Interview

Leveraging learning in distant contexts: an interview with Professor Michael A. Hitt

An introduction to Professor Michael A. Hitt

Professor Michael Hitt completed his PhD in Organization Theory/Organizational Behavior at the University of Colorado in 1974. He is currently a University Distinguished Professor Emeritus at Texas A&M University and a Distinguished Research Fellow at Texas Christian University. The focus of his research includes strategic management, international strategy and strategic entrepreneurship. He is one of the ten most cited researchers in management during the past decades and has authored over 200 scholarly journal articles, books and book chapters. He has won numerous awards for his research as well as for his teaching. In 2014-2018, Dr Hitt was listed as a Thomson Reuters Highly Cited Researcher (a listing of the world's most influential researchers). He is a former President of both the Academy of Management and of the Strategic Management Society. He is a former editor of the *Academy of Management Journal* and co-editor of the *Strategic Entrepreneurship Journal*. A recent article in the *Academy of Management Perspectives* lists him as one of the top two management scholars in terms of the combined impact of his work both inside (i.e. citations in scholarly journals) and outside of academia. He is a Fellow in the Academy of Management, the Strategic Management Society and the Academy of International Business. He has received honorary doctorates from the Universidad Carlos III de Madrid and Jönköping University. He received the Irwin Outstanding Educator Award from the BPS Division and the Distinguished Service Award and the Distinguished Educator Award from the Academy of Management.

Interview with Michael A. Hitt

Nishant Kumar (NK) and Fredrik Nordin (FN): What are your thoughts on the academic literature on psychic distance and how it has evolved?

Michael Hitt (MH): Well, I think the literature as I've seen has evolved a lot. The paper of Johanson and Vahlne (1977) is a classic because it established the base and the frame for succeeding research on the internationalization process. Clearly some of my current work has built on their initial work and, using work in sociology, economics, and international business in addition to my own thinking, my recent research is on formal institutions and internationalization (whereas the culture is considered an informal institution). Much of the current research on distance examines the effects of and how to manage formal and informal institutional distance. For example, cultural distance requires people (managers) to learn about the new environment, design the actions needed to adapt to it, and then work within it (e.g. product markets and factor markets). I think now we are at a point where the distance research is becoming more specific and richer in a variety of different ways.

NK and FN: The article "Emerging markets as learning laboratories" published in *Management and Organization Review* (2005) is very intriguing and has opened avenues for further research in the area. What motivated you to write the learning lab paper?

MH: This article was derived from some research that I was doing with others on strategic alliances between firms from developed and emerging market countries, and the types of capabilities and resources that they were looking for in selecting partners. So, we might call it partner selection by both the developed economy and the emerging economy firms. We used a particular methodology for obtaining the empirical data, and we also conducted interviews with executives of some of the emerging economy firms and the developed country firms. The interviews were used to better understand and interpret the quantitative data and extend its richness. We found, understandably, that each were seeking different kinds of resources and capabilities. For example, a developed market firm might partner with an emerging economy firm that could give them access to the market, knowledge of the market, etc. But, we found that both partners, especially the emerging economy partners, were seeking not only to grow the firm but also to obtain access to and absorbing knowledge and trying to learn new capabilities. That led us to the idea for the MOR paper that I and two other colleagues developed; we focused on explaining how both partners could use the alliance to learn from each other and from their joint experiences. Let's say, when a firm first enters a new country, it needs to not only gain access to suppliers but also learn how to work with those suppliers in a way that establishes an effective relationship. Additionally, in some countries - China as an example - building relationships with the government may be even more critical. Understanding government policies and practices is critical in all countries, although they are more important in some countries. Firms have to understand how to navigate the government institutions (formal and informal) along with the competitive landscape. For example, in China, relationships are based on Guanxi which requires a dual trust that doesn't develop quickly. In China having Guanxi is extremely critical and things won't happen without it. Early market entries by a developed country's firms may not have realized the importance of Guanxi but many have learned it since.

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Learning was critical for those firms to be successful later on, not only in an alliance, but in all endeavors in that country.

NK and FN: You have highlighted the learning opportunities for multinational firms in emerging markets. What are the implications of such learning and knowledge-building on the global competitiveness of the MNCs, as well as for the host country firms? And, what was the underlying thinking for using "laboratory" as a metaphor?

MH: Let me start with the host country firms, because that was really our primary focus in this article (Hitt *et al.*, 2005); we explained how they can learn and gain value from the alliances. Not only because of access to the resources from the oftentimes larger and more resource-rich developed economy firms. One of the things that we believed is that the emerging economy firms were learning how to manage and work with developed economy firms – the learning was experiential along with observation, similar to what occurs in a laboratory. That's where we got the idea of a "laboratory" in which firms could test actions and engage in experiential learning. Some of the emerging economy firms used the knowledge and capabilities developed from these alliances with developed economy firms, to move into other markets. They not only learned how to effectively manage their operations in other countries (observing the developed economy firms in their home country market), but also how to enter other markets and then how to learn from their experiences there. Many of them have done so successfully. International business research has found that they first tend to enter other emerging economies in which they feel that they have some applicable knowledge and where they can be competitive. They can test their knowledge, continue to learn and, then enter a much broader global market. And today we see that a number of emerging economy firms have broadly internationalized and are doing well in many markets including developed economies. Many of these firms started with partnerships where they learned. In fact, they continue to learn, absorbing knowledge whereas developed market firms didn't learn as much from the alliances, particularly early.

When we examine the US firms, learning has been more problematic than by European firms. For example, US firms moving into markets were continuing to operate in their normal ways. They were reasonably successful because of their technology and resource base and sometimes they were facilitated by their economic impact in the markets they entered. However, several authors have observed that this approach was not effective and needed to change. Since that time, many of these firms have learned that they have to learn from, adapt to, and work within the local economy. Thus, we use the term "learning laboratories" for the alliances. Firms can learn how to effectively adapt to those economies, and their products for the local market needs and desires. For example, many developed economy high-technology firms' established R&D operations in China at a time when China's intellectual property laws were relatively weak. Since then, China has taken steps to strengthen the laws and their enforcement. However, some would question, why did the high-tech firms enter the Chinese market at that time? Why would they risk their intellectual property? The primary reason is that they saw a huge potential market and were willing to take the risk derived from the weak intellectual property protection. Then they began to learn that some of the products that they developed for the Chinese market had value in other parts of the world. So, they realized that they were learning from Chinese culture, markets and scientific talent. They were not just learning to develop products for that market but were learning from different intellectual domains that exist there. Thus, some of the companies have now established research centers in other parts of the world, learning from them, and developing products that can be valuable in global markets. This is an example of how developed market firms have learned from emerging markets. While I used China because I know more about it, others have learned in other emerging economies such as India (e.g. in IT). They can learn in other developed economies (e.g. from specialized European knowledge stocks).

NK and FN: From what you have described, it appears that the Chinese companies, particularly those you have studied, learn more from their interaction with western counterpart and probably see the relevance of such knowledge quickly and sufficiently. On the other hand, Western companies probably have a sense of value from such knowledge but they are perhaps somewhat less willing to learn such knowledge. Maybe they face a lot of resistance internally. What are your observations on this?

MH: I think that is correct. It's a mindset but we should examine this more broadly. Firms that are highly successful, tend to be less willing to change and to bring in new ideas. It doesn't matter what the new idea is or whether it is from an alliance with an emerging economy firm or from other sources. It is based on a mindset related to what made them successful. It suggests an attitude that "We're successful, and we know best how to do it". They don't absorb new knowledge because they don't see the value of changing. Often when they begin to change, it is late and they experience problems. However, over time if those firms don't change, they eventually will find themselves in a very risky situation and could eventually experience reductions in their competitiveness or even fail. In one of the early studies we did on the alliance partnerships, we interviewed some companies that had partnerships in Mexico, an emerging economy country. In one case, we talked to the US partner and the managers were ecstatic about the partnership and felt they were gaining much value from it. We interviewed the Mexican partner, and the managers said, "Well, yes, it has been useful to us and we found it be valuable. We've learned from it, but when our contract is up – they had a formal contract – we're going to step out of this contract because they have not been willing to help us in ways that we need. They are just trying to gain value for themselves and are not working with us as partners. They're getting what they want out of it, but while we are gaining some value, we think we can form a better partnership with other firms. We want a true partner." But the US firm didn't realize it. The US managers didn't realize they were going to lose this partnership, and they surely didn't want to lose it. This example demonstrates the attitudes that can occur and how some firms do not treat alliances as true partnerships. Certainly, not all developed economy firms approach alliances in this way. This was about 20 years ago and I think you see less of this attitude and approach to alliances today because they've learned that they need to be

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partners. And in the example I described, the partnership was dissolved as we anticipated. Unfortunately, the US firm lost a valuable alliance partner.

NK and FN: In recent years, we have witnessed a significant change in the international business environment where emerging market firms are increasingly becoming important players in the international markets and some have become globally successful. What implications do you see of this for Western multinational firms?

MH: I will answer your question in two ways. First, I would say that firms need to be proactive to avoid having to respond to the increasing competition from emerging economy firms. I'll use an example of proactivity from a technology standpoint. Intel, at one time, had a strategy of always leading the market even if it meant cannibalizing its own products; the Intel managers did so to avoid having a competitor take part of the market and having to respond to these rivals. I had some Intel executives in an executive MBA program that I taught back in the early 2000's. They described an Intel product that was brought to the market and began to gain in sales. When it was starting to really grow in sales, Intel introduced a new product it had developed that essentially cannibalized the existing product before Intel was able to capture all of the product's potential returns. They could have kept the existing product on the market for several years and earned many more returns from its sales. But they cannibalized it. The whole idea was to stay ahead of the competition. Thus, while they didn't obtain all the returns they could have from the existing product, they forestalled competitors from taking their market. Intel's strategy was to be proactive. Not all firms can do this because the technology may be difficult to develop and it can be costly to forgo potentially significant returns.

Second, firms can try to identify win-win conditions. In other words, firms can partner with potential rivals and work with them, rather than work against them. If firms try to win at any cost, there always has to be a loser. And sometimes the firm trying to win at all costs will be the loser.

NK and FN: Do you see any significant differences between American, European, and Asian firms in terms of how they operate in international markets? Are these differences increasing or disappearing? What implications does that have for firms learning, innovation, and their competitiveness?

MH: I think there are two sides to the answer. First, I do think there are differences. Some differences are due to culture and some are due to formal institutional arrangements, government actions, and the firm's own background. Second, I do think that firms are beginning to act more similarly because of the learning we discussed earlier. The similarities can also be attributed to the global business education which has become highly accessible in many countries. Using the same base knowledge, they're learning how to act in markets and build and employ strategies. Thus, firms based in different countries engage in some similar behaviors. However, perhaps the most significant factor is that firms are competing in international markets and learning from their partners and also from their competitors. They are learning about the markets and what actions are required to be successful. For example, a recent study on outsourcing compared emerging economy versus developed economy countries. The study found that firms from both types of countries were starting to act more similar and their differences were not that substantial. And business education and research in the US, Europe and Asia is diffusing this change. Additionally, many students from Asia and Latin America have studied in US and European universities. Likewise, European universities have actively implemented programs in Asia and in Latin America, so it's not US-centric. Executive education programs in Asia and Latin America often have been modeled after such programs in Western countries.

NK and FN: Learning is generally seen as something positive. One should learn from others. But learning from others can be challenging. Do you think firms need to change how they learn?

MH: Your point is probably a good one. Firms may reach a point of being too adaptive and not absorbing and using new knowledge in the ways they should. There is a need to achieve a balance between learning and using the knowledge obtained; it has to be inculcated in the organization. So, firms that are continuously adapting are likely not adding the value that they could. Using the work on organizational learning by March (1991), firms have to explore to learn new things but they also have to exploit the new knowledge. The knowledge should be leveraged in ways that become effective. So, when firms learn new knowledge they also have to learn how to exploit that knowledge to create value from it. I believe they have to continuously learn to be innovative but at some point, they have to exploit the innovation in the marketplace.

NK and FN: What theoretical and methodological approach would you suggest to understand how firms learn in international markets?

MH: I think there are actually multiple theoretical notions that apply to learning in international markets. My answer to the last question suggests that Jim March's work is a useful theoretical lens to understand exploratory and exploitative types of learning in foreign markets. But I also believe that there are other international business theories. I find institutional theory to be helpful. Although I did not start out as an institutional theorist, later I realized that institutional theory was important to understand international strategy. There are two major streams of work in institutional theory: organizational sociology and institutional economics. The different institutions (culture and formal institutions) across countries require firms to learn how to operate within and compete effectively in different institutional environments. There are many secondary data sets available that can help us (firms and researchers) to understand the institutional environments of different countries. Resource orchestration theory (a sub-stream of work that extends the resource-based view) helps us understand how we integrate different resources to develop capabilities. The process of bundling resources to create capabilities involves learning. I have a recent study that examines country and industry institutions, and how firms manage resources to implement the strategies they design. As you know, collecting data across countries is very difficult. In this study, we have data from over 600 firms across 17 countries, European countries, China, and the US. It took us several years to collect the secondary data on country institutions, industry attributes and obtain primary data from the firms. I have a number of partners who helped

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design the study and collect the data. This study helps us to understand how country formal institutions influence industry norms that in turn affect the way firms manage their resources to implement the strategies they employ.

NK and FN: What are your thoughts on qualitative data?

MH: I think such data are very important. I'm not a qualitative researcher but, in our research on alliances, we conducted interviews thereby collecting qualitative data. It really helped us understand the primary data and also identify nuances about the alliances and specific partners that could not be identified from the primary data. But integrating the quantitative and qualitative data provided valuable insights. Also, qualitative data are often very helpful to developing new theory. Thus, qualitative data can be very helpful in building theory, and also in understanding and interpreting other types of data. Again, I'm not a qualitative researcher, so I have to use other's expertise in this area. We used the qualitative interview data as a supplement but it contributed significant value to our study. I think that we need to better use and integrate qualitative data and quantitative data (I dislike the term quantitative but it helps us to differentiate the two types).

NK and FN: Many firms put a lot of emphasis on their home country advantages, such as technology and processes, and tend to leverage their home-based knowledge and advantages in foreign markets. How do you see the future for such firms who are unwilling to learn from differences?

MH: Yes, of course, that's the basis for a lot of the international business research. Often there are home-country advantages that firms can exploit. But to exploit them well and effectively the firms have to learn from the countries that they enter and to integrate the two knowledge stocks. I'll elaborate using an example from some of my research. Recently several colleagues and I published a meta-analysis of 359 studies of internationalization and performance. There has been a lot of research on that topic and the two primary variables have been operationalized in a variety of different ways. Essentially, we found that on balance there is no relationship. But, that's on average as there is an important contingency. What we found is that home country institutions provide some firms advantages that when used effectively, there's a positive relationship between internationalization and performance. So home-country advantages are important and help explain a lot of the behavior of the firms that do it well in international markets. But those that perform the best learn from their host country and then either adapt or integrate those advantages in ways that create the most value for those served in the foreign markets. So it's a combination that really adds the greatest value for the firm and helps them be globally competitive. That means they have to learn in each of the host countries they enter but they can apply the knowledge learned in other countries as well (adapted to each country). Additionally, recent research has shown that most firms are not global, rather they are regional (i.e., work by Alan Rugman and Alain Verbeke). And so, most multinational firms have regional strategies. Within regions, a firm can learn from one country and use it in another country within that region. We discussed the European Union earlier; obviously, every country within EU is unique, having its own culture, history, etc. But the European Union is a legal entity with formal institutions, thus creating some commonalities across countries. But also, each country may be a competitor with other countries in that region. We can learn from those commonalities and add value across the region.

NK and FN: In terms of implications of what you are saying, does it mean we have to find new ways of organizing firms and managing knowledge?

MH: Well, probably so. My response is based on the research that I've done more recently on regionalization with Arregle *et al.* (2016). We found that the firms were able to gain value by entering regions and learning from each country entered. And, learning and integrating the new knowledge are affected by how the firm organizes and how it manages those processes. In turn, the organization's structure and management of the processes affect what is learned and how the knowledge is used and exploited. There are firms that exploit what they have learned really well across countries within regions. This relates to our original question on distance. Distance is relevant in that learning can be used to reduce psychic distance. And, reducing the psychic distance reduces the challenges posed by the distance; learning also helps the firm to take advantage of the distance. To do so requires accessing and nurturing new knowledge.

NK and FN: Could you please tell us about possible future research avenues in this area?

MH: A lot of the research that we do is very specialized and appropriately so in order to do it well, and to contribute by publishing it. But today, I believe that we've got to do more integrative research using knowledge across disciplines, such as IB, strategic management and marketing. I'm doing a study right now, with an accounting professor at Texas Christian University, focused on mergers and acquisitions. We're really building on his knowledge of how we value intangible assets, and drawing on the strategic management research on resources. Intangible assets are created by marketing, technology (R&D), and so on. Using US accounting conventions, these intangible "assets" are considered to be expenses. So, the compensation for employees is considered to be an expense and not counted as human capital. Likewise, what is invested in marketing, advertising and promotion or in R&D is expensed. Yet those are investments in different types of resources. So, we need to integrate work across multiple disciplines to develop and test larger theoretical models to make major advances in our knowledge. I think doing interdisciplinary work with different scholars across disciplines with enough absorptive capacity to understand and work together will help to integrate our knowledge and develop more integrative models. Perhaps it is well represented by ideas from a book entitled Aku-Aku by Thor Heyerdahl. Heyerdahl described specialists that dug holes, and in those holes, they found treasures. They'd pile those treasures on the ground above, and they just kept digging to find more treasures. But there was another individual, whom we could refer to as a generalist, who gathered those treasures and combined them to create greater value. We have had specialists building knowledge in highly finite areas. What we need now is to integrate all of the treasures (specialized knowledge) from across our fields and disciplines. Certainly, we need to continue to create more specialized knowledge but we also need integration across disciplines to create valuable and actionable collective knowledge.

NK and FN: Thank you very much, Professor Hitt. We greatly appreciate that you took the time to answer our questions and share your experiences and knowledge with JBIM's readers.

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