



How do managers decide on internationalization processes? The role of organizational slack and performance feedback[☆]



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ARTICLE INFO

Keywords:

Behavioral theory of the firm (BOTF)
Organizational slack
Performance feedback
Internationalization processes

ABSTRACT

This study draws on the behavioral theory of the firm to the postulate relationships between organizational slack and performance aspirations, and internationalization processes. Based on longitudinal data (2000–2008) from 772 publicly listed firms in Taiwan, the findings indicate that organizational slack significantly influences the internationalization processes. Specifically, firms with high organizational slack that have performance that falls below aspirations managers are more likely to exhibit (1) a rapid pace, (2) a wider scope, and (3) an irregular rhythm in their internationalization processes. In addition, we observed an interaction effect between performance feedback and different levels of slack on the internationalization processes.

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1. Introduction

Organizations are continually challenged in facing risks, fostering growth, and improving performance, while at the same time enduring strong intra-organizational constraints and extra-organizational pressures. A vast amount of research literature, by focusing on Cyert and March's (1963) behavioral theory of the firm (BTOF), offers strategic and behavioral explanations for those factors that induce or impel organizations to compete and excel in evolving competitive landscapes. The BTOF views slack and performance feedback as inducements for experimentation, taking risks, and making proactive strategic choices. Examples include whether to form non-local ties (Baum, Rowley, Shipilov, & Chuang, 2005), to engage in R&D investment (Chen & Miller, 2007; Greve, 2003a; Nohria & Gulati, 1996), to collaborate with counterparts of equal or different status (Shipilov, Li, & Greve, 2011), and to carry out acquisitions (Iyer & Miller, 2008).

In spite of this extensive research, few scholars have considered the effects of slack on a firm's international strategy (see Lin, Cheng, & Liu, 2009; Tseng, Tansuhaj, Hallagan, & McCullough, 2007 for exceptions). Despite these studies, there remain two major gaps in introducing the BTOF to explain a firm's high-risk internationalization strategy. First, the primary focus of prior studies is on the "degree of internationalization"¹ and its direct link to performance.

However, the direct linking of internationalization and performance does not produce uniform results (Lin, Liu, & Cheng, 2011). The ambiguity in this relationship has led some to suggest that "processes" may be more critical than "inputs." That is, researchers should move beyond merely making a straightforward and direct connection between an input (the degree of international expansion) and an output (the firm-level performance) to highlight the middle "black box," consisting of the "internationalization processes" (Wagner, 2004).

Second, Cyert and March highlight two key stimuli: performance feedback and slack. Feedback regarding current performance can inspire managers to search to resolve existing problems. A failure to reach a performance goal triggers a "problemistic search," which is a motivation for corrective actions by the decision makers. Furthermore, prior research in this area argues that a low performance level increases managerial tolerance for risk because managers view performance that is below expectations as a losing situation. Hence they are willing to take risks to improve it (Greve, 2003b). A slack stimulus occurs when firms possess excess resources this allows for experimentation, which can then result in managers identifying and pursuing new opportunities (Levinthal & March, 1981).

Research by Lin, Cheng, and Liu (2009) and Tseng, Tansuhaj, Hallagan, and McCullough (2007) examined only the role of slack and not performance feedback. Lin, Cheng, and Liu (2009) identified a U-shaped relationship between high-discretion organizational slack and the internationalization of firms. In contrast, there was a positive linear relationship between low-discretion organizational slack and the internationalization of firms. The curvilinear tendency in the relationship between organizational slack and multinational growth is partially supported in the study by Tseng et al.'s (2007). However, the question

[☆] The authors thank JWB Editors, John Cullen and John Slocum, and anonymous reviewers for their detailed and valuable comments and suggestions. This research was supported by National Science Council (NSC-98-2410-H-194-114-MY3).

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¹ Studies that use labels such as "internationalization" and "growth in multinationality" refer to the same strategic management construct.

of the impact of performance feedback on firm internationalization remains unanswered.

In general, researchers who have studied internationalization processes have focused primarily on the consequences of the internationalization processes, such as firm performance and the spillover effects from foreign entry (e.g., Vermeulen & Barkema, 2002; Wagner, 2004; Wang, Deng, Kafourous, & Chen, 2012). Yet we know less about the antecedents that motivate the internationalization processes and, as such, it is not clear why managers in multinational enterprises (MNEs) choose to engage in high-risk internationalization processes.

In this study, I focus on three aspects of the internationalization process: pace, rhythm, and scope. It seems that organizational performance below aspirations triggers a problematic search within the firm increasing the likelihood that managers adopt a rapid pace, a wide scope, and an irregular rhythm for international expansion to achieve superior performance. This study bridges the gaps in the literature on international business by applying the fundamental arguments of the BTOF to examine how “slack” and “performance feedback” affect the managers’ decisions to take risks in terms of the “internationalization processes” including the speed of international expansion, diffusion across countries, and movements to expand. Therefore, this study both enriches the BTOF literature and contributes to the field of international business.

The remainder of this paper is organized as follows. First, a brief overview of the theoretical perspectives on how two key stimuli – organizational slack and performance feedback – affect risk decisions is undertaken the pace, scope, and rhythm of internationalization ensures from this discussion. Next, the characteristics of the sample, the methodology, and the key findings from the analysis are presented. Finally, the theoretical and practical implications of these findings and directions for future research are addressed.

2. Theory and hypotheses

2.1. Internationalization processes

Vermeulen and Barkema (2002) were the first to introduce the three dimensions of the international process, i.e., pace, scope, and

rhythm. First, pace is the number of foreign expansions a firm undertakes within a certain period of time or the changes in their degree of internationalization during a certain period. Second, scope is the geographical extent of a firm’s expansion process. Third, rhythm is the regularity in a firm’s pattern on the trajectory of foreign expansion, other conditions being equal. As shown in Fig. 1, a firm establishes foreign subsidiaries in a rhythmic, regular pattern; for example, a firm may expand by one subsidiary every year (the two left-hand plots). Another firm, which has an equal number of subsidiaries at the end of the period, may expand following a very different pattern: years of rapid expansion alternated by long periods of inactivity (the two right-hand plots). The patterns of the former are described as a rhythmical expansion, whereas those of the latter are described as an irregular expansion.

2.2. Organizational slack and internationalization processes

The proponents of slack argue that slack resources are “the pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output” (Nohria & Gulati, 1996: 1246). Slack enables organizations to divert attention from “fire fighting” to focus instead on risky, innovative ventures that potentially have high payoffs (Nohria & Gulati, 1996). For example, slack resources may facilitate investments in radical product innovations or protect organizations from a potential depletion of resources if such efforts fail (O’Brien, 2003). If there is a shortage of slack resources, firms likely be unable to adapt to complex competitive landscapes (Levinthal, 1997), to change their strategic behavior (Bourgeois, 1981), or to take high risks (Singh, 1986).

Low levels, slack may have little effect on the managers’ propensity to engage in rapid, high-risk international expansion. Managers perceive a low level of organizational slack as necessary to sustain existing domestic and foreign activities, but as insufficient to undertake international market expansions. They must accumulate additional resources, and once the slack rises to the point of a perceived surplus; there is a basis for new and potentially risky initiatives, such as rapid international expansion. A firm tries to establish more foreign subsidiaries within a given

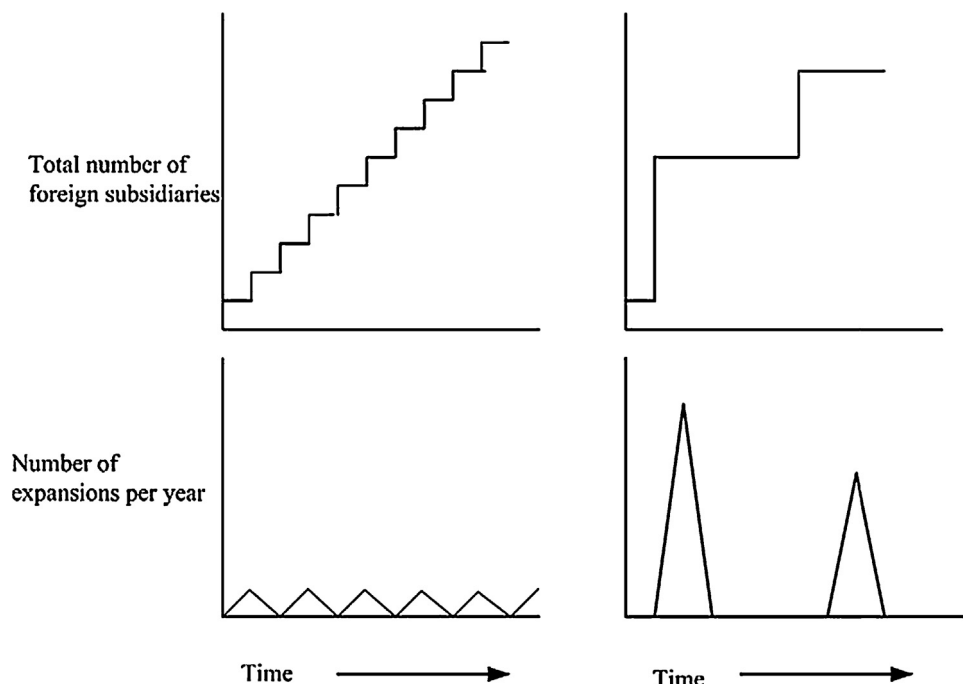


Fig. 1. Rhythmic and irregular expansion patterns (Vermeulen & Barkema, 2002).

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