



# Beyond path dependence: Explorative orientation, slack resources, and managerial intentionality to internationalize in SMEs



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## ABSTRACT

Managerial intentionality plays an important role in a firm's selection of its internationalization path. In relation to small and medium sized enterprises (SMEs), most studies focus on the individual traits that foster managerial intentionality without considering organizational-level antecedents. This study seeks to address this gap by focusing on two organizational antecedents: the firm's exploration and exploitation orientations, and its slack resources. The firm's orientations affect the application of different learning processes, including knowledge acquisition, information interpretation, and knowledge diffusion, and they shape the subjective norms prevalent in the organization, thereby influencing managers' intentions. Slack resources can affect managers' intentions not only by offering them leeway to explore new alternatives but also by encouraging complacency. We test our hypotheses on a data set of 132 SMEs. Our findings show that an explorative orientation plays an important role in management intentionality to internationalize, and that slack resources moderate this relationship.

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## 1. Introduction

Managers play an important role in firms' path selection. Consequently, understanding why managers act in a manner that is path dependent or path creating is the key in a number of international business (IB) research streams (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Oviatt & McDougall, 1994). Even though the literature has advanced our knowledge of managers' behaviors, Hutzschenreuter, Pedersen, and Volverda (2007) suggest that IB research should pay more attention to factors that affect strategic intent, or "managerial intentionality", to internationalize. In this regard, managers are assumed to have the ability and intention to influence the actions, behaviors, or paths of the firm (Hutzschenreuter et al., 2007). The concept of management intentionality implies that decision makers matter and that they have a voice in the actions taken by a firm (Ajzen, 1991; Flier, Van den Bosch, & Volverda, 2003). In this perspective, managers are viewed as important actors in a firm's strategic path selection (Vergne & Durand, 2011).

Important IB research streams, such as the Uppsala Model, have attributed more relevance to past experience and accumulated learning than to managerial intentionality when explaining firms' internationalization decisions (Forsgren, 2002; Hutzschenreuter et al., 2007; Petersen, Pedersen, & Sharma, 2003). According to this perspective, path dependencies can limit the role of managerial intentionality. However, in the context of small and medium sized enterprises (SMEs), some studies of international entrepreneurship emphasize the link between decision makers' intentions and SMEs' internationalization paths (Jaffe & Pasternak, 1994; Oviatt & McDougall, 1994, 2005). Despite this increasing recognition, most studies focus solely on the individual cognitive traits that foster opportunity recognition and path selection (Acedo & Jones, 2007; Schweizer, 2012) without directly addressing management intentionality and without considering other possible types of antecedents. In other words, theoretical and empirical studies that delve into the impact of organizational variables on managers' intentions to internationalize are lacking. Our paper seeks to address this research gap by focusing on two organizational antecedents: SMEs' exploration and exploitation orientations, and slack resources.

The firm's orientation in terms of exploration–exploitation is one important factor that can affect different learning processes, such as knowledge acquisition, knowledge diffusion, or information interpretation (Huber, 1991; Levitt & March, 1988). March (1991, p. 71) states that a central concern for adaptive systems is

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the relationship between the exploitation of old certainties and the exploration of new possibilities, as these two activities compete for scarce resources. The firm's exploration and exploitation orientations affect its international strategy by influencing its search approach, its levels of risk taking and uncertainty avoidance, and the importance attributed to time pressure when making strategic decisions related to such factors as market selection or operational mode (Forsgren, 2002). These orientations have different impacts on managers' strategic intent, as they shape the subjective norms prevalent in the organization (Ajzen, 1991) and affect how managers understand the environment and assess strategic options (Fiol & Lyles, 1985; Hutzschenreuter et al., 2007). In this sense, the firm's orientation affects the mindset or cognition of its managers and, consequently, their intentions.

Organizational resources are crucial for understanding the dilemma between a firm's exploration and exploitation orientations (March, 1991, 2010) as well as for comprehending individuals' intentions (Ajzen, 1991). The availability of slack resources facilitates decisions that do not necessarily respond to short-term demands but focus on new paths (Hutzschenreuter et al., 2007; Lin, Cheng, & Liu, 2009; Lin & Liu, 2012; Nohria & Gulati, 1996; Simsek, Veiga, & Lubatkin, 2007) or that enhance novelty (March, 2010). Slack resources can offer managers leeway to explore emerging opportunities by increasing their confidence in their ability to execute new courses of action (Ajzen, 1991; Hutzschenreuter et al., 2007). In the context of internationalization, the amount of resources is a critical factor in determining SMEs' internationalization paths (Lu & Beamish, 2001).

The purpose of this paper is to develop our understanding of why and how organizational orientations and organizational slack resources affect SMEs managers' intentions to internationalize. Specifically, we analyze the following research questions. First, are managers from exploitative SMEs more path dependent in their internationalization trajectories? Second, can an SME's explorative orientation affect its managers' intentions to become more path creating when internationalizing? Lastly, to what extent do slack resources affect this relationship? We test these research questions using survey data collected from 132 Spanish SMEs.

We contribute to the extant literature by developing a more managerial-sensitive theory of internationalization. We add to the IB literature by explaining why and how the organizational orientation in terms of exploration or exploitation affects managers' intentions to internationalize. We also advance knowledge about the moderation effect of discretionary resources, or organizational slack, on the relationship between explorative SMEs and their managers' intentions for their firms' internationalization. We contribute to empirical knowledge on SMEs' internationalization by studying a unique SMEs sample.

## 2. Literature review and development of hypotheses

Exploration and exploitation represent two broad organizational orientations that affect learning processes at different levels (Levitt & March, 1988). In studies of organizational learning, "exploitation" is associated with those activities linked to "refinement, choice, production, efficiency, selection, implementation and execution", while "exploration" is related to such activities as "search, variation, risk taking, experimentation, play, flexibility, discovery and innovation" (March, 1991, p. 71).

These orientations rely on different sub-processes for knowledge acquisition, information interpretation, and knowledge diffusion (Huber, 1991; March, 1991). With regard to knowledge acquisition, the exploration of new alternatives is related to experimentation in organizations and proactive search, while the exploitation of the current alternatives is linked to the benefits of

experience-based learning curves and to focused search (Huber, 1991; Levitt & March, 1988). Differences in information interpretation arise from the frameworks for interpreting experience that are more prevalent in each orientation (Daft & Weick, 1984; Huber, 1991). Some factors, such as some forms of learning myopia – the tendency to ignore the long run or the tendency to overlook failures – are more common among firms with an exploitation orientation (Levinthal & March, 1993). Such factors affect how experience is given meaning (Levinthal & March, 1993). In a similar vein, exploration and exploitation are characterized by some trade-offs in terms of knowledge diffusion and mutual learning within organizations (March, 1991).

These two orientations are related to firms' path trajectories. On the one hand, the literature associates exploitation with path-dependent trajectories based on actual firm routines. As exploitative firms are more focused on the short term and as they prefer certain outcomes, these firms become experts in their current domains and respond to environmental changes by adapting their existing knowledge (Burgelman, 1991, 2002; March, 1991). On the other hand, exploration is linked to path creation and experimentation with new alternatives in the face of environmental uncertainties. Exploration differs from exploitation not only in terms of timing but also in terms of the acceptance of uncertainty and the willingness to experiment with new paths that may expand the firm's knowledge (Burgelman, 1991, 2002; March, 1991; Rosenkopf & Nerkar, 2001).

Several studies focus on the balance between explorative and exploitative international activities, and their links to performance, as well as on the impact of different internationalization processes on firms' survival and growth (Barkema & Drogendijk, 2007; Han & Celly, 2008; Hsu, Lien, & Chen, 2012; Nielsen & Gudergan, 2012; Prange & Verdier, 2011). These studies advance our understanding of the consequences of following an established path when internationalizing rather than jumping to different or alternative paths that imply access to new knowledge. However, they do not explain how a firm's exploration–exploitation orientation can affect its internationalization strategy. In this research, we posit that a firm's exploration–exploitation orientation affects its managers' intentions to internationalize. We therefore view this type of firm orientation as a relevant organizational antecedent that influences managers' path selection.

The concept of management intentionality suggests that managers' intentions influence the decisions and actions taken by a firm (Ajzen, 1991; Flier et al., 2003). "Intentions" captures the motivational factors that influence behavior and have been established as good predictors of actual behavior (Ajzen, 1991). Individuals' intentions are affected by their attitudes toward the behavior, by the subjective norms or perceived social pressures to engage in or refrain from the behavior, and by the degree of perceived behavioral control (Ajzen, 1991).

The organizational orientation in terms of exploration or exploitation influences managers' intentions by shaping the subjective norms that are prevalent in the organization. As discussed above, these orientations differ with regard to the application of learning processes (Floyd & Lane, 2000; Huber, 1991; Levinthal & March, 1993). Over time, the organizational-learning processes pervade organizational memories, mental maps, and values that are shared by members and transmitted to new members (Fiol & Lyles, 1985), thereby influencing managers' intentions.

The degree of perceived behavioral control refers to the extent to which an individual perceives of a behavior as difficult to perform (Ajzen, 1991). Slack resources influence this perception by giving managers leeway to try new alternatives at a lower risk, which can affect their perceptions of self-efficacy (Ajzen, 1991; Jaffe & Pasternak, 1994).

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