Chapter 10
The Link Between Learning Capability and Business Performance in MNEs: The Role of Intellectual Capital

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ABSTRACT
It is widely recognized that the development of learning capability is key to achieve a durable competitive advantage. This is especially true in the context of MNEs. When MNEs operate in disparate host countries, they enhance their knowledge bases, capabilities, and competitiveness through learning processes. The analysis of the relevance of learning capability to improve business performance and, thus, the organizational competence has been an important issue developed in literature. This chapter explains the link between learning capability and the improvement of business performance by comparing how the main dimensions of learning capability – knowledge resources and learning processes – impacts on performance, in terms of both non-financial and financial performance. It is argued that those MNEs with the highest levels in both their knowledge resources and learning processes obtain a superior performance.

INTRODUCTION
In the present competitive environment, characterized by continuous changes and profound dynamism, companies widely identify learning capability as a critical attribute for achieving and retaining competitive success. Firms need to transform and refine their knowledge resources in accordance with the environmental conditions, and this is possible through learning processes. In essence, it is often recognized that organizations learn for two basic purposes: to explore new opportunities and to exploit existing ones (March, 1991). Literature has shown a growing interest about learning capability (Easterby-Smith, 1997) and, specially, on the consequences of learning capability on business performance and competitiveness.
The importance of learning capability for MNEs’ survival and effective performance has been emphasized widely in the literature (Bartlett & Ghoshal, 1987; Huber, 1991; Barkema & Vermeulen, 1998). International expansion can promote learning capability, which facilitates the development of knowledge and competences that help MNEs achieve competitive advantage. The diversity of a MNEs international business environment enhances its knowledge resources through the learning processes developed through interactions with local knowledge bases and through exposure to different foreign markets (Hsu & Pereira, 2008).

Given that learning capability is recognized as a critical practice in MNEs, a deeper understanding of the learning capacity-performance link offers substantial value and importance to MNEs managers and researchers. But the absence of good conceptual models about the MNEs’ learning makes difficult the understanding of the effectiveness of learning capability in MNEs. In light of this situation, MNEs increasingly demand frameworks able to explain how learning capability influences the scope and deployment of internationalization and thereby differentiates firm performance. The main objective of the present chapter is to explain the link between learning capability in MNEs and business performance and, ultimately, to determine how learning capability is associated with a better performance of the MNEs. The key concern is to characterize how organizations differ in their learning capability to analyze the consequences for business performance and, specifically, to address the differences that lead to superior performance. The differences are characterized on the basis of both knowledge resources and its associated learning processes as main dimensions of learning capability. With this aim, the chapter first characterizes learning capability and the concerns relative to business performance in MNEs. Then, the chapter gives a snapshot of where differences exist and how learning capability in MNEs may thus relate to business performance.

### Learning Processes and its Essential Forms

The concept of learning is understood from various perspectives, and mainly developed in the psychological field over a long evolutionary history. The application of learning at the organizations has been one of the most critical developments of management literature, where it has been emphasized the crucial role of organizational learning processes in firms’ survival and success. Different definitions of organizational learning have in common their attempt to explain what happens or, more specifically, what changes in individuals and organizations when they learn, that is, when they acquire knowledge or get to know more. Learning is in this regard seen as a relatively permanent change in organizational knowledge that is produced by experience, where the change in knowledge entails both change in cognition and change in behavior (Vera & Crossan, 2003). Because of this notion of change, research on organizational learning has dealt with questions about how organizations adapt (Lawless & Finch, 1990), evolve (MacIntosh, 1999), grow (Land and Mezias, 1990; Lant and Mezias, 1992), and renew (Crossan, Lane & White, 1999) themselves in order to face the challenges of an increasingly complex and dynamic environment (Argyris & Schön, 1978; Cangelosi and Dill, 1965; Fiol & Lyles, 1985; Senge, 1990).

Accordingly, an organization’s knowledge transformation in order to get adapted and aligned with its environment is a result of learning processes. Activities in the international market stimulate the need to fit new information into MNEs existing knowledge, and presents an opportunity to change their existing knowledge. Although organizations need to learn through experience and refine their existing knowledge and capabilities, they also need to create variety in their knowledge and experience through experimenting, innovating and risk taking. In other words, organizations face the dilemma of allocating resources to the exploitation of their