



Strategic decision-making processes in internationalization: Does national culture of the focal firm matter?

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ABSTRACT

We seek to examine how national culture values affect strategic decision-making processes (SDMPs) of internationalized firms. We employ the cultural relativity theory to explain how firms from different countries make international decisions. We advance hypotheses regarding the associations between three SDMP dimensions and three national culture aspects, notably the relationships between hierarchical decentralization and power distance; lateral communication and individualism; and, formalization and uncertainty avoidance. We present evidence from a large-scale study conducted on 528 internationalized small and medium-sized firms based in the USA, UK, Greece and Cyprus. The findings support our hypotheses with the exception of that concerning lateral communication and individualism. The national culture of the focal firm matters as far as SDMPs in internationalization are concerned. Implications and further research directions are discussed.

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1. Introduction

This paper aims to investigate how strategic decision-making processes (SDMPs) vary among internationalized firms of different cultures. Our emphasis is on the focal internationalized enterprise that originates from a given home country; rather than on the differences between focal internationalized enterprises and their export, joint venture or wholly-owned subsidiary partners abroad. The examined issue of decision-making in internationalized firms is a theme that has considerable importance. Management stands out as a key driver behind the success of the internationalized firm (Lee & Park, 2006; McDougall & Oviatt, 1996). This argument is in line with the upper-echelon perspective (Boeker, 1997; Hambrick & Mason, 1984; Miller, De Vries, & Toulouse, 1982) that posits that top managers of the firm are the strategists who set the direction of their enterprises. Based on this logic, top managers make decisions consistent with their cognitive orientations, perceptual processes, values and experiences, which can influence organizational performance. Therefore, differences in managerial cognitive

processes affect aspects of the SDMP involving information search and information processing (Cyert & March, 1963; Daft & Weick, 1984; Haleblan & Rajagopalan, 2006). The upper-echelon theory has been applied to the internationalized firm level providing some evidence on the association between top management characteristics and international growth of the firm (Carpenter, 2002; Jaw & Lin, 2009; Tihanyi, Ellstrand, Daily, & Dalton, 2000). It is posited that the role of decision-making aspects has generally been overlooked in the internationalization of the firm (Buckley, 1993; Herrmann & Datta, 2002).

The national culture of the focal internationalized enterprise has significant impact on its strategic posture and activity (Bartlett & Ghoshal, 1989; Hayton, George, & Zahra, 2002; Porter, 1990). Besides, national culture may be a major variable likely to affect the development of cognitive and thinking styles of managers (Abramson, Keating, & Lane, 1996; Allinson & Hayes, 1996; Sternberg, 1997). Therefore, in the present study we employ the cultural relativity theory (Hofstede, 1980, 1983), which posits that the nation of the focal firm is distinguished by specific value systems that can account for divergences in the types of strategies implemented by enterprises originating from different countries. On a related note, in a recent literature review, Kirkman, Lowe, and Gibson (2006) argue that there are no empirical studies investigating the national culture aspect at the organizational decision-making level.

Organizational decision-making may include a mixture of modes such as the rational, intuitive and improvisational (Cunha, 2007; Mintzberg & Westley, 2001). The line of thought that

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enterprise decision-making is not necessarily rational is also in accord with that of Aharoni (1966), who notes that the decision of the firm to go abroad follows subjective judgements of managers responding to objective contextual stimuli. This same author views the internationalization process as potentially encompassing haphazard aspects. In general, there is a lack of research involving SDMPs in internationalized firms. Nonetheless, having a vision to succeed abroad and motivating all enterprise employees toward this objective are important to their internationalization (Loane, Bell, & McNaughton, 2008; Oviatt & McDougall, 1995; Strandskov & Pedersen, 2008). In addition, management systems related to planning and control positively affect the growth of internationalized firms (Burton & Schlegelmilch, 1987; Tyebjee, 1994). Hence, although it appears that some kind of SDMP exists in internationalized firms, organizational decision-making largely remains a 'black box' in the international business literature. Consequently, in this paper we provide some evidence to fill this gap by elaborating on three SDMP dimensions, notably hierarchical decentralization, lateral communication and formalization.

In particular, we examine whether the SDMP in focal internationalized firms is culturally bounded or not. Despite the substantial body of literature on SDMPs, our knowledge of these processes is 'culture-free' in the sense that differences of national cultures are not reflected in SDMPs of the firm (Carr, 1998; Elbanna & Child, 2007; Lu, 1998). According to Tse, Lee, Vertinsky, and Wehrun (1988), an understanding of the impact of national culture on SDMP in the international marketplace may be a source for development of competitive advantage abroad. Such an understanding can enable enterprises operating in different national contexts to deploy effective strategic moves in foreign markets.

Authors in the SDMP literature (Dean & Sharfman, 1996; Nutt, 2008) highlight its contextual nature; and, essentially argue in favor of comparative decision-making research across different countries as a means for understanding the dynamics of strategy development and rent creation. In other words, cultural factors are likely to be associated with variations in strategic decisions of the internationalized firm. We contribute to the international business literature by implementing the SDMP-dimensional approach and shedding some light on the 'black box' of decision-making in internationalized firms across four nations.

We provide empirical evidence drawn from a research of 528 focal internationalized small and medium-sized firms based in the USA, UK, Greece and Cyprus. Small firms are examined in the current study research since internationalization usually implies a costly and time-consuming endeavor to the small enterprise (OECD, 2008). Internationalization in these firms may be based on subjective preferences of individual managers (Calof, 1993; Coviello & Martin, 1999), yet more recent contributions stress the importance of the whole management team accountable for making decisions (Collinson & Houlden, 2005; Covin, Green, & Slevin, 2006; West, 2007). Therefore, the SDMP of the internationalized small firm provides an interesting research setting in this study.

This paper is structured as follows. In Section 2 we discuss the literature review behind SDMPs and national culture; and, advance related research hypotheses. Section 3 explores methodological aspects of the study. In Section 4 we present and discuss the results of the statistical analysis. Section 5 elaborates on the key findings; and, explores the limitations of the study and suggestions for further research.

2. Research background and hypotheses

2.1. Dimensions of strategic decision-making processes

The SDMP entails arrangement and reconfiguration of resources or competencies of the firm. It is associated with the achievement

of competitive advantage and realization of enhanced long-term performance (Dean & Sharfman, 1996; Mintzberg, Raisinighani, & Théorêt, 1976). The SDMP literature has benefited significantly from the behavioral theory of the firm. Behavioral theorists have primarily focused on decisions made by individuals and seemingly have no interest in decisions made in organizational contexts (Dean & Sharfman, 1993). Nonetheless, their ideas have often been transferred into organizational decision-making research (March & Shapira, 1982). According to behavioral theory, organizational decision makers pursue multiple goals that result from internal bargaining. Comparisons of realized goal with aspirational levels influence organizational actions (Cyert & March, 1963). The behavioral theory of the firm builds on the study of bounded rationality (Simon, 1982), which considers rational choice in the decision-making process. According to the idea of cognitive simplification, decision makers must construct simplified mental models when dealing with complex problems (Simon, 1976). When operating in complex foreign environments, rational SDMPs may likely be bounded by the fact that information, resources and networks are culturally embedded (Colakoglu & Caligiuri, 2008).

Prior research in strategic management has mainly considered specific factors of the SDMP, namely the content and context of strategic decisions (Papadakis, Thanos, & Barwise, 2010). The content captures the type of decision. Some scholars focus on crucial but infrequent decisions made by top management to select a core business that offers a competitive advantage; or to exploit opportunities in the marketplace (Hitt & Tyler, 1991). Decisions can be either objective or subjective. The former are mainly associated with product/services, financing, internal operations, personnel policy, marketing and technological choices. The latter include agenda setting, selecting issues for future decisions and ethical considerations (Nutt, 2008).

Studies that concentrate on decision context investigate the internal and external environments that influence what is decided and how the decision is made. Regarding the internal environment, March and Simon (1958) suggest that the organizational structure impacts on strategy formulation by delimiting responsibilities and communication channels, which enable the organization to achieve rational outcomes. As far as the external environment is concerned, numerous studies (Dean & Sharfman, 1996; Eisenhardt & Bourgeois, 1988; Fredrickson & Mitchell, 1984) examine the effect of environmental dynamism and hostility on SDMPs, and find that these external forces can influence decision-making effectiveness.

It may be inferred that the study of SDMPs entails the examination of dynamic phenomena within a contextual environment. According to Papadakis, Lioukas, and Chambers (1998), the conceptualization of the SDMP as a set of dimensions may facilitate the investigation of possible interrelationships with contextual variables including national culture and other firm-specific and environmental factors. This perspective is also emphasized by Mintzberg et al. (1976) who argue that the study of SDMPs can reveal how managers act on environments of pressing or even hostile forces.

SDMP studies usually refer to a sequence of steps that begin with the identification of a stimulus for action and conclude with the specific commitment to action; or to a set of different actions. Strategic decision-making is a process characterized by a series of iterative behavioral stages that take place over time (Bell, Bromiley, & Bryson, 1998; Mintzberg et al., 1976). This process refers to what those involved in decisions do. Nutt (2002) further contends that the stages of this process include tactics. However, even though the SDMP is multi-dimensional in nature, most of the studies appear to focus solely on one of its behavioral dimensions (Papadakis & Barwise, 1998).

The current study conceptualizes SDMP in terms of three dimensions: hierarchical decentralization, lateral communication

and formalization. These dimensions were selected following the seminal study of Mintzberg et al. (1976) who consider three sets of routines as supporting pillars of SDMPs. Hierarchical decentralization refers to the degree of dissemination of power and authority in the organization with regard to SDMPs (Aiken & Hage, 1966, 1968; Grinyer, Al-Bazzaz, & Yasai-Ardekani, 1986). Lateral communication examines the extent of balanced participation of all departments and business units in SDMPs (Aiken & Hage, 1966, 1968; Papadakis, 1998; Tannenbaum, 1968). Formalization concerns the extent to which organizational policies, rules, charts and plans are articulated explicitly and formally in SDMPs (Eisenhardt & Bourgeois, 1988; Fredrickson & Mitchell, 1984).

These three dimensions were additionally examined since they refer to different aspects of the SDMP as investigated in the respective literature: hierarchical decentralization captures the 'centrality' aspect; lateral communication the 'interaction' aspect; and, formalization the 'scrutiny' aspect (Cray, Mallory, Butler, Hickson, & Wilson, 1988). Moreover, we selected to investigate these SDMP dimensions because the seminal studies of Aiken and Hage (1966, 1968) placed the aspects of hierarchical decentralization and formalization at the heart of SDMPs. These two dimensions have an overarching effect on SDMPs, which appears to shape information acquisition, analysis and use for the organization concerned (Miller, 1987; Papadakis & Barwise, 2002). The examination of the lateral communication dimension lies on the assumption that dissemination of information across functions or business units seems to be critical for the outcome of the SDMP (Dean & Sharfman, 1993). In addition, as examined in Section 2.2, these three dimensions are directly associated with the national culture variables investigated in this paper.

2.2. Strategic decision-making and national culture

National culture is the collective programming of the mind that distinguishes members of one human group from another (Hofstede, 1994). The most widely used culture dimensions are those suggested by Hofstede (1980, 1994) whose national culture framework is generally accepted as the most comprehensive in relevant studies of national culture (Chandy & Williams, 1994; Kogut & Singh, 1988). The validity, reliability, stability and value of Hofstede's cultural framework were confirmed in various studies (Newbury & Yakova, 2006; Tsui, Nifadkar, & Ou, 2007). Based on a country-level factor analysis, Hofstede (1980, 1983) initially grouped forty countries along four dimensions. These were power distance; individualism vs. collectivism; uncertainty avoidance; and, masculinity vs. femininity. Hofstede and Bond (1988) subsequently developed a fifth dimension, that of Confucian dynamism or long-term vs. short-term orientation. Culture values may be viewed as problem-solving cognitions (Kluckhohn, 1951; Rokeach, 1972).

This five-dimensional framework has been widely used because of its 'clarity, parsimony, and resonance for managers' (Kirkman et al., 2006: 286). Its application to national culture studies, however, has been subject to criticism (Shenkar, 2001; Tihanyi, Griffith, & Russell, 2005), aspects of which we investigate in the concluding section. The current study considers three dimensions of Hofstede's national culture framework: power distance, individualism vs. collectivism and uncertainty avoidance. Power distance refers to the 'extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally' (Hofstede, 1994: 28). Individualism concerns the pursuit of individual goals and reflects a culture whereby social members derive pride from their personal accomplishments (Morris, Davis, & Allen, 1994). Uncertainty avoidance indicates the degree to which a group or society feels threatened by ambiguous situations and attempts to avoid them

by offering specific roles and regulations (Hofstede, 1983).⁴ A review of the literature suggests that these three dimensions appear to be influential for the success of SDMPs in the organization (Ali, 1993; Morris et al., 1994; Singh, 1986). Hofstede (1980) further contends that power distance and uncertainty avoidance have particular relevance for organizational issues. Power distance affects decision-making in multinational enterprises (Hennart & Larimo, 1998). Ali (1993) and Morris et al. (1994) point out that concentration of power and individualism can influence the success of the SDMP by shaping expectations and commitment of organizational participants. Similarly, Singh (1986) posits that there is an association between SDMPs, uncertainty avoidance and performance of the firm. Masculinity (vs. femininity) is not investigated in the present study because very scant evidence involving this culture aspect exists in decision-making studies, according to the literature review by Kirkman et al. (2006). Confucian dynamism is not investigated inasmuch as it is particularly relevant to Asian cultures (e.g., Slater, Paliwoda, & Slater, 2007) that are not examined in this study. Besides, this dimension is controversial and has received considerable criticism (Fang, 2003). In addition, the three examined national culture dimensions are related to individual SDMP aspects as the discussion in the following three subsections suggests.

2.2.1. Hierarchical decentralization and power distance

Hierarchical decentralization has been related to power distance of a nation in prior research. According to Hofstede (1994), organizations in high power distance countries centralize decision-making activities in a few hands. Management in countries with high power distance is likely to be more autocratic and less willing to share responsibilities in the SDMP (Bourantas, Anagnostelis, & Mantes, 1990; Rowley & Bae, 2002). In these countries, organizational structures are centralized; and, hierarchical systems based on inequalities of roles may exist (Hofstede, 2001). Employees in these countries are more likely to accept unequal distribution of power and a more autocratic management style (Morris & Pavett, 1992). Conversely, managers in low power distance countries are more likely to decentralize decision-making. In such countries, organizational structures are fairly decentralized with flat hierarchical pyramids and limited numbers of supervisory personnel (Hofstede, 1994). Moreover, management in low power distance countries is more likely to delegate decision-making power (Earley, 1999; Newbury & Yakova, 2006). Accordingly, we propose Hypothesis 1 as follows:

Hypothesis 1. All other things being equal, high power distance of the country in which the focal internationalized firm is located will be negatively related to hierarchical decentralization in the international SDMP of that firm.

2.2.2. Lateral communication and individualism

The literature frequently links lateral communication and individualism of a nation. To elaborate, firms operating in countries with high levels of individualism may be managed by their owners or managers of strong personalities, who limit group communication and representation of various departments or strategic business units in strategy formulation. Such firms perform well when they pursue goals that cater to the needs of the individual rather than the group (Hofstede, 2001). In contrast, collectivistic countries are defined by tight social frameworks in which 'people from birth to onwards are integrated into strong, cohesive in-

⁴ This conceptualization of uncertainty referring to national culture is different from that pertaining to SDMPs in the organizational context, the latter defined as 'a lack of consensus about purposes and the means of achieving them' (Pfeffer et al., 1976: 228).

groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty' (Hofstede, 1994: 51). In essence, collectivism within the organizational context is about sharing values and goals, and team-working (Griffith, Zhang, & Cavusgil, 2006; Steensman, Marino, & Weaver, 2000). According to Hofstede (1994), firms in collectivistic countries facilitate communication between individuals and departments; and, value social networks as a primary source of information in order to achieve organizational goals. In a similar vein, Newbury and Yakova (2006) posit that organizations in collectivistic countries emphasize conflict avoidance in strategic activities through the means of high-context communication between departments. Likewise Mitchell, Seawright, & Morse (2000) posit that entrepreneurs in collectivist societies employ decision processes encouraging organizational collaboration and communication. Hence, we propose *Hypothesis 2* as follows:

Hypothesis 2. All other things being equal, high individualism of the country in which the focal internationalized firm is located will be negatively related to lateral communication in the international SDMP of that firm.

2.2.3. Formalization and uncertainty avoidance

Formalization has been associated with uncertainty avoidance in the literature. Hofstede (1994) posits that the need for rules in organizations of nations with high uncertainty avoidance assists individuals in feeling comfortable in structured business environments. Burke, Chan-Serafin, Salvador, Smith, and Sarpy (2008) find that organizations in high uncertainty avoidance countries use more formalized training procedures for their employees. It appears that in countries with high uncertainty avoidance, overall firms operate under formal rules controlling the rights and duties of employees in the work environment. In these countries, formalization routines can reduce employee uncertainty by offering unambiguous guidance on task-related matters (Joiner, 2001). Newburry and Yakova (2006) further report that employees from countries with high uncertainty avoidance cultures prefer standardized processes in multinational enterprises. This argument is also confirmed by evidence suggesting that organizational participants in high uncertainty avoidance countries favor formalized mechanisms due to existence of clear cooperation responsibilities and structured processes for conflict resolution (Garrett, Buisson, & Yap, 2006). On the contrary, low uncertainty avoidance nations exhibit greater willingness to take risks and prefer fewer rules (Hofstede, 2001). In these nations, employees favor less specificity in organizational decision processes (Hood & Logsdon, 2002). Consequently, we propose *Hypothesis 3* as follows:

Hypothesis 3. All other things being equal, high uncertainty avoidance of the country in which the focal internationalized firm is located will be positively related to formalization in the international SDMP of that firm.

3. Methodology

3.1. Sample and data collection

A four-country mail survey was carried out in the USA, UK, Greece and Cyprus in order to examine SDMPs linked to internationalization based in these four countries. These countries were selected for two reasons. First, the four countries belong to two largely different national culture groups of nations that suit the purposes of our comparative analysis. The USA and UK are distinguished by the Anglo-Saxon culture values of low power

distance, high individualism and low uncertainty avoidance. On the other hand, Greece is characterized by high power distance, low individualism and high uncertainty avoidance.⁵ Although there are no national culture scores calculated for Cyprus, it is reasonable to presume that Cyprus would in the main be in the same culture group with that of Greece due to common language, religion and national origin; similar mentality, tradition and heritage; and, geographical proximity. This argument is additionally supported by studies that attempted to cluster countries in terms of similarity of cultures. The near Eastern cluster that included Greece, Turkey and Iran (Hofstede, 1980; Ronen & Shenkar, 1985) has geographic and historical commonalities that apply to Cyprus as well.

Second, the four countries have dissimilar characteristics in terms of market size and level of economic development. The U.S. economy is very large and developed, while the UK economy shows about the same rate of economic development but is smaller than the U.S. Greece, consisting of almost 11 million people, is a relatively small market but recently exhibited strong rates of economic progress, such as GDP growth. Cyprus is a very small EU country that has similarly experienced significant rates of success in terms of economic growth. Many researchers (e.g., Katsikeas, Deng, & Wortzel, 1997; Leonidou, Katsikeas, & Samiee, 2002) note that a greater number of internationalization studies should be conducted in countries other than the major developed ones. Therefore, we posit that because of the dissimilarity in the demographical and economic characteristics of the four countries the generalizability of the findings of the current study is likely to be considerable.

In this research, investigated firms should have employed between 10 and 250 employees, have been locally owned (not subsidiaries of foreign firms), and, have international sales achieved through exporting, joint venture or wholly-owned subsidiary modes. All industrial sectors of economic activity (manufacturing or services) were acceptable to be included in this study. In the USA and the UK, the *Dun and Bradstreet* database was used as the sampling frame to randomly select internationalized firms. In Greece and Cyprus, the *ICAP Greek Financial Directory* and *Cyprus Chamber of Commerce* databases, respectively, were employed. In all four countries these databases are typical sampling frame sources for firms. The structured questionnaire was addressed to the CEO who was asked to fill-in the questionnaire or hand it to that manager who was best informed about the international activities of the firm. All respondents in this study were nationals of the respective countries examined. The databases in all four countries inevitably included some enterprises that had moved to unknown addresses, ceased international activities, acquired by other firms etc., rendering a small fraction of firms in the database unusable. The questionnaire was pretested by twelve academics and managers in order to check its comprehensibility and clarity before the launch of the survey.

A second wave of questionnaires was sent to the targeted firms three weeks after the dispatch of the first wave. Follow-up phone calls were conducted in between the two mailings. The effective response rate was 15% (115 firms) in the U.S., 13% (101 firms) in the UK, 22% (208 firms) in Greece and 25% (104 firms) in Cyprus. In order to control for common method variance, we followed the suggestions of Podsakoff, MacKenzie, Lee, and Podsakoff (2003). Specifically, the questionnaire items were based on previously developed scales; the items had been checked by twelve academics and managers; the order of the questions was reversed for some of

⁵ According to Hofstede (2009), the scores for the U.S., UK and Greece for power distance are, respectively, 40, 35 and 60, with a world average of 55; for individualism 91, 89 and 35, with a world average of 43; and, for uncertainty avoidance 46, 35 and 112, with a world average of 64.

the items, as Section 3.2 presents; we protected respondent anonymity since managers had the option to send their filled questionnaires without their names; and, we asked a second manager to complete the questionnaire in 10% of the sample to establish interrater reliability. Apart from owners, respondents were CEOs; and, general, export, international operations, marketing or sales managers. No statistically significant differences in terms of number of employees, years of international experience and international performance were identified between early and late respondents; and, between the two managers in the firms where a second key respondent answered the questionnaire, providing evidence for strong interrater reliability between the two managers.

3.2. Measures

The three SDMP dimensions examined in the current study concerned 'key internationalization projects' that were defined as those ventures that involved significant commitment of resources abroad, and thus, were important to the international activities of the firm. For instance, such projects were likely to be *active* involvement in a *new* foreign country; or a transition to *another* foreign market servicing mode (joint venture, wholly-owned subsidiary etc.).

Decentralization (Cronbach $\alpha = 0.725$): it measures the extent of delegation of decision-making in key internationalization projects of the firm. A composite variable of six 5-point Likert type scales was used to capture the involvement (1 = not at all to 5 = very much) in decision-making of six hierarchical levels and organizations: the owner or main shareholders (reverse scale); top management (reverse scale); middle/lower management; other enterprise employees; customers at home or abroad; collaborating firms at home or abroad (drawn from Dewar, Whetten, & Boje, 1980).

Lateral communication (Cronbach $\alpha = 0.848$): it measures the extent (1 = not at all to 5 = very much) of balanced participation of major departments/sections in decision-making in key internationalization projects. A composite variable of eight 5-point Likert type scales was used to capture the participation of the departments/sections of: finance and accounting; marketing; sales; personnel; research and development; information technology; production; export or international operations (drawn from Tannenbaum, 1968).

Formalization (Cronbach $\alpha = 0.910$): it measures the degree (1 = not at all to 5 = very much) of standardization of decision-making as regards key internationalization projects using five 5-point Likert type scales that capture the degree to which the firm has a: written procedure guiding the decision-making process; prescribed procedure to identify ways of action (roadmap); prescribed screening procedures; formal documents guiding the final decision; predetermined criteria for decision evaluation (drawn from King, 1975; Stein, 1980).

Five control variables were employed in this study. The first two variables are size and international experience of the firm. These may influence international activities of the firm (e.g., Wheeler, Ibeh, & Dimitratos, 2008). Size is measured through the logarithm of the number of employees, while international experience through the logarithm of the number of years the firm had international activities. The third control variable is international performance (Cronbach $\alpha = 0.875$) since we sought to account for different levels of performances that internationalized firms achieved. Five 5-point Likert type scales were used measuring the degree (1 = not at all to 5 = very much) of perceived performance in the international marketplace compared with that of their direct competitors in terms of sales level; market share; return on investment; profitability; overall satisfaction with performance relative to objectives set (drawn from Sullivan, 1994).

The other two control variables that we used referred to the external environment since this relates to SDMPs (Goll & Rasheed, 1997; Rajagopalan, Rasheed, & Datta, 1993). Dynamism and hostility were employed to measure perceptions of the domestic/international environmental contexts because these two variables are typically employed in empirical studies that consider environmental effects. We used the same scales to use both domestic and international environmental contexts, the only difference being the locality of the context. However, because management perceptions of the domestic and international environment showed high levels of correlation, we employ one average of these perceptions in the current research. Dynamism (Cronbach $\alpha = 0.862$) refers to the degree of environmental instability and turbulence over time, reflecting change that is hard to predict in the domestic/international environment (Lawless & Finch, 1989). It is a composite variable of five 5-point Likert type scales. Dynamism measures the degree (1 = not at all to 5 = very much) of frequent change of competitive practices of the firm; high rate of obsolescence of products in the industry; unpredictability of competitive actions; unpredictability of demand and customer preferences; unpredictability of production technology (drawn from Miller & Friesen, 1984). Hostility (Cronbach $\alpha = 0.758$) relates to the extent of scarcity of environmental resources and the degree of competition for them in the domestic/international environment (Covin & Slevin, 1989; Khandwalla, 1977). It measures the degree (1 = not at all to 5 = very much) of three 5-point Likert type items that are 'riskiness' of the marketplace to the survival of the firm; poorness in opportunities of the environment; lack of control of the environment by the firm (drawn from Khandwalla, 1977).

4. Findings and discussion

In order to understand the differences of the control variables across the four countries of study we ran descriptive statistics and ANOVA tests as shown in Table 1. In our sample, British firms on

Table 1
Descriptive statistics and ANOVA results for control variables.

	Group means (SD)				F
	U.S.	UK	Greece	Cyprus	
Firm characteristics					
Size (employees)	52 (51.9)	119 (77.3)	57 (55.3)	71 (63.4)	28.01***
Int. experience (years)	20 (11.9)	27 (24.3)	19 (11.2)	16 (11.6)	10.38
Int. performance	2.92 (0.78)	3.21 (0.74)	3.11 (0.84)	3.10 (0.95)	6.35***
Environment					
Dynamism	2.85 (0.69)	2.88 (0.59)	2.59 (0.71)	3.15 (0.79)	15.15***
Hostility	2.80 (0.69)	3.05 (0.66)	3.01 (0.66)	3.34 (0.65)	11.95***
Observations (n)	115	101	208	104	

*** $p < 0.01$.

Table 2

Descriptive statistics and correlations between the variables.

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Hierarchical decentralization	3.17	0.669								
2. Lateral communication	2.61	0.887	0.505**							
3. Formalization	2.65	1.146	0.266**	0.354**						
4. Size	1.66	0.419	0.050	0.179**	0.087*					
5. Int. experience	1.21	0.277	0.021	0.109*	−0.040	0.320**				
6. Int. performance	3.13	0.849	0.287**	0.248**	0.306**	0.140**	−0.027			
7. Environmental dynamism	2.82	0.732	0.221**	0.213**	0.180**	0.033	−0.083	0.130**		
8. Environmental hostility	3.04	0.686	0.088*	0.040	0.038	0.020	−0.037	−0.08	0.374**	
9. US firm			0.050	0.047	−0.167**	−0.149**	0.005	−0.126**	0.024	−0.180**
10. UK firm			0.126**	0.215**	−0.001	0.341**	0.207**	0.166**	0.047	0.010
11. Greek firm			−0.121**	−0.222**	0.047	−0.139**	0.006	−0.014	−0.243**	−0.033
12. Cypriot firm			−0.028	0.012	0.117**	−0.013	−0.217**	−0.016	0.228**	0.218**

n = 528.

* p < 0.05 level (two-tailed).

** p < 0.01 level (two-tailed).

average are the largest, and have the highest levels of international experience and international performance. On the other hand, U.S. firms are the smallest enterprises. With regard to the business environment, Cypriot firms rate their competitive environment as the most dynamic and hostile.

Table 2 reports descriptive statistics and correlation coefficients for the variables of this study. Correlation coefficients between independent variables are lower than 0.5, a figure that suggests that collinearity does not pose a threat to the results reported in this study. Moreover, the assessment of variance inflation factors for the regression variables results in values close to 1, which are significantly lower than the accepted cut-off value of 10. This provides further support that multicollinearity does not constitute a problem (Netter, Wasserman, & Kutner, 1996).

The hypotheses put forward were tested using OLS hierarchical regression analysis. To elaborate, for each of the three SDMP dimensions, namely hierarchical decentralization, lateral communication and formalization, three models were run. Table 3 presents these results. The first model captures the effects of the five control variables. The second model employs dummy variables associated with the countries as proxies for power distance, individualism and uncertainty avoidance. This was made following the prevalent research practice of previous studies (e.g., Bstieler & Hemmert, 2008; Fagenson-Eland, Ensher, & Burke, 2004; Newman & Nollen, 1996). On this point, Tsui et al. (2007) in a literature review reported that two thirds of the national culture studies they examined employed nation as a proxy for culture. Three country-of-location dummy variables of the UK, Greece and Cyprus were used, while the USA was treated as the basis of comparison and was not included in the model.

Since the country dummy variables have limitations when used as proxies for all national culture aspects, the third regression model includes the respective (in each hypothesis) culture scores of Hofstede for the countries investigated. In the case of Cyprus, the Greek scores were employed. Although using the Greek culture scores for Cyprus is a simplification, it is a fairly logical conjecture to make as the two countries belong to the same cultural group. Apart from this, the third model was run in order to compare its results with those of the second model and ensure the robustness of the findings. In all regression models our objective was to evaluate the influence of country of origin (and associated culture values) on SDMP dimensions rather than present a comprehensive decision-making model that explained a significant part of the variance.

4.1. Hierarchical decentralization and power distance

Model 1 in Table 3 shows that international performance is a significant predictor of hierarchical decentralization, a finding in

line with the results of Papadakis et al. (1998). These authors argue that participation of middle managers in decision-making may result in better performance, which reinforces decentralized SDMPs. Environmental dynamism is positively associated with decentralization of decision-making. This finding provides support to the evidence that in dynamic environments firms adopt SDMPs that facilitate information exchange and analysis achieved through wide-ranging organizational involvement (Lindsay & Rue, 1980; Sharfman & Dean, 1991). Environmental hostility unlike environmental dynamism has no significant effect on hierarchical decentralization. Therefore, there is no support for the argument that in hostile environments organizations follow more all-inclusive SDMPs (Rajagopalan et al., 1993). Interestingly, firm size and international experience have no significant influence on decentralization of SDMPs. This can be related to the argument that managerial involvement in decision-making may not be specific to resource accumulation resulting from firm growth. Similar results were reported by Dean and Sharfman (1993) and Papadakis et al. (1998).

Models 2 and 3 in Table 3 indicate that the country-of-location effects contribute significantly to the variance ($p < 0.01$). In Model 2, Greek and Cypriot firms have a significantly negative effect on decentralized decision-making compared to their UK and U.S. counterparts. Confirming this finding, power distance has a significantly negative effect on hierarchical decentralization in Model 3. Therefore, Hypothesis 1, which predicted that high power distance of the country in which the focal internationalized firm was located would be negatively related to hierarchical decentralization in the international SDMP of that firm, is supported. Given that Greece and (seemingly) Cyprus have much higher power distance scores than their Anglo-Saxon counterparts, it is expected that international decisions in these countries are taken by high-level executives. This result is in accord with the evidence that suggests that traditional Greek management tends to be rather centralized and 'owner-controlled' (Makridakis, Caloghirou, Papagiannakis, & Trivellas, 1997; Voudouris, Lioukas, Makridakis, & Spanos, 2000). In a similar vein, Elbanna (2008), who studied management participation in strategic planning of Egyptian firms, reported limited participation from middle managers. This was attributed to national culture characteristics such as Egypt's high power distance levels. The finding of the current research is also in line with that of other studies regarding international decision-making (Newbury & Yakova, 2006; Tse, Lee, Vertinsky, & Wehrun, 1988).

4.2. Lateral communication and individualism

In Model 4 in Table 3, firm size and international experience have a significantly positive effect on lateral communication in

Table 3
Hierarchical OLS regression results for SDMP dimensions.

	Hierarchical decentralization			Lateral communication			Rule formalization		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
	Size	-0.010 (0.421)	-0.021 (0.438)	-0.019 (0.418)	0.114*** (0.743)	0.078* (0.767)	0.095** (0.736)	0.055 (0.120)	0.062 (0.125)
Int. experience	0.048 (0.632)	0.026 (0.644)	0.030 (0.632)	0.094* (1.117)	0.081 (1.127)	0.069* (1.120)	-0.038 (0.181)	-0.012 (0.183)	-0.015 (0.180)
Int. performance	0.272*** (0.200)	0.274*** (0.202)	0.277*** (0.199)	0.208*** (0.354)	0.209*** (0.354)	0.211*** (0.348)	0.280*** (0.057)	0.273*** (0.058)	0.274*** (0.056)
Environmental dynamism	0.171*** (0.247)	0.156*** (0.254)	0.151*** (0.247)	0.195*** (0.436)	0.155*** (0.445)	0.171*** (0.434)	0.135*** (0.071)	0.155*** (0.072)	0.160*** (0.070)
Environmental hostility	0.049 (0.262)	0.077 (0.268)	0.078 (0.265)	-0.014 (0.463)	0.009 (0.469)	0.019 (0.463)	0.009 (0.075)	-0.030 (0.076)	-0.026 (0.075)
UK		-0.008 (0.553)			0.043 (0.967)			0.040 (0.157)	
Greece		-0.133*** (0.451)			-0.180*** (0.790)			0.181*** (0.128)	
Cyprus		-0.126** (0.537)			-0.065 (0.939)			0.172*** (0.153)	
Power distance			-0.135*** (0.015)			0.174*** (0.011)			0.171*** (0.001)
Individualism									
Uncertainty avoidance									
R ²	0.120	0.152	0.138	0.123	0.157	0.151	0.117	0.145	0.144
Adjusted R ²	0.112	0.140	0.128	0.115	0.144	0.141	0.108	0.131	0.134
ΔR ²	0.032***	0.017***	0.034***	0.028***	0.028***	0.027***			
F-statistic	14.29***	12.37***	13.84***	14.66***	12.05***	15.45***	13.78***	10.96***	14.60***

n = 528. Numbers are beta coefficients—associated numbers in parentheses are *t*-ratios.

*** *p* < 0.01.

** *p* < 0.05.

* *p* < 0.10 (one-tailed).

decision-making. Different departments, such as marketing, exporting and production related to internationalization decisions, become more involved in the decision-making information flow in larger and more internationally experienced firms. One explanation for this finding is that in larger and more internationally experienced firms a single manager who has a total understanding of what needs to be done in international projects may not exist. Thus, many senior managers who represent critical functional departments are likely to be the ones involved in decision-making.

Models 5 and 6 show in Table 3 that country-of-location effects significantly explain a portion of the variance associated with lateral communication serving as the dependent variable. The dummy variable of Greek firms in Model 5 presents a significantly negative association with lateral communication in international project decision-making compared with that of Anglo-Saxon enterprises. In Model 6 individualism positively affects lateral communication in international decision-making. These results contradict our conjecture that high individualism of the country in which the focal internationalized firm was located would be negatively related to lateral communication in the international SDMP of that firm. Therefore, *Hypothesis 2* is not supported. This could be associated with the fact that people in individualistic cultures tend to be engaged in high levels of information-gathering activities (Strohschneider & Güss, 1999). Efficient collection and analysis of information may be associated with lateral communication in decision-making (Papadakis et al., 1998).

From the results of Model 5, it appears that Greek firms are comparatively less likely to communicate with managers from major enterprise functional areas such as marketing, exports and international operations in international strategic decisions. The internationalization context of decision-making can provide an explanation for this behavior. Greek firms are likely to view international activities as a risky endeavor that can drain scarce resources (Dimitratos & Lioukas, 2004). If this is the case, Greek enterprises that are owned and managed by assertive owners may fall short in transferring decision rights to other managers in order to avoid losing control of the internationalization of the firm (cf. Dimitratos, Lioukas, Ibeh, & Wheeler, 2010). In other words, as the Greek firm seeks for effective decision-making, its high-level managers can act assertively in order to ensure that they control the communication gates in its international activities.⁶

In addition, Model 5 shows that unlike Greek firms its Cypriot counterparts are not significantly related to lateral communication, at variance with our expectation. An explanation for this discrepancy may be linked to the idiosyncrasies of the Cypriot culture. Given that there are no culture scores of Hofstede evaluated for Cyprus, in this study we assumed that the individualism scores of (Greek) Cypriot firms are the same with those of Greek firms. The non-significant regression coefficient of Cyprus in Model 5 indicates that the Cypriot culture is not exactly identical to that of Greece, a contention that can be explained by historical differences. Cyprus was a British colony for almost a century and, in fact, the British influence is very strong since the British governors largely shaped the Cypriot public administration and procedures; as well as its tax and legal systems. Furthermore, many Cypriot managers are trained in the UK due to their familiarity with the English language and educational system. Viewed in this light, they bring elements of the British culture into their organizations. Fagenson-Eland et al. (2004) use similar arguments to explain the rather unexpected similarities identified

⁶ Nonetheless, this assertive management style should not be interpreted as high power distance. A regression was run with lateral communication serving as the dependent variable; and replacing power distance with individualism in Model 6. These findings did not yield a statistically significant result for power distance.

between South African and British firms in terms of organizational development and change interventions.

The result of Model 6 indicates that individualism has a positive effect on lateral communication. U.S. and UK firms that originate from high individualism cultures seek communication involving many functional departments in decision-making referring to international activities. This finding is in accord with those reported in literature reviews (Manolova & Manev, 2004; Wheeler et al., 2008) examining firms from these countries, which note the importance of feedback from key managers and organizational participants in the internationalization of the firm. Furthermore, the results of Table 1 report that U.S. and UK firms are the ones with the longest international experience. Therefore, it may be that these firms have developed throughout the years a stock of internationalization-related knowledge that draws on information and feedback from many departments and functions of the focal enterprise (cf. Madsen & Servais, 1997; Oviatt & McDougall, 1995).

4.3. Formalization and uncertainty avoidance

Model 7 in Table 3, shows that international performance and environmental dynamism are positively associated with the degree of formalization guiding international decision-making. Adding country-of-location effects results in additional explanation of the respective variance. Also, Model 8 suggests that Greek and Cypriot firms have a significantly positive effect on formalization compared with UK and U.S. firms. Likewise Model 9 shows that uncertainty avoidance has a positive effect on formalization. Hypothesis 3 stated that high uncertainty avoidance of the country in which the focal internationalized firm was located would be positively related to formalization in the international SDMP of that firm. Consequently, the evidence from the present study supports Hypothesis 3.

This suggests that high uncertainty avoidance scores may explain why Greek and Cypriot internationalized firms exercise high levels of control in relation to international decision-making through the implementation of formal rules guiding decisions. This finding of the present research is in line with those of previous studies that examine international decision-making (Newburry & Yakova, 2006; Taylor, 2000). In addition, this finding is essentially in agreement with that of Miller (1987) who found that formalization was related to proactiveness among enterprise decision makers, with proactiveness being a possible behavior to lessen uncertainty felt among top management.

5. Conclusions

In the present study, we compared decision-making across focal internationalized firms located in four countries, namely the U.S., UK, Greece and Cyprus. Our major conclusion is that the culture of the country in which the firm is based influences SDMPs of internationalized firms. The cultural relativity theory is generally supported in the international SDMP context. Our findings present evidence in favor of the incorporation of culture characteristics in the internationalization of the firm (cf. O'Farrell, Wood, & Zheng, 1998). Our findings were overall confirmed using both country dummies and national culture scores of Hofstede.

Our study might be among the first studies that employ the SDMP approach to the internationalized firm context. Internationalized firms employ to some extent the three SDMP dimensions of hierarchical decentralization, lateral communication and formalization. Consequently, the SDMP approach can be accurately applied to the internationalized enterprise context, paving the way for future research that incorporates strategic decision-making perspectives in the internationalization field. Viewed in this light, the findings of the present research corroborate the upper-echelon

theory that argues in favor of the importance of key managers in setting the strategic direction of their firms.

In relation to internationalization of the small firm, numerous researchers posit that the decision of these enterprises to enter the international marketplace is likely to be unplanned or even irrational (Bonaccorsi, 1992; Collinson & Houlden, 2005; Dichtl, Leibold, Köglmayr, & Müller, 1984). The findings of the present research may challenge this view since they suggest that small internationalized firms employ certain processes in their decision-making. It would also be interesting to draw small enterprise strategic-making comparisons between international and domestic activities. Previous research suggests that small firm decision-making includes a variety of modes such as the intuitive, improvisational and rational (Cunha, 2007; Mintzberg & Westley, 2001). It might be that because international endeavors are usually considered more risky and hence likely to involve a higher number of organizational participants than domestic endeavors (McDougall, Oviatt, & Shrader, 2003), those SDMP dimensions can more easily be observed in international small firm projects. Given that this SDMP multi-dimensional approach has apparently not been employed in previous small firm studies, such a comparison between international and domestic small enterprise decision-making would be an interesting theme for future research to examine.

Specifically, U.S. and UK firms followed similar SDMPs regarding hierarchical decentralization, lateral communication and formalization. Greek and Cypriot firms exhibited comparatively lower levels of hierarchical decentralization and higher levels of formalization in SDMPs; while Greek firms had lower levels of lateral communication relative to all firms. Individualism was positively related to lateral communication. These findings were attributed to a large extent to national culture differences as measured by Hofstede (1980, 2001). The U.S. and the UK being the core Anglo-Saxon countries have similar culture scores across all dimensions of Hofstede. Likewise Greece and Cyprus are somewhat similar between one another (although not identical), but rather different from the Anglo-Saxon countries. Cultural similarities and differences between these countries matched our expectations regarding the relationship between country-of-location of the focal internationalized firm and SDMPs; with the exception of the association between lateral communication and individualism. In the main, the cultural relativity theory of Hofstede proves to be a useful tool in explaining decision-making in enterprise internationalization. This theory has surprisingly been neglected in SDMP studies (Papadakis & Barwise, 1998; Papadakis et al., 2010), and so, the current empirical study offers evidence to fill this void in the literature.

The fact that firm size and international experience have little influence on SDMPs associated with internationalization seems to indicate that strategic decision-making does not change frequently. This is also in line with the evidence presented by Miller and Dröge (1986) in favor of the relatively insignificant role of size on strategy in small firms. Furthermore, previous studies found a link between decision-making comprehensiveness and firm performance (Forbes, 2005; Simons, Pelled, & Smith, 1999; Smith, Gannon, Grimm, & Mitchell, 1988). This is a finding that matches that of the present research since decision comprehensiveness, which is a function of speedy and complete information collection and analysis, is supported by hierarchical decentralization, lateral communication and formalization (Bourgeois & Eisenhardt, 1988; Forbes, 2005; Miller, 2008).

In particular, the findings of the current study suggest to management practitioners, first, that international performance can be high in organizations whereby managers from different levels and functions of the firm communicate with one another; and, become involved in internationalization decisions that are

guided by a formal process. In pursuing these practices, the firm possibly achieves better collection and analysis of information, creates a common understanding of what is required to be done in the organization, and facilitates more effective implementation of decisions (Freeman, 1989; Lines, 2004). In turn, enhanced international performance may feed back to a further loop of effective SDMPs. These SDMPs are likely to become institutionalized in the decision-making of the firm and success in international endeavors can reinforce the three examined SDMP dimensions (Papadakis et al., 1998). However, the logic of this argument is based on a conjecture that further research may explore in a longitudinal study. Second, the findings of the current study suggest to management practitioners that SDMPs differ from one nation to the other. An extension of this statement can be that effective SDMPs concerning internationalization differ across nations, and so, managers should be cautious in applying in their own firms and countries decision-making practices shown to be valuable in other national contexts.

5.1. Limitations and future research directions

The present study faces some limitations that are likely to guide further research. We discuss five of these limitations in this section. First, we tested our hypotheses employing both dummy variables for each of the four countries of internationalized firms and national culture scores of Hofstede. Although this was done in order to confirm the robustness of our results, the use of measures of specific culture values associated with SDMPs is highly appropriate. In that respect, we fully agree with the plea of Tihanyi et al. (2005: 279) who argue that 'additional research is needed to develop measures of the fundamental differences in culture relevant to organizational decisions'.

Second, an assumption in the present study was that all internationalized firms located in a given country were distinguished by the same national culture dimensions. While this is likely to hold, recent empirical evidence suggests that even firms from the same nation may pursue different governance mechanism approaches in their international activities (Dimitratos et al., 2010). Dissimilar organizational cultures can make firms in the same country behave differently, a fact that the present research did not address. This limitation refers to the assumption of corporate homogeneity that Shenkar (2001) accurately describes in his critical review of cultural distance constructs.

Third, this research investigated SDMPs of focal internationalized firms between different nations, putting aside the cultural differences between the focal firm and its export, joint venture or wholly-owned subsidiary partners abroad. Our emphasis was on the overall 'culture' of international decision-making in internationalized firms. However, given that SDMPs may relate to particular types of decisions closely linked to specific foreign partners, further research can also examine cultural differences between the focal firm and its partners.

Fourth, since our objective was to investigate the influence of culture on SDMPs, the model affecting SDMP dimensions was not comprehensive. Other factors related to decision-specific variables, top management or firm-related characteristics as well as the external environment (Elbanna & Child, 2007; Papadakis & Barwise, 1998) may also play a part in this association. Such a holistic examination would further illuminate the suggested link between national culture and international SDMPs.

Fifth, the findings may be confined by the fact that small enterprises were investigated in this research. It is useful to examine in the future to what extent our findings apply to large internationalized firms that typically have a more complex structure, and more sophisticated levels of bureaucratic controls and liaison devices (Covin & Slevin, 1989; Miller & Toulouse, 1986).

Associated with this point is the suggestion to investigate to what degree the national vs. organizational culture influence is of value in SDMP studies involving large internationalized firms.

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