

# Developments in Business Simulation and Experiential Exercises, Volume 9, 1982

## AN APPLICATION OF EXPERIENTIAL LEARNING IN INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT<sup>1</sup>

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### ABSTRACT

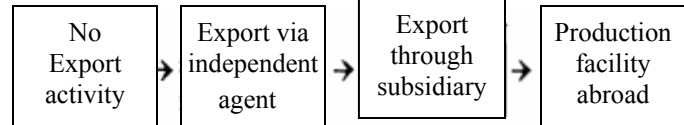
Evidence on the value of experiential learning is mixed. In the area of international trade and investment, it is possible to isolate an effective instrument that will show the effects of experiential learning. The propensity to export and invest in manufacturing abroad is influenced by the degree of experiential learning of the firm's decision makers in business and trade abroad. Experiential learning in this context of foreign trade is defined as top managers who have lived abroad and conducted business abroad for at least one year. Traditional learning is defined as transfer of knowledge of foreign trade through textbooks concerning the cultural habits and methods of doing business abroad without ever living for a significant period of time abroad.

### INTRODUCTION

In reviewing the literature, one finds differing attitudes toward experiential learning. Kelley and Easton (1980) mention conflicting opinions on the effectiveness of experiential learning. One opinion cited empirical evidence that, given two competing teams, the "experiential learning" team did not do better than the "traditional learning" team. (Wolfe, 1975). Stokes and Stoner (1980), on the other hand, analyzed student perceptions in the use of simulation in MIS, and concluded that, "the simulation improved their analytical and decision making skills." Kelly (1979) experimented with a didactic approach and an experiential approach in his personal management course. The student's perception regarding experiential learning as opposed to traditional learning was that no additional knowledge took place over traditional learning. Another possible shortcoming with Stokes' findings is one of bias due to the instructor. The teacher clearly can have more effect on the student's perceptions of additional learning through experiential techniques than the learning methods. It is very possible that the instructor for the sections that used simulation in Stokes' experiment were enthusiastic about their experiment and did a better job of teaching. It is extremely difficult to isolate all extraneous inputs and measure the learning that is directly resulting from the experiential component alone. The problem we face is, how can we measure the effects from experiential learning. In this paper I would like to propose an area where it is possible to identify, quantify, and measure the learning that can be attributed to the experiential component. The international area of foreign direct investment and export activity may provide us with dependent variables that will react to experiential learning and not to traditional learning.

Area of Analysis: Trade and/or direct investment abroad by a United States firm. Foreign direct investment is defined as an enterprise located in one country controlled by persons who are not its citizens (Caves, 1971, p. 2). In the area of foreign direct investment, a lot of work has been done determining why certain firms have a propensity to branch out abroad. Through an analysis of Swedish firms, a pattern

has been identified for foreign direct investment as follows;



Although some Swedish firms may skip the independent agent phase, no firm went from no-export phase to the production abroad phase. (Johanson, Wiedensheim- Paul, 1975). This model is widely quoted for multinational development. (Bilkey, 1977, p. 40)

One dependent variable that we may analyze is export activity of the firm. Another dependent variable that we may analyze is the establishment of a production facility abroad. These two variables are sequential in nature. Export activity alone can be necessary but not sufficient to cause manufacturing investment abroad. We are interested in defining "key internal company-related variables" that are associated with export behavior of the firm and with foreign manufacturing investment of the firm. Design The contrasted control group design is frequently used in social science research. We have  $O_i$  representing the  $i^{\text{th}}$  recorded observation and  $X$  representing a treatment." The experiment will analyze the difference between the observed value of the experimental group and the control group to determine if the treatment is effective. We want both experimental groups and control groups to be as similar as possible in all other aspects except the treatment, otherwise, the selection process may produce the differences between the control and experimental group even if the treatment is ineffective. We can illustrate the process as indicated in Figure 1.

Figure 1

Experimental	$O_1$	$O_2$	$X$	$O_3$
Control	$O_1$	$O_2$		$O_3$

Measures are taken prior to the treatment at more than one interval. This additional measurement will allow us to detect differences between the two groups that are not attributable to the treatment (Cook and Campbell, p. 117).

In our analyses of empirical studies, both control and experimental groups are homogeneous to a certain degree. Both are from a particular region, confronted

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with the same tax system, governmental and environmental forces. Our 0~ focuses on whether or not export activity takes place. Our X value is whether top management has encountered experiential learning for foreign markets. Experiential learning is defined as learning which uses the learner's experience as a base (Armstrong, 1977). In the context of export and foreign investment, "learners experience" refers to having "experienced" foreign culture. This can include being born abroad, living abroad for sufficient time to experience cultural shock, and/or studying that foreign language in school. We will quote the results of studies analyzing firms in Wisconsin, Sweden and Great Britain. I will cite empirical findings on the affect of experiential learning in five areas; Export activity, awareness of opportunity abroad, sequence of country selection for exports, and location of foreign direct investors.

### 1. Export Activity and Experiential Learning

Empirical Findings: Experiential learning may be a necessary factor for export activity. In the literature, we find that empirical investigations have been conducted to identify determinants of export marketing behavior generated from within the firm. Cavusgil and Nevin (1981) and Bilkey (1978) surveyed 816 manufacturing firms in Wisconsin to determine the probability of exports. The key internal or company-related variables that were found to be significant are: Expectations of management (regarding the effects of exports on the firm's growth), Level of commitment to exports (market planning, policy toward exports, and systematic exploration), Differential firm advantage (firm's size, technology, intensiveness and possession of a unique product), and Strength of managerial aspirations (for growth and for security of markets). The second variable, level of commitment to exports correlated very highly with whether or not top management had studied a foreign language while in school; whether or not they had lived abroad sufficiently long to have experienced cultural shock; and whether that experience was attractive (Langston and Teas, 1976). A key factor internal to the firm which will influence the firm's propensity to export is, therefore, the presence of experiential learning. The presence of traditional learning will not give us a sufficient score on the "commitment" variable, and foreign export trade will not take place.

Similarly, another empirical study on the export activity of Swedish firms concluded that experiential knowledge of the foreign market will directly determine the "commitment" decision (Johanson and Vahlne, 1977). In this study, the distinction between experiential knowledge and acquired knowledge is explained.

"Objective knowledge can be taught, experiential knowledge can only be learned through personal experience. Experience itself can never be transmitted, it produces a change-- frequently a subtle change--in individuals and cannot be separated from them." (Penrose, 1966, p. 53; Johanson and Vahlne, p. 28).

Success in exports and experiential learning may be interrelated. We find that experiential learning can be a significant factor for attaining knowledge of the foreign market. Many firms in export or foreign investment ignore

this important component of experiential learning, and ultimately withdraw from further export activity.

"Many firms consider internationalization a promising strategy. There are, however, numerous examples of firms which have started international operations without success. We think that the importance of the experience factor is often overlooked." (Johanson and Vahlne, op. cit.).

### 2. Awareness of Opportunities Abroad and Experiential Learning

Empirical Findings: A British study on the origin of multinational enterprises found international orientation to be important. International orientation refers to people born and raised abroad or experienced living abroad for a significant time period. (Stopford, 1974, p. 18, also quoted in Wiedersheim-Paul, Olson, and Welch, 1977). The importance of this international orientation is the following: people with international orientation perceive and consider events occurring outside their own country, with greater depth and interest (Simmonds and Smith, 1968, also quoted in Wiedersheim-Paul, et al., op. cit.). Thus, experiential learning will enable top management to identify opportunities abroad.

### 3. Sequence of Country Selection for Export Activity and Experiential Learning

Empirical Findings: Export behavior can be viewed as a sequential learning process. Initially, countries that are psychologically close are trading partners. Companies that are based in the United States find Canada, England, and Australia as first-choice countries for export activity. A firm that has never explored concentrates on gaining basic export experience through trade with countries that are similar in language, culture and business practices (Bilkey, 1977). (Bilkey's finding is based on forty three studies on export behavior of firms involving eleven countries.)

### 4. Foreign Direct Investment and Experiential Learning

Empirical Findings: Focusing on the location of the production facility abroad, Davidson (1980) conducted an empirical analysis based on a survey of 180 multinationals from the inception to 1975, representing 70% of total foreign direct investment by United States enterprises. His analysis indicates two basic phases for multinational firms. In the "critical phase" (the time frame for gaining basic export experience as seen in Bilkey, [1977]), firms tend to focus on countries that have similar cultures (Canada, England). As firms become more experienced, the "uncertainty premium" applied to culturally-distant countries disappears and direct investment abroad is based on market potential, relative production and delivery costs, and investment climate.

"The effect of corporate experience on location pattern is two-fold. Firms prefer nations in which they are already active. In addition, firms with extensive experience exhibit less preference for near, similar, and familiar markets. Markets that others may perceive as less attractive because of high uncertainty levels are given increased priority as

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the firm's experience rises. As firms gain experience, the location of foreign investment activity will increasingly represent an efficient response to global economic opportunities and conditions." (Davidson, 1980, p. ~8).

When the dependent variable is the location of the manufacturing facility abroad, experience of the firm in foreign markets will determine the ability of the firm to judge and evaluate the opportunities of foreign direct investment in countries that have a high "psychic distance" and are culturally dissimilar to the home country of operations.

### Conclusion

The effects of experiential learning as opposed to objective learning are hard to quantify. In a classroom setting, there are many additional inputs that may color and distort the net effect of experiential learning, such as enthusiasm of the instructor. In the international application of experiential learning, empirical studies have isolated experience in foreign countries as a key internal company-related determinant for foreign export behavior and location of foreign direct investment for the multinational firm.

The implications for a firm contemplating ventures abroad are clear: top management should be exposed to experiences in trading abroad. Managers-to-be in charge of foreign operations should be sent to countries that have a high probability of foreign trade and investment. A sabbatical abroad may be an appropriate means for encouraging top management to experience foreign trading techniques. Similarly, top management should be encouraged to train in foreign languages and gain experience abroad. The hiring of foreigners for positions with line authority in the area of foreign direct investment would be very appropriate. Finally, compensation and incentive plans could be structured to encourage experiential learning at the international level.

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