



Emerging Markets as Learning Laboratories: Learning Behaviors of Local Firms and Foreign Entrants in Different Institutional Contexts

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ABSTRACT In this work, we examine and integrate the research streams on learning behaviours of both local firms and foreign entrants in emerging markets. We propose that local firms and foreign entrants differ in the types of learning pursued and in the learning processes used. While emerging market firms engage in a significant amount of exploratory learning, they also attempt to exploit the newly gained knowledge in their current markets. Furthermore, foreign entrants engage in exploitative learning as expected but also must participate in exploratory learning to acquire knowledge of culture, institutional norms, and important social relationships. While much of the learning occurs through cooperative processes with both partners, they also each engage in experiential learning. We argue that emerging markets also differ; firms in the more mature emerging markets seek different types of learning and the learning processes used vary compared to those in less mature emerging markets. Our research suggests that emerging markets represent learning laboratories and provide a base to catalyse future research.

Recent research has increasingly focused attention on emerging markets. Emerging markets have attracted foreign entrants from developed markets for resource seeking and opportunity exploring purposes and firms from several emerging markets (e.g., China) are also becoming important players in the global markets (e.g., Luo, 2002; Mobley, 2003). In fact, a growing percentage of the world's foreign direct investment (FDI) is originating in emerging market countries. For example, using the 64 emerging market countries classified by Hoskisson, Eden, Lau and Wright (2000), firms in these countries accounted for approximately US\$800 billion of FDI outward stock in 2003 (UNCTAD, 2004). The value of the total investment in other countries by emerging market firms has continued to increase significantly over the last decade.

An emerging market country is generally defined as one that often has low per capita income but also has a rapid pace of economic development, government policies favouring economic liberalization, and a free market economy (see Hoskisson, Eden, Lau & Wright, 2000). According to Hoskisson et al. (2000), emerging markets include economies in Latin America, the Middle East, Southeast Asia, and Africa, and also transition economies such as China, Central and Eastern Europe, and the former Soviet Union. These transition economies are changing from former planned economies to market economies based on privatization with an emphasis on entrepreneurial activities (Zahra, Ireland, Gutierrez & Hitt, 2000). These changes create many rapid growth opportunities for local firms from emerging markets and also for foreign entrants from developed markets (Li & Atuahene-Gima, 2002; Peng, 2003).

While emerging markets offer growth opportunities for firms, they also impose challenges for firms' competitive behaviour. A common feature of emerging markets is a weak institutional environment or the existence of 'institutional deficits' (Khanna & Palepu, 1997). In these markets, formal institutional constraints such as inefficient legal frameworks and weak intellectual property rights pose significant problems for foreign firms making it difficult for these firms to adapt to the emerging market country's institutional environment. The foreign entrants, though often possessing valuable resources such as financial capital, managerial capabilities, and technical skills, still need to learn about local markets, about often vague and changing institutional arrangements and how to gain access to social connections (Child & Czeglédy, 1996; Hitt, Dacin, Levitas, Arregle & Borza, 2000). Conversely, while local emerging market firms are familiar with local conditions, they also experience difficulties. Coupled with the dynamic, uncertain, and complex nature of the emerging markets, emerging market firms frequently experience difficulties in competing with both domestic rivals and foreign entrants. Emerging market firms often have resource needs but they have difficulties in acquiring resources because local strategic factor markets, such as financial markets and human capital markets, are often underdeveloped. Thus, learning is an integral part of emerging market firms' business activities.

Despite the importance of learning for both emerging market firms and foreign entrants, there are several research gaps in the literature. First, there is relatively little research on learning behaviours by local emerging market firms in the extant literature. Research suggests that local firms have a strong desire and need to learn new capabilities (e.g., management and technological capabilities) to improve their abilities to compete and gain competitive advantages. However, our knowledge about how these firms learn has not been well developed. Second, while a vast literature has emerged on how developed market firms internationalize and how they learn about foreign cultures from their local partners (e.g., Kochhar & Hitt, 1995; Steensma & Lyles, 2000; Tsang, 2002), no research has contrasted the learning processes of foreign entrants with those of emerging market firms. Third,

much prior research has assumed emerging markets to be homogenous. As Hoskisson et al. (2000: 259) suggested, however, emerging markets are heterogeneous because they 'have had different starting points and have arrived at different stages in the process at any one point in time.' Yet, it is not clear how the heterogeneity of institutional contexts in emerging markets affects the learning behaviors of both local firms and foreign entrants.

This work contributes to the literature in several ways. First, we examine learning behaviors of both local firms and foreign entrants in emerging markets. This is important because it provides a more complete picture of how both local firms and foreign entrants independently and interactively learn in this context. Second, we explain how learning behaviors of both local firms and foreign entrants in emerging markets are context specific, especially to the local institutional environments. We explore how the economic growth maturity and institutional stability in emerging markets have important effects on learning behaviors of both local firms and foreign entrants.

This paper is organized as follows. First, we draw upon the resource-based view and organizational learning theory to explain that emerging markets represent a learning laboratory for local firms and foreign entrants. Then, we present typologies of the learning behaviors for both local firms and foreign entrants. Third, we examine how learning behaviors of local firms and foreign entrants vary across different institutional contexts and develop propositions to guide future research. Finally, we recommend several important directions for future research.

EMERGING MARKETS AS LEARNING LABORATORIES

The resource-based view of the firm suggests that firms are heterogeneous in the resources they control (Penrose, 1959). Organizational resources consist of all the assets, capabilities, attributes, and knowledge a firm possesses that enable it to develop and implement strategies that improve performance (Barney, 1991; Wernerfelt, 1984). A firm's resources can be a source of competitive advantage in markets when these resources are valuable, rare, difficult-to-imitate, and have qualities that make them non-substitutable (Barney, 1991). Teece, Pisano and Shuen (1997) extended the resource-based view with a dynamic perspective. They argue that because the value of a resource can change over time, competitive advantages come not only from organizational resources, but also from the firm's capability to continually create, integrate, and reconfigure new resources. There may be several ways in which new capabilities are developed by firms but most entail organizational learning or acquiring new knowledge (Sirmon, Hitt & Ireland, 2005).

The importance of organizational learning for the competitiveness of firms is based on the criticality of knowledge for gaining and sustaining a competitive advantage. Knowledge is the base of firm capabilities and thus, to develop capabilities, firms must acquire the appropriate knowledge stocks and integrate them.

Manufacturing capabilities often require specific types and levels of technological knowledge, for example. Marketing capabilities require knowledge of markets and consumer behavior as well as promotional activities. Firms in all markets must regularly search for and acquire knowledge to continuously reconfigure their resource portfolio and build new capabilities in order to remain competitive in dynamic markets (Sirmon et al., 2005).

Learning is crucial for both local firms and foreign entrants in emerging markets. Given their resource-poor conditions, local firms must learn continuously and quickly in order to survive in their new competitive environments (Bartlett & Ghoshal, 2000; Dawar & Frost, 1999; Manikutty, 2000; Prahalad & Lieberthal, 1998). In such environments, the markets are becoming more open (some slowly and others more rapidly) and foreign entrants bring their often considerable skills to the competition. Thus, local firms must learn and develop strong and new capabilities to survive. In addition, many local firms also desire to move into markets outside their home country. In other words, they desire to build capabilities that allow them to compete in global markets, including other emerging markets and eventually in developed markets. To do so often requires that they develop the sophisticated managerial and technological capabilities that allow them to compete effectively in these markets. Therefore, local firms in emerging markets have major incentives to acquire new knowledge and to convert that knowledge into effective capabilities.

Foreign entrants also have incentives to learn in emerging markets. Some emerging markets such as China and India have major population bases and thus provide substantial upside potential market demand for some industries. Therefore, such emerging markets present important growth opportunities for many foreign entrants. However, foreign entrants in emerging markets must cope with the 'liability of foreignness', a concept first suggested by Hymer (1960) and further developed in subsequent research (e.g., Miller & Parkhe, 2002; Petersen & Pedersen, 2002; Zaheer, 1995; Zaheer & Mosakowski, 1997). These liabilities exist because of geographical, psychological, cultural, and institutional distances between host countries and home countries. Thus foreign entrants will bear higher costs (e.g., investing, managing, and operating costs) than local firms. As a result, foreign entrants need to learn about the culture and how to operate in an institutionally constrained environment (Luo, 1999) to overcome the liabilities of foreignness. Further, because of the potential in the emerging markets, foreign entrants are also likely to experience significant competition in these markets. The potential market demand in large emerging markets such as China is likely to attract multiple foreign entrants in the same industry. Thus, foreign entrants must acquire the necessary knowledge as rapidly as possible to remain competitive even in the local market. Even being early movers does not protect foreign entrants from additional competition, as discovered recently by Volkswagen (VW) and General Motors (GM) in China. VW entered China in 1984 and quickly became a major auto pro-

ducer in this market. GM entered the Chinese market via a joint venture in 1997. Yet, both of them are experiencing significant reductions in their market shares because of new foreign competitors (e.g., Hyundai, Honda) that have entered the Chinese market with smaller and cheaper cars (Roberts, 2005). As suggested by Tsang (2002), internationalization is a learning process.

There are two general types of organizational learning: exploration and exploitation (March, 1991). Exploratory learning often involves experimentation with new alternatives and acquiring major additions of knowledge to an organization's knowledge stock. Alternatively, exploitative learning involves the extension of existing capabilities. Such learning is likely to be more incremental, whereas exploratory learning is likely to be more innovative and unique (Ahuja & Lampert, 2001). Both exploratory learning and exploitative learning can occur simultaneously. The firm can use cooperative and experiential learning processes to engage in the two types of learning (Holmqvist, 2004). Cooperative learning is derived through collaboration with partners while experiential learning occurs when the firm learns through its own experiences, some of which may be intentionally designed for learning. Taken together, a firm's learning behaviors can be categorized into four approaches: cooperative exploratory learning, cooperative exploitative learning, experiential exploratory learning, and experiential exploitative learning. In the following sections, we discuss each of these learning behavior approaches for both local firms and foreign entrants in the context of emerging markets.

Learning Behaviors of Local Emerging Market Firms

As noted earlier, most local firms in emerging markets are resource poor and cannot rely solely on internal resources or they will not survive, especially as the market attracts more resource-rich foreign entrants to enter the local markets (Uhlenbruck, Meyer, & Hitt, 2003). As a result, these firms have little choice but to learn in order to adapt to their changing environment. The entry of foreign firms from developed markets not only imposes pressures on local firms to proactively learn but also provides opportunities for them to acquire the needed knowledge stocks. In other words, emerging market firms can achieve a strategic advantage (at least on local competitors) if they learn and leverage the knowledge gained from foreign entrants to improve their capabilities. Mathews (2002) argued that emerging market firms are latecomers that can overcome their resource deficiencies through learning from their Western counterparts.

As shown in Table 1, local firms in emerging markets engage in both exploratory and exploitative learning and learn through both cooperative and experiential processes. Cooperative-exploratory learning involves building new knowledge that is largely or wholly unrelated to the firm's current knowledge stocks by working with partners to jointly create the new knowledge. Cooperative-exploitative learning involves enriching a firm's current knowledge stock through transfers of knowledge

Table 1. Learning approaches – local emerging market firms

	<i>Exploratory</i>	<i>Exploitative</i>
Cooperative	<ul style="list-style-type: none"> • Goal: to develop capabilities for increasing competitive position locally as well as internationally. • Strategic alliances provide opportunities for firms to learn from each other. • Local firms seek to gain technological, managerial, and marketing capabilities. • Interplays with cooperative–exploitative. 	<ul style="list-style-type: none"> • Local firms exploit their own knowledge of local market and institutions and learn from foreign partners through strategic alliances. • Local firms learn from foreign entrants then exploit that learning in future projects. • Occurs when partners trust one another to increase learning from each other which then leads to refined routines and skills used in their on-going joint activities. • Interplays with cooperative–exploratory.
Experiential	<ul style="list-style-type: none"> • Goal: to create a variety of experiences through self-discovery and experimentation. • Concerted variation. • Use foreign firm as benchmark. • Go global – learn by doing. 	<ul style="list-style-type: none"> • Goal: create reliability in experience through refinement and implementation of new techniques and processes. • Entails applying newly learned skills in home market and potentially in newly entered foreign markets as well. • Experimental application of newly acquired knowledge and capabilities (hence exploitative). • Iterated rounds of leveraging and adaptation.

between partners in ways that allow a firm to exploit its current knowledge. Experiential learning involves adding to a firm's knowledge stocks through experiencing new contexts. It often entails building tacit knowledge through learning by doing. It involves exploratory learning when the knowledge created is new and unrelated to the firm's current knowledge stocks. Alternatively, it is exploitative when the knowledge added is more incremental and helps the firm exploit its current knowledge stocks. We examine each of the four approaches depicted in the table, cooperative–exploratory, cooperative–exploitative, experiential–exploratory and experiential–exploitative.

Cooperative–exploratory learning. Research on strategic alliances (e.g., Kogut, 1988) or strategic networking (Gulati, Nohria & Zaheer, 2000) has long suggested that the need for learning is a major rationale for alliance/network formation. Strategic alliances/networks provide opportunities for partners to learn from each other.

Given the resource gaps and differences between emerging markets and developed markets, local firms in emerging markets often engage in exploratory learning through partnerships with foreign entrants from developed markets. Through knowledge transfer and creation, collaborative exploratory learning enables local firms to develop their technological, managerial, and marketing capabilities (Hitt et al., 2000). The intent is to develop knowledge and competencies that allow these firms to be competitive in a local market and, hopefully, later in international markets. Empirically, Lu (2000) demonstrates that Chinese technology firms acquire and develop their technological and marketing capabilities through strategic alliances with foreign partners. Li and Atuahene-Gima (2002) also show that new Chinese technology ventures develop their marketing and technological capabilities by learning from foreign entrants through developing downstream alliances (i.e., focusing on distribution and marketing of foreign firms' products in China).

Of course, the value that can be gained through cooperative–exploratory learning is based on the absorptive capacity of local firms (Cohen & Levinthal, 1990) as well as on the quality of their relationship with the partners. Cohen and Levinthal (1990) define absorptive capacity as a firm's ability 'to recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends' (p. 128). Absorptive capacity provides local firms in emerging markets with the ability to absorb technological, managerial, and marketing resources from foreign partners. However, when these firms have a lower level of absorptive capacity, it requires a much closer working relationship with the foreign partners to facilitate their learning (relational capital). Thus, because of the lower absorptive capacities of local emerging market firms, they must 'learn by doing' and must work closely with their partners. Fortunately, Lane and Lubatkin (1998) found that strategic alliances provide the opportunity to develop a close working relationship to gain even tacit knowledge. Although developed market firms may establish procedures and programs to enhance resource and knowledge transfer to emerging market firms through alliances, learning through partnering with foreign entrants also must overcome potential barriers. For example, because local firms develop capabilities through alliances that can be used later to compete against the developed market firms, the latter are usually cautious and can even intentionally impede transfers of knowledge they believe crucial to their competitive advantage (Steensma & Lyles, 2000). However, their concerns can be lessened if developed market firms can gain significant resources from the partnerships as well (Anand & Delios, 1996). Furthermore, Li and Atuahene-Gima (2002) noted that developing downstream alliances can reduce the perceived risk by developed market firms of losing proprietary technologies to their emerging market partners.

Cooperative–exploitative learning. The purpose of cooperative–exploitative learning is that local firms exploit their own knowledge of the local market and institutions

by integrating it with knowledge learned from foreign partners through strategic alliances or other interorganizational collaborations. Compared to foreign entrants, local firms have the knowledge of local markets and social capital resources embedded in their connections with local institutions. The market knowledge and social capital resources often heighten these firms' attractiveness to potential foreign partners providing them with opportunities to enter strategic alliances and learn from foreign partners (Li & Atuahene-Gima, 2002). For example, Hitt et al. (2000) found that developed market firms emphasize market knowledge and access in the selection of international strategic alliance partners. It appears that in the process of strategic alliances, emerging market firms can exploit their market knowledge and social capital resources to learn from their foreign partners. They can also integrate their local knowledge with the new capabilities developed based on knowledge gained from their partners to enhance their competitiveness in local markets.

Exploitative learning in strategic alliances involves the internalization and routinization of experiences generated from strategic alliances (Holmqvist, 2004: 77). Such learning is especially valuable to emerging market firms. This type of learning occurs when partners have effectively adapted to each other based on trust and they have established common routines and application of capabilities that serve as a useful template for many of their joint activities (e.g., joint new product development or joint marketing activities). The organizational routines may facilitate the application of newly developed capabilities based on cooperative-exploratory learning (March & Simon, 1958; Nelson & Winter, 1982). However, these capabilities are more likely to be absorbed by local emerging market firms through cooperative-exploitative learning processes. Thus, cooperative-exploratory learning and cooperative-exploitative learning are sometimes interdependent.

Experiential-exploratory learning. Experiential-exploratory learning creates knowledge through self-search, self-discovery, and self-experimentation. This type of learning can occur either in local or global markets; certainly knowledge developed in either one supports and enhances actions in the other. Experiential-exploratory learning at the local level entails developing new routines through processes of concerted variation and planned experimentation in the local market (March, 1991). This type of learning becomes increasingly important for local firms in emerging markets because market competition in most emerging markets has become increasingly intense. Paced by the demands of competitive markets, local firms must continuously expand and enrich their capabilities through internal application, experimentation, and learning from the outcomes of these activities. For example, emerging market firms can use foreign entrants as benchmarks and search for ways to develop innovative means to satisfy the demands of customers in the local market with unique differentiated products (Bartlett & Ghoshal,

2000). Because local firms have a better understanding of the local demands, they may develop their capabilities to best satisfy the particular and often unique needs of local customers (Dawar & Frost, 1999).

Capabilities developed through exploratory learning at the local level can serve as a base for emerging market firms' experiential-exploratory learning at the global level. Experiential-exploratory learning might involve entering into other emerging markets and even developed markets and building their strategic expertise and competitive prowess. While local firms in emerging markets can leverage their new capabilities developed from their local markets, in international markets new capabilities cannot simply be transferred and installed but must be developed and internalized through learning by doing. Bartlett and Ghoshal (2000: 138-139) used Jollibee, a Philippines-based fast food chain, as an example to explain how it developed the knowledge of managing offshore franchises by entering other emerging markets such as Brunei, Guam, and Vietnam. The knowledge provided a base for Jollibee to later enter into the US market.

Experiential-exploitative learning. Experiential-exploitative learning attempts to create reliability in a firm's experience through refinement and implementation of new techniques (e.g., managerial knowledge) and processes (e.g., technology and manufacturing knowledge) learned from other sources. In effect, it entails applying newly-developed capabilities in the home country market and in newly entered international markets. Therefore, the intent is to exploit the knowledge learned but because these capabilities are new, the local emerging market firms must experiment and learn from the experiences of using these capabilities. They will probably continue to learn to adapt and develop these capabilities in order to hone them for developing their competitive abilities in the local markets. For example, in China, many technology firms were founded based on technologies they acquired from foreign partners. These firms then adapted the technologies to the Chinese market in fashionable and specialized ways (Lu, 2000). Because technology industries and customer requirements are often less sophisticated in emerging markets, local firms have the opportunity to modify imported technologies to meet local market requirements and develop their own competitive advantages. These firms must also adapt the new capabilities to the different cultural and institutional environments of the new markets that they enter. Thus, they learn through this experiential and adaptation process. Thus, experiential-exploitative learning involves a process with iterated rounds of leveraging the knowledge and adaptation over a period of time.

It is becoming more common for emerging market firms to enter other emerging markets for exploitative learning (Hoskisson et al., 2004). In this case, they often gain knowledge that allows them to extend their current capabilities and leverage them to build and/or sustain a competitive advantage in these markets. Dawar and Frost (1999) argued that to leverage their assets more effectively in

other markets, emerging market firms need to seek analogous markets. Also, emerging market firms can exploit the resources from other emerging markets. For example, Chinese firms are taking advantage of India's engineering talents. Huawei, a leading Chinese telecom equipment company, recruited 100 Indians in its headquarters in Shenzhen. Recently, the company opened a development centre in Bangalore, hiring 700 Indians (*Business Week*, 2004).

Proposition 1: Local emerging market firms engage in both exploratory and exploitative learning using both cooperative and experiential learning processes to increase their competitiveness in local and international markets.

LEARNING BEHAVIORS OF FOREIGN ENTRANTS IN EMERGING MARKETS

Developed market firms frequently enter emerging markets because of the perceived opportunity in those markets. Most emerging markets represent growth opportunities to expand the sales revenues for developed market firms and to provide future growth potential in those markets. Also, the emerging market countries often have the potential for increasing wealth in their population and thus, their economic growth provides attractive opportunities for developed market firms. Finally, some of the emerging markets are of substantial size because of their population (e.g., China, India). As a result, entering these markets provides developed market firms the opportunities to gain economies of scale and scope, enhanced revenues for investing in innovation, and increased overall market power in global markets (Hitt, Hoskisson & Kim, 1997). While these represent attractive incentives to developed market firms, they can also obtain important knowledge from emerging markets that can help them to become more competitive in global markets.

As shown in Table 2, foreign entrants into emerging markets also engage in both exploratory and exploitative learning and use both cooperative and experiential learning processes as well. We examine each of the four approaches depicted in the figure.

Cooperative-exploratory learning. Foreign entrants learn subtle and oftentimes more tacit knowledge. When the cultural distance between the foreign firm's home country and the emerging market country is high, the foreign firm may sometimes struggle to understand how to navigate effectively in that culture (Shimizu, Hitt, Vaidyanath & Pisano, 2004). Understanding the culture is important in all relationships in the emerging market (e.g., customers, suppliers, government officials, competitors, etc.). Foreign entrants also need to learn with whom they need to build social capital in the local market (Hitt, Lee & Yucel, 2002). Emerging markets often have much lower institutional support available for local and foreign firms

Table 2. Learning approaches – foreign entrants

	<i>Exploratory</i>	<i>Exploitative</i>
Cooperative	<ul style="list-style-type: none"> • Foreign entrants do more than simply expand into a market using a local representative; they come to learn via alliances with local firms. • Engage in localized learning to increase tacit knowledge to enable improved competitive position. 	<ul style="list-style-type: none"> • The O of OLI (ownership, location, internalization) theory. • Technical and managerial knowledge applied to emerging markets. • Allows local firm to apply knowledge to meet local market needs.
Experiential	<ul style="list-style-type: none"> • Goal: to create a variety of experiences through self-discovery and experimentation. • Foreign entrant may bring core competencies but importantly it also learns through experimentation in local marketplace. 	<ul style="list-style-type: none"> • Foreign entrant exploits its core competencies while learning local knowledge by experimentation. • Exploits knowledge gained from prior international expansion with its entry into new countries.

operating in their markets. In these environments, both formal and informal institutions exist but the informal institutions sometimes are the most important (Rodriguez, Uhlenbruck & Eden, 2005). As such, foreign entrants must learn about the informal institutions in particular from their local partners. Because of their lack of adequate absorptive capacity for the content of this knowledge, such learning is largely exploratory for foreign entrants (Zahra & George, 2002). Learning this knowledge is even more exploratory especially if the foreign entrant does not have significant experience operating in other emerging markets prior to its entry into the focal market. The lack of knowledge about the culture and informal institutions in the emerging markets suggests a 'liability of foreignness' for these foreign entrants (Hymer, 1960). Thus, without the knowledge of how to navigate through the informal institutions, they are likely to fail in this market.

Because they lack adequate absorptive capacity to learn much of this knowledge alone, the foreign entrants must rely on local market partners for help. Local partners have knowledge of the culture and how it relates to the customers and others with whom the foreign entrants must interact. Local partners understand the distribution networks and have relationships with important government entities (Zahra et al., 2000). As a result, foreign entrants engage in cooperative learning to acquire this badly needed tacit knowledge. Learning from and with the local partners is supported by the findings of Hitt et al. (2000), who found that foreign entrants from developed markets sought to learn from local partners when they entered emerging markets. These foreign entrants primarily sought to learn about the local markets and institutional relationships from their local partners. This phenomenon might be referred to as reverse knowledge spillovers (Feinberg & Gupta,

2004). In fact, Singh (2004) found that multinational corporations from developed markets often learn more from the markets that they enter than their partners in these markets. This suggests that the foreign entrants in emerging markets can gain much from exploratory learning. They must attempt to acquire new knowledge for which they have inadequate absorptive capacity. And therefore, they often must acquire this new knowledge from their joint activities by cooperating with their local partner. We refer to the process of learning tacit knowledge through cooperative activities with the local partner as cooperative–exploratory learning.

Cooperative–exploitative learning. Firms usually base their international strategies on valuable resources that they hold. This is similar to classical multinational enterprise theories that suggest firms are motivated to go overseas to exploit their ownership-specific advantages (Dunning, 1988; Hennart, 1982). Foreign entrants from developed markets can use their capabilities (e.g., technological knowledge and managerial expertise) to compete and gain advantages in emerging markets.

Most foreign entrants based in developed economies are expected to engage in exploitative learning when they enter emerging markets. These firms are more resource rich than local firms in emerging markets and in particular they often have greater technological knowledge and managerial capabilities (Hitt et al., 2000). Pennings, Barkema and Douma (1994) found that firms were more successful in the new markets entered when they used their core skills to do so. Therefore, foreign market entrants attempt to exploit their superior resources in the emerging markets. In so doing, they hope to gain an advantage in the market and to build their market share. However, to apply their superior resources in these markets often requires that they cooperate closely with a partner from the local emerging market.

Foreign entrants often have considerable experience entering international markets. As such, they can transfer their knowledge learned and capabilities developed from entering other markets to the entry and operation of the subsidiary in the new market (Delios & Henisz, 2000). Therefore, they can exploit this knowledge in addition to their technological and managerial knowledge. In many cases, the firm must devise a formal means for transferring this knowledge in addition to ensuring that its managers gain international experience. Therefore, developed market firms must learn and embed the new knowledge into organizational routines or ensure its transfer in order to compete effectively in emerging markets (Hitt et al., 2000). Yet, recent research suggests that diffusion of knowledge within multinational firms is challenging and often incomplete, especially transfers between subsidiaries (Monteiro, Arvidsson & Birkinshaw, 2004). This is partly due to the fact that each market and country has idiosyncratic characteristics. These include distinct cultural values and institutional factors, as well as unique distribution processes and customer needs. Thus, the foreign firm must learn how to use its superior knowledge in distinctly different market contexts. Often they learn how

to do this partly or largely through cooperation with their local partner. Hence, we refer to this approach as cooperative–exploitative learning.

Experiential–exploratory learning. While foreign entrants can acquire some knowledge of the culture and institutions from local partners, they also need to develop new knowledge and capabilities through self-learning. In other words, foreign entrants need to learn by experiencing the new culture and institutions in order to acquire the necessary tacit knowledge. In so doing, it integrates the tacit knowledge in its human capital and thereby can diffuse it throughout the organization. For example, Hitt, Bierman, Uhlenbruck and Shimizu (2003) found that professional service firms use their valuable human capital to enter international markets. Firms with greater valuable human capital are able to attract more and better clients and also attract better human capital to the firm in the local markets. Stronger human capital is also likely to engage in more effective learning. Therefore, we postulate that foreign firms entering new international markets with the intent of learning are more likely to assign higher quality human capital to their operations in the emerging market. If they do not assign strong human capital, these firms are less likely to be successful in these markets (Hitt et al., 2003).

Prior research on foreign entrants in emerging markets has emphasized these firms' technology advantages compared to their local counterparts. However, this doesn't mean that foreign entrants can simply transfer or adapt their technologies to the local markets. We suggested earlier that emerging markets differ from developed markets in culture and institutions, but they also differ in infrastructure and in ways of doing business. Thus, to meet the demands in emerging markets requires that foreign entrants use an exploratory learning process in addition to exploitation and adaptation. For example, while new computing and internet technologies have been embraced in developed markets, the diffusion of these technologies is much slower in many emerging markets where people are poor and the literacy level is lower. As a result, the people have more pressing concerns (e.g., food, healthcare, and security). Thus, the spread of mobile phones represents a new technology development in these markets (*The Economist*, 2005a). This example suggests that foreign entrants need to learn how to develop new technologies to satisfy idiosyncratic demands from emerging markets. Not surprisingly, many foreign entrants have started to develop R&D centers in emerging markets (Li, Holmes, & Hitt, 2005). They do so to engage in experiential–exploratory learning.

Experiential–exploitative learning. While a foreign entrant often has valuable knowledge to exploit, it must acquire some new knowledge that allows it to exploit its current valuable knowledge stocks. If it must learn cooperatively, it may first need to learn from experience with its local partner in order to build a trusting relationship. While its partner can be helpful, the foreign entrant may have to learn

partly from experience how to build effective relationships with customers, suppliers and relevant government agencies as well. It must first build an effective working relationship with its local partner. Thereafter, its partner can facilitate the development of relationships with the other stakeholders (Freeman and McVea, 2001); yet, some of the learning of how to develop effective relationships with the stakeholders must come from experience in dealing with them. After it has developed the experiential knowledge from dealing with the stakeholders, the foreign entrant can then use the relationships to exploit its formidable technical and managerial knowledge in the marketplace.

Due to differences in culture, the technology may need to be adapted to better satisfy customer needs. Some experience with the customers trying the technology may be necessary to make adjustments and obtain the best fit for the technology. Similarly, the managerial capabilities and style have been developed in a different context (e.g., Western culture). Adjustments in the management approach and style may be necessary to ensure maximum productivity from the workforce. The precise revisions in the managerial approach needed for maximum efficiency may only be identified through practice (experience).

Foreign entrants often have considerable experience entering international markets, even emerging markets. They may desire to exploit this knowledge in the newly entered emerging market. To do so, they may take actions in the new emerging market to discover how their current knowledge of operating in such markets fits with the new market. Foreign entrants may have to adapt their knowledge and operations to fit the focal emerging market. They do so by learning from experiences in the new market and revising their practices and operations to fit the newly entered emerging market culture and informal institutions.

Proposition 2: Foreign entrants into emerging markets engage in both exploratory and exploitative learning using both cooperative and experiential learning processes to increase their success in those markets and to enhance their ability to compete more effectively in global markets.

Interactive Learning between Foreign Entrants and Local Firms

So far, we have largely treated each of the types of firms and their learning as independent and yet they are not. Learning is an interactive process such that the learning by local firms interacts with the learning of foreign entrants in emerging markets. This interactive learning can be reflected in both cooperative and experiential learning processes.

In the case of cooperative learning, interactive learning may occur through the jointly shared experiences of local firms and foreign firms that are engaged in finding new solutions to the challenges they face (Child and Czeglédy, 1996). Part of the learning by the focal firm is dependent on the willingness and ability of the

partner to help it acquire the new knowledge needed. However, firms are often concerned about the potential for opportunism by their partner. Hamel (1991) explained the concerns regarding the 'race to learn' in which partner firms that first learn the knowledge desired (e.g., new technology) may try to dissolve the alliance and become a competitor of the former partner. As a result, firms (especially the foreign entrants) are likely to buffer their core competencies and any capabilities that represent a source of their competitive advantage. In other words, they are unlikely to share knowledge of their superior technological capabilities with the local partner. If the foreign entrant does not share the knowledge desired by the local partner, it may be less willing to share its knowledge of the local market and informal institutions. Unwillingness to share knowledge on the part of both partners will reduce their ability to learn. At least, they will not be able to engage in as much cooperative learning and may have to rely on more experiential learning. Thus, in this situation, trust is crucial for effective learning. As Lane, Salk and Lyles (2001: 1140) argued, 'trust entails having confidence that the other firm will refrain from exploiting your vulnerabilities, and will also contribute their valuable knowledge' and thereby contributes to the cooperative learning process.

In the case of experiential learning, the interactive process happens because firms may not only learn from their own experience but also from what they have observed in the market. In other words, the competitive market offers a platform for both types of firms to interact with and learn from each other. For example, after Wal-Mart entered the Chinese market, many local Chinese retailers started to improve their layout design and supply chain management by learning from Wal-Mart. Also, Wal-Mart learned from their Chinese counterparts about how to cater to the local customer demands. Although there are no formal cooperative relationships between Wal-Mart and its Chinese counterparts, information and knowledge still flow between them. In this situation, the interactive learning process is facilitated by firms' commitment to innovation and industry competition. These factors motivate the firms to promptly respond to industry and market changes and proactively learn from the market. For example, in China's telecom industry, the entry of foreign companies increases competition in the market and also enhances the overall level of available talents thereby leading to greater interactive learning between local firms and foreign entrants (*Business Week*, 2004). Of course, experiential learning carries greater risk and is more time-consuming. However, because the interactive learning process is largely informal, firms may avoid the potential opportunistic behaviors of the partners as in the case of cooperative learning.

Proposition 3: Learning behaviors of local firms and foreign entrants interact with each other. To optimize the learning process, firms may not only form formal cooperative relationships for learning, but also learn through informal processes from the market by promptly responding to industry and market changes.

Institutional Contexts of Emerging Markets and their Impact on Learning

The previous discussion focuses on learning behaviors of local firms and foreign entrants in emerging markets. However, while emerging markets have some similar characteristics (to be classified as ‘emerging’), we argue that institutional contexts affect the extent to which firms’ engage in different learning behaviors. This argument is consistent with the institutional theory suggesting that institutional forces affect firms’ processes and strategic decision making (Scott, 1995). Going beyond the standard classification of emerging markets in the extant literature (Hoskisson et al., 2000), we distinguish among emerging markets based on two institutional environment dimensions: maturity of economic growth and institutional stability.

Effects of economic growth, market size and maturity on learning. In a recent Goldman Sachs’s global economics report, Wilson and Purushothaman (2003) suggested that the emerging markets of Brazil, Russia, India, and China (BRICs) have been growing rapidly over the past years and are expected to continue such growth in the future. Wilson and Purushothaman (2003) predicted that in less than 40 years, the BRIC economies together could be larger than the G6 countries. Particularly, India’s economy could be larger than Japan’s by 2032, China’s larger than the US in 2041 (and larger than all other countries as early as 2016). Arguably, the BRIC economies are more mature than other emerging markets. The institutional environments, particularly their economic growth maturity and political stability, have significant implications for the learning behaviors of both local firms and foreign entrants in these economies. While the BRIC countries may be rivaled in economic maturity by the ‘mini-dragons’ of Singapore, South Korea and Taiwan, they have larger markets and more substantial economic growth maturity than the mini-dragons.

The BRIC economies offer more growth opportunities for both local firms and foreign entrants than smaller and less mature emerging markets and the mini-dragons as well. Given the significant growth of these economies over the past 10–15 years, formal market-supporting institutions have begun to develop in these markets. Also, local firms in these emerging markets tend to be more mature and have accumulated critical resources and capabilities through both exploratory and exploitative learning using both cooperative and experiential processes.

In the BRIC economies, local firms continue exploratory learning and are often able to extract more new knowledge, especially from their partners because of the size and the potential growth of their markets. They also tend to engage in more exploitative learning. With the markets more open, larger and more mature, competition is also likely to be more intense. As such, local firms must continue to acquire new knowledge and develop their capabilities. In order to compete effec-

tively, these firms must also exploit these new capabilities along with their existing resources (e.g., knowledge about local market and institutions). For example, local firms may exploit their newly acquired resources and capabilities and develop new products and new technologies to satisfy local customer demands growing in sophistication. Additionally, because the local firms are building formidable capabilities, local firms may enter developed markets and improve their managerial and technological capabilities through experiential learning. Because this type of learning involves the search for new routines and schemas as opposed to mastery of existing routines, it is often exploratory and more risky and challenging for local firms. Cultural distance may also contribute to the exploratory nature of this learning as well. Therefore, some local emerging market firms may engage in this type of learning by collaborating with developed market firms. For example, Lenovo, China's leading PC maker collaborated with IBM and recently acquired IBM's PC business in order to strengthen its capabilities not only in the Chinese domestic market but also in global markets. After the acquisition, Lenovo will be the third major company in the PC market, behind Dell and HP.

Proposition 4: Relative to their counterparts in other emerging markets, local firms from the BRIC economies are better able to engage in both exploitative and exploratory learning. That is, because of their developing economic maturity and market size, they are able to extract more knowledge from partners (often new knowledge – exploratory) and have greater capabilities to exploit their current knowledge in new markets (exploitative) than do smaller and less mature emerging market firms.

The BRIC firms are also more likely to engage in exploitative learning in other emerging markets; these firms can exploit their accumulated resources and capabilities, particularly in less mature emerging markets. For example, the two-way trade between China and Africa in 2004 was US\$18 billion, a nine-fold increase over 1999 (*The Economist*, 2004), suggesting that Chinese firms have been quite active in African nations in recent years. Emerging market firms from the BRIC economies may have competitive parity or even an advantage over developed market firms competing in the less mature emerging markets due to their cost advantages and understanding of emerging market economies. For example, recently Huawei, China's leading telecom-equipment manufacturer, won a US\$187 million order for a third generation (3G) network in Thailand, beating Ericsson and Motorola with a bid 46% below the operator's original estimate (*The Economist*, 2005b).

Also, firms from the BRIC countries have potential institutional advantages in the less mature emerging markets compared to developed market firms. Both the BRIC economies and the less mature emerging markets share some characteristics. Firms in the more economically advanced emerging markets thus may have more similarities than differences with the less advanced emerging markets in terms of

resource conditions, the approaches to doing business, and their understanding of environmental conditions. These similarities facilitate understanding and promote cooperation between the firms from the BRIC economies and those from the less mature emerging markets. Thus, firms from the BRIC economies may be able to more quickly gain the trust of their local partners operating in the emerging markets they entered. Additionally, developed market firms may have some concerns about collaborating with local firms from the less mature emerging markets. For example, it is reported that the Canadian firms often fear the bad publicity of dealing with famously venal rulers in Africa (*The Economist*, 2004). In addition, firms from more mature emerging markets frequently partner with each other to explore opportunities in other emerging markets. This may be due to a lower institutional distance between two emerging markets than between an emerging market and a developed market. For example, although Chinese and Indian firms compete for access to resources, especially energy resources, they often cooperate to compete in less mature emerging markets. Recently an Indian firm acquired a 20% share in the development of Iran's largest onshore oilfield, which is operated and 50% owned by a Chinese state-owned firm (*The Economist*, 2005c). Such cooperation helps build up their capability to compete against developed market firms.

Proposition 5: Local firms from the BRIC economies engage in exploitative learning in the less mature emerging markets. Compared to developed market firms, these firms often have more advantages especially in developing cooperative relationships with the firms from other emerging markets.

The BRIC economies also create challenges for foreign entrants' learning behaviors. As noted earlier, foreign entrants are motivated to exploit their ownership-specific advantages (e.g., technological knowledge and managerial expertise) in emerging markets (Dunning, 1988; Hennart, 1982). Over time, the emerging markets become more mature and competitive; thus, foreign entrants must learn to develop new resources and capabilities. Particularly, in these mature emerging markets, foreign entrants are not only competing against the increasingly strong local firms, but also against other foreign entrants. This requires foreign entrants to shift their focus from exploitive learning to exploratory learning. For example, in a recent study, Li, Holmes, and Hitt (2005) noted that there is an increasing willingness of developed market firms to locate their R&D facilities in emerging markets, particularly China and India. Indeed, over the past three years, the total number of foreign R&D centers has increased from 3 to over 200. Clearly, the mature emerging markets offer more opportunities for foreign entrants to develop their new knowledge and capabilities.

Proposition 6: Foreign entrants are more likely to engage in exploratory learning when they enter into mature emerging markets such as the BRIC economies.

Target markets also affect foreign entrants' learning behaviors in emerging markets. With the growth of emerging markets, foreign entrants typically cannot sell their 10-year or even 5-year old products from developed markets in the emerging markets. As noted earlier, foreign entrants need to offer new value propositions (i.e., new products) to local customers that cater to local preferences, needs, and budgets. This is especially important if these firms do not exclusively focus on the top segment of local customers and include many consumers lower in the 'pyramid'. In this context, foreign firms also need to engage in exploratory learning, especially in learning from local partners. London and Hart (2004) noted that a number of multinational corporations have launched new initiatives that explore the untapped market potential at the base of the economic pyramid, the largest and fastest-growing segment of the world's population. Their case study results suggest that the success of new initiatives targeting low-income markets is enhanced by recognizing that Western-style patterns of economic development are unlikely to occur in these business environments. This is also consistent with the notion that developed markets and emerging markets (particularly the poor world) have different growth paths of computing and communication technologies (*The Economist*, 2005a). Thus, foreign entrants in these markets need to build local capabilities through relationships with non-traditional partners and co-inventing custom solutions.

Proposition 7: Foreign entrants are more likely to engage in exploratory learning through collaboration with local firms when they target the consumers at the base of the economic pyramid in emerging markets.

Effects of institutional stability on learning. Often the institutional environments in emerging markets are underdeveloped and dynamic. In addition, recent research suggests that the institutional environments in emerging market countries can vary considerably in their amount of stability (Hitt et al., 2004). Henisz and colleagues (Henisz, 2002; Henisz and Delios, 2002; Henisz & Zelner, 2001) highlighted the importance of stability in institutional arrangements, especially for strategic actions taken by firms. Clearly emerging market countries need to make changes in their institutional frameworks to help support local firms desiring to compete in global markets (Behrman and Rondinelli, 2000). However, Henisz (2002) focuses less on this type of change than on the uncertainty in the 'norms and rules' under which firms must operate.

Hitt et al. (2004) compared the institutional environments of two more mature emerging markets, China and Russia. They identified the relative stability of the Chinese institutional arrangements and the relative instability in the Russian institutional environment as quite important for the strategies of firms operating within them. China evolved over time, making changes in its institutional arrangements slowly while maintaining central control by the government. Alternatively, Russia

decentralized political control thereby resulting in few central policies (Hitt et al., 2004). However, decentralization also produced many different local policies that changed frequently. Thus, this situation led to institutional chaos and substantial uncertainty for firms operating there (Puffer and McCarthy, 2001; Stoner-Weiss, 1997). These two types of institutional environments lead to significantly different strategic actions and behaviors on the part of local firms in each country. For example, Russian firms were short-term oriented and took actions designed for survival. In contrast, Chinese firms were more long-term oriented and strategic in their actions (Hitt et al., 2004).

Such institutional environments are also likely to have different effects on the learning approaches taken by firms. For example, the stability (relative certainty) in the Chinese environment supports the investment in learning the skills and capabilities that can be used to compete effectively over the long term. Alternatively, Russian firms have been reluctant to make such investments because of the concern that the policies are likely to change making their investments obsolete. Additionally, they need resources to survive in the short term. Thus, many Russian firms have invested in obtaining the resources to survive as opposed to learning the capabilities that they might need in the future to compete in global markets. In addition, the Chinese government encouraged and provided incentives to learn certain types of knowledge, especially new technologies. But, there was no such support from and incentives provided by the Russian government (Hitt et al., 2004). Recently, the Putin government has been increasingly recentralizing some government regulatory authority. While these actions may create more institutional stability, considerable uncertainty exists regarding the stability of democratic reforms currently in place. Thus, while exploratory learning is likely to be used in both countries, Russian firms largely focus on short-term exploitative learning while Chinese firms strongly emphasize exploratory learning to develop capabilities that facilitate the achievement of their long-term goals. Russian firms are also less likely to invest in acquiring tacit knowledge, because of the time and difficulty of learning such knowledge; they attempt to learn explicit knowledge that can help them survive in the near term. Alternatively, Chinese firms invest more substantially in learning tacit knowledge required to compete not only in Chinese markets against foreign competitors but also in global markets. Russian firms, by necessity, are focused much more on local domestic markets.

The above comparison of the Chinese and Russian environments suggests that emerging market firms vary in the learning approaches that local firms take in building capabilities. While some cultural differences may contribute to some of the differences noted (i.e., Chinese culture tends to promote long-term goals and learning, see *The Chinese Culture Connection*, 1987; Hofstede, 1991), the degree of institutional stability (i.e., rate of change) plays a crucial role. In relatively stable environments, firms can take a longer-term approach to learning and they are more likely to engage in exploratory learning. This is especially true if the central

government supports a long-term learning approach. These environments are also more conducive to cooperative learning. However, when the institutional environment is highly unstable, firms seek to learn what is needed to survive in the short term and thus exploitative learning is likely to be more common. As a result, they may forgo learning capabilities that will allow them to compete in open and highly competitive global markets. In fact, the local firms in these environments are likely to engage in experiential learning with questionable value because the changes in the environment may render the knowledge gained insignificant. Indeed, Newman (2000) proposed that too much institutional stability can inhibit organizations' ability to learn. Therefore, investments in learning and the type of learning approaches used by local firms are likely to vary across emerging markets.

Proposition 8: Institutional stability affects the learning behaviors of local firms in emerging markets. In relatively stable environments, local firms are more likely to engage in exploratory learning; in relatively unstable environments, local firms are more likely to engage in exploitative learning.

The institutional stability in emerging markets also affects the learning behaviors of foreign entrants. Most foreign entrants need local partners in emerging markets for reasons explained earlier. However, foreign entrants have an even greater need for local partners in highly unstable environments. In these environments, even more transactions are conducted in the informal market and are based on relationships. Yet, the environment also increases the likelihood of opportunistic behavior by partners. Thus, there is a higher probability for corruption in these environments, although corruption is a problem in many emerging market countries (Rodriguez et al., 2005). Also, more uncertainty in the institutional environment presumably increases the hurdle rate for foreign investments, lowering optimal levels of investment and effort devoted to learning. In addition, local firms in relatively unstable environments (e.g., Russian firms) may provide less value as partners from which foreign entrants can learn. Certainly, the need to learn the tacit knowledge embedded in the culture and the institutions is likely to be challenging in these environments. Therefore, in these environments, foreign entrants are more likely to engage in exploitative learning by collaborating with local firms.

In contrast, the learning about the culture, institutions, and relations is more valuable for foreign entrants in relatively stable institutional environments. In these environments, foreign entrants are likely to devote greater investment and effort into learning and exploring new knowledge and new opportunities. Also, local firms from stable environments should be more productive sources of learning the tacit knowledge desired by foreign partners. These conditions encourage foreign entrants to engage in exploratory learning by collaborating with local entrants.

Proposition 9: Institutional stability affects learning behaviors of foreign entrants in emerging markets. In relatively stable environments, foreign entrants are more likely to engage in cooperative-exploratory learning; in relatively unstable environments, foreign entrants are more likely to engage in cooperative-exploitative learning.

DISCUSSION AND CONCLUSION

This work has examined in depth the learning laboratory that exists in many emerging markets. Clearly, both local emerging market firms and foreign entrants engage in significant learning activities. While prior research has emphasized the need for local firms to learn new capabilities, foreign entrants must engage in a substantial amount of learning in order to survive in these markets and gain a competitive advantage. We have specified when local and foreign firms seek to learn, the type of learning they desire (exploratory or exploitative) and the process used to learn (experiential or cooperative). While prior research has focused on the type of learning (exploratory versus exploitative), we add the learning processes to provide a more comprehensive examination of the learning approaches used by local firms and foreign entrants in emerging market countries. Of importance, we also examine the interaction of the partners and the effects of this interaction on their learning behaviors.

Emerging markets are assumed to have weaker institutional infrastructure enhancing political and economic risks to firms that contemplate investments in these markets. Yet, prior research has noted that not all emerging markets are alike (Hoskisson et al., 2000). We specifically argued that emerging markets differ in terms of their economic growth maturity and institutional stability. Some emerging markets are more mature economically and have more stable institutional environments. The firms in these environments tend to be more well developed but also still need to acquire new knowledge. Yet, their learning approaches differ from local firms from home countries that are less well developed economically and institutionally. Thus, we propose that learning behaviors of local firms and foreign entrants depend on the institutional contexts. This is an important contribution to the research in international business and organizational learning. For the international business literature, our study suggests that foreign entrants in emerging markets need to learn about foreign cultures and institutions, and learn from their local partners, and additionally they must use different learning approaches in different institutional contexts. For example, in mature and institutionally stable emerging markets, foreign entrants may focus more on exploratory learning than exploitative learning. For the organizational learning literature, we believe that this is the first work to fully examine the context specificity of firms' learning behaviors. While Newman (2000) linked institutional upheaval with organization learning for firms in transition economies, we advance this line of research by suggesting that learning behaviors of both local firms and foreign entrants in emerging

markets depend on the institutional contexts. Clearly, incorporating institutional contexts of emerging markets in future research should enable scholars to expand the boundary of organizational learning theory.

Recent popular press accounts suggest that the BRIC economies are highly important emerging markets with significant potential in the future. BRIC nations provide larger markets and have systematically matured beyond many of their emerging market contemporaries. The BRIC countries have larger markets and appear to have significantly more potential to develop their markets than the mini-dragons even though their markets are of relatively equal economic maturity. Infrastructures in the BRIC countries have become increasingly more reliable, corrupt practices have been curtailed, financial markets have become more stable, and the general business environment is now more predictable. Yet, these countries also differ. China and Russia, for example, differ greatly in the stability of their institutional environments and thus, in the ways in which local firms can learn. The local Chinese firms invest more in long-term learning and because of this, its economy is growing more rapidly and it is attracting considerably more foreign direct investment (FDI) than Russia. However, despite the intuitive nature of these qualitative differences, differentiating BRIC from non-BRIC nations is quite challenging. Even the United Nations admits that that it is difficult to differentiate a developing nation from an under-developed nation. The authors have reviewed seven years of financial data from the four BRIC nations and found it difficult to differentiate BRIC and non-BRIC countries except on single variable comparisons. They are also inconsistent within category. As noted in our discussions of institutional stability, there are significant differences in the stability of the institutions within the BRIC nations. These outcomes illustrate the challenges of integrating the many characteristics to develop a categorization scheme for more mature emerging market countries with significant economic growth and potential market size.

Limitations and future research. Undoubtedly, categorization of countries in terms of their market size, growth and or maturity does not fully capture the richness of the environments in countries nor the uniqueness of individual firms. Not all emerging market firms will act in a similar fashion nor will they attempt to learn in exactly the same manner. The same statement is true for foreign entrants into emerging markets. That said, there are commonalities that can be identified, explicated, and empirically examined. Thus, we next explore potential future research in these important areas of study.

We presented several propositions that serve as useful guides for future research, especially empirical tests. Our research suggests that firms from emerging markets, especially those that are larger, more mature and have greater potential growth, are more aggressive in their learning activities, both in terms of the learning processes used and the amount and type of knowledge sought. We need research

to help us understand specifically how these firms learn and the knowledge that they create to enhance their competitiveness. Another research direction involves the possible differences between local firms operating under separate types of ownership in learning behaviors. For example, compared to non-state-owned firms, state-owned firms have more resource endowments and a higher level of market legitimacy. Future research should explore how resource endowments and market legitimacy might distinguish the learning behaviors of state-owned firms and non-state-owned firms.

We also need more research on foreign entrants' learning processes and goals. In prior research, there are assumptions that the foreign entrants' learning is focused and their learning needs not extensive. Again, our research suggests that foreign entrants' learning needs are greater than assumed in prior work. And, as they enter the larger emerging markets with more maturity and potential, they are likely to encounter more pressure to share knowledge and to work cooperatively in order to compete effectively. We need more research to understand how foreign entrants respond to this pressure and compete effectively in these markets.

Future work on emerging markets that delineates between larger, more mature and higher growth potential emerging markets from a quantitative standpoint is needed. Defining critical differentiating variables and means of operationalizing them could serve as a catalyst to important research in the future. We believe that the models of learning in emerging markets offered herein advance our knowledge of organizational learning and of learning in emerging market contexts. This work should help strategy researchers to create more well-specified models of firm diversification, organizational learning, and performance.

Finally, we need research that examines the effects of different institutional environments on the learning processes and outcomes of local firms and foreign entrants in emerging markets. For example, we need more work examining the effects of the stability of the institutional environment on the learning approaches used by local and foreign entrant firms. Research that focuses on particular cultural characteristics such as individualism versus collectivism with regard to the learning approaches used and their success could be useful.

Conclusions. The arguments presented herein suggest that emerging markets serve as learning laboratories for both local firms and foreign entrants. The economic growth and development of institutions in the country attract foreign investment. The import of knowledge from foreign multinational firms serves to increase the knowledge portfolios of local businesses. As local businesses gain more technical and managerial knowledge, they can compete in both local and international markets. The foreign entrants at first must learn the local markets and institutional environment. Thus, they cooperate with local firms to do so. However, they also learn other knowledge sets that can help them to develop more effective products for the local and global markets. Thus, in strong emerging markets, especially the

more mature ones, foreign entrants begin to invest in more technology development using the local knowledge stocks as a source. This is particularly evident in China and India (Li and Atuahene-Gima, 2002). Additionally, the dynamic nature of emerging markets requires that both local firms and foreign entrants learn continuously in order to stay abreast of the competition. As a result, we argue that learning serves as a base for survival and success in emerging markets.

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