

Chapter 17

The Internationalization of SMEs: Strategic Choices Under a Cognitive Approach

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ABSTRACT

This chapter aims at providing a theoretical explanation for the observed heterogeneous internationalization behavior of small and medium enterprises (SMEs). In this chapter, the authors propose a conceptual framework of how the entrepreneurs' cognitive systems affect the internationalization decision making in SMEs, and supplement extant normative theories of venture's internationalization with entrepreneurial and psychological constructs. The proposed framework suggests that entrepreneurs' cognitive systems (expertise-based intuition System-X and the analytic System-C) moderate the relationship between the perception of environmental validity and the venture's internationalization decisions. This approach explains how entrepreneurs perceive the environment in such a way that some will recognize an international business opportunity, evaluate alternatives and, finally, decide to start and grow an international venture by following any of the extant patterns of internationalization, namely a sequential, gradual and slow pace or an accelerated and not necessarily sequential approach.

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INTRODUCTION

The ultimate explanation of the heterogeneous internationalization patterns observed in the small and medium enterprises (SMEs) going international remains veiled. Within the variety of strategic options available to managers, some of them choose to depart from normative internationalization theories to reach a final decision (Francioni et al., 2015), while others do not. Consequently, there is a need to incorporate a supplementary, cognitive approach to the decision-making in order to explain the internationalization pattern SMEs choose (Acedo and Florin, 2006). The cognitive variables can provide a greater value to the assessment of the internationalization decision making at the individual level. Although this investigation has already been initiated for multinational enterprises (MNEs) (Maitland and Sammartino, 2015a, 2015b) and the wide category of SMEs (Acedo and Florin, 2006), it requires an approach from how individuals decipher the host market environment (Buckley et al., 2007), before the researchers can go to an in-depth analysis of how this is made in teams within larger organizations. In SMEs, according to the Upper Echelon perspective, the venture behavior (e.g. internationalization behavior) mirrors the individual's behavior (Hambrick and Mason, 1984). This suggests that in order to unveil the SME's internationalization behavior, scholars need to zero in on managerial cognition.

The decisions regarding the internationalization entry mode (Schellenberg et al., 2018), the timing of internationalization (Zucchella et al., 2007) and foreign market selection (Morschett et al., 2010) define the evolving internationalization pattern of the SME. The process the manager follows to make these decisions may change over time in light of the experience gained over time or depending upon contextual changes. However, once the venture initiates its internationalization pattern it is difficult to be changed, and that choice often makes the difference between a firm's success or failure (Puig et al, 2018).

The internationalization process school offers the Uppsala model as the most salient theory in the last decades. The Uppsala model considers that decision-makers are risk-averse when addressing new international markets. This risk-aversion is affected by the liabilities of foreignness, of outsidership, the cultural and psychic distance between the domestic and foreign country, as well as the perceived foreign market uncertainty-knowledge, which finally determine the choice of a gradual and stepwise commitment toward the international markets as the less risky option (Johanson and Vahlne, 1977; 2009). Other theories have tried to explain why some ventures seek to engage and remain in highly committed modes since the very early inception, labeled as international new ventures (INVs) and Born Globals (BG) patterns (Oviatt and McDougall, 1994; 1999; Madsen and Servais, 1997; Rialp et al., 2005). These phenomena challenge the gradual and sequential approach, even the idea that a firm should follow a process since some ventures choose a high committed mode that remains unchanged over the venture's lifespan. In these cases, the main determinant seems to be the managerial characteristics and industry velocity –these phenomena have essentially been investigated in high-tech industries or knowledge-intensive services (Rialp et al., 2005). This approach focuses on the entrepreneur's previous experience in international markets that speed up the process and even enable the venture to capture opportunities in international markets without first exploiting the domestic market. Adopting the international entrepreneurship approach, most of the theoretical explanations for this behavior have relied heavily on the interaction between the entrepreneur/founder's characteristics and the environment (McDougal et al., 2003; Rialp et al., 2005). Therefore, the missing characteristic in the internationalization strategic streams is the addition of the decision-makers' cognition.

Entrepreneurial cognition is defined as the way entrepreneurs approach the understanding of decisions in organizational settings (Mitchell et al., 2002). From psychology and neuroscience, the Dual-Process

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