THE DECISION-MAKER AND EXPORT ENTRY AND EXPANSION

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Abstract. This paper examines the varied empirical findings of the relationship between firm, individual characteristics, and foreign entry expansion behavior. The results support the view that such activity is neither exclusively determined by structural or managerial factors and is really the result of interaction between both types of variables. The paper proposes that foreign entry and expansion can best be understood as an adoption of innovation-type behavior.

INTRODUCTION

■ In spite of the evidence which suggests that foreign entry and expansion behavior may be the product of complex interactions between firm and decision-maker variables, few researchers have attempted to investigate export expansion behavior bearing this in mind. Rather they have been for the most part content with examining either the association of specific individual characteristics with past export behavior or the isolation of particular contextual determinants which typify the exporting firm. As a result, although the export literature provides considerable knowledge of the typologies of firms and, to a lesser extent, decision-makers engaged in export activity, the process by which foreign entry and expansion decisions are made and how export performance is affected by the interaction between firm and individual characteristics remains relatively unexplored.

The established convention of one-shot, cross-sectional studies and an associated dependency on analytic methodologies which are mainly correlational are persistent features of the existing export studies and appear consistent with the search for typologies; however, if exporting as a foreign entry process is to be adequately understood, then more dynamic models of export behavior along with appropriate methodologies need to be developed. The situation is even more critical given the widespread presence of theoretical and methodological flaws in much of the export literature [Reid 1980a] and the eclectic nature of both the research concerns and conceptualizations [Bilkey 1978]. This overall lack of consistency in the findings on export behavior and general absence of programmatic substantive research has prompted the search for middle-range theories and new orientations in studies of exporting which can properly be regarded as behaviorally oriented. Such efforts are best represented by the empirical analysis done by such writers as Hirsch [1971] and his co-writers, Abdel-Malek [1974], Cavusgil [1976], Bilkey and Tesar [1977], Cavusgil and Nevin [1979], and the theoretical models of the Uppsala School [Johanson 1972; Carlson 1975].

The work of these researchers does, nevertheless, have two important limitations. First, they make no distinction between the foreign entry expansion process in small and large firms. Such differentiation is important because foreign entry behavior is likely to be more structurally determined in the larger firm. The second problem is a methodological one. Although the majority of these studies

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claim to be "export decision-making studies" their concerns are with past export behavior. In the strictest sense of the word, only Cavusgil's [1976] study of the organizational determinants of export behavior can rightfully be claimed to be concerned with decision making and thus export behavior.

Although it is apparent that export behavior is likely to be more affected by individual decision-maker(s) in the small firm and less subject to such structural arrangements as intragroup trading, territorial allocations, and sourcing policies which are likely to be present in the large firm, such factors have not been given explicit consideration by researchers focusing on behavior. This oversight is unfortunate because the expansion activity of the small firm in the foreign markets has been viewed ostensibly as the concern of much of current export research. In order to answer these deficiencies in the exporting literature, a clearer understanding of the interaction between firm and decision-maker characteristics in the small firm and their relationship with export behavior needs to be provided. There is still at present no satisfactory synthesis of the varied empirical evidence in the role of the decision-maker in exporting.

What this article proposes to do is to provide a conceptual model explaining the impact of the decision-maker on foreign entry and export expansion behavior, develop a number of propositions about these relationships, and provide a summary comment as to their implications for export behavior research and export policy. The approach used here places emphasis on the incumbents of organizational positions and acknowledges their critical role in discretionary decision-making elements of exporting behavior.

Once the major aspects of the export adoption process have been identified, a more detailed look at the decision-maker characteristics which are associated with each stage would allow us to see that the postulated model is supported by much of the empirical evidence and research in the export literature.

EXPORT DECISION-MAKING: An Innovation-adoption Process

The export expansion process can be represented schematically as a five-stage hierarchy consisting of export awareness, export intention, trial, evaluation, and acceptance. Whereas the exporting process is conceived as following these stages chronologically, it is possible and quite likely that some of them may occur together. At each stage specific firm and decision-maker variables play particular roles.

A model or flow chart of the export expansion process and the specific variables that might be implicated is shown in Exhibit 1. The basic export adoption process can be considered to begin with a problem or opportunity recognition stage. This may involve either awareness of specific foreign markets as a possible solution to problems in the domestic market [Kothari 1979; Lee and Brasch 1977] or the recognition of the foreign market as a potential opportunity for expansion and growth [Pavord and Bogart 1975; Rao 1977]. This stage is accompanied by a motivation stage and involves motivational and attitudinal factors which affect expectations as to the results of foreign involvement and more specifically what type of entry is likely to be considered. The relevant dimensions of managerial behavior that are critical here are expectations, beliefs, and attitudes toward exporting and foreign export markets [McGuinness 1978]. These may be specific attitudes toward foreign countries, foreign customers, or attitudes toward the exporting process and toward commitment of resources to support it [Cunningham and Spigel 1971; Abdel-Malek 1974]. The trial stage represents an exporting response to foreign orders or the initial stages of export engagement and leads to evaluation of the results of exporting. It is possible that export awareness and intention can be generated by such stimuli as the unsolicited foreign order, trade fairs, or visits to foreign markets. If the trial stage results in achieving such goals as profitability and sales stability, it is likely to result in maintenance of export-

Exhibit 1

Export Behavior As an Adoption of Innovation Process

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
	Export Awareness	Export Intention	Export Trial	Export Evaluation	Export Acceptance
EXPORT ADOPTION STAGES	problem or opportunity recognition, arousal of need	motivation, attitude, beliefs, and expectancy about export contribution	personal experience from limited exporting	results from engaging in exporting	adoption of exporting/rejection of exporting
DECISION MAKER Variables Involved	past experience export-related or not; type, level, & amount of foreign information exposed to, and associated individual characteristics, unsolicited foreign orders	expectations from entry into foreign market, foreign market orientation, export orientation, and underlying attitudes toward foreign involvement	sought foreign orders through search of foreign markets	profitability, sales stability	export expansion activity shown by continued export growth as: (1) increased exports as a percentage of sales; (2) continued entry into new markets; (3) continued absolute export growth; (4) continued introduction of new products into export markets
FIRM Variables Involved	past firm performance, reputation, and visibility	managerial goals and existing firm resources	unsolicited foreign orders, existence of available managerial and financial resources	results from engaging in export behavior	

ing as a firm activity; and further expansion and consolidation of exporting as a strategy of firm growth can be expected.

The final stage of the export process can be considered as the adoption stage. One of the major problems in the export literature is agreement on what is likely to constitute an adoption stage. As Reid [1980a] points out:

> Given that export studies are concerned with qualitatively different dimensions of export behaviour, and consequently performance, usage of common measures (for export behaviour) may be misleading. . . it would be easy to classify exporters who have traded over a long period in one market and who have maintained a constant level of commitment with exporters who enter multiple markets and have demonstrated increasing levels of commitment. (p. 2)

Whereas a criterion such as the ratio of export sales/total sales or some variant has been the most frequently used indicator for export performance, its usefulness as a single measure for a multidimensional activity is overvalued and may indeed be misleading. Export performance narrowly defined, as before, ignores the other aspects of such activity which have equally valid claims for the concern of the policy-maker, the manager, and the theoretician; thus, other export performance measures, which are not necessarily complementary but which can be regarded as indicative of growing export commitment, are surrogate indexes of export adoption. These measures are likely to include growth, absolute level of exports, relative growth of export sales, rate of new market expansion, and rate of new product introduction into foreign markets. They represent common dimensions of export behavior [Reid 1980a; Reid and Mayer 1980]. Determining the extent of export adoption would require using all these measures to capture completely the varying dimensions of export behavior.

It is apparent that those particular individual characteristics which have been found to be associated with adoption of innovation behavior are also likely to be implicated in export adoption behavior. Most major strategic foreign entry decisions are related to selection of a country for export entry or for export expansion. This type of export decision process is affected by specific interactions between the decision-maker and the contextual characteristics of the firm as will be demonstrated subsequently.

The Role of Individual Characteristics

Viewing exporting as innovation adoption gives us richer insight into how exporting is initiated and how it is developed. Bilkey [1978] observes that such factors as emphasis on the "fortuitous order from foreign customer," as being responsible for initiating exporting entry have ignored two critical questions surrounding such stimuli-response explanations. First: why should a firm receive an unsolicited order at all? and, second: why should one firm respond to the stimuli while another firm ignores them?

Knowledge of those characteristics which account for differences in the way attitudes and information about foreign markets affect responses to export stimuli and subsequent export behavior is critical to understanding the exporting process. This suggests the existence of decision-maker characteristics at the level of the firm which can mediate the impact of the environmental and firm contextual characteristics in export decision making [Reid 1980b].

The empirical evidence identifying decision-maker characteristics in the context of foreign entry decisions is meager and, as a result, many of the constructs that one would expect to be fully represented in a process of this sort are conspicuously absent. The view that the firm foreign market decisions are made in an information-sensitive milieu is one that has had substantial support from researchers. Aharoni [1966] noted that market knowledge along with idiosyncratic preferences of the decision-maker appears to play a dominant role in foreign investment decisions. Similar views have been expressed by Kolde [1968], Mayer and Flynn [1973], and Carlson [1975]. As Johanson and Vahlne [1978] suggest:

> knowledge influences international actions even more than other kinds of action. In international activities, uncertainty is generally greater and the difficulties of getting information are also greater. It is the lack of market knowledge which is the greatest obstacle to the first foreign ventures, and it is the access to such knowledge which makes it possible for the internationally experienced firm to extend its activities to new markets. (p. 13)

It would seem that irrespective of the type of factors that lead to the creation of export stimuli, their recognition and influence on export entry are a function of managerial knowledge, attitudes, and motivation. A number of studies indicate that individual antecedents – such as, type and level of education, foreign nationality, ability to speak foreign languages, and extent of foreign travel – are likely to be associated with the exporting decision-maker's existing stock of knowledge, his attitudes, and effective preferences concerning foreign markets. Similar characteristics have been shown to be associated with other types of adoption of innovation activity [Robertson 1971].

The exporting literature on individual characteristics shows some consistent results. Simmonds and Smith [1968] in an investigation of determinants of the first export order among British firms found a significant overrepresentation of individuals who were either born abroad or had experience from living abroad. A study by Langston and Teas [1976] found that whether management had foreign experience, had lived abroad, or had studied foreign languages at school correlated with foreign market attitudes of top management. Garnier [1974] also found an overrepresentation of executives who worked abroad among small and medium exporting firms in the Quebec manufacturing sector.

Mayer and Flynn [1973] in an exploratory study of key elements of major decisions among a small sample of Canadian firms doing business abroad found an overrepresentation of immigrants, foreign language experience, and university education among top management. Education was found to be a significant variable affecting and differentiating the responses of exporters and nonexporters to unsolicited orders from foreign customers [Simpson and Kujawa 1974]. College and university education was an important factor in the positive export decision. Managers' ages were also found relevant, with younger managers tending to be more internationally minded than older ones [Pinney 1970].

In spite of these apparent consistencies, recent work by Reid and Mayer [1980] suggests that such results should be treated with caution and may reflect a sociological property of entrepreneurship in general rather than of exporting behavior. Although the authors found such individuals as represented earlier predominant in their examination of the exporting behavior of 89 Canadian manufacturing firms, they found little or no relationship between those characteristics and intended export behavior.

Other individual characteristics which have not normally been the subject of export research seem to be implicated in export behavior [Reid 1980c]. Prior occupational socialization, continued contact with external occupational reference groups, and the extraorganizational linkages of the firm expose the decision-maker to additional information and contacts with foreign sources and are likely to enhance his ability to discriminate and evaluate foreign market stimuli. One would expect that systematic differences in attitude and behavior toward foreign activity between managers are likely to result also from those variables which facilitate access and exposure to foreign market information.

Foreign Market Motivation

Although 'export market motivation' has not been discussed as a construct in the literature, it is clear that decision-makers have specific attitudes to and expectations from engaging in foreign activity. McGuinness [1978] has postulated a construct, "motivation towards foreign involvement," which represented an orientation toward foreign activity. Unfortunately the construct was not operationalized. To the extent that export entry is perceived as likely to achieve goals which the decision-maker considers important to himself and the firm such activity is motivated purposefully. Exporting is generally regarded as the dominant mode of entry into a foreign market; the conceptualizations of the entry decision process [Keegan 1974; Terpstra 1972; Fayerweather 1969] see it as resting on a comparative evaluation of alternative methods of entry into foreign locations. In this sense the export (market) motivation can be viewed as a measure of the generalized attitude toward exporting as a method of entry and to the act of exporting in itself.

A distinction of this sort is made by Schooler [1974] who found not only that foreign opportunity attractiveness varies by form of entry but that this variance is affected by firm-strategic variables and managerial factors. The existence of multiple criteria which can influence entry or expansion in foreign markets is well supported in the literature [Behrman 1968; Goodnow and Hansz 1972].

The assumption that firms will pursue exporting as a means of continued expansion needs to be qualified by the existence of such contingencies as technology, market opportunity, risk preferences of owners, and alternative means of foreign market development. Horst [1972], after an empirical examination of U.S. exports and subsidiary sales to the Canadian market, concluded that tariffs imposed by foreign countries encouraged U.S. firms to substitute subsidiary production for exporting.

Initial foreign-market expansion choice is made between staying at home and going abroad, and choice is made between methods of going abroad. Daniels [1971] observed, however, that firms may not necessarily follow a pattern of trade before investment in individual countries and cited the experience of Canadian companies, whose foreign involvement in the U.S. was through direct investment rather than exporting, in contrast to European firms who chose growing export involvement as their first entry method.

Even in cases where initial entry is through exporting, Hirsch and Lev [1973] have shown that companies may adopt one of two different strategies. They may enter initially a small number of the most promising markets, establish themselves, and then move to less lucrative markets. Alternatively, they may enter simultaneously as many potential markets as possible, aiming at initial wide penetration.

The emphasis placed on a three-stage evolution process, from the export stage through the foreign production stage to the multinational enterprise, is fundamentally misleading for it suggests the notion of a mechanistic view of the firm as opposed to seeing its behavior as strategic. It denies a basic postulate that institutions evolve or change to fit environmental requirements and would seem to reject the notion of organizational adaptability to specific market opportunities.

In a world where markets and their structures are being fundamentally altered, where the processes associated with the flow and movement of goods and trade are being changed substantially, the spatial environment which dominates the decision-maker today is qualitatively different from that of the past. One would expect consequently that institutional forms that emerge are likely to be contingent to a large degree on the particular market environment in which they find themselves [Ayal and Zif 1979].

Indeed Root [1977], who makes a strong assertion for such evolution, apologetically suggests "for a comparatively small number of high technology firms licensing may be the mode of first entry into international business." Support for the existence of contingent foreign entry strategies is also shown by Behrman's study of the investment-export strategies in 53 countries [1968]. The companies' investment-export strategies in foreign markets were observed to be affected by such factors as changes in import tariffs and quotas, appearance of competitors, and the presence of new products.

The evidence suggests a primary role for strategic choice on the part of the decision-maker, irrespective of the source of stimulus. Decision-makers respond to exporting creatively, as in seeking sales growth, or reactively, as in trying to alleviate excess capacity [Daniels 1971]. Such goals as risk reduction through market diversification, sales stabilization [Hirsch and Adar 1974], and "extra business" [Collin et al. 1979] interact closely with choice of specific market, choice of method of expansion, and managerial expectations as to the potential income and profitability which can be derived.

Foreign Market Orientation

In an attempt to resolve the conflicting interpretations between such interchangeably used constructs as 'international orientation,' 'internationalization,' and 'export market orientation,' a fourth concept of 'foreign market orientation' is introduced. This avoids not only the semantic confusion which has existed between those constructs but the new conceptualization of a 'foreign market orientation' allows us to achieve more clarity and consistency in meaning. Furthermore, it provides the basic theoretical link with many of the empirical observations and discussions on the phenomenon 'psychic distance.'

The foreign market orientation thus represents an evaluative dimension. It is a measure of the perceived difference between foreign markets and the home market in the firm's market space along economic, cultural, political, and market-strategic dimensions. Each foreign market can therefore be perceived by the decision-maker as having particular differentiating attributes along these dimensions. To the extent that he has more information on specific markets, he is likely to be more capable of discriminating between them, and his increased knowledge of such markets places him in the position of being potentially capable of perceiving less ambiguity and complexity in stimuli from these markets than the less-informed exporter. He is also more likely to respond favorably to export market opportunities which may arise fortuitously or be willing to give export expansion to these markets a more than cursory consideration.

Hay and his co-writers [1972] found that many of the Canadian firms not involved in selling to Japan and having little exposure to Japanese firms were nevertheless convinced that Japanese manufacturers produced similar goods at highly competitive prices. This example is indicative of how exporting attitudes can reinforce behavior and points out the type of perceptual biases which are likely to be observed among specific exporters.

In his Canadian study of 185 manufacturing firms Abdel-Malek [1974] noted, "We have suggestive rather than conclusive evidence of the existence of clear-cut differences between exporters and non-exporters in their orientation toward foreigners." However, Abdel-Malek's data also show some significant findings on managers' perceptions of customers in five foreign markets which he did not comment on. In the evaluation of comparative customer profiles Canadian exporters differentiated less between non-American customers than nonexporters along ten attributes of the rating scale used, indicating a complex market discriminating process at work.

It would seem that the foreign market orientation can be interpreted as having the following consequences. First, it represents the expression of some differentiation in appropriate cognitive distance between individual foreign markets which, it is suggested, those who are entering foreign markets are more likely to make than those not entering such markets. Second, it depicts some generalized appropriate cognitive distance between the home market and foreign markets as a whole which those not entering such markets are more likely to perceive compared with exporters entering these markets. These cognitive distances represent the two aspects of the market discrimination capacity of the decision-maker.

The foreign market orientation is a property of the individual. It implies both the existence of an ability which is capable of discriminating between specific markets and one which tends to reduce the distinctions made between the home market and foreign markets. The concepts are not treated as antithetical; for example, decision-makers of high foreign market orientation would make greater distinctions between specific foreign markets than nonexporters, but they are not likely to see "foreign markets" as being greatly removed from the home market, unlike nonexporters. This foreign market orientation thus acts as a funnelling mechanism reducing the available market set to the evoked set and performs as a selective sensitizer. It establishes that group of markets from which the decision-maker would be perceptually biased toward receiving stimuli.

Choosing the Foreign Market

The first part of the decision process that would seem to be required is some simplification to delimit the number of foreign markets that can be considered. One can postulate that decision-makers have a priori a perceptual space of market possibilities that can be considered for foreign entry whether they subsequently do so or not.

Market selection can thus be seen as a decision process which involves narrowing down from a considered set of markets for entry what can be regarded as part of the total market space available for future export activity. This market space, as discussed earlier, represents those markets within which choice is exercised and is made up of all those foreign markets that the decision-maker believes the firm has the ability to enter within some specific time period.

Within this market space some markets will be clearly irrelevant to the firm and there will be a reduced number of markets which are likely to receive cognitive considerations prior to entry. This reduced number of markets can be regarded as the evoked set for the decision-maker.

These market sets are determined by two types of experiences, those which are specific to the firm and those which are specific to the decision-maker. The firm's previous contacts with foreign markets whether through exporting or not and the foreign exposure of the decision-maker are likely to be critical in determining not only the size of various market sets but their specific constitution.

Practical and theoretical models of exporting have placed specific focus on a number of decision steps in the exporting process. The choice of foreign markets represents one of the central decisions in such models. Hirsch and Adar [1974] pointed out that firms may vary in the degree of uncertainty and risk they attach to a specific foreign market and suggested that these variations in attitudes may influence foreign entry decisions. This suggests that decision-makers are likely to consider a rather limited number of foreign markets in planning their foreign entry. On the other hand, where entry is unplanned or fortuitous, decision-makers are likely to respond positively to only those stimuli or foreign orders which come from markets to which they already have a favorable disposition. Carlson [1975] observes in this regard:

> Since new alternatives generally seem more uncertain than old ones we assume that this search [by the firm] will be directed to alternatives which are as similar as possible to those with which it is already familiar. (p. 6)

There exists much empirical support for this position. In an examination of American and British regional export determinants between 1947 and 1964, Ginsburg [1969] found that such nonprice determinants as geographical contiguity (market proximity) and commercial associations are closely related to export market preferences. Similarly, Hirsch and Adar [1974] in a study of export behavior of more than 270 Danish and Dutch firms concluded that the firms can be categorized through their market preferences. Small firms tend to choose soft markets where conditions of entry are easy because of bilateral agreements, preferential tariffs, and payments agreements, and the larger firms are more likely to be found in hard markets where entry is conceivably more difficult.

Most writers agree that decision-makers are likely to explore first those overseas markets which they perceive as having some similarity with their home market. This principle of similitude [Jaffe 1974] suggests that foreign entrants are likely to explore first those overseas markets which by implication need a minimal degree of product adaptation [Kacker 1975] or pursue strategies of overseas expansion to new markets consistent with the relative ease of product modification required [Kothari 1979]. This argument is supported by Weinrauch and Rao's [1974] study of importance and feasibility of exporting marketing adaptations among Arkansas exporters. Over 70 percent did not regard marketing mix adaptations for the export market of considerable importance, and about the same proportion of potential exporters indicated that it was possible to make adaptations and adjustments in the marketing mix. Such findings are indeed congruent with a perception of the potential foreign market for entry as similar to the domestic market.

These findings are closely related to the view taken by the notion of 'psychic distance' [Linder-Burenstam 1961; Welch and Wiedersheim-Paul 1978] that there are perceptual variables which condition the flow of trade between countries. The implications of this concept are significant. What they suggest is that potential exporters do not confine themselves to making only economic distinctions between foreign markets and that other evaluative criteria specific to foreign countries may be of equal importance in distinguishing acceptable markets.

It is likely that export decision-makers operate in a defined space which represents the geographic environment within which the firm works and of which it is most aware. This space can thus be viewed as the area where search for new foreign opportunities would be conducted.

SUMMARY

Export attitudes and knowledge of the way they influence choice of method of foreign entry, choice of country, and recognition of potential opportunities represent the major elements of exporting as an adoption of innovation process. Whereas this specifically addresses the influence of the decision-maker, it must be remembered that export choice can be made only if resources exist which allow such choice to be exercised. In this respect the firm characteristics can play a crucial role to facilitate engaging in exporting activity.

CONCLUSION AND IMPLICATIONS

It would seem then that the available empirical evidence points conclusively to the decision-maker's attitude, experience, motivation, and expectations as primary determinants in firms engaging in foreign market activity. The model of export behavior and foreign entry decisions as an innovation adoption behavior is consistent with regarding exporting behavior as a process [Bilkey and Tesar 1977]. This paper suggests however, that research on exporting, particularly when small firms are being investigated, must pay far more attention to individual characteristics and how these affect processing of export-related information and influence exporting behavior. Employing relevant decision-making variables advances the current research which still seems to be searching for an exporting decision to make in spite of their representation as behavioral models.

An emphasis on an information-processing approach to export adoption behavior seems to be the most fruitful theoretical framework that researchers can adopt. This paper has shown that the underlying linkage in the major research findings on export behavior is the presence of the characteristics and variables which are in the main concerned with the acquisition of export-related information (attention to export stimuli, perception, and search), the integration and evaluation of such information, and the willingness to act on it.

An ancillary but nonetheless crucial issue is that exporting as an adoption mode has to be clearly identified. It is evident that exporting must be considered in a dynamic sense and treated as a process; as a consequence, examination of exporting behavior must identify the elements that constitute and affect substantive export performance.

The available evidence suggests that the decision-maker's attitudes toward and preferences for foreign markets and export entry together with his perception and expectations of the results from such entry are major determinants of the subsequent export behavior. What is needed is empirical investigation of how such behavior is influenced by existing market knowledge and such perceptual variables as export motivation, export-orientation, and psychic distance.

To conduct such research requires at minimum research methodologies aimed at controlling for major contextual characteristics such as size, industry, firm age, geographic location, and ownership structure and a redefinition of the dependent variable under study [Reid 1980a] with a far greater focus on the decision-maker and his role in foreign entry decisions. Research designs involving the use of in situ case studies, examining the decision process rather than cross-sectional studies, are needed at this stage to develop substantive knowledge about the role of individual characteristics in exporting behavior and provide evidence on causal relationships. At the same time longitudinal research is required which appreciates the multivariate nature of exporting as a strategy of firm expansion.

A third research approach which has unfortunately had little support in exporting studies but certainly needs to be expanded is a quasi-experimental approach. Although it will certainly be difficult to have 'controlled' conditions, the number of policy interventionist measures that have been proposed to promote export behavior necessitate development of this sort of research to isolate the causal impact of these measures.

The existing research, with rare exceptions, is too fragmentary and unprogrammatic to yield more than the mundane and incomplete insights that have served as explanations for exporting behavior.

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