

EXTERNAL FACTORS FACILITATING DEVELOPMENT OF THE LEARNING ORGANIZATION CULTURE

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Abstract

The last decade has been extremely demanding towards organizations – the years of steep growth were changed by the global recession, which is now followed by slow recovery. To sustain competitiveness organizations have had to learn fast and adapt to the fast changing environment. The ability to learn has become competitive advantage on its own. Nevertheless learning in an organization's context was highly developed during 1990s, when a concept of the learning organization prospered, the organizations of today would be willing to revisit their practices to incorporate the learning organization culture.

The purpose of the paper is to define external factors, which facilitate organizations to develop the learning organization culture today. It is commonly accepted that organizations culture, collective behaviour are mainly influenced by internal factors - owners, top management, and history of the company. However recent recession showed that behaviour can be shaped also by situation. What are the factors (macro economical, legal, social), which shapes organization behaviour towards learning?

The paper is based on a theoretical review of papers linking external environment to organizational culture development, and a comparative study of the macro economic, legal and social data study of three Baltic States.

The paper presents new propositions, where the external environment factors influence development of the learning organization culture.

Keywords: learning organization culture, external environment

1. INTRODUCTION

The formation and development of the organizational culture usually is viewed as ultimately internal process mainly affected by its management (Heskett, 2012). Even if the organization implodes, the impact of the external environment is studied to the extent that management should have been better managing. The fact that organizations very rarely fail solely because of mistakes of internal actors is ignored, however usually the misstep is caused by external trigger (Bozemann, 2011).

The last decade has been extremely demanding towards organizations of Baltic states - the years of steep growth have been switched to global recession, and later followed by slow recovery. This has been tough test for organizations capacity to notice changes in external environment, to accept them, to learn and adapt to the new situation in the world. One of the prerequisites for organizations to cultivate the capacity to survive and grow in today's challenging business environment is to develop and maintain the learning organizational culture. Learning organizational culture is organizational culture which facilitates obtaining, sharing and creation of new knowledge, shaping organization's behaviour accordingly.

The organizational culture develops in early stage of formation of an organization, when organization starts to interact with external environment, and learns what kind of behaviour is successful. This kind of behaviour is repeated till the statement "this is how the things get done here" comes true (Schein, 1997). Therefore it could be argued that external environment is embraced in any organizational culture.

Also the social psychology suggests that quite often when evaluating actions of others, people

tend too much responsibility attribute to the person, ignoring the situation the person is in (Jones and Harris, 1967). Attributing the same principle to organizations, it could be assumed that internal environment of organizations maybe are far more dependent on external environment they operate in as it is perceived today.

Therefore this study aims to accomplish two goals:

1. To identify factors of external environment facilitating development of learning organizational culture;
2. To picture the external environment as facilitator of development of learning organizational culture in Baltic states and Finland (Finland is included in the study due to its high ratings for innovation, which is one of the indicators to have developed learning organization culture).

To achieve the goals of the study, the literature exploring the external environment influence on organizational learning and culture has been reviewed, statistical data, characterizing the learning environment of four countries have been analysed using Pearson correlation to identify which of indicators are interdependent leading to improvement of Global Innovation index.

The study has been limited due to the fact that the available literature exploring the external environment impact on organizational learning or organizational culture is scarce. Therefore the external environment indicators facilitating the learning organization culture has been limited to top three theoretical prerequisites for the learning organization (openness, communication and opportunity for learning), financial performance and innovation (Gaile 2013). In addition, the study relies on the available data from Latvia, Lithuania, Estonia and Finland.

To reach the aim of the study the author will examine the interaction of an organization with external environment, identify the external environment influence on organizational learning and characterize the key indicators of external environment facilitating development of learning organizational culture.

2. ORGANIZATIONAL CULTURE AND EXTERNAL ENVIRONMENT

There is very little literature available researching the interrelations of external environment and corporate culture, and even less on whether and how external environment impact learning in organizations.

The contradictory theories say that on one hand - the organizations are so completely controlled by their external environments that they have little ability to transform themselves (Di Maggio&Powell 1983; Scott 1992; Aldrich, 1972 in Molinsky 1999) on other hand - the organizations can control their own destinies by actively and purposely creating a fit between their own internal structures and the demands of the environment (Child 1972 in Molinsky 1999).

The organizational culture is formed when organization accepts as internal norms the behaviour models, which allowed organization to solve external problems (Schein, 1997). This means that during start-up period the organization, i.e., people establishing organization and working there from the very beginning, are testing different behaviours and attitudes towards the situations they experience while interacting with outside world – customers, suppliers, state institutions, and situations within organization (internal integration). This process allows organization to evaluate what attitudes and behaviours work and bring the expected results, and set these behaviours as norms, which will be taught to all newcomers in the organization. Also it could be said that organization creates a frame or lenses through which it will later view the events taking place either in internal or external environment of the organization.

Paradoxically but this leads to thought that external environment (the one which existed at the moment of foundation of organization) is not only influencing the organizational culture, but is embedded in it. This statement should be verified in further research as appearance of external environment in different organizations may be different due to different perceptions of external environment of people founding the organization.

Later organization responds to external factors – political, economic, social, technological, legislative and ecological (Porter in Buchanan and Huczynski, 2004; Matthews, 1999), according strategy organization has adopted. The development of service industries and information availability, the strategies of organizations become more and more flexible. This requires organization itself not only to adapt to external environment, but to be able learn from it and create new products, services and approaches to shape the external environment by organization (Fiol and Lyles, 1985; Dauber et al., 2012). The external environment exerts powerful internal pressures, actually breaking the border line between internal and external environment of an organization (Lumby, 2012).

By the typology of Cameron and Quinn, more and more organizations are shaping their cultures towards market and adhocracy cultures to be closer to the customers and be alert to meet their needs before they arise (Cameron and Quinn, 2006). Even more, the increase of service industries are promoting connectivity, inviting customers and suppliers participate in creation of product (Drori and Honig 2013; Gray 2012). See Figure 1.

The organizational culture typology (Cameron and Quinn)

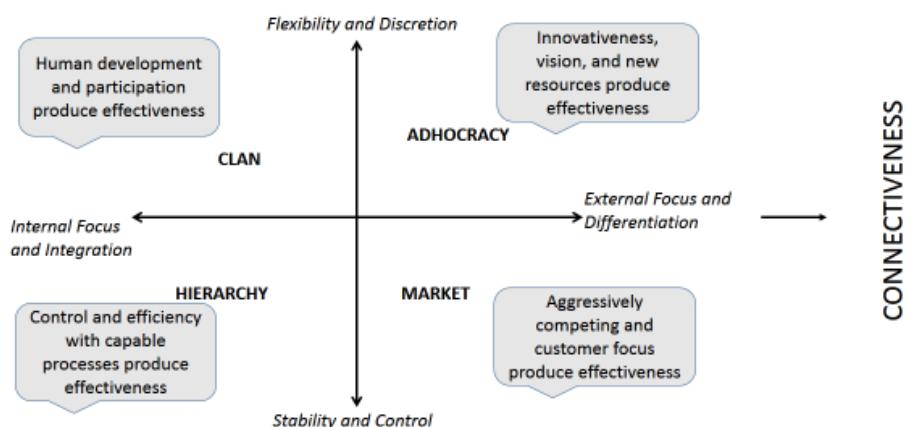


Figure 1. The dynamics of the organizational culture typology

Connectivity means that organizations are interacting with external environment through individuals. Individuals working for organization are getting in touch with individuals outside the organization in order to sell the products of organization and obtain necessary resources for the organization. And individuals who are representing the organization are not necessarily the customer service or procurement. The development of virtual and social networking makes the line of organizations relationships with its key accounts rather flexible than straight forward.

These processes make organizations to be or become more open, which means more dynamic and complex by themselves. This could shape the current general point of view that organization exists in environment and that these are two different phenomena's. However it seems that, as Gallivan and Srite puts it, "there is a need for a more holistic approach to defining culture" (Gallivan and Srite 2005).

3. ORGANIZATIONAL LEARNING AND EXTERNAL ENVIRONMENT

To shape organizational culture towards learning it is required to adopt appropriate strategy. However it might be that the management or owners of the organization are quite limited on their possibilities to choose the strategy, as they might be the "prisoners of the situation" they are in. Therefore it is critical to understand whether and how external factors influence the learning in organizations.

3.1. Definition of organizational learning

In daily rhetoric quite often adaptation is perceived as learning, as it provides possibility for organization to survive. However it doesn't provide development of new insights and knowledge, being so required today to sustain.

Citing the definitions of learning and adaptation by Fiol and Lyles:

"Learning - The development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions;

Adaptation - The ability to make incremental adjustments as a result of environmental changes, goal structure changes, or other changes" (Fiol and Lyles 1985).

Clearly the line between adaptation and learning is very thin, as there are authors claiming that change is equal to learning. Author would agree that changes happening in organization and to organization bring a lot of learning with themselves, however Author also would argue that in case there are no new insights, and/or new knowledge developed it would not be appropriate to claim that organization has learned.

Today learning is not something what happens inside the organization, but that learning is located in social relationships (Lave and Wenger, 1991 in Kerno and Mace, 2010). This also complies with Senge's definition of organization - "a product of how its members think and interact" (Senge, 1994).

3.2. External factors influencing learning in organization

There is a limited number of studies analysing impact of external environment on organizational learning. Still external environment influences learning in organizations through market completion, product change, technological development, economic conditions, political stability, societal values and educational standards (Matthews, 1999), providing motives, relationships, source and effects of organizational change for organizational learning (Lam and Pang, 2003; Carman and Dominguez, 2001). External environment can be viewed as a source of resources to learn (Chen, 2009; Drori and Honig, 2013).

There are several authors who have measured some aspect of external environment interaction on learning in organizations. See Table 1.

Lam and Pang studying the learning in school system, along with various internal factors have measured also the impact on organizational learning such factors are control form external bodies, environmental fluctuation, linguistic orientation, policy and social values. The overall conclusion was that compare to internal factors the external factors influence is less important, still they found that decentralization of control have positive effect on learning, and lack of policy clarity have negative effect on learning (Lam and Pang, 2003). The necessity to reduce control in order to facilitate learning also have been confirmed by the study of Sanz-Valle et al in Spain, confirming that adhocracy culture (flexible and externally focused) is the only one having positive impact on organizational learning (Sanz-Valle et al., 2011). The demand for clear policies (strategy) to embrace learning in organization making learning to be considered as organizational value. Author has identified in previous study analysing the prerequisites of development of learning organizational culture (Gaile 2013).

Table 1
External factors influencing learning in organizations

| Factors measured | Authors | Conclusions |
|---|------------------------------|--|
| Control Environment fluctuation Linguistic orientation Policy Social values | (Lam and Pang, 2003) | Personal and organization factors are more important than environmental variables Decentralization of control have positive effect on learning Lack of policy clarity have negative effect on learning |
| Environment is positively related to Organizational learning | (Garcia-Morale et al., 2006) | Many organizations fail to innovate or learn because their managers have a rigid vision of the organization itself apart from its environment |
| Industry rivalry Perceived organizational capacity to adapt to task environment | (Carmeli and Sheaffer, 2008) | Learning from mistakes positively affects perceived organizational capacity to adapt to task environment |
| Environmental dynamism Environmental hostility External adaptation | (Rebelo and Gomes, 2011) | Only the correlation between environmental hostility and internal integrity is significant, identifying that hostile environment tend to possess less cultural orientation towards learning |
| R&D project team members perception of the external environment | (Wang and Ellinger, 2011) | R&D employees' perception of the external environment (as uncertain and complex) will be positively associated with organizational learning. |

Garcia - Morale has brought forward hypothesis that “environment positively related to the organizational learning” and that environment is positively related to the innovation. The conclusion made is that many organizations fail to innovate or learn because their managers have a rigid vision of the organization itself apart from its environment (Garcia-Morale et al., 2006). Bringing back to statement of necessity to look for more holistic definition of culture identified by Gallivan and Srite (Gallivan and Srite 2005).

Carmeli and Sheaffer studied how learning is affected by such external factors as industry rivalry, and perceived organizational capacity to adapt to task environment. They concluded that the external factors have minimal impact on learning, and that learning from mistakes positively affects perceived organizational capacity to adapt to task environment (Carmeli and Sheaffer, 2008).

Rebelo and Gomes measured impact of environmental dynamism, environmental hostility and external adaptation, concluding that only the correlation between environmental hostility and internal integrity is significant, identifying that hostile environment tend to possess less cultural orientation towards learning (Rebelo and Gomes, 2011). This is supported by Lawrence and Dyer saying that if “either the internal or external environment is too complex and dynamic for the organization to handle, an overload may occur, and learning will not take place” (Lawrence and Dyer, 1983 in Fiol and Lyles, 1985). These statements contradicts with assumptions of Argyris and Schone arguing that hostile environment facilitates the generative learning allowing organization to reshape the norms and values, whereas in a stable environment adaptive learning is appropriate to keep the organizations performance in line with established norms and values (Argyris and Schone, 1996).

Wang and Ellinger studies R&D project team members' perception of the external environment, drawing the conclusion that R&D employees' perception of the external environment (as uncertain and complex) will be positively associated with organizational learning (Wang and Ellinger, 2011). This statement corresponds with Bozeman arguing that implosion of organizations involves the interaction of external forces and (inadequate) internal responses to these forces (Bozeman, 2013).

The study of literature leads to conclusions that development of learning organizational culture generally is internally driven process, impacted by the perception and dynamism of external environment.

4. CHARACTERISTICS OF LEARNING ORGANIZATIONAL CULTURE IN MACRO LEVEL

a. External factors facilitating development of learning organizational culture

Adapting the holistic view on organizations and its culture (Gallivan and Srite, 2005), and also acknowledging that connectivity as future of organizational development (Gray, 2012), the features characterizing the learning organizational culture – openness, communication, learning as strategy, innovation and financial performance will be analysed from macro perspective. Openness is organizations exposure to external environment, in macro terms such factor as transparency index, showing the possibility for corruption in different countries. The corruption is less possible in countries where the culture of openness and transparency is very well developed

The traditions of communication is represented by word freedom index valuing pluralism, media independence, environment and self-censorship, legislative framework, transparency, and infrastructure in different countries.

Learning as a strategy is defined in National development plan of Latvia, which realizes the intentions of Europe 2020 strategy to reach share of early school leavers under 10% and at least 40% of the younger generation should have a tertiary degree, and also stresses the necessity for lifelong learning (Latvian National Development Plan, 2020). Therefore the indexes like tertiary education, early leavers and lifelong learning have been included in the study.

The innovation as input and output of the learning is measured in different ways. For this study the global innovation index and GDP spent on research and development (GDP on RD) are adopted. Financial performance on macro level usually is measured in terms of GDP per capita (Eurostat, 2013).

The values of different indexes for year 2011 in different countries are presented in Figure 2. "External environment indicators comparison".

The comparison between countries demonstrates that Finland has significantly better results in indexes like GDP per capita (114), transparency index (90), lifelong learning (26) and word freedom index (6.38). Finland scores higher also on global innovation index (61.8) and GDP on RD (3.78). In Baltic states these figures varies between - GDP per capita (58-67), transparency index (49-64), lifelong learning (10.3-17.3), (Eurostat 2013), word freedom index (9.26-22.89), (Word Freedom index 2013), global innovation index (44-55.3) (Global Innovation Index, 2013) and GDP on RD (0.7-2.38). The variance of early leavers from school index and tertiary education is not so significant in all four countries the indexes vary between 6.5-10.5 and 35.9-46 respectively. It could be concluded that the external environment in Finland is more facilitative for organizations to develop the learning organizational culture than it is in Baltic States. Between the Baltic States Estonia is the one possessing better preconditions for organizational learning.

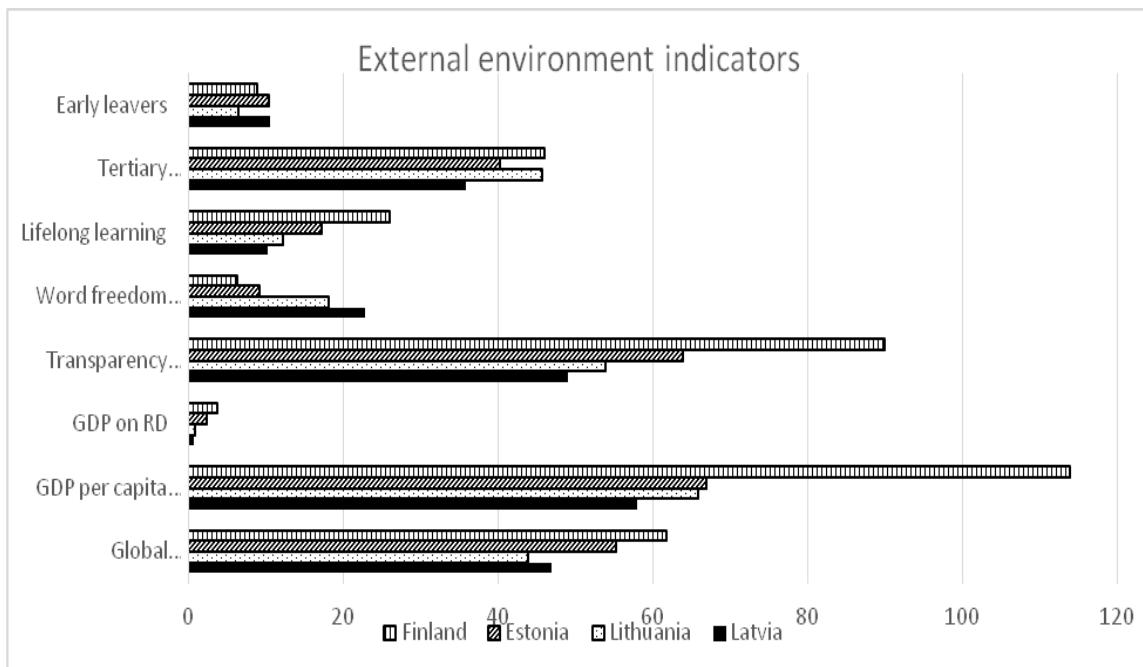


Figure 2. External environment indicators comparison

To study the relationship between these indexes, the correlation analysis has been applied. The correlation analysis demonstrates the closeness of two factors interdependency: factorial and performance. Bivariate correlations are dependent on environmental or other attributes influence (Arhipova and Bāliņa, 2006).

The correlations between different indexes are presented in Table 2.

b. Correlation between external factors

The comparison of macro indexes in the Baltic states and Finland identify the following pattern: lifelong learning strongly correlates with transparency index and GDP on R&D, word freedom index correlates with GDP on R&D, transparency index correlates with GDP per capita, and GDP on R&D correlates with global innovation Index. This leads to conclusions that nevertheless the correlation doesn't identify the cause the parameters as lifelong learning, word freedom, transparency and GDP are positively related to each other, which may lead to assumption that by improving any of it all others will improve. Lifelong learning is something what every member of society can apply in their lives, so it would be recommended beginning to facilitate transparency, word freedom and GDP growth.

As this study is limited to the data of four countries, and correlation analysis doesn't provide causality, the further research would be required to study the governmental policies for lifelong learning and overall education level impact on development of learning organizational culture.

Table 2

The correlation between macro factors of learning environment

| | | Global_Innovatio n_index | GDP_per_capita_ 2011 | Transparency_ind ex | GDP_on_RD | Lifelong_learning | Tertiary_educatio n | Early_leavers | Word_free |
|-----------------------------|------------------------|-----------------------------|-------------------------|------------------------|-----------|-------------------|------------------------|---------------|-----------|
| Global_Innovati on_index | Pearson Correlation | 1 | | | | | | | |
| | Sig. (2- tailed) | | | | | | | | |
| GDP_per_capita _2011 | Pearson Correlation | ,830 | 1 | | | | | | |
| | Sig. (2- tailed) | ,170 | | | | | | | |
| Transparency_ index | Pearson Correlation | ,925 | ,972* | 1 | | | | | |
| | Sig. (2- tailed) | ,075 | ,028 | | | | | | |
| GDP_on_RD | Pearson Correlation | ,974* | ,899 | ,976* | 1 | | | | |
| | Sig. (2- tailed) | ,026 | ,101 | ,024 | | | | | |
| Lifelong_learnin g | Pearson Correlation | ,945 | ,948 | ,996** | ,991** | 1 | | | |
| | Sig. (2- tailed) | ,055 | ,052 | ,004 | ,009 | | | | |
| Tertiary_educati on | Pearson Correlation | ,287 | ,645 | ,593 | ,494 | ,575 | 1 | | |
| | Sig. (2- tailed) | ,713 | ,355 | ,407 | ,506 | ,425 | | | |
| Early_leavers | Pearson Correlation | ,359 | -,134 | -,002 | ,143 | ,037 | -,785 | 1 | |
| | Sig. (2- tailed) | ,641 | ,866 | ,998 | ,857 | ,963 | ,215 | | |
| Word_free | Pearson Correlation | -,905 | -,765 | -,888 | -,952* | -,923 | -,541 | -,085 | 1 |
| | Sig. (2- tailed) | ,095 | ,235 | ,112 | ,048 | ,077 | ,459 | ,915 | |

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

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

c. Listwise N=4

c. The dynamics of environment and learning in organizations

To test the theory, which suggests that hostile/ambiguous/complex environment doesn't facilitate learning (Rebelo and Gomes, 2011; Fiol & Lyles 1985), Author analysed the fluctuation of GDP during 200-2011 for all four countries. The assumption behind the hypothesis is that if already dynamic environment (globalization, internet etc.) is complemented with significant changes in the economy. The empirical study confirmed, that learning indicators are higher in Finland where the maximal fluctuation of GDP where 3 compare to Baltic States where GDP in last 10 years grew by 22-26 units (Eurostat, 2013).

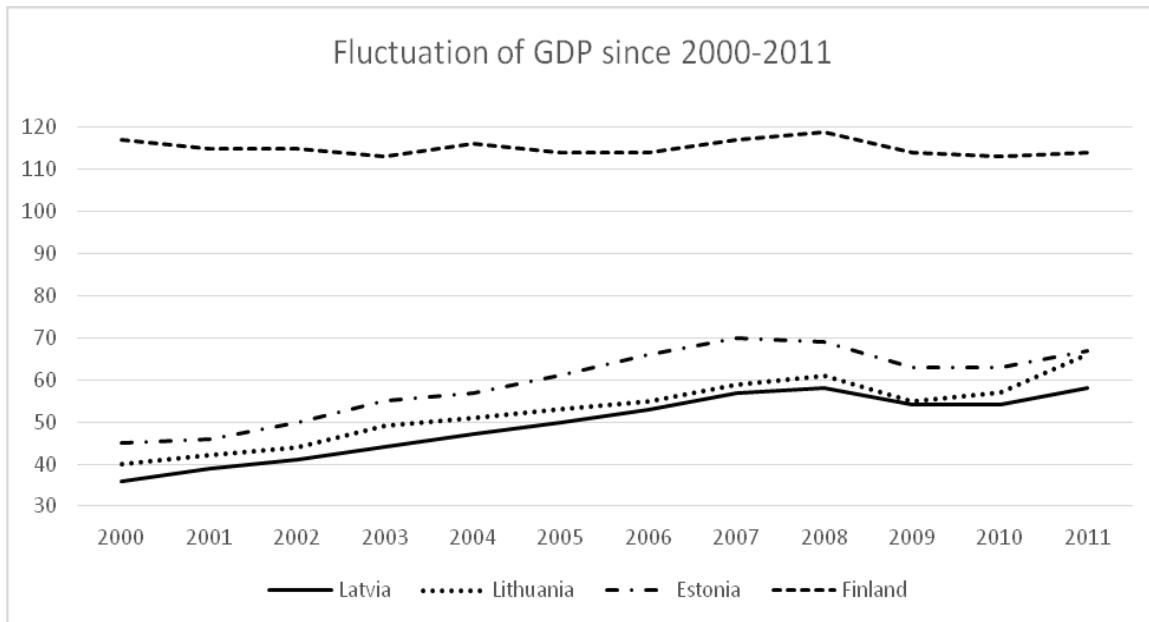


Figure 3. Fluctuation of GDP since 2000-2011

It could be concluded that one of the reasons for Finland's high scores on learning facilitating factors is the stability of the economy. And even if it seems to be just the only stable factor, it may lead to perception that external environment is not so hostile, and that there is space for learning in business organizations. So, these data confirms assumption that organizational learning requires certain stability.

5. CONCLUSIONS AND DISCUSSION

This article contributes to theory studying the impact of external environment on development of learning organizational culture. Nevertheless development of learning organizational culture generally is internally driven process, impacted by the perception and dynamism of external environment, the negligence of the complexity and uncertainty of external environment may lead to the collapse of organization.

One way to explain this paradox is that external environment is embedded in organizational culture, however it's in different organizations may be different due to different perceptions of external environment of people founding the organization, which could be the subject for the further research how external environment impacts organizational culture.

Also the growing intensity and variety of relationships between different members of organization and external partners make organizations to be more open and are deleting the traditional line between organization and its external environment. It could be that organization and environment are not two different phenomena's, and creates space to develop more holistic view on organizational culture and external environment.

The external macro factors facilitating learning in organizations studied in this article are: transparency index, word freedom index, tertiary education, early leavers from school, lifelong learning index, GDP per capita, GDP on R&D and global innovation index. The analysis demonstrated that the external environment in Finland is more facilitative for organizations to develop the learning organizational culture that it is in Baltic states. Between the Baltic states Estonia is the one possessing better preconditions for organizational learning. Also the positive correlations have been distinguished between global innovation index and GDP on R&D. GDP on R&D is higher in countries which scores higher on word freedom index, transparency index and lifelong learning

Additional study of GDP fluctuation during 2000-2011, showed that Finland compare to Baltic states have relatively stable economy, which could be one of the reasons facilitating organizational learning. This confirms theoretical assumption that organizational learning requires certain stability.

This study is limited to the data of four countries, and correlation analysis doesn't provide causality.

6. FURTHER RESEARCH

The further research is required:

- 1) To explore the impact of external environment in the phase of the formation of an organization, how does it shapes the perceptions and beliefs of founders, and how these beliefs later are reflected in the “theory of business” of the organization;
- 2) The research so far shows that organizational learning requires certain stability in external environment; as the external environment is getting much more hostile, it would be required further study the organizational learning, as might be that the current understanding of the concept is outdated, and today organizations learn in different way;
- 3) The further research is required both in country level (including countries from all over the world) and in organizations level to better understand the external factors facilitating organizational learning capacity;
- 4) The further research would be required to study the governmental policies for lifelong learning and overall education level impact on development of learning organizational culture.

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