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## Decision mode, information and network attachment in the internationalization of SMEs: A configurational and contingency analysis

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### ABSTRACT

There has been limited attention to the internationalization of SMEs as a decision, and how the use of contrasting decision modes is associated with different information use and patterns of network attachment. This paper offers a new and systematic analysis of the likely associations between decision modes, information use, and network attachment among internationalizing SMEs. The analysis is subsequently contextualized in terms of two contingencies – the knowledge domain of the SME and the international experience of its key decision-maker. By focusing on the relation between a relatively neglected subject – decision modes – and other issues that have been more center-field, the paper contributes to an analytic synthesis in the field of SME internationalization research.

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### 1. Introduction

The internationalization of small and medium-sized enterprises (SMEs), namely their expansion into foreign markets, has attracted growing attention as a subject of academic inquiry and a goal of public policy. However, while there is now a voluminous literature on the subject (see reviews by Harris & Li, 2005; Jones, Coviello, & Tang, 2011), there has been only limited analysis of how SMEs decide to internationalize or to extend their internationalization (Schweizer, 2012).

To some degree this reflects a neglect of managerial decision-making in international business research as a whole (Aharoni, Tihanyi, & Connelly, 2011). However, as with other aspects of SME internationalization, there is reason to expect that the approach to decision-making found in SMEs may differ from the goal-driven, planned and 'rational' decision-making commonly associated with large firms (Wilson & Nutt, 2010). One factor relevant to this difference is the greater information scarcity that SMEs tend to face in the course of internationalization (Buckley, 1989). Another is that SMEs tend to be characterized by an individualized leadership (Oviatt & McDougall, 1994). The significant role played by individual decision-makers in SMEs means that their personal characteristics and interpretations are highly likely to affect their

strategic decisions, including those on internationalization (Hsu, Chen, & Cheng, 2013; Nielsen & Nielsen, 2011; Nordman & Melén, 2008).

The combination of individualized leadership with informational constraints suggests that SME decisions may tend to be based on personal hunch and be a response to unplanned developments to a greater extent than those made in multinational enterprises (MNEs), despite the growing recognition that intuition can inform the strategic decision making of larger firms as well (Elbanna, 2006). The scarcity of information, and other resources, frequently confronting SMEs may also mean that their internationalization decisions reflect resource availability rather than a 'rational' pursuit of clear goals (Evers & O'Gorman, 2011).

It has been found that SMEs often make use of networks to reduce information asymmetry by accessing and acquiring information relevant to their international growth (Andersen, 2006; Ellis, 2011; Lu & Beamish, 2001; Manolova, Manev, & Gyoshev, 2010; Ojala, 2009; Yli-Renko, Autio, & Tontti, 2002; Zhou, Wu, & Luo, 2007), and that this is likely to be particularly true of rapidly internationalizing new ventures (Coviello, 2006). Johanson and Vahlne (2009) argue that 'insidership' in relevant networks is a prerequisite for successful internationalization. However, there has been little attention to how networking, and the information it may provide, may be associated with how SME leaders decide on initiating and implementing internationalization.

The contribution of this paper is to develop a systematic analysis of the likely configurations between SME decision making on internationalization, information use and network links, and to explore contingent factors that influence such configurations. Its

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underlying theoretical rationale is based on a resource-oriented perspective, treating information as a key resource for decisions on SME internationalization. Given the lack of organizational slack typical of SMEs, a liability of foreignness is likely to present a significant risk if they internationalize. Although this challenge may be moderated if the SMEs enjoy certain advantages such as previous relevant experience, established connections with foreign customers, or a product that can be distributed at low cost and risk (e.g. through the internet), they still require information to inform a decision to diversify abroad and/or assurances of external support. They are likely to look to network links for such information, albeit that the nature of the information obtained will vary. Decision-making, information use and network attachment are therefore postulated to be inter-related. On the one hand, information availability and network attachment have implications for the type of decision mode that it is feasible to pursue. On the other hand, a preference for a given type of decision mode has implications for the information and network attachments that are sought.

In the analysis to follow, we define 'decision mode' as the method and logic that SME leaders employ to go about reaching a decision to internationalize, either initially or to expand the scope of their existing international business. The term 'mode' is intended to be more comprehensive than 'style' in that style carries connotations that are primarily personal and personality-linked, whereas mode also implies consideration of the method adopted. We define information as data that are structured and understood in a way so as to become a useful input into knowledge. We use the term 'network attachment' to refer to the set of social and business links or 'ties' that the key SME actors access, connect and orchestrate in relation to their perceived needs associated with internationalization. In referring to the links that an SME establishes to networks, 'network attachment' has a somewhat more focused meaning than 'networking'.

This paper has been motivated by the gaps in our understanding of SME decisions on internationalization and by an expectation that in addressing them the analysis required for SMEs will differ from that appropriate to MNEs. This analysis will be sensitive to the presence of distinct types of SME and certain decision-maker attributes which, it will be argued, constitute significant contingencies. It adopts a 'model-theoretic' perspective (Harris, Johnson, & Souder, 2013) which aims to develop models representing specific aspects of the real world and to offer a reference both for systematic empirical investigation and for managerial practice. By addressing the relation between a relatively neglected subject – decision modes – and other issues that have been more center-field, we hope to contribute toward the analytic synthesis that has been called for (Jones et al., 2011).

In order to pursue this aim, we address four related questions. The first concerns the 'decision mode' that SME leaders adopt. Here the analytical task is to make clear distinctions between different decision modes in order to identify a range of possibilities. Our second question is how contrasting decision modes are associated with variations in information use, as well as with ties to external networks. Any decision requires an input of information, if only to trigger it, and this input has a source or sources from which it flows to the decision maker through either personal or impersonal network channels. Insofar as decision modes contrast in features such as level of prior planning and comparison of alternatives, it is likely that they involve corresponding variations both in the information used and in the attachments to networks that provide it. The nexus between decision mode, information and network attachment appears not to have been previously articulated by scholars.

The premise that decision modes, information use and network attachment are linked leads to the third question, namely whether

the links between them form identifiable configurations. The systemic and holistic character of a configurational perspective (Academy of Management, 1993; Fiss, 2007; Miller, 1996) encourages the search for distinct SME profiles with respect to the internationalization process such as Raymond and St-Pierre (2013) found when examining strategic capability configurations. The presence of different configurations associated with decision-making would be consistent with the recognition that there is considerable heterogeneity among internationalizing SMEs (Aspelund & Moen, 2005).

The possibility of heterogeneity raises our fourth question: do certain contingencies tend to differentiate between decision-information-network configurations among internationalizing SMEs? The attention-based view of the firm would suggest that the specific situation of SME decision-makers will influence the range of factors they take into account and hence dispose them toward adopting a particular decision mode (Ocasio, 1997). Previous research suggests that the approach adopted by SME leaders toward internationalization and their network ties may depend on a number of factors, including firm characteristics, such as size, age, human and financial resources, their links with sources of technology/scientific knowledge, their prior international experience and knowledge, and the extent of their pre-existing contact networks – see Jones et al. (2011). The knowledge-based view of the firm (Grant, 1996), which has received increasing attention in internationalization research during the past decade (Autio, Sapienza, & Almeida, 2000; Casillas, Moreno, Acedo, Gallego, & Ramos, 2009; Gassmann & Keupp, 2007; Musteen, Francis, & Datta, 2010; Yi-Renko et al., 2002), implies that two situational factors will be particularly significant. One is the knowledge domain from which their outputs and processes are derived (Bell, McNaughton, Young, & Crick, 2003). Another is the international experience that the firm, particularly its key decision-maker, has accrued (Clarke, Tamaschke, & Liesch, 2013).

To address the above questions, we proceed as follows. We first identify four decision-making modes that SMEs may pursue. We then discuss how each mode implies a different character of information used and pattern of attachment to networks. This is followed by an analysis of how configurations of decision mode, information use, and network attachment vary according to the knowledge domain of an SME and the international experience of its key decision maker(s). Because our aim is to develop a theoretical perspective rather than to test one, our 'methodology' uses two categories of resource. The first category is available conceptual frameworks for analyzing the three main components of our analysis: decision modes, information use and network attachment. The second resource is empirical case study evidence which is used both to suggest correspondence between the analytical components and to provide clarifying illustrations of our argument.

## 2. Modes of decision-making on internationalization

The primary points of reference for all decision-making models have been the extent to which they embody rationality and the type of rationality in question. March (1988) exemplifies the continuing concern in the decision-making literature with the limits to rationality in organizational decision-making. These are seen to arise because of (1) the limits and cost of information, (2) attitudes toward risk (e.g. avoiding rather than accepting it), and (3) politics – especially conflict in organizations which means that the information used in organizations for supporting decisions is 'not innocent' (p. 387). Weber (1947) addressed the type of rationality in positing a distinction between formal and substantive rationality. Whereas the 'formal rationality of economic action' refers to 'the extent of quantitative calculation or

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