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# Learning How to Grow Globally

A brief summary of research about the direct and indirect approaches to learning that companies take when entering foreign markets, and how the odds that an offshore venture will be successful can be increased, by Christopher Bingham and Jason Davis

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[GLOBAL BUSINESS]

# Learning How to Grow Globally

Faced with the need to educate themselves quickly about a foreign market, companies employ a variety of approaches to learning. New research offers insights into choosing the best approach for your circumstances.

BY CHRISTOPHER BINGHAM AND JASON DAVIS

Learning may be the single greatest challenge when entering offshore markets. Few, if any, employees have in-depth knowledge of markets other than the one where they live. Faced with the need to learn quickly about a foreign market, many companies employ a variety of approaches, in a variety of sequences.

How does the sequence in which a company applies learning approaches affect performance? To assess this question, we observed nine companies in the high technology industry. To minimize geographic and cultural bias, we selected companies with headquarters in three culturally distinct markets: Finland, the U.S. and Singapore.

Our studies show that most organizational learning results from four direct and two indirect approaches to learning:

## Direct Approaches to Learning

**Trial and Error:** In this approach, companies engage in particular actions and then assess the outcomes to determine whether those actions produced the desired result.

**Experimentation:** Experimental learning occurs through deliberate small-scale tests in controlled settings to help managers gain understanding. Management takes specific actions while manipulating variables to learn how each affects the outcome.

**Improvisation:** Many companies learn on the fly by improvising. They devise solutions as problems arise and revise their products, concepts and beliefs to capture unanticipated opportunities.

**Deviance error:** Unlike trial and error, the deviance-error approach starts with a successful action or product that the company subsequently varies. Executives then discover that as a result, performance declines, so they revert to the prior state. This process helps them understand why their original action or product was better.

## Indirect Approaches to Learning

**Vicarious:** Executives often seek to learn vicariously when they lack appropriate experience of their own yet need to move quickly. They study what other companies have done to enter an offshore market and then apply that learning. If the subject company's entry is perceived as successful, management tries to replicate their model. But if the subject encountered difficulties, management adjusts its own model in an effort to avoid them.

**Advice:** In many cases, companies learn from low- or no-cost advisers such as investors, business partners, trade associations and governmental foreign-trade agencies. In addition, retaining international business consultants is one of the fastest ways to learn about foreign markets.

## Soloing vs. Seeding

**Soloing.** When a business begins to learn about a foreign market through a direct-learning approach, such as experimentation, and then continues by relying on direct-learning approaches, such as trial and error, over time, we refer to it as soloing. A relatively new U.S. supplier of enterprise software based in Silicon Valley with annual revenues of $8 million entered the Australian market using experimentation.

As part of the experiment, corporate leaders gave a great deal of autonomy to a seasoned

manager who already had experience in Australia. However, the Australian venture became too disconnected from corporate policies. This experimental outcome helped corporate leaders see the need for more oversight of foreign ventures. They then began to switch to trial-and-error learning.

**Seeding.** Instead of starting with direct learning, many executives begin learning about foreign market entry by observing what others have done. Or they seek advice from experienced outsiders to overcome their own knowledge deficits. These approaches, which we call seeding, initiate learning by introducing critical indirect knowledge upon which the company subsequently builds through direct learning.

In Helsinki, Finland, for example, three inexperienced entrepreneurs in their 20s, who had recently graduated from Helsinki University of Technology, founded a company with the intention of developing software to expedite drug discovery within the pharmaceutical industry. The founders developed technology that allowed patients, research professionals and data managers to quickly capture and report clinical data through PDAs, cell phones and computers during Phase III clinical trials.

The founders observed from Finnish competitors that accumulating clinical trial experience seemed to be key to gaining access to global customers. Moreover, many competitors had accumulated such experience in nearby Sweden. Given their lack of international experience, the founders thought it would be wise to simply copy the seemingly successful practice of their competitors — so they, too, entered Sweden, aiming to accumulate clinical trial experience.

After this initial act of learning through vicarious experience, the trial-and-error learning commenced. During project implementation with a Swedish company, leaders in the Swedish company became frustrated with the entrepreneurs' poor communication. One cofounder explained, "Our

(Continued on page 18)

**Learning How to Grow Globally** (Continued from page 17)

customer got frustrated since we were not actively sharing information on a daily basis." Simple changes to enhance communication helped the company achieve $150,000 in sales in its first year in Sweden.

A U.S. startup whose goal was to globally distribute semiconductors for wireless devices began with the advice approach. With less than $100,000 in revenues, the company retained a consultant to assist in entering China, the company's first international market. From the consultant, executives learned that they needed to work with multiple distributors, since the Chinese market is so big and diverse. Heeding the advice, the startup grew its Chinese sales from $10,000 to over $225,000 in one year.

We distinguish between soloing and seeding because our research reveals that a company's sequence of learning approaches affects its subsequent performance. Companies that learn by soloing, we found, performed better in the short term than those using seeding — but those that learn by seeding perform better in the longer term.

Soloing companies, in the first two new countries they entered, took less time to capture their first sale, took less time to break even and reported higher overall ratings of success than the seeding companies, who started with indirect learning approaches.

Soloing companies appeared to perform better because of the previous international experience of their executive teams. Such experience can decrease the time needed to identify and capture opportunities.

In contrast, companies using seeding sequences had leaders with little international experience so they had less understanding of how to coordinate internal activities such as sales and product adaptations. As a result, they first used indirect learning; they looked to other companies around them for clues about how to perform entry activities. While such indirect learning is efficient, our data suggest that it may be less helpful for early performance, since it tends to yield nonstrategic, surface-level knowledge.

**RELATED RESEARCH**

▶ **C. Bingham and J. Davis, "Learning Sequences: Their Existence, Evolution and Effect,"** ***Academy of Management Journal,*** **forthcoming.**

Although companies following the seeding path performed less well at first, they performed better in the longer run — when they entered their third and fourth international markets. Companies that chose soloing used fewer learning approaches overall, perhaps owing to overconfidence in early successes and an eagerness to move quickly. Overconfidence and eagerness, in turn, decreased reflection about causal relationships between actions and outcomes.

For management, the implication of this finding is that the soloing-seeding decision should be based on whether short or long-term results have greater importance given the company's circumstances at the time of the decision. A company whose senior management has experience in successful foreign market entries might be inclined to use a solo sequence, believing that what worked in one market will work in another. Conversely, if management's experience was negative, the seeding sequence might be preferred. Indeed, our study revealed that organizations have preferred learning-sequence patterns. The danger in applying those when entering international markets, however, lies in the strong dissimilarities among markets — dissimilarities that often remain undetected, even by leaders with significant experience.

Executives can counteract these troublesome tendencies in two ways. First, they can ensure that the international business experience of their management team is as broad and diverse as possible. When executives have achieved success in just one or two markets, or in a particular geographic region, they may be tempted to think that experience is transferable to other markets. But this view overlooks countless disparities among markets, be they economic, cultural, structural, regulatory, educational or environmental. Recruiting talent with diverse international experience is important, especially for smaller organizations where senior staff is limited.

Second, executives can increase the use of indirect learning. Companies naturally try to rely on internal resources to the extent possible, whether to minimize cost, conceal their intent from rivals or to demonstrate their ability to do things on their own. But as we've noted, internationalization is fraught with risk. By learning vicariously and seeking advice from external resources, companies can draw on a much broader and deeper pool of international experience. More broadly, the implication for managers is to rely on a rich combination of direct and indirect approaches to learning rather than a single fine-tuned approach. This will help triangulate data and provide a more expansive and accurate understanding of information.

Can companies improve their odds for success when venturing offshore? Our research suggests they can. And importantly, doing so does not entail major organizational changes or investments. It does, however, require an awareness of the fundamental approaches organizations use to learn and a willingness to apply those approaches in the sequence most consistent with short- and long-term objectives. Leaders can also enhance their chances of success by aiming for a diversity of international market experience when recruiting and by increasing their use of indirect learning.

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