it can be concluded that the period the company has been in operation does not seem to have a significant impact on satisfaction with current level of organizational learning.

Chief executives who have served for varying periods of time reveal a significant difference with respect to their satisfaction with current level of organizational learning. Executives who have served for a long time (that is, 21 years and over) are the most satisfied (100.0%) followed by those who have served for between 6 and 10 years. In addition, half of respondents who have served for between 11 and 20 years are satisfied with the current level of learning while the percentage of those who have served for between 0 and 5 years is 62.6%. This is shown in Figure 6.

Figure 6: Satisfaction with current level of organizational learning by period of service

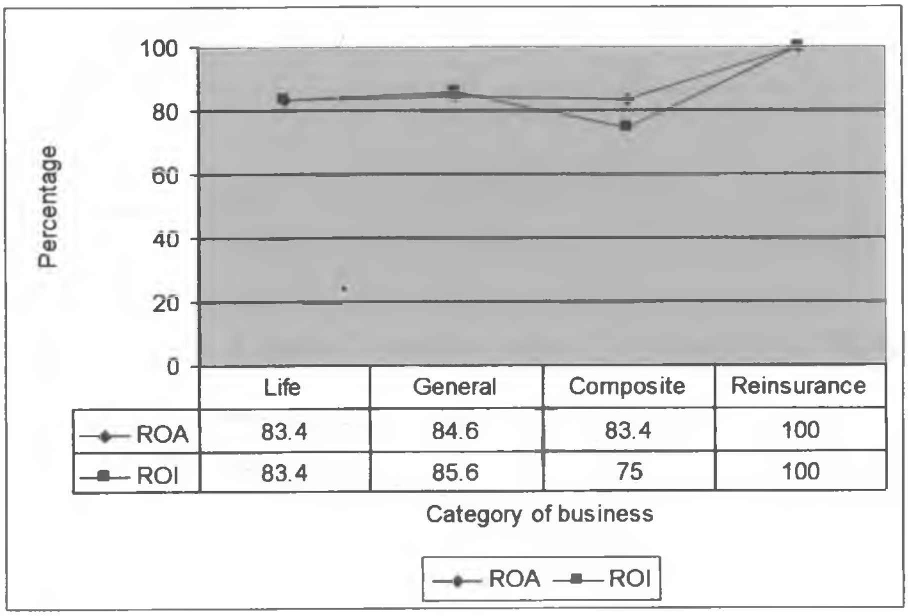


The chart shows that an executive's period of service seems to have a bearing on his assessment of, and satisfaction with current level of organizational learning.

4.3.2 Organizational Learning and Financial Performance

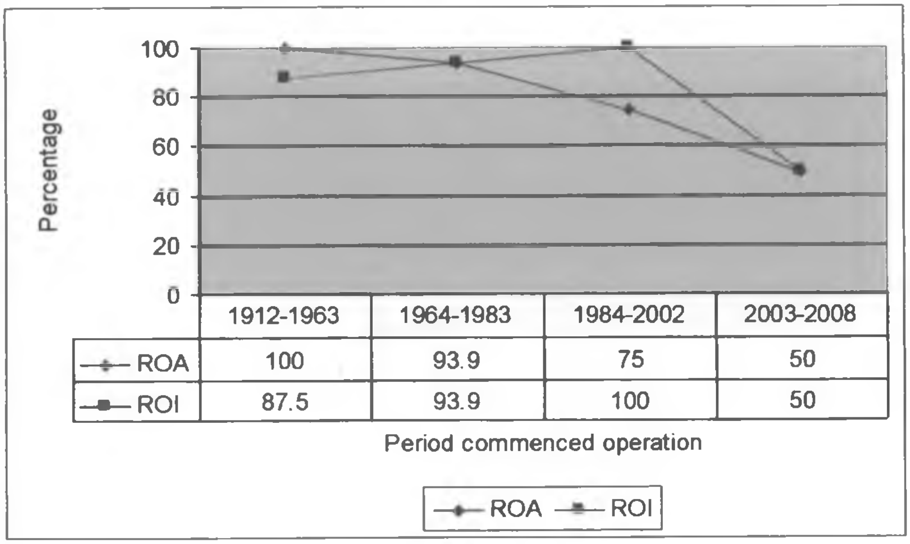
The study finds that companies in the insurance and reinsurance business have achieved positive financial performance through adopting organizational learning. Companies report improvements in their return on assets (ROA) and return on investment (ROI) indicators. While the positive financial improvements cut across all lines of insurance and reinsurance business, the ROA marginally leads the ROI indicator in companies involved in composite and reinsurance business lines. This is shown in Figure 7.

Figure 7: Impact of organizational learning on financial performance by business



The financial benefits of organizational learning, particularly as measured by the ROA appear to be marginally higher for older and more established companies compared to the less established, younger companies while the ROI seems to be significantly higher for less established, younger companies compared to their older and more established counterparts. This is shown in Figure 8.

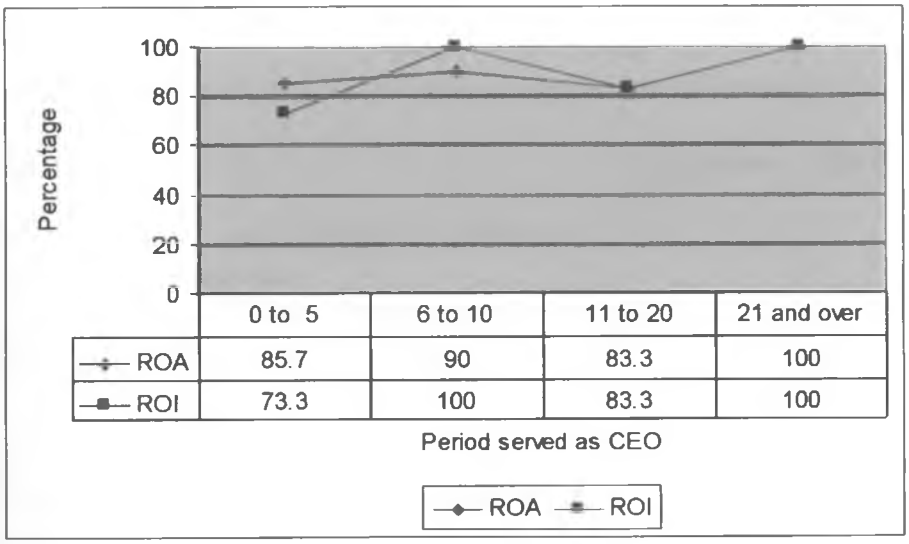
Figure 8: Impact of learning on financial performance by period since incorporation



Overall, Figure 8 shows that the impact of learning on financial measures generally decreases the less established a company is. Thus, older and more established companies report higher financial performance related to adoption of various learning imperatives compared to their younger and less established counterparts.

The impact of organizational learning does not, however, appear to differ significantly across the companies when viewed from the perspective of the respondent's period of service. Further, other than for a higher ROI for companies whose chief executives have served for 6 to 10 years, the rate of improvement is generally more or less the same for ROA and ROI across respondents' of service, as shown in Figure 9 next:

Figure 9: Impact of learning on financial performance by period of service



According to the chart, all chief executives indicate that learning contributes to increased financial performance in their companies, though those who have served longest (21 years and over) report the most improvement in their companies' financial performance.

The inference is that positive financial results attributed by respondents to learning are registered in the long term rather than in the short term. This reaffirms that organizational learning is indeed a strategic issue.

4.4 Significant Factors Influencing the Organizational Learning Imperative

This study has extracted seven significant factors explaining the learning imperative in insurance and reinsurance companies in Kenya. These seven factors account for 77.2% of the total variation in organizational learning. The respective significance of these factors is shown in table 7.

Table 7: Significant factors influencing organizational learning

Factor variable	*Percentage (%)*	*Ranking/importance*
CEO role and responsibility in promoting organizational learning	41.4	1
Enhancement of organizational financial performance, as measured by ROA and ROI	9.1	2
Promotion of discussion and exchange of ideas to foster learning	8.0	3
Employee autonomy and empowerment	5.4	4
Restructuring of normal work routines to promote learning	5.1	5
External training and consultancy	4.4	6
Strengthening of organizational capabilities and processes through experimentation	3.9	7

These seven factors explain the most variation in organizational learning. Together, they account for over three-quarters (77.2%) of the total learning imperative in the insurance and reinsurance industry in Kenya.

The CEO's role and responsibility in promoting organizational learning is the most important determinant of organizational learning (41.4%). This is followed in the second place by learning activities that directly contribute to financial performance (9.1%). In the third place is the role of discussion activities that foster learning (8.0%). Other important factors are: promotion of employee autonomy and empowerment (5.4%), redesign of work routines to promote learning (5.1%), external training and consultancy (4.4%) and the strengthening of organizational capabilities and processes through experimentation (3.9%).

In terms of their relative value to their total (77.2%), the weight of each of these seven factors is as shown in table 8.

Table 8: Relative importance of factors impacting organizational learning

Factor variable	*Absolute percentage (%)*	*Relative percentage*
CEO role and responsibility in promoting organizational learning	41.4	53.6
Enhancement of organizational financial performance	9.1	11.8
Promotion of discussion activities and exchange of ideas to foster learning	8.0	10.4
Employee autonomy and empowerment	5.4	7.0
Restructuring of normal work routines to promote learning	5.1	6.6
External training and consultancy	4.4	5.7
Strengthening of organizational capabilities and processes through experimentation	3.9	5.1

The relative contribution of the CEO's role and responsibility in organizational learning is slightly over half of the total explained variation. Thus, the CEO's personal role is four and half times more important than the next ranked factor of enhancement of organizational financial performance. The respective elements of each of these factors are discussed next.

4.4.1 CEO's Role and Responsibility in Promoting Organizational Learning

The role and responsibility of the chief executive in impacting the learning imperative in the organization is by far the most important of all factors explaining the learning processes, accounting for 53.6% of the extracted significant explanatory variables. The specific elements of the CEO's role and responsibility revolve around three major activities, namely: CEO must set an example as a learner who can make mistakes, CEO must occasionally focus staff's attention on need for change, and he must also cultivate and encourage exchange of ideas among staff. The degree of importance of each of these elements is shown in Figure 10.

Figure 10: CEO role and responsibility in promoting organizational learning

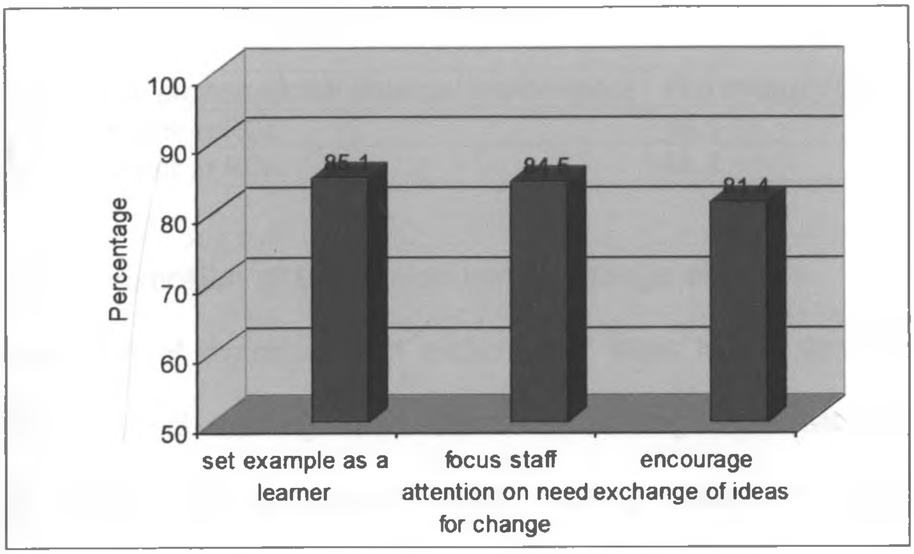


Figure 10 shows that the chief executive's contribution to organizational learning will revolve around setting an example as a learner who can make mistakes, occasionally focusing staff's attention on the need for change, and cultivating and encouraging exchange of ideas among staff. The importance of each of these elements is high (with scores of above 80.0%).

4.4.2 Enhancement of Organizational Financial Performance

Organizational learning is fostered when results of learning can be seen in enhanced financial performance, as measured by the standard tools of return on investment (ROI) and return on assets (ROA). The respective importance of the ROI and ROA in explaining organizational learning is captured in table 9.

Table 9: Importance of elements of organizational financial performance on learning

Element of organizational financial performance	*Percentage (%)*
Improvement in ROI	69.1
Improvement in ROA	66.1

4.4.3 Promotion of Discussion and Exchange of Ideas

Promotion of discussion and exchange of ideas has a significant impact on organizational learning. Discussion and exchange of ideas revolves around leveraging learning forums during working hours to promote learning, redesigning normal work routines and demands so as to focus on learning, as well as the promotion of free exercise of opinions by junior employees on sensitive matters. The importance of each of these elements is shown in table 10.

Table 10: Relative importance of elements of discussion activities on learning

Element of discussion and Exchange of Ideas	*Percentage (%)*
Leveraging sub-units as learning forums	63.7
Redesigning normal work routines to focus on learning	61.3
Promotion of free exercise of opinions by junior employees	45.1

4.4.4. Employee Autonomy and Empowerment

Slightly over half of respondents (52.6%) believe that loosening the organizational structure to dispense with strict adherence to the chain of command will promote employee autonomy and empowerment while an almost equal proportion (51.7%) believe that free exercise of opinions by junior employees in operational matters will also contribute to autonomy and empowerment.

Other significant, though relatively less important factors impacting on the learning imperative include the restructuring of normal work routines to incorporate learning processes, providing staff with the benefits of external training as well as incorporating inputs of strategy consultants into learning process. Finally, there must be a continuous strengthening of the organization's capabilities and processes through experimentation.

4.5.0 Relationship between Organizational Learning and Performance

The strength of the relationship between organizational learning and performance was tested using Pearson's Product Moment Correlation technique. The results are presented in table 11. As shown in the table, the correlation coefficient for the relationship between organizational learning and each of the four measures of performance is significant. In other words, increase in the level of learning is associated with significant increase in processes and practices ($r = 0.457$, $p < 0.01$), improved capabilities and services ($r = 0.36$, $p < 0.05$), increase on Return on Assets ($r = 0.515$, $p < 0.01$), and increase in Return on Investment ($r = 0.455$, $p < 0.01$). This is shown in Table 11 below:

Table 11: Results of the correlation analysis

Performance indicator	*Pearson correlation coefficient*	*p-value*
Processes and practices have improved because of experimentation	0.457**	0.004
Organization has improved capabilities and services	0.360*	0.028
Return on Assets has improved	0.515**	0.002
Return on Investment has improved	0.455**	0.006

*** Correlation is significant at the 0.01 level (2-tailed)*
** Correlation is significant at the 0.05 level (2-tailed)*

From the foregoing it can be concluded that organizational learning has significant influence on firm performance.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In an environment of constant change characterized by rapidly shifting non-linear market, customer, and technological dynamics, organizations face the challenge of continuously learning and experimenting as a means of attaining competitive advantage. Organizations will have to acquire the critical habits of lifelong learning in order to survive. According to Kotter (1996), these habits revolve around risk-taking, honest assessment of successes and failures, aggressive collection of information and ideas, propensity to listen to others, and openness to new ideas.

This study has shown that organizations greatly depend on chief executives who take personal responsibility for making their companies embrace and entrench organizational learning, financial performance, and promotion of a culture that provides psychological safety to staff in the midst of an urgent imperative for change and an environment in which discussion and exchange of ideas is the norm. Successful organizations will be those that will be adaptive to the changes that have become a permanent feature of the business landscape.

5.2 Strategies and Practices for institutionalizing organizational learning

In agreement with postulations by Schein (2002) this study has shown that psychological safety and coercive persuasion are critical elements and drivers for organizational learning. Coercive persuasion in particular provides the drive or propulsion for what Kotter (1996) describes as the sense of urgency required for change. Psychological safety provides scope for tolerance of errors inherent in the learning process. The fact that Kenya insurance and reinsurance industry CEOs resort to coercive persuasion outlining the threat to the organization of the consequences of not changing supports the view that change is about learning (Beer, Eisenstat and Spector 1990). Schein's truism that power and coercion in the service of learning is inseparable from history is fully upheld by these findings (Schein 2002). As part of the drive for change effective CEOs will forthrightly advise their staff of the sometimes dire consequences for the organization of not embracing the learning that drives change.

This study has also shown that organizational learning practices and benefits documented so well by Spear (2004) in the case of Toyota are not unique to that context; they are indeed active in the insurance and reinsurance industry in Kenya thereby providing scope for many more studies and findings in the Kenyan context. Restructuring of normal work routines to promote learning will continue to be a significant factor as found in this study. Successful organizational learning practices in Kenya will therefore involve records and updates of such practices through a process of discussion and exchange of ideas. This study has also shown that CEOs in the Kenya insurance and reinsurance industry regard organizational learning as a driver of long term financial performance and a source of competitive advantage. The capacity of the organization to create wealth, resources and a future for itself will be enhanced by organizational learning. This fully acquits the numerous advocates of organizational learning and the learning organization including Senge (1992), Heifetz and Laurie (2001), Garvin (1993) and others.

Isern and Pung (2007) argue that the two issues that are particularly pressing for CEOs and top teams are setting a vision or inspiring aspiration for change, and mobilizing and sustaining the flow of energy and ideas needed to drive the organization forward. They propose that leaders must define the aspiration at outset, break it down into clear themes and initiatives, spell out what it looks like at stages along the journey and translate it into an exciting story. This study indicates that CEOs in the insurance and reinsurance industry in Kenya have already bought and implemented the view that they must set the vision for change and drive it forward. Kenyan CEOs and their firms at large will also set the vision for desired change and actively propel it.

Garvin, Edmondson and Gino (2008) argue that leadership behaviours help create and sustain supportive learning environments whilst such environments make it easier for managers and employees to execute concrete learning processes and practices smoothly and efficiently. People in the organization feel encouraged to learn when leaders actively question and listen to staff thereby prompting dialogue and debate. When those in power demonstrate a willingness to entertain alternative points of view employees feel emboldened to offer new ideas and options. This study indicates that CEOs in the insurance and reinsurance industry in Kenya fully understand that their own leadership behaviours and example are vital in providing an effective learning environment. They fully acknowledge that staff must know that their CEO is first to acknowledge his own potential to err, that they have the autonomy and freedom to discuss, exchange ideas and to experiment. Kenyan CEOs will therefore lead change by acknowledging their own fallibility, listening to alternative views from junior staff even on sensitive issues and cultivating a culture of free debate and trial of new ideas.

The study has shown that the CEOs of Kenyan insurance and reinsurance companies hold the greatest role and responsibility for promoting learning in their organizations. This finding supports Spear (2004) who contends that the learning process begins by top management deliberately fostering an environment that is conducive to learning, opening up boundaries and stimulating exchange of ideas and the creation of learning forums in the new environment. Increasingly, the role of chief executives will involve providing leadership through creating and communicating visions and strategies, creating a sense of urgency in the need to adopt a learning culture that will serve as a competitive advantage tool through painting a picture of the consequences to the organization of remaining static and providing an environment and culture in which free discussion and exchange of ideas thrive. Successful leaders will be people who are not afraid to be seen as learners who can make mistakes. They will be required to create a sense of urgency about the need to embrace change through providing psychological safety and coercive persuasion. According to Kotter (1996), creating a sense of urgency will require performance information systems that provide honest and unvarnished news about performance.

According to Senge (1992) wisdom or systems thinking is best when it starts both at the top of the organization as well as at the bottom. Learning is most rapid when senior executives challenge top-level strategic assumptions while groups at local operating levels simultaneously challenge operational practices and processes. The findings of this study indicate that learning must be initiated from the CEOs office before it is embedded at lower levels.

This study's findings support the effectiveness of learning by doing in the organization. Pfeffer and Sutton (1999) argue that such organizations are not plagued with a knowing-doing gap and argue further that experience is the best teacher in which the process of doing is an opportunity to learn (Pfeffer and Sutton, 1999). From this study it is clear that the pedagogy that yields financial performance for an organization will be rooted in learning by doing.

The findings of this study indicate that in the Kenyan insurance and reinsurance industry the focus on getting things done and done right does not crowd out experimentation and reflection. The Kenyan CEOs of the industry subscribe to Beinhocker's hardware fixes. Beinhocker's hardware fixes for overcoming execution and learning challenges are reduction of hierarchy, increase of autonomy and encouragement of diversity. The CEOs in the Kenyan insurance and reinsurance industry show that not strictly adhering to chain of command, encouraging employee autonomy and views from all are necessary components in the organizational learning practices. The organizational software suggested by Beinhocker include cooperating norms that ensure that people share information and co-ordinate tasks; performing norms in which individual employees will go the extra mile, be honest and transparent and believe that success is rewarded; innovating norms comprise structures and processes that support experimentation, diversity and ideas from anywhere or anyone

(Beinhocker 2006). Elements of this organizational software including the discussion and exchange of ideas, the toleration of alternative views even on sensitive issues are clearly evident in the study and thereby indicate that the Kenyan insurance and reinsurance industry is abreast with organizational software concept. Furthermore organizations in Kenya will succeed in organizational learning through the adoption and adaptation of organizational hardware and software fixes.

In the words of Edmondson (2008) Kenyan insurance and reinsurance industry CEOs are cognisant that relentless execution cannot guarantee enduring success. The Kenyan insurance and reinsurance industry clearly practices what has most recently been described as execution – as – learning by Edmondson (2008). Furthermore, Kenyan organizations that adopt execution-as-learning will increase their chances for enduring success.

The findings of this study support views expressed by Garvin, Edmondson and Gino (2008) that there are factors that are essential for organizational learning and adaptability. The factors include an implicit acknowledgement of Schein's insight (Schein 2002) namely, a supportive learning environment that is distinguished by four characteristics. These are: Psychological safety that enables employees to feel comfortable expressing their thoughts about the work at hand without fear of marginalization on disagreement with authority or peers or fear of being belittled; appreciation of differences in which people recognize the value of what is described as competing functional outlooks and alternative worldviews for driving energy, fresh thinking and countering drift and lethargy; openness to new ideas – the crafting of novel approaches with encouragement for risk-taking and experimentation by employees; time for reflection – rising above the stress and pressures of schedules and deadlines that compromise analytical thinking and creativity.

The findings of this study indicate that teamwork, discussion and exchange of ideas among staff is very important in promoting the learning imperative in organizations. Teamwork is essential because no one individual is versatile enough to deal with the rapidly shifting competitor, customer, and technological dynamics of the changing world in which businesses operate. This is in consonance with Senge (1992).

The seven significant factors revealed by this study show that organizations will need to institute practices that promote employee autonomy and broad-based empowerment. Without sufficient empowerment, organizations will not be able to utilize the full potential of their workers and to get them to commit to making change a reality. There will be need to redesign organizational structures to enhance flatter hierarchies, less bureaucracy, and promotion of a culture that tolerates risk-taking. In addition, this study shows that CEOs and other senior managers will have to commit themselves to focusing on leadership while delegating most managerial responsibilities to lower levels and where employees will have to take responsibility for self-management.

This study clearly shows that organizations will have to strengthen their capabilities and processes through experimentation, learning by doing and creating a culture that values learning. Creating such capabilities and processes requires that organizations learn to be comfortable with change. This will enable them produce products and services that provide competitive edge.

Organizational financial performance will be leveraged by organizational learning. Whilst Kaplan and Norton (1992) emphasise that there are various dimensions for measuring financial performance the findings of this study show clearly that organizational learning practices must ultimately result in improved financial performance. CEOs will be tracking their organizational learning imperatives against financial performance.

External training and consultancy will continue to have a place in organizational learning in the Kenyan insurance and reinsurance industry from this study.

External training and consultancy provide missing skills, an objective picture and insights of how things should run. They provide vital ingredients for the successful formulation and implementation of organizational learning.

5.3 Specific Recommendations for Insurance and reinsurance companies in Kenya

Insurance and reinsurance companies should conduct organizational analysis to identify the specific problems and forces that stand in the way of organizational learning. Similarly they should conduct analysis to understand what factors additional to those in this study will accelerate and strengthen the impact of learning. This should give rise to suitable strategies that will further promote organizational learning. Further efforts should be made to understand better the specific challenges and solutions in organizational learning in life insurance companies. An analysis of the factors relevant to producing the learning mode including the need for strategic change that has already been identified in this study will also be useful.

5.4 Suggestions for Further Study

Life insurance companies and composite insurance seem to have unique challenges with respect to organizational learning. It is proposed that case studies of these companies could be undertaken.

According to Garvin, Edmondson and Gino (2008) there are concrete learning processes and practices. Knowledge must be shared in systematic and clearly defined ways. It should move laterally and vertically within the firm. It may be internally focused with the aim of taking corrective action. It may be externally oriented to include regularly scheduled customer forums or subject-matter experts to gain their perspectives on the company's activities and challenges. Detailed study can be made of organizational learning processes by way of case studies of selected insurance and reinsurance companies.

Low actual population in a few lines of business, namely the motor company and the reinsurance companies will demand case studies for further insights into their specific organizational learning approaches and practices.

5.5 Limitations of Study

A large percentage of respondents (44.4%) had only been with the organization for a short time (up to 5 years) making it difficult for them to give an accurate and objective assessment of the learning experiences of their organizations.

Some subject organizations (11.8%) had been in existence for a relatively short time (5 years), hence their experiences with learning and performance was limited. The low actual populations of a few specific segments of the insurance industry comprising the motor company and the reinsurance companies may have been a limitation despite the overall good response rate. The actual population is a reflection of market size and dynamics and is beyond the control of researchers.

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APPENDIX 1
LIST OF INSURANCE AND REINSURANCE COMPANIES

	LIFE INSURANCE COMPANIES
1.	APOLLO
2.	CFC LIFE
3.	METROPOLITAN LIFE
4.	OLD MUTUAL
5.	PAN AFRICA LIFE
6.	PIONEER
7.	TRINITY
	MOTOR INSURANCE COMPANY
1.	DIRECTLINE
	GENERAL INSURANCE COMPANIES (INCLUDING MOTOR AS A CLASS)
1.	AFRICA MERCHANT
2.	AIG
3.	APA
4.	CONCORD
5.	FIDELITY
6.	GATEWAY
7.	GENERAL ACCIDENT
8.	INTRA AFRICA
9.	INVESCO
10.	KENYA ORIENT
11.	LION OF KENYA
12.	MAYFAIR
13.	OCCIDENTAL
14.	PACIS
15.	PHOENIX
16.	REAL

17.	STANDARD
18.	TAUSI
19.	THE MONARCH
20.	TRIDENT
	COMPOSITE INSURANCE COMPANIES (BOTH LIFE AND GENERAL)
1.	BLUE SHIELD
2.	BRITISH - AMERICAN
3.	CANNON
4.	CO-OPERATIVE
5.	CORPORATE
6.	FIRST ASSURANCE
7.	GEMINIA
8.	HERITAGE
9.	I.C.E.A.
10.	KENINDIA
11.	KENYAN ALLIANCE
12.	MADISON
13.	MERCANTILE
14.	JUBILEE
15.	UAP
	REINSURANCE COMPANIES
1.	KENYA REINSURANCE CORPORATION
2.	EAST AFRICA REINSURANCE COMPANY

APPENDIX 2

VARIABLES

VARIABLE	OPERATIONAL MEASURE
Organizational Learning	*Leadership *Experimentation and enablement *Psychological safety and coercive persuasion *Execution-as-learning
Performance	*Return on Assets *Return on Investments

APPENDIX 3

QUESTIONNAIRE FOR CEO

PART 1

1. Name of company:______________________________________
2. Operational commencement year of company:____________________
3. Name of respondent:______________________________________
4. Title of respondent:______________________________________
5. Years of service in company:_________________________________
6. Type of insurance company (circle one): (i) Life Insurance (ii) Motor Insurance (iii) General Insurance (iv) Composite Insurance company (v) Reinsurance company

PART 2

To what extent do you agree with the following statements about your organization (please circle the appropriate box):

1 - Very strongly agree	4 – Disagree
2 – Strongly agree	5 – Strongly disagree
3 – Agree	

	1	2	3	4	5
1. The organization carries out strategic planning periodically.	□	□	□	□	□
2. Strategic planning in my organization is facilitated by consultants.	□	□	□	□	□
3. Strategic planning in my organization involved senior managers and middle managers.	□	□	□	□	□
4. Senior managers and middle managers participated in the crafting of the organization vision and mission.	□	□	□	□	□

	1 2 3 4 5
5. At one time or another in the last five years my organization has been faced with the challenge of making major change in strategy or operations.	□ □ □ □ □
6. Strict adherence to hierarchical chain of command has been dispensed with in my firm in order to support freer flow and exchange of ideas among staff (and tied agents, if any).	□ □ □ □ □
7. Exercise of employee (and tied agent, if any) judgment and autonomy has been expanded in order to support organizational objectives.	□ □ □ □ □
8. Co-operation, sharing of information and team work have been expanded in order to support organizational objectives.	□ □ □ □ □
9. As CEO I have occasionally had to focus the attention of my staff (and tied agents if any) on the need for organizational change.	□ □ □ □ □
10. As CEO I have had to cultivate and encourage the contribution and exchange of ideas amongst all cadres of staff (and tied agents if any).	□ □ □ □ □
11. As CEO I have tried to set an example as a learner who can make mistakes.	□ □ □ □ □
12. As CEO I have candidly explained to all staff the threat the organization faces if change is not successfully carried out.	□ □ □ □ □
13. Genuine mistakes are tolerated as a part of the learning process in my organization.	□ □ □ □ □
14. Reward systems have had to be periodically realigned in order to support organizational priorities.	□ □ □ □ □

15. New staff (and tied agents if any) are trained whenever they join the organization. 1 2 3 4 5 ☐ ☐ ☐ ☐ ☐

16. Existing and experienced staff (and tied agents, if any) are periodically exposed to external training. ☐ ☐ ☐ ☐ ☐

17. Existing and experienced staff (and tied agents, if any) are periodically exposed to formal in-house training ☐ ☐ ☐ ☐ ☐

18. Sufficient time for improving systems, improving processes and reflection is regularly available in my organization. ☐ ☐ ☐ ☐ ☐

19. Continuous feedback from employees and (tied agents, if any) on areas that require improvement are always taken seriously. ☐ ☐ ☐ ☐ ☐

20. Learning forums during working hours in every sub-unit in the organization are impracticable. ☐ ☐ ☐ ☐ ☐

21. Discussion and exchange of ideas during working hours in every sub-unit in the organization is impracticable. ☐ ☐ ☐ ☐ ☐

22. Free exercise of opinions by junior employees (and tied agents if any) on operational matters in an open forum is routine. ☐ ☐ ☐ ☐ ☐

23. Free exercise of opinions by junior employees (and tied agents if any) on sensitive matters in an open forum is routine. ☐ ☐ ☐ ☐ ☐

24. Alternative views amongst staff (and tied agents, if any) are accepted without embarrassment. ☐ ☐ ☐ ☐ ☐

25. Normal work routines and demands often conflict with learning. ☐ ☐ ☐ ☐ ☐

	1	2	3	4	5
26. Experimentation in processes and practices is encouraged.	□	□	□	□	□
27. Processes and practices have improved in my organization because of experimentation with new ideas and systems.	□	□	□	□	□
28. Within the last three years my organization has improved its capabilities and services through experimentation, exchange of ideas and improvements.	□	□	□	□	□
29. Within the last three years my organization has improved its ROA as a result of experimentation, exchange of ideas and improvements.	□	□	□	□	□
30. Within the last three years my organization has improved its ROI as a result of experimentation, exchange of ideas and improvements.	□	□	□	□	□
31. I am satisfied with my organization's mode of learning at present.	□	□	□	□	□

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE. PLEASE WRITE BELOW ANY OTHER COMMENT THAT YOU WISH TO INCLUDE WHICH IS RELEVANT TO THE FIELD OF STUDY:

____
____
____
____
____
____
____

THANK YOU AND GOD BLESS YOU