Going Global: Research by MIT Sloan's Jason Davis offers insights into how startups can effectively enter foreign markets

'The ways in which management teams learn has a big impact on company performance'

Cambridge, Mass., May 2, 2012— Can startups improve their odds for success when expanding into international markets? New research* by MIT Sloan School's Jason Davis suggests they can.

The key, according to Davis, who is a professor in the Technological Innovation, Entrepreneurship, and Strategic Management (TIES) group at Sloan, lies in how the company's management team learns about their new foreign territory. "Going global isn't easy, and it's especially hard for startups because they tend to have very small teams and not a lot of resources," says Davis.

"Few, if any, employees have deep knowledge of markets other than the one where they live. Faced with the need to learn quickly about an international market, companies use a range of learning approaches, in a variety of sequences. Our research indicates that when and how a given management team employs those learning methods seems to have a big impact on their company's subsequent performance."

Davis and his colleague, Christopher Bingham, a professor at UNC Chapel Hill's Kenan-Flagler Business School, researched nine high-tech companies headquartered in Finland, the U.S., and Singapore, with annual sales ranging from $1 million to $70 million. They found that management teams employed one of two learning strategies: seeding and soloing.

Seeding is when executives observe what other companies have done or seek advice from seasoned advisors, and then build on that information through their own experimentation. Soloing is the inverse: managers learn about a foreign market through experimentation or improvisation, and then rely on approaches, such as trial and error, over time.

Davis and Bingham found that companies that learn by soloing performed better in the short term: they captured their first sale more quickly, broke even more quickly, and reported higher overall ratings of success than the seeding companies. However, companies that learned by seeding did better in the long run.

Davis says that soloing companies achieved more initially because of their executive teams' prior international experience, which reduced the amount of time needed to identify and capture opportunities. But these early successes bred overconfidence among managers, which had a negative impact on subsequent performance.

Companies that learned by seeding had leaders with limited international experience, and therefore less understanding of things like how to set up a foreign sales unit or oversee a product adaptation for a new market. "As a result, they were more likely to look to other companies around them for clues about how to break in, or ask consultants for advice. This is not very helpful early on since it generally yields surface-level knowledge. But in the long term—as the managers of those companies enter their third and fourth international markets—this vicarious learning starts to pay off because they are drawing on a broad pool of international experience."

According to Davis, the lesson for managers looking to expand into new markets is that they ought to rely on a mixture of learning approaches rather than a single approach. "Internationalization is fraught with risk," he says. "It's understandable why companies go the solo route and try to rely on internal resources as much as possible—to try to lower costs, to hide what they're doing from competitors, or just to prove that they can go global on their own. But in the long run, by learning vicariously and seeking advice from outside advisors is useful. The choice to use soloing or seeding seems to depend on whether short- or long-term performance is the objective."

'Learning How to Grow Globally' by Christopher Bingham and Jason Davis; Sloan Management Review, March 2012