INVESTIGATING AN MNC'S PATTERNS OF LEARNING IN INTERNATIONAL EXPANSION

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Abstract - This study examines the application of learning when firms go internationally. From a qualitative approach based on the investigation of the market entry process, the author finds that the market entry process of a firm into a new foreign market contains two sequential stages with respective learning patterns. In the initial stage, as the firm's knowledge of the local market is limited, the firm tends to utilize exploitative learning to replicate its original advantage from its home country and exploratory learning to acquire knowledge of the local market; after that when the firm's local market knowledge is enhanced, the firm mainly utilizes exploitation and exploration to reconfigure its resources and competences and transform them into new resource reconfigurations to adapt to the local context.

Key words - Market entry process; learning; dynamic capabilities; market adaptation.

1. Introduction

International expansion enables a firm to capitalize more in new foreign markets other than its home country [1]. This process, however, is challenging as firms have to encounter many issues concurrently, such as global competition, rapid technological change, difference between home and host country (i.e., culture, policy, customer preferences) [2-4]. In this business environment, the determinants for the success and sustainable performance of a multinational company (MNC) transcend simply being productive at R&D, achieving new product introductions, adopting best practices, and delivering quality products and services. In fact, MNCs need the capability to adapt to their business environment constantly [3].

Learning is considered as the driving force for international expansion [5-6]. Learning is the firm's acquisition and assimilation of knowledge that helps to create and modify firms' capabilities and resource base [7-8]. A high level of learning capability enables an MNC to continuously leverage its resource configuration and stay ahead of the competition by continuously manipulating the mix of resources in its resource bundle according to the new context situations. This, in turn, helps firms achieve success and even sustainable competitive advantage [9]. Therefore, it is relevant to understand how MNCs learn to successfully expand to a new geographical market. From this motivation, this study aims to investigate the mechanism by which an MNC, specifically at the subsidiary level, practices learning from its initial entry into a new foreign market until the firm adapts to this market in the later stage.

Organizational learning is divided into exploitation and exploration [10]. In the field of international business, research on the application of exploitation and exploration to facilitate an MNC's successful market entry process has been conducted by many authors [11-18]. In this study, as the extant authors, it is agreed that a successful expansion of an MNC into a new foreign market depends on its ability to balance exploitative learning and explorative learning. However, there are some issues in this direction of research that prior researchers have not examined and explained satisfactorily. Firstly, it is widely accepted that the market entry process of an MNC into a new foreign market is a subsequent stages process, in which new knowledge acquisition in the earlier stage of entry provides the foundation for the development of the firm's resources or knowledge in the later stage [17-19]. This raises the question of whether an MNC's learning is different or the same for the whole process of entry. Understanding different ways by which learning is practiced in the entry process is requisite for MNCs to reconfigure their resource base in a proper manner to successfully achieve business objectives and sustain high-return performance. Thus, in this study, by investigating the market entry process of different MNCs, an evaluation and comparisons between cases can be conducted that allow the author to give patterns about the learning behaviors of MNCs in their market entry process.

Secondly, market adaptation requires a fitness between a firm's product and market demand [20-21]. Danneels [22] and Dougherty [23] also posit that new product configurations need to be the outcome of the integration of market and technology and can not be understood as one or the other separately. Thus, learning to obtain knowledge in terms of technology and market can be viewed as the center of organizational learning activities. Consequently, it is requisite to focus on clarifying how an MNC exploits and explores knowledge on both technology and market in its market entry process to successfully adapt to its marketplace. However, there have been quite few research on this learning mechanism in the extant literature. Through a longitudinal research based on case study approach, this study allows the author to investigate an MNC's learning mechanism on both technological knowledge and market knowledge from the early entry till the adaptation stage in a new foreign market.

This research is based on an integration of the scholarly literature regarding organizational learning, dynamic capabilities, and internationalization. The literature streams used in this article help to describe a firm's learning behaviors and explain why these learning behaviors are utilized, as well as how resource reconfigurations are created by learning. After a brief description of the research method, specifically the

collection of the data and how the data is analyzed, the patterns of learning and the mechanism by which learning happens are identified. Learning and new resource reconfiguration are also examined over time to gain an understanding of how learning contributes to a firm's market adaptation and sustained performance. The article concludes with noting the limitations of the present research and making suggestions for further research.

2. Theoretical background

Organizational learning

Learning is defined as the various costly and deliberate process by which additional technical skills and knowledge are acquired by individuals and by the organization [24]. When a firm manages and invests in acquiring and creating human resources, knowledge bases, and organizational capabilities, the firm is learning [25]. According to Mbengue [26], learning contains the process by which new data are combined with old data and implemented collectively in actions or in the preparation of future actions. Kogut [38] posits that a firm's ability to integrate and synthesize internal resources and external learning and transform them into new resource reconfigurations to deal with market competition is the central of organizational learning and determines a firm's survival and growth in its international expansion.

It is widely agreed in the extant literature that learning in an organization is divided into two types, including exploitation and exploration. In broad terms, exploitation refers to refinement, implementation, and execution, whereas exploration relates to activities such as search, variation, risk-taking, experiment, discovery, and innovation [10].

Learning is a path dependence process in which new knowledge is created on the basis of a firm's existing schema or existing knowledge [28-31]. Based on this assumption, this study focuses on a firm's effort to exploit and explore knowledge to create new products in relation to its existing resources and knowledge that it holds at a given moment. In this sense, exploitative learning refers to the use and refinement of a firm's existing knowledge, while exploratory learning includes the search for new knowledge or capabilities relative to the current ones.

In explorative learning, the level of newness of the knowledge created can sometimes be new to the world or the industry, but in most cases, it will not; as long as knowledge is new to a firm, then the knowledge is the outcome of explorative learning. For instance, a local barber shop's decision to start selling massage services in addition to hairstyling services would be exploration even if its new massage services are hardly anything new to the world or even to the local market [32].

For a firm to survive and achieve a competitive advantage, the firm needs to combine both exploitation and exploration [16, 33, 34, 35]. If firms invest more in exploitation and ignore exploration, firms can not create new innovations to address change in the market and their severe competitors. In contrast, firms with exploration to the exclusion of exploitation are more likely to find that they suffer the costs of experimentation without gaining many of its benefits [36].

Exploitation and exploration need to be practiced in both technology and market as any new resource configuration is an integration of technology knowledge and market knowledge [23]. Consistent with this, literature on dynamic capabilities argues that whether a new product development is accepted by the market or not depends on whether the product's attributes can bring certain benefits to satisfy the market need [37-38]. According to Danneel [22], market knowledge includes the knowledge that enables firms to serve their customers, including knowledge of customer needs, preferences, purchase procedure, distribution and sales access to customers, and communication channels between firm and customers; whereas technological knowledge relates to the knowledge of product design and production, for example, design and engineer know-how, manufacturing know-how, procedures for quality control. In summary, firms should focus on exploitative learning and explorative learning for both market and technology knowledge in the creation of new resource orchestrations to achieve market adaptation.

Learning at the subsidiary level

Subsidiary-level learning occurs when subsidiaries learn to cope with local market conditions, extract new knowledge from their local environment, or retrieve and combine knowledge from other subsidiaries and the head office [39]. In this process, exploitative learning entails modifying existing knowledge that the subsidiary already has to adapt to local tastes and trends or importing knowledge from the head office or other subsidiaries to apply it to local operations or to generate new knowledge from it [39-40]; explorative learning involves generating new knowledge about the subsidiary's local or regional market or when the subsidiary builds new resources and knowledge for itself to serve its business activities [41]. Schulz [39] also states that explorative learning occurs when a subsidiary is exposed to an environment characterized by a high rate of innovation and change or to new and complex situations.

Learning at the subsidiary level can happen through knowledge transfer. As MNCs often possess distinctive knowledge before going abroad, thus they can transfer their knowledge advantage to the operation of their subsidiary in local markets [5, 42]. In addition to this, foreign subsidiaries can also obtain knowledge from local partners and from experience (or self-learning). Making alliances with local partners enables firms to make use of the deep knowledge of their partners of the local market and integrate them with knowledge advantages from their parent company to develop and make money from the local market. Learning from experience means knowledge created through self-search, self-discovery, and self-experiment (for explorative learning) or through firms' engagement in the process of discovering how their product fits the local market, which enables firms to revise their product properly [43]. Chetty [44] posits that firms need to acquire knowledge of the local market through their experience if they want to expand successfully into the market, as being an insider in a network allows firms to

discover and create opportunities more effectively than the pursuit of what has been seen as theoretical activities opportunities.

Dynamic capabilities

Dynamic capability is "the capacity of an organization to purposely create, extend, or modify its resource base" [45]. The word "capacity" in this concept refers to the ability to perform a task in at least a minimally acceptable manner. In this definition of dynamic capability, any misunderstanding that dynamic capability mentions any outstanding capability is excluded. So when a firm performs a dynamic capability to alter its resource base, the firm is doing something different, but not necessarily better than before. The performance of a dynamic capability is measured by two yardsticks, including technical fitness and evolutionary fitness. Technical fitness refers to how well a dynamic capability performs its function, and evolutionary fitness relates to how well the outcome of a dynamic capability (change in firms' resources) matches its external market [45]. Thus, a firm that performs its dynamic capability at a high level is more likely to alter its resource base in accordance with the external market quicker and better than its competitors, hence achieving a competitive advantage [3, 45].

Learning is a type of dynamic capability as when a firm is learning, it is purposely altering its resource base to serve its business activities. Teece [3] posits that learning is an imperative dynamic capability that enables firms to constantly reconfigure their resources according to changes in the business environment, which in turn enables firms to obtain sustained market fitness. Many authors have characterized dynamic capabilities as processes (see [46-48]). This is because process is the mechanism for a dynamic capability to perform its function. Thus, when we observe a dynamic capability in use, we are observing the underlying processes. Hence, the words "learning", "learning dynamic capability", and "learning process" can be referred to interchangeably.

Internationalization - The Uppsala model

One famous model of international expansion in the extant literature is the Uppsala model developed by Johanson [19]. This model postulates that the commitment of a firm to a new foreign market is determined by the firm's experiential knowledge of the market. As this market knowledge is country-specific, the knowledge is only learned through engagement in business activities in the market rather than from other sources of knowledge. A rich market experience enables firms to overcome the disadvantages of a foreigner and encourages firms to be more confident to proceed with larger commmiment. Thus, the market entry process of an MNC can be described as an establishment chain that starts with a small investment in the initial stage and to a larger investment later (i.e., from no regular export activities to export through an independent representative to the joint venture and eventually a greenfield investment may follow). Big firms with surplus resources, however, may not follow this model of internationalization as they can be expected to start the market entry with a larger commitment. Similarly, firms who enter a market with similar conditions can leverage their existing knowledge base to speed up their market entry process.

3. Research method

This study utilizes the case study research approach as the author aims to explore how learning is applied by foreign subsidiaries to adapt to the local market as well as the mechanism of these learning behaviors. Case study approach is an appropriate research method, especially when in-depth knowledge about a specific real-world subject is needed to be gained [49]. This research method appropriately enables researchers to generate new knowledge, to investigate the interaction between a phenomenon and its context [50].

This research work is based on data collected from five foreign subsidiaries. These companies vary in terms of country of origin, field of business, market of expansion, and time of expansion. This diverse sample of companies is selected to provide many possibilities for comparison, which enables a richer theory development. Information on these foreign subsidiaries is described in Table 1. For each case, the main source of data is collected through semi-structured interviews, which enables the author to further explore the responses from interviewees and discuss and raise issues that may have not been considered. Before the interviews happen, information on the companies is searched on their website that is about the history of the company, business segments, and activities so that a pre-understanding of the company could be gained. This is crucial in gaining an overall view of the context within which the interviews are carried out later [51]. Interviewees consist of top managers of these foreign subsidiaries who have been with the company for a long time and are, hence, knowledgeable about their past market entry process. The interviews commonly last from 60 to 90 minutes, and all are conducted face-to-face and then are tape-recorded and transcribed for content analysis.

Table 1. *Information on MNCs in the study*

	Nationality	**Field of business**	**Market of expansion**	**Time of expansion**
Neweb	Taiwan	Third-party payment service	China	Since 2004
Vinamilk	Vietnam	Dairy products	Cambodia	Since 2007
Friesland Campina	Netherlands	Dairy products	Vietnam	Since 1995
Wacoal	Japan	Women's lingerie and underwear	Vietnam	Since 1996
YCH	Singapore	Logistics and supply chain management service	Vietnam	Since 2009

The main content of the questions in the interview is about activities that the firms conduct to expand to the local market, responses of local customers to the companies' product or service in the initial entry, and activities that the firms carry out to meet the local customers' tastes. Based

on the answers from the interviewees, the author further explores the answers by asking further questions so that a deep understanding of activities that the companies have done during their market entry process is obtained. In addition to this, information on the company's activities and investments in their local market is also acquired from the companies' websites and other e-magazines and then double-checked with the answers from the interviewees to ensure the reliability of the information. The content of the interviews is then analyzed, and the market entry process of all the firms is evaluated and compared to see if there are any patterns in terms of market entry process and learning behaviors among the firms. After some patterns are identified, the author compares them with the relevant literature to name the patterns. After that, the complete patterns of learning during the firms' market entry process, as well as the underlying mechanisms, are identified.

4. Findings

The market entry process of the MNCs in this study was identified to have two main stages, including the initial stage of entry and local market adaptation. The MNCs' learning in these stages is denoted as follows.

Initial stage of entry

In the early stage of entry, due to insufficient experience and knowledge of the local market, the MNCs' business objective was not revenue and profit; instead, the firms desired to gradually accumulate experience and knowledge about the local market for later development [5, 17]. Thus, in this stage, the MNCs tended to rely on the advantageous knowledge from their parent companies to operate in the local market. According to Kogut [27], the disadvantages of relatively less familiarity with the local market are the inherent obstacles for new foreign entrants compared to local competitors. Thus, firms need to accumulate knowledge of their local market to help them overcome their initial concerns about foreign operations, reduce operational uncertainties, and encourage firms to increase their commitment to the new market [19, 52]. In this stage, to acquire knowledge of the local market and to make use of advantageous knowledge from parent companies, explorative learning and exploitative learning were utilized by the MNCs, respectively.

Three out of five companies in this study were found to have invested in building infrastructure (i.e., manufacturing plants, warehouses) since their beginning of entry to produce products locally, including FrieslandCampina, Wacoal, and YCH; the other two companies (i.e., Vinamilk and Neweb) provided their products or services to local markets through cooperating with local partners. For FrieslandCampina, Wacoal, YCH, exploitative learning entailed replicating the advantageous technological knowledge from their parent companies through knowledge transfer activities. The following quotes describe how knowledge was replicated by these companies.

In the case of FrieslandCampina, one manager from the company stated:

From the very first days, all the technical staff were sent to the Netherlands for training and study. After completing the training, they returned to the company to retrain the other technical staff we recruited later.

Initially, we used the existing milk formula from the research and development department of the parent company; we just applied it, condensed milk was like that, powdered milk was like that, yogurt was like that, and we only followed the recipe from our parent company.

Our technicians at that time worked in the laboratories to check the quality of the products. Those with good English and excellent abilities were selected and sent to the Netherlands to study. After finishing the study, they returned to the company. However, we initially had to have a foreign R&D manager to work with them and guide them. Now, our R&D manager is Vietnamese, but it took a lot of time for our technicians to be able to develop the milk recipe by themselves as it was not a simple task.

Similarly, at Wacoal company, the employees were also sent to the factory in their home country (Japan) to learn about technical and production issues. One Wacoal manager said:

At first, we were introduced to some basic knowledge of a garment factory and the rules applied in a garment factory. After that, we were taken to the factory; we studied by groups; people working in the production management department learned production management, people in the mechanical group learned mechanics with mechanical mentors, etc.

We were engaged in the practical activities in the factory as we were expected to understand that these were the jobs that we had to do every day in a factory, everybody no matter what position they held in the factory, had to learn it all, even if you were a production manager, even though you never sewed a shirt, you still had to learn to sew, so that you could understand the sewing process to serve your job.

In terms of the application of explorative learning, MNCs that entered their local market without alliancing with local partners tended to acquire the local market knowledge from experience. For example, in the case of FrieslandCampina, the company had to find the way to build its own distribution channel in the local market (in Vietnam) at the beginning of the entry. As one FrieslandCampina manager recounted:

In the Netherlands, most of the distribution channels were modern, like supermarkets, convenience stores, etc. In Vietnam, the distribution channels for dairy at that time were mainly traditional markets. Thus, it was impossible for us to follow the way the parent company had done in the Netherlands, so we had to build our own distribution channel. We had to do it step by step, we experienced a lot of difficulties, and it was hard working. At that time, the dairy agents in Vietnam were not willing to sell FrieslandCampina's products because this was a new brand; they did not know if they could sell our products well or not, but their business with Vinamilk was very good.

We went to small grocery stores and asked them to cooperate with us to sell and display our products; we worked with several main stores first, and after that, we gradually accessed the other stores. We also created a television commercial to advertise the newly built milk

store chain to let the local consumers know that from now on, they could go to these stores to buy milk.

In the case of Wacoal, the company had to spend much time and effort to check whether local consumers liked their product designs and afforded their products or not:

At that time, Vietnam's GPD was too low, the price of one bra of Wacoal was almost one month's salary of the local people. It was too high, so when we checked the response of the local customers to our products, we found that the result was not good, the product was so expensive to them, so we decided to temporarily stop selling the product in the local market and our manufacturing plant in Vietnam only manufactured products from orders of Wacoal in other countries. In 2008, we realized the business opportunities in the market, and we began to carry out research again, we had to check whether our product price and designs would be accepted by Vietnamese consumers or not, whether what we thought fit, the locals also thought so.

After the survey, we understood a little bit about what our customers wanted, and then we conducted the survey again, this process was repeated many times, and we spent nearly two years doing this.

In another instances, Vinamilk and Neweb provide examples of the acquisition of local market knowledge by collaboration with local partners. When Vinamilk initially entered the local market (Cambodia), the company sold its products to local customers through a local distributor; after that, the relationship between Vinamilk and its local partner was developed into a joint venture. Through this collaboration, the company gradually increased its understanding of the local customers, as in the words of one Vinamik manager, "the relationship between Vinamik and the local partner was actually traditional export. However, we actively received feedback from customers through our local partner, and this feedback helped us to adjust the milk formula to the locals later".

Similarly, in the case of Neweb in the Chinese market, when Yahoo set up its international subsidiary in Shanghai, Neweb was invited, as an alliance partner, to be a major technological supporter of online payment services in the Yahoo ecosystem. This collaboration was indeed very helpful to Neweb, as one Neweb manager described:

By this chance, the process of Neweb engaging the Chinese market could be viewed as smooth and successful. Step by step, we gradually learned and built our knowledge of the Chinese e-commerce market, such as online shopping services and associated customer behaviors and the supply chain of retail commodities. Through our cooperation with Yahoo, we indeed fulfilled our knowledge gap for the Chinese market, and we accumulated strong partnerships and reputations in both Taiwan and China.

Table 2. *Firms' learning in the initial stage of entry*

Types of learning	Mechanism of learning
Exploitation	Knowledge transfer (replicate technological knowledge from parent company).
Exploration	Local cooperation and experience (obtain local market knowledge through local partners or self–learning).

Local market adaptation stage

After the MNCs have accumulated knowledge about the local market (i.e., local customer preferences, product design, and distribution channels) to a certain extent, they start to make use of this knowledge to accelerate their adaptation to the local market for market share and revenue. According to Lou [5], the initial entry of an MNC is associated with explorative learning to acquire knowledge of the local market, then once enough knowledge is gained, MNCs gradually concentrate on exploitative learning to capitalize on more opportunities in a more massive and determined way. Exploitative learning of a subsidiary entails activities to revise the firm's current practices and operations to fit the new knowledge that it acquired from the local marketplace [43]. In alignment with these authors, this study shows that in this stage, the MNCs sought to customize their products to the local customers' preferences rather than just selling what they have based on the advantage of their parent company. Furthermore, the firms also constantly improved their products or services to best satisfy their local customers. To proceed these product alterations (i.e., product customization, product refinement), the MNCs combined the advantageous knowledge of technology from their parent company with the knowledge of the local market that the firms obtained from their local cooperation or experience and then transformed them into new products.

For example, in the case of Vinamilk, in this stage, the company converted its presence in the local market (Cambodia) from a joint venture to a wholly owned subsidiary and built a manufacturing plant in the local market to manufacture products locally. Based on the collaboration with the local partner in the prior stage, the company gained insight into its customer's preferences and adjusted its product to the taste of the local customers, as one Vinamilk manager stated, "Cambodian customers preferred sweeter taste." In addition to this, Vinamilk manufactured a new brand of milk specifically for the Cambodian market, namely Best Cow, as one Vinamilk manager said:

Best Cow was *sweetened condensed mil, its quality was not as good as Ông Thọ milk (a sweetened condensed milk of Vinamilk sold in its home country), but it matched the Cambodian market as it was cheap. Best Cow was an example showing that our subsidiary was totally able to develop a product specifically for the Cambodian market and could sell this product well in this market.*

In another example, FrieslandCampina carried out market surveys to learn about customer feedback on the company's products. By combining the information obtained from the survey with the knowledge of the dairy formula from the parent company, FrieslandCampina adjusted its products so that they were more suitable to local customer preferences. As stated by one FrieslandCampina manager:

Once we had our customer database, we tested our products in comparison with those from our competitors to see what customers liked about our products and why they liked them, if they said they liked them a lot, then no problem, but if they said that I was used to drinking low-fat Vietnamese milk, we had to adjust our products, our R&D

department developed its own formula for Vietnamese. The dairy formula from the parent company already satisfied the international standards, so we only conducted adjustments based on the original formula.

Similarly, YCH company provides an additional example of exploitative learning to carry out product refinement.

Customers gave their requirements, we planned how to adapt to those requirements and what steps we would take; this was also the way customers trained us, they told us to do this, it must be done like this. Big customers like Unilever, Nike, and Adidas,... requirements were very strict and above normal standards, when working with them, we learned useful knowledge, and we applied the knowledge to our service to improve our services. When we worked with other customers, we showed them our experience in that field, and they were very impressed with this.

Besides product customization and improvement, the MNCs also diversified their product portfolio to maximize their revenue and market share in this stage. Thus, in addition to exploitative learning, explorative learning is also utilized to facilitate their performance enhancement. This pattern of learning behaviors of the firms is consistent with Schulz [39], who posits that both exploration and exploitation are necessary for enhancing subsidiary performance. As mentioned before, explorative learning does not necessarily entail the creation of knowledge or competence that is new to the world or new to the industry or radical innovation; instead, when a firm learns to build new resources and knowledge for itself to conduct new business development project or to diversify its product portfolio, it is performing explorative learning [32]. In this stage, based on the MNCs' experience in serving customers with their product portfolio, the firms have already gained insight into their customers. Therefore, the MNCs sought to broaden their current product portfolio to leverage this market knowledge. Hence, explorative learning entailed the combination of market knowledge that the firms already possessed with technological knowledge they acquired through their partners or from experience to create new products.

In the case of FrieslandCampina, the company expanded to produce a new product line that was powder milk for children under twelve months old. The production process for this product was quite complicated and required stricter compliance with hygiene and safety issues than the other company products. Therefore, the company had to learn about these requirements before proceeding with the production. The following quotes from one FrieslandCampina manager describe the way the firm learned to produce the new product line:

To produce this product line, we must have a factory that satisfies the required standards; not only that, our workers must be trained to have the habit of following the strict process of food hygiene and safety. We had to register for ISO certification and build the production system according to ISO's standards; when the system was done, we invited those experts to come and check. If we did not pass the test, we had to do it again, and we did again until they confirmed that we passed, and then they gave us the certificates.

Similarly, YCH provides another example of the firm's learning from experience to diversify its services:

When our existing customer, Apple, asked us how to export spare parts to Singapore for repair and then re-imported the goods into Vietnam, we had not done this before, but we could not reply to our customer that we did not know, so I asked my friends who worked for other companies in the same industry about this as they had experience for this service, they instructed me how to do this, and then we applied the knowledge to build our process of temporary import and re-export goods, after that we double checked the process with the customs authorities, and then we offered the service to our customers.

In another instance, Newed explored new knowledge through their collaboration with a local partner. When a leading e-commerce platform in China, Alibaba, expanded to selling commodities originating from Taiwan to the Chinese online market, Neweb, together with another local partner (Alipay), provided an online payment platform for Alibaba. Through this cooperation, Neweb acquired useful knowledge that served as the foundation for the company to develop an e-commerce platform of its own that sold Taiwanese commodities to the Chinese market as one Newed manager stated:

Working with Alipay, we obtained treasured experience and knowhow for managing and designing a payment service system from a terribly complicated situation, that is the B2C payment service mechanism between China and Taiwan, as this mechanism was considerably constrained by so many regulations from these two Governments for political factors.

Table 3. *Firms' learning in the market adaptation stage*

Types of learning	Mechanism of learning		
Exploitation	Tech. knowledge	+	Local market knowledge
	from parent company		from local cooperation, from experience
	new products (product customization, product refinement)		
Exploration	Tech. knowledge (new to firm)	+	Local market knowledge (existing to firm)
	experience, local cooperation		experience
	new products (product diversification)		

5. Discussion and conclusion

This study examines the application of learning to an MNC's expansion to a new foreign market, specifically at the subsidiary level. Findings from this study show that an MNC's market entry process includes two main stages: the initial stage and the adaptation stage. As described in Tables 2 and 3, the MNCs' patterns of learning in these stages of entry are different. Specifically, in the initial stage of entry, although MNCs lack business experience in the local market, they possess the technological advantage that comes from their parent company. Thus, firms' objectives are, on the one hand to seek to improve the understanding of the local market, on the other hand to leverage their current advantage knowledge. The types of learning firms use in this stage are exploitative learning and explorative learning. Exploitative learning is utilized to help firms enhance their understanding of the local market, and explorative learning is used to make use of technological advantage from parent companies. The mechanism by which learning happens is through knowledge transfer (for exploitation) and cooperation with local partners or from firms' experience in the local market (for exploration).

In the adaptation stage, as MNCs have accumulated enough experience in the local market, they start intensively targeting the local market for market share and revenue. Thus, a series of resource reconfiguration activities are conducted by the firms in a manner that aligns with the local customer preferences, including product customization, product improvement, and product diversification. In this stage, exploration and exploitation continue to be utilized to help firms enhance their performance. However, the mechanism by which learning happens in this stage is different from that in the initial entry. Specifically, exploitative learning entails the combination of technological knowledge that is available from the parent company and knowledge of the local market firms acquire when entering the local market (through their partners or experience) and transforming them into new products. Therefore, the outcomes of learning are products that have been customized or improved to best serve the local customers; explorative learning contains the combination of technological knowledge that is new to the firms (obtained from local partners or experience) with the local market knowledge that the firms have obtained from their experience in serving their current customers and transform them into new related products or service. The mechanism of learning in the adaptation stage identified in this study is consistent with the extant literature on organizational learning as mentioned before, specifically, Kogut [27] posits that a firm's ability to combine knowledge from inside and outside the firm and transform them into new resource reconfigurations is the central of organizational learning and determines firm's survival and growth in its international expansion.

The two-stage market entry of MNCs in this study is consistent with the multinational expansion model by Johanson and Vahlne [19]. In a study about dynamic capabilities in international expansion, Lou [5] also agrees that the market entry process of an MNC into a new geographical market is associated with exploitative learning and explorative learning. However, according to Lou [5], when firms have accumulated enough experience in the initial entry, they tend to mostly utilize exploitative learning to enhance market adaptation; hence, explorative learning is gradually phased out by exploitative learning. Contrary to Lou [5], this study shows that both exploitation and exploration are intensively utilized by firms to reconfigure their resource base and knowledge in the adaptation stage. Specifically, exploitative learning is used to help the MNCs leverage the current technological advantage of their parent companies, and explorative learning is utilized to help the MNCs diversify their products. In the studies of March [10] and Smith [36], the authors also postulate that market adaptation requires both expoitative and explorative learning. Exploitative enables firms to earn ongoing profits from existing advantages that are embedded in the firm's knowledge base, and explorative allows firms to conduct innovations to compete with their competitors and to capture business changes in the marketplace.

This study also showcases that the market entry process of MNCs is associated with a dynamic learning process by which MNCs constantly acquire knowledge and reconfigure their resource base. Learning in the market entry process, however, is rather challenging. According to Kogut [27], learning by replicating knowledge from the parent company is unlikely to be an easy task; specifically, learning the functional skills of how to do something is different from learning how to create it. Barkema [53] posits that one key challenge for firms operating abroad is bridging the distance to the host culture. However, this knowledge is not easy to acquire as it is subtle and, oftentimes, more tacit knowledge [43]. So, firms that have spent time in a host country may acquire a significant competitive advantage compared to firms that are not in that country [54]. Furthermore, new products created are accepted by the market only when they match the market; thus, in the process of learning, MNCs need to acquire proper knowledge and transform it into proper products that are relevant to market demand. Hence, in the process of international expansion, MNCs that can perform learning at a higher level are more likely to leverage the current advantage of their parent company in the local market more quickly, and firms also acquire knowledge and alter their resources according to the external market more quickly and better than their competitors, that in turn enables firms to achieve performance and competitive advantage [3].

Like any other research on international expansion, this research does not take into account all possible influences. First, this study focuses on the market entry process of MNCs, especially those from more developed economies to less developed economies. Thus, the learning mechanisms identified in this study fit the context in which firms operate. Other authors can carry out further research to examine the market entry process of firms from developing economies. According to Karakaya [55], firms from developing countries face the same market entry barriers as their competitors from developed countries,

however, the number and intensity of barriers are often higher for them. Choi [56] also posits that consumers in developed countries may have a country of origin bias towards new products from developing countries. This may bring a suggestion for future researchers to further investigate if learning patterns utilized by firms from developing countries to adapt to developed countries are consistent with the findings from this study.

Second, by investigating the process by which exploitation and exploration are practiced, it is revealed that exploitative learning and explorative learning can be performed concurrently within one domain of knowledge (market knowledge or technological knowledge). For example, in the case of FrieslandCampina, when the company developed powder milk for children under twelve months old, in terms of technological knowledge, the company on one hand, heavily exploited the existing knowledge from the parent company through the replication of their current milk formula, and on the other hand explored plenty of new knowledge of the production process of this new product. The issue of exploitation and exploration within a domain of knowledge is mentioned as "multidimensionality within a resource class" by Aspara [32]. Specifically, the authors state that the pursuit of exploitative learning in a subclass of a principal knowledge (market knowledge or technological knowledge) in a certain development project is independent of the pursuit of explorative learning in the other subclass of the same principal knowledge. Thus, more exploitation in a knowledge class does not necessarily mean less exploration in that knowledge class or exclusion of it. Like other extant studies on organization learning (see Danneels [3], Sidhu [57]), this study mostly approaches exploitation and exploration at one dimension of knowledge class. Thus, future research can further investigate the issue of "multidimensionality within a resource class" in exploitation and exploration with more empirical evidence.

Third, although the author seeks to diversify the cases by examining different fields of business (i.e., logistics, online payment service, clothing) to obtain generalizability, these industries are still limited. Future researchers may further broaden the list of industries to generalize the inferences to a wider population. Finally, this study especially researches firms' learning on market knowledge and technological knowledge. Some other potential factors from the external markets, like market competition, government policy, cultural distance, and market turbulence, also importantly affect a firm's market entry process [45, 58, 59] and should be extremely important to consider in future research.

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