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Journal of Management Inquiry 2011 20: 323 originally published online 11 May 2011
DOI: 10.1177/1056492611408266

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Journal of Management Inquiry
20(3) 323–330
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DOI: 10.1177/1056492611408266
http://jmi.sagepub.com


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Abstract

The entry of young and aggressive multinational corporations from emerging economies into developed countries' markets is an important trend that promises to shape the global competitive landscape. Brazilian, Chinese, and Indian multinationals typify this growing trend. The individual and collective experiences of these multinationals provide an interesting context in which organizational unlearning becomes a means for inducing multifaceted learning that enables these companies to develop and exploit their entrepreneurial capabilities. In this article, the authors discuss the challenges associated with unlearning and how it sets the stage for learning and exercise of entrepreneurial capability for competitive advantage. The authors also identify important research questions that deserve exploration.

Keywords

unlearning, learning, emerging economies, entrepreneurial capability

Organizational learning and the conditions that foster it have been the subject of interest in the literature, underscoring their potential consequences for companies. One important source of disagreement is whether unlearning is necessary to make learning possible. Debate persists because unlearning and learning are subtle and messy processes that are difficult to disentangle empirically (Tsang & Zahra, 2008). The context in which these processes occur can also accentuate the difficulties, further complicating theory development and testing. The expansion of multinational corporations from emerging countries to developed economies is one such interesting but challenging setting in which to study the links between unlearning and learning and their implications for building and upgrading organizational capabilities.

Emerging multinational corporations or emerging multinationals in short, refer to companies that are founded in emerging economies and operate in developed countries' markets. These companies usually follow a focused strategy, targeting a few international markets at a time. These emerging multinationals are of two types—born global and expansion type. Born-global emerging multinationals are created to go international from inception, whereas their expansion-type counterparts are existing companies that decide to internationalize their operations later in their life cycle. Regardless of their type, some emerging multinationals are independently owned, whereas others are members

of business groups. Although the emergence of these multinationals is a relatively recent phenomenon (Wells, 1983), their contribution to outward foreign direct investment (FDI) has grown from US\$65 billion in 1980 to US\$849 billion in 2002, accounting for 12% of the world's total FDI outflows (United Nations Conference on Trade and Development, 2003).

Emerging multinationals from diverse countries such as Brazil, China, Egypt, and India have been adept at crafting strategies that enable them to enter developed economies and operate profitably. In so doing, they have shown deftness in developing, honing, and exploiting their entrepreneurial capability (EC), defined as their capacity to recognize, conceive, create, and exploit opportunities for competitive advantage. As they continue expansion, emerging multinationals need

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to learn new skills that sustain profitable exploitation of their capabilities. This often requires them, especially the expansion type, to unlearn some of the practices they have used in their domestic or foreign markets. However, unlearning and learning create formidable challenges for emerging multinationals and their managers as well as researchers studying this phenomenon. These companies need to be adept at learning and unlearning as well as in building the EC needed to identify and exploit value-creating opportunities.

Focusing on the growing participation of emerging multinationals in developed economies, we discuss the challenges that unlearning poses for these firms and their managers and analyze how they relate to these firms' EC. We also highlight the various issues researchers are likely to encounter as they empirically study these issues in the rich context in which emerging multinationals work, underscoring the importance of combining qualitative and quantitative studies. By analyzing emerging multinationals, we illustrate the powerful influence of the context in which these firms operate and how it might affect unlearning and learning as well as EC.

The Need for Unlearning

Following Tsang and Zahra (2008), we distinguish between organizational unlearning and forgetting. Unlearning refers to the intentional discarding of practices, such as abandoning a certain recruitment procedure. Forgetting refers to inadvertent loss of practices from organizational memory (Easterby-Smith & Lyles, in press), as happens when knowledge is lost because of personnel turnover. Sometimes "forgetting" could be useful but, in other times, it is dysfunctional (Easterby-Smith & Lyles, in press; Martin de Holan, in press).

Emerging multinationals expand internationally to exploit their assets in pursuit of growth and profitability. As a result, they need to build capabilities that give them an advantage in selected foreign markets (Luo, 2002). Many of these capabilities are functional in nature and require developing and judiciously exercising EC. To generate economic value, emerging multinationals should keep their capabilities current by infusing new knowledge and innovation into their operations, which requires learning multiple skills and competencies. Huber (1991, p. 89) states, "*an organization learns if any of its units acquires knowledge that it recognizes as potentially useful to the organization*" (emphasis in original). Learning takes time and effort to comprehend, absorb, and exploit new knowledge and develop new frames of reference about the competitive arena, how the emerging multinational defines its mission as well as where and how it competes.

Emerging multinationals' existing practices may create hurdles to learning in international markets. An Egyptian coffee chain internationalizing to the United Kingdom offers an example of this situation. When expanding into the United

Kingdom, the firm continued to use its human resource incentive programs that were designed for the Egyptian market. Given the differences between the career orientation and objectives of the workforce in the domestic versus the foreign market, the incentive program did not work well to motivate employees in the U. K. operation. In this case, existing human resource practices became a cognitive blinder (Walsh, 1995), delaying the firm's expansion. Such blinders perpetuate competency traps resulting from capabilities that were valuable in the past but have become serious barriers to organizational adaptation (Levinthal & March, 1993).

Learning could be difficult especially for an expansion-type emerging multinational whose organizational memory might become a barrier to absorbing the new knowledge gained in international markets (Casey & Olivera, in press). Here, the dynamics of forgetting and especially unlearning come into play. The firm's knowledge might be decaying, dated, or limited because of its local experiences. For instance, local knowledge about technology may lag behind international standards. Furthermore, knowledge about international markets and consumers may be inaccurate because of faulty or limited analysis or lack of experience. Knowledge about institutions and how they work in host countries may be deficient. This would happen when new knowledge gained from international markets is forgotten because it is not firmly embedded in established organizational practices. Emerging multinationals may need to unlearn some of the beliefs they hold. They may unlearn how institutions in their own home countries function, as institutions in the countries that they target at might be significantly different (North, 1990). For instance, they probably need to unlearn the value of the underground economy in their home markets. They might also need to unlearn some of the competitive strategies that have worked well for them domestically and, instead, explore ways that will allow them to succeed in their chosen international arena. Purging existing knowledge is clearly vitally important.

When compared with their expansion-type peers, born-global emerging multinationals, typically have a comparative advantage in learning about international markets. Because they are less embedded in their home countries, they are unfettered by experiences or organizational memory. Their flat structures make it easy to disseminate the knowledge gained from new markets. Their leaders are also close to the markets and key stakeholders and enjoy opportunities to learn from their interactions with these diverse groups. For these emerging multinationals, the loss of knowledge could be accidental—as they inadvertently forget to capture useful concepts and practices that they have improvised.

For both types of emerging multinationals, some existing knowledge may be degraded as they continue their expansion into advanced economies (Martin de Holan & Phillips, 2004). Unlearning can free up these firms' organizational memory and, thus, create opportunities to explore new

concepts. In this case, unlearning can become a precursor to the learning that drives successful transformation (Tsang & Zahra, 2008). Of course, unlearning does not translate automatically into learning as efforts dedicated to unlearning might thwart attention to learning (Globerson & Levin, 1987). Moreover, learning and unlearning are different processes that require different skills.

The Interplay Between Unlearning and Learning

Moving from unlearning to learning often requires the infusion of different ideas and types of knowledge. It also demands experimentation with different systems and concepts. Fortunately, international expansion offers a variety of opportunities that can yield new knowledge of different types (e.g., marketing, product development, and competitive intelligence). To reap the benefits associated with this knowledge, integration is essential (Zahra, Ireland, & Hitt, 2000).

Integration starts with identifying and capturing new knowledge, defining its potential strategic importance, and connecting it to what the emerging multinational knows or does. As such, integration is an ongoing process that entails variety generation (creating many different types of knowledge), selection (identifying pertinent ones), and retention (persevering and exploiting) of particular types of knowledge. These activities require care as well as foresight because knowledge considered irrelevant today might become strategically valuable in the future. Similarly, some pieces of knowledge are worthless when considered alone but become crucially valuable when combined with other pieces. Managers making these judgment calls can miscalculate or fail to see linkages and even overlook capturing new knowledge.

Learning to make these judgment calls and linking them to potential industry evolutionary trajectories can promote “metalearning”, defined as learning to learn (Argyris & Schön, 1996). Metalearning can revise managers’ mental models of how the industry is likely to evolve and how competitive dynamics may unfold. Changes in managers’ frames of reference and mental models can spur exploration that enriches innovation, reigniting the variation-selection-retention cycle and subsequent learning. Clearly, learning requires expansion-type emerging multinationals to be better at unlearning. These firms need to unlearn many things they come to know in their search and synthesis process. This is a difficult task, as discussed below.

The Difficulties of Unlearning

As noted, for born-global emerging multinationals, unlearning is not a major challenge because they have few practices that are firmly embedded in their home countries. However, Huber (1991) observes that these companies do not start with a clean slate. Founders often bring their biases to their

newly created companies and, thus, imprint their views on the companies’ systems and mental models. Founders may also surround themselves with people who share their worldviews, further defining the new firm’s worldviews. Consequently, these born-global emerging multinationals have to guard against such biases as they begin their operations.

Unlearning is a more complicated issue for expansion-type emerging multinationals. Learning about opportunities and threats in advanced economies can pose a serious challenge to their existing practices that often reflect *and* dictate a dominant logic closely tied to their home markets. Even when unlearning happens naturally, it is difficult to realize its occurrence and potential consequences. Discarded concepts, ideas, and practices might emerge from time to time as the firm and its employees come face-to-face with the cultural challenges in their new, foreign markets. For example, interactions with diverse foreign customers can remind employees of how things are done in their home markets, possibly delaying unlearning. Moreover, concepts, ideas, and practices that need to be discarded in foreign markets might remain intact in home markets because of their usefulness and might even constitute the core of the organizational memory. Such selective discard of knowledge in certain markets makes unlearning particularly difficult.

Emerging multinationals are founded in emerging economies, which often have underdeveloped institutions. This is typically manifested in the prevalence of weak and inefficient formal institutions such as laws, regulations, information disclosure, governmental agencies, specialized professions, and financial press. These economies are “[l]ow income, rapid growth countries using economic liberalization as their primary engine of growth” (Hoskisson, Eden, Lau, & Wright, 2000, p. 249). They also have highly volatile environments that exhibit great uncertainty, significant government interference, unstable political and economic conditions, and significant dependence on informal institutions (la Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Formal and informal institutions largely determine firms’ mental models and cognitions which typically frame their direction and strategic moves (Peng, 2003). Because of the strong role of informal institutions in emerging economies, networks that are grounded in social, political, and economic connections are widespread. Some of these networks give rise to corrupt business behaviors. Although officially abhorred, these practices are common and widely accepted as a normal part of business. If the same practices are used in international operations, they represent serious crimes that can bring ruin to the emerging multinational and its leadership. Attempting to put an end to these practices through unlearning can bring managers face-to-face with the subtle but powerful social and cultural norms that are hard to change.

Emerging multinationals need to pay attention to the differences in the institutions that exist across countries, otherwise risk failure. However, this attention may be constrained

by their dominant logic that is usually and deeply embedded in their domestic institutional environments (Prahalad & Bettis, 1986). This dominant logic may confine these firms' information interpretation processing to the old setting, overlooking the needs and expectations of advanced economies. Overcoming the dominant logic requires effective knowledge integration and coordination to yield a cohesive picture of dispersed information and stimuli that guide the emerging multinational's learning and unlearning processes.

Problems arise when the firm or its leaders deliberately attempt to unlearn something; disagreement might arise about the importance of what is to be unlearned and the best way to do so. These disagreements are often culturally laden. Some might view the origin of uniqueness to lie in the cultural heritage of the company's home market and therefore see opportunities to build on this heritage. Unlearning these values can evoke a deep sense of betrayal to one's own national culture. It can also lead to employees' isolation and alienation from the very culture on which the company's initial success is based. Others might see the same values as obstacles to progress and conclude that it is best for the organization to rid itself of these values, if it hopes to succeed internationally. These divergent beliefs might frustrate the efforts aimed at unlearning. Debates about the best way to address these issues often trickle down into the rest of the organization, polarizing members who might also disagree on the merits of the approaches being followed. Some of these debates unleash serious cultural backlashes, especially if the concepts being debated reflect underlying national norms that define employees' values. Although some employees might appreciate the need for unlearning some of these values, others might believe they are abandoning their own cultural heritage. These differences in beliefs might stir conflicts, intensify resistance to change, and slow down emerging multinationals' expansion.

Some emerging multinationals use dual organization structures—one that serves their domestic operations—whereas the others embody their international activities. This duality can foster agility and flexibility but can also create and even perpetuate tensions as expansion accelerates. National cultural norms are likely to persist in domestic operations. Spillovers from domestic to international operations are common and could create tensions for managers. Friendship networks that pervade expansion-type emerging multinationals keep alive old practices, routines, and informal systems. These problems are compounded when employees are chosen from the domestic operations to lead international operations. Even with extensive training and socialization, the effect of the domestic experience might endure.

The situation is further complicated by the possibility of forgetting newly acquired knowledge. Such knowledge might dissipate as members of the organization fail to realize its significance in time, do not capture it fully, or do not

store it in ways that allow others to retrieve it when necessary (Martin de Holan, in press; Martin de Holan & Phillips, 2004). A manager of an emerging multinational's foreign subsidiary, for example, might learn something new in that market but fail to share the knowledge with employees or store it in a way that enables others to use it. It is also possible that new knowledge is purposefully abandoned through unlearning before it is deeply embedded in the firm's practices. This may happen because of a misjudgment that the knowledge is of little significance or even counterproductive.

The Effect of Organizational Origin on Unlearning

Our discussion thus far overlooks several contingencies that could have a profound effect on unlearning. For instance, an emerging multinational's organizational origin could have such an effect. Some of these companies, such as the Egyptian coffee chain mentioned earlier, are newly created and have operated for a short period of time in their domestic markets. The coffee chain also enjoys its independence as it has the resources and expertise needed for international expansion. The company's managers have unconstrained discretion in making their decisions independently. A company like this does not have to concern itself a great deal with unlearning or memory decay, except to safeguard against founders' cognitive biases (Huber, 1991). Instead, the company should focus more on avoiding bad habits and losing any new knowledge it has gained from its experience in international markets.

Some emerging multinationals, especially those from India and Korea, are parts of business groups, receive resources from these groups, and administratively report to them. The international expansion of such emerging multinationals is coordinated with other companies in their business groups. These emerging multinationals have to learn to avoid bad habits, unlearn, capture new knowledge, and diffuse it to sister units, and safeguard against memory decay. Relationships with other members of the business groups make it essential to work hard to unlearn and learn, and to avoid forgetting valuable knowledge.

Still, other emerging multinationals, such as some of those from Mexico, are the offspring of former state monopolies that have been privatized to give them the discretion and resources needed to expand internationally. Privatization can bring about fundamental changes in these companies' knowledge bases. Yet, most of privatized companies have to unlearn many of the skills they have mastered as state monopolies that are immune from competition domestically. To transit from domestic to international standards, these companies need to retool their operations, rethink their branding of their products and customer service, and redefine the competencies needed to create value. As these

companies become more active in international operations, some of the traditional practices may disappear through memory decay.

Finally, there are emerging multinationals that remain as state-owned enterprises. Some emerging multinationals from China belong to this category. Compared with their peers that have been privatized, the challenges of unlearning are even greater. These emerging multinationals have to abandon their reliance on the financial and institutional support enjoyed in their domestic markets and prepare to compete in the level-playing field overseas. Moreover, their status as state-owned enterprise can become an obstacle when they acquire foreign firms or operate in industries that are related to national security. Considerable unlearning and adjustments are necessary to cope with such deterioration of status in foreign markets.

The Role of EC

Like other companies, emerging multinationals entering advanced economies need to explore, identify, and exploit opportunities. This requires gaining a thorough understanding of these firms' own capabilities, particularly their EC. Using EC, emerging multinationals could compete in a different market space, using unique competitive approaches. Building and sustaining a firm's EC entail learning and unlearning as emerging multinationals attempt to effectively integrate their different resources, processes, and capabilities to explore and exploit opportunities. This demands deftness in realizing and pursuing opportunities across multiple national markets.

Emerging multinationals' internationalization process often gives them access to new customers, innovation, and technological hubs as well as several possibilities to experience new things that were not available or feasible in their local markets. Exploiting these opportunities in the new context requires firms to build an EC that allows them to simultaneously leverage their inherent capabilities while stretching and learning to build new ones. For this reason, learning by doing pervades the process of developing ECs. This learning makes it essential for these firms to learn how to capitalize on their own idiosyncrasies (represented by their own resources and capabilities) in relation to the new environment in which they compete. Emerging multinationals also learn vicariously by observing and imitating other foreign and local companies, potentially expediting the development of their ECs. This is why sometimes learning to design, build, and use ECs occurs as an integral part of the larger milieu of crafting these firms' international identity and developing their competitive arsenal.

Emerging multinationals seeking to build ECs can learn across various opportunities, thereby enriching their knowledge by infusing new knowledge about operations and the

various interdependencies among their different capabilities. These interdependencies emerge as firms learn to assemble their capabilities, aiming to understand their individual and collective contributions to the firm's strategies used in pursuing various opportunities. This learning process defines new links between capabilities that were previously unrecognized, allowing these companies to make appropriate resource allocations. This suggests that capitalizing on these interdependencies could spur the discovery (and even creation) of new opportunities in international markets, thus accelerating these firms' competitive positioning. For example, Haier, a Chinese manufacturer, targeted the U.S. niche market of compact refrigerators and wine cellars as a means to enter the high-end products market. Haier exercised its home-based capabilities in a relatively safe environment that reinforced its learning efforts to adapt its capabilities (including EC) and develop new ones that are well attuned to the U.S. market.

A key difference between exercising EC domestically and internationally lies in the time factor. The meaning of time differs from one business context to another, compelling firms to adjust their speed in spotting, creating, and acting on opportunities. Advanced economies usually experience rapid changes in their competitive landscapes because of rampant technological innovation. Consequently, emerging multinationals need to learn and develop a different pace at which they identify opportunities and exploit them in a timely fashion. Building the firm's ECs promotes learning to capture and interpret the various signals in its new international environment in a timely manner. These interpretations are then mapped to these firms' capabilities to enable the appropriate selection and further exploitation of opportunities. For instance, Teva pharmaceuticals leveraged its capability to produce a wide spectrum of generic drugs by entering the U.S. market at the time when national pharmacies were expanding. Effective timing has made the firm's existing capability appear more relevant to expanding chains that are willing to cut down their sourcing costs.

Of course, emerging multinationals do not experience the same degree of embeddedness in their home country. Still, the fact that they are internationalizing to a new environmental context with different characteristics underscores the need to unlearn while building ECs. Sensitivity to the local context requires exercising ECs differently in host markets from exercising them in the firm's home country. Environmental conditions that spur opportunity exploration will be different across the two settings, requiring these firms to unlearn and shift focus from analyzing past signals to understanding and interpreting new ones. For instance, spotting and foreseeing serious institutional voids are a source of entrepreneurial opportunity in developing economies, a skill that emerging multinationals need to unlearn as they move to advanced economies where institutions typically are well developed.

The failed acquisitions in Germany and France by TCL Corporation, a Chinese consumer electronics manufacturer, could be traced back to its inability to realize that it needed to move beyond the capability to reduce costs, as was common in its home country. Beyond unlearning, TCL needed to experiment more before aggressively pursuing such a broad set of acquisition targets. Unlearning while building ECs fosters experimentation, possibly safeguarding against dissipation of scarce resources.

Studying Unlearning, Learning, and EC

Given the subtlety and complexity of unlearning and learning as well as the time it takes for the processes to materialize, researchers are likely to encounter a myriad of difficulties in empirically studying them. The conditions leading to each of these phenomena and the theories attempting to make sense of them are numerous. The same could be said about the mechanisms through which unlearning and learning can influence EC and other various organizational outcomes. Tackling these issues is likely to require the integration of qualitative (especially ethnographic) and quantitative methods. Researchers may find it essential to use case studies, lab experiments, face-to-face interviews, mail surveys, and archival data to study learning (Argote, 1999) and its effects on organizational outcomes. Given the unobservability of unlearning and learning, researchers may need to apply diverse methods to gather data and discern the dimensions of the phenomena being examined. Future research could address several important questions, as follows:

Is unlearning a precondition for learning? Although this issue has been debated in the literature for nearly three decades (Tsang & Zahra, 2008), a satisfactory conclusion has not emerged. If unlearning is a precondition for successful learning, then managers need to devote the resources necessary to ensure unlearning. If not, then both unlearning and learning could be simultaneous targets for managerial action—which would affect the speed and quality of learning and subsequent decision making. These are important considerations in strategy making, introducing strategic change, reconfiguring the firm's value proposition, reconceptualizing the competitive arena, and the effective design of EC and innovative business models.

When does unlearning stifle learning? A widely held assumption in the literature is that unlearning fosters organizational learning (Tsang & Zahra, 2008). Yet, it is possible that unlearning can handicap learning. Knowledge is not easy to disassemble and separate. The loss of one piece could reduce the value of other pieces. Discarding some supposedly obsolete practices can slow down or even stifle organizational functioning and subsequently learning. Researchers have not explored these possibilities even though there is recognition

that some resources, such as knowledge, remain dormant till they are rediscovered and reused. Experimental studies and simulations can enrich our understanding of these issues and the conditions under which unlearning induces versus handicaps learning and, as a result, different organizational outcomes.

How does the organizational heritage of the company influence its unlearning and learning processes? Heritage refers to a company's endowments (resources, reputation of founders, and regional or national advantages) at founding, including the socioeconomic milieu in which it was created (Klepper & Sleeper, 2005). Some emerging multinationals come from countries whose cultures value deliberateness, careful analysis, and risk avoidance. Others come from countries whose cultures are attentive to global market realities and therefore favor and reward speedy decision making, agility, resilience, and calculated risk taking (Cook & Yanow, 1993). Organizational and national cultures do not always coincide. Indeed, some emerging multinationals might have been created to circumvent the shortcomings of existing national cultural norms. The potential (in)congruence between the two value systems might have serious implications when selecting those practices to be unlearned. This is likely to be the case when the dual organizational structures we described earlier coexist in the emerging multinational, causing tension among executives. In-depth case studies can help delineate these issues.

In what ways do emerging multinationals' internationalization objectives affect how and what they unlearn as they move to developed economies? International expansion often serves multiple purposes such as asset augmentation and/or exploitation, resource acquisition, capability exploitation, learning, search for new markets, and wealth creation. These different goals might affect emerging multinationals' decision making and investment time horizons, possibly influencing the strategies used to unlearn and/or learn. Using survey, interview and archival data, and taxonomies of emerging multinationals' goals could be constructed and applied to delineate key differences in their unlearning approaches. These analyses could be tied to emerging multinationals' origin and heritage as researchers explore the implications of different modes of unlearning for innovation, profitability, and growth.

How different is EC in emerging multinationals compared with other companies? In learning and unlearning to build ECs, emerging multinationals can draw on their experiences, which vary based on size and type (born global vs. expansion). Thus, a question to examine is the empirical relationship between these firms' experiences and the learning and unlearning processes associated with building ECs. One would expect smaller emerging multinationals to have less sophisticated experiences related to learning and unlearning. Meanwhile, established companies are more likely to have better developed experiences or these experiences may

not be easily accessible to provide them with learning advantages.

What are the effects of different opportunity types on emerging multinationals' learning and unlearning processes as they build ECs? Building ECs is focused on the exploration and exploitation of opportunities of different types. Empirically examining the effect of opportunity types on the learning and unlearning processes would yield fresh insights into the relationship between ECs and these processes. One would expect opportunities closer to firm's existing business in a new international market to exhibit extensive unlearning processes, thus helping to adjust the firm's capabilities to the newly entered environment. Meanwhile, opportunities that are new to the firm's business are expected to exhibit radical, but sometimes slower, learning. Empirical research can help to clarify these differences and their implications for EC.

Conclusion

Organizational learning is essential for successful adaptation and superior performance. In this article, we have suggested that emerging multinationals (especially those that maintain domestic operations while expanding) need to unlearn as a precondition to learning. We have also discussed the various challenges emerging multinationals may experience as they attempt to unlearn, noting that there are different ways to unlearn. We emphasized that unlearning *per se* does not automatically lead to learning; it merely sets the stage for those actions or activities that induce and capture learning. When unlearning occurs, it could be painful, time-consuming, and costly. It can also elicit strong negative emotions among the firm's employees. Yet, unlearning could also be an important forum for socializing employees and reorienting them in ways that are consistent with the firm's changing identity and strategy. Learning provides the fuel that ignites emerging multinationals' entrepreneurial capabilities, enabling them to explore and exploit lucrative opportunities that enhance value and wealth creation.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

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Fonte: Journal of Management Inquiry, v. 20, n. 3, p. 323-330, Sept. 2011. [Base de Dados]. Disponível em: <<http://www.sagepub.com>>. Acesso em: 30 Aug. 2011.

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