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The Moderating Influence of Competitive Intensity on the Relationship between CEOs' Regulatory Foci and SME Internationalization

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ABSTRACT

The international business literature has mainly focused on the impact of top managers' psychological attributes on firms' strategic decisions. However, the potential moderating influence of industry conditions such as competition, has not been well explored. Deriving insights from the regulatory focus and upper echelons theories, this paper extends the international business and regulatory focus literature by investigating how the impact influence of CEOs' regulatory foci on firms' degree of internationalization depends on the intensity of competitive market conditions. Using primary data gathered from 289 small and medium-sized enterprises (SMEs) in Ghana, the findings of the study revealed when competition is intense in the domestic market, the potency of a CEO's promotion focus as a driver of internationalization is amplified. In addition, the research shows that intense domestic market competition weakens the negative influence of a CEO's prevention focus on a firm's degree of internationalization. These findings have important research and managerial implications for international business.

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1. Introduction

One of the most critical strategic decisions for small and medium-sized enterprises (SMEs) is to expand into foreign markets. Though many factors account for SMEs' internationalization behaviors, the psychological attributes of chief executive officers (CEOs) have been identified as particularly important contributors (Carpenter et al., 2004; Hambrick and Mason, 1984). Consequently, substantial research effort has been made to investigating the influence of CEOs' characteristics on firms' degree of internationalization (e.g., Herrmann and Datta, 2006; Laufs et al., 2016; Maitland and Sammartino, 2015; Zucchella et al., 2007).

Overall, the results from these studies suggest that CEOs' psychological attributes have profound impact on firms' degree of internationalization (Acedo and Florin, 2006; Pinho, 2007; Oesterle et al., 2016; Sommer, 2010). Moreover, other studies show that the decision-making behavior of top management is also affected by the organizational and exogenous factors (Lanaj et al., 2012; Hambrick, 2007). For example, extant research indicates that the influence of individuals' *regulatory focus* – a major psychological attribute of CEOs – on their respective behaviors, depends on contextual factors such as domestic market competition (Cesario et al., 2004; Hmieleski and Baron, 2008). Moreover, Lanaj et al. (2012) have observed that the impact of chronic regulatory focus on firms' internationalization is influenced by the environmental context. This is because elements in this milieu (environment) may change how CEOs perceive their goal achievement trajectory.

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Despite the potential moderating influence of environmental conditions, the specific ways in which these may affect CEOs' psychological attributes in driving firms' internationalization activities remain less understood. As result, some scholars have called for a new scholarly enquiry which models and tests environmental variables, which affect an individual's freedom of action in the upper echelon (Carpenter et al., 2004). Thus, it is crucial for new studies to investigate the external environmental conditions under which CEOs' psychological attributes help drive international venturing decisions of SMEs. This research enquiry may help explain when CEOs' psychological attributes are more or less potent in driving a firm's internationalization behavior. To address gap, this study draws on fundamental premise in upper echelons (Hambrick and Mason, 1984) and regulatory focus (Higgins, 1997, 1998) theories to model environmental context as a mechanism that may explain when a CEO's regulatory focus may drive a firm's internationalization behavior.

Chronic regulatory focus reflects a relatively stable personality trait (Higgins et al., 2001) that explains decision-making behavior of top management. Within the realm of regulatory focus theory (Higgins, 1997, 1998), an individual can attain his/her goals through two strategic paths—a promotion or prevention focus. A promotion focus reflects a specific motivational tendency and eagerness to succeed or achieve a goal while a prevention focus describes a situation of vigilance where individuals tend to be careful in attaining their goals (Higgins and Spiegel, 2004). An individual's chronic regulatory focus orientation impacts on his or her strategies for achieving goals and how he or she allocates resources for achieving organizational goals (Wallace et al., 2010). As such, a chronic regulatory focus orientation of a CEO is also likely to be influenced a firm's decision to go international. This study therefore argues that when competitive intensity is high, the potency of a CEO's regulatory foci in driving firms' internationalization is greater. In contrast, when the environment is less competitive, firms tend to accrue fewer internationalization activities given the effect of CEOs' regulatory foci. Thus, the following research question is examined: How does competitive intensity moderate the relation between CEOs' chronic regulatory foci (i.e. promotion and prevention foci) and firms' degree of internationalization? Addressing this research question is crucial given that a firm's external environment may determine the level of managerial discretion a CEO has in his or her decision making.

This study contributes to the regulatory focus and international management research in two specific ways. First, it examines the relevance of the notion of regulatory fit (Higgins, 2000), by showing that the effects of promotion and prevention foci on a firm's degree of internationalization are differentially moderated by competitive intensity. Specifically, this study advances existing regulatory focus research (e.g., Higgins, 1997, 1998; Wallace et al., 2010) by considering competitive intensity as central moderating factor of the relationship between CEOs' chronic regulatory foci and firms' international expansion behavior. To date, the literature has mostly examined the direct impact of regulatory foci on firm-level outcomes (e.g., Tuncdogan et al., 2015; Wanberg et al., 2012). However, it remains less understood with regards to the buffering factors that may affect the impact of regulatory foci on a firm's degree of internationalization. Second, the paper aims at contributing to the literature on international management (e.g., Carpenter et al., 2004; Herrmann and Datta, 2006; Laufs et al., 2016; Maitland and Sammartino, 2015; Oesterle et al., 2016; Sommer, 2010) by examining the external environmental conditions that influence the relationship between CEOs' psychological attributes and SMEs' internationalization. Thus, we argue theoretically that intense domestic market competition has a significant influence on a CEO's managerial discretion. Thus, intense domestic market competition may enhance the potency of a CEO's regulatory foci in embarking on foreign market entry (Johanson and Vahlne, 1977). In doing so, we provide a step toward understanding the environmental conditions that may enhance the potency of a CEOs' psychological attributes in driving a firm's internationalization process.

Aside of the theoretical contributions, the outcomes of this study are useful for SME managers and policy makers alike. This is because, it provides further insights regarding the types of CEOs who are likely to embark on international expansion of their firms given varying levels of domestic market competition.

The rest of the paper is structured as follows. Section 2 presents the theoretical background and research hypotheses of the study. Section 3 describes the methods employed to carry out this research. This is followed by the data analyses, findings and implications in Section 4. Finally, Section 6 presents the limitations of the study and direction for future research.

2. Theoretical background and hypotheses

2.1. Internationalization of firms

Internationalization has been described as the process of extending a firm's activities beyond the borders of the domestic market (Hitt et al., 1994; Oesterle et al., 2016). Firms' international involvement is crucial for scholars and practitioners because a firm can achieve higher growth through internationalization (Lin et al., 2011) and this presents an important strategic growth trajectory for SMEs. Some traditional theories of internationalization offer divergent views of internationalization. First, the Uppsala theories (e.g., Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Welch and Luostarinen, 1988), suggest that there is a linear process that firms pass through to internationalize. Alternatively, born global theories (Knight and Cavusgil, 2005; Madsen and Servais, 1997; Rennie, 1993) suggests that some firms automatically embark on the internationalization journey as soon as they are born. These 'born globals' or 'international new ventures' are categories of internationalization with a distinctive and strong entrepreneurial dimensions.¹

¹ We thank an anonymous reviewer for this view.

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