

Top management team international experience and strategic decision-making

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Abstract

Purpose – This study aims to explore the influence of top management team international experience on international strategic decision-making rationality and, subsequently, its effect on decision effectiveness (decision performance).

Design/methodology/approach – This analysis is based on survey data of small- and medium-sized international Pakistani firms operating in the IT industry.

Findings – Results show that top management team international experience is positively related to international strategic decision-making rationality, and the latter partially mediates the international experience – decision effectiveness relationship.

Research limitations/implications – The study is based on data collected from a single industry and focuses on an international decision that occurred within a time-frame of previous four years.

Practical implications – Findings suggest that international firms, when composing their top management teams, should favor the inclusion of internationally experienced managers.

Originality/value – The study of the influence of international experience on the decision-making process in general and decision-making rationality in particular has been largely neglected in extant literature. This paper highlights one way through which the international experience of the top management team as a whole relates to the effectiveness of international decisions. The paper also advances emergent managerial cognition literature focusing on the top management team and not individual decision makers.

Keywords SMEs, Rationality, Emerging countries, International strategic decisions, Strategic decision-making process, TMT international experience

Paper type Research paper

Introduction

Strategic decisions shape the direction of a firm and they are critical for organizational success and survival. In the case of international firms, strategic decisions are particularly



complex because they need to take into account different types of consumer preferences, cultures, governments and competitors (Hermann and Datta, 2005; Le and Kroll, 2017). Consequently, decision makers of international firms dealing with large and diverse amount of (potentially) conflicting information face high information processing demands (Carpenter *et al.*, 2001). In international business research, scholars argue that the international experience (IE) of members of top management teams (TMT), gained through a foreign education or foreign work experiences, represents a key resource for international firms to improve decision effectiveness and firm performance because it might help to deal with the complexity and amount of information processing (Hermann and Datta, 2005; Nielsen and Nielsen, 2011). Without further theorizing or testing, this literature assumes that decision effectiveness hinges on the successful integration and analysis of relevant international information, but it overlooks the micro-processes of the effects of IE on TMT strategic decision-making (SDM). Recently, Clark and colleagues concluded that:

International business literature has long demonstrated the effects of international experience on a variety of internationalization decisions [. . .]. However, there has been little research on the influence of international experience on the decision-making process” (2017, forthcoming).

Thus, there appears to be a void in the literature on the influence of IE on SDM processes, and its further impact on decision effectiveness. As a consequence, our comprehension of *how* IE affects international SDM process and how the process further transfers this effect on decision effectiveness is still incomplete, limiting the ability to exploit this valuable resource in practice.

Drawing insights from the literature on TMT SDM processes and from recent advancements of managerial cognition literature that has confirmed how IE can facilitate decision makers’ information search (Maitland and Sammartino, 2015), we explore the role of SDM rationality on the IE-decision effectiveness relationship. Decision effectiveness is the decision level performance. It reflects the broader satisfaction level of decision makers regarding predefined objectives set by the decision makers (Ji and Dimitratos, 2013). SDM rationality is a key dimension of the SDM process as it reflects “the extent to which the decision process involves the collection of information relevant to the decision and the reliance upon analysis of this information in making the choice” (Dean and Sharfman, 1996, p. 373). Thus, it directly speaks to the way people and managers can address the limitations in cognitive resources. Therefore, several authors are urging the inclusion of rationality as a critical process in international SDM research (Deligianni *et al.*, 2016; Elbanna *et al.*, 2015). We propose that the TMT SDM rationality, a team-level cognitive process, will be positively affected by TMT IE and will effectively integrate information and knowledge among TMT members, thus, partially mediating the effect of TMT IE on decision effectiveness.

Our basic argument is that IE makes top managers more cautious and careful in international SDM. Furthermore, in the context of international firms, TMT’s diversity and richness of mental models, knowledge and information might have significant influence on the rationality of international strategic decisions. Central to our theorizing are recent advancements in managerial cognitions (Collinson and Houlden, 2005; Maitland and Sammartino, 2015) that suggest how IE, and the associated personal international knowledge and access to international information from foreign networks (Chen *et al.*, 2016; Cui *et al.*, 2015), lead to decision makers’ richer and heterogeneous mental models. For instance, Maitland and Sammartino’s (2015) study suggests that the breadth, depth and the diversity of IE of decision makers lead to mental models that are characterized by both a higher number of knowledge domains and a higher number of interconnections among domains. When richer mental models are brought together inside a team engaged in an

international decision, a number of different perspectives and interpretations are brought to the team decision, and the collective cognitive base may be expanded leading the group to engage in more scanning, analyzing and deciphering, thus, we argue, influencing positively the international SDM process rationality.

The data collected in a sample of small and medium enterprises (SMEs) from Pakistan support our hypothesized positive relationship between a TMT IE and its SDM rationality and the subsequent influence of SDM rationality on the effectiveness of the international decisions.

This paper makes the following contributions. First, we contribute to our understanding of how top managers' backgrounds in terms of IE influence international SDM process (i.e. rationality). In doing so, we add to the scant literature on international SDM process in general and in SMEs in particular (Elbanna *et al.*, 2015; Francioni *et al.*, 2015). This issue seems particularly salient for SMEs that, lacking resources and the elaborate procedures and routines often found in large organizations, may undertake decision-making processes whose rationality is strongly affected by personal characteristics of top managers (Elbanna *et al.*, 2015). Second, we contribute to opening the black box of upper echelons theory, helping to specify one way through which the IE of the TMT as a whole is related to the effectiveness of international decisions. In addition, our research complements recent advancements in individual cognitions of top managers (Maitland and Sammartino, 2015) focusing on TMT SDM process as a collective cognition process. These findings and theorizing can inform research on SMEs or entrepreneurial firms that has started to acknowledge how crucial decisions able to affect international performance are often taken by teams rather than single individuals (Deligianni *et al.*, 2016; Shepherd and Rudd, 2014; West, 2007).

Theoretical background and hypotheses development

Previous research investigated the relationship between TMT IE and performance (Gupta and Govindarajan, 2002; Nielsen, 2010). Carpenter *et al.* (2000) suggested that top managers' IE could have a positive effect on the performance of an international firm. This proposition was confirmed empirically by Daily *et al.* (2000), Carpenter *et al.* (2001), Carpenter (2002), Fernández-Ortiz and Lombardo (2009) and Le and Kroll (2017). The same might apply to the relationship between TMT IE and international strategic decision effectiveness, that is to say performance at the decision level that measures the satisfaction of decision makers with the decision outcomes (Dean and Sharfman, 1996; Elbanna and Child, 2007b). Hough and White (2003) postulate that relating decision processes directly to firm performance is problematic because it would assume that all decision-making processes are the same. Conversely, the link between decision-making process and decision level performance is direct and less likely to be contaminated by exogenous factors, and it allows for differences in various strategic decisions. Forbes (2007) also raises similar concerns.

The idea of a positive relationship between TMT IE and decision effectiveness is based on the logic that a TMT with IE has diverse and valuable international knowledge, resources, expertise, and networks that help in better decision-making (Cui *et al.*, 2015). Top managers with IE understand the institutions, quality standards, and expectations of international markets (Banerjee *et al.*, 2015) and they are better at judging the risks and returns of international investments (Hermann and Datta, 2005). This capability helps to make more effective international strategic decisions. This is our baseline hypothesis (not specifically hypothesized).

Our research takes a process view of the SDM and focuses on how TMT composition (in terms of IE) affects the formulation of strategic decisions in small- and medium-size

international firms with a focus on international SDM rationality. The construct of procedural rationality means organizational level formal, systematic and comprehensive decision-making process by key decision makers. Derived from the synoptic model of SDM, it refers to the extent to which decision makers engage in the collection of decision related information and make decisions based on the analysis of such information (Dean and Sharfman, 1996). The perspective we adopt on rationality is different from the normative economic concept of maximizing utility (preference) functions; instead, it represents how important decisions are actually made in organizations. It reflects the attempts of decision makers to make the best possible decisions given competing interests, imperfect information and bounded rationality. This approach recognizes that organizational decision-making processes are bounded by cognitive and political realities (Elbanna and Child, 2007a). This bounded rationality model “involves such concepts as aspiration levels, sequential attention to goals, and satisficing” (Dean and Sharfman, 1993, p. 589). Thus, it involves making acceptable or good enough rather than “the best” decisions (Deligianni *et al.*, 2016).

We submit that without the incorporation of this construct, the association between the potential information-based benefits of TMT IE and decision effectiveness cannot be well understood. Even if the literature on international SDM has predominantly focused on large companies and MNEs, a growing body of literature is addressing the critical role of decision makers’ characteristics on SMEs international processes and the related performance (Collinson and Houlden, 2005; Hsu *et al.*, 2013; Jones and Coviello, 2005), recognizing also that decision makers operate more often in teams rather than individually. Among these characteristics, IE is deemed relevant to international SDM processes (Child and Hsieh, 2014; Clark *et al.*, 2017) because it could provide SMEs that suffer from limitations in resources and capabilities (Fernández-Ortiz and Lombardo, 2009) the knowledge and the network attachments that should “enable them progressively to adopt more rational decision-making modes” (Child and Hsieh, 2014, p. 607). At the same time, one of the few empirical works that investigated the relationship between individual decision makers’ IE and SDM process rationality found no significant results (Francioni *et al.*, 2015), offering us a puzzling picture that calls for an additional and more nuanced understanding.

In examining the phenomenon of interest, we use the upper echelons theory coupled with insights from upper echelons literature on the role of managerial cognition on SDM process (Bromiley and Rau, 2016; Hambrick and Mason, 1984). In doing so, we borrow heavily from recent developments in the literature on managerial cognition (Collinson and Houlden, 2005; Maitland and Sammartino, 2015; Piaskowska and Trojanowski, 2014). Recognizing that strategic decisions are made by top managers and they are influenced by their characteristics (Bromiley and Rau, 2016; Ruigrok *et al.*, 2013) and cognitive limitations (Hambrick and Mason, 1984), we propose a mediation model in which TMT IE affects a dimension of international SDM process like rationality that further affects decision effectiveness.

TMT IE and international SDM rationality

More and more TMTs of SMEs, as well as large organizations, are composed of members who hold IE (who worked abroad or got their education abroad), especially in the case of international firms. Increasing the number of internationally experienced TMT members is considered a valid way to enhance the alignment between the complexity of the environment and the firms’ resources. Interestingly, evidence shows that IE affects, on the one hand, the decision makers’ cognitive mindsets, motivations and knowledge, as well as their professional and personal networks (Cui *et al.*, 2015; Godart *et al.*, 2015), and, on the other

hand, their sensitivity and cautiousness in international SDM (Francioni *et al.*, 2015; Powell and Rhee, 2016).

According to existing literature, the IE of TMT members shapes their cognitive mindset increasing their awareness of foreign business environment, broadening their horizon and, consequently, increasing the likelihood that they will recognize international business opportunities (Hermann and Datta, 2005; Kim *et al.*, 2015). In addition, IE endows TMT members with personal international knowledge that will increase their understanding of the economic, cultural and institutional international environments (Kim *et al.*, 2015). Also, TMT members who have worked in different countries or been educated in foreign countries are also likely, compared to members without such experience, to have built social ties with their (international) colleagues through face-to-face interactions (Storper and Venables, 2004). Thus, they have valuable international networks that can provide access to useful and diverse information (Athanassiou and Nigh, 2002; Cui *et al.*, 2015; Ellis, 2011). At the same time, they are aware of the risks and nuances of operating in different cultural environments (Kim *et al.*, 2015; Nielsen, 2010). We thus propose that knowing that there is a *different world* abroad can make TMT members more attuned to the need for rationality in any given international SDM process. Rhee *et al.* (2006) show that the variety in experiences may diminish the confidence in relevant experience. Consistent with this literature, Powell and Rhee (2016) found that greater variety of IE coupled with specific host country-related experience leads international firms to be cautious in choosing foreign subsidiary structures by opting for majority-owned foreign subsidiary structures to a more limited extent. This study suggests that the diversity of IE may lead managers to be more sensitive about substantial differences across worlds. Thus, they tend to be careful in international SDM.

While the increased experience of single decision makers is important, we argue that one of the processes through which the IE of TMT members influences the quality of international decisions is through the creation of a broader resource and knowledge base within the team that will allow the team to scrutinize and analyze more and diverse information and engage in a more rational SDM process.

To extend research on how a TMT characteristic like IE may influence rationality in team decision-making processes, we draw insights from recent theoretical advancements in managerial cognition that investigated the role of IE in individuals' mental models (Collinson and Houlden, 2005; Maitland and Sammartino, 2015; Piaskowska and Trojanowski, 2014). Mental models are "simplified representations of reality that help decision-makers to make sense of empirical reality" (Harms and Schiele, 2012, p. 100). As such, decision makers often may not use comprehensive analysis in making international decisions but are guided by their representations (for instance, of what constitutes a competitive advantage or what the customer demands may be), thus neglecting other sources of information. Studies on the role of managerial cognition in internationalization highlight that previous IE exerts significant influence on decision makers' mental models by making them richer, that is to say more variegated in terms of skills and knowledge basis, values and cognitive preferences (Hsu *et al.*, 2013). Particularly relevant for the current study is the recent theorizing by Maitland and Sammartino (2015) who studied board members engaged in decisions about foreign direct investments and explicitly linked the experience and learning of decision makers to their mental models. They proposed that decision makers with IE, compared to less expert members, will hold mental models characterized by more detailed knowledge domains both in terms of quantity of elements and in ability to see connections between those elements. Experts, therefore, will not only be able to draw connections within different domains but also evaluate dependencies between domains based on the elaborated connections. Those managers' mental models will make them more

sensitive to culturally embedded work practices (Maitland and Sammartino, 2015) and make it possible to grasp the similarities across international markets and transfer inside the TMT the learning from one market to another market with similar characteristics (Gupta and Govindarajan, 2002; Perkins, 2014; Ramsey *et al.*, 2016). Gupta and Govindarajan (2002) discussed the example of Microsoft in China. They suggested that the learning from the Chinese market could be useful in other markets with similar issues such as software piracy, nationalistic public policy and an underdeveloped market. The same argument can be made in other cases. For example, IE of a Muslim country in Asia can be useful in a Muslim country in Africa or to better understand the needs of the Muslim population in the EU, the USA and Australia. On top of that, the exposure to different environments offers managers access to a diverse and larger number of ideas, concepts and inputs that push individuals to questioning the status quo and extant information. In turn, the exposure to a variety of inputs pushes managers to look for a higher number of approaches for dealing with a specific issue (Godart *et al.*, 2015). According to Dane (2010), IE is particularly relevant because it helps individuals to discard the application of habitual behaviors and schemas that in the context of an international decision could be particularly detrimental and facilitates the understanding that different perspectives need to be considered as a consequence of increased doubts about a decision. To sum it up, internationally experienced TMT, because of their members' richer mental models, can bring into the team discussion a higher number of knowledge domains as well as higher number of interconnections between domains that can lead them to engage in a more rational SDM process (in terms of available options, information scanning, quantity of information and extensiveness of the analysis of such information).

Gibson (2001, p. 123) suggests that a team collective cognition (collective decision-making), "the group process involved in the acquisition, storage, transmission, manipulation and use of information" resides inside the interrelationship between the activities of a group's members. She highlights how teams of decision makers may suffer from substantial inertia in the use of information for taking decisions and actions, and once knowledge has been constructed inside a team, it becomes entrenched overtime and it is often retained for interpreting future issues (Weick, 1979). However, she theorizes that TMTs with different cognitive structures, that in our case derive from the different IEs held by their members (and possibly from their personal foreign networks), can inspire decision makers to use a larger variety of information in SDM processes. Chen *et al.* (2016), in their study of Chinese firms, suggest that teams in small or entrepreneurial firms can benefit even more than their counterparts in larger organizations from the returnees' expertise and enhanced cognition because those firms' cooperative and learning culture facilitates their embeddedness and incorporation into the team decision-making processes. The literature on cognitive bias in entrepreneurial ventures strengthens this argument. Facing contrasting, opposing or diverse ideas helps to address bias and heuristics and enables a more rational decision-making (Tversky and Kahneman, 1974). Encouraging decision makers to "consider the opposite" was found to reduce errors in judgment (Kahneman and Lovallo, 1993) and is deemed particularly useful for entrepreneurial ventures involved in SDM (York and Danes, 2014). We claim that within a TMT composed of managers with diverse and rich IE, the chances of facing contrasting ideas increase, likely favoring the emergence of more rational decisions. To sum it up, the cognitive benefits of TMT IE such as increased cautiousness, diversity in perspectives, increased sensitivity and understanding of international opportunities and information, combined with TMT personal international knowledge and international information available from their foreign networks (Cui *et al.*, 2015), can have positive effects on international SDM rationality, as decision-making rationality is a

function of availability of different options to choose, different perspectives to evaluate the options, relevant information and knowledge of potential options (Cosier and Schwenk, 1990; Nutt, 2004). We thus propose that in the context of international firms:

H1. TMT IE is positively associated with international SDM rationality.

International strategic decision-making rationality as mediator between TMT IE and international strategic decision effectiveness

The literature on international management suggests that the main mechanism explaining the effect of TMT IE on decision effectiveness relates to information sourcing and processing. Based on this premise, we propose a mediation model where TMT IE influences TMT's SDM rationality which then affects decisions' effectiveness. We theorized regarding the effects of TMT IE on international SDM rationality. In turn, differences in the SDM process rationality can affect decision effectiveness (Ji and Dimitratos, 2013). In *H1*, we have already discussed *how* TMT IE affects international SDM rationality. Now, we discuss *how* international SDM rationality relates to decision effectiveness to justify the hypothesis on mediation.

International strategic decisions require dealing with different cultures, institutions, and political regimes. More relevant information considered on these unknown foreign factors and a rational-comprehensive analysis might result in effective and successful decisions. A more informed international strategic decision will consider the foreign environment that will result in a better fit between internal sources and (foreign) environment, thus leading to more effective decisions.

We acknowledge that extant research provides mixed evidence on the relationships between SDM rationality and performance. Although the majority of studies has established that SDM rationality has a positive effect on decision-effectiveness and firm performance (Dean and Sharfman, 1996; Elbanna and Child, 2007a; Goll and Rasheed, 2005; Mueller *et al.*, 2007; Walter *et al.*, 2008), some authors hypothesized and found a negative relationship between SDM rationality and performance (Fredrickson and Mitchell, 1984; Souitaris and Maestro, 2010). In the case of international firms, it is well established that foreign markets knowledge and information is the key driver of international growth and success (Banerjee *et al.*, 2015; Hermann and Datta, 2005; Nielsen, 2010). Consistent with these arguments, Jones *et al.* (1992) reported a positive association between international SDM rationality and firm performance. Similarly, Ji and Dimitratos (2013) reported a positive association between international SDM rationality and decision effectiveness. A recent study by Deligianni *et al.* (2016) showed that international SDM rationality has a positive effect on performance in the case of small entrepreneurial international firms. Therefore, in our theorizing, we expect a positive relationship between international SDM rationality and decision effectiveness that, consistent with several other studies, reflects the satisfaction of decision makers with the decision outcomes (e.g. Dean and Sharfman, 1996; Elbanna and Child, 2007b; Ji and Dimitratos, 2013). Overall, we propose the following hypothesis:

H2. International SDM rationality mediates the positive relationship between TMT IE and decision effectiveness.

Data and methods

Sample and data collection

We collected the data for this study from international small- and medium-sized software firms from Pakistan during the summer of 2014 via a questionnaire. This industry is

growing despite of the fact that it has to face difficult domestic environmental conditions such as domestic turmoil, geopolitical tensions with neighbors, and a lack of venture capital and entrepreneurial ecosystems (Khan *et al.*, 2017; Khan and Lew, 2018). This industry generates revenues in range of \$2.8bn; the revenues from foreign sales are \$1.6bn (Khan and Lew, 2018). There are mainly two types of software firms operating: locally owned software houses and foreign-owned software development centers of international firms. This industry consists mostly of SMEs and it is very active in international business. As local market demand is limited, the main source of revenues is represented by foreign markets (Khan and Lew, 2018).

Several managers of these firms have IE, but there is a considerable variation in IE. In our data, the mean of ratio of managers with IE is 0.6987 and SD is 0.2917 (min = 0; max = 1). This makes our context very relevant for our study. We think that our context is in line with the upper echelons theory as executives enjoy more discretion in developing countries. Thus, in such contexts, we can directly relate the strategic decisions and their outcomes with managerial characteristics (Banerjee *et al.*, 2015). Furthermore, we know that executives have more control over strategic decisions in SMEs (Souitaris and Maestro, 2010) which is the case in our context. We used the official lists of companies developed and updated by Pakistan Software Ware Association (PASHA) and Pakistan Software Export Board (PSEB) to create a sample of 250 international software firms. To be included in the sample, firms should have been locally owned (not subsidiaries of foreign firms) and have international sales. The questionnaires were dropped off by the first author in person or online (when requested). We called or personally visited the firms after one week and again after three weeks as a reminder, and a new questionnaire was provided if requested. As we were interested in SDM processes regarding a team of top managers and not single entrepreneurs, we involved only firms that held a top management team. We collected 91 completed questionnaires (a response rate of 36 per cent). We dropped seven questionnaires because of incomplete responses. The remaining 84 usable questionnaires represent a final response rate of 34 per cent. This response rate can be considered satisfactory, given the seniority of our informants and the context of our research. The final sample size is also consistent with similar TMT and process-related studies (Vissa and Chacar, 2009; Mueller *et al.*, 2007). We checked for non-response bias by comparing the age of respondent and non-respondent firms. The *t*-test did not reveal any significant difference ($p > 0.05$). We asked respondents to focus on the most important foreign market entry decision in the recent past when answering the survey questions. The data on entry decisions are from 2010 to 2014, which are well within four-year range: a reasonably recent time to recall a strategic decision such as a foreign market entry (Bingham and Davis, 2012). The questionnaire was filled by the CEO or any other top manager (e.g. chief strategy officer, manager of international operations) directly involved in that international strategic decision of interest as done in other similar studies (Walter *et al.*, 2008). We used foreign market entry decision because it is well recognized in international business literature as one of the most critical strategic decisions taken by an international firm (Ellis, 2000). The focus on the most important entry decision might be useful in reducing recall bias that might be a potential threat for such studies. Another advantage is that firms provided data on a similar type of international strategic decision rather than different types of strategic decisions, which might result in unnecessary variance. We also conducted 16 face-to-face interviews with responding top managers after collecting the questionnaires. We provide few relevant insights from interviews in the results section.

The questionnaire used for data collection was pre-tested by three academics and three top managers of IT firms of the target population. The questionnaire has a mix of factual

data questions (e.g. TMT profile) and perceptual questions. It is well recognized that the collection of survey data is difficult in emerging countries like Pakistan (Hoskisson *et al.*, 2000). It was not possible to collect data from multiple top managers. The same issue is faced by other researchers in emerging countries (Elbanna and Child, 2007b) and even in developed countries (Walter *et al.*, 2008). To control for the effect of single respondent bias and common method variance, we used several ex ante and ex-post approaches suggested by Chang *et al.* (2010). The perceptual measures were based on previously developed scales; the dependent and independent variables were placed on different pages and in different sections, with different types of scales; scales have reversed coded items; and we assured anonymity to respondents. Our model is a mediation model that is less likely to have common method variance (Chang *et al.*, 2010). Furthermore, to reduce the threat of common method variance, we also used filler variables between our variables. Nevertheless, we checked the possibility of common method variance with Harman's single factor test with our three perceptive measures. It resulted in three factors having eigenvalues of more than one and the first factor accounted for only 36 per cent of variance. This result provides evidence that common method variance is not a serious issue.

Measures and reliability

We used existing scales for all the measures of our study. We measured the perceptive constructs on a seven-point Likert scale. TMT IE is measured by two variables:

- (1) proportion of TMT members with IE (international education or international work experience); and
- (2) experience of TMT in numbers of six continents or broader regions of the world (Asia, Africa, Europe, North America, South America and Australia).

As expected, the correlation between these two variables is high (0.41, $p < 0.001$). Following Clark *et al.* (2017) and Reuber and Fischer (1997), we combined the two dimensions of IE. Le and Kroll (2017) suggest that an interaction of different dimensions of IE captures the multidimensional construct of IE better than individual dimensions alone. For example, if a TMT has fifty per cent members with IE (0.50 proportion) and TMT has experience of two continents, then its TMT IE score is equal to one ($0.50 \times 2 = 1$). If a TMT has 50 per cent members with IE (0.50 proportion) and TMT has experience of five continents, then its TMT IE score is equal to 2.5 ($0.50 \times 5 = 2.5$). This way we measured not only the level of IE of TMT (Banerjee *et al.*, 2015; Hermann and Datta, 2005) but also the diversity of IE of TMT following Athanassiou and Roth (2006). This measure is in line with our arguments of diversity in IE. A more refined measure of IE such as the number of years of IE (Carpenter *et al.*, 2001) was not possible because such detailed information is not available from firms in Pakistan and Asia, a fact also noted by Cui *et al.* (2015). Furthermore, the percentage of TMT members' IE is shown to be highly correlated (correlation 0.80, $p < 0.01$) with TMT's years of IE by Sambharya (1996) and used by several researchers (Banerjee *et al.*, 2015; Cui *et al.*, 2015; Hermann and Datta, 2005; Nielsen and Nielsen, 2011). Therefore, we believe ours is an adequate measure of TMT IE in terms of level and diversity of IE. To measure international SDM rationality at the top management level, we applied the four items scale (Cronbach's $\alpha = 0.86$) of Elbanna and Child (2007a). In international business literature, this construct is already used by Ji and Dimitratos (2013) and Deligianni *et al.* (2016). Decision effectiveness is measured by two questions (Cronbach's $\alpha = 0.78$) taken from Kale, Dyer, and Singh (2002). One question is about the primary objectives achieved and the other is about the general satisfaction with the decision. The use of a subjective measure of decision performance was driven by the fact that valid objective measures of decision level performance are not well documented in the literature

(Ji and Dimitratos, 2013; Dean and Sharfman, 1996). Furthermore, all the firms in our sample are privately held and not willing to share objective performance data. Because of the same restraints, similar studies have used subjective performance measures in strategy research on decision processes (Elbanna and Child, 2007b; Ji and Dimitratos, 2013; Walter *et al.*, 2008). Thus, we are confident that this self-reported measure of decision effectiveness is a valid measure of our main dependent variable.

Constructs and measures provide the main statements of the three perceptive measures: decision rationality, environmental uncertainty (control variable), and decision effectiveness. We conducted the confirmatory factor analysis (CFA) to examine the psychometric properties of these measures. In CFA, each item was constrained to load on the respective variable. The CFA results show a reasonable fit of the model ($\chi^2 = 26.75$; d.f. = 24; CFI = 0.991; TLI = 0.986; RMSEA = 0.037; SRMR = 0.069). All the loadings of items were significant which showed convergent validity of the constructs. We used the CFA measurement model to establish the constructs' discriminant validity. The variance extracted for each construct is higher than the squared correlation between the constructs which demonstrates the convergent validity of constructs (Fornell and Larcker, 1981):

Constructs with operational measures

SDM rationality. To what extent did TMT follow the items below in the foreign market entry decision-making?

- looked for related information (regarding other options, competition, customers, broader environment, etc.) in decision-making;
- analyzed relevant information (regarding other options, competition, customers, broader environment, etc.) in decision-making;
- used analytic techniques in decision-making; and
- focused attention on crucial information (regarding other options, competition, customers, broader environment, etc.) in decision-making.

Environmental uncertainty. Please assess the following items regarding the foreign country entered.

- The general stability of the political, social and economic conditions in the target country (reverse coded).
- The risk of converting and repatriating income from the target country.
- The risk of target government actions such as nationalization.

Decision effectiveness. To what extent are you satisfied with the foreign market entry decision in relation to:

- the primary objectives of the foreign market entry decision; and
- the overall decision-making effectiveness.

Consistent with TMT and SDM studies in international business literature, we used control variables potentially affecting decision-making processes and decision performance (Hermann and Datta, 2005; Ji and Dimitratos, 2013). We controlled for firm size, firm IE, cultural distance, environmental uncertainty, FDI/non-FDI decision, local experience (host country experience) of TMT, TMT size and TMT tenure. We measured firm size by the logarithm of the number of employees. Firm IE is measured as the number of countries entered before the decision of interest. Cultural distance was measured following Kogut and

Singh (1988) based on Hofstede's (1980) cultural scores using the formula $CD = \sum[(I_{ij} - I_{iv})^2 / V_i] / 4$, where I_{ij} is the index for the i th cultural dimension and the j th country, v is Pakistan and V_i is the variance of the index of the i th dimension. Environmental uncertainty (of country of entry) is measured with a three-items scale (Cronbach's $\alpha = 0.72$) following Ji and Dimitratos (2013). The mode of entry was coded "1" for FDI decisions (wholly owned subsidiaries and joint ventures) and "0" for non-FDI decisions (exporting). Local experience was coded "1" if TMT had prior experience of host country and "0" otherwise. We measured TMT size as the number of top managers at the time of the decision of interest mentioned by the responding top manager and TMT tenure as the average tenure of TMT members with the firm until the time of the decision of interest.

As the data collected for this study derive from a single source and are about a decision in past, we tried our best to check and establish reliability of our data through different sources. The information on firm age and internationalization was cross checked through online sources such as company websites, industry websites and LinkedIn. The information on TMT was crosschecked by responding top manager or HR/Administration department of the firm, and, if possible, by LinkedIn. We also conducted short (approximately 20 min) face-to-face semi-structured interviews with responding top managers of 16 firms after collecting back the questionnaire (within two to three days). Interviews were not audio-recorded but thoroughly transcribed after their collection and coded sentence-by-sentence. The variety of methods allowed us not only to test our hypotheses but also to develop a more nuanced interpretation of results (Mattarelli *et al.*, 2015).

Finally, following Yli-Renko *et al.* (2001), we resurveyed respondent firms after a two-year lag (in summer 2016). This second survey focused on the main dependent variable: decision effectiveness (decision performance). We used a single-item format to decrease recall bias and to increase the response rate. We adapted Bingham and Davis's (2012) single question, asking the respondents to "rate the success of the firm in *the country of entry* after the first year" (1 = "very unsuccessful", 4 = "moderately successful", 7 = "extremely successful"). This question provides a general but direct measure of perceived entry decision effectiveness and it is easy to recall. CEO filled the questionnaire. We received 68 responses (a response rate of 81 per cent) in eight weeks. This country performance variable ($M = 5.47$, $SD = 1.04$, $Min = 3$, $Max = 7$) correlates significantly with our decision effectiveness variable ($r = 0.73$). This result provides further evidence of the reliability of our data, indicating that there is a low probability that common method variance is driving our results (Yli-Renko *et al.*, 2001).

Results

Table I shows the descriptive statistics and correlations of study variables. The average firm size is 38.62 employees. It is interesting to comment also on firm age, that we measured as the number of years from foundation of firm to the decision of interest and that we did not include in our regression models because it is highly correlated with firm size and TMT tenure. These firms were rather young at the time of decision since the average firm age was 2.71 years. A look at correlations gives early insights on the relationships among constructs in our study. The correlations among TMT IE, international SDM rationality, and decision effectiveness are in the expected directions. A high level of multicollinearity can be problematic in regression analysis. To check for multicollinearity, we used the variance inflation factor (VIF). Since the highest VIF is 2.23 (TMT tenure), well below the recommended cutoff value of 10 (Neter *et al.*, 1990), we do not have reason to suspect threat of multicollinearity.

Variables	Mean	SD	Minimum	Maximum	1	2	3	4	5	6	7	8	9	10	11	12
Control																
1. TMT international experience	2.029	1.195	0	5	1											
2. Decision rationality	4.881	1.312	1	7	0.402	1										
3. Decision effectiveness	5.506	1.034	2.5	7	0.231	0.341	1									
4. TMT size	2.845	1.047	2	7	0.324	0.250	-0.033	1								
5. TMT tenure	2.221	2.360	1	12	0.008	0.056	-0.233	0.250	1							
6. Firm age	2.714	2.696	1	12	0.005	0.007	-0.170	0.099	0.786	1						
7. Firm size †	3.541	0.440	2.996	5.193	0.182	0.140	-0.112	0.248	0.655	0.731	1					
8. Firm international experience	1.321	1.995	0	10	0.198	0.085	-0.054	0.128	0.254	0.277	0.178	1				
9. Uncertainty	2.452	1.163	1	5.67	0.018	0.024	-0.181	-0.004	-0.053	-0.079	-0.005	0.089	1			
10. Cultural distance	2.392	0.960	0.1	3.99	0.007	-0.039	0.138	-0.002	-0.304	-0.262	-0.238	-0.237	-0.104	1		
11. Local experience	0.655	0.478	0	1	0.154	0.298	-0.020	0.036	-0.140	-0.152	0.125	0.004	0.198	0.075	1	
12. FDI/non-FDI decision	0.381	0.489	0	1	0.108	0.020	-0.267	-0.142	-0.060	0.056	0.176	-0.053	0.096	-0.158	0.106	1

Notes: N = 84; Correlations with the absolute value greater than 0.19 are statistically significant at $p < 0.10$ and 0.22 are statistically significant at the $p < 0.05$ or lower level; † Transformed variable (log of firm size)

Table I. Descriptive statistics and correlations

We used hierarchical regression to test our hypotheses. We estimated the parameters with robust standard errors. Table II presents the regression results for the effect of TMT IE on SDM rationality and Table III presents the regression results of the effects of TMT IE on decision effectiveness and mediation hypothesis.

The regression results in Table II supported H1, predicting a positive association between TMT IE and SDM rationality ($p < 0.01$). Model 4 in Table III supports our baseline hypothesis, positing a positive association between TMT IE and decision effectiveness ($p < 0.01$). We used Baron and Kenny's (1986) approach for mediation analysis of H2. Model 2 in Table II combined with Models 4 and 6 in Table III support H2, positing a mediating role of SDM rationality between TMT IE and strategic decision effectiveness. When we included TMT IE with SDM rationality and strategic decision effectiveness, the coefficient of TMT IE

Table II.
Regression analysis
for international
SDM rationality

Variables	(1) Model 1	(2) Model 2
TMT size	0.288* (0.136)	0.153 (0.125)
TMT tenure	-0.00269 (0.0797)	0.0372 (0.0767)
Firm size	0.0806 (0.460)	-0.106 (0.422)
Firm international experience	0.0292 (0.0707)	-0.0143 (0.0812)
Local experience	0.813* (0.328)	0.742* (0.310)
FDI/non-FDI decision	0.0413 (0.292)	-0.0671 (0.274)
Uncertainty	-0.0498 (0.114)	-0.0382 (0.111)
Cultural distance	-0.0643 (0.131)	-0.0847 (0.120)
TMT international experience		0.368** (0.115)
Constant	3.472* (1.606)	3.847* (1.508)
Observations	84	84
R ²	0.154	0.244
F-test model	1.455	2.340*

Notes: Robust standard errors in parentheses; ** $p < 0.01$; * $p < 0.05$; † $p < 0.1$

Table III.
Regression analysis
for international
strategic decision
effectiveness

Variables	(1) Model 3	(2) Model 4	(3) Model 5	(4) Model 6
TMT size	-0.0313 (0.0973)	-0.128 (0.0994)	-0.128 (0.0867)	-0.173* (0.0859)
TMT tenure	-0.175* (0.0728)	-0.147* (0.0716)	-0.174** (0.0568)	-0.157** (0.0587)
Firm size	0.509 (0.393)	0.374 (0.363)	0.481 (0.316)	0.405 (0.310)
Firm international experience	0.00696 (0.0577)	-0.0244 (0.0675)	-0.00288 (0.0452)	-0.0202 (0.0531)
Local experience	-0.0804 (0.232)	-0.132 (0.220)	-0.354† (0.203)	-0.348† (0.205)
FDI/non-FDI decision	-0.660* (0.261)	-0.738** (0.249)	-0.674** (0.235)	-0.719** (0.230)
Uncertainty	-0.146 (0.0932)	-0.138 (0.0918)	-0.130 (0.0844)	-0.127 (0.0849)
Cultural distance	0.00778 (0.122)	-0.00690 (0.119)	0.0294 (0.115)	0.0177 (0.115)
TMT international experience		0.265** (0.0856)		0.158† (0.0839)
Decision rationality			0.337** (0.0932)	0.291** (0.0977)
Constant	4.819** (1.356)	5.088** (1.224)	3.649** (1.181)	3.969** (1.101)
Observations	84	84	84	84
R ²	0.184	0.259	0.339	0.362
F-test model	1.802†	2.568*	4.123**	4.210**

Notes: Robust standard errors in parentheses; ** $p < 0.01$; * $p < 0.05$; † $p < 0.1$

became smaller and less significant ($p < 0.1$) while the coefficient of SDM rationality is significant as before ($p < 0.01$). This supports $H2$ concerning the mediation role of SDM rationality.

Recently, researchers have criticized Baron and Kenny's method and recommended bootstrapping mediation analysis. We tested our mediation $H2$ by employing the bootstrapping procedure using the SPSS INDIRECT macro of Preacher and Hayes (2008). Table IV shows these results. The paths from TMT IE to SDM rationality and from SDM rationality to decision effectiveness are positive and significant ($p < 0.01$). This suggests a significant indirect effect (mediation) via SDM rationality. For the significance test, Table IV provides bootstrapped 95 per cent confidence intervals for the indirect effect of TMT IE on decision effectiveness via SDM rationality. The indirect effect via SDM rationality is positive and significant because zero is not included in the 95 per cent confidence intervals, providing support for $H2$.

The analysis of our qualitative follow-up interviews largely supports these results and helps to clarify the challenges entailed in the international SDM process. For instance, a CEO told us how his and another top manager's friends (classmates of their foreign education) in two western countries played a pivotal role in helping the TMT to decide which foreign country to enter (first foreign entry). He mentioned that they collected useful information from their friends and requested them to get more information from other sources. He commented that:

We attended very carefully to that specific information that also helped us to refine our existing knowledge and make sense of the international context. Therefore, we were in a better position to process it carefully, always trying to make connections with our ultimate goals.

Overall, it took nine months to decide which country to enter, but time and effort put in the process paid off and they were extremely satisfied with the performance in their target country. The TMT of this company is composed of three members all holding IE.

The CEO of another firm (graduate of an Ivy league US business school) explained how the TMT approached the choice of country to enter with the following words:

You know, we are working hard to make money rather than betting on blind choices. Therefore, in general, we try to follow a systematic decision-making process. [...] For our recent most important foreign entry decision, since all the three of us have international experience we

Mediator variable	Stage 1 Path XM	Stage 2 Path MY	Indirect effects (XM.MY)	Confidence interval	Lower Upper	
					Lower	Upper
Rationality	0.369**	0.292**	0.108	Bias-corrected confidence intervals	0.037	0.240
				Percentile confidence intervals	0.027	0.213
Total indirect effect			0.108	Bias-corrected confidence intervals	0.037	0.240
				Percentile confidence intervals	0.027	0.213
R^2			0.358			
F -test model			4.085**			

Notes: TMT international experience → Decision rationality → Decision effectiveness; $N = 84$; ** $p < 0.01$; * $p < 0.05$; Number of bootstrap resamples: 5000; Path XM: path from TMT international experience to the mediator (i.e. rationality); Path MY: path from the mediator (i.e. rationality) to decision effectiveness; and Control variables and their effects are not included for the sake of simplification and clarity

Table IV.
Bootstrapping
mediation analysis
for international
strategic decision
effectiveness

followed a very systematic decision-making process and were able to collect information from different sources and process and use them effectively. [...] Actually, there were several options that we explored, but at the end of the process, we choose one that was the best choice keeping in mind our capabilities and resources. This is extremely important for a firm like ours because, as you can imagine, we do not have the resources to enter every country.

Overall, he was highly satisfied with their performance in that country.

Conversely, another CEO, commenting on the most important (first) foreign market entry decision, described his dissatisfaction with that decision and the subsequent performance in the foreign country. He underlined that none of the TMT members had IE and international ties to get relevant information. He told us that:

We looked at the success of other firms in foreign countries and decided to internationalize. Beyond that, we put little effort in information collection, seeking different perspectives also as a way to challenge our existing assumptions.

He regretted that they should have collected more and relevant information before investing in their target country. They learned, too late, that the market was already saturated and it was extremely difficult to get customers without personal relations. Since the performance was not satisfactory, they were thinking to close the subsidiary.

Discussion

Our study contributes to the current scholarly conversation that advocates the need to investigate how individual- and team-level characteristics of companies' leadership, like TMT IE, influence SDM processes and the subsequent decisions' effectiveness related to global operations.

Our data collected in a sample of software SMEs support both our hypotheses. First, we found that the IE held by TMT members is positively associated to TMT SDM rationality (*H1*). This evidence helps to disentangle a possible theoretical puzzle. On one hand, emergent managerial cognition literature (Maitland and Sammartino, 2015; Piaskowska and Trojanowski, 2014) suggests that managers' IE increases their cognitive base, the subsequent set of possibilities and abilities available in a team, and possibly their confidence about an international decision. Conversely, research on decision science and organizational learning shows that the combination of both deep experience and experience variety diminishes the confidence of decision makers in relevant knowledge (Rhee, *et al.* 2006; Powell and Rhee, 2016). We argue that the two perspectives can be reconciled, prompting the idea that members of TMT with IE will not only bring specific insights into the complexity of international SDM but will also be aware of cultural differences and therefore more attuned to engaging in a rational international SDM process.

Our findings also show that SDM rationality partially mediates the relationship between IE and decision effectiveness (*H2*). In the context of international SDM of small firms, internationally experienced managers tend to engage in a more rational SDM process that in turn enhances decision makers' satisfaction with the final outcome. This evidence has a number of implications. First, while some research studies propose that a more analytical and rational SDM process can be problematic – especially for small or entrepreneurial firms – because it may slow down the process and hinder opportunities' recognition (Allinson *et al.*, 2000; Kor *et al.*, 2007), other authors postulate the benefits in terms of enhanced international performance for small and entrepreneurial firms that value a rational SDM process over an intuitive one (Buckley *et al.*, 2016; Deligianni *et al.*, 2016). We add to this stream indicating that because firms' international decisions entail extensive information gathering and processing, the TMT decision-making rationality is functional both with respect to the effectiveness of the

decisions undertaken during the internationalization process and also in that it represents one of the channels through which IE affects (decision) performance.

Within the same literature, our results underline the prominent role that teams of decision makers, beyond the achievements of single CEOs or entrepreneurs, play in international SDM because of the collective cognition processes they can engage in.

Additionally, our results have implications for SMEs from emerging countries engaged in foreign market entry decision. For these firms, the lack of information and managerial expertise represent two of the major constraints in making international decisions (Hsu *et al.*, 2013). We show that, within these contexts, IE of TMT members represents a key resource for overcoming limitations in other resources. These SMEs coming from an adverse environment like Pakistan have limited resources that make them more vulnerable to the liabilities of newness, smallness and foreignness (Khan and Lew, 2018). These resource-constrained SMEs cannot rely on experimentation with international location choices and on time-consuming training of their managers abroad (Cui *et al.*, 2015). We submit that relying on managers with IE enables them not only to detect more international opportunities but also to use rational SDM to evaluate effectively those opportunities in international contexts (Deligianni *et al.*, 2016). This process can reduce costly mistakes, enhance decision effectiveness, and boost firms' overall performance.

Finally, our findings could also explain the multinationality performance nexus (and the shape of the relationship). More internationally experienced TMTs will emerge within more internationally experienced firms, thus creating a "boost" for firms as they expand beyond their first few countries.

Implications for practice

Our focus on antecedents of TMT SDM rationality and specifically on the degree to which it may be influenced by TMT IE, and in turn relates to decisions' effectiveness, is relevant for managers for several reasons. First, there is increasing recognition of the use of "returnees" (employees and managers who worked or studied abroad) as a main source of experience and knowledge transfer. Second, firms, also SMEs, in emergent countries are more and more engaged in international decisions. Third, despite the attention devoted to entrepreneurs and individual CEOs in making decisions in SMEs and entrepreneurial firms, the role of TMT in taking decisions and influencing the organization's performance is being increasingly recognized. Therefore, an improved understanding of the factors that affect team cognition and decision-making processes provides organizations and their members with precious indications regarding how to perform better. More specifically, our evidence provides practical advice to international firms in terms of selection and training of their managers. First, our results suggest that international firms, when selecting their TMT members, should pay a great deal of attention to their IE, as this can affect the SDM processes and decision effectiveness. Although international firms can train and develop their employees in a way that will give them not only functional experience but also IE and exposure (e.g. rotation of people to different countries), SMEs from emerging countries might not rely extensively on the training of their managers because of cost and time constraints. Thus, in agreement with Cui *et al.* (2015), we recommend recruitment of managers with prior IE, especially in case of emerging market SMEs and the creation of management teams where both depth and diversity of IE are guaranteed.

Limitations and further research

While we believe this research contributes to theory and practice, it is not without limitations. First of all, we collected our data from a single industry of an emerging country;

therefore, the results may not be generalizable to other industries and developed countries. At the same time, a focus on a single industry and a single country helps to avoid undesirable variance because of industry and country differences. While we believe that our findings offer important insights to other developing countries' SMEs, we recognize that conducting similar studies in developed countries and different industries will provide the confidence to generalize our findings to these settings as well.

Second, our study may have retrospective bias because the most important foreign market entry decision of our firms was taken within the range of four years before our survey. To face this issue, we collected data on the *most* important foreign market entry decision, expecting that respondents might not have had difficulty in recollecting decision-related information for this study. Moreover, our respondents were the most knowledgeable about the issue at hand. Third, we collected our data from a single respondent. Data collection from a second respondent is very difficult in an emerging country like Pakistan. We tried to check the reliability of our data with interviews and engaged in a subsequent data collection as detailed above. Fourth, we focused only on the mediating role of SDM rationality. We acknowledge that other decision-making processes, for instance, political behaviors may occupy a relevant position in the relationship between TMT characteristics and quality of outcomes. Our theoretical interest in the relationship between IE and managers' cognitive structures, coupled with empirical evidence that did not find a significant relationship between IE and political behaviors in a sample of SMEs (Francioni *et al.*, 2015), drove our decision to focus only on rationality. Nevertheless, we recognize that models that incorporate multiple TMT processes may contribute greatly to expanding our knowledge basis.

Finally, we focused only on one dimension of TMT internationalization (i.e. IE). An interesting extension of our study might be to consider other dimensions of TMT internationalization such as nationality diversity to explore links between TMT internationalization and SDM processes for which, we argue, different mechanisms could be in place. We leave these insights to future research.

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