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2012

Online at <https://mpra.ub.uni-muenchen.de/50063/>
MPRA Paper No. 50063, posted 23 Sep 2013 14:34 UTC

8th International Strategic Management Conference

The Influence Of Decision-Maker Characteristics On The International Strategic Decision-Making Process: An SME Perspective

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Abstract

The purpose of this paper is to explore different aspects of SMEs' strategic decision-making processes in international business. In particular, we want to understand if there is a relationship between SMEs' decision-maker characteristics (e.g. international experience, nationality, skill), and the process of strategic decision-making in international field. To achieve this, an examination of these aspects on a sample of 77 SMEs was conducted.

Main results revealed that there is a strong relationship between decision-maker education and two important phases of international strategic decision-making process, that are International Market Selection and Entry Mode Selection.

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Keywords: Small and medium size enterprise, strategic decision-making process, internationalization, decision-maker characteristics

1. Introduction

Over the past forty years, one of the most frequently researched topics in international marketing has been that of internationalization of the firm (Fletcher, 2001).

At the same time the number of small firms operating on international markets has been growing and their internationalization activities have attracted a great deal of scholarly interest in the last couple of decades (Abebe & Angriawan, 2011). Furthermore, due to improved communication systems and the deregulation of tariff barriers, "the world is getting smaller". Consequently, SMEs are pushed towards and pulled away from international markets (Nummela, Loane, & Bell, 2006). Moreover in most countries SMEs represent the majority of firms and play an important role in the economic growth of these countries (Francioni & Musso, 2010).

One of the central aspects regarding the SMEs' internationalization pertains to strategic decision-making processes (SDMPs). Particularly, there is a great deal of awareness of the importance of SDMPs in international business, and recently there have been some attempts to bring it closer to the fore (e.g. a special issue in *Journal of World Business* in 2011).

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Despite these efforts, the international business literature traditionally assumes that internationalization decisions are purely rational and scholars tend to ignore strategic decision-making research in explaining how firms made their foreign expansion (Brouthers&Hennart, 2007). Moreover, the majority of articles related to SDMPs have been tailored to large firms (Driouchi& Bennett, 2011; Nielsen & Nielsen, 2011) but very few studies were focused on SMEs (Brouthers, Andriessen, & Nicolaes, 1998; PavlosDimitratos, Petrou, Plakoyiannaki, & Johnson, 2011; Liberman-Yaconi, Hooper, & Hutchings, 2010).

The purpose of this paper is to reverse this trend and to explore different aspects of SMEs' strategic decision-making processes in international business. In particular, we want to understand if there is a relationship between SMEs' decision-maker characteristics (e.g. international experience, nationality, skill), and the process of strategic decision-making in international field.

The organization of the rest of this paper is as follows. After the introduction, the second section approaches the concepts of strategic decision-making process and decision-maker factors influencing international SDMP. Next, the methodology, analysis, and results will be presented. Finally, conclusion and suggestion for future research are discussed.

2. Literature review

2.1 Strategic decision-making processes

The process of making strategic decisions has emerged as one of the most important theme of strategy research over the last two decades (Papadakis, 2006; Papadakis&Barwise, 2002).

According to Harrison (1996), the SMDP can be defined as a composite of the concept of strategic gap and the managerial decision-making process, where the former is "determined by comparing the organization's inherent capabilities with the opportunities and threats in its external environment", while the latter is composed by a set of decision-making functions logically connected, that begins with the setting of managerial objective, on the basis of start the search of information to develop a set of alternative, that are consecutively compare and evaluate, until decide which alternative is the best choice. Afterward, the selected alternative is implemented and, finally, it is subjected to follow-up and control.

Other authors (Fredrickson, 1984; Mintzberg, Raisingham, &Theoret, 1976) have developed several models of strategic decision-making process since 1970, and these models varies on the basis of the number of stages (Nooraie, 2008; Nutt, 2008).

However, although different researches investigated SDMP with specific reference to either small firms (Brouthers, et al., 1998; Gibcus, Vermeulen, & Jong, 2009; Huang, 2009; Jocusen, 2004) or internationalization process (Aharoni, Tihanyi, & Connelly, 2011; PavlosDimitratos, et al., 2011; Nielsen & Nielsen, 2011), there is a lack of studies that examine the SDMP in both perspectives.

In this study it has been decided to mainly follow the SMDP defined by Harrison (1996), adapted to international arena and particularly referred to strategic marketing decisions. Thus, for definition of objectives (first phase) we refer to those in international field; for search of information, develop and comparison of alternative related to foreign markets (second phase) we refer to a systematic International Market Selection (IMS), Entry Mode Selection (EMS), a detailed customer and competition analysis and the formulation of international segmentation and positioning strategies. For the implementation of selected alternative (third phase) we mainly means the entering in a particular foreign market with a specific entry mode, and, finally, for follow-up and control (fourth phase) we refers to the control and evaluation of international activities (Fig. 2.1).

All this means that, if an SME adopts this SDMP, it will use a high degree of rationality and formalization, which are the main constructs of strategic decision-making.

Rationality has a central role in the literature on strategic decision making (Elbanna, 2006; Elbanna& Child, 2007). According to Dean and Sharfman (1993), procedural rationality can be defined "as the extent to which the decision-making process reflects a desire to make the best decision possible under the circumstances. Such 'intended rationality' is characterized by an attempt to collect the information necessary to form expectations about various alternatives, and the use of this information in the final decision". Thus, as the rationality increase SMEs become more able to especially carry out the first two phases of the international SDMP.

With reference to formality, Eisenhardt& Bourgeois (1988) described formalization as the extent to which organizational policies, rules, charts and plans are articulated explicitly and formally in SMDP. Several studies found that the adoption of formalized SDMP is positively associated to firm performance (PavlosDimitratos, 2010; Papadakis, Lioukas, & Chambers, 1998) and to an high degree of rationality (Langley, 1989).

Formalization can be considered as an aspect that affect all SMDP's phases , but especially regards to the third phase, that is follow-up and control.

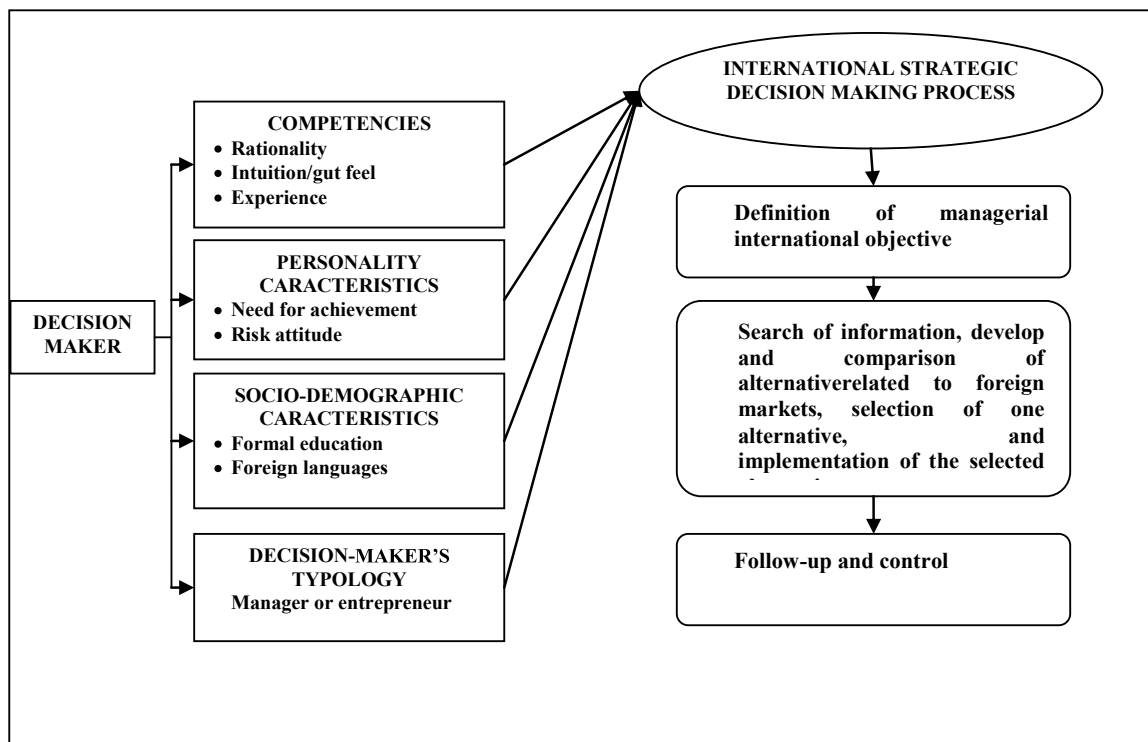
2.2 Decision-maker factors influencing international strategic decision-making processes

A considerable amount of literature attempted to define the different factors/aspects influencing SDMP (PavlosDimitratos, et al., 2011; Elbanna& Child, 2007; Huang, 2009; Jocumsen, 2004; Papadakis, 2006; Papadakis, et al., 1998), which change depending on the object of study.

However, in order to delineated the decision-maker's dimensions of SDMP with specific reference to small firms and internationalization process, it has been decided to create a new model, that has been mainly inspired by Jocumsen (2004) and Papadakis (2006) research frameworks.

In this model (Fig. 1) various decision-maker's factors influencing strategic decision making process have been proposed, dividing them into competencies, personality and demographic characteristics and decision-makers typology.

Figure 1. An integrative model of decision-maker's factors influencing SDMP process



Source: Author's elaboration

2.2.1 Competencies

Decision-makers competencies can have an influence on international SDMP, especially if the object of study is smaller firm, where there is usually one decision-maker, that is the entrepreneur, who is a central actor in SMEs and affect the international expansion and strategy. One of the most important competence is the capacity to make a decision with a strategic rationality, namely the capacity to follow a systematic process in reaching prudently thought-out objectives (Elbanna, 2006; Schwenk, 1995).

Jones et al. (1992), analyzing the strategic decision process in international firms, detected that one of the main obstacles to adopting rational decision processes is the decision-maker's limited cognitive capabilities to take rational decision.

As a result, the following hypothesis is proposed:

H1a-H1e: the decision-maker capacity to take rational decision will be positively related to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

The decision-maker intuition can be defined as the opposite of rationality, since it has been describe as a "holistic perception of reality that transcends rational way of knowing" (Khatri& Ng, 2000). However, if the

decision-maker is a person that usually adopt intuition, this does not always mean that he attempt to avoid quantitative and systematic analysis, but only that, when data do not provide a clear answer, the decision-maker has the ability to sense what should be done and acts decisively (Harper, 1990).

In this study it has been hypothesized the decision-maker's openness to other cultures and his preference towards a particular foreign country can increase the intuition/gut feeling towards particular markets. Indeed, different researchers found that the decision-maker predilection towards a particular culture and/or foreign country can lead to select a specific market only because of his preference and not thanks to a systematic IMS (Musso& Francioni, 2009).

This lead to the following hypothesis:

H2a-H2e: the decision-maker capacity to use intuition will be negatively related to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

Rationality and intuition are competences that can be acquired during the years, but they are also the result of the decision-maker personality.

There are other competences that are the direct result of the experiences and the background of the decision-maker, like the training and the international experience.

Indeed, detailed examination of experience by Hitt and Tyler (1991) showed that the bundle of experiences can affect both the strategic choice made and the processes adopted in making those decision. Moreover, Fredrickson (1985) demonstrated that, in making the same strategic decision, managers/owners with more experience make different decision process from those with no experience. Finally, according to Nielsen and Nielsen (2011) foreign expansion decision are often influence by prior knowledge and experiences of decision-maker, as they help to develop superior ability to manage international operation, and consequently to adopt an international SDMP (Sambharya, 1996).

As a result the following hypotheses were formulate:

H3a-H3e: the decision-maker experience will be positively related to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

2.2.2. *Personality characteristic of the decision-maker*

Several strategic choice studies stated that the personal characteristics of the strategic decision maker influence the decision they make (Brouthers, et al., 1998).

Two main personality characteristics have been identified: need for achievement and risk attitude (Papadakis, 2006; Papadakis&Barwise, 2002; Papadakis, et al., 1998).

With reference to need for achievement, a number of studies have found that decision-makers with high need for achievement express more desire to effect and control the situation in which they operate. Moreover, they also have the propensity to be appealed by more formalized and rational decision making (Lewin& Stephens, 1994) and, especially in smaller firms, they carefully analyze situations so that they can proactively manipulate, and also tend to favor formal strategic planning and system for measurement and control (Miller & Toulouse, 1986; Papadakis, 2006).

H4a-H4e: the decision-maker need for achievement will be positively related to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

Regarding risk attitude, this characteristic can highly influence the decision-maker propensity to adopt a more formal and rational process. Indeed, different researches (Papadakis, 2006; Taylor & Dunnette, 1974) stated that decision-maker with high risk-propensity tend to made rapid decision and to operate more by intuition than by formal and rational analysis.

As a result of the previous discussion, the following hypotheses are proposed:

H5a-H5e: the decision-maker risk attitude will be negatively related to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

2.2.3 *Demographic characteristics of the decision-maker*

Previous studies have reported that also decision-maker's demographic characteristic, and in particular the person's educational level, can strongly affect strategic decisions (Gibcus, et al., 2009; Hitt& Tyler, 1991; Papadakis, 2006; Papadakis&Barwise, 2002; Papadakis, et al., 1998).

In particular, a relation between the education level and strategic behavior has been found by Bantel (1993), according to whom a highly-educated CEO has more possibilities to demand more exhaustive information, and consequently to lead more rational and formal SDMP (Papadakis, 2006).

Since this study was focused on international field, it has been decided to add another important aspect on decision-maker's formation, namely the knowledge of foreign languages.

The above discussion lead to conjecture that:

H7a-H7e: the decision-maker formation will be positively related to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

2.2.4 Typology of decision-maker

In smaller firms, SDM is often concentrated in only one or two individuals, who have to access process and interpret the vast array of data in their operating environment (Liberman-Yaconi, et al., 2010).

This individual is usually the owner or the manager. However, they usually adopt different SDMP, especially in international field, as owner tend to be less rational and formalized than manager.

The above reasoning permits to suggest the following hypotheses:

H7a-H7e: the manager have more possibilities than owner to adopt a systematic international SDMP, with specific reference to (a) identification of objectives (b) IMS (c) EMS (d) segmentation and positioning (e) control.

3. Methodology

3.1 Research methodology

To achieve our objectives, a mail survey was carried out, based on a semi-structured questionnaire. The survey targeted potential respondents belonging to SMEs located in Italy and producing food products. Firms were identified from lists obtained by Italian Chamber of Commerce. 6,019 firms belonging to these lists were contacted (by mail) explaining the purpose of the study, the importance of participating to the study and providing assurance that their data would be treated with confidentiality. It has been also asked to consign the questionnaire to the person who were closely involved in making international strategic decision.

A total of 129 potential respondents declared their availability. Before sending the questionnaire, potential respondents were asked to indicate the number of employees as well as their effective international experience. The sample was consequently reduced to 90 firms on the basis of dimension (up to 250 employees) and international markets experience (exporters). Out of 90 replies, 13 ones were excluded for different reasons.

Interviewees included the owners, managers and export manager responsible for the decisions on the international processes of their firm.

Table 1 summarizes the primary characteristics of the sample.

Table 1. Main characteristics of the sample (N=77)

	FREQUENCY	PERCENT
Employment/Firm size		
1-10	20	26.0
11-25	23	29.9
26-50	17	22.1
51-100	10	13.0
101-250	7	9.1
Turnover		
Under 2 (millions of euros)	20	26.0
2-10	29	37.7
11-20	11	14.3
21-40	8	10.4
41-50	9	11.7
Export weight on turnover		
1-20 %	38	49.4
21-40 %	23	29.9
41-60 %	10	13.0
61-80 %	4	5.2
More than 80 %	2	2.6
Years of international experience		
1-10	22	28.6
11-20	26	33.8
21-30	14	18.2
31-40	7	9.1
Above 40	8	10.4
Numbers of international markets served		
1-5	46	59.7
6-10	17	22.1
11-15	7	9.1
16-20	1	1.3
More than 20	6	7.8

3.2 Measurement of decision-maker's factors influencing SDMP process

Three different decision-maker competencies were measured: rationality, intuition and experience.

Decision-maker rationality: it measured the capacity to make a decision with a strategic rationality. A composite variable of three 5-point Likert scale was used to capture the impact of decision-maker's rationality on international SDMP (1= no influence 5= very high influence).

Intuition was measured with three 5-point Likert scales, regarding not only the influence of intuition/gut feeling on international operation but also the decision-maker preference toward a particular market and/or a particular culture (1= no influence 5= very high influence)..

Experience: it measured the influence of decision-maker experience (training and international experience) on key internationalization SDMP, through two 5-point likert scales (1= no influence 5= very high influence).

To measure personality characteristics we used risk attitude and need for achievement. For the former three 5-point Likert-type scale with options ranging from 1 = no influence 5= very high influence, while for the latter one 5-point Likert-type scale was adopted.

We adopted the level of education (on a five-point scale from 1=primary school to 5= master's degree or PhD) as demographic measure, with the knowledge of foreign languages (1 = no influence 5= very high influence).

Typology of decision-maker was classified into two categories: manager (code as 1) and owner/entrepreneur (code as 0).

3.3 Measurement of control variables

We controlled for firm size, that was measured by the log of full-time employees (Fredrickson, 1984; Papadakis, 2006). We also controlled for firm performance, measured as the logarithm of firm sales. Finally, for measuring international firm performance three measures were adopted: export propensity, years of international experience and number of foreign markets served (Appendix A).

3.4 Measurement of international process characteristics

In this article it has been decided to measure the following international strategic marketing process phases (or sub-phases):

- Definition of international objectives;
- International Market Selection process;
- Entry Mode Selection process;
- Segmentation and positioning;
- Control of international activities.

These are indicated in the Appendix along with their measurement details.

4. Results

Table 2 showed the mean, the standard deviation and correlation for all variables assessed in this study.

Firstly, it is interesting to note that all phases and sub-phases are connected, except the control of international activities; indeed, a clear definition of international objectives is significantly correlated with a systematic International Market Selection ($r=0.224$ $p<0.05$) and international segmentation and position of selected foreign market ($r=0.230$ $p<0.05$); moreover, a systematic International Market Selection is quite obviously correlated with Entry Mode Selection ($r=0.427$ $p<0.01$), and also with international segmentation and position ($r=0.320$ $p<0.01$). Finally, a systematic Entry Mode Selection process is correlated with International Segmentation and Position ($r=0.261$ $p<0.05$).

With specific reference to correlation between decision-makers characteristics and international SDMP, results revealed that only three out of the 35 relationships were statistically significant at a level of 5 per cent or less. This indicates a low relationship between the two groups of variables. In particular only decision-maker education was significantly correlated with IMS ($r=0.247$ $p<0.05$) and EMS ($r=0.227$ $p<0.05$), while the training and international experience was highly related with international control activities ($r=0.225$ $p<0.05$).

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. OB	.30	.46	1															
2. IMS	.71	.45	.224*	1														
3. EMS	.71	.45	.099	.427**	1													
4. SP	.61	.49	.230*	.320**	.261*	1												
5. CN	.82	.39	.013	.224	.224	-.031	1											
6. RT	3.93	.64	.175	.022	-.039	.053	.019	1										
7. IN	3.35	.71	.082	.134	.052	-.036	.025	.220	1									
8. EX	3.90	.85	.176	.182	.097	-.013	.225*	.281*	.447**	1								
9. NA	4.05	1.01	.136	.033	-.082	.094	.091	.297**	.316**	.419**	1							
10. RK	3.33	.79	.136	.204	.045	-.027	.083	.464**	.353**	.293**	.220	1						
11. ED	3.67	.73	.181	.247*	.227*	.150	.157	.110	.169	.197	.050	-.014	1					
12. TY	.30	.46	.194	.099	-.027	-.177	.161	-.033	-.052	.126	.164	-.045	.181	1				
13. FS	2.49	1.26	.037	.065	.065	.166	-.083	-.136	-.032	.107	.062	-.103	.201	.263*	1			
14. TN	2.44	1.30	.172	-.006	-.073	.252*	-.021	.048	.041	.111	.152	-.088	.288*	.150	.665**	1		
15. EP	1.82	1.02	.145	-.085	-.028	.093	-.084	.081	.112	.123	.213	-.120	.192	.117	.070	.298**	1	
16. NM	1.75	1.18	.161	-.035	-.035	.014	-.070	-.046	.098	.100	-.022	-.175	.194	.137	.250*	.311**	.354**	1

*p<0.05; **p<0.01; OB=definition of international objectives; IMS= International Market Selection; EMS= Entry mode selection; SP= segmentation and positioning; CN=control of international activities; RT= rationality; IN= intuition; EX= experience; NA= Need for achievement; RK= Risk; ED= Education; TY= Typology; FS= Firm Size; TN= Turnover; EP= Export propensity; NM= number of markets served.

In order to test this tentative conclusion, and consequently the hypotheses, 5 logistic regression analysis were conducted, one for each international strategic marketing process phases and sub-phases. The control variables were entered into each regression model, and Table 3 showed the results.

Logistic regression allowed us to assess how well the set of predictor variables influence our categorical dependent variables (Pallant, 2007).

Table 3. Logistic regression analysis

	OBJECTIVES	IMS	EMS	SEGM-POS	CONTROL
Rationality	.311	-.471	-.241	.114	-.592
Intuition	-.160	.067	-.011	-.365	-.454
Experience	.223	.328	.316	-.176	.848*
Need for achievement	.021	-.077	-.305	.354	.083
Risk	.448	.679	.169	-.033	.225
Education	.353	.839**	.847**	.496	.710
Typology	-.928	-.352	.440	1.409**	-1.234
N. of employees	-.425	.088	.407	.216	-.631*
Turnover	.425	-.148	-.455	.332	.202
Export intensity	.025	-.165	.082	.103	-.386
Number of markets	.231	-.083	-.143	-.130	-.084

Notes: Values shown in the table are the standardised regression coefficient, n=77. *p<0.10; **p<0.05

H1, H2 and H3 aim to explore whether decision-maker competencies have an influence on a specific phase or sub-phase of international SDMP.

As shown in Table 3, Hypotheses 1 and 2 were not supported by our findings, as rationality and intuition of decision-maker have not statistically influence on international SDMP, while the research revealed that a positive sign influence was identified between the decision-maker experience and control of international operation (H3e – $\beta=0.848$; $p<0.10$).

Concerning the personality characteristics of the decision-maker, H4 and H5 were tested. However, either need for achievement nor risk perception are significant predictors.

Results from data analysis supported the prediction of H6b ($\beta=0.839$; $p<0.05$) and H6c ($\beta=0.847$; $p<0.05$). The decision-maker education has a significant impact on IMS and EMS.

H7d is strongly supported by our findings ($\beta=1.409$; $p<0.1$). Accordingly, this result confirms our conjecture that manager are more likely to adopt an international segmentation and position that owner/entrepreneur.

Finally, with reference to control variable, our findings permitted to discover a relationship between the firm size and the decision to do a systematic control of international activities ($\beta=-.631$; $p<0.10$).

5. Conclusion

In this study, using a sample of Italian SMEs, the influence of decision-maker characteristics in international strategic decision-making process was tested.

Main results revealed that there is a positive relationship between decision-maker education and two important phases of international strategic decision-making process, that are International Market Selection and Entry Mode Selection. These findings are in line with the results of previous investigations (Bantel, 1993; Papadakis, 2006; Karamiet al. 2006), according to whom decision-makers with higher level of education have more possibilities to develop more rational and formal international SDMP.

Moreover, the strong relationship between typology of decision-maker and strategic decisions related to international segmentation and positioning confirmed our conjecture that owner tend to be less rational and formalized than manager during international SDMP.

However, this study is focused on Italian SMEs. Future studies could test these findings in other countries. Another limitation of this survey is that we did not take into account other potential decision-maker characteristics which can also influence international SDMP, such as locus of control, need for cognition and preference for innovation. Such limitation could be overcome by future researches, especially by those including these variables.

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Appendix A.

VARIABLES	ITEMS	MEASURE
Rationality	1. capacity to make a decision with a strategic rationality 2. capacity to have a long international strategic vision 3. capacity to evaluate different alternative	Five-point Likert scale (1=no influence; 5=great influence)
Intuition	1. To rely on personal judgement and to depend on gut feeling 2. Preference towards a foreign market 3. Openness towards a culture	
Experience	1. Training experience 2. International experience	
Need for achievement	1. Ambition, competition, place high value on achievement	
Risk attitude	1. Risk perception 2. Geographic distance perception 3. Cultural distance perception	
Formation	1. Education 2. Knowledge of foreign languages	<i>Education</i> (1=primary school; 2=secondary school; 3= college; 4= Bachelor’s degree; 5= Master’s degree and PhD) <i>Knowledge of foreign languages</i> (1=no influence; 5=great influence)
Typology of decision-maker	1. Manager or owner	(0=owner; 1=manager).
Firm size	1. Number of employees	(1 = from 1 to 10; 2 = from 11 to 25, 3 = from 25 to 50, 4 = from 51 to 100, 5 = from 101 to 250)
Firm performance	1. Turnover	(1=until 2 million; 2= from 2 to 10 million; 3= from 11 to 20 million; 4= from 21 to 40 million; 5= from 41 to 50 million)
International firm performance	1. Export propensity 2. Number of foreign market served	Export intensity (1 = until 20%; 2 = from 21 to 40%, 3 = from 41 to 60%, 4 = from 61 to 80%, 5 = more than 80%) Number of foreign market served (1 = until 5; 2 = from 6 to 10, 3 = from 11 to 15, 4 = from 16 to 20, 5 = more than 20)
International objectives	Clear definition of international objectives	(0=no clear definition 1=clear definition).
IMS	International Market Selection process	(0=non systematic IMS 1=systematic IMS).
EMS	Entry Mode Selection process	(0=passive EMS 1=active EMS).
Segmentation and positioning		(0=non systematic 1=systematic).
Control of international activities		(0=no control 1=control).