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## THE EFFECT OF INNOVATION AND ORGANIZATIONAL LEARNING ON FIRM PERFORMANCE: AN EMPIRICAL STUDY IN QUALITY ORIENTED FIRMS

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### ABSTRACT

*The aim of this study is to explore the effects of internal functions such as explorative – exploitative innovativeness and generative - adaptive learning on financial performance. In this study, it has been analyzed the relationships between, exploitive - explorative innovativeness, organizational learning and financial performance in a quality oriented frame. The sample consists of quality oriented private sector companies, operating in IT sector, in Adana region of Turkey. Survey respondents were mid-and top level managers and owners. Descriptive statistic, correlation and regression analysis and SEM were used as data analyzing methods. The findings indicate the positive relationships among TQM, innovativeness, organizational learning and financial performance.*

### KEYWORDS

TQM, innovativeness, organizational learning, financial performance.

### INTRODUCTION

In the globalizing world, companies are compelled to focus on notions of innovation, learning and competitive edge to have the competitive advantage and maintain their existence with rivalries growing to an international scale from domestic ones.

In Total Quality Management (TQM), meeting the customer's expectations takes precedence. These expectations are realized with principles of quality. However in an environment of intense competition, meeting customer expectations becomes increasingly difficult. Whether it is to gain a competitive edge or to meet customer expectations, it is inevitable that the businesses are gravitating towards the notions of organizational learning and innovation, which is a must to ensure the long term sustainability of an organization. There have been studies on TQM and its contributions to innovativeness (Prajogo and Sohal, 2001). Also, as the intensity of the competition accelerates change, firms feel the need to renew themselves by utilizing their present means or by inventing novelties. The notions of explore and exploit have emerged during organizational learning and strategy studies (Levinthal and March, 1993; Vera and Crossan, 2004). In different works, the need to develop exploratory and exploitive innovation simultaneously in order for organizations to become effective, has been stated (Gibson and Birkinshav, 2004; He and Wong, 2004). The department of explorative innovation is in charge of presenting new information, new products and new services to the customers. Exploitive innovation, on the other hand, is focused on existing information, products and services. While both types of innovation are important for the sustainability of the company, what is important is to ensure the harmonious and coordinated functioning of both activities.

Organizational learning can be defined as an entirety, consisting of generative learning and adaptive learning. An absolute balance must be struck between the two types of learning. Explorative learning businesses where adaptive learning is neglected are prone to fall to "success traps" (Levinthal and March, 1993). Organizations not conducting a true status assessment because success gained in the short term, may have to face failures on the long run. Effects of organizational learning and innovativeness on organizational outcomes vary depending on conditions. In this study, it is endeavored to evaluate one of the most important and objective organizational outcomes, impact on financial performance, within the scope of TQM, one of the recent management paradigms that approaches businesses with regards to customer expectations, in a holistic manner.

### LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

#### TQM

The definitions of quality are usually as follows; product performance established by preventing customer dissatisfaction and customer satisfaction independent on product necessities (Juran, 1985), a space where customers and users have left behind the needs and necessities of the product (Gitlow et al., 1989), predictable degree of uniformity and reliability at low cost (Deming, 1986), while creating the product or the service meeting the expectations of the customer on the stages of development, engineering, production and maintenance (Feigenbaum, 1986), the degree of conformity to product requirements (Crosby, 1979). Garvin (1984) has categorized them under 5 groups 1) *Transcendental View of Quality: Perfection, highest standard* 2) *Product-Based View: Depends on quality* 3) *User-Based View: Meets customers demands* 4) *Manufacturing-Based View: Meets requirements* 5) *Value-Based View: Monetary value*

No matter how different the approaches to the definition of quality have been, the aforementioned approaches have failed to define quality completely. The most important reason for this are the customer requirements that cannot be defined in a detailed manner. For this reason, in the later periods, the notion of quality has been approached in a holistic manner and the concept of total quality was put forward.

Total Quality, is seen by some as the continuation of scientific management or a part of the system theory, while for others it is seen as a new paradigm for management and Dean and Bowen (1994) have defined it as the advanced management approach to improve organizational performance by including a type of technical and behavioral methods through a narrow focus on statistical process control.

The discovery of Total Quality Control (TQM) is one of the most fundamental developments in management practices. It has emerged as a new management philosophy in the US, that was losing its competitive edge against the Japanese automotive industry in the 1980s (Dean and Evans, 1994; Lau and Anderson, 1998). There are 16 principles put forward by the British Standards Institution: 1-Priority 2-Quality Definition 3-Customer description 4-Customer satisfaction 5-Purpose 6-contact 7-Culture 8-Values 9-Mutual respect and benefit 10-Health and safety 11- Responsibility 12- Participation and ownership 13- Continuous improvement 14-Performance 15-Resources 16- Investment

In a quality oriented firm, while the implementation of these principles is exceedingly difficult, it is possible to achieve this by getting support from the director, quality managers and many other individuals and institutions. The success of TQM programs depends on the adaptation of the firm to the industry, product or service the business is strategically focused on (Lau and Anderson, 1998).

There have been sufficient academic and experimental studies regarding the relation between TQM and innovation. While one group of researchers assert that there is a positive relation between TQM and innovation, the other group claims the contrary. This study aims to eliminate this discrepancy.



According to those who indicate on positive relations, TQM has compatible principles with innovation. It promotes customer focus, need for new customers and to meet their expectations (Juran, 1985). In the same way, continuous improvement encourages those concerned to change and be more creative as to the organization and management of tasks. Furthermore, authorization, participation and teamwork principles are decisive for the success of organizational innovation (Prajogo and Sohal, 2001; Flynn, 1994). Despite being of the same importance prior to success; customer focus, management/leadership, comparison, commitment to purpose, data/information, quality focus, employee focus, process thinking and continuous improvement form the basis for innovation and development (Gustafson and Hundt, 1995). Continuous improvement may establish the foundation of an innovative organization (McAdam et al., 1998) and TQM contributes in the differentiation between more and less innovative organizations (Baldwin and Johnson, 1996).

#### TQM - INNOVATION

Customer focus encourages organizations to research customer needs and expectations and direct organizations towards innovativeness which aims for continuous adaptation to the changing markets through development and marketing of new products. In this way, the suppliers not only meet customer needs, but also exceed them by being more creative. This situation is related with innovation (Juran, 1985). In the same way, continuous improvement encourages those concerned to change and be more creative as to the organization and management of tasks. Furthermore, authorization, participation and teamwork principles are decisive for the success of organizational innovation. (Prajogo and Sohal, 2001; Flynn, 1994).

Customer focus, management/leadership, comparison, commitment to purpose, data/information, quality focus, employee focus, process thinking and continuous improvement form the basis for innovation and development (Gustafson and Hundt, 1995). Continuous improvement may establish the foundation of an innovative organization (McAdam et al., 1998) In the light of the literature the first two hypotheses are developed as:

H<sub>1a</sub>: TQM effects the explorative innovativeness positively.

H<sub>1b</sub>: TQM effects the exploitive innovativeness positively

#### TQM - LEARNING

TQM, kaizen and other continuous improvement methods' strength lies in their promotion of double-loop learning. These methods, promote the inspection of existing practices and finding better ones, "speeches" prioritizing learning and change, creation of mindsets and values; in the face of problems that the employees face and enables them to go beyond the superficial to find out the problem at the source (Morgan, 1998:110).

TQM, facilitates and accelerates the participation of employees in the problem solving process. Cause and effect diagrams are an effective tool for problems regarding firm practices. Organizations that learn are able to represent the truth by eliminating discrepancies in subjects on a strategic level where cause and effect relations are more disconnected (Dervitsiotis, 1998). In the light of the literature the second two hypotheses are developed as:

H<sub>2c</sub>: TQM effects generative learning positively.

H<sub>2d</sub>: TQM effects adaptive learning positively.

#### INNOVATION

Innovation is an English word often used in the forms of innovation or innovativeness, and is used in the same context as pro activeness. There have been many definitions from different aspects regarding innovations. The term innovation differs in meaning depending on the level of analysis. Innovation, is the adaptation to projects, systems, policies, programs, processes, products or services that are either self-produced or imported (Damanpour, 1991:556). For a technique to be perceived as new, it is not necessary to be more effective than others; it just needs to be discernable from others (Abrahamson, 1996:265).

Innovation is a certain function of entrepreneurship. Innovation is "the creation of prosperity either by forming new sources or by increasing the usage potential of existing ones" (Drucker, 1998:21). Industrial innovation covers the marketing of a new product or the design, production, management and commercial functions for a new process or equipment to be used commercially for the first time (Freeman, 1982). Innovation is the tool that enables entrepreneurs to produce new businesses or services. It has the qualities to be shown as a discipline, learning talent, practice talent (Drucker, 1985).

Innovation = Invention + usage. Invention signifies the creation of new ideas and all efforts made to render these ideas applicable. Application process includes commercial development, implementation and transfer; as well as focusing on ideas and inventions for certain aims, research and/or development result transfers and utilization, propagation and popularization of results based on technology (Roberts, 1987). Companies gain the competitive edge through innovation. They approach innovativeness with a wider angle, including both new technologies and new business conducting styles (Porter, 1990).

The concept of innovation is often confused with other concepts. Therefore, it is important to lay down the differences between it and other concepts. Creativeness, which is one of these concepts, is often described with a focus on personal attributes and other variables during the process. Researches draw a line between creative performance and organizational innovativeness. A creative behaviour in the workplace signifies products, ideas, systems and processes produced on the personal level while innovation is the successful practice of these products on an organizational level (Marcinelli, 1997:21). When employees are creative, they will potentially produce new and functional products, ideas or processes for the benefit of the organization. The development and implementation of creative products is accepted as a part of innovativeness. In other words, creativeness of a person or a team is the precursor to innovation. However, creativeness is a necessary but insufficient process for innovation Other factors are required for a successful innovation (Amabile et al., 1996).

Innovation is usually coined together with competition. The distinguished economist, Freeman (1982) in his study on innovation underlines its importance by saying "Not to innovate is to die". Porter in his work "Competitive Advantage of Nations" defines "competitiveness" as the ability to increase productivity and underlines the points of "increasing product quality", "adding additional or distinguishing features to the product", "increasing productivity during production" and "attaining high automation levels".

Innovativeness can be explained in a comprehensive manner by two notions which are explorative and exploitative innovation. For organizations to be effective, they have to develop exploitative and explorative innovations in different departments simultaneously (Gibson and Birkinshaw 2004, He and Wong, 2004). Explorative innovation is defined in various ways such as; investing in resources to clarify and enlarge existing product innovation knowledge (Atuahene and Gima, 2005), experiencing necessary ways to realize new radical thoughts (Bierly and Daly, 2007), developing new technologies to present to new customers (Danneels, 2007), merging the activities or technology and research and development (Gilsing and Nootboom, 2006; Garcia et al., 2003), technology research about demands expected in the future (Jayanthi and Sinha, 1998). Exploitive innovation on the other hand is defined as; directing the resources towards investing to gain new knowledge, ability and processes (Atuahene and Gima, 2005), the clarification and strengthening of existing knowledge and the focus on existing experience activities (Bierly and Daly, 2007), the improvement of the presentation of existing technology to existing customers (Danneels, 2007), directing towards product development projects (Garcia et al., 2003), investment in existing technology (Lee and Ryu, 2002), investments during the profitable periods of a products life cycle (Van Looy, et al., 2005).

#### INNOVATION - PERFORMANCE

On top of the list of topics that customers care about, keeping the delivery time short and on-time may be found or some customers may continuously desire new product and services. What's more, customers continuously attach importance to the firm's ability to predict new needs and propose the appropriate product and approach for these needs, in choosing who to work with. Customer base enables firm managers to determine the strategy that will bring in the maximum amount of revenue according to market conditions and customers (Kaplan and Norton 1996: 33-34).

A firm may determine the tools to diversify customer evaluation criteria and ensure the financial aimed productivity benefit by determining the financial and customer points of view clearly. Organizational factors which are of vital importance are described under four processes.

These are; (1) forming an exception, to develop new product and services and promote innovation to reach new markets and customer bases, (2) to increase the value in the customer's eyes, developing the relations with existing customers, (3) to actualize activity perfection, develop supply chain management, internal management processes, the degree of utilization of assets, resource-capacity management and other processes and (4) to be a good firm member or being an organization citizen, establishing effective external profit groups (Özbirecikli and Ölçer, 2002:8). The hypotheses developed on the relationships between innovativeness and performance are as following:

H<sub>2</sub>: Explorative innovativeness effects financial performance positively.

H<sub>3</sub>: Exploitive innovativeness effects financial performance positively.

**ORGANIZATIONAL LEARNING**

Learning is a process finalized by a permanent change through experience or repeating (Morris, 2002: 196), a long term change as a result of an experience (Cüceloğlu, 1997), in essence as defined by most it is the permanent change in behavior as a result of knowledge and experience. In another definition, learning is the process of changing beliefs, values, attitudes and behaviors in light of knowledge acquired from theoretical thoughts, practices and experiences. As a result of learning, there is an accumulation of knowledge and experience and a definite change of permanent nature in the behavior of people (Eren, 2004).

Learning may occur on personal, group or organizational level. Learning on personal level signifies reaching accumulated or new knowledge belonging to the one's environment, by using one's intuition or cognitive processes including perceiving, understanding and interpreting them as well as forming experiences using them and adjusting one's behaviors according to the results reached. Consequently, intuition and interpretation are personal events. Therefore, persons in the name of the organization use their intuition and interpret the knowledge and not the organization itself (Koçel, 2007). The second stage of learning is group learning. It signifies sharing, interpreting and reaching a group understanding of the knowledge the individuals have learned. Without group learning, one cannot talk about organizational learning (Koçel, 2007). The third stage of learning is organizational learning. Organizational learning is the process of attaining knowledge and developing abilities to ensure that people who work together for a common goal understand their work better and as a result work more efficiently (Barutçugil, 2004). For organizational learning to take place, a bridge ensuring the transition from personal learning to organizational learning is necessary. For forming this bridge three elements are required: *Communication, transparency and consolidation* (Düren 2002).

**FIGURE 1: LEARNING PROCESS (DÜREN 2002)**

<b>Personal Learning</b>	<b>Bridge</b>	<b>Organisational Learning</b>
- Personal experiences	Communication	- Collective experiences
- Changes in mind	Transparency	- Changes in collective knowledge and values
- Behavioral changes on experiences	Integration	- Changes in normative and behavioral patterns
- Personal mindsets		- Collective mindsets

The notion of organizational learning first appeared around the 1970s and was described as recognizing mistakes and correcting them. It is possible to study the notion of organizational learning under personal learning. Yet, as much as organizational learning is done through people, to approach organizational just as the total learning of individuals would be a mistake. Organizations do not possess brains, instead they have systems and memories. Individuals and leaders change, but the memories of organizations retain certain behaviors, cognitive maps, norms and values and do not change with time. Thus, in environments of serious competition; the notions of education, innovation and change are used more often (İnce, 2005).

Beyond being just a personal effort and experience, organizational learning is about the thoughts and efforts for establishing a common value and experience process. In this sense organizational learning is a strategic choice and is regarded as a tool the forming of the future of the organization.

**TYPES OF ORGANIZATIONAL LEARNING****GENERATIVE LEARNING**

Includes acquiring notions such as generative learning, change, research, risk taking, experience, discovery, flexibility, innovation. It is the acquisition or discovery of new knowledge. With generative learning, businesses ensure their survival in the future (March, 1991).

**ADAPTIVE LEARNING**

Adaptive learning includes activities such as development, selection, production, efficiency, differentiation, application and regulating. Businesses that adopt the adaptive learning will protect their status quo, however with time they will suffer from not keeping up with the times (March, 1991).

**LEARNING - PERFORMANCE**

Areas that enable the attainment of a performance that ensure the breakthrough of a firm with determined objectives in the dimensions of finance customer and internal functioning, are identified. Objectives laid down in the learning and growth dimensions ensure the infrastructure needed for the realization of the ambitious targets set in other dimensions (Kaplan and Norton; 1996:153).

The effect of learning and growth is usually acquired through three sources. These are; employees, systems and corporate compliance. Three basic dimensions such as satisfaction of the employees, productivity and sustainability provides the measuring of the results of the investments for the company's employees, systems and corporate compliance. In most firms objectives regarding employees are formed from the synthesis of combination of indicators related to three main conclusions. These three basic indicators are in listed as "satisfaction of employees", "permanence of employees", and "productivity of employees". Among these, "satisfaction of employees" is regarded as the indicator affecting the remaining two (Kaplan and Norton, 1996:157- 178).

The hypotheses developed on the relationships between learning and performance are as following:

H<sub>4</sub>: Adaptive learning effects financial performance positively.

H<sub>5</sub>: Generative learning effects financial performance positively.

**METHODOLOGY****DATA COLLECTION AND ANALYSIS**

For data collecting, survey method has been chosen as a widely used technic in social sciences. The questionnaire has been formed with the questions and phrases consisting of the scales with approved validity and reliability from the literature. All items (except demographics) were measured on a five-point Likert-type scale, indicating the relative strength of their agreement or disagreement with responses ranging from 1 to 5. The surveys were sent to the firms operating in IT sector in Adana region/ Turkey, The sample was comprised middle-and top managers and owners. SPSS 16.0 and AMOS 4.0 were used to analyse the data.

The results

**DEPENDENT VARIABLE**

*Financial Performance* was measured with 3 items taken from the study conducted by Hagedoorn ve Cloodt (2003). Respondents were asked to assess their firm's performance over the previous three-year period.

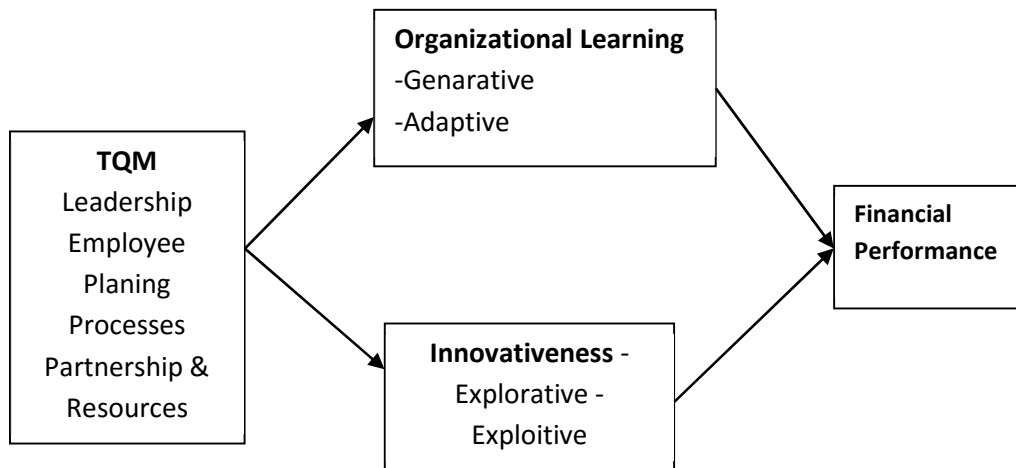
**INDEPENDENT VARIABLES**

*Organizational Learning* was measured with 6 items taken from Spanos and Lioukas (2001).

*Innovation* is measured with 14 items adopted from the studies Abernathy and Clark (1985), Benner and Tushman (2003), March (1991), Uzzi and Lancaster (2003) and Jansen et al. (2006).

*Total Quality Management* is measured with 6 leader-items, 6 employee-items, 4 policy&strategy-items, 5 processes-items, 4 partnership&resources-items; totally 25 items adapted from Santos Vijande, Alvarez Gonzales (2007).

FIGURE 2: RESEARCH MODEL



**GENERAL INFORMATIONS ABOUT THE SURVEY RESPONDENTS**

In the following tables below there are shown the informations from the respondents about their gender, age, positions in the firm, education level.

TABLE 1: GENDER

	Frequency	%
Male	63	78,75%
Female	17	21,25%
Total	80	100,0%

TABLE 2: POSITIONS IN THE FIRM

	Frequency	%
Middle level	35	43,75%
Top level	25	31,25%
Owner	20	25%
Total	80	100

TABLE 3: EDUCATION-LEVEL

	Frequency	%
Elementary School	6	5,1%
College	21	17,8%
Bachelor	75	63,6%
Masters/PhD	16	13,6%
Total	118	100,0%

The average age of the respondents is 38,6.

**FACTOR ANALYSIS**

Factor analyses is widely used to test the validity of a variable. In the tables, there are shown the factor loadings as well as the announced total variances. The value of the announced total variance should be greater than 0,50 (Yeniçeri and Erten, 2008; Grewal et al., 1998).

In this study we used explorative factor analysis. According the analysis, 10 questions are removed because of their incompatibility with the criteria and continued to the analyses. The removed questions are TQM-Leadership 4.,5.and 6., -Employee 5. and 6., -Planning 4., - Processes 4.and 5.,- Partnerships &resources 3.and 4., Innovations-explorative 1., 5., 6. and 7., -exploitive 5., 6. and 7.

The results of the Factor Analyses are given in the tables below.

TABLE 4: FACTOR LOADINGS OF TQM

Questions	Leader	Employee	Planing	Proceses	Partnership & Resources
Leaders personally assess the application and progress of total quality principles.	0,646				
Organizational leaders take on the responsibility for developing quality-oriented management systems.	0,789				
Leaders acknowledge and reward employees' contributions to bettering quality.	0,813				
Leaders acknowledge and reward employees' contributions to bettering quality.		0,745			
In human resource planning, the employee is considered an "internal customer" who participates in policy, strategies and organizational structure.		0,801			
Employees know that quality is their responsibility, and they are encouraged to meet customers' and the organization's objectives.		0,886			
Continuous improvement is consistently fostered and facilitated.		0,600			
The company draws up strategic action plans.			0,783		
Progress towards achieving strategic objectives is regularly assessed.			0,810		
SWOT analysis is regularly used to review and update business strategy.			0,649		
Processes are designed ensuring that skills and capacities are right for company needs.				0,712	
We use clients' complaints and grievances to improve our products.				0,897	
All processes, procedures and products are assessed regularly in an attempt to bring in change and improvement.				0,700	
We have close, long-term relationships with our supplies designed to resolve qualityrelated problems.					0,823
Our suppliers help to improve our products and/or services and also provide technical assistance.					0,864

Announced Total Variance: 73,765

TABLE 5: FACTOR LOADINGS OF INNOVATIVENESS AND ORGANIZATIONAL LEARNING

Questions	Explor. Innov.	Exploit. Innov.	Generat. Learning	Adapt. Learning
We invent new products and services	0,713			
We experiment with new products and services in our local market.	0,645			
We commercialize products and services that are completely new to our unit	0,786			
We frequently refine the provision of existing products and services.		0,753		
We regularly implement small adaptations to existing products and services		0,808		
We introduce improved, but existing products and services for our local market		0,779		
Our unit expands services for existing clients		0,634		
Modernization and automation of production processes				0,677
Efforts to achieve economies of scale				0,875
Capacity utilization.				0,649
Research and development expenditures for product development.			0,865	
Research and development expenditures for process innovation.			0,943	
Rate of product innovations.			0,766	

Announced Total Variance: 74,899.

TABLE 6: FACTOR LOADINGS OF FINANCIAL PERFORMANCE

	Financial Performance
Turnover profitability (Profit/Total sales)	0,921
Return on assets (Profit /Total assets)	0,962
Overall profitability	0,906

Announced Total Variance: 82,936.

**RELIABILITY ANALYSIS**

It has been done the reliability analysis for each of the variables and the Cronbach’s Alpha coefficients lay between 0.83-.92 (>0,70) (Nunnally, 1967). The results are shown below.

TABLE 7: RELIABILITY ANALYSIS RESULTS

Variables	Number of Questions	Coefficient Alpha
TQM	15	0,89
Explorative Innovation	3	0,85
Exploitive Innovation	4	0,86
Adaptive Learning	3	0,83
Generative Learning	3	0,90
Financial Performance	3	0,92

**Mean, Standard Deviations and Correlation Coefficients of the Variables**

In Table 8, there are given the means, standard deviations and results of the correlation analysis of the vaviables of the research model. The standard deviations have been calculated between 0.68 and 0.88. It shows that the variance level is enough for further valid analyses.

According the Table8, there are positive correlations between the variables on %1 significance level (p<0,01).

TABLE 8: CORRELATION MATRIS (means, standard deviations, alpha and correlation coefficients)

	M	Σ	α	1	2	3	4	5
1 TQM	3,13	0,82	0,89	1				
2 Explorative Innovation	3,17	0,76	0,85	,576(**)	1			
3 Exploitive Innovation	3,22	0,78	0,86	,638(**)	,520(**)	1		
4 Adaptive Learning	3,42	0,68	0,83	,482(**)	,556(**)	,590(**)	1	
5 Generative Learning	3,39	0,84	0,90	,312(**)	,537(**)	,552(**)	,614(**)	1
6 Financial Performance	3,29	0,88	0,92	,527(**)	,552(**)	,553(**)	,625(**)	,543

\*\*(<math>p<0,01</math>)

**STRUCTURAL EQUATION MODEL AND HYPOTHESIS-TESTS**

For hypothese tests we have coosen Structural Equation Model (SEM) that allows to test the research model as a whole. With the help of the SEM, we could analyze the multi regressions together. In SEM, the fit indices determine the approval of the reseach model. The model will be accepted or refused according to the results of the goodness of fit-tests (Garson, 2004). In this study Chi-square ( $X^2$ ) values has been found to be significant. There are many fit indices used in SEM. According to Schermelleh-Engel et al. (2003) there are 5 fit indices used widely. These fit indices, criteria and our results of the model fit are given In Table 9.

TABLE 9: FIT INDICES, CRITERIA AND MODEL FIT

Fit indeces	Good fit	Satisfactory fit	Model Fit
$X^2/sd$	$X^2/sd<2$	$2\leq X^2/sd\leq 5$	1,486
RMSEA	$0<RMSEA<0.05$	$0,05\leq RMSEA\leq 0,10$	0,06
NFI	$0,95\leq NFI\leq 1$	$0,90\leq NFI\leq 0,95$	0,82
CFI	$0,97\leq CFI\leq 1$	$0,95\leq CFI\leq 0,97$	0,94
GFI	$0,95\leq GFI\leq 1$	$0,90\leq GFI\leq 0,95$	0,83

According the proposed research model, the SEM results show that TQM effects on explorative and exploitive innovativeness and on generative and adaptive learning positive. The results indicate on the positive effetcs of explorative and exploitive innovativeness on financial performance, too. Finally, no relationship has been found between generative learning and financial performance, while there were positive influences of the adaptive learning

TABLE 10: PARAMETERS OF THE PROPOSED MODEL AND THE HYPOTHESES' RESULTS

Hypotheses (Causal relationships)	Hypothes	Parameter Estimated( $\beta$ )	Standard Error	t Value	P (sig.) Value	Result
TQM Explorative Innovation	H <sub>1a</sub>	0,981	0,147	6,669	0,000	Supported
TQM Exploitive Innovation	H <sub>1b</sub>	1,110	0,153	7,261	0,000	Supported
TQM Generative Learning	H <sub>1c</sub>	1,065	0,166	6,466	0,000	Supported
TQM Adaptive Learning	H <sub>1d</sub>	1,042	0,153	6,806	0,000	Supported
Explorative Innovation Finansal Performans	H <sub>2</sub>	-0,339	0,145	-2,324	0,021	Supported
Exploitive Innovation Financial Performance	H <sub>3</sub>	0,528	0,177	3,210	0,001	Supported
Adaptive Learning Financial Performance	H <sub>4</sub>	0,376	0,133	2,743	0,004	Supported
Explorative Learning Financial Performance	H <sub>5</sub>	0,091	0,088	1,028	0,303	Not Supported

## CONCLUSIONS

Customer focus encourages organizations to research customer needs and expectations and directs organizations towards innovativeness which aims for continuous adaptation to the changing markets through development and marketing of new products (Juran, 1985). Continuous improvement encourages those concerned to change and be more creative as to the organization and management of tasks. Furthermore, authorization, participation and teamwork principles are decisive for the success of organizational innovation. (Prajojo and Sohal, 2001; Flynn, 1994). Continuous improvement may establish the foundation of an innovative organization (McAdam et al., 1998). As a result of the study conducted, it has been observed that quality affects explorative and exploitative innovation positively. TQM, facilitates and accelerates the participation of employees in the problem solving process. Cause and effect diagrams are an effective tool for problems regarding firm practices. Organizations that learn are able to represent the truth by eliminating discrepancies in subjects on a strategic level where cause and effect relations are more disconnected (Dervitsiotis, 1998). As a result of the study conducted, it has been observed that quality affects explorative and adaptive learning positively. Customers continuously attach importance to the firms ability to predict new needs and propose the appropriate product and approach for these needs, in choosing who to work with. Customer base enables firm managers to determine the strategy that will bring in the maximum amount of revenue according to market conditions and customers (Kaplan and Norton 1996: 33-34). Businesses may form exceptions; increasing its financial performance through development of new product and services as well as promotion of innovation to reach new markets and customer bases. (Özbirecikli ve Ölçer, 2002: 8). As a result of the study conducted, it has been observed that explorative and exploitative innovation affects financial performance positively. Objectives laid down in the learning and growth dimensions ensure the infrastructure needed for the realization of the ambitious targets set in other dimensions (Kaplan and Norton; 1996:153). The effect of learning and growth is usually acquired through three sources. These are; employees, systems and corporate compliance. Three basic dimensions such as satisfaction of the employees, productivity and sustainability provides the measuring of the results of the investments for the company's employees, systems and corporate compliance. In most firms objectives regarding employees are formed from the synthesis of combination of indicators related to three main conclusions. These three basic indicators are in listed as "satisfaction of employees", "permanence of employees", and "productivity of employees". Among these, "satisfaction of employees" is regarded as the indicator affecting the remaining two (Kaplan and Norton, 1996: 157- 178). As a result of the study conducted, it has been established that there is no relation between explorative learning and financial performance and while adaptive learning affects financial performance positively.

Managers need to adopt explorative and exploitative innovation to ensure the continuity of the business and improve its financial performance. Allocating the resources of the business to adaptive learning insted of explorative learning will ensure the increase in financial performance. This study takes only Financial Performance into consideration. Other performance types such as Productivity Performance, Market Performance and New Product Performance may also be addressed. The results of this study are concerning IT sector in the Adana region. Studies may be conducted by addressing other region and sectors. Cause and effect relationship between variables are measured with the answers sought from the same subjects. Even if the responses are received from multiple subjects, existing cause and effect estimations in their biases may have affected relations. In future studies, measuring some of the cause and effect variables through responses from different subject groups or scanned data from secondary sources may provide more accurate results.

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