LEARNING CAPABILITY AND FIRM PERFORMANCE IN A FOREIGN MARKET

NĂNG LỰC HỌC HỎI VÀ HOẠT ĐỘNG KINH DOANH CỦA DOANH NGHIỆP Ở THỊ TRƯỜNG NƯỚC NGOÀI

Ngày nhận bài: 21/9/2023

Ngày chấp nhận đăng: 25/3/2024

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ABSTRACT

Learning capability is imperative for a firm to survive and sustain its competitive advantage. Through a quantitative research based on the collection of data from more than 150 multinational companies (MNCs) from Viet Nam and Taiwan, this study shows that a firm's learning capability (i.e., replication, exploitation, exploration, and disposal or unlearning) positively influences its performance in a local market only when learning capability enables the firm to create products or service that matches market demand. Furthermore, the empirical results from this study also show that some external factors (i.e., market competition and technology change) impact the effect of learning capability on a firm's ability to adapt to its marketplace.

Keywords: learning capability, replication, exploitation, exploration, disposal, dynamic capabilities, adaptive capability.

TÓM TẮT

Năng lực học hỏi của doanh nghiệp có ý nghĩa vô cùng quan trọng đối với sự tồn tại của doanh nghiệp cũng như việc duy trì lợi thế cạnh tranh của doanh nghiệp. Bằng phương pháp nghiên cứu định lượng dựa trên việc thu thập dữ liệu ở hơn 150 công ty đa quốc gia hoạt động tại Việt Nam và Đài Loan, nghiên cứu này cho thấy năng lực học hỏi của doanh nghiệp (bao gồm học hỏi sao chép, học hỏi khai thác, học hỏi khám phá, và khả năng bỏ đi các kiến thức lỗi thời) có ảnh hưởng tích cực đến kết quả hoạt động của doanh nghiệp chỉ khi những năng lực học hỏi này có thể hỗ trợ doanh nghiệp tạo ra các sản phẩm hay dịch vụ đáp ứng được nhu cầu của thị trường. Ngoài ra, nghiên cứu này cũng cho thấy một số nhân tố từ môi trường (cụ thể, cạnh tranh giữa các doanh nghiệp, sự thay đổi của công nghệ) có vai trò chi phối đến mối quan hệ giữa năng lực học hỏi của doanh nghiệp và khả năng thích ứng thị trường của doanh nghiệp.

Từ khóa: Năng lực học hỏi, học hỏi sao chép, học hỏi khai thác, học hỏi khám phá, khả năng bỏ đi các kiến thức lỗi thời, năng lực động, thích ứng thị trường.

1. Introduction

Developing strategies for the global marketplace and managing operations in diverse country markets have become critical tasks for managers (Hitt et al., 2005). This process is challenging as firms encounter many issues concurrently, such as global competition, rapid technological change, and differences between home and host country (i.e., culture, policy, and customer preferences) (Agwu et al., 2018). In this business environment, the determinants for a 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. Instead, MNCs need the capability to constantly adapt to their business environment; in other words, firms need the capability to produce new products or services

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that match their business environment on an ongoing basis (Teece, 2007).

This study posits that an MNC with a high learning capability is imperative for firms to compete and sustain their performance. Learning capability is the capability of a firm to acquire, transfer, and integrate knowledge to improve its performance (Jerez-Gomez et al., 2005). This capability reflects a firm's ability to initiate and implement innovative ideas, which are built through continuous learning processes and path-dependent histories of the firm (Haile & Tüzüner, 2022). During the process of expansion into a new foreign market, an MNC experiences many types of learning, including replication, exploitation, exploration, and disposal (or unlearning). Replication relates to the utilization of the current resource (i.e., product, service, or competence) from the firm's parent company in the local market (Winter & Szulanski, 2001); exploitation refers to the improvement or refinement of a firm's existing knowledge or competence (March, 1991); exploration includes the search for new knowledge or capabilities relative to the current ones (Aspara et al., 2011; March, 1991); disposal (or unlearning) entails processes by which a firm gets rid of its organizational resource and/or capabilities that are no longer useful to its performance within a given business environment (Sirmon & Hitt, 2003). According to Lou (2000), learning capability is imperative to the success of a firm's international expansion. Firms with a high learning capability are more likely to stay ahead of the competition by continuously manipulating the mix of resources in their resource bundle according to the new context situations. This, in turn, helps firms achieve success and even sustainable competitive advantage (Galunic & Eisenhardt, 2001; Smith et al., 1996). In contrast, firms with limited learning capability are less likely to sense opportunities and reorchestrate their resource base in accordance with the business environment, especially in the context of a highly uncertain international market (Tallman, 1992).

This study examines the effect of learning capability on an MNC's performance under the view of dynamic capabilities (DCV). The contribution of this paper is that we empirically show that the effect of learning (i.e., resource replication, resource exploitation, resource exploration, resource disposal) on firm performance is not a direct effect. Instead, this relationship is mediated by adaptive capability. This means learning capability only helps firms to obtain performance when this capability triggers a firm's ability to formulate its advantageous resources according to the external market. With the empirical evidence of the mediating effect of adaptive capability, this study also contributes to enhancing the theory of dynamic capability when affirming that dynamic capability per se does not help the firm achieve performance or competitive advantage. Instead, the value of a dynamic capability to a firm's performance is evaluated by the evolutionary fitness of the dynamic capability. According to Helfat et al. (2007), the evolutionary fitness of a dynamic capability reflects how well the dynamic capability enables a firm to fit its external environment. A firm may possess a dynamic capability of high technical fitness, however, the firm still does not succeed as the resource reconfiguration created by this capability does not fit the external market.

Our argumentation on the mechanism by which learning capability affects firm performance builds mainly on the dynamic capability view. According to Helfat et al. (2007), Eisenhardt & Martin (2000), studies on the effect of dynamic capabilities on firm

performance need to take into consideration the moderating effect of external forces. Kohli & Jaworski (1990) divided environmental forces into market and technology environments. Operating in a global market, MNCs face increasingly severe competition and uncertainty in technology (Hai & Cao, 2014; Teece, 2007). Thus, in this study, we focus on examining how technology and competition dynamism affect the relationship between a firm's learning and its capability to adapt to the external environment. Therefore, we attempt to build a theoretical model that incorporates the moderating effect of environmental forces on learning capability and adaptive capability.

This paper is organized as follows: The next section reviews the literature and develops our hypotheses. We then briefly discuss our research methodology, in which we describe how we collect the data and the statistical techniques used to analyze the data and follow with our empirical analysis and findings. We conclude with a discussion of our findings.

2. Literature and hypothesis development

2.1. Theoretical background

2.1.1. Dynamic capability views

Market entry strategies of MNCs into a new geographical market are dynamic processes in which MNCs have to constantly reconfigure their existing resource base in order to react to the external environment (Liao et al., 2021). With this basic assumption used in this study, the core literature that informs this research is the dynamic capabilities view (DCV). The DCV is considered as the most relevant theoretical model for studies on a firm's strategy in the context of change (Laaksonen & Peltoniemi, 2018). Dynamic capabilities can be defined as higher strategic processes that integrate, combine, and generate new resources or capabilities, which in turn shape the organization's performance (Takahashi et al., 2017). Dynamic capabilities entail subprocesses of resource changes that enable firms to reorchestrate their resource base according to the external environment (Helfat et al., 2007). The international market is characterized by intensitive competition and a turbulent environment (Teece, 2007). Operating in this environment, MNCs need to constantly modify their resources and capabilities to create products or services that match the changing environment. Hence, deploying dynamic capabilities becomes indispensable for MNCs' performance and growth (Yi et al., 2015).

2.1.2. Learning capability

Learning refers to an organization's ability to sustain or increase performance by using knowledge gained (García-Morales et al., 2007). Learning capability involves elements that boost production processes, including the search for information and the development of new knowledge on products, processes, and services (Gomes & Wojahn, 2017; Huang & Wang, 2011), hence resulting in practices and skills that stimulate innovation (Gomes et al., 2022). Organizations that adapt better to the environment are characterized by making decisions based on learning acquired through experience and openness to new experiences (Cyfert et al., 2021).

Learning of an MNC during its international expansion process entails replication, exploitation, exploration, and disposal (or unlearning). Replication refers to transferring key routines and capabilities from the replicating organization to related units (Winter & Szulanski, 2001). Replication is considered as a feature of

global firms as knowledge transfer across countries is the mechanism for firms to operate in the global market (Barlet & Ghoshal, 1989). The firm may replicate a formula, a recipe, or core competence from its home country when expanding to a new foreign market (Winter & Szulanski, 2001). The mechanism by which replication occurs is the transfer of a set of routines and competencies so that a firm is capable of reproducing the same product or service locally (Jonsson & Foss, 2009). Exploitation refers to refinement, implementation, and execution, whereas exploration refers to search, variation, risk-taking, experiment, discovery, and innovation (March, 1991). The firm needs exploitative learning to earn the ongoing profit from the existing advantages embedded in its current knowledge-based and exploratory learning to create innovations in response to market changes and competitors (Smith & Tushaman, 2005). March (1991) posits that without exploitative learning, firms are likely to find that they are wasting time and effort on experimentation activities. In contrast, without exploration, firms are more likely to be less competitive than their competitors with low-cost innovations, and firms are unable to capture change in the marketplace.

Learning is a path-dependence process by which new knowledge is created based on a firm's existing resources and knowledge base (Dobusch & Schüssler, 2013; Schreyögg & Kliesch-Eberl, 2007; Sydow et al., 2009; Teece et al., 2007; Vergne & Durand, 2011). With respect to these basic assumptions, exploitation represents a path of knowledge generation and deployment closely related to the firm's existing knowledge bases and current organizational routines (Aspara et al., 2011; Dixon & Meyer, 2014; March, 1991). This kind of learning focuses mainly on enhancement (or refinement) and efficiency of a firm's existing knowledge (Aspara et al., 2011; O'Reilly & Tushman, 2004). Thus, the modification of a firm's current practices and operations to fit the new knowledge that firms acquired from a local context is a manifestation of exploitative learning (Hitt et al., 2005). Exploration involves the search for new knowledge, resources, and capabilities relative to the current ones to enter new product-market domains (Danneels, 2007; Kyriakopulos & Moorman, 2004). Lisboa et al. (2013) also posit that when a firm is dealing with new knowledge and seeking new knowledge currently unknown to the firm, it is utilizing exploring learning. Exploratory 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 (Garcia & Calantone, 2002). As learning is a path-dependent process, so new knowledge created from learning does not go out of the trajectory of the firm's existing knowledge base (Kogut & Zander, 1992). Thus, when a firm learns to build new resources and knowledge for itself to conduct new business development projects or to diversify its product portfolio, this is a manifestation of explorative learning (Aspara et al., 2011).

(Resource disposal (or unlearning) is "the dynamic process that identifies and removes ineffective and obsolete knowledge and routines which block the collective appropriation of new knowledge and opportunities (Cegarra-Navarro & Moya, 2005). Unlearning is an imperative learning type as it allows firms to regenerate, revise, update, or set aside existing knowledge that is no longer useful in its current form (Para et al., 2023). Unlearning can lead to better resource utilization and the elimination of negative synergies or diseconomies of scale and scope in a firm's portfolio, thus leading to value creation (Bergh, 1998). Unlearning

is manifested under many types, for example, layoffs of human capital, divestitures of noncore businesses, sell-offs of specific assets, spin-offs of businesses, and outsourcing of functions (Sirmon et al., 2007).

2.2. Hypothesis development

2.2.1. Adaptive capability and firm performance

Adaptive capability refers to a firm's ability to meet the changes requested by customers or suppliers or create the company's own environment (Eshima & Anderson, 2017; Lu et al., 2010; Tuominen et al., 2004). Akgun et. al. (2012) suggest that adaptive capabilities enable a firm to reshape resources and coordinate processes in time to develop more successful products and services. The concept of adaptive capability in this study is similar to "market fitness capability" in research by Liao (2017), in which the author defines market fitness as a firm's competencies in regard to market engagement and operations that affect its adaptation to the market.

Local market adaptation is increasingly challenging for MNCs as they have to address many challenges concurrently, including differences between home and host markets (in terms of culture and government policy), intensive market competition, and technological change (Agwu & Onwuegbuzie, 2018). Thus, to respond to the marketplace, MNCs need to plan all their business activities to efficiently meet the local marketplace and changes in the market (Giniuniene & Jurksiene, 2015). In this global competition, firms capable of fast and flexibly adapting their internal resource base to the external market environment are the leaders of the markets (Teece, 2007). Similarly, Oktemgil & Greenley (1997), Zaitseva (2017) posit that firms with high adaptive capability will react to signals of the external market more quickly than others and will perform better in turbulent environments. This leads to our hypothesis, formally stated below.

Hypothesis 1*: A firm's performance is positively influenced by its market adaptive capability.*

2.2.2. Learning capability (i.e., replication, exploitation, exploration, and disposal), adaptive capability, and firm performance.

Learning is an imperative dynamic capability in a firm's resource base as this capability underpins or triggers the reconfiguration and transformation of a firm's resources according to the external environment (Teece, 2007). In this sense, how well a firm reacts to its environment depends on how well the firm manipulates its learning capability to acquire knowledge, assimilate knowledge, and transform it to react to the market environment (Liao, 2000; Teece, 2007). Consistent with this, Liao (2017) posits that a firm's capability of market fitness is different under different levels of a firm's ability to deploy its organizational processes (or capabilities).

In the context of international expansion, replication allows firms to leverage advantages from their home country abroad (Hitt et al., 2006). Furthermore, replication enables the firm to utilize core competencies from its parent company to mitigate the disadvantages of a foreigner and compete with local competitors in the host country (Lou & Peng, 1999). However, according to Kogut & Zander (1992), learning by replication of knowledge from a 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. Thus, MNCs that can perform replication capability at a higher

level are more likely to quickly leverage the advantages from their parent company to offset the liabilities of foreignness (Zaheer, 1995) and to exploit the new market (Delios & Henisz, 2000).

Exploitation and exploration capabilities enable firms to protect their existing strengths while still renewing and revitalizing themselves over time (Lou, 2000). Firms with high exploitation and exploration capability, on the one hand, enables firms to continue to earn the ongoing profit from their current knowledge base by continue offering products or services that match the local context, and on the other hand, enable firms to constantly create innovations in response to competitors with low-cost innovation as well as capture business changes in the market timely (March, 1991; Tushaman, 2005).

Resource disposal is an essential part of the reshuffling of a firm's business portfolio as well as the reconfiguration of its resources and capabilities in accordance with the firm's business environment (Xie et al., 2016). This is, however, not an easy decision, especially in an environment of high uncertainty. Sirmon (2007) argues that in the context of high uncertainty, top-level managers have the tendency to centralize decision-making for tight control, but they are less likely to have a full understanding of the company's resources, so their decision is sometimes inappropriate because they may abandon resource that has the potential to create value for the company in the future or even at the current time. Additionally, Nixon et al. (2004) argue that sometimes, as firms rush to reduce costs to react to changes in the competition in the market, they often get rid of valuable resources that may be useful in contributing to the development of resources that can be successfully leveraged. Therefore, an effective disposal of resources requires a full understanding of the firm's current resources and their potential for value creation. A firm with a high capability of resource disposal is more likely to identify the right resource that needs to be disposed of to help the firm with its transformation change (i.e., change in the culture, structure, product market, and geographical positioning of a firm) in order to adapt to the external environment (Burt, 2003).

To sum up, it can be seen that learning capability (replication, exploitation, exploration, disposal) determines the extent of market adaptation of a firm that, in turn, influences firm performance. Indeed, learning capability is imperative to a global firm's success (Lou, 2000; Teece, 1997). However, learning capability per se does not lead to success or firm performance. This is also explained by Helfat et al. (2007), who state that the performance of a dynamic capability is measured by two yardsticks, namely technical fitness and evolutionary fitness. Technical fitness indicates how effectively a dynamic capability performs its function. Evolutionary fitness refers to how well a dynamic capability matches market demand. The value of a dynamic capability to firm performance is decided by the evolutionary fitness of the dynamic capability. In other words, if a dynamic capability helps the firm to create products or services that are accepted by the market, firms then achieve performance, but if not, despite its high technical fitness, the dynamic capability is not accepted by the market, hence affecting firm performance. Thus, learning capability is valuable to a firm only when learning enables the firm to reconfigure its resource base to create products or services that are aligned with the environment in which the firm operates.

Consistent with this, in research on the relationship between innnovation capability

and firm performance, Liao & Rice (2010) affirm that innovation though is vital to a firm's competitive advantage, but innovation only leads to this expected outcome when this capability enables firms to create product or service that is accepted by the market. Lou (2000) also posits that learning capabilities must fit both environmental characteristics and organizational needs if a firm is to accomplish maximum payoff and long-term growth. In fact, when a firm modifies its resources or knowledge to create new product or innovation, firms tend to fall into its trap of path dependence that brings about the creation of products unfit for the market demand (Eisenhardt & Martin, 2000; Teece 2007; Teece et al., 1997). Therefore, learning capability brings about firm performance only when this capability triggers the firm's ability to reconfigure its resource base and transform it into a new resource reconfiguration that matches the external environment.

This leads to the development of hypotheses as follows:

Hypothesis 2: A firm's replication capability is likely to positively influence its performance only through the co-occurrence of the firm's capability of adapting to its marketplace.

Hypothesis 3: A firm's exploitation capability is likely to positively influence its performance only through the co-occurrence of the firm's capability of adapting to its marketplace.

Hypothesis 4: A firm's exploration capability is likely to positively influence its performance only through the co-occurrence of the firm's capability of adapting to its marketplace.

Hypothesis 5: A firm's disposal capability is likely to positively influence its performance only through the co-occurrence of the firm's capability of adapting to its marketplace.

This study suggests the research model as described in Figure 1.

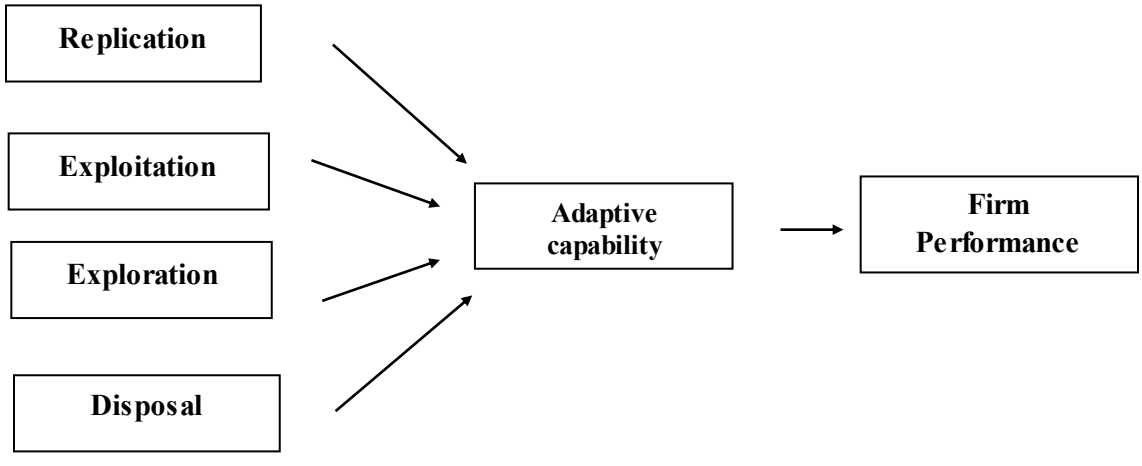

Figure 1: Research model

2.2.3. Moderator effect of external factors

The extant literature in the field of management has named some environmental forces that influence the effect of a firm's strategy and its performance. Kohli and Jaworski (1990) scholars divided environmental forces into market and technology environments. In terms of market environment, competition is one of the critical factors affecting the relationship

between a firm's learning capability and its ability to adapt to the market. According to Andersen et al. (2013), the more competitive environment in which a firm operates, the more effort the firm spends to collect and utilize market information in its market research activities, which in turn helps the firm to respond to the market with sufficient market information, hence increase the ability to satisfy their customer needs. Therefore, market competition could enhance the impact of learning capability on adaptive capability.

Technology environment refers to the uncertainty in the market environment due to the instability of change in technology (Cheng & Zheng, 2022; Dess & Beard, 1984). Operating in an industry with greater dynamism in technology requires the top managers to make quick strategic decisions and develop creative strategies to build a rapid response to the external environment and thereby survive and/or prosper in the new environment (D'Aveni, 1994; Hitt et al., 1998). However, if the technology environment in which firms operate is rather stable, it is more likely for a firm to predict the behaviors of its customers as their preferences are relatively fixed. Thus it is no need for firms to incur further costs for investment in innovation activities (Moorman & Miner, 1998). Consistent with this, Schreyögg & Kliesch-Eberl, (2007) postulate that in a relatively stable environment with no significant technological progress or little customer preference change, current "make a living" operating capabilities are enough to meet customer demand, strong capability to acquire new knowledge for innovation is not necessary but probably expensive or even destructive owing to the maintaining cost. On the contrary, in a highly volatile technology environment, the environment reduces the potential value of the firm's current capability (or core competence), forcing firms to constantly carry out learning activities to acquire and absorb new knowledge for new product development and complex changes, thus learning capability take a more important role to a firm's ability to adapt to its external environment. To sum up, in a stable environment (competition, technology), the relationship between a firm's learning capability and its adaptive capability is insignificant, while in the high-velocity market is positive, indicating a moderating role of external forces. This study proposes the following hypotheses on the moderation effect of external factors (competition, technology change) as follow:

Hypothesis 6a: The higher the dynamism of the competition environment, the stronger the positive relationship between a firm's learning capability (i.e., replication, exploitation, exploration, disposal) and its adaptive capability.

Hypothesis 6b: The higher the dynamism of the technology environment, the stronger the positive relationship between a firm's learning capability (i.e., replication, exploitation, exploration, disposal) and its adaptive capability.

2.3. Research Method

2.3.1. Measures adopted

This study measures the construct of firm performance under an objective approach. We adopt and modify the measurements from Oktemgil et al. (1997) that investigate firm performance under four aspects, namely return on equity (ROE), return on asset (ROA), market share, and sales growth; measurement for adaptation modified from Tantong et al. (2010) contains five items; measurement for replication modified from Capron

(1999) contains six items; measurement for exploitation modified from Lisboa et al. (2013) and from Tolstoy (2009) includes six items; measurement for exploration modified from Liu el al. (2011), Lisboa (2013) and Arnold (2011) have seven items; measurement for disposal modified from Sirmon et al. (2007) contains six items. All the items are measured by a seven-point Likert scale in which 1 means significantly lower and up to 7 reflects significantly higher.

2.3.2. Data collection

The data used in this study came from a questionnaire survey. The data is collected from foreign companies who have conducted business activities in Vietnam and Taiwan for at least five years. We think that this period of time is proper for a foreign firm to evaluate its investment activities in a new market. Before a formal survey, we conduct a pilot test by sending the questionnaires to managers of several firms. Some amendments, mainly in wording, were conducted before the final survey is conducted. In the formal survey, we sent the questionnaires to the respondents who hold important positions in their company, such as the company's CEO, senior managers, and managers' assistants, because we think they know their company's business strategy in the local market rather well. The sampling technique used in this study is mainly convenient sampling that involves selecting cases haphazardly because they are easily available (or most convenient) to obtain (Sauder et al., 2019). As we want to target participants at the management level in their company, convenient sampling is the proper technique to help us quickly access the right participants.

In more detail, we reached the potential respondents in many ways. Firstly, we took advantage of our current network with ex-students of our universities. Specifically, as we work at universities that train students in the field of international business, many of them have graduated and hold high positions in multinational companies and we have their contacts. Further, thanks to the assistance from our colleagues, we also have contacts of many other ex-students. After we had contacts of the potential respondents, we contacted every respondent by phone to talk about our research and asked for help. Besides this way, we attended the annual alumni meeting (2018) from Foreign Trade University in Ho Chi Minh City and Job Fair events held at some universities for economics students; in this way, we approached the potential respondents (who work at the management level in their company), we introduced them the purpose of our research and asked them to help by answering the survey questionnaire.

After receiving consent from the respondents, we sent the survey questionnaire (designed on Google Forms) via the respondent's email, we also sent the paper survey questionnaires directly to some respondents whom we met at the Job Fair events. After reading the survey questionnaire, if respondents felt they could answer the survey questions and that answering these questions did not bring about any negative impacts to their company (for example, business secrets), then they were willing to answer and send the survey back to us. There were also some respondents who received the survey but did not answer the questionnaire because they said that their company's policy did not allow employees to disclose information related to the company's activities publicly arbitrarily.

Data collection started in July 2018 and ended in December 2018. The final sample includes 268 companies, of which there are

91 foreign subsidiaries in Vietnam and 177 foreign subsidiaries in Taiwan. These companies come from different countries, including Europe, Asia, and the USA, and they are involved in diverse industries such as FMCG, pharmaceuticals, furniture, apparel, tobacco, manufacturing and trading, finance, insurance, logistics, consulting, education,...

As with many other empirical studies, we have to acknowledge the potential of a common method bias. The risk of common method variance increases when survey participants respond to items reflecting independent variables as well as items reflecting dependent variables (Bagozzi & Yi, 1991). We test the potential of common method variance by two techniques, Harman's single-factor test and Latent common method factor. The results of the Harman single-factor test show that the first unrotated factor captures only 26.97% of the variance in the data, which is lower than the benchmark value of 50% (Tehseen et al., 2017). For the Latent common method factor, after we include a common method factor in the CFA, the standardized regression weights of the model with one common latent factor (CLF) are not greater than the benchmark value of 0.2 in relation to the model without a CLF (Podsakoff et al., 2012). Results from these tests allow us to conclude that common method bias is not a concern for this research.

2.3.3. Statistical technique

Structural equation modeling (SEM) is the main technique used to evaluate the fitness between the proposed theoretical model and the data. SPSS 22 and AMOS 20 softwares are utilized to test the reliability of the measurement instruments, validate the measurement model and structural model, and test the hypotheses.

3. Results and discussion

3.1. Measurement model

The reliability of the measurement scale in the study is estimated by Cronbach's Alpha test. Cronbach's Alpha values of replication, exploitation, exploration, disposal, adaptive capability, and Performance are 0.816, 0.924, 0.886, 0.913, 0.909, and 0.896, respectively. All the observed variables in the study have a correct item-total correlation value greater than the cut-off value of 0.3 (Hair et al., 2014). This means all the items designed to measure their underlying construct are really measuring what they are designed to measure. Therefore, the measurements are highly internally consistent.

The fitness indices of the measurement model includes: CMIN = 411.769, df = 401, CMIN/df = 1.027 < 2, p – value = 0.344 > 0.05, CFI = 0.998 (>0.9), NFI = 0.939 (>0.9), RMSEA = 0.01 (<0.05). All the fitness indices satisfy the benchmark value, indicating a good fit between the model and the data (Hair et al., 2014).

Convergent validity is tested by evaluating standardized factor loadings, composite reliability (C.R), and average variance extract (AVE). Each item in the scale has a factor loading value of greater than 0.5, indicating a strong correlation with its respective underlying factor. All the C.R values and AVE values exceed the benchmark values of at least 0.7 and 0.5, respectively, indicating a good construct convergence (Table 1). In short, it can be seen that most of the indicators of every construct in the study share a high proportion of variance; in other words, they reach a high degree of convergent validity.

Table 1. *Convergent validity result*

Structure	Standardized Regression Weights	CR	AVE
Replication (Rep)			
Rep1	0.640		
Rep2	0.579		
Rep3	0.830		0.838
0.516			
Rep4	0.875		
Rep5	0.618		
Exploitation (Exploit)			
Exploit1	0.730		
Exploit2	0.845		
Exploit3	0.897	0.928	0.684
Exploit4	0.827		
Exploit5	0.858		
Exploit6	0.794		
Exploration (Explor)			
Explor1	0.657		
Explor2	0.631		
Explor3	0.676		0.873
0.498			
Explor4	0.898		
Explor5	0.649		
Explor6	0.669		
Explor7	0.724		
Disposal (Dispo)			
Dispo1	0.715		
Dispo2	0.781		
Dispo3	0.832		0.906
0.620			
Dispo4	0.782		
Dispo5	0.778		
Dispo6	0.817		
Adaptation (Adap)			
Adap1	0.673		
Adap2	0.835		
Adap3	0.869		0.904
0.656			
Adap4	0.789		
Adap5	0.868		
Performance (Per)			
Per1	0.699		
Per2	0.768		0.883
0.655			
Per3	0.901		
Per4	0.855		

Discriminant validity of each construct is evaluated by using the AVE method of Chin (1998). Accordingly, discriminant validity of each construct is obtained if the square root of AVE of each construct is greater than the correlation between it and any other construct. Based on the empirical results, the square root of AVE values of Rep, Exploit, Explor, Dispo, Adap and Per are 0.718, 0.827, 0.706, 0.787, 0.810 and 0.809 respectively. The square root value of each construct is greater than the correlation between it and any other construct, indicating a qualified discriminant validity for each construct.

3.2. Structural model (SEM)

3.2.1. Model comparison

Our theoretical model is built up with the assumption that there is no direct relationship between learning capability and firm performance; instead, the relationship between these variables is mediated by adaptive capability. To examine the meadiated effect, the approach used in this study is to compare nested models, which is based on chi-square (χ^2) difference statistic ($\Delta\chi^2$) (Hair et al., 2014). The test is run by AMOS (version 20) software.

Accordingly, we compare two models: one model is our theoretical model (model 1), and the other model is a competing model (model 2). Model 1 includes the mediated effect of adaptive capability on the relationship between learning (i.e., replication, exploitation, exploration, disposal) and firm performance and excludes the direct effect of learning (i.e., replication, exploitation, exploration, disposal) on firm performance; model 2 includes the mediated effect of adaptive capability on the relationship between learning (i.e., replication, exploitation, exploration, disposal) and firm perormance and a direct

effect of learning (i.e., replication, exploitation, exploration, disposal) on firm performance. For model 1, we impose the constraint criterion that the paths Rep → Per, Exploit → Per, Explor → Per, Dispo → Per are set to be 0 (zero) (thus assuming that the possible direct effect of learning (i.e., replication, exploitation, exploration, disposal) on performance should be disregarded). For model 2, the paths from Rep → Per, Exploit → Per, Explor → Per, Dispo → Per are not constrained to 0, thus they are freely estimated.

The Goodness of fit indices of model 1 and model 2, as shown in Table 2, all satisfy the benchmark values (the chi-square test is insignificant, χ^2/df < 2, CFI > 0.9, GFI >0.9, AGFI > 0.9, NFI > 0.9, RMSEA < 0.05). Thus, both models 1 and 2 fit the data well. The result of the chi-square difference ($\Delta\chi^2$) test (Table 2) shows that the test statistics are within the non-rejection region of χ^2 at a 0.05 significance level (χ^2 = 2.175, df = 4, p = 0.704 (<0.05). The ($\Delta\chi^2$) test with four degrees of freedom is insignificant, which means that constraining model 1 by not allowing these four direct relationships (Rep → Per, Exploit → Per, Explor → Per, Dispo → Per) does not significantly worse fit (Hair et al., 2014). According to Raykov et al. (2001), a model with good empirical fit does not prove that this model is the "only" true structure. Favorable fit statistics are highly desirable, but many alternative models can provide an equivalent fit. More complex models may have a quite large number of equivalent models. The empirical results provide some evidence of validity, but the researcher must provide theoretical evidence that is equally important in validating a model (Hair et al., 2014). Thus, based on the chi-square difference test ($\Delta\chi^2$) (the empirical test) and the theoretical foundation of this paper, it can be seen that model 1, reflecting the mediating role of adaptive capability for the relationship between learning and firm performance, is validated.

Table 2. *Model comparison*

Model fit	**Model 1**	**Model 2**	$\Delta\chi^2$
χ^2	440.717	438.542	2.175
df	414	410	4
χ^2/df	1.065	1.07	
p-Value	0.176	0.159	0.704 (>0.05)
CFI	0.996	0.995	
NFI	0.935	0.935	
GFI	0.913	0. 0.016	
RMSE	0.016	0.016	

Model 1: excluding the path 'Rep→ Per', 'Exploit → Per', 'Explor → Per', 'Dispo → Per'. Model 2: including the path Rep→ Per', 'Exploit → Per', 'Explor → Per', 'Dispo → Per'.

3.2.2. Path coefficients results

As showen in Table 3, for model 1, the paths from Rep→ Per, Exploit → Per, Explor → Per, Dispo → Per are constrained to zero; the paths from Rep → Adap, Exploit → Adap, Explor → Adap, Dispos → Adap, and from Adap → Per are statistically significant with p -values < 0.05. The indirect effects from Rep → Per, Exploit → Per, Explor → Per, Dispo → Per are 0.103 (0.196*0.523), 0.127 (0.243*0.523), 0.155 (0.297*0.523), 0,060 (0.114*0.523), respectively.

For model 2, the competing model in which paths from Rep → Per, Exploit → Per, Explor → Per, Dispo → Per are freely estimated, the empirical results show that there are direct effects from Rep → Adap, Exploit → Adap, Explor → Adap, Dispos → Adap, and from Adap → Per (with p -values < 0.05); but the direct effect from Rep →

Per, Exploit → Per, Explor → Per, Dispo → Per are insignificant (with p-values > 0.05).

The results of path coefficients in Table 3 show that hypotheses 1, 2, 3, 4 are supported by the data, enhancing our theoretical model that learning (replication, exploitation, exploration, and disposal) does not directly lead to firm performance, in stead, learning (replication, exploitation, exploration, and disposal) has a positive effect on firm performance only through the mediating effect of adaptive capability.

Table 3. *Path coefficients results*

Path coefficients	**Model 1**	**Model 2**
Adap → Per	0.523***	0.508***
Rep → Adap	0.196**	0.194**
Exploit → Adapt	0.243**	0.241**
Explore → Adapt	0.297***	0.297***
Dispo → Adapt	0.114*	0.115*
Rep → Per	n.a	-0.054ns (p=0.417)
Exploit → Per	n.a	0.084ns (p=0.296)
Explore → Per	n.a	-0.003ns (p=0.97)
Dispo → Per	n.a	-0.027 (p=0.636)

(ns) p>0.05; Model 1: excluding the path 'Rep→ Per', 'Exploit → Per', 'Explor → Per', 'Dispo → Per'. Model 2: including the path Rep→ Per', 'Exploit → Per', 'Explor → Per', 'Dispo → Per'. ***p<0.001, **p<0.01, *p<0.05.

3.2.3. Moderation effect (14)

Relates to the moderator effects of competition and technology uncertainty on the relationship between a firm's learning and adaptive capability, Pair-wise parameter comparison test is conducted (by AMOS software version 20). As we can see from Table 4, the z-test for the difference between path coefficients (Rep ---> Adap) in two situations of market competition (high vs. low) is 2.183 (for a two-tailed test), that is greater than the absolute value of 1.96, implying existing the role of a moderator variable (Thakkar, 2020). Hence, we can say that the path Rep ---> Adap in high market competition is statistically significantly different from that in low market competition. This result is in enhanced when path coefficients for Rep ---> Adap are 0.044 (p-value > 0.05) for high market competition and 0.298 (p-value <0.001) for low market competition. Similarly, technology uncertainty in the industry has a moderator effect on the relationship between exploitation and market adaptation, between exploration and market adaptation (z values = -2.252, 3.207 > |1.96|; path Exploi → Adap = 0.03, p-value <0.001 (high) vs 0.04, p.value >0.05 (low); path Explor → Adap = 0.387, p.value > 0.05 (high) vs 0.774, p-value <0.001 (low).

Table 4. *Pairwise test result*

			High	**Low**
Factors	**CR**	**Path**	**Est.**	**Est.**
Comp.	2.183	Rep -->Adap	0.044	0.298***
Tech.	-2.252 3.207	Exploit --> Adap Explor --> Adap	0.030*** 0.387	0.04 0.774***

***p<0.001

3.3. Discussion

This study posits that a firm's learning capability (i.e., replication, exploitation, exploration, disposal) is imperative to its internationalization. In fact, the firm needs learning capability to reconfigure its resource base constantly to react to the external market, especially in the context of change in

the global market. Finding from this study is consistent with the DCV, which posits that dynamic capabilities do not directly bring about firm performance, but dynamic capabilities help modify a firm's resource base in accordance with the change in the external environment, this in turn assists firms to obtain performance and even competitive advantage (Helfat et al., 1997; Teece, 2007).

For the effect of external factors (i.e., competition and technology uncertainty) on the relationship between learning capability and adaptive capability, this study shows that these external factors moderate the effect of replication, exploitation and exploration on a firm's adaptive capability. Specifically, in terms of market competition uncertainty, when a firm operates in an environment with low competition, the firm can benefit from its parent company's advantages by replication learning. Hence, firms that can perform replication at a higher level is more likely to successfully leverage their orginal advantage in the local market. But when the competition in the market becomes severe (that may come from the emergence of local competitors, the appearance of substitutable products), replicating the existing product or competence from the home country is not enough for firms to compete and grow in the market, instead, firms need the capability of acquiring new knowledge for the creation of distinctive innovations.

Relates to technological uncertainty, when technology in the industry is highly unpredicteable, high exploitation capability is more likely related to high market fitness, whereas when the dynamism of technology is low, exploitation is not significantly related to market fitness. Compared to exploitation, the moderator effect of technological uncertainty on exploration and adaptive capability is different. Accordingly, when technology is volatile, high exploration capability is not related to high adaptive capability, but when technology is stable, high exploration capability is significantly related to high adaptive capability. From this empirical result, we suggest that when technology in the industry is highly unpredictable, firms should focus on exploitation rather than exploration to obtain market adaptation, and in contrast, when the technology in the market is rather stable, exploration should be prioritized. Consistent with these empirical results, Eisenhardt & Martin (2007), and March (1991) postulate that in a high-velocity market where technology changes wildly and unpredictably, dynamic capabilities strikingly involve the ability to learn quickly, to rapidly create new knowledge about the current situation, and includes alternatives developments. Therefore, developing new ideas based on exploitation allows firms to obtain consequences more quickly and precisely; meanwhile, searching for new innovations based on exploration takes firms more time, but the result is less certain and more diffuse than the development of the existing knowledge. Consequently, in an environment where technology is highly unpredictable, compared to exploration, exploitation is more likely to help firms quickly produce adaptive innovations, hence obtain performance.

On the contrary, when technology in the industry is rather stable, firms are associated with a stable pattern of information, thus exploration proves to be more appropriate for firms to succeed. This is because, in this environment, the pressure for firms to act quickly on the information received is lower. Instead, firms have more time to learn, select, and analyze information to have a complete insight into the trend of the market and products that the firms need to invest in to

obtain market opportunities. As such, firms tend to take riskier, more novel actions and explore alternatives to improve product specifications. Consequently, with new product developments that are well -planned, firms avoid inconsistent and wasteful actions, and may have high -quality product that match the needs of the market. This, in turn, has a positive effect on firm performance (Kiss & Barr, 2017).

Finding of the moderating effect of external factors on the relationship between a firm's learning capability and its adaptive capability is another important contribution of this study, providing practical implications for MNC management. In this regard, MNCs are suggested to persistently sense and react to changes in the external environment, especially changes that may affect firms' ability to touch their customers' needs. MNCs need to respond not only to their competitors' actions but also to uncertainties in the environment, especially technological change. When demand for a new innovation arises that may come from the offering from competitors or from new technology trends, which could eliminate a firm's current competitive advantage, firms need to react quickly and significantly. As such, the capability of responding quickly and flexibly to environmental changes is vital to firms and needs to be built and enhanced more often, especially when firms operate in a high-velocity market, as this enables firms to reconfigure and leverage their resource appropriately to provide superior value to their customers. Additionally, even if the environment is stable, MNCs are also suggested not to be complacent with their current performance; instead, basic research (exploration) should always be maintained inside the firms so that they can timely respond to potentially radical changes in the future or even create changes in their industry.

This study also contributes to the literature on international expansion when considering market entry of firms as a dynamic entry rather than a static one. In previous studies, market entry is often examined from the aspect of entry mode selection (i.e., theoretical interpretation of the choice of entry mode of the firm, factors that affect a firm's choice of entry mode, and comparison of different modes of entry). However, as MNCs'motivation to go abroad is to increase benefits from their exisiting core competencies (Madhok, 1997), they need to tailor their activities more often to best suit a given context and to constantly discover and develop new opportunities (Lu et al., 2010). Thus, international expansion is a dynamic process rather than a static one with the emphasis on entry mode. Hence, the theory of dynamic capabilities should be integrated into our understanding of international expansion.

In addition, by proposing the hypothesized model in conjunction with the empirical evidence, this study provides clarity regarding the ambiguous relationship between dynamic capabilities and firm performance. We have identified the mediating role of market adaptation between dynamic capabilities and firm performance. As such, this study provides empirical evidence to affirm that the possession of dynamic capabilities does not guarantee firm performance. Instead, dynamic capabilities only contribute to firm performance to the extent that dynamic capabilities generate new resource configuration that fits the market environment.

Furthermore, learning capabilities, specifically replication, exploitation, exploration, and disposal have been

identified as the measurements for dynamic capabilities by this study. As such, this study contributes to the DCV by explicating the nature of dynamic capabilities in a way that is realistic and empirical, not vague and tautological as some researchers criticized. Additionally, by these measurements of dynamic capabilities, this study also provides some practical examples of dynamic capabilities that firms can understand and apply to their practical operation to sustain performance, which is especially meaningful for firms who operate in the context of constant change.

4. Conclusion

Market entry of an international firm is associated with a series of learning activities ranging from simple (replication) to complex (exploitation, exploration, and disposal). In this process, the performance of a firm in a new market is determined by its ability to leverage and transform the resource base in a manner that adapts to the external environment. A firm's business activities are always constrained by market conditions (i.e., competition, technology change), hence firms need to flexibly modify their competencies in a proper manner to the external environment to achieve sustained performance or even competitive advantage.

When evaluating the effect of external factors on firms' learning and their adaptive capability, this study only takes into consideration the effect of competition and technology change. Some other factors from the external markets like government policy, cutural distance, market turbulence (Pekovic & Rolland, 2016) also importantly affect a firm's business strategy and should be extremely important to consider in future research.

Acknowledgments

This research is a part of University-level research project granted by The Univerisity of Danang, Univeristy of Economics with the grant number of T2023-04-29.

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