

ENVIRONMENTAL TURBULENCE AND ORGANIZATIONAL LEARNING AS INTERNAL AND EXTERNAL FACTOR AND ITS IMPACT ON ORGANIZATIONAL PERFORMANCE IN THE PUBLIC SECTOR WITH MEDIATION OF STRATEGY RENEWAL: A RESEARCH FRAMEWORK

¹Destita Khairilisani, ²Manerep Pasaribu

Abstract

Along with the increasing and complexity demand for a better Excellency in bureaucratic service, this paper aims to provide a research framework for exploring scientific evidence in the response mechanism conducted by the government institution to meet the advancing expectation baseline for public service. The research will be conducted through measurement on turbulence around public organizations environment as the external factor and on organizational learning that affects its performance as internal factor along with strategy renewal as a mediator. This kind of approach is a common method in corporate organization's performance assessment but still an alien in public institution. Unit of analysis used will be all public sector organizations, both institutions ministries or non-ministerial public institutions which considered among the most popular institutions which resulted the greatest expectation for its service advancement such as the Ministry of Public Works and Public Housing, Ministry of Finance, Ministry of State Owned (BUMN), etc. Data collection will be done through questionnaire filled out by the top manager for further statistical analysis methods. Annual growth in the number of employees, types of services and total budget in the last 5 years will be used as proxy for organizational performance bound variable whereas turbulence in external environment and organizational learning as the independent variable will be measured through modified measurements developed by Morris and Combess (2007) using a Likert scale of 1-5. In addition, the strategy renewal as mediator variable analyzed by measurement of organizational commitment in carrying out activities for renewal with using 13 scales according to the method developed by Antoncic and Hisrich (2001).

Keywords: Turbulence, learning, strategic renewal, organization, public, performance.

Introduction

In recent years many efforts have been made by the public sector to improve organizational performance (Andre A. de Waal, 2010) with the public management as one of approach used through (Pollitt, 2003). Ultimate goal of the public management is to make the government sector become more transparent by applying performance management.

Public sector is currently facing sustainable advancement in public expectation to become more effective and efficient, particularly in the presence of budget tightening and implementation of management performance for quality improvement of public service (Boyne et al, 2005). Therefore public sector manager needs to take all practical measures and innovation to improve organization performance as already practiced by their counterparts in the private sector (Boyne, 2002).

Public sector managers are more and more expected to implement sophisticated strategies to overcome threats from external and internal problems and simultaneously to improve its institution's performance (Meier & O Toole, 2013). Emerging external problems faced include budget cuts and changes of source, conflicts with stakeholders, increasing complexity of public needs, pressures to increase organizational transparency and accountability, the demand for labor, new technologies and others challenges (Andrews, Boyne, Meier, O'Toole & Walker, 2005; Andrews, Boyne, & Walker, 2011). Inappropriate fulfillment of external demands is a key reason that failed the strategy applied by the public sector (Boyne, 2006). Furthermore, more attention is needed in a purpose to achieve higher adaptability for its environment's constant disruption through www.psychologyandeducation.

strategic approaches, structures and internal management (Andrews & Martin, 2007). Currie and Procter (2005) conclude that environmental turbulence and scarcity of resources is a combination needs to be understood by any level of public managers to prepare for organizational action. Decentralization of decision-making, including renewal of the strategy is to accelerate innovation in the public sector, while strict controls and complexity opposite its effect (Naranjo-Gill, 2009). Control manipulation for creating incentive or disincentive for organization's entrepreneurial abilities has been investigated by Morris et al. in 2006. Meanwhile, one of the reforms carried out in the public sector is through improvement level of autonomy and flexibility of public management (Pollitt, 2006).

One of the entrepreneurial strategy principle currently applied in the public sector is to renew strategy (strategy renewal). According to Guth and Ginsberg (1990), strategy renewal is defined as organizational transformation through a renewal of key ideas that have previously been developed. This is a principle of entrepreneurship in which an organization build stakeholder relationship through fundamental operational changes (Covin & Miles, 1999 and Kim & Maugborne, 1999). In the public sector, context of strategy renewal seem to be relevant with entrepreneurship.

This study aims to determine the role of strategy renewal development as a mediation of external environment turbulence and internal organizational learning agility on the performance of public sector organizations in Indonesia. It is expected to contribute in enrich knowledge about strategies renewal in public sector since similar research with significant results to the performance is applied yet only in private sector (Heavey et al 2009; Zahra et al 1998). Furthermore,

the research is also expected to confirm previous research on the relationship between reform strategy with the performance of public sector (Hendrick, 2003; Andrew et al, 2011).

Literature Review

Turbulence of the External Environment

Lumpkin and Dess (1996) argues that environmental characteristics may have a strong influence to the organizational performance. Empirical research has supported this view and proposes that organizational performance depends on the organization's external environment (Covin & Slevin, 1989; Naman & Slevin, 1993; Zahra, 1993; Zahra & Covin, 1995).

Uncertainty is one of the main characteristics of environmental and market turbulence. Miller (1988) states that the dimensions of dynamism and uncertainty are key components of the overall construct. Therefore "uncertainty" and "dynamism" will be used and included on an overall scale which is usually called market turbulence (Miller and Friesen 1982). Organizations are expected to maintain and even improve business performance under conditions of high market turbulence because organizations tend to have the ability to react to constant changes that occur in the environment by doing and taking advantage of new opportunities to meet change (Atuahen e-Gima & Ko, 2001; Hughes et al 2007; Hughes and Morgan 2007).

In dealing with complex market turmoil, skills such as the ability to manage uncertainty, the ability to innovate to meet the opportunities and threats that arise, the ability to anticipate the direction and nature of market changes, the ability to tolerate risk, will direct entrepreneurial oriented managers to reframe and interpreting events resulting from market turmoil as opportunities for changes in business models, growth and innovation. Miller (1988) found that in an uncertain environment, innovation has a positive relationship with performance.

It is certain that the concern of management strategies is the compatibility between external situations and strategies (Andrew et al, 2012; Liewellyn & Tappin, 2003; Miller, 1992). Environmental turbulence creates uncertainty in the ability of organizations to meet political and operational objectives. Strategy is a power tools for organization adaptation against environmental disruption as well as a mediator against the impact of external threats in the organization's performance (Hendrick, 2003; Meier & O'Toole, 2009). Hendrik (2003), argues that the concept of external turbulence needs to be defined more widely in the public sector management for better understanding that the condition of social and politics well as the availability of resources, economic conditions and external organizationis all the challenges to fulfill the public organization purpose.

Organizational Learning

The field of strategic management has become the foundation for researchers seeking perspective on key considerations in managing company success. One of which was identified by Mintzberg, Ahlstrand, and Lampel (1998), is organizational learning. How organizational learning explains the phenomenon of strategic renewal is an interesting thing to study. In the process of strategic renewal there are three limitations of existing research relating to organizational learning and strategic renewal. The first limitation is the conceptualization of organizational learning that is too narrow because it is related to strategy. Second, organizational learning research has ignored strategic reform - the relationship between exploration and exploitation. The third is the lack of empirical research that applies organizational learning theory to strategic renewal. In overcoming these shortcomings, we seek to contribute to strategy research by digging deeper into the strategy process. The organizational learning framework developed by Crossan, Lane, and

White (1999).

Strategy research has been criticized for its overly analytical orientation, usually top management lack of attention to action and learning, and neglect of the elements that lead to strategy creation (Mintzberg et al., 1998). Organizational learning research, with a focus on processes. As DeGeus (1988) points out, organizational learning may be the only sustainable competitive advantage. However, despite numerous literature reviews (Argyris and Schon, 1978, 1996; Crossan et al 1995; Daft and Huber, 1987; Fiol and Lyles, 1985; Huber, 1991; Levitt and March, 1988; Shrivastava, 1983), organizational learning is partly stays separate from strategy. Efforts to determine the relationship between strategy and organizational learning have several weaknesses. The first weakness is the concept of organizational learning that is too narrow. Organizational learning has often been described as emergency, trial and error, even random processes (Goold, 1996a, 1996b; Mintzberg, 1996a, 1996b; Pascale, 1996a, 1996b; Rumelt, 1996). Another perspective on organizational learning, according to James March (Cohen and Sproull, 1996), as a more rational process in the domain of decision making and choice. For example, by using computer simulations to test the impact of organizational learning on entrepreneurship, Lant and Mezias found three basic components of learning models: First, organizations have a target level of performance that they compared. Second, performance above or below the level of performance affects the likelihood of observable organizational changes. Third, the learning model shows that the acquisition and processing of information about alternatives occurs in the search process which is relatively expensive (Lant and Mezias, 1990: 149). Organizational learning may be more complex than the trial-and-error process that is often emphasized in the organizational learning literature (Lant, Milliken, and Batra, 1992: 603). (Barr, Stimpert and Huff, 1992: 32) conclude that renewal does not depend much on paying attention to new conditions, but on the ability to link changing environments with corporate strategies and to change those relationships over time. Their research suggests the need for a more in-depth model of the organizational learning process to understand how interpretation affects changes in strategy. Another weakness is the failure to address the fundamental problem of strategic renewal - the balance between exploration and exploitation. For example, organizational learning theory has been used to understand resources (Nanda, 1996), tacit knowledge (Nonaka and Takeuchi, 1995; Spender 1996), and the role of memory in organizations (Casey, 1997). These efforts do not overcome the overall problem when the company develops new competencies and simultaneously exploits existing ones.

Not much research utilizes organizational learning to explain the phenomenon of strategic renewal. Using another simulation, Mezias and Glynn (1993) use the same learning model as Lant and Mezias (1990) to explore the effectiveness of three corporate renewal strategies: institution, revolution, and evolution. They found that units involved in institutional strategy did not tend to experience more innovation, even though resources increased. The units involved in the revolutionary strategy, supposedly designed to promote radical innovative change, only gather a temporary increase in the amount of innovation (Mezias and Glynn, 1993: 94). Organizational learning is seen as a means of developing capabilities that are valued by customers, difficult to imitate, and therefore contributes to competitive advantage. However, organizational learning often remains a 'black box' because researchers assume that positive transformation can and will happen. But despite the broad view that organizational learning leads to new sources of ability to support new strategies, there is no empirical examination of the effects of organizational learning on strategic renewal. Understanding the process of strategic renewal is crucial if we want to go beyond the claim that organizational learning may be the only competitive advantage that is sustainable (DeGeus, 1988).

The 4I framework developed by Crossan et al. (1999 related -

intuition, interpretation, integration, and institutionalization - functions to link the three levels of analysis and define learning in organizations. Intuition and interpreting occur at the individual level, interpretation and integration occur at the group level, and integration and institutionalization occur at the organizational level. How to update the strategy may modify the effect of the learning organization in the achievement of organizational performance of the public sector, it is interesting to know. Besides, the research indicates that organizational learning can have a direct impact on organizational performance in the public sector can also contribute to the knowledge of factors influence learning of organizational performance in the public sector.

Renewal of Strategy

Strategy renewal, although it is essential for continued success for an organization, receives relatively little attention compared to changes in strategy in general. Like all strategic issues, strategic reform presents opportunities and challenges for organizations (Agarwal 2009). Strategic renewal has an important impact not only on individual organizations but also on the whole economy.

Research that refers to "strategic renewal" often uses the term to usedefinition to motivate examples of strategic change in general, which generally highlights the process of change. Although some research has focused on strategic renewals (eg, Huff et al. 1992, Floyd and Lane 2000), it tends to focus on organizational processes.

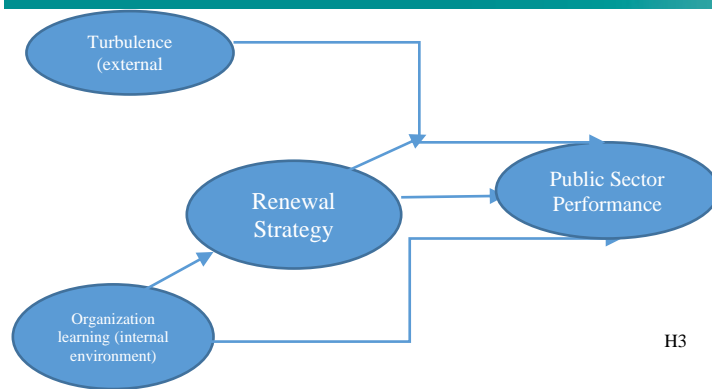
Something strategic if it is related to the future prospects of the organization. Most dictionaries define the verb "renew" as "to make like new" (eg Merriam-Webster Online Dictionary 2008). Synonyms include "to refresh" by restoring power or "to replace" what is broken, old, or obsolete (Merriam-Webster Online Dictionary 2008, Webster's Seven New Collegiate Dictionary 1972, Webster's New World Dictionary 1962). The dictionary also explains that the verb "renew" is different from the verb "change." In its broadest definition, the verb "change" means "to make or be different" (Merriam-Webster Dictionary 2008). Changes can include refreshment or replacement. For example, changes might refer to extensions, additions or deletions without related updates. Thus, renewal is one type of change. Precisely what is called "refreshment" or "replacement" for business organizations? To begin with, the relevant aspects that can be refreshed or replaced are the strategic attributes of the organization mentioned earlier, such as objectives, products and services, resources and capabilities, and others like. Perhaps the more difficult question relates to what it means to refresh or replace these attributes. First, refreshing or replacement does not always mean restoring the attribute to its original state. For example, an organization can replace one type of attribute for different types of quality attributes. Second, refreshment or replacement can be partial or full. The company can maintain some of the attributes in the current conditions if it continues to serve a useful purpose. Third, refreshment or replacement can exceed the original attribute in the size or scope of the application. Fourth, companies can carry out strategic refreshes through the reconfiguration of current attributes, with or without additions or deletions. Fifth, companies can carry out strategic updates to refresh or replace the current organizational attributes that serve useful functions in the present, but may not do so in the future. Finally, strategic reform often connotes with momentum. The verb "grows back," which means "to continue growth after a disturbance" (Merriam-Webster Dictionary 2008). Although regrowth does not need to be part of renewal, refreshment or replacement may be the first step that provides the basis for future growth. Strategic updates further include processes, constraints, and results Merriam-Webster Dictionary (2008) defines the noun "renewal" to include "an update action or process," "quality or state of being updated" (content), and "something updated" (result) The fact that the strategic attribute has been updated only tells us that it is refreshed or replaced, and that the results may have a minimum level of functionality. The discussion

shows that strategic renewal has several important characteristics. First, strategic renewal relates to what has the potential to substantially affect the long-term prospects of the company a, strategic updates include the process, content and results of the updates. Third, strategies vary in success rates.

At present, no company can confidently predict that it will not face dramatic changes in its external environment. The pace of globalization and technological change, for example, puts significant pressure on companies to adapt. Because major transformations can pose great difficulties because of the magnitude of the changes needed, companies can strive to continually renew themselves in additional ways in the hope of offsetting, and even leading, changes in the external environment. This is an important lesson from research on ambidexterity (Tushman and O'Reilly 2004, O'Reilly and Tushman 2008), which focuses on ways in which companies can build new businesses in the future while operating businesses today. In this sense, ambidexterity is one of the solutions to problems caused by large transformations. Additional strategic updates, if carried out proactively, can enable companies to cope with changes in the external environment when they are formed, and thus reduce the need for far greater and more difficult transformations later on. Madsen and Leiblein (2008) provide examples of companies in various industries, including Boeing, Quicken, and Calloway Golf, which combine innovation to pursue sustainable excellence. Additional strategic updates can even allow companies to shape the external environment to their advantage. For example, by proactively introducing a new generation of personal computer chips (PCs) on a regular basis, Intel created a barrier to new entries that allowed the company to dominate its industry for years (Turner et al. 2008). As Intel points out, not all additional updates occur in response to previous changes in the external environment. The company carries out many activities on a regular basis that can facilitate renewal, not the least of which is research and development (R&D), with accompanying opportunities for innovation (Murray and O'Mahony , 2007). Performing renewal activities such as R&D on a regular basis requires processes, rules, routines, and resources, along with the ability to develop and carry out these activities, including dynamic capabilities (Rothaermel and Hess 2007).

Strategic reform can involve ongoing incremental change and unsustainable transformation, and can involve a variety of circumstances that accelerate, including but not limited to technological change. Many examples of strategic updates in the special edition show that this is a phenomenon in which content and strategic processes are closely related, involving various dimensions of change including those related to competition, company resources and capabilities, organizational structure, and cognition, as well as routines and processes for decision making and implementation. Therefore, research about strategic renewal especially in public sector is interesting and useful to be researched.

Research Model and Hypothesis



H1 : Strategy Renewal is positively related to organizational performance in the public sector

H2 : Turbulence on external environment has negative associated with the performance of organizations in the public sector

H3 : The relationship between turbulence in the external environment and organizational performance in the public sector is mediated by strategic renewal.

H4 : Organizational learning is positively related to strategy renewal

H5 : Renewal of strategy will mediate organizational learning with organizational performance in the public sector

Research Methodology

Samples and Data Collection

Data for this research will be taken from survey to target respondent in public sectors organizational in Indonesia, specifically in the national government level. Data collection will be done through the collection of questionnaires that will be answered by members of the top management team of the public sector. Respondent from one unit sector will be named as one unit of analysis. Data analysis will be performed using the statistical method to test the proposed hypothesis.

Independent Variable

Turbulence in the external environment will be measured using modified measurements for the public sector by Morris and Combess 2007 with Likert scale 1-5.

Organizational Learning will be measured using a modified measurements with 1-5 Likert scale (1 = strongly disagree to 5 = strongly agree).

Dependent Variable

The definition of measuring financial and non-financial yet exist for research in existing public sector (Morris, Kuratko, Allen, Ireland, & Schindehutte 2010) Measurement will focus to the growth of organization (Campbell, Renshaw, and Engstrom 2010) , through annual growth in the number of employees, number of services, and total budget over the past three years.

Mediating Variables

Strategy renewal will be measured using a 13 scale that measures the commitment of organizations in entrepreneurial activities for renewal (Antoncic and Hirsch 2001).

Conclusion

This research study can broaden knowledge especially to determining public organization's performance factor both external and internal with its strategy renewal as the mediator. Measurement of

environmental turbulence will choose as the external factor while organizational learning acting choose as internal factor and both will use as independent variable. The result of this study will measure adaptability rate between of public institutions against current constant disruption. This study is also important to achieve organization's continuous performance improvement in accordance to meet constant escalation in public expectation for a better public service.

References

- André A. de Waal (2010) Achieving High Performance in the Public Sector, *Public Performance & Management Review*, 34: 1, 81-103, DOI: 10.2753 / PMR1530-9576340105
- George A. Boyne & Jennifer Law (2005) Setting Public Service Outcome Targets: Lessons from Local Public Service Agreements, *Public Money & Management*, 25: 4, 253-260, DOI: 10.1080 / 09540962.2005.10600128
- George A. Boyne (2002) Public and Private Management: What's the Difference ?, *Journal of Management Studies*, 39 (1) , 97-122 , DOI: 10.1111 / 1467-6486.00284
- Meier, KJ, & O'toole, LJ (2013). Subjective organizational performance and measurement errors: Common source bias and spurious relationships. *Journal of Public Administration Research and Theory*, 23 (2), 429-456. <https://doi.org/10.1093/jopart/mus057>
- Andrews, R., Boyne, GA, Meier, KJ, O'Toole, LJ, & Walker, RM (2005). Representative bureaucracy, organizational strategy, and public service performance: An empirical analysis of English local government. *Journal of Public Administration Research and Theory*, 15 (4), 489-504. <https://doi.org/10.1093/jopart/mui032>
- Andrews, R., Boyne, GA, & Walker, RM (2011). Dimensions of publicness and organizational performance: A review of the evidence. *Journal of Public Administration Research and Theory*, 21 (SUPPL. 3). <https://doi.org/10.1093/jopart/mur026>
- Boyne, GA (2006). Strategies for public service turnaround: Lessons from the private sector? *Administration and Society*, 38 (3), 365-388. <https://doi.org/10.1177/0095399705286004>
- Andrews, R., & Martin, S. (2007). Has devolution improved public services? *Public Money and Management*, 27 (2), 149-156. <https://doi.org/10.1111/j.1467-9302.2007.00571.x>
- Currie, G., & Procter, SJ (2005). The antecedents of middle managers' strategic contribution: The case of a professional bureaucracy. *Journal of Management Studies*, 42 (7), 1325-1356. <https://doi.org/10.1111/j.1467-6486.2005.00546.x>
- Naranjo-Gil, D. (2009). The influence of environmental and organizational factors on innovation adoptions: Consequences for performance in public sector organizations. *Technovation*, 29 (12), 810-818. <https://doi.org/10.1016/j.technovation.2009.07.003>
- Morris, MH, Allen, J., Schindehutte, M., & Avila, R. (2006). Balanced management control systems as a mechanism for achieving corporate entrepreneurship. *Journal of Managerial Issues*, 18 (4), 468-493.
- Pollitt, C. (2006). Performance Management in Practice: A Comparative Study of Executive Agencies. *Journal of Public Administration Research and Theory*, 16 (1), 25-44.
- Guth, WD, & Ginsberg, A. (1990). Guest Editors' Introduction: Corporate Entrepreneurship. *Strategic Management Journal*, 11 (4), 5-15. <https://doi.org/10.1016/j.ymeth.2009.12.016>
- Covin, J and Miles, M. (2009). Corporate entrepreneurship and the pursuit of competitive advantage, *Entrepreneurship Theory and Practice*. 23 (3), 47-64
- Kim, WC, & Mauborgne, R. (1999). Creating New Markets. *Harvard Business Review*, 77 (1), 83-93.
- Heavey, C., Simsek, Z., Roche, F., & Kelly, A. (2009). Decision comprehensiveness and corporate entrepreneurship: The moderating role of managerial uncertainty preferences and environmental dynamism. *Journal of Management Studies*, 46 (8), 1289-1314. <https://doi.org/10.1111/j.1467-6486.2009.00858.x>
- Zahra, SA, & Covin, JG (1995). Contextual influences on the corporate entrepreneurship-performance relationship: A longitudinal analysis. *Journal of Business Venturing*, 10 (1), 43-58. [https://doi.org/10.1016/0883-9026\(94\)00004-E](https://doi.org/10.1016/0883-9026(94)00004-E)
- Hendrick, R. (2003). Public Management Research Association Strategic Planning Environment, Processes, and Performance in Public Agencies: A Comparative Study of Departments in. Source: *Journal of Public Administration Research and Theory: J-PART*, 13 (4), 491-519. <https://doi.org/10.1093/jopart/mug031>
- Lumpkin, GT, & Dess, GG (1996). Clarifying the entrepreneurial orientation constructing and linking it to performance. *Academy of Management Review*, 21 (1), 135-72. <https://doi.org/10.5465/AMR.1996.9602161568>
- Covin, JG, & Slevin, DP (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10 (1), 75-87. <https://doi.org/10.1002/smj.4250100107>

21. Naman, JL, & Slevin, DP (1993). Entrepreneurship and the concept of fit: A model and empirical tests. *Strategic Management Journal*, 14 (2), 137–153. <https://doi.org/10.1002/smj.4250140205>
22. Miller, A. (1988). A taxonomy of technological settings, with related strategies and performance levels. *Strategic Management Journal*, 9 (3), 239–254. <https://doi.org/10.1002/smj.4250090304>
23. Miller, D., & Friesen, PH (1983). Strategy-Making and Environment: The Third Link. *Strategic Management Journal*, 4 (3), 221-235
24. Atuahene-Gima, K., & A, K. (2001). An Empirical Investigation of the Effect of Market Orientation and Entrepreneurship Orientation Alignment on Product Innovation. *Organization Science*, 12 (1), 54
25. Hughes, M., & Morgan, RE (2007). Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. *Industrial Marketing Management*, 36 (5), 651–661. <https://doi.org/10.1016/j.indmarman.2006.04.003>
26. Turner, RK, & Daily, GC (2008). The ecosystem services framework and natural capital conservation. *Environmental and Resource Economics*, 39 (1), 25–35. <https://doi.org/10.1007/s10640-007-9176-6>
27. Murray, F., & O'Mahony, S. (2007). Exploring the foundations of cumulative innovation: Implications for organization science. *Organization Science*, 18 (6), 1006-1021. <https://doi.org/10.1287/orsc.1070.0325>
28. Rothaermel, FT, & Hess, AM (2007). Building dynamic capabilities: Innovation driven by individual-, firm-, and network-level effects. *Organization Science*, 18 (6), 898–921. <https://doi.org/10.1287/orsc.1070.0291>
29. Morris, MH, Kuratko, DF, Allen, JW, Ireland, RD, & Schindehutte, M. (2010). Resource acceleration: Extending resource-based theory in entrepreneurial ventures. *Journal of Applied Management and Entrepreneurship*, 15 (2), 4-25. Retrieved from <https://remote-lib.ui.ac.id:2089/docview/497134744?accountid=17242>
30. Campbell, A., Renshaw, P., & Engstrom, S. (2010). The black and white and gray of strategy. *Journal of Strategy and Management*, 3 (4), 344–351. <https://doi.org/10.1108/17554251011092700>
31. Zahra, Shaker A., Environment, Corporate Entrepreneurship, and Financial Performance: A Taxonomic Approach (1993). *Journal of Business Venturing*, Vol. 8, Issue 4, p. 319-340 1993. Available at SSRN: <https://ssrn.com/abstract=1506340>