ISSN 2069 - 5756

Faculty of Business and Administration
University of Bucharest

International Journal of economic behavior

The International Journal of Economic Behavior aims to publish research articles (both quantitative and qualitative), reports from the field, critical review papers, discussions concerning the main characteristics of the economic behavior in management and, consequently, decisions and organization. Moreover, the journal seeks to discuss the manner in which some of the classical theoretical statements, practices and policy making in Economics, Business and Management are influenced by factors which are not proven to fit the well-known hypothesis of economic rationality. The interdisciplinary approach is required, as economics, management, psychology, sociology, anthropology are domains that help in understanding the complex economic behavior within and outside companies and provide the researchers with complete tools for analysis.

Main topics

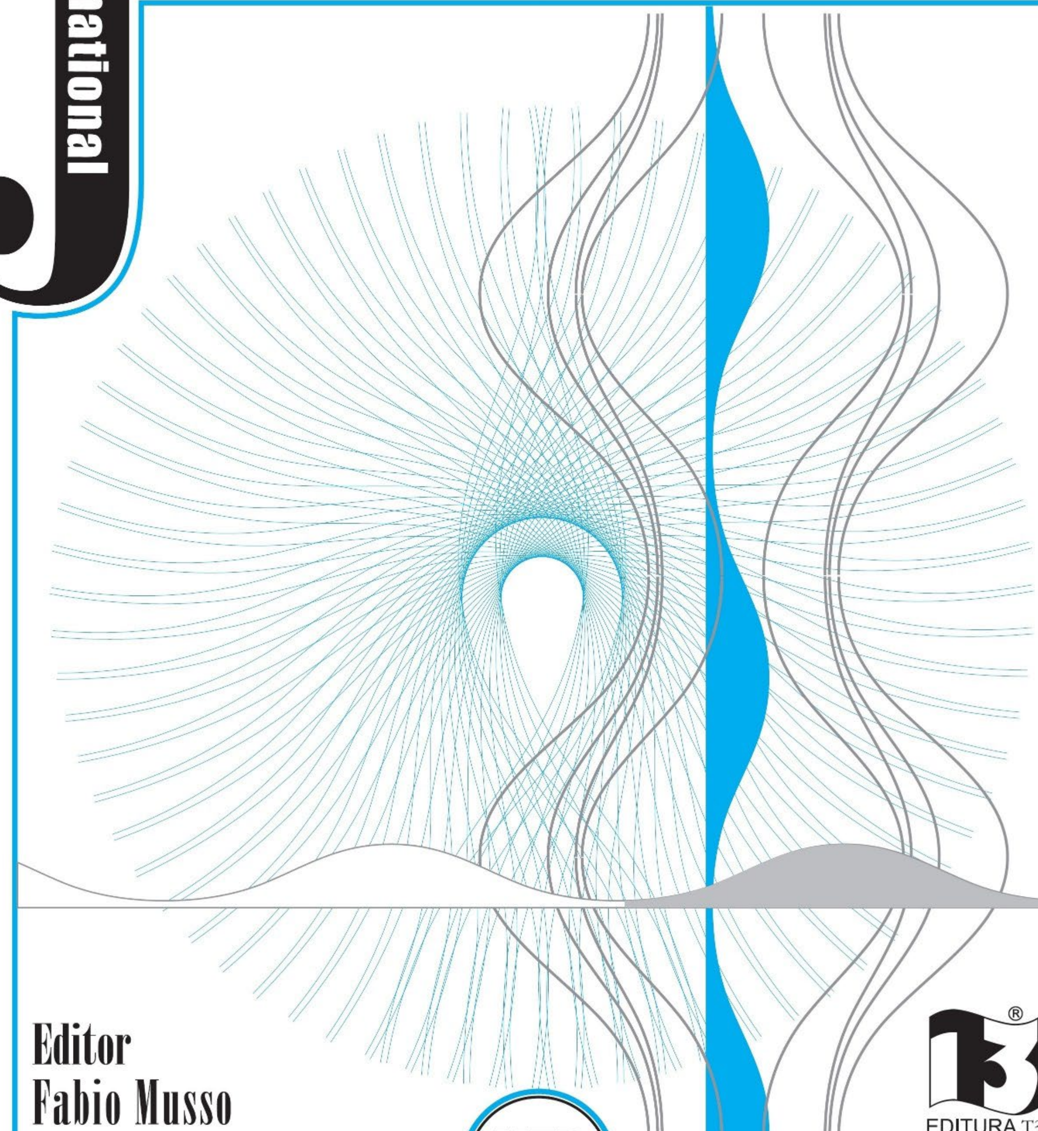
Strategic decision making process / - Individual and organizational decision-making / - Manager/entrepreneur characteristics, firm characteristics, environmental characteristics and the process of making decisions / - Factors influencing preferences, choices, decisions / - Economic and socio-psychological determinants of organization behavior / - Economic and socio-psychological determinants of individual behavior / - Consequences of decisions and choices with respect to the satisfaction of individual needs / - Consumer behavior and digital marketing / - Business management, marketing, internationalization processes / - Retailing and supply chain management / - Branding/advertising issues and organization behavior / - Behavioral economics / - The impact of macroeconomic policies on individual and organizational behavior / - The overconsumption society: determinants and effects / - Wealth, consumption, happiness / - Behavioral factors influencing the supply and demand of health and health services / - Consumption and environment / - Welfare economics / - Experiments in economic psychology / - Evolutionary economics and psychology.

Frequency of publication: Once a year, in June

Prospective authors should note that only original and previously unpublished articles will be considered. All article submissions will be forwarded to at least 2 members of the Editorial Review Board of the journal for double-blind, peer review. All manuscripts can be submitted via the journal submission system, after registration, at: https://journals.uniurb.it/index.php/ijmeb

2020 vol. 010

International Journal of economic behavior



Editor
Fabio Musso

EDITURA T3
IJEB

Table of Contents

IN SEARCH OF A RATIO FOR A NON-RATIONAL DOMAIN

Editorial of the International Journal of Economic Behavior, Vol. 10

The decision-making process is characterized by limited rationality, being affected by strong limitations of human cognitive abilities. Individuals, with their behavior, often violate the axioms of rationality even when facing with problems of an economic nature or linked to the management of economic organizations. Kahneman (2002, pp. 449–450) stated that there are "two generic modes of cognitive function: an intuitive mode in which judgments and decisions are made automatically and rapidly, and a controller mode, which is deliberate and slower" and "focused on errors of intuition".

Rational choice theory (for a review see: Oppenheimer, 2008 and Sugden, 1991) seems unresponsive to interpreting reality, since it is unrealistic to think that the decision maker is able to consider and understand the large number of factors that can influence the final result of the decision (March, 1994). Entrepreneurs or managers make decisions that will meet expectations rather than optimize choices. Decisions depend on the level of information and follow heuristics, or "shortcuts of thought" (Cuervo-Cavurra, Narula and Un, 2015) which reduce decision-making costs. However, heuristics are associated with biases. Although heuristics can be useful for dealing with complex decisions, they can lead to serious and systematic errors (Guercini, 2012; Guercini et al., 2015).

Limited rationality and the recognition of heuristic-and-biases mechanisms had a relevant influence on the entrepreneurial behavior literature (Simon and Houghton, 2000; Haley and Stumpf, 1989; Schwenk, 1984). Recently, the presence of heuristics has also been recognized by international business scholars, who have emphasized how heuristics based on cognitive mechanisms can be involved during the decisions of entrepreneurs/managers to initiate an internationalization process (Bingham, Eisenhardt and Furr, 2007, Musso and Francioni, 2013; Musso, 2020).

This issue of the International Journal of Economic Behavior, in addition to topics related to the economic behavior, contains a Special Section based on a selection of contributions presented at the workshop on Decision Making Process in International Context, held in Urbino on February 27, 2020.

The first article from Rod Erfani and Jack Berger focuses on the determinants of inward foreign direct investment (FDI) in Asian countries. The second article, written by Waidi Adeniyi Akingbade, studies the relationship between service differentiation strategy (SDS) and organizational performance of enterprises. The findings show that companies using SDS recorded higher performances and market share. The article from Annalisa Sentuti, Gail Denisse Chamochumbi Diaz, and Francesca Maria Cesaroni examines the relationship between board composition and family firms' performance. The article suggests that a higher presence of non-family managers has a less positive effect on first-generation family firms than in later generations of firms. The last article of the regular issue is from Israel S. Akinadewo, who presents a study on disputations of tax audit assessments on internally generated revenue sources in Nigeria.

The Special Section on Decision Making Process in International Context starts with an article from Luciano Pilotti and Alessandra Micheletti. The authors put in light the relationship between strategy and organization facing the growing global complexity. Organization can be seen as "part" of strategy, as a dynamic counterweight process of action able to improve managers to take decisions. Mirian Palmeira and Elder Semprebon analyze the case of economies after catastrophes, and they propose a marketing-based model for recovery. Clara Benevolo, Lara Penco and Teresina Torre deepen the knowledge of entrepreneurial decision-making about global strategies, and they present a conceptual framework useful for supporting entrepreneurial decisions. In her article, Bettina Binder focuses on women's presence in European companies' boards, and how this presence affects decisions and performances. Aldo Bellagamba proposes a study on the drivers of accelerated internationalization strategies of manufacturers belonging to industrial districts. Finally, Simone Guercini, Matilde Milanesi and Andrea Runfola present a literature review on foreign market entry decision-making. The article adopts a systematic approach to investigate the state of research on the topic, as well as the main theoretical approaches on decision-making processes for entering foreign markets.

References

1. Bingham, C.B., Eisenhardt, K.M., Furr, N.R. (2007). What makes a process a capability? Heuristics, strategy, and effective capture of opportunities. *Strategic Entrepreneurship Journal*, 1(1-2), 27-47.
2. Cuervo-Cazurra, A., Narula, R., & Un, C.A. (2015). Internationalization motives: sell more, buy better, upgrade and escape. *Multinational Business Review*, 23(1), 25 - 35.
3. Guercini, S. (2012). New approaches to heuristic processes and entrepreneurial cognition of the market. *Journal of Research in Marketing and Entrepreneurship*, 14(2), 199-213.
4. Guercini, S., La Rocca, A., Runfola, A., & Snehota, I. (2015). Heuristics in customer-supplier interaction. *Industrial Marketing Management*, 48, 26–37.
5. Haley, U.C., & Stumpf, S.A. (1989). Cognitive trails in strategic decision-making: linking theories of personalities and cognitions. *Journal of Management Studies*, 26(5), 477-497.
6. Kahneman, D. (2002). Maps of bounded rationality: a perspective on intuitive judgment and choice. In T. Frangsmyr (Ed.), *Les Prix Nobel: The Nobel Prizes*. Stockholm: Nobel Foundation.
7. March, J.G. (1994). *A Primer on Decision Making: How Decisions Happen* (Vol. New York, NY). New York, NY: The Free Press.
8. Musso F., Francioni B. (2013), "The Decision-Making Process in International Business Strategies. Factors of Influence on Small and Medium Enterprises", *International Journal of Applied Behavioural Economics (IJABE)*, Vol. 2, No. 2, April-June 2013, pp. 1-22.
9. Musso F. (2020). Rationality, Heuristics and Biases in Strategic Decisions, in Musso F. (Ed.), *Strategic Decision-Making in International Context*. Urbino University Press, Urbino, pp. 7-17.
10. Oppenheimer, J.A. (2008). Rational choice theory. *The Sage Encyclopedia of Political Theory.* London, Sage Publications.
11. Schwenk, C.R. (1984). Cognitive simplification processes in strategic decision-making. *Strategic Management Journal*, 5(2), 111-128.
12. Simon, M., & Houghton, S.M. (2000). Cognitive biases, risk perception, and venture formation: how individuals decide to start companies. *Journal of Business Venturing*, 15(2), 113-134.
13. Sugden, R. (1991). Rational choice: a survey of contributions from economics and philosophy. *The economic journal*, *101*(407), 751-785.

Fabio Musso

Editor-in-Chief

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN ASIAN COUNTRIES: AN EMPIRICAL ANALYSIS

G. Rod Erfani
Transylvania University, USA

Jack Berger
Indiana University, USA

Received: *December 24, 2019* Accepted: *March 16, 2020* Online Published: *May 20, 2020*

Abstract

The increasing importance of foreign direct investment (FDI) in the global economy manifests the efforts of countries to attract foreign investment. The purpose of this paper is to examine empirically the determinants of inward FDI for a panel of Asian countries. A pooled ordinary least squares (OLS), semi-log fixed-effects (FE) regression model is utilized to analyze the determinants of FDI in a sample of six Asian countries. The balanced panel data consists of India, Singapore, China, South Korea, Turkey, and Malaysia from 1995-2013. The dependent variable is FDI net inflows. The explanatory variables include democracy, inflation, human capital, economic growth, domestic investment, trade openness, and financial development. The fixed effects regression results show all variables with exception of the financial development variable are statistically significant and have the expected sign.

Key words: Foreign Direct Investment; Global Trade; Economic Growth and Development.

1. Introduction

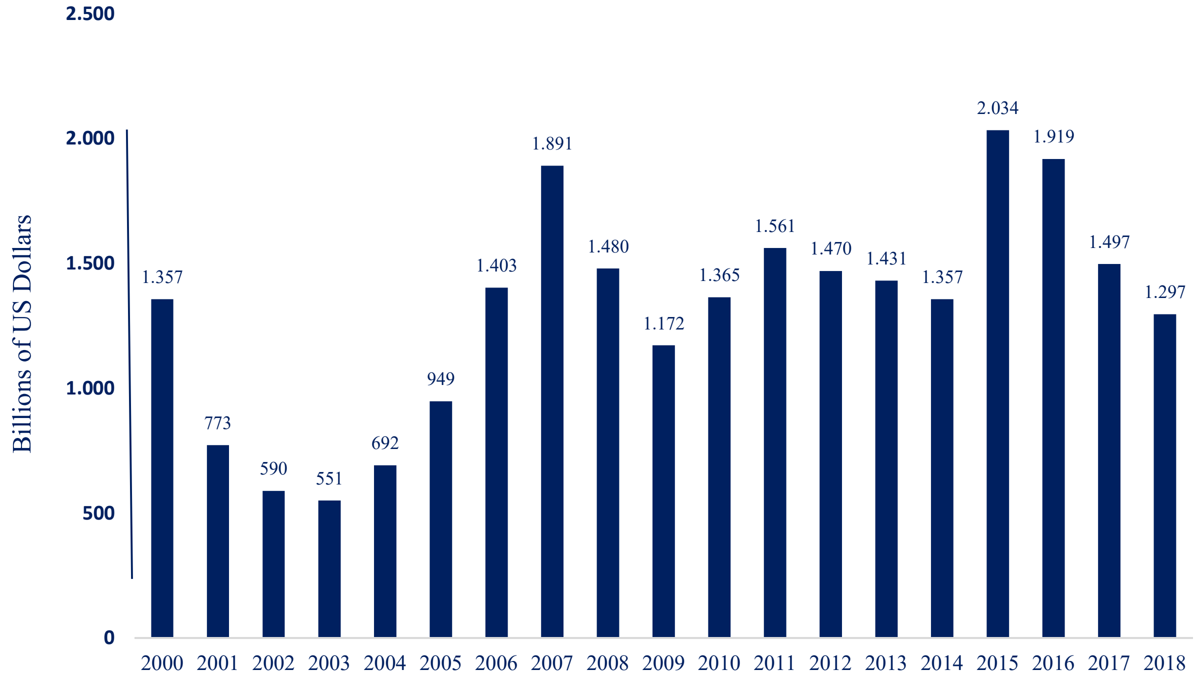
Traditionally, developed countries have dominated both foreign direct investment (FDI) inflows and outflows. However, since the early 1990s, globalization has significantly increased the relative importance of FDI inflows into developing countries. While worldwide FDI inflows decreased from 2015 to 2018, FDI inflows into developing countries has remained relatively stable (UNCTAD 2019). This is consistent with recognized trends over the past 20 years during which middle-income and low-income countries have slowly accounted for an increasing proportion of FDI inflows. The potential benefits of FDI flows into developing countries may include higher economic growth and development resulting from additional capital resources, transfer of technology, entrepreneurial skills, and the training of their labor force. However, the realization of these potential benefits remains a subject of controversy. The importance of FDI in the international economy has greatly increased since the 1980s. Privatization and liberalization of the service sector, such as telecommunications, transportation, and public utilities, have stimulated more investment opportunities. The increasing importance of FDI in the global economy reflects the efforts of countries to attract foreign investment. In order to encourage foreign investment, developing countries provide a variety of economic incentives to foreign investors, such as temporary tax exemptions, investment subsidies, and duty-free imports of capital goods. Developing countries have a higher likelihood of receiving net capital inflows, since a capital-scarce country (e.g., a developing country) is more likely to have a higher return on its investments than a capital-abundant country (e.g., a developed country).

The purpose of this paper is to examine empirically the determinants of inward FDI for a panel of Asian countries. A pooled ordinary least squares (OLS), semi-log fixed-effects (FE) regression model is utilized to analyze the determinants of FDI in a sample of six Asian countries. The panel data consists of India, Singapore, China, South Korea, Turkey, and Malaysia from 1995-2013. Furthermore, a Hausman test employed to determine whether a fixed or random effects model is preferred. The empirical findings of this study are of particular interest to policymakers in developing countries as they adopt economic policies to attract FDI inflows.

Multinational corporations (MNCs) increase the level of world income by reallocating resources between countries. MNCs function as a solution to the lack of national savings many developing countries experience. MNCs are valuable sources of foreign currency due to their stability and longevity in the host country. FDI has shown “the most resiliency to economic and financial crises” (UNCTAD 2018). This stability is evidenced by the heavily supported notion that FDI has been the most stable component of the balance of payments over the past 15 years. In contrast, debt-related flows and portfolio equity flows, two other sources of foreign currency, are volatile to economic conditions. History has shown this to be true as developing countries continue to rely heavily on debt from foreign commercial banks (Demirhan 2008). Portfolio equity investment is more volatile than FDI as it can be sold off quickly and does not require building of physical facilities. Due to the diffusion of technology and inflow of capital, FDI originating from MNCs provides many benefits, including increases in tax revenue, exports, product availability, human capital, employment/job creation, and decreases in production costs. Thus, in the words of Adam Smith, “by pursuing [their] own interest, [MNCs] frequently promote that of the society more effectually than when [they] really intend to promote it” (Smith 2003, originally published in 1776).

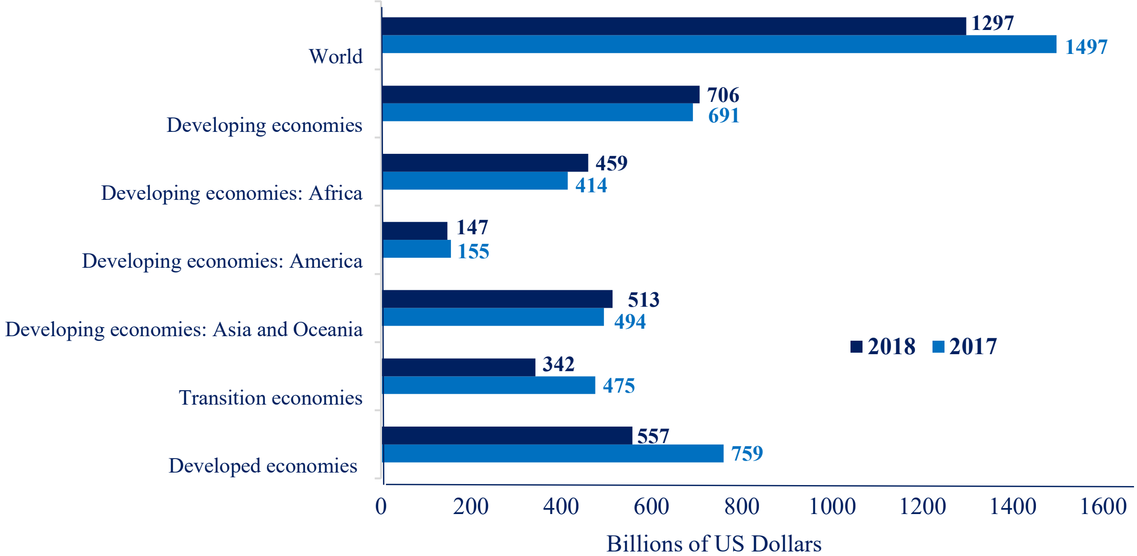
According to the 2018 UNCTAD report, inflows are higher on average in developing and transition economies. The Hecksher-Ohlin (HO) model can explain the higher rates of return in developing countries. The HO model theorizes that countries with higher relative endowment in capital (i.e., developed countries) will export capital to countries with lower relative endowment in capital (i.e., developing countries) in order to gain a higher rate of return. According to the 2019 UNCTAD’s World Investment Report, FDI inflows decreased from $1.5 trillion to $1.3 trillion (13%), between 2017 and 2018 (Figure 1). While worldwide FDI inflows decreased for the third consecutive year in 2018, FDI inflows into developing countries increased and remained relatively stable (Figure 2 and Figure 3). The share of developing countries of global FDI inflows increased from 46% to a record 54% between 2017 and 2018 (Figure 2). FDI inflows to developing countries in Asia and Oceania increased by about 4%, equating to US$513 billion in 2018, with the majority being inflows to China/Hong Kong, Singapore, and India. Asian countries are the world's top recipients of FDI inflows, accounting for 33% of global FDI inflows. Asia and its inflows of FDI as a percentage of world FDI inflows increased from 25% in 2016 to 33% in 2017 (UNCTAD 2018). With regard to the organization of the paper, we review key literature on determinants of FDI (Section II). In section III, we describe methodology and data used to examine the determinants of FDI inflows for a representative panel of developing countries. Then, we report empirical findings of our study (Section IV). Finally, we summarize our main findings, draw conclusions, and suggest implications for economic policy (Section V).

Figure 1 – Global Foreign Direct Investment Inflows (annual) US dollars at current prices in billions



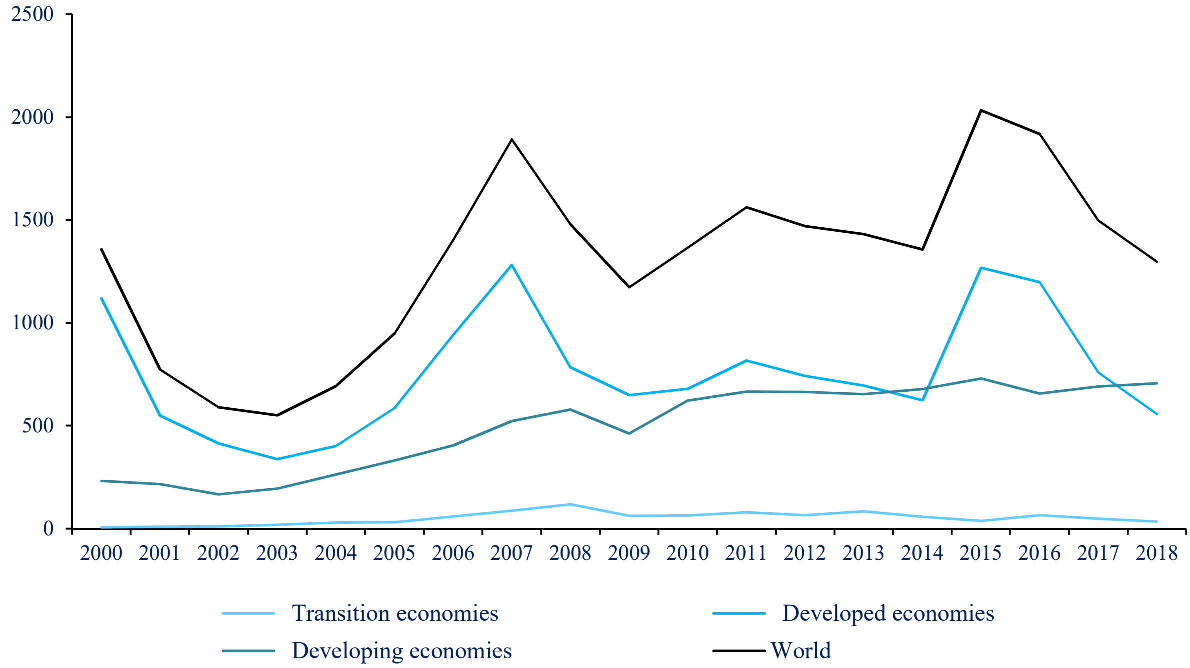
Source: World Investment Report (2019), UNCTAD, United Nations

Figure 2 – Foreign Domestic Investment Inflows Global and by Group of Economies, 2017 and 2018 (Billions of US dollars)



Source: World Investment Report (2019), UNCTAD, United Nations

Figure 3 – Foreign Domestic Inflows Global and by Group of Economies, 2000-2018 (Billions of US dollars)



Source: World Investment Report (2019), UNCTAD, United Nations

2. Review of Literature

This study examines the determinants of FDI in a sample of six Asian countries, consisting of India, Singapore, China, South Korea, Turkey, and Malaysia. Many past studies include some, but not all, of the aforementioned countries. In our study, an econometric model is developed to examine relevant explanatory variables with their respective proxies, utilizing the panel of selected countries for the study period of 1995-2013.

Trade openness is one of the most common explanatory variables found in related literature. In Kumari (2017), Williams (2015), and Das (2017) studies, trade openness is positive and insignificant. In contrast, trade openness is positive but significant in Ranjan (2011) and Tsaurai (2017). The most universally accepted proxy for trade openness is exports plus imports as a percentage of GDP. In an interesting study by Ali Asghar (2016), four different variables for trade openness are employed interchangeably, namely, exports/GDP, imports/GDP, (exports + imports)/GDP, and (exports + imports)/GDP per capita. Applying a random effects regression model to a panel data of South Asian countries for the study period of 1998-2010, Asghar finds all four variables to be significant. The results show that each independent proxy is positive and significant, highlighting the importance of trade openness as a determinant of FDI. Market size and economic growth are other commonly used variables in the literature studying the determinants of FDI. GDP and GDP per capita are frequently used as a proxy for market size. GDP growth and GDP per capita growth are often used as a proxy for growth. Economou *et al.* (2017) and Kumari (2017) find market size to be positive and significant. However, not all studies using a variable to proxy market size find positive and/or significant results. Das (2017) utilizes total population as a proxy for market size, finding it to be negative and significant, using 2005-2014 data for India. In theory, a large market size is thought to attract foreign investors as it seemingly represents a potential demand for the final product. However, if foreign investors were only interested in the manufacturing of intermediate goods, then the host country's market size would not be as significantly important. Given that Asia trades relatively more manufacturing intermediates than both North America and Europe, market size may not be as critical in attracting FDI (Mirodot 2009). Economic growth is also frequently used as an explanatory variable instead of market size. GDP growth is both a positive and significant variable in the study by Williams (2015). Similarly, GDP per capita growth is both a positive and significant variable in the study by Hussain (2016).

Financial development is another explanatory variable widely tested in the literature. Stock market capitalization, as a percentage of GDP, and domestic credit, as a percentage of GDP, are two of the most widely used proxies for financial development. Most studies find financial development to be statistically insignificant. Kaur (2013) employs fixed effects, random effects, and pooled ordinary least square (OLS) regressions to examine how financial development affects FDI in a panel of five major emerging national economies comprising of Brazil, Russia, India, China and South Africa (BRICS). Kaur shows that stock market capitalization to GDP is positive and significant for only the pooled and fixed effects models. In this study, domestic credit to private sector, as a percentage of GDP, which measures the banking sector's ability to provide credit in the forms of loans to private firms, is surprisingly negative and significant for both the pooled and fixed effects models. Using a panel of 88 countries, including China, South Korea, Malaysia, and Turkey, and a fixed-effects model, Erdogen (2015) finds stock market capitalization to GDP and domestic credit to private sector to GDP to be both positive and significant. Shah (2016) uses a random effects model with a panel of Middle Eastern and North African countries and finds domestic credit to private sector to be positive and significant, whereas stock market capitalization to be insignificant. The sign and significance of financial development proxies seem to vary heavily dependent on the panel used and does yield consistent results. Svirydzenka (2016) argues that this is likely because commonly used proxies, such as stock market capitalization and domestic credit to private sector, measure only financial depth rather than financial development. Svirydzenka developed a financial development index, which combines various variables, as a proxy not only for financial depth (size of financial institutions and markets), but also for financial access and efficiency in both financial markets and institutions. Although not yet widely used in literature, this new index provides a much more accurate depiction of the entire financial sector's development.

Inflation is commonly used as an explanatory variable in studies to measure economic stability. Countries with rapidly inflating currencies will not be attractive to foreign investors, as such shows signs of uncertainty, risk, and lower long-term profitability. Furthermore, an inflating currency will also lead to reductions in domestic investment and economic growth. It is important to know the effects of inflation to countries' foreign direct investment inflows. Though it seems that inflation will have a negative impact on FDI, this is not always the case. Williams (2015), Ranjan (2011), and Tsaurai (2017) find inflation to be the expected sign of negative and significant. However, Das (2017) and Erdogen (2015) both find it to be positive and significant which seems counterintuitive to economic theories. Some studies such as Tampakoudis (2017) find inflation to be insignificant. Like financial development, inflation is a variable that yields inconsistent results. Human capital is essential to countries to attract FDI and their economic growth is a commonly used variable in related literature. According to Robert Barro, a renowned researcher of economic growth, in terms of per capita income, poor countries tend to converge with rich countries if they have high human capital per capita (Barro 1991). Secondary school enrollment is commonly used as a proxy for human capital and is reported as both significant and positive in empirical studies, including Kamath (2009) who focuses on India. Some studies, such as Hecock (2013), finds secondary school enrollment to be insignificant. The United Nations' human development index (HDI) is also regularly used as a proxy for human capital and is considered more comprehensive as it accounts not only for education, but also for quality of life, health, and life expectancy. Results of studies using HDI are mixed. Das (2017) finds HDI to be negative and insignificant, while Tsaurai (2017) finds it to be positive and significant.

Most studies that include a domestic investment variable only account for public investment in infrastructure. Numerous infrastructure proxies have been used with contrasting results. Kumari (2017) uses total electrical power consumption over a certain period of time as a proxy for infrastructure and finds it to be negative and significant. Williams (2015) uses the number of telephones per 1,000 people as a proxy for infrastructure and finds it to be positive and significant. Whereas infrastructure only accounts for public investment, gross fixed capital formation accounts for both public and private domestic investment. Lautier (2012) define in theory why gross fixed capital is a more correct variable for determining both public and private domestic investment. Private investment, like public investment, can also attract FDI through reducing "transaction costs," promoting the "inter-firm division of labor," and furthering the diffusion of technology (Lautier 2012). Private investment can also increase FDI inflows because domestic investors have a greater depth of and access to domestic information than foreign investors. Therefore, high levels of domestic investment can signal a healthy domestic economic climate to foreign firms. Gross fixed capital formation (GFCF) is found to be a significant and positive in Lautier (2012). Panigrahi (2012) utilizes a three-country panel, China, India, and Malaysia and finds GFCF to be positive and significant. Some studies in developing countries, such as Jong (2015) in Nigeria, actually find GFCF to have a negative sign. Nevertheless, the majority of literature points to more of a positive relationship between domestic investment, development, and FDI inflows.

Numerous institutional variables are used in existing literature. One of such variables is democracy. Due to their "executive constraint and judicial independence," democracies can enforce property rights, which is attractive to foreign investors and may lead to greater FDI inflows (Farazmand 2015). However, since democracies do a better job of preventing monopolies and oligopolies in business, MNCs may hence invest in autocratic countries due to their increased profit opportunities and possibility of rent-seeking (Farazmand 2015). Firms located in countries with more authoritarian regimes may have a greater ability to influence government policy decisions. There are several measures of democracy used in literature, such as the Freedom House's democracy index, the Polity IV's democracy index, and the International Country Risk Guide's (ICRG) democratic accountability index. However, the ICRG's index is "targeted toward foreign investors" and, therefore, is most appropriate to use for studies related to FDI (Asiedu 2011). Previous studies that used a democracy index find statistically significant results. Dumludag (2009) uses the ICRG index and finds it to be significant for a panel of developing countries. Farazmand (2015) uses the Polity IV's index and finds positive and significant results in a generalized least squares (GLS) model for a panel of countries that includes Malaysia, Turkey, and Singapore. Studies, such as Nazeer (2017) and Topal (2016), create political instability and political risk indices by combining a democracy index with other widely used institutional variables, such as corruption, law and order. Nazeer (2017) uses a political instability index comprising of government stability, corruption, law & order, democratic accountability, and bureaucracy quality from the ICRG index and finds it to be positive and significant.

3. Data and Methodology

This study examines the determinants of FDI, using a data panel of representative Asian countries. A pooled ordinary least squares (OLS), semi-log fixed-effects (FE) regression model is utilized to analyze the determinants of FDI in a sample of six Asian countries. The balanced panel data consists of India, Singapore, China, South Korea, Turkey, and Malaysia for the study period of 1995-2013. Furthermore, a Hausman test employed to determine whether a fixed or random effects model is preferred.

The regression model takes the following form:

$$Y= \beta_0 + \beta_1 X_{it} + \beta_2 X_{it} + \beta_3 X_{it} + \beta_4 X_{it} + \beta_5 X_{it} + \beta_6 Xit + \beta_7 X_{it} + €_{it} \quad (1)$$

where,

- Subscript i denotes the six representative countries while subscript t denotes times (country i at time t);
- X is a vector of explanatory variables and β is a vector of unknown parameters to be estimated.

The following semi-log fixed-effects (FE) regression model is utilized to evaluate the major determinants of FDI inflows:

$$Ln(FDI)_{it} = \beta_0 + \beta_1(INF)_{it} + \beta_2(DEM)_{it} + \beta_3(SMCAP)_{it} + \beta_4(GDPPCG)_{it} + \beta_5(GFCF)_{it} + \beta_6(HC)_{it} + \beta_7(TRADE)_{it} + €_{it} \quad (2)$$

where,

- Subscript i denotes the six countries (i = 1-6) and subscript t denotes times in years (t=1995-2013);
- $Ln (FDI)_{it}$= dependent variable (the natural logarithm of FDI inflows);
- $(INF)_{it}$ = inflation, consumer prices (as annual % change);
- $(DEM)_{it}$ = democratic accountability variable;
- $(SMCAP)_{it}$ = stock market capitalization to GDP;
- $(GDPPCG)_{i}t$ = GDP per capita growth (as annual % change);
- $(GFCF)_{it}$ = gross fixed capital formation (as % of GDP);
- $(HC)_{it}$ = human capital of country;
- $(TRADE)_{it}$ = trade (as % of GDP);
- $€_{it}$ (epsilon) = stochastic (or random) error term, serving as a proxy for all those variables that are omitted from the model but collectively affect FDI inflows.

The parameters in Equation 2 are unknown and must be estimated empirically. The coefficients (β_1- β_7) represent the rate of change of the dependent variable (FDI) as a function of change in the independent variables. $€_{it}$ is the error term and includes all the variations in FDI not explained by the independent variables. A Hausman test is used to determine whether a fixed effects or random effects model is preferred. The p-value is 0.00, which is less than 0.05, so a fixed effects model is the preferred method. The data sources include World Bank's World Development Indicators, St. Louis Federal Reserve, Penn World Table's (PWT) Human Capital Index, International Country Risk Guide (ICRG), and UN's Human Development Reports.

The dependent variable (FDI) is foreign direct investment net inflows in constant 2010 USD. Inflation (INF) is used as a proxy for economic instability. It is expected that inflation will have a negative coefficient because higher economic instability should result in less FDI. Foreign investors are less likely to invest in a country if its currency is rapidly inflating. For the Democracy (DEM) variable, the Democratic Accountability variable of the International Country Risk Guide (ICRG) index is used. This index measures how accountable governments are to their people. The ratio of stock market capitalization to GDP (SMCAP) is used as a proxy for financial development. It is defined as the ratio of the value of all listed shares of a country's stock market to its GDP. While stock market capitalization is one of the most widely used proxies for financial development. However, many researchers find it insignificant. GDP per capita growth (GDPPCG) variable (as annual % change) is expected to have a positive sign because foreign investors would understandably be interested in the profit opportunities of a rapidly growing economy. Gross fixed capital formation (GFCF, as % of GDP) is used as a proxy for domestic physical investment. GFCF reveals the percentage of a country's GDP, which is comprised of fixed capital. This fixed capital could include capital that fosters production, such as manufacturing plants and machinery. It could also include infrastructure that is more commonly found in developed countries, such as, schools, hospitals, and roads. The expected sign for GFCF is positive. The Penn World Table's (PWT) human capital index is used as a proxy for human capital (HC). The United Nation's human development index (HDI) is also used as a proxy for human capital and is more detailed than secondary school education, since it also measures health and quality of life. However, given its wider range of measurements, HDI was multicollinear with many other variables used in this study, and therefore, was dropped in favor of the PWT's human capital index. Trade, as a % of GDP, is used as a proxy for trade openness. Trade openness is the sum of imports and exports of goods and services, normalized by GDP. It is calculated as imports plus exports divided by GDP. The expected sign for this variable is positive.

4. Empirical Results

The correlation matrix in Table 1 shows that there is no evidence of multicollinearity between the independent variables (all correlations between any two variables are less than 0.5 in an absolute value). That is, no two predictor variables are highly correlated which leads to the possibility that our interpretation of coefficients will be incorrect. The financial development index created by Svirydzenka (2016) had a correlation of 0.93 with the human capital index used in our model, and therefore, was dropped from the model as a proxy for financial development, in favor of stock market capitalization to GDP.

Table 1 – Correlation Matrix

	INF	DEM	SMCAP	GDPPCG	GFCF	HC	TRADE
INF	1						
DEM	0.0479	1					
SMCAP	0.2869	0.3443	1				
GDPPCG	-0.1351	-0.1731	0.005	1			
GFCF	-0.3146	-0.2200	-0.0467	0.4197	1		
HC	-0.3684	0.0684	0.1281	-0.1694	0.005	1	
TRADE	-0.2590	-0.3981	-0.2805	-0.2266	-0.1683	0.4273	1

Table 2 shows the fixed-effects estimation results. The adjusted R-squared is 0.82 and the probability of F statistics is 0.000, which both indicate a goodness of fit. The Durbin-Watson statistic is 1.93; there is no evidence of autocorrelation in our model. All variables except SMCAP are found to be significant and have the expected sign. INF is negative and significant, while DEM, GDPPCG, GFCF, HC, and TRADE are all positive and significant. Although SMCAP is insignificant, it still has the expected positive sign. From review of literature, it is apparent that similar studies in the past also found financial development proxies to be insignificant. These common proxies for financial development measure only financial depth (size of financial institutions and markets relative to aggregate economic output).

Table 2: Fixed Effects Model Estimation Results. Dependent Variable = FDI (Inflows)

Explanatory Variable	Regression Coefficient	Standard Error	t-Statistic	P-Value
C (constant)	14.0571	1.0938	12.8520	0.0000
INF	-0.0129	0.0050	-2.5766	0.0114**
DEM	0.2311	0.0938	2.4622	0.0155**
SMCAP	0.0025	0.0024	1.0277	0.3066
GDPPCG	0.0341	0.0162	2.1006	0.0382**
GFCF	0.0464	0.0133	3.4946	0.0007***
HC	2.2529	0.3766	5.9821	0.0000***
TRADE	0.0082	0.0031	2.6598	0.0091***
Asterisks indicate statistical significance at the 1, 5, and 10 percent levels				
	Adjusted $R^2 = 0.82$ F-statistics = 43.5	$p^* < 0.1$ $p^{**} < 0.05$ $p^{***} < 0.01$	# of observations = 114	Durbin Watson =1.93

5. Summary and Conclusions

A semi-log fixed-effects regression model is utilized to analyze the determinants of FDI in a sample of six Asian countries. A panel data consisting of India, Singapore, China, South Korea, Turkey, and Malaysia from 1995-2013 is employed. The dependent variable is FDI net inflows. The explanatory variables included in our econometric model are the following: democracy, inflation, human capital, economic growth, domestic physical investment, trade openness, and financial development. Furthermore, a Hausman test is employed to determine whether a fixed or random effects model is preferred. The fixed effects model estimation results show all variables, with the exception of the financial development variable, are statistically significant and have the expected sign.

The results of this study reveal that gross fixed capital formation as both a positive and significant determinant of FDI, suggesting that foreign capital does not come at the expense of domestic capital, but rather is attracted to it. Human capital is also positive and significant, meaning foreign investors are interested in developing skilled labor. This is beneficial for our panel of representative countries as high human capital results in more benefits from FDI inflows, such as technological diffusion and knowledge spillovers. Human capital as a significant determinant of FDI is noteworthy for future studies as a new index from *Penn World Table* is applied in this study. As expected, we find inflation to be negative and significant determinant of FDI, indicating that developing countries should emphasize monetary responsibility in order to prevent economic instability. Trade and GDP per capita growth have their expected sign and are significant determinants of FDI.

In conclusion, the empirical findings of this study are of particular interest to policymakers in developing countries as they adopt economic policies to attract FDI inflows. Policymakers need to focus on promoting domestic capital, education, trade openness, monetary responsibility, and development of the financial sector.

6. Research Limitations and Future Research

The ratio of stock market capitalization to GDP is utilized as a proxy for financial development in this study. Although this financial development proxy has the expected sign, it is insignificant, which is consistent with the current literature. The financial development index developed by Svirydzenka (2016) was multicollinear with the human capital index used in our model. Therefore, it was dropped from the model as a proxy for financial development, in favor of stock market capitalization to GDP. The new broad-based index of financial development introduced by Svirydzenka (2016) may be applied as a possible solution to this problem as it combines measures for financial depth (size of financial institutions and markets), financial access, and financial efficiency. Thus, further studies are warranted to apply this new financial development index. Furthermore, larger sample sizes provide more information and reliable empirical results.

References

1. Asghar, Ali (2016). Foreign Direct Investment and Trade Openness: The Case of South Asian Economies. *International Journal of Innovation and Applied Studies,* 17(2), 513-521.
2. Asiedu, E., & Lien, D. D. (2011). Democracy, Foreign Direct Investment and Natural Resources. *Journal of International Economics,* 84(1), 99-111.
3. Barro, Robert (1991). Economic Growth in a Cross Section of Countries. *The Quarterly Journal of Economics*, 106(2), 407-443.
4. Das, S. (2017). Foreign Direct Investment and its Determinants: A Study on India and Brazil. *International Journal of Business and Management Invention,* 6(1), 62-69.
5. Demirhan, E., & Masca, M. (2008). Determinants of foreign direct investment flows to developing countries: A cross-sectional analysis. *Prague Economic Papers, University of Economics, Prague,* 17(4), 356-369.
6. Dumludag, Devrim (2009). Political Institutions and Foreign Direct Investment Flows into Developing Countries. *MPRA Paper* 27327, University Library of Munich, Germany, revised Feb. 2, 2010.
7. Economou, Fotini, *et al*. (2017). Foreign Direct Investment Determinants in OECD and Developing Countries. *Review of Development Economics*, 21(3), 527–542.
8. Erdogan, Mahmut, and Mustafa Unver (2015). Determinants of Foreign Direct Investments:
9. Dynamic Panel Data Evidence. *International Journal of Economics and Finance*, 7(5), 82–95.
10. Farazmand, H., & Moradi, M. (2015). Determinants of FDI: Does democracy matter? *International Journal of Strategic Management and Decision Support Systems in Strategic Management, 20*(1), 38-46.
11. Hecock, R. D., & Jepsen, E. M. (2013). Should Countries Engage in a Race to the Bottom? The Effect of Social Spending on FDI. *World Development*, 44 (April), 156-164.
12. Hussain, M., & Haque, M. (2016). Foreign Direct Investment, Trade, and Economic Growth: An Empirical Analysis of Bangladesh. *Economies, 4*(7), 1-14.
13. Kamath, G. Bharathi (2009). Macroeconomic determinants of foreign direct investment in India. *Baudhik*, September– December 1(2), 3–13.
14. Kaur, M., Yadav, S.S. & Gautam, V. (2013). Financial System Development and Foreign Direct Investment: A Panel data Study for BRIC Countries. *Global Business Review*, 14(4), 729-742.

15. Kumari, Reenu, and Anil K. Sharma (2017). Determinants of Foreign Direct Investment in Developing Countries: A Panel Data Study. *International Journal of Emerging Markets*, 12(4), 658–682.
16. Lautier, M & Moreaub, F. (2012). Domestic Investment and FDI in Developing Countries: The Missing Link. *Journal of Economic Development*, 37(3), 1-23.
17. Miroudot, S., R. Lanz and A. Ragoussis. (2009). Trade in Intermediate Goods and Services, *OECD Trade Policy Papers*, No. 93, OECD Publishing, Paris.
18. Nazeer, Abdul Malik & Masih, Mansur, (2017). Impact of political instability on foreign direct investment and Economic Growth: Evidence from Malaysia. *MPRA Paper* 79418, University Library of Munich, Germany, 1-19.
19. Jong, C. M., Arikpo, O. F., & Anthony, O. (2015). Determinants of Foreign Direct Investment Inflow to Nigeria. *IOSR Journal of Humanities and Social Science,* 20(8), 34-43.
20. Panigrahi, T. R., & Panda, B. D. (2012). Factors Influencing FDI Inflow to India, China and Malaysia: An Empirical Analysis. *Asia-Pacific Journal of Management Research and Innovation,* 8(2), 89-100.
21. Ranjan, V., & Agrawal, G. (2011). FDI Inflow Determinants of BRIC Countries: A Panel Data Analysis. *International Business Research*, 4(4), 255-263.
22. Shah, M. H. (2016). Financial development and foreign direct investment: The case of Middle East and North African (MENA) developing nations. *MPRA Paper* 82013, University Library of Munich, Germany, 1-18.
23. Smith, A., & Cannan, E. (2003). *The Wealth of Nations*. New York, N.Y: Bantam Classic.
24. Svirydzenka, K. (2016). Introducing a New Broad-based Index of Financial Development. *IMF Working Papers,* 16(5), 1-43.
25. Tampakoudis, I. A., Subeniotis, D. N., Kroustalis, I. G., & Skouloudakis, M. I. (2017). Determinants of Foreign Direct Investment in Middle-Income Countries: New Middle-Income Trap Evidence. *Mediterranean Journal of Social Sciences,* 8(1), 58-70.
26. Topal, M. H., & Gul, O. S. (2016). The Effect of Country Risk on Foreign Direct Investment: A Dynamic Panel Data Analysis for Developing Countries. *Journal of Economic Library,* 3(1), 141-155.
27. Tsaurai, Kunofiwa (2017). The Dynamics of Foreign Direct Investment in BRICS Countries. *Journal of Economics and Behavioral Studies*, 9(3): 101-112.
28. Williams, Kevin. (2015). Foreign Direct Investment in Latin America and the Caribbean: An Empirical Analysis. *Latin American Journal of Economics*, 52(1), (57–77).
29. World Development Indicators (2018). World Bank, Washington, D. C.
30. World Investment Report (2018 & 2019), United Nations Conference on Trade and Development (UNCTAD), Geneva: United Nations.

SERVICE DIFFERENTIATION STRATEGY AND ORGANIZATIONAL PERFORMANCE OF NIGERIAN SMALL AND MEDIUM ENTERPRISES IN LAGOS STATE

Waidi Adeniyi Akingbade
Lagos State University, Ojo, Lagos, Nigeria

Received: *October 29, 2019* Accepted: *March 12, 2020* Online Published: *May 27, 2020*

Abstract

Organization differentiate is service to achieve competitive advantage by providing a service that consumers perceived to be useful, unique and generally superior. Many organizations use service differentiation strategy to be profitable, competitive and to survive but many others neglect this strategy hence their low performance. This study empirically explored the relationship between service differentiation strategy (SDS) and organizational performance of Nigerian small and medium enterprises (SMEs) in Lagos State. A survey of 249 registered SMEs with Lagos State ministry of commerce and industry across the six small scale industrial zones of the state were undertaken, while both Yamani (1967) sample size scientific formula and Sekaran (2003) population to sample size table was used to determined sample size of 152. Meanwhile, questionnaires were distributed to two executives that is owner and manager from each of the selected 152 SMEs which makes the numbers of distributed questionnaire equal to 304. Three hypotheses were tested to determine whether: channel of distribution improve customer satisfaction; a superior and more reliable aftersales service increase market share & a quality service increase organizational profitability. Questions were formulated based on the hypotheses and 304 questionnaires were distributed to two executives from each of the selected SMEs, out of which 280 of the respondents which is 92% returned duly completed and properly filled questionnaires. The research findings show that SMEs that used SDS recorded substantial progress, while those that did not had low performance and market share. The implication of the study is the need for SMEs to adapt SDS for superior results. The study recommends that SDS should be used by SMEs for improved performance, customer's satisfaction, loyalty and retention. Further, SMEs managers, owners and executives should engage in SDS to enable their enterprises have an edge over their competitors in dynamic, turbulent and highly competitive Nigeria business environment.

Key words: Service Differentiation Strategy; Organizational Performance; Nigerian Small and Medium Enterprises; Lagos State, Nigeria.

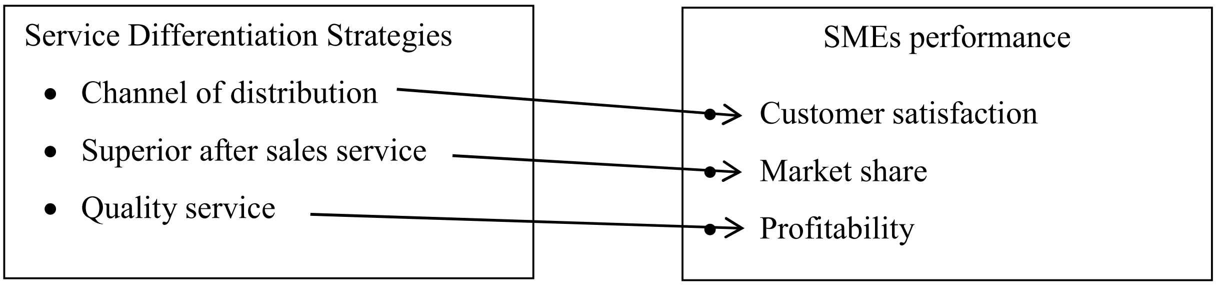
1. Introduction

The success causing power of clear direction, good strategy and effective implementation of an organization's action plan is now generally recognized and appreciated. It is widely acknowledged today that the rate, the magnitude, and complexity of changes that impact organizations are accelerating (Parnell, 2012). Strategic management process is based on the belief that an organization should continually monitor key internal and external events and trends. Organizations should also pursue strategies that capitalize on internal strengths, take advantage of external opportunities, mitigate internal weaknesses and avoid or nullify the impact of external threats (Oyedijo, 2013). This is the whole essence of strategic management. Strategic management is the current term used in the description of decision process employed to achieve the long-term predetermined objectives of an organization. It is the process of specifying an organization's objective, development policies, plans and allocating resources so as to implement the plans. It is the highest level of management activity, usually performed by the company's chief executive officer (CEO) and executive team. Strategic management provides overall direction to the whole enterprise (Silvestrelli, 2018 & Thompson, Strickland & Gamble, 2014). An organization's strategy must be appropriate for its resource, circumstances and objectives. The process involves matching the company's strategic advantage to the business environment the organisation faces. One objective of an overall corporate strategy is to put the organisation into a position to carry out its mission effectively and efficiently. Thus, a good corporate strategy should integrate an organization's goals, policies, and actions sequences (tactics) into a cohesive whole (Porter, 1985; Adeoti, 2013).

In recent years, there have been great increase in the level of competition in virtually all areas of business and that of SMEs is not an exception. The ability to outperform competitors and to achieve above average returns lies in the pursuit and execution of an appropriate business strategy (Yoo, Lemak & Choi, 2006). This has resulted in greater attention to analysing competitive strategies under different environmental conditions. Porter (1985) states the three generic strategies that are required for different resources, organizational arrangements, control procedures, styles of leadership, and incentive systems could translate to improved organizational performance and competitive advantages. The three generic competitive strategies are overall price leadership, differentiation and focus i.e. cost or differentiation in a narrow market segment (Porter, 1985).

The bedrock of any nation's industrial take-off especially in a developing country like Nigeria is undoubtedly the SMEs. Unfortunately, Nigeria industrial sector as a whole has remained undeveloped after a period of over two decades of adopting an industrial policy based on large scale industries. Meanwhile, the Nigeria economy unlike its counterparts like Japan, Hong Kong, Indonesia, Singapore, Taiwan and Malaysia that is Asia/Industrial tigers has only witnessed weak industrial development (Adeoti, 2004). Further, a lot of industries established and supported by the government have tended to be large scale industries, which are capital intensive. In spite of all these, it is very glaring and most obvious that though, successive governments in their attempt to develop the nation industrially, had channeled huge amount of money to large scale industries with little or no result. Thus, there is need for urgent development of SMEs for the country to attain economic growth and development. Recently, the role and contributions of SMEs to the growth and development of the world economy has been recognized as a result of increased in the volume of its trade (Osuagwu, 2006). Graham (1999) noted that SMEs constitute a large part of the world economy, and numbering up to half to two-thirds of all business all over the world (Tuteja, 2001). This has result in the establishment of many SMEs in Nigeria by entrepreneurs with the aim of making profit, providing employment opportunities, customer satisfaction, self-employment, increased in market share, among others. In other to achieve these objectives has led to competition among SMEs and each of them use various service differentiation strategies that will enable them to survive and more profitable. Meanwhile, the extent to which the uses of service differentiation strategies by the selected SMEs from six small scale industrial zones of the Lagos state have led to improved performance (Kimura & Mourdo-Ukoutas, 2010; Leiblein, 2013; Parnell, 2012), and to what extent customers have responded to the SMEs service differentiation strategies have not being sufficiently examined. It is necessary to find out the extent to which channel of distribution improve customer satisfaction; a superior and more reliable aftersales service increase market share & a quality service increase organizational profitability. The relationship between service differentiation strategy and organization performance have been a tropical research topic in the field of strategic management (Parnell, 2012). The aim of this paper is to critically examine the extent to which application of service differentiation strategy could influence the performance of SMEs in Lagos State.

Fig.1 – Conceptual and operational model of service differentiation strategies and performance of SMEs.



Source: Developed by the researcher

1.1 Hypotheses

Ho1: *There is no significant relationship between channel of distribution and customer satisfaction of SMEs in Lagos State, Nigeria.*

Ho2: *There is no significant relationship between a superior and reliable after sales services and increase in the market share of SMEs in Lagos State, Nigeria.*

Ho3: *There is no significant relationship between service quality and profitability of SMEs in Lagos State, Nigeria.*

2. Literature Review and Theoretical Framework

2.1 Strategy Defined

Strategy is about winning, success, broad statement and a means to be employed in achieving organization objective, while the actual methods used constitute the tactics (Dauda, Akingbade & Akinlabi, 2010). A strategy denotes a blue print of action to be carried out to do something and implies the deployment of emphasis and resources to attain comprehensive objective. It can be seen in essence as a grand plan i.e. statement of objectives to be pursued, together with resource to be used and path to be followed to archive them (Yaşar, 2010; & Akingbade, 2007).

Strategy is the determination of the long term goals of an organization, the choice of the method, and an organizational form and resource to be used to achieve the goal. Oghojafor (2000, 2013), noted that strategy is any means of using resource which are expected to provide superior results in spite of otherwise equal or superior capabilities of competitor. In operation terms strategy is a comprehensive, integrated plan designed to guarantee the actualization of the basic objectives of an enterprise. Strategy is unifying theme that gives coherence and direction to the individual decisions in an organization or a person (Akingbade, 2016). Every organization, whether profit-making or non-profit making, is established for a purpose which may be implicit or explicit and critical elements of the organizational strategies are organizational mission and vision (Adebisi & Oghojafor, 2015).

2.2 Benefits of Developing and Implementing a Strategy

The benefits of developing and implementing a strategy for a business organization as identify by Porter (1980), Oyedijo (2013), Lawal & Bello (2014), David (2010), Wheeleen & Hunger (2012), Lawal (2011) are as follows: It provides guidance to the entire management of an organization by making clear what the company wants to achieve and what it has to do and the pathways it needs to follow to be where it will like to be in the market place. Also, it facilitates a disciplined identification and appraisal of business opportunities and directs the changing and evolving relationship of the organization with its environment. It enables a company to be proactive, to maintain a healthy balance with its environment and to carry out some breakthrough advances for competitive advantage. Further, it provides a basis for the clarification of individual responsibilities thereby contributing to the motivation and commitment of organization members to the attainment of long term organizational goal.

2.3 Product Differentiation

This is a strategy where a company seeks to achieve a competitive advantage by creating a product or service that is perceived industry wide and by customers to be unique and generally superior in some important ways. Product differentiation can take the form of a different taste, a unique design or brand image, a superior quality and distinctiveness, a quicker service, a superior and more reliable after sales service, a better engineering design and styling, special features, convenient payment terms, among others (Oyedijo, 2013; Porter, 1985 & 1980). As with cost leadership, successful differentiation creates lines of defence for dealing with the five competitive forces identified by Porter (1980).

The strategic advantages of product differentiation as identified by Akingbade (2016); Oyedijo (2013); Porter (1985 & 1980); are: It enables a company to be insulated from the strategies of rival firms because it is able to establish customers' loyalty or preference for its brand or model and quite often such customers are willing to pay a little (perhaps a lot) more for the product. Such a customer's preference becomes a hurdle or constraint for potential substitute products and a barrier to new entrants. Because of strong customer loyalty, product differentiation reduces the bargaining power or leverage of large buyers because they may be forced to buy a product they used to rather than those of competitors which are considered less attractive (Porter, 1985 & 1980). Differentiation creates and raises the costs of switching to other brands or substitutes thus putting a firm in a better position to ward off threats from substitutes to the extent that it has built a loyal clientele who find it hard to abandon the product for substitute brands (Thompson, Stickland, 2001, Oyedijo, 2013; Porter, 1980). While Bhasin (2017) outlined the following means to achieve product differentiation, form, features, performance quality, durability, reliability, style and service.

2.4 Service Differentiation

Service is any act of performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its service may be or may not be tied to a physical service (Kotler, 2004 & Onuong'a, 2009). Bhasin (2017) argued that services may be offered individually to the customer or they may be bundled with a product. For example, tours and travels are independent services offered to customers. Where products are tangible in nature and easily differentiated on the basis of features, form, performance and quality, service differentiation is quite challenging and needs out of the box thinking. Service differentiation can be achieved on the basis of the following unique service characteristics outlined by Kotler (2004), Palmer (1999), Onuong'a (2009) & Bhasin (2017) for organization to differentiate its services from that of its competitors: ordering ease, delivery, installation, customer training, consumer consulting, maintenance and repair, returning of goods to sellers after delivery.

Ordering ease is the act of demanding or arranging for procurement, purchase, or delivery of organizational product by the user or final consumer through the organization website, online, whatsapp, email, instagram, facebook, twitter, mobile app among others. This has led to increase in the SMEs consumer purchases because consumer use to do window shopping when they have time via browsing of their smartphones. That is why e-commerce services are on the rise in developing country like Nigeria. Bhasin (2017) noted that this is the reason why most businesses are preferring online marketing as the mode of selling their products, like konga and jummai among others.

Delivery which is a major tactic to differentiate organization services is the act of taking goods or services or make it available to the people they have been sent to within stipulated period of time (Bhasin, 2017). Fast and accurate delivery time of services or products help the organization to differentiate its services from that of its competitors. The company normally state stipulated period of time in the advertisement for the customer to know when they should be expecting the product.

Installation is the fixing of organizational equipment or product in position to be used by the consumer. For example, SMEs that sell Dstv, Gotv, Startimes decoder or technical equipment like cold rooms, ducting equipment among others, have to differentiate their service through their efficient and reliable after sales services like fixing of the product or equipment.

Customer training is necessary and an important aspect of differentiating organization services. This is the act of impart proper training on customer when organization are selling products which are new in the market so that the customer does not misuse the products. Many SMEs understand that customer training is necessary and hence they have imparted the training as a norm in their installation procedures (Bhasin, 2017). For instance, when customer order for an equipment, a manual can be send along with the delivery. This is a ways to instruct the SMEs customer on using the machine properly so that he is happy with organizational service. Even some SMEs train their customers on how to make online order for their products.

Consumer consulting, firms like IBM and accenture have made big bucks through their consultation offers. Customer consulting includes numerous infrastructure or operation related consulting which can be offered in the form of data management, information systems and service advisory (Bhasin, 2017).

Maintenance and repair, repair services need to differentiate themselves with the response time. Many technical products like computer Printer have online knowledge bases which users can refer to, so as to solve their problems immediately. Some companies offer fast services to their corporate and enterprise customers (Bhasin, 2017). The faster organization response time, and the more quality work organization do, the more easily organization will differentiate their services when it is a maintenance or repair service (Bhasin, 2017).

Returning of goods to sellers after delivery is a major hurdle to e-commerce sales as well as retail sales. Ever bought a product which just didn't work? It happens to all the buyers, irrespective of the product they buy. The nuisance is even worse in e-commerce, where e-commerce portals are actively advertising easy returns, to the disappointment of the sellers selling products online (Bhasin, 2017).

2.5 After Sales Services

This is the treatment of customers in the aftermath of a sales or the processes which followed post sales of the product (Pettinger, 2017 & Bhasin, 2019) and it does not generate any revenue for the company but increase the goodwill of the organization in the market and among the customers (Bhasin, 2019). The term aftersales service is as important as sales not only to retain the customers but also to bring back lost customers, to convince consumers to trust the firm and buy the service in the first place, it improve firms long-term brand image and brand loyalty, also firm incur extra cost and become an opportunity to sell related products (Pettingers, 2017). Pineda (2019) noted that an after-sales service corresponds to the activities and processes undertaken by an organization or business to ensure customers are satisfied with their purchased good or service. In other words, it pertains to any services provided after a product has been sold.

The purpose of after-sales service is to enhance the attractiveness and sales value of a product, provide product differentiation, build and maintain relationships with the customers, create loyalty, encourage repeat sales from these loyal customers, promote further the image of the business or its brands, and encourage customers to refer the business or its products to others. They collectively form part of a strategy aimed at making products attractive to the customers (Pineda, 2019). After sales service is a significant aspect of non-price competition like oligopoly and it depends on the industry and the product and (Bhasin, 2019) identified the following seven of its most common types. Pre-Installation services are the services that organization offered to their customers whenever a product is bought before installation like manual. Some products installation steps are specific while others are customer friendly. DSTV dish, ceiling fan, etc requires technical expertise for installation. User training, company organize training for final consumer or end user of technical products like industrial machinery, surgical equipment among others are example of after sales service. Warranty services is after sales services provided by company for most of their products which include repairing and replacement of some parts with any problem for a selected period of time. Online support, e-commerce companies provides online support for any of the product related problems. Company dedicated helpline for customer service wherein complaints were resolved according to the company standard procedure. Return/Replacement, companies provide free replacement of the product for a limited period of time in case of any problem.

Features and benefits, companies provide feature which benefits customers like replacement of a part for a lifetime, for free counselling for the entire duration of the product. Upgrades, it is applicable to software and electronics for the device for a limited period (Bhasin, 2019).

2.6 Service Quality

This is the value of a service to customers and inherently subjective as it is driven by the needs, expectations and perceptions of customers as such, it is typically measured by quantifying customer survey (Spacey, 2017 & Adebiyi, Oyatoye, & Amole, 2015) He further stated the following types of service quality: reliability, responsiveness, empathy & tailoring, competence and diligence, consistency, safety & security, environments user interfaces, tangibles, experience. Service quality measures how well a service is delivered, compared to customer expectation. Meanwhile, businesses that meet or exceed expectations are considered to have high service quality. Service quality is a global judgment relating to the overall superiority of the service of an organization compared to others. It is also the customers overall service quality evaluation by applying a disconfirmation model, the gap between service expectation and performance (Amole, Oyatoye & Kuye, 2015, Abiodun, Adeyemi, Osibanjo, 2014).

The magnitude at which service quality are used to determine the rate of customers satisfaction has been on the high side in the last two decades most especially with the development of service quality scale (SERVQUAL), (Parasuraman, Zeithaml, & Berry, 1988). Therefore, SERVQUAL which has been applied to different sectors in developed countries to measure or determine the gap between customer service expectations and performance. However, Oyeniyi & Abiodun (2012) argued that theoretical foundation of SERVQUAL has been criticized (Cronin & Taylor, 1994) besides its wide application in different countries of the world. This criticism led to the development of service performance scale (SERVPERF) which restricted to performance dimension of service quality. Further, retail service quality scale (RSQS) was developed by Dabholkar, Thorpe & Rentz (1996) for adequate measurement of service quality in retailing and small business due to the failure of SERVQUAL and SERVPERF. RSQS is a five dimensional hierarchical factor structure scale namely: physical aspect, reliability, personal interaction, problem-solving and policy.

2.7 Channels of Distribution

These are the means by which organizations get their products to the final consumers or end users either through direct (producer → consumer), modern (producer → retailers → consumer), traditional (producer → wholesalers → retailers → consumer). Learnloads (2010) noted that distribution strategies are influenced by the cost of distribution methods, the nature of the market and the extent to which the manufacturer wishes to control how products are marketed. Channel of distribution comprising of a set of institutions which performs all of the activities utilized to move a product and its title from production to consumption (Bucklin, 1966). Lamb, Hair and McDaniel (2011) noted that retailing and wholesaling intermediaries in marketing channels perform several essential functions that make the flow of goods between producer and buyer possible. They argued that the three basic functions of intermediaries are transactional, logistics and facilitating. Transactional functions involve contacting and communicating with prospective buyers to make them aware of existing products and explain their features, advantages, and benefits. Logistics functions is the efficient and cost-effective forward and reverse flow and storage of goods, services, and related information, in to, through, and out of channel member companies. Logistics functions typically include transportation and storage of assets as well as their sorting, accumulation, consolidation and allocation for the purpose of conforming to customer requirements, while, facilitating function includes research and financing (Kotler, 2004).

2.8 Porter's Theory of Generic Competitive Strategies

According to Porter (1985), there are three routes to superior performance: you either become the lowest-cost producer in your industry, or you differentiate your products or service in ways that are valued by the buyer to the extent that he or she will pay a premium price to get these benefits or you choose a focus in which case you apply either of these strategies to a broad market, or to a narrow, focused market. Thus, according to Porter (1985), there are three basic generic strategic approaches to competing in the market place and outperforming other firms in an industry from which a company can choose namely: overall cost leadership, differentiation, and focus. A fourth strategy for competing which has been identified by Kim and Mauborgne (2005) is blue ocean strategy. This strategy involves finding and establishing in markets that are not competitive. Entering such markets early enables a firm to get an edge over its rivals and because the market is not competitive a firm can charge a price that will enable it to reap superior returns.

The generic strategy typologies proposed in the late 1970s and 1980s became the theoretical basis for identifying strategic groups in industries. Porter's (1985) generic strategy typology is the most widely referenced. According to Porter (1985), a business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market.

2.9 Small and Medium Enterprises

Although, there seems to be no precise and consistent definition of small and medium enterprises now, some experts in the subject use the limit of capital investment to define it, while other use the number of employees to adjudge their definition. Whichever method is used there is ambiguity in the definition, in the sense that a firm that is producing below capacity due to some critical economic constraints could claim to be a SMEs, even where it holds capital above the limit advocated (Adeoti, 2005). The table 1 below provides a summary of some SMEs definitions by various agency in Nigeria. From the table statistical definitions of Nigerian SMEs vary. The upper limit of investment is N1.5 Billion and number of employees is 300 (Lawal, & Akingbade, 2018).

3. Research Methods

The study adopted a survey design with the aid of structured questionnaire. While research design is a blue print or road map to the research. It involves the study setting, data collection methods and the variables that was measured and analyzed to test the hypotheses (Chikwe & Ozuru, 2017; Sekaran, 2003; Saunders, Lewis & Thornhill, 2012). This study empirically explored the relationship between service differentiation strategy (SDS) and organizational performance of Nigerian small and medium enterprises (SMEs) in Lagos State. There are 249 registered SMEs with Lagos State ministry of commerce and industry across the six small scale industrial zones of the state, while both Yamani (1967) sample size scientific formula and Sekaran (2003) population to sample size table was used to determined sample size of 152. Meanwhile, questionnaires were distributed to two executives that is owner and manager from each of the selected 152 SMEs which makes the numbers of distributed questionnaire equal to 304.

Therefore, Questions were formulated based on the hypotheses and 304 questionnaires were distributed to two executives that is owner and manager from each of the selected SMEs, out of which 280 of the respondents which is 92% returned duly completed and properly filled questionnaires. The registered SMEs were selected from the following industries which their profiles are shown in appendix 2: courier service, building and construction, food and beverages, carpentry/wood works, household material, leather products, printing press, welding works/fabrication, fashion and design, poultry feeds, nylon bags and plastics. Three hypotheses were tested to determine whether: ordering ease improve customer satisfaction; a superior and more reliable aftersales service increase market share & a quality service increase organizational profitability.

4. Data Analysis and Results

Data were collected through a structured questionnaire administered personally to participating respondents. The questionnaire focused on demographic characteristics of respondents, and responding firms, involvement of responding firms in SDS and organizational performance. The instrument developed by Onuong'a, (2009) was adapted for SDS while organizational performance was measured subjectively by adapting a scale of measurement from Kwandwalla (1995). Respondents were requested to rate performance of their firms relative to competitors on a scale ranging from 1 (low) to 5 (high) performance. Respondents were asked to rate service differentiation strategy of their SMEs on a five-point scale anchored from the scale very large extent (5) to no extent (1). Data gathered were ordering ease, delivery, installation, customer training, consumer consulting, maintenance and repair, returning of goods to sellers after delivery, product quality and other variables related to service differentiation. The Cronbach alpha for this scale was 0.83. Responses were coded and converted to data from which Statistical Packages for Social Sciences (SPSS) was employed for the analysis.

4.1 Hypothesis I

H_0: *There is no significant relationship between channel of distribution and customer satisfaction of SMEs in Lagos State, Nigeria.*

This hypothesis was tested using regression and correlation analyses.

Table 3 – Result of correlation test between channel of distribution (CD) and customer satisfaction (CS)

Correlations				
			CHANNEL OF DISTRIBUTION	CUSTOMER SATISFACTION
Spearman's rho	CHANNEL OF DISTRIBUTION	Correlation Coefficient	1.000	.704
		Sig. (2-tailed)	.	.030
		N	280	280
	CUSTOMER SATISFACTION	Correlation Coefficient	.704	1.000
		Sig. (2-tailed)	.030	.
		N	280	280

Source: Researcher's Computation using SPSS *. Correlation is significant at the 0.05 level (2-tailed)

Table 3 above presents the correlation test between channel of distribution (CD) and customer satisfaction (CS). The Pearson's correlation coefficient (0.704) indicates that there is a substantially high positive correlation between channel of distribution (CD) and customer satisfaction (CS). This test of correlation is also significant since the p-value (0.030) is less the 5% (0.05).

Regression analysis between channel of distribution (CD) and Customer Satisfaction (CS): The regression function is stated as follows with Customer Satisfaction as the dependent variable and channel of distribution as the independent variable: CS = f (CD)

The regression model is stated as follows:

$$CS=a0+a1OE+u$$

Where:
CS = customer satisfaction
a0 = constant intercept
CD = channel of distribution
a1 = slope coefficient
u = error term

Table 4: Result of regression analysis

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.687	.468		7.883	.000
	CHANNEL OF DISTRIBUTION	.098	.047	.085	2.085	.043

Source: Researcher's Computation using SPSS Dependent Variable: CUSTOMER SATISFACTION

Table 4 above presents the result of the regression analysis using SPSS. The intercept coefficient (a0) is 3.687 with standard error, t-stat. and p-value of 0.468, 7.883 and 0.000 respectively. The slope coefficient (a1) of CS (customer satisfaction) with respect to CD (channel of distribution) is 0.098 with standard error, t-stat. and p-value of 0.047, 2.085 and 0.043 respectively. The slope coefficient (a1) is positive. This implies that channel of distribution has positive influence on customer satisfaction. With the p-value less than 5% (0.05), channel of distribution is statistically significant to enhance customer satisfaction. This position is in agreement with that of Bucklin (1966) and Coughlin, Anderson, Steven, and El-Ansary (2017) that organization that makes it services and products available at appropriate time to the final consumers directly and indirectly through retailing and wholesaling intermediaries satisfy and retain their customers than their competitors that do not.

Therefore, both correlation and regression analysis indicate the rejection of the null hypothesis (H0). This implies that there is a significant relationship between channel of distribution and customer satisfaction of SMEs in Lagos State, Nigeria. That is, channel of distribution has significant effect on customer satisfaction.

4.2 Hypothesis II

This hypothesis was tested with t-test using regression and correlation analyses.

H0: *There is no significant relationship between a superior and reliable after sales services and increase in the market share of SMEs in Lagos State, Nigeria.*

Correlation test between a superior and reliable after sales services and increase in the market share of SMEs.

Table 5: Result of correlation analysis

Correlations				
			AFTER SALES SERVICES	MARKET SHARE
Spearman's rho	AFTER SALES SERVICES	Correlation Coefficient	1.000	.540*
		Sig. (2-tailed)	.	.016
		N	280	280
	MARKET SHARE	Correlation Coefficient	.540*	1.000
		Sig. (2-tailed)	.016	.
		N	280	280

Source: Researcher's Computation using SPSS *. Correlation is significant at the 0.05 level (2-tailed)

Table 5 above presents the correlation test between payment methods and customers' satisfaction. The Pearson's rank correlation coefficient (0.540) indicates that there is a moderate positive correlation between after sales services (ASS) and increase in the market share (MS) of SMEs. This test of correlation is also significant since the p-value (0.016) is less the 5% (0.05).

Regression analysis between a superior and reliable after sales services and increase in the market share of SME.

The regression function is stated as follows with market share as the dependent variable and after sales services as the independent variable:

$$MS = f(ASS).$$

The regression model is stated as follows:

$$MS=b0+b1ASS+v$$

Where:
MS = market share
b0 = constant intercept
ASS = after sales services
b1 = slope coefficient
v = error term

Table 6: Result of regression analysis

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.305	.336		9.841	.000
	AFTER SALES SERVICE	.196	.084	.228	2.321	.022

Source: Researcher's Computation using SPSS a. Dependent Variable: MARKET SHARE

Table 6 above presents the result of the regression analysis using SPSS. The intercept coefficient (b0) is 3.305 with standard error, t-stat. and p-value of 0.336, 9.841 and 0.000 respectively. The slope coefficient (b1) of MS (market share) with respect to ASS (after sales service) is 0.196 with standard error, t-stat. and p-value of 0.084, 2.321 and 0.022 respectively. The slope coefficient (b1) is positive. This implies that a superior and reliable after sales services leads to an increase in the market share of SME. With the p-value (0.022) less than 5% (0.05), ASS (a superior and reliable after sales services) is statistically significant to influence MS (market share of SME).

Therefore, both correlation and regression analysis indicate the rejection of the null hypothesis (H0). This implies that a superior and reliable after sales services has a positive significant effect on market share of SMEs in Lagos State, Nigeria. This finding is in line with that of Pettinger, 2017, Bhasin, 2019 & Futrell (2016) that superior and reliable after sales services like installation, warranty, online support, helpline, return/replacement, upgrades, features and benefits increases organization
customers, coverage and market shares. It is evidence that SMEs that provides superior after sales service to their customers is more to have more customers and control larger percentage of the market than its competitors.

4.3. Hypothesis III

H0: *There is no significant relationship between service quality and profitability of SMEs in Lagos State, Nigeria.*

This hypothesis was tested using regression and correlation analyses. Correlation test between service quality (SQ) and profitability (PFT).

Table 7: Result of correlation analysis

Correlations				
			SERVICE QUALITY	PROFITABILITY
Spearman's rho	SERVICE QUALITY	Correlation Coefficient	1.000	.681
		Sig. (2-tailed)	.	.000
		N	280	280
	PROFITABILITY	Correlation Coefficient	.681	1.000
		Sig. (2-tailed)	.000	.
		N	280	280

Source: Researcher's Computation using SPSS *. Correlation is significant at the 0.05 level (2-tailed)

Table 7 above presents the correlation test between quality of service (QS) and profitability (PFT). The Pearson's correlation coefficient (0.681) indicates that there is a high positive correlation between quality of service (QS) and profitability (PFT) of SMEs. This test of correlation is also significant since the p-value (0.000) is less the 5% (0.05).

Regression analysis between quality of service (QS) and profitability (PFT): The regression function is stated as follows with profitability as the dependent variable and quality of service as the independent variable:

$$PFT = f(QS)$$

The regression model is stated as follows:

$$PFT=c0+c1QS+u$$

Where:
PFT = profitability
c0 = constant intercept
QS = quality of service
c1 = slope coefficient, u = error term

Table 8: Result of regression analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.008	. 247		12.194	.000
	QUALITY OF SERVICE	.140	.060	.022	2.333	.021

Source: Researcher's Computation using SPSS Dependent Variable: PROFITABILITY

Table 8 above presents the result of the regression analysis using SPSS. The intercept coefficient (c0) is 3.009 with standard error, t-stat. and p-value of 0.247, 12.194 and 0.000 respectively. The slope coefficient (c1) of PFT (profitability) with respect to QS (quality of service) is 0.098 with standard error, t-stat. and p-value of 0.140, 0.060 and 0.021 respectively. The slope coefficient (c1) is positive. This implies that quality of service has positive effect on profitability. With the p-value less than 5% (0.05), quality of service has a statistically significant effect on profitability.

Therefore, both correlation and regression analysis indicate the rejection of the null hypothesis (H0). This implies that there is a significant relationship between quality of service and profitability of SMEs in Lagos State, Nigeria. This submission is in agreement with Oyeniyi & Abiodun (2012) and Parasuraman, Zeithaml, & Berry, (1988) that Quality service (reliability, physical aspects) and product rendered to the end users improves SMEs profitability. That is, the final consumers enjoy and value reliable, uninterrupted quality service and products irrespective of the price or charges.

4.4 Discussion of Findings

The findings of the study have important practical implications and recognize the overriding fact that there is growing concern for SDS activities in the SMEs in Lagos State, Nigeria. The

SDS issues that attract the attention of participating firms are ordering ease, delivery, installation, customer training, consumer consulting, maintenance and repair, returning of goods to sellers after delivery. However, most of the responding firms reported their least involvement in SDS. This finding is consistent with the results of previous studies Bhasin (2017) and Onuong'a (2009).

This study reveals that there is a significant relationship between channel of distribution and customer's satisfaction. It shows that SMEs that makes it services and products available at appropriate time to the end users directly (producer to consumers) and indirectly through intermediaries (distributors, agent, wholesaler and retailer) satisfy and retain their numerous customers than their competitors that neglect this act. This study has revealed prominent attributes of SDS in Nigerian SMEs. Also, it has established the adoption of SDS in this subsector. Further, the study establishes significant relationship between quality service and quality differentiated product (reliability, durable, last long, physical) rendered to the end users improves SMEs profitability. This is an indication that final consumers enjoy and value, reliable, durable, uninterrupted quality service and products irrespective of the price or charges. In a similar study, Onuong'a, (2009) established a positive relationship between SDS and organizational outcomes and indicated that channel of distribution by SMEs might be affected by the elements of SDS. Studies have also revealed that quality and aftersales service have a higher level of performance (Bhasin, 2017). In addition, superior and reliable after sales services like installation, warranty, online support, helpline, return/replacement, upgrades, features and benefits increases organization market shares. It is clear that SMEs that provides superior after sales service to their customers is at the advantage of having more customers and control larger percentage of the market than their rival. The study justifies the need for effective service differentiation strategy for attaining organizational performance. However, ineffective SDS by SMEs is most likely to result into low patronage, bad service quality and low organizational performance. The positive relationship between channel of distribution and improve customer satisfaction implies that owners and managers of Nigerian SMEs can therefore improve customer satisfaction by making channel of distribution very easy for their customer through the following medium: organization website, online, whatsapp, email, instagram, facebook, twitter, mobile app among others. Organization need to makes it services and products available at appropriate time to the final consumers directly and indirectly through retailing and wholesaling intermediaries to satisfy and retain their customers than their rivals in the same industry.

Obamiro, (2013) share similar view in his study on effects of waiting time on patient satisfaction in Nigerian hospitals. Nigerian SMEs need to proactively eradicate all forms of discrimination and create a climate that supports service differentiation. The Pearson's correlation coefficient (0.704) indicates that there is a substantially high positive correlation between channel of distribution (CD) and customer satisfaction (CS). Therefore, findings shows that both correlation and regression analysis indicates the rejection of the null hypothesis (H0). This implies that there is a significant relationship between channel of distribution and customer satisfaction of SMEs in Lagos State, Nigeria. That is, channel of distribution has significant effect on customer satisfaction. From Hypothesis two, the Pearson's rank correlation coefficient (0.540) indicates that there is a moderate positive correlation between after sales services (ASS) and increase in the market share (MS) of SMEs. This implies that a superior and reliable after sales services leads to an increase in the market share of SME. With the p-value (0.022) less than 5% (0.05), ASS (a superior and reliable after sales services) is statistically significant to influence MS (market share of SME). While hypothesis three shows that the Pearson's correlation coefficient (0.681) indicates that there is a high positive correlation between quality of service (QS) and profitability (PFT) of SMEs. With the p-value less than 5% (0.05), quality of service has a statistically significant effect on profitability. Therefore, both correlation and regression analysis indicate the rejection of the null hypothesis (H0). This implies that there is a significant relationship between quality of service and profitability of SMEs in Lagos State, Nigeria.

5. Conclusion and Recommendations

The study reveals that service differentiation strategy enhances organizational performance in the Nigeria SMEs in Lagos State. The answers to the tested hypotheses confirmed that there is a significant relationship between channel of distribution and customer's satisfaction. It is discovered that organization that makes it services and products available at appropriate time to the final consumers directly and indirectly through retailing and wholesaling intermediaries satisfy and retain their customers than their competitors that do not. The reason for this are not farfetched, their customers are comfortable with the products and service they enjoyed which are provided as at when due. Further, superior after sales services like installation, warranty, online support, helpline, return/replacement, upgrades, features and benefits increases organization market shares. It is evidence that SMEs that provides superior after sales service to their customers is more to have more customers and control larger percentage of the market than their competitors. Also, Quality service (reliability, physical aspects) and product rendered to the end users improves SMEs profitability. That is, the final consumers enjoy and value reliable, uninterrupted quality service and products irrespective of the price or charges. Meanwhile, SMEs that uses appropriate and reliable channels of distribution, superior after sales services and effective & efficient quality service will earn customers' satisfaction, increase in market share and improved profitability respectively.

Therefore, in view of the foregoing, it was recommended that management of SMEs in Lagos State, Nigeria should make use of appropriate and reliable direct (producer to consumers) and indirect (producer to wholesaler to retailer to consumers) channels of distribution to render their unique delivery services of getting the product to their final consumers at stipulated time which can lead to satisfactions, retention and loyalty of customers. Second, SMEs management should put in place for their customers superior and reliable after sales service like warranty, online support, upgrades features and benefits, installation, helpline among others which can enhance more customers, wider coverage and increase market share. Third, owners and managers of SMEs should differentiate their services and products in terms of best quality that cannot be matched by their rivals and competitors in the same industry which lead to increase in the number of customers, sales and profitability. Forth, SMEs management should use direct channel of distribution of their product and service to the final consumers. This can eliminate unscrupulous role of middlemen (agent, wholesaler and retailer) in Nigeria which include delay in making the product and service available to the end users, creating artificial scarcity, hoarding of the product, increase in price among others which lead to customer satisfaction, loyalty and retention. Fifth, SMEs owner and manager should use indirect channel of distribution that involve intermediary (agent, wholesaler and retailer) for the bulk produce, sell, distributed and deliver services and products that a consumer cannot directly buy from the company which lead to convenience, satisfaction and retention of customers. Sixth, SMEs management should be encouraged to use SDS to enable them have an edge over there competitors in the same industry.

5.1 Limitations and Suggestion for Future Research

This study was limited to SMEs in Lagos State, Nigeria, hence further study should be carried out on other sectors of Nigeria economy like manufacturing, banking, telecommunication among others. Further studies should be conducted on comparative analysis between large scale indigenous enterprises and multinational corporations in manufacturing, banking, telecommunication industry. Meanwhile, this study centered on few SMEs owners and managers in Lagos State, however similar study can be conducted on all registered SMEs in Nigeria. This study should be replicated in other states of Nigeria and other countries of the world. Future research that are related to this study should include intervening variables to explain the dependents and independent variables.

5.2 Contributions to Knowledge

This study has contributed to knowledge and added to existing literature on SDS and OP by empirically validating that using a direct and indirect channel of distribution can enhance customer satisfaction, loyalty and retention. Further contribution to knowledge by this study was the demonstration that superior and reliable after sales service is positively and statistically correlated with SMEs market share and it also rationalize that significant relationship exist between after sales service and increase in SMEs number of customers and coverage area. In addition, this study has make important contribution to knowledge and confirmation that differentiated service quality improves organizational profitability. Also, the study makes important contributions to theory and practice. Meanwhile, this study will serve as reference point to support future studies on SDS and OP. Finally, relevant literatures has been gathered and in-depth analysis and knowledge has been given on SDS and OP in SMEs along with the attached benefits.

References

1. Abiodun, A.J., Adeyemi, K.S., Osibanjo, A.O. (2014). Quality Dimensions, Value, Service Cost and Recommendation Behaviour: Evidence from the Nigerian Cellular Industry. *International Journal of Economic Behaviour* 4 (1) 139-150
2. Adebisi, S.A. & Oghojafor, B.E.A. (2015).Company vision, mission, environment and strategies on performance of the global system for mobile-telecommunication industry in Nigeria. *Strategic management review*, 9(1)19-31.

3. Adebiyi, S.O., Oyatoye, E, O., Amole, B. B, (2015). Determinants of Customers` Churn Decision in the Nigeria Telecommunication Industry: An Analytic Hierarchy Process Approach, *International Journal of Economic Behaviour,* 5 (1) 81-104
4. Adeoti, O.O. (2013). *Business Policy and Strategic Management for Corporate Managers,* Lagos: pumark publisher.
5. Akingbade, W.A. (2007). Impacts of strategic management on corporate performance in selected indigenous small and medium scale enterprises (SMES) in Lagos metropolis. *Unpublished M.Sc. dissertation* submitted to the Department of Business Administration and Management Technology, Lagos State University, Ojo; Lagos, Nigeria, March.
6. Akingbade, W.A. (2014). Competitive strategies and improved performance in selected Nigeria telecommunication companies, *Journal of Entrepreneurship Management and Innovation, Nowy Sacz Business School, National-Louis University, Poland*, 10, (4), 143-167.
7. Akingbade, W.A. (2016). Effects of Organizational Strategies on the Performance of some selected Telecommunication Companies in Nigeria. *Unpublished Ph.D thesis* submitted to Postgraduate School, Lagos State University, Ojo; Lagos, Nigeria, November.
8. Amole, B.B., Oyatoye, E.O. & Kuye, O.L. (2017). Determinants of Patient Satisfaction on Service Quality Dimensions in the Nigeria Teaching Hospitals. *Journal of Hospital and Management,* 2 (3) 54-67.
9. Bhasin, H. (2017). *Marketing Strategy:* 7 types of after sales service to keep your customer satisfy.
10. Bucklin, L. P. (1966). A Theory of Distribution Channel Structure. *Institute of Business and Economics Research,* University of Califonia
11. Chikwe, O.T. & Ozuru, H.O. (2017). Strategy Implementation Dynamics: The Architect of Entrepreneurial Effectiveness in Selected Small and Medium Enterprises (SMEs) in Port Harcourt, Nigeria, *Proceedings of 11th Annual Conference of The Academy of Management Nigeria.*
12. Coughlin, A.T., Anderson, E., Steven, L.S., & El-Ansary, A. (2017). *Marketing Channel,* 6th edition, New Jersey: Prentice Hall
13. Cronin, J.J. & Taylor, S.A. (1994). Measuring Service Quality: A Reexamination and Extension, *Journal of Marketing,* 56 (July), 55-68.
14. Dabholkar, P.A, Thorpe, D.I. & Renz, J.O. (1996). A Measure of Service Quality for Retail Stores: Scale Development and Validation, *Journal of the Academy Marketing Science,* 24 (1) 3-16
15. Dauda, Y. A., Akingbade, W. A., & Akinlabi, H. B. (2010). Strategic management practice and corporate performance of selected small business enterprises in Lagos Metropolis. *International Journal of Business and Management,* 5 (11), 97-105.
16. Gibcus, P, & Kemp, R.G.M. (2003). Strategy and small firm performance. Research Report. PP: 1-98.

17. Gray, J.H. (1997). Small Business strategy in Australia. *Academy of Entrepreneurship Journal,* 2(2), 52-63.
18. Kimura, S. & Mourdoukoutas, P. (2010). Effective integration of management control systems for competing in global industries, *European Business Review,* 12 (1): 41 – 45.
19. Kotler, P. (2004). Marketing Management, Prentice Hall. (11th Ed.). New Jersey.
20. Lamb, C.W; Hair, Jr, J.F & McDaniel, C. (2014). *Marketing.* USA: Cengage Learning.
21. Lawal, A.A & Bello, M.A. (2010). *Business policy and strategic management.* Lagos: Suhanif Nigeria Limited.
22. Lawal, A.A., & Akingbade, W.A. (2018). Diversity management and organizational performance: Evidence from Nigerian small and medium enterprises in Lagos State, Nigeria. Paper presented at the *45th Annual Conference of Academy of International Business (AIB) United Kingdom and Ireland chapter held at The Birmingham Business School, University of Birmingham*, 12th -14th April.
23. Leiblein, M.J. (2013). What do resources and capability based theories propose? *Journal of Management,* 37 (4), 909-932.
24. Nunnally, J. (1978). *Psychometric Theory,* New York: McGraw-Hill
25. Obamiro, J.K. (2013). Effects of Waiting Time on Patient Satisfaction: Nigerian Hospitals Experience, *International Journal of Economic Behaviour,* 3 (1) 117-126
26. Oghojafor, B.E.A. (2000). *Business policy & strategic management,* Lagos: Malthouse Press.
27. Oghojafor, B.E.A. (2013). Competitive Strategy: the perpetual struggle for a successful life, *249th Inaugural Lecture of the University of Lagos.*
28. Onuong'a, M.O. (2009). Achieving sustainable competitive advantage through service differentiation strategies used by courier service operators in Nairobi: A case study of g4s courier service company. *A management research project submitted in partial fulfilment of the requirements for award of a masters' degree in Business Administration (MBA), faculty of commerce, school of business, University of Nairobi, Kenya.*
29. Osuagwu, L.C. (2010), *Entrepreneurship & Small Business Management,* Lagos: Grey Resources Limited.
30. Oyedijo, A.I. (2004). *Strategic Management: An introductory Text*. Lagos: Strategic international press
31. Oyedijo, A.I. (2012). Competitive strategy orientations of small and medium business owners and their performance impacts: the case of paint manufacturing smes in south – western Nigeria. *Journal of Asian Business Strategy.* 2 (1), 1 – 8.
32. Oyeniyi, O. & Abiodun, A.J. (2012). Measuring Retail Service Quality in Nigerian Departmental Stores. *International Journal of Economic Behaviour,* 2, 37-45.
33. Palmer, A. (1999). *Service Strategies*, McGraw-Hill
34. Parasuraman, A., Zeithaml, V.A. & Berry, L.L. (1988). SERVQUAL: A multi-item Scale for Measuring Consumer Perceptions of the Service Quality, *Journal of Retail and Distribution Management,* 28 (2), 73-82.
35. Parnell, J.A. (2012). Competitive Strategy and Performance in Mexico, Peru, and the United States. *Journal of Centrum Cathedra,* 12 (2), 150-164.
36. Pineda, M.E. (2019). Business & Markets: Examples and Types of After-Sales Services. *htpps://www.protolus.com/business-and-market*
37. Porter, M.E. (1980). *Competitive Strategy*, New York: Free Press.
38. Porter, M.E. (1985). *Competitive Advantage,* New York: Free Press.

39. Saunders, M., Lewis, P., & Thornhill, A. (2012). *Research Methods for Business Students,* United Kingdom: Pearson Higher Education.
40. Sekaran, U. (2003). *Research methods for business: A skill-building approach.* Fourth Edition. New York: John Wiley and Sons, Inc.
41. Silvestrelli, P. (2018). Managing Changes into International Markets. Flexible Structures and Knowledge Sharing for Firm Competitiveness, *International Journal of Economic Behaviour,* 8 (1) 3-18.
42. Thompson, A.A, Stickland, A.J. (2001). *Strategic Management Concepts and Cases,* USA: McGraw Hill
43. Thompson, Jr.A.A, Strickland, A.J. & Gamble, J.E. (2014). *Crafting and Executing Strategy: Text and Readings*.15th Edition, Mc Graw-hill Publishers: New York.
44. Wheelen, T.L. & Hunger, J.D. (2012). *Strategic management and business policy.* 12th edition. New York: Prentice Hall.
45. Yamin, S; Gunasekaran, A; & Mavondo, F.T. (1999). Relationship between generic strategies, competitive advantage and organizational performance: an empirical analysis. *Technovation,* 19: 507-518.
46. Yaşar, F. (2010). Competitive strategies and firm performance: case study on gaziantep carpeting sector. *Mustafa Kemal Üniversitesi Sosyal Bilimler Enstitüsü Dergisi,* 7(14), 309-324.

Appendix I: Definitions of SMEs by number of employees, turnover and assets value.

N	Agency	Year	Number of Employees			Turnover			Asset Value		
			Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
1	Small and Medium Enterprises Development Agency (SMEDAN)	2009	<10	10-49	50-199	NA	NA	NA	N<5M	N5-≤N50	N50-<500
2	Micro, Small and Medium Enterprises Development Fund (CBN)	2013	<10	11	200	NA	NA	NA	≤N5m	N5M	≤N500M
3	Small and Medium Enterprises Guarantee Scheme (CBN)	2010	NA	11	300	NA	NA	NA	NA	NA	≤N500M
4	Companies and Allied Matters Act	2014	NA	NA	NA	NA	≤ N2m	NA	NA	≤N1M	≤N500M
5	Small and Medium Industries Equity Investment Scheme	2003	NA	10	≤ 300	NA	NA	NA	NA	NA	≤N200M
6	National Council on Industry	2001	≤10	11-100	101-300	NA	NA	NA	≤N1.5	<N50M	N50M≤N200M
7	Small and Medium Enterprises Development Agency (SMEDAN)	2015	≤10	10-49	50-199	NA	NA	NA	<N10M	N10M-≤N100M	N100M-<N1B
8	Central Bank of Nigeria	2005	≤10	11-100	101-300	NA	NA	NA	≤N1.5M	≤N50M	≤N200M
9	Central Bank of Nigeria	2006	NA	NA	NA	NA	NA	NA	NA	NA	≤N1.5B

Source: Adapted from Lawal, A. A, & Akingbade, W.A. (2018).

Appendix 2: PROFILE OF SELECTED SMEs INDUSTRIES

SN	INDUSTRY	NUMBER OF EMPLOYEES	CAPITAL
1	Courier Service	15-45	N10M-N32M
2	Building and Construction	14-80	N15M-N45M
3	Food and Beverages	20-73	N18-N38M
4	Carpentry/Wood works	12-64	N11M-N44M
5	Household Material	11-45	N13M-N38
6	Leather Products	13-48	N19M-N47M
7	Printing Press	12-51	N20M-N40
8	Welding Works/Fabrication	14-69	N22M-N43M
9	Fashion and Design	11-50	N9M-N32M
10	Poultry Feeds	39	N25M

Source: Field Survey (2019)

BOARD COMPOSITION AND FAMILY FIRMS' PROFITABILITY. DO GENERATIONAL STAGE AND PERFORMANCE LEVEL MATTER?

Annalisa Sentuti
Carlo Bo University of Urbino, Italy

Gail Denisse Chamochumbi Diaz
Carlo Bo University of Urbino, Italy

Francesca Maria Cesaroni
Carlo Bo University of Urbino, Italy

Received: *June 10, 2020* Accepted: *July 14, 2020* Online Published: July *27, 2020*

Abstract

This article examines the relationship between board composition and family firms' performance. Namely, by adopting the theoretical framework of socio-emotional wealth and analyzing a sample of Italian medium-sized family firms, we investigate how the presence of non-family directors affects their financial performance, considering the generational stage as a moderating variable. Findings suggest that a higher presence of non-family directors has a less positive effect on first-generation family firms than in later generations of family firms. Furthermore, by adopting a quantile regression, results show that this effect is more striking in low-performing family businesses than in high.

Keywords: Family Businesses; Board of directors; Firm performance; Non-family directors; Corporate governance; Generational stage; First-generation family firms; Quantile regression

1. Introduction

Family firms are the prevalent form of business organizations across the globe (Zellweger, 2017). These companies are characterized by a deep and broad involvement of family members in ownership, governance, and management across generations (Chua et al., 1999). Many scholars maintain that the extent to which the owner family can affect firms' profitability mainly relies on the family's involvement in governance systems and decision-making (Sciascia & Mazzola, 2008; Kellermanns et al., 2012), while its involvement in business ownership is considered less important (Sacristan-Navarro et al., 2011).

This fact raises questions about the most effective composition of governance systems in family firms. A crucial decision that owner families have to take, especially when the business grows and managing it becomes more complex, concerns the possible involvement of non-family directors (Sciascia et al., 2014). In fact, this decision implies that family members should share business controlling and decision-making with non-family directors. Bearing in mind that the board of directors is the main structure of corporate governance (Lane et al., 2006; Nordqvist et al. 2014), several scholars have examined how its composition may influence family firms' profitability (Kowalewski et al., 2010; Mazzi, 2011; Mazzola et al., 2013; Minichilli et al., 2016; Mustapha et al., 2017; Calabrò et al., 2020; Fernàndez-Temprano & Tejerina-Gaite, 2020). To date, conflicting results have emerged. Indeed, prior research suggests that the presence of non-family directors can be beneficial (Anderson & Reeb, 2004; Voordeckers et al., 2007; Minichilli et al., 2009; Wright & Kellermanns, 2011; Basco & Voordeckers, 2015; Corbetta et al., 2017; Arzubiaga et al., 2018), detrimental (Lee, 2006), or neutral (Kowalewski et al., 2010; Mazzola et al., 2013; Minichilli et al., 2016) to family firms' performance. Thus, how the involvement of non-family directors can affect family firms' profitability is still unclear (Kowalewski et al., 2010; Mazzola et al., 2013; Minichilli et al., 2016; O'Boyle et al., 2012; Pintado & Requejo, 2015), and the research gap is still unfilled. This reality is especially true concerning non-listed small and medium-sized family firms (Arzubiaga et al., 2018; Garcia et al., 2019), as existing studies mostly consider big and listed companies. Moreover, many scholars compare family and non-family businesses and implicitly consider family firms a homogeneous group (Chua et al., 2012; Daspit et al., 2018), thus failing to capture the effects of their heterogeneity on financial performance.

To fill this gap, this study focuses on private medium-sized family firms and investigates the relationship between board composition and family firms' performance. In carrying out such analysis, our starting point is that family businesses are not a homogeneous group. Apart from the different levels of family involvement in family firms' governance and management (Nordqvist et al., 2014), one of the main sources of heterogeneity within family firms is the generational stage (Daspit et al., 2018). Family firms in different generational stages can show profound differences in business goals, strategic behaviors, decision-making processes, management style, openness, and trust towards outside managers and directors (Kellermanns & Eddleston, 2006; Gomez-Mejia et al., 2011; Cruz & Nordqvist, 2012; Sciascia et al., 2014; Arrondo-García et al., 2016; Garcia et al., 2019). Therefore, we believe that including family firms' generational stage in the analysis allows us to go into greater depth in exploring the effect of family/non-family members' involvement in family firms' governance and its relationship with firms' performance.

In our analyses, we have adopted the Socio-Emotional Wealth (SEW) perspective (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010; Gomez-Mejia et al., 2011), assuming that the aim of preserving affective endowments changes over generations (Berrone et al., 2012). It is higher in first-generation family businesses (more oriented to non-financial goals) and lower in multigenerational family businesses (more interested in financial goals) (Sciascia et al., 2014).

According to this perspective, we believe that the involvement of non-family directors on family business boards could produce different effects depending on whether the family firm is a first or subsequent generation. Notably, we posit that non-family directors' presence could have a lower benefit when the founder generation is in charge because of the existence of differences in terms of priorities and objectives between family and non-family members.

Moreover, we argue that the moderating effect of the generational stage on the relationship between non-family directors and financial performance may vary across financial performance levels (low or high). This occurs because when the family firm achieves high performance, the family owners perceive that the SEW preservation is ensured (Zellweger, 2017), so conflicts with non-family directors are less likely to arise. Conversely, if the family firm experiences low performance, conflicts between family and non-family directors may arise, especially in first-generation family firms. On the contrary, these conflicts are less likely to occur in later-generation family firms, which are less oriented towards SEW and, therefore, more willing to take drastic decisions to protect financial performance, which is considered a priority. For that reason, we hypothesize that the influence of non-family directors can change not only with regard to the generational stage but also the distribution of family firms' financial performance.

We have tested our hypotheses on a sample of 219 Italian medium-sized family firms. Mid-sized companies have been widely neglected in research on family firms' performance and board of directors. That is why our focus is on this important yet under-researched segment of companies. Our findings confirm that in first-generation family firms, the positive effect of non-family directors is more limited than in later generation family firms. Furthermore, by adopting a quantile regression, results show that this effect is more striking in low-performing family business than in high-performing ones.

This study makes four theoretical contributions. First, we show that the involvement of non-family directors is not a universal panacea for all family firms because these firms are not a homogeneous universe. Notably, the involvement of non-family directors is less effective in first-generation family firms and particularly in those with low performance. Second, our study underlines the importance of performance level as a factor that can deeply affect the relationships between non-family directors involvement and family firms' financial performance. Third, we further knowledge about professionalization (Bassani & Cattaneo, 2020) and possible variables that can shape the success of this critical process for medium-sized family businesses. Finally, from a methodological perspective, this study confirms the usefulness of the quantile regression to evaluate the effects of non-family directors on firms' performance further.

In the remainder of the article, we describe our theoretical framework, develop our hypotheses (Section 2), and present the research method, sample selection process, and the definition variables (Section 3). Then, we show our results and robustness tests (Section 4), ending with the discussion and conclusions (Section 5).

2. Theoretical framework and hypothesis development

The SEW perspective represents an all-encompassing approach that captures the "affective endowments" of family owners, including the family's desire to exercise their authority, the enjoyment of family influence, the maintenance of clan membership within the firm, the appointment of trusted family members to important roles, the retention of a strong family identity, and the continuation of the family dynasty (Gomez-Mejia et al., 2007; Berrone et al., 2012). From this perspective, the uniqueness of family firms is given by the importance attached to non-economic objectives (emotional and social needs of the family) in influencing family firms' decision-making and strategic choices (Gomez-Mejia et al., 2011). The fundamental priority of a family business is to maintain family control over the company, acting conservatively, and avoid business decisions that may jeopardize business continuity, even if it means giving up higher performance (Gomez-Mejia et al., 2007).

Within the SEW perspective, the generational stage of family firms assumes a crucial role and is considered one of the most important sources of heterogeneity among family firms (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010; Gomez-Mejia et al., 2011). Sentiments, emotions, and relationships within the family controlling a firm may vary from one firm to another and, within each firm, from one moment to another over time (Hoy & Sharma, 2010), as do the aims, values, and perceptions of the family owners (Westhead & Howorth, 2006).

Similarly, the need to preserve "affective endowments" in family businesses changes with the passing of generations (Berrone et al. 2012). Thus, not all generations in control have the same level of SEW and pursue the same goals in managing the business.

As affirmed by Arrondo-Garcìa et al. (2016), corporate decisions are contingent on the generation in control. Since first-generation family businesses present a stronger emotional attachment to the firm than multigenerational family businesses, the former are more oriented to non-financial goals and less interested in financial performance (Sciascia et al. 2014). First-generation leaders prioritize their firm's survival so that they can pass it on to later generations (Arrondo-García et al., 2016). In fact, in first-generation firms, one of the most important non-financial aims is trans-generational sustainability, which has major implications for the decision-making process (Astrachan & Jaskiewicz, 2008; Zellweger et al., 2010). The founder generation tries to ensure the company's stability as much as possible to ensure continuity (Breton-Miller & Miller, 2009). Control, influence, sense of dynasty, and emotional attachment have a stronger weight in the first generations, given these companies' founder-centric orientation (Berrone et al., 2012).

In this vein, several scholars have claimed that conflicting findings from extant research on family/non-family members' involvement in governance structure and a firm's profitability can be explained by considering the generational stage of the business (Arosa et al., 2010; García-Ramos & García-Olalla, 2011; Chua et al., 2012; Sciascia et al., 2014; Maseda et al., 2015; Arrondo-Garcia et al., 2016; Blanco-Mazagatos et al., 2016; García-Ramos et al., 2017). The generational stage is also recognized as a key factor in influencing business performance (Cucculelli & Micucci, 2008; Garcia-Castro & Aguilera, 2014; Sciascia et al., 2014; García-Ramos et al., 2017; Miller et al., 2017).

According to these arguments, and in line with the SEW viewpoint, we posit that the generation in control can act as a moderator in the relationship between board composition and family firm's financial performance. In fact, in first-generation family firms, the involvement of non-family directors may be in conflict with first-generation priorities, as the latter care more about preserving their SEW while non-family directors "might only focus on business performance without taking into consideration family objectives" (Gómez et al., 2016). In a first-generation family firm, the leader's orientation towards non-financial goals (preserving SEW, even at the expense of financial performance) could be in contrast with non-family directors' priorities, as the latter are less attached to the business and more oriented to maximizing financial goals (Breton-Miller & Miller, 2013).

Consequently, in a first-generation family firm, a stronger agreement on objectives and priorities is expected in a board of directors entirely or mainly composed of family members rather than in a board with a high presence of non-family directors. When family members mainly sit on the board, quicker and less conflicting decisions are expected, with a positive effect on the firm's performance. Hence, in first-generation family firms, the positive effect of non-family directors diminishes because of potential conflicts, which may arise with family members and slow down the decision-making processes to the detriment of financial performance. On the other hand, when the business is managed by subsequent generations—typically less concerned about preserving SEW—conflicts between family and non-family directors are less likely, and greater harmony in the boardroom will benefit the company's financial performance.

In light of these arguments, we assume that non-family directors' presence interacts with the generational stage to influence family firm's financial performance. Thus, we propose the following hypothesis:

Hp1. *In first-generation family firms, the positive effect of non-family directors on business performance is limited than in later generations.*

We believe, furthermore, that this effect could vary across business performance levels. Specifically, we argue that the relationship between board composition (e.g., presence of family/non-family directors) and family firms' performance can change according to the firm's performance level (poor performance or high performance). From a theoretical point of view, the SEW paradigm provides an effective explanation of why priorities, behaviors, and choices of owner families change according to the company's level of performance. According to this paradigm, family businesses consider the preservation of "affective endowments" their priority, which has a substantial impact on strategic decision-making. However, Zellweger (2017) argues that family firms can alter their scale of priorities (financial vs. non-financial goals) depending on the circumstances the firm is facing (e.g., low or high performance). In other words, according to the degree of vulnerability perceived in terms of SEW, family members are more or less inclined to alter their attitudes and strategic decisions to protect the firm and safeguard their SEW.

In conditions of financial well-being—that is, when the company achieves high performance—family owners are less likely to modify their behavior and strategic decision making (i.e., it is more likely that the board of directors will not have to take drastic decisions that generate conflicts) because high performance guarantees not only the stability and survival of the firm but also the maintenance of their SEW.

Vice versa, in conditions of low performance, the preservation of "affective endowments" (Berrone et al. 2012) may be threatened, which then puts the survival of the firm at risk and hence the maintenance of the SEW. According to Berrone et al. (2012), poor performance poses a twofold threat: possible financial distress for the family, especially if family members have invested most of their money in one organization, and the risk of losing their SEW, if they have to sell or close the company. This vulnerability creates a strong sense of uncertainty and financial instability. Therefore, under this threat, the family members may change their priorities to restore the financial well-being of the firm and thereby preserve the SEW (Zellweger, 2017).

However, we argue that, especially in first-generation family firms, non-financial goals do not disappear, and family business owners may experience a great sense of pressure in simultaneously pursuing both financial performance recovery and SEW preservation. Dealing with poor performance can require radical and/or extreme decisions, and first-generation family directors (more oriented towards finding a balance between financial recovery and SEW preservation) might come into conflict with possible non-family directors (mainly oriented towards performance recovery). For instance, non-family directors may press to dismiss some employees to reduce costs and improve financial performance. Nevertheless, first-generation family directors may be less willing to do this as it could compromise the family firm's relationship with employees and its corporate social responsibility, which are both crucial concerning the preservation of their SEW (Berrone et al., 2012).

The trade-off between the conflicting perspectives of family and non-family directors could slow down the decision-making processes and the strategic behavior of the business. Thus, the benefits stemming from the involvement of non-family directors in first-generation family firms may prove to be less significant in the case of low-performing firms than high-performing ones.

From a methodology point of view, the prior empirical literature has commonly studied the relationship between board composition and financial performance, by taking for granted that the effect of this relationship is always constant across the distribution outcomes. However, some scholars (Arrondo-Garcia et al., 2016; Conyon & He, 2017) in governance studies made a call to analyze the differential effect that could take place at different levels of performance.

In this context, we have introduced the performance level to understand whether the influence of non-family members' involvement in the board can change along with the distribution of family firm's financial performance. In doing so, we agree with scholars who posit that the effects of specific governance features (e.g., the composition of a board of directors) on a firm's performance can vary across the distribution of the outcome variable (Conyon & He, 2017).

This perspective implies that the effects of the board's composition on a family firm's performance should be analyzed, not only considering the generational stage (first generation or otherwise) but also the business's level of performance. Thus, in contrast to what has been assumed in previous studies—where the effect of board composition is considered constant across the performance distribution—our hypothesis is as follows:

Hp2. *The moderating effect of the generational stage on the relationship between non-family directors and financial performance varies across performance levels.*

3. Research method: model, sample, data, and variables

3.1 Model

To test our Hp1, we have adopted the ordinary least squares (OLS) estimator. Specifically, we ran the following conditional mean regression model:

$$Y_{it} = \alpha + \beta G_{it} + \gamma X_{k,it} + \varepsilon_{it} \quad \text{(Hp1)}$$

Where Y_{it} represents the dependent variable, in our case, financial firm performance in year t. The term G indicates our main independent variables of interest. Particularly, these are measured by the percentage of non-family members on the board, generation in control, and the interaction term between the previous two. Lastly, X is a set of control variables (all variables are defined below).

Results from OLS regression were further investigated using quantile regression. The rationale behind this choice is that OLS regression does not allow us to take into account that the relationship between board composition and family firms' performance can change according to the firm's performance level. In fact, OLS regression only predicts the average—conditional mean—relationship between an input variable X and outcome quantity Y. Therefore, in most analyses on this topic, the effect of board composition is considered constant across the distribution of performance.

Quantile regression can be applied to predict single parts of the distribution of an outcome variable, named quantiles (Koenker & Gilbert, 1978), and offers two main advantages. First, quantile estimates are less likely to be influenced by extreme data points. Second, as suggested by Conyon and He (2017), the effects of specific governance features (independent variable) can vary across the distribution of the outcome variable (dependent), and adopting a quantile regression allows for a more comprehensive picture of that relationship. Several scholars in governance studies have highlighted advantages stemming from the use of quantile regression (Arrondo-Garcia et al., 2016; Conyon & He, 2017) and have suggested using such a method to overcome the contradictory results obtained so far when adopting OLS regression (Arosa et al., 2016; Conyon & He, 2017). That is why we believe that adopting quantile regression can make a significant contribution to further knowledge on the relationship between board composition and family firms' performance.

In line with these arguments, we have used quantile regression to test our Hp2, arguing that the moderating effect of the generational stage can vary along with the distribution of financial performance. Namely, the Hp2 has been tested using the following quantile regression to estimate conditional quantile functions (Koenker & Gilbert, 1978):

$$Q_{\tau} = \alpha_{\tau} + \beta_{\tau} G_{it} + \gamma_{\tau k} X_{k,it} + \varepsilon_{it} \quad \text{(Hp2)}$$

Q_{τ} represents the τ^{th} quantile regression function. In this study, we have estimated the 25th (Q25), median (Q50), and 75th (Q75) percentiles of the performance distribution. More specifically, firms with low performance are located in the first quantile (Q25), while high-performance firms are located in the last quantile (Q75). The interpretation of the results derived from the application of the quantile regression is similar to an OLS estimator. However, three different coefficients are obtained (Q25, median, Q75), which represent in detail the relationship between financial performance (dependent variable) and the covariates (independent variables).

3.2. Sample and data collection

Research on the relationship between board composition and family firms' performance mainly focuses on large and listed firms (Bammens et al., 2011), even though the majority of family firms worldwide are small and medium-sized, unlisted companies. Only a few studies have analyzed small family businesses (Westhead & Howorth, 2006; Sciascia & Mazzola, 2008; Mazzola et al., 2013; Sciascia et al., 2014), while mid-sized companies are completely neglected. That is why this paper focuses on private and medium-sized family businesses. We aim to shed light on this important yet under-researched segment of companies. Indeed, medium-sized businesses represent a very important class of business, which has been playing an increasingly important role in many countries in the last decades, such as Italy (Ciambotti & Palazzi, 2015; Songini et al., 2015; Coltorti et al., 2017), because of their ability to contribute to innovation, employment, exports, and the growth of the Italian economy.

Moreover, medium-sized firms present some distinctive features that significantly differentiate them from large and publicly traded companies, such as lower use of management techniques and mechanisms, less professionalization, and less involvement of independent managers and directors. When it comes to board composition and its effect on firms' performance, considering medium-sized family firms is particularly important as results from previous studies concerning the boards of large family businesses can hardly be extended to medium-sized family businesses. In fact, small family firms usually only include family members on the boards, but when the business grows and proceeds through its life cycle, managing the company becomes more complex, new and more qualified skills are required, and the involvement of non-family members becomes necessary. However, the presence of non-family directors is not always beneficial for the performance of family firms as a mix of family/non-family members on the board and in the management team is not always able to produce the desired effects (Lee, 2006; Daspit et al., 2018). It is, therefore, important to understand the conditions and variables that can favor or hinder the ability of non-family directors to contribute to the improvement of the performance of family businesses.

Our sample covers private medium-sized family firms located in Central Italy. Following the definition presented by the European Union Commission Recommendation in 2003, we have classified a firm as medium-sized when it has more than 50 employees but less than 250 and generates annual sales between 10 and 50 million euros. According to the definition of

Central Italy provided by the Italian Institute of Statistics (Istat), we have collected data from the Marche, Lazio, Tuscany, and Umbria regions. Central Italy is a particularly interesting area for analysis because of the significant presence of medium-sized family businesses (Mediobanca & Unioncamere, 2015).

Family businesses were identified considering companies in which a family holds a share of capital that allows it to control the company. Specifically, we have classified a firm as a family business when an individual or a family (two or more family members) hold more than 50% of equity (Minichilli et al., 2010; Naldi et al., 2013). Since there is no official database of Italian family businesses, we have adopted a manual procedure to classify companies as family or non-family businesses, conducting an in-depth review of the ownership structure of the selected firms. The kinship among shareholders was ascertained based on their surnames (Arosa et al., 2010; Corbetta et al. 2015). This procedure is widely shared and applied in the empirical research on family business and have been adopted, bearing in mind that it could lead to an underestimated sample. To minimize the measurement bias, in some cases, we also used information found in the media, company websites, etc.

The final data set is composed of 219 family firms. Data were collected in 2012, and two data sources merged: the AIDA database to extract the sample and collect financial information (ROA, Ebitda margin, etc.) and the reports from the Italian Chamber of Commerce to obtain information about the structure of the boards of directors and the ownership. STATA software was used for data analysis.

3.3. Definition of variables

To test our hypotheses, we have applied a financial performance measure as the dependent variable, namely, return on assets (ROA), expressed as earnings before interests and taxes divided by total assets. It has frequently been considered particularly suitable for analyzing firm profitability (Arrondo-Garcia et al., 2016; Minichilli et al., 2016; Sciascia et al., 2014). To robustness check, we have also considered the Ebitda margin, which is equal to earnings before interest, tax, depreciation, and amortization (Ebitda), divided by the overall turnover. This margin is a sound proxy indicator of the firm's ability to generate cash flow through its core business (Granata & Chirico, 2010; Dolenc et al., 2012; Cesaroni et al., 2017).

This analysis checked the following independent variables: Non-family board, Generational stage, and interaction term: Non-family board x Gen stage. Non-family board measures the percentage of non-family members on the board of directors and is defined as the number of non-family directors vis-à-vis the total number of directors (Lee, 2006; Arosa et al., 2010; Mazzola et al., 2013; Sciascia et al., 2013). We have used a 25-year cut-off point to capture generational effects following prior family business research (Gersick et al., 1997; Arrondo-Garcia et al., 2016; Blanco-Mazagatos et al. 2016; Gottardo & Moisello, 2017). The generational stage has been codified as a dummy variable: code 1, first-generation family firms under 25 years old; 0, later generations family firms 25 years old or older. Although this proxy has been used in previous family business studies, we have discussed this as a limitation in the conclusions. To identify the moderating generational effect between non-family directors and financial performance, we have calculated the interaction between the generational stage and non-family board (Non-family board x Generational stage).

To guarantee a suitable model and take account of other possible reasons for the differing performance of family firms, a number of control variables have been analyzed on the basis of previous empirical research. We have considered the Family ownership variable by using the percentage of equity owned by the family since family involvement in ownership represents an important heterogeneous factor in family firms (Daspit et al., 2018), which may influence performance (Sciascia & Mazzola 2008; Sciascia et al., 2012; Sciascia et al., 2013; Arzubiaga et al., 2018). We have also included the Past performance variable, calculated by using the revenues from the previous three years and coded in a multi-categorical variable: constant, increase, or decrease. The reason for including this variable is that, as widely recognized in literature, past performance can affect present financial performance (Cucculelli et al., 2016; Minichilli et al., 2016). Moreover, we have considered the Family CEO variable because, as extant studies have pointed out, the family CEOs may influence the firm's behaviors (Umans et al., 2020) and performance (Corbetta & Salvato, 2004; Minichilli et al., 2016). The family nature of the CEOs has been determined by checking the surname with that of the controlling family and measured by a dummy variable, with a value of 1 if a family member leads the company, and 0 otherwise. Another governance-level factor that has been considered is the variable of women on the board, calculated as the ratio between the total number of women on the board of directors and the total number of directors. This factor takes into account the potential influence of women directors on financial performance (Minichilli et al., 2016; Poletti-Hughes & Briano-Turrent, 2019; Samara et al., 2019; Terjesen et al., 2009).

Finally, we checked for other, more traditional drivers of business performance commonly used in empirical studies (Arosa et al., 2010; Mazzola et al., 2013; Sciascia et al., 2013; Ansari et al., 2014; Blanco-Mazagatos et al. 2016; Cucculelli et al., 2016; Minichilli et al., 2016; Cavaco et al., 2017; Garcia-Ramos et al., 2017): company size (Total assets) by using the natural logarithm of the book value of total assets; debt level (Financial independence) by adopting the ratio of equity divided by total assets; and the industry (Industry) by using dummy variables based on the Italian industrial sectors (Ateco, 2007): code 1 for manufacturing firms; 0, otherwise.

4. Results

4.1. Descriptive analysis

Table 1 presents descriptive statistics for the analyzed variables providing mean, median, standard deviation, and median differences between first-generation and later generation family firms. Concerning firm size, measured by total assets, as expected, first-generation family businesses are smaller than later generation businesses, and this difference is statistically significant. In regard to the debt level, the median value of the financial independence indicator is higher for later generations of family firms than first-generation ones. In other words, later generations family firms seem to be more able to finance their own activity autonomously. Regarding non-family members' involvement in the board of directors (Non-family board), what emerges is a limited presence of non-family members in the governance of both first and later generation firms. The family involvement in ownership (Family ownership), as predictable in small-medium sized businesses, appears to be strongly concentrated in the hands of the family. In both cases (first-generation and later generations family firms), the median presence of family is almost 100% of the total equity. Concerning the presence of women in governance (Women board), women's involvement in the board of directors remains very low both for first and later generations.

Concerning performance indicators, later generations outperformed first-generation family firms, both in terms of Return on assets (ROA) and the Ebitda margin, and this difference is always statistically significant. Table 2 shows the correlations among the variables used in the present analysis. Multicollinearity is not an issue. Moreover, the absence of multicollinearity among the independent variables is confirmed by variance inflation factors (VIF) obtained through the OLS regression analyses, which never exceed 3 (the recommended threshold) (Myers, 1990).

Table 1 – Descriptive statistics

Variables	First-generation (1)			Later generation (0)			Difference
	Mean	*Median*	*S.D.*	*Mean*	*Median*	*S.D.*	*(median)*
Total assets	20234.28	20501.39	10584.36	24796.52	21801.77	12953.28	-1300.38**
Fin. independence	0.288	0.228	0.185	0.377	0.321	0.216	-0.093***
Non-family board	0.325	0.292	0.356	0.200	0	0.283	0.292**
Family ownership	0.891	1	0.176	0.887	0.994	0.155	-0.006
Women board	0.169	0	0.242	0.198	0	0.241	0.000
Ebitda margin	0.057	0.049	0.054	0.083	0.069	0.068	-0.020***
ROA	0.029	0.024	0.075	0.051	0.032	0.067	-0.008*
N. firms	67			152			

***, ** and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 2 – Correlation matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROA	.						
(2) Ebitda margin	0.711*	.					
(3) Family board	0.039	-0.026	.				
(4) Family ownership	0.032	0.061	0.371*	.			
(5) Women board	0.009	0.024	0.009	0.043	.		
(6) Total assets	0.039	0.368*	0.067	0.149*	0.037	.	
(7) Financial independence	0.335*	0.453*	-0.014	0.047	0.173*	0.283*	.

*p< .05

4.2. Findings

Table 3 presents results for the OLS and quantile regression by considering our main dependent variable (ROA) and the robustness dependent variable (Ebitda margin).

Concerning our first hypothesis —"*In first-generation family firms, the positive effect of non-family directors on business performance is limited than in later generations*"—results from OLS regression support our assumption. They show that the generational stage moderates the relationship between board composition and financial performance. Particularly, the presence of non-family directors has a positive effect on the performance of later-generation firms (Non-family board: β= 0.052, p< .05). However, this positive effect is diminished in first-generation family firms (the moderating effect: Non-family board X Gen stage, β= -0.100, p< .001). These findings were confirmed by the same model but with the robustness dependent variable (Ebitda margin, β=- 0.086, p < .01). Our results also show that the coefficient of the Generational stage, which represents the effect of passing from one generation to another on financial performance when no external member is involved in the board, does not show significant influence.

Regarding the control variables included in the models–Family ownership, Family CEO, Women Board, Past performance, Total assets, Financial independence, and Industry–the following results were obtained. Concerning family involvement in ownership, it is not possible to establish any relationship between the variable in question and firm performance. Also, regarding Family CEOs and women directors, no relationship with financial outcome appears. Concerning Past performance, as reasonably expected, if the performance during the past three years showed an increase, current performance is positively influenced. Firm size (Total assets) seems to have a negative influence on family firms' performance. Moreover, a higher level of financial independence has a positive effect on profitability. Lastly, no relationship was found between manufacturing family firms and performance.

Summing up, our findings suggest that the generation in control represents an important factor of heterogeneity of family firms. As we hypothesized, the generational stage leads to a moderating effect on the relationship between board composition and financial performance.

Specifically, the positive moderating effect is less powerful in first-generation family firms than in later ones. In other words, the presence of non-family members on the board produces lower benefits in terms of financial performance when the founder generation controls the family firm.

Quantile regression was used to test our second hypothesis "*The moderating effect of the generational stage on the relationship between non-family directors and financial performance varies across performance levels*". As mentioned above, the interpretation of the findings is similar to that of OLS regression, but for each term, we have more coefficients to interpret: the 25^{th}, the median, and the 75^{th} quantile. They represent—from the lowest to the highest—the different points across the outcome variable distribution (ROA, Ebitda margin).

Overall results from quantile regression confirm previous findings obtained by OLS regression; however, those results indicate a clear difference across performance distribution.

Regarding the interaction term (Non-family board X Gen stage), results in table 4 support our second hypothesis. The moderating effect of the generational stage varies throughout the different levels of performance (ROA). Particularly, this effect emerges as negative and significant in the first quantile (β=-.048, $p< .01$) when the performance is low; and in the second quantile, although less significant, (β=-.043, $p< .10$) when performance is median. In the third quantile, at high performance, no significant effect is apparent. In other words, findings demonstrate that the positive effect on financial performance of non-family members in governance, which emerged in the case of later-generations firms, is diminished for first-generation family firms, specifically in family businesses with low performance. In another point of outcome distribution, the third quantile (75^{th}), no influence appears. Thus, taking into account the different levels of a firm's financial performance, the moderating effect of the generational stage is not homogeneous across the range of distribution of return on assets.

Furthermore, the effect of the Non-family board variable is positively and statistically significant in the second quantile alone (β= .034, $p < .10$). This variable indicates that a greater presence of non-family members on the board positively influences performance in the case of later-generation family firms, but this effect proves more significant in the median quantile rather than in the case of lower performance (first quantile) or higher performance (third quantile).

As regards the generational stage variable, findings do not show a significant influence across the distribution of performance.

In addition, regarding the control variables**,** the findings for Family ownership, Family CEO, Women board, Past performance, Total assets, Financial independence, and Industry show a different effect across performance distribution. For instance, ROA has a negative relationship with the firm-size measured as the logarithm of total assets at the 75^{th} quantile. Past performance, if increased in the last three years, positively affects the current financial performance at the median and 75^{th} quantile. Return on assets has a positive relationship with Financial independence at the 25^{th}, median, and 75^{th} quantile. The sector has a positive relationship with both profitability indicators (ROA and Ebitda margin) at the 25^{th} and median quantile, while other control variables such as Family ownership, Family CEO, and Women boards are not found to be statistically significant at any point in the performance distribution.

Table 3 – Findings

Variables	ROA	EBITDA margin	ROA			EBITDA margin		
	OLS		Q25	Q50	Q75	Q25	Q50	Q75
Non-family board	0.052**	0.054**	0.015	0.034*	0.049	0.0252**	0.029*	0.045
	(0.026)	(0.022)	(0.013)	(0.018)	(0.032)	(0.012)	(0.016)	(0.029)
Generational stage	0.010	0.008	0.004	0.001	0.005	-0.0035	0.013	0.005
	(0.012)	(0.009)	(0.008)	(0.11)	(0.019)	(0.007)	(0.009)	(0.017)
Non-family board X Gen stage	-0.100***	-0.086***	-0.048***	-0.043*	-0.062	-0.046***	-0.064***	-0.063
	(0.039)	(0.026)	(0.018)	(0.026)	(0.046)	(0.017)	(0.023)	0.040
Family ownership	0.004	0.006	-0.006	0.003	-0.016	-0.002	-0.009	0.004
	(0.030)	(0.025)	(0.018)	(0.026)	(0.045)	(0.017)	(0.023)	(0.040)
Family Ceo	0.013	0.006	0.008	0.014	0.000	0.011	-0.003	-0.000
	(0.013)	(0.012)	(0.008)	(0.010)	(0.018)	(0.007)	(0.009)	(0.016)
Women board	0.001	-0.004	-0.008	-0.017	-0.001	-0.002	-0.018	0.004
	(0.018)	(0.018)	(0.011)	(0.016)	(0.028)	(0.011)	(0.014)	(0.025)
Past performance								
increasing	0.035***	0.020**	0.007	0.0194**	0.029*	0.004	0.013	0.013
	(0.010)	(0.009)	(0.006)	(0.009)	(0.017)	(0.006)	(0.008)	(0.014)
decreasing	0.012	0.021***	-0.011	0.017	0.015	0.0148*	0.023**	0.012
	(0.013)	(0.013)	(0.009)	(0.013)	(0.023)	(0.008)	(0.011)	(0.020)
Total assests	-0.023**	0.021***	-0.008	-0.012	-0.025*	0.0087*	0.012*	0.030**
	(0.011)	(0.006)	(0.005)	(0.008)	(0.013)	(0.005)	(0.007)	(0.012)
Financial independence	0.118***	0.116***	0 .029**	0.060***	0.121***	0.042***	0.075***	0.140***
	(0.026)	(0.028)	(0.014)	(0.019)	(0.035)	(0.013)	(0.018)	(0.031)
Industry	0.016	0.006	0.018***	0.018**	0.018	0 .026***	0.019**	0.011
	(0.010)	(0.013)	(0.006)	(0.009)	(0.016)	(0.006)	(0.008)	(0.014)
F statistics	4.20***	8.51***	-	-	-	-	-	-
R-squared	0.244	0.348	-	-	-	-	-	-
Pseudo R-squared	-	-	0.100	0.093	0.175	0.191	0.192	0.236
N	219	219	219	219	219	219	219	219

***,** and * indicate significance at the 1%, 5%, and 10% levels, respectively.

To draw more robust conclusions, next, we explored the relationship between the term of interaction (Non-family board X Gen stage) and the Ebitda margin as the outcome variable. At the 25th and median quantile, we identified a negative and significant relationship (β= -.046, $p < .01$; β= -.064, $p < .01$ respectively) between the term of interaction (Non-family board X Gen stage) and the outcome variable Ebitda margin. It is important to highlight that this relationship does not emerge in the subsequent quantile, 75th. This indicates that the combined effect of the generational stage and non-family members' involvement is not found in the case of high-performance family firms (i.e., those located in the third quantile of outcome distribution). The results allowed us to confirm previous analyses obtained with the main dependent variable, ROA.

In summary, findings show that a higher presence of non-family members on the board of directors has a less positive effect (called the negative moderating effect) in the case of first-generation family firms by comparison with later generations. Furthermore, this effect is more striking in low-performing family businesses than in high-performing ones.

Finally, to verify the reliability of the results, some robustness tests were performed. We re-estimated our main model using the Ebitda margin, which is equal to earnings before interest, tax, depreciation, and amortization (Ebitda), divided by the overall turnover. This margin is a sound proxy indicator of the firm's ability to generate cash flow through its core business (Granata & Chirico, 2010; Dolenc et al., 2012; Cesaroni et al., 2017). Findings for OLS regression and quantile regression report a similar consistency with the main model applied.

5. Discussion and conclusions

This study examines the relationship between board composition and family firms' performance, considering the generational stage as a moderating variable. Specifically, adopting the theoretical framework of SEW and investigating a sample of Italian medium-sized family firms, we have analyzed how the presence of non-family directors affects the performance of first-generation or later-generation family businesses. Empirical findings suggest that a higher presence of non-family directors has a less positive effect on firms' financial performance in the case of first-generation family firms than in later generations. Furthermore, by adopting a quantile regression, we have demonstrated that this effect is more striking in low-performing family businesses than in high-performing ones.

Our findings show that the involvement of non-family members in the boards produces different effects depending on the generation in charge. In first-generation family firms, the family directors' willingness to preserve SEW (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010; Gomez-Mejia et al., 2011; Berrone et al., 2012) could be in contrast with the priority of non-family directors, less attached to the business and more oriented to increasing financial performance (Le Breton-Miller & Miller, 2013). This contrast is diminished in later generation family firms as they are characterized by a lower emphasis on SEW preservation and a stronger commitment to increase financial performance (Sciascia et al. 2014). These arguments explain why non-family directors generate a more limited benefit on first generation family firms' profitability than on later generations.

Furthermore, our findings show that the moderating effect of the generational stage on the relationship between non-family directors and financial performance varies across financial performance levels and is more impressive in low-performing businesses than in high-performing ones. The reason is that when the family firm achieves high performance, family owners perceive that SEW preservation is ensured (Zellweger, 2017), and radical and/or extreme decisions (e.g., dismissing employees), which could create conflicts between family and non-family directors, are not needed. On the contrary, when the family firm faces low performance, non-family directors might press for drastic decisions to recover financial performance, but family directors, especially in first-generation family firms, may be less willing to assume those decisions to preserve the SEW. The trade-off between the conflicting perspectives of family and non-family directors could slow down decision-making processes and the strategic behavior of the business, thus explaining why the benefit of non-family directors on financial performance is lower in low-performing family firms than in high-performing ones.

Our findings contribute to family business literature in four ways.

First, our analysis suggests that the relationship between board composition and family firm's performance is not univocal, given family firms heterogeneity in terms of the generational stage. Specifically, the SEW theoretical framework has helped us to identify situations in which the involvement of non-family directors may be more or less beneficial for family firms. From this perspective, we have discussed the role of the generational stage as a key moderating variable, and we have also shown that the moderating effect changes according to the performance level. Thus, we have furthered knowledge about family firms and board composition effectiveness by explaining that the involvement of non-family directors is less effective in first-generation family firms, especially in those with low performance. Previous research has provided mixed results on this subject, as different authors-have suggested that non-family directors' involvement can be beneficial (Anderson & Reeb, 2004; Voordeckers et al., 2007; Minichilli et al., 2009; Wright & Kellermanns, 2011; Basco & Voordeckers, 2015; Corbetta et al., 2017; Arzubiaga et al., 2018), detrimental (Lee, 2006), or neutral (Kowalewski et al., 2010; Mazzola et al., 2013; Minichilli et al., 2016) to family firms' performance. However, existing studies have mostly considered big and listed companies (Bammens et al., 2011), while private mid-sized family firms have been completely neglected (Arzubiaga et al., 2018). Furthermore, they have mostly implicitly considered family firms as a homogeneous group (Chua et al., 2012; Daspit et al., 2018), ignoring how their heterogeneity may influence financial performance. In this regard, our study confirms that heterogeneity matters and helps to explain why previous research on this topic has given very conflicting results.

Second, our study is one of the first to underline the importance of performance level as a factor that can influence the relationships between family/non-family directors and firm performance consequently. In this regard, results from the quantile regression show that the influence of non-family directors changes along with the distribution of financial performance and is less beneficial in first-generation family firms that face low performance than in those with high performance. Consequently, in addition to the level of family involvement in family firms' governance and management (Nordqvist et al., 2014) and generational stage (Daspit et al., 2018), the performance level should be considered another important source of heterogeneity within family firms.

Third, we have furthered knowledge on medium-sized family businesses and the possible consequences of non-family directors in their governance structure. Medium-sized family firms have been largely neglected in previous studies on this topic, despite their increasing relevance in most economies, like Italy (Ciambotti & Palazzi, 2015; Songini et al., 2015; Coltorti et al., 2017). Professionalization is a critical process for those firms, as they often experience growing participation of external managers in governance and management structure. Thus, knowing the variables that can shape the success of this process is of great importance (Bassani & Cattaneo, 2020; Sandu, 2020), and our results provide important suggestions by proving that the involvement of non-family directors does not always generate the expected beneficial effects on performance.

Finally, from a methodological point of view, this paper confirms the usefulness of the quantile regression in evaluating the effects of non-family directors on firms' financial performance. This method has effectively allowed us to observe that the effects of non-family directors vary across the distribution of financial performance. Conyon and He (2017) called for greater use of this analysis method to explore other potential reasons, explaining the conflicting results in the relationship between governance structure and family firms' performance. We have responded to this call, and the results from our analysis have helped to shed new light on the application of this statistical method when analyzing this subject.

From a practical point of view, our study may prove very useful to founders, owners, and CEOs of family businesses as it offers valuable indications to guide choices related to the composition of corporate governance bodies and the involvement of non-family directors. Even if professionalization of family firms is generally considered a necessary process to improve firms' performance and encourage its growth, our analysis shows that the involvement of non-family directors may not always be beneficial to the firms as other variables—namely the generational stage and the performance level—can affect such result. This important result sheds new light on corporate governance mechanisms that occur in family businesses, especially when they are in a transition phase from small to medium size. In other words, the proper valorization of the external professionals involved in a firm strongly depends on the cultural context in which they operate. Family members should, therefore, remodel their mentality and attitude towards external subjects to avoid conflicts which, in the worst case, may cause non-family directors to leave and the consequent depletion of resources and competencies needed for the firm's growth (Sentuti et al., 2020). Practitioners and advisors should take due account of these findings in their consulting work with family firms.

This study is not free from limitations, which reveal stimulating avenues for future research. First, our analysis is based on data referring to a restricted geographical area. Although this area is particularly suitable for our analysis, given the high presence of medium-sized family businesses, our findings suffer from generalization limits. Therefore, future studies should examine larger areas, both in Italy and other countries, to verify the validity of the results obtained. It would also be interesting to replicate our analysis in countries with different features, especially from the cultural point of view. In fact, the importance of family, the strength of family ties, and the relationship between the owner family and the business are all factors that can influence the results that emerged from our analysis. Thus, replicating such analysis in other geographical areas could be useful for understanding the effect of cultural variables. Second, our analysis is based on data referring to just one year. Although we introduced the "Past performance" control variable to increase the robustness of the results, further research could be performed using a panel analysis. Other limitations concern the independent variables used in our analysis. We defined the generational stage using a rough proxy based on a 25-year cut-off point. This proxy has been used in previous studies (Gottardo & Moisello, 2017). Moreover, we tested the sensitivity of our findings using an alternative threshold of 30 years (Fernandez & Nieto, 2005). However, we are aware that this approach may be seen as a limitation. Therefore, future research could use the generation running the business to test the moderator effect of the generational stage. Moreover, to obtain a more nuanced picture of the relationship between board composition and family business performance, the analysis could be enriched by including other variables that could affect the effectiveness of the board and thus influence the company's performance. In particular, the percentage of affiliated/unaffiliated outsiders and the CEO duality/non-duality (Corbetta & Salvato, 2004) could be considered.

References

1. Anderson, R.C., & Reeb, D.M. (2004). Board composition: balancing family influence in S&P 500 firms. *Administrative Science Quarterly, 49*(2), 209-237.
2. Ansari, I. F., Goergen, M., & Mira, S. (2014). The determinants of the CEO successor choice in family firms. *Journal of Corporate Finance,* 28, 6-25.
3. Arosa, B., Iturralde, T., & Maseda, A. (2010). Outsiders on the board of directors and firm performance: Evidence from Spanish non-listed family firms. *Journal of Family Business Strategy*, *1*(4), 236-245.
4. Arrondo-García, R., Fernández-Méndez, C., & Menéndez-Requejo, S. (2016). The growth and performance of family businesses during the global financial crisis: The role of the generation in control. *Journal of Family Business Strategy*, *7*(4), 227-237.
5. Arzubiaga, U, Kotlar, J., De Massis, A., Maseda, A., & Iturralde, T. (2018). Entrepreneurial orientation and innovation in family SMEs: Unveiling the (actual) impact of the Board of Directors. *Journal of Business Venturing, 33*(4), 455-469.
6. Astrachan, J. H., & Jaskiewicz, P. (2008). Emotional returns and emotional costs in privately held family businesses: Advancing traditional business valuation. *Family Business Review, 21*(2), 139-149.
7. Bammens Y., Voordeckers, W., & Van Gils A. (2011). Boards of directors in family businesses: a literature review and research agenda. *International Journal of Management Reviews, 13*(2), 134-152.
8. Barontini, R., & Caprio, L. (2006). The effect of family control on firm value and performance: Evidence from continental Europe. *European Financial Management*, *12*(5), 689-723.
9. Basco, R., & Voordeckers, W. (2015). The relationship between the board of directors and firm performance in private family firms: A test of the demographic versus behavioral approach. *Journal of Management & Organization, 21*(4), 411-435.
10. Bassani, G., & Cattaneo, C. (2020), Professionalization and managerialization in family firms: A still open issue. In Leotta A. (ed.) *Management Controlling and Governance of Family Businesses: Theoretical Insights and Empirical Evidence from Italy*. Switzerland: Springer.
11. Berrone, P., Cruz, C., & Gómez-Mejía, L.R. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review, 25*(3), 258-279.
12. Blanco-Mazagatos, V., De Quevedo-Puente, E., & Delgado-García, J. B. (2016). How agency conflict between family managers and family owners affects performance in wholly family-owned firms: A generational perspective. *Journal of Family Business Strategy, 7*(3), 167-177.
13. Breton-Miller, L., & Miller, D. (2009). Agency vs. stewardship in public family firms: A social embeddedness reconciliation. *Entrepreneurship Theory and Practice*, *33*(6), 1169-1191.
14. Breton-Miller, L., & Miller, D. (2013). Socioemotional wealth across the family firm life cycle: A commentary on "Family Business Survival and the Role of Boards". *Entrepreneurship Theory and Practice*, *37*(6), 1391-1397.
15. Calabrò, A., Torchia, M., Jimenez, D. G., & Kraus, S. (2020). The role of human capital on family firm innovativeness: the strategic leadership role of family board members. *International Entrepreneurship and Management Journal*. https://doi.org/10.1007/s11365-020-00657-y.

16. Cavaco, S., Crifo, P., Rebérioux, A., & Roudaut, G. (2017). Independent directors: Less informed but better selected than affiliated board members? *Journal of Corporate Finance*, *43*, 106-121.
17. Cesaroni, F. M., Chamochumbi, D., & Sentuti, A. (2017). Firm performance and economic crisis: Family versus non-family businesses in Italy. *African Journal of Business Management*, *11*(11), 229-240.
18. Chua, J.H., Chrisman, J.J., & Sharma, P. (1999). Defining the family firm by behavior. *Entrepreneurship Theory and Practice*, *23*(4), 19-39.
19. Chua, J. H., Chrisman, I. J., Steier, I. P., & Rau, S. B. (2012). Sources of heterogeneity in family firms: An introduction. *Entrepreneurship Theory and Practice, 36*(6), 1103-1113.
20. Ciambotti, M., & Palazzi, F. (2015). Medie imprese italiane: un'indagine sui valori d'impresa. *Piccola Impresa/Small Business*, (1), 10-30.
21. Clarysse, B., Knockaert, M., & Lockett, A. (2007). Outside Board Members in High Tech Start-ups. *Small Business Economics, 29*(3), 243-259.
22. Collin, S. O. Y., & Ahlberg, J. (2012). Blood in the boardroom: Family relationships influencing the functions of the board. *Journal of Family Business Strategy*, *3*(4), 207-219.
23. Coltorti, F., Resciniti, R., Tunisini, A., & Varaldo, R. (Eds.) (2013). *Mid-sized Manufacturing Companies: The New Driver of Italian Competitiveness*. Switzerland: Springer.
24. Conyon, M. J., & He, L. (2017). Firm performance and boardroom gender diversity: A quantile regression approach. *Journal of Business Research,* 79, 198-211.
25. Corbetta, G., Minichilli, A., Quarato, F. (2015). Observatory on all the medium-sized and large family controlled companies in Italy, Bocconi University.
26. Corbetta, G., Minichilli, A., & Quarato, F. (2017). Observatory on all the medium-sized and large family controlled companies in Italy, Bocconi University.
27. Corbetta, G., & Salvato, C. A. (2004). The board of directors in family firms: One size fits all? *Family Business Review*, *7*(2), 119-134.
28. Cruz, C., & Nordqvist, M. (2012), Entrepreneurial orientation in family firms: a generational perspective. *Small Business Economics*, *38*(1), 33-49.
29. Cucculelli, M., & Micucci, G. (2008). Family succession and firm performance. Evidence from Italian family firms. *Journal of Corporate Finance*, 14, 17-31.
30. Cucculelli, M., Le Breton-Miller, I., & Miller, D. (2016). Product innovation, firm renewal and family governance. *Journal of Family Business Strategy*, *7*(2), 90-104.
31. Daspit, J. J., Chrisman, J. J., Sharma, P., Pearson, A. W., & Mahto, R. V. (2018). Governance as a Source of Family Firm Heterogeneity. *Journal of Business Research*, 84, 293-300.
32. Dolenc, P., Grum, A., & Laporsek, S. (2012). The effect of financial/economic crisis on firm performance in Slovenia-A micro level, difference-in-differences approach. *Montenegrin Journal of Economics, 8*(2), 207-222.
33. Fernández-Temprano, M. A., & Tejerina-Gaite, F. (2020). Types of director, board diversity and firm performance. *Corporate Governance: The International Journal of Business in Society*, *20*(2), 324-342.
34. Ferreira, D. (2010). Board diversity. In: Anderson, R., Baker, H.K. (Eds.), *Corporate Governance: A Synthesis of Theory, Research, and Practice*, 225-242. Hoboken, NJ: John Wiley & Sons.
35. Gabrielsson, J. (2007). Boards of directors and entrepreneurial posture in medium-size companies: Putting the board demography approach to a test. *International Small Business Journal*, *25*(5), 511-537.

36. Gabrielsson, J., & Huse, C. (2005). Outside directors in SME board: A call for theoretical reflections. *Corporate Board: Roles, Duties & Composition, 1*(1), 28-37.
37. García, A. M., Jainaga, T. I., de Castro, G. A., Boulkeroua, L., & Cooper, S. (2019). Family board ownership, generational involvement and performance in family SMEs: a test of the S-shaped hypothesis. *European Journal of Management and Business Economics*, *28*(3), 285-300.
38. Garcia-Castro, R., & Aguilera, R. V. (2014). Family involvement in business and financial performance: A set-theoretic cross-national inquiry. *Journal of Family Business Strategy*, *5*(1), 85-96.
39. García-Ramos, R., Díaz-Díaz, B., & García-Olalla, M. (2017). Independent directors, large shareholders and firm performance: the generational stage of family businesses and the socioemotional wealth approach. *Review of Managerial Science*, *11*(1), 119-156.
40. Gersick, K. E., Davis, J. A., Hampton, M. M., & Lansberg, I. (1997). Generation to generation: Life cycles of the family business. Boston, MA: Harvard Business School Press.
41. Gomez-Mejia, L. R., Cruz, C., Berrone, P., & De Castro, J. (2011). The bind that ties: Socioemotional wealth preservation in family firms. *Academy of Management Annals, 5*(1), 653-707.
42. Gómez, M., Isaac, J., Gómez Betancourt, G. E., & Betancourt Ramírez, J. B. (2016). Board of director in the family business and its impact on socioemotional wealth. *Revista Espacios.* Retrieved from http://repositorio.cuc.edu.co/handle/11323/1142
43. Gomez-Mejia, L. R., Makri, M., & Larraza Kintana, M. (2010). Diversification decisions in family-controlled firms. *Journal of Management Studies*, *47*(2), 223-252.
44. Gottardo, P., & Moisello, A. M. (2017). Socioemotional wealth and probability of financial distress. *African Journal of Business Management, 11*(13), 285-292.
45. Granata, D., & Chirico, F. (2010). Measures of value in acquisitions: family versus nonfamily firms. *Family Business Review, 23*(4), 341-354.
46. Gómez-Mejia, L. R., Haynes, K. T., Nunez-Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly, 52*(1), 106-137.
47. Hoy, F., & Sharma, P. (2010). Entrepreneurial family firms. New York, NY: Prentice Hall.
48. Huse, M. (2005). Accountability and creating accountability: a framework for exploring behavioural perspectives of corporate governance. *British Journal of Management,* 16 (Suppl.), 65-79.
49. Iacono, M. P., Martinez, M., Mercurio, L., & Mangia, G. (2013). Exploring the relationship between governance, Power of control and organizational conflict: a survey on small and medium Italian family firms. *Piccola Impresa/Small Business*, (1), pp. 33-55
50. Kellermanns, F. W., Eddleston, K. A. (2006). Corporate Entrepreneurship in Family Firms: A Family Perspective, *Entrepreneurship theory and practice*, *30*(6), 809-830.
51. Kellermanns, F. W., Eddleston, K. A., Sarathy, R., & Murphy, F. (2012). Innovativeness in family firms: a family influence perspective. *Small Business Economics*, *38*(1), 85-101.
52. Koenker, R., & Gilbert, B. (1978). Regression quantiles. *Econometrica*, *46*(1), 33-50.
53. Kowalewski, O., Talavera O., & Stetsyuk, I. (2010). Influence of family involvement in management and ownership on firm performance. *Family Business Review, 23*(1) 45-59.
54. Lane, S., Astrachan, J., Keyt, A., & McMillan, K. (2006). Guidelines for family business boards of directors. *Family Business Review*, *19*(2), 147-167.
55. Lee, J. (2006). Family firm performance: Further evidence. *Family Business Review, 19* (2), 103-114.

56. Maseda, A., Iturralde, T., Arosa, B. (2015). Impact of Outsiders on Firm Performance over Different Generations of Family-Owned SMEs. *Journal of Small Business Management, 53*(4), 1203-1218.
57. Mazzi, C. (2011). Family business and financial performance: Current state of knowledge and future research challenges. *Journal of Family Business Strategy*, *2*(3), 166-181.
58. Mazzola, P., Sciascia, S., & Kellermanns, F. W. (2013). Non-linear effects of family sources of power on performance. *Journal of Business Research, 66*(4), 568-574.
59. Mediobanca & Unioncamere (2015). Le medie imprese industriali italiane 2005-2014, Mediobanca Ufficio Studi.
60. Minichilli, A., Brogi, & M., Calabrò A. (2016). Weathering the storm: Family ownership, governance, and performance through the financial and economic crisis. *Corporate Governance: An International Review*, *24*(6), 552-568.
61. Minichilli, A., Corbetta, G., & MacMillan, I. (2010). Top management teams in family controlled companies: 'Familiness', 'faultliness', and their impact on financial performance. *Journal Management Studies, 47*(2), 205-222.
62. Minichilli, A., Zattoni, A., & Zona, F. (2009). Making boards effective: An empirical examination of board task performance. *British Journal of Management, 20*(1), 55-74.
63. Muñoz-Bullon, F., Sanchez-Bueno, M. J., & Suárez-González, I. (2017). Diversification decisions among family firms: The role of family involvement and generational stage. *Business Research Quarterly*, *21*(1), 39-52.
64. Mussolino, D., & Calabrò, A. (2014). Paternalistic leadership in family firms: Types and implications for intergenerational succession. *Journal of Family Business Strategy*, *5*(2), 197-210.
65. Mustapha, Y. I., & Nafiu, A. I. (2017). Relationship Between Board Structure Variables And Performance Of Listed Manufacturing Firms In Nigeria. *The International Journal of Economic Behavior-IJEB*, *7*(1), 131-147.
66. Myers, R.H. (1990). Classical and modern regression with applications, 2nd ed. PWS-Kent, Boston.
67. Naldi, L., Cennamo, C., Corbetta, G., & Gómez-Mejía, L. (2013). Preserving Socioemotional Wealth in Family Firms: Asset or Liability? The Moderating Role of Business Context. *Entrepreneurial Theory Practice*, *37*(6), 1341-1360.
68. Nordqvist, M., Sharma, P., & Chirico, F. (2014). Family firm heterogeneity and governance: A configuration approach. *Journal of Small Business Management*, *52*(2), 192-209.
69. O'Boyle Jr E.H., Pollack J.M., & Rutherford, M.W. (2012). Exploring the relation between family involvement and firms financial performance: A meta-analysis of main and moderator effects. *Journal Business Venturing*, *27*(1), 1-18.
70. Poletti-Hughes, J., & Briano-Turrent, G. C. (2019). Gender diversity on the board of directors and corporate risk: A behavioural agency theory perspective. *International Review of Financial Analysis*, *62*, 80-90.
71. Sacristan-Navarro, M., Gomez-Anson, S., & Cabeza-Garcia, L. (2011). Family ownership and control, the presence of other large shareholders, and firm performance: Further evidence. *Family Business Review*, *24*(1), 71-93.
72. Samara, G., Jamali, D., & Lapeira, M. (2019). Why and how should SHE make her way into the family business boardroom? *Business Horizons*, *62*(1), 105-115.
73. Sandu, P. (2019). A framework of family business professionalization. *International Journal of Entrepreneurship*, *23*(1), 1-8.
74. Sciascia, S., & Mazzola, P. (2008). Family involvement in ownership and management: Exploring nonlinear effects on performance. *Family Business Review*, *21*(4), 331-345.

75. Sciascia, S., Mazzola, P., Astrachan, J. H., & Pieper T., M. (2013). Family Involvement in the Board of Directors: Effects on Sales Internationalization. *Journal of Small Business Management, 51*(1), 83-99.
76. Sciascia, S., Mazzola, P., Astrachan, J. H., & Pieper, T. M. (2012). The role of family ownership in international entrepreneurship: Exploring nonlinear effects. *Small Business Economics*, *38*(1), 15-31.
77. Sciascia, S., Mazzola, P., & Chirico, F. (2013). Generational involvement in the top management team of family firms: exploring nonlinear effects on entrepreneurial orientation. *Entrepreneurship. Theory and Practice*, *37*(1), 69-85.
78. Sciascia, S., Mazzola, P., & Kellermanns, F. W. (2014). Family management and profitability in private family-owned firms: Introducing generational stage and the socioemotional wealth perspective. J*ournal of Family Business Strategy*, *5*(2), 131-137.
79. Sentuti, A., Cesaroni, F.M., Bassani G., & Cattaneo, C. (2020), Beyond the founder. Which conditions can favor or hinder the professionalization of family firms? In Leotta A. (ed.) *Management Controlling and Governance of Family Businesses: Theoretical Insights and Empirical Evidence from Italy*. Switzerland: Springer.
80. Songini, L., Morelli, C., Gnan, L., & Vola, P. (2015). The why and how of managerialization of family businesses: evidences from Italy. *Piccola Impresa/Small Business*, (1), 86-118.
81. Terjesen, S., Sealy, R., & Singh, V. (2009). Women directors on corporate boards: A review and research agenda. *Corporate Governance: An International Review, 17*(3), 320-337.
82. Umans, I., Lybaert, N., Steijvers, T., & Voordeckers, W. (2020). Succession planning in family firms: family governance practices, board of directors, and emotions. *Small Business Economics*, *54*(1), 189-207.
83. Voordeckers, W., Van Gils, A., & Van den Heuvel, J. (2007). Board composition in small and medium-sized family firms. *Journal of Small Business Management, 45*(1), 137-156.
84. Westhead, P., & Howorth, C. (2006). Ownership and management issues associated with family firm performance and company objectives. *Family Business Review, 19*(4), 301-316.
85. Wright, M., & Kellermanns, F. W. (2011). Family firms: A research agenda and publication guide. *Journal of Family Business Strategy, 2*(4), 187-198.
86. Zellweger, T. M., Eddleston, K. A., & Kellermanns, F. W. (2010). Exploring the concept of familiness: Introducing family firm identity. *Journal of Family Business Strategy, 1*(1), 54-63.
87. Zellweger, T. (2017). *Managing the family business*: *Theory and practice*. Cheltenham, UK: Edward Elgar Publishing.

DISPUTATIONS OF TAX AUDIT ASSESSMENTS ON INTERNALLY GENERATED REVENUE (IGR) SOURCES IN LAGOS STATE, NIGERIA: EXPERTS' PERCEPTION

Israel S. Akinadewo
Obafemi Awolowo University, Ile-Ife, Osun State, Nigeria

Received: *August 3, 2020* Accepted: *October 7, 2020* Online Published: October 15*, 2020*

Abstract

The study appraised the most disputed by the taxpayers, of the sources of the Internally Generated Revenue (IGR) in Lagos State, Nigeria, after the tax audit exercise. Primary data through the administration of structured questionnaire on respondents was adopted. The sample size was 301, using Krejcie & Morgan (1970) formula. Personal Income Tax (PIT), Withholding Tax (WHT), Capital Gains Tax (CGT), Stamp Duties (SD), Pools, Betting, Lotteries, Gaming, and Casino Tax (PBLGCT), and Road Tax (RT), were appraised by the tax experts. The study analysed data using descriptive statistical techniques like percentages and tables. The findings revealed that Road Tax (67.8%), Capital Gains Tax (67.5%), Personal Income Tax (65.7%), and Withholding Tax (61.8%) are the most disputed sources of IGR by the taxpayers. The study recommended for the re-evaluation of tax audit process to bridge the gap of disagreement between the taxpayers and the tax auditors/tax authorities for a more efficient tax administration.

Keywords: Internally generated revenue; Tax audit; Tax compliance; Tax evasion; Tax experts

1. Introduction

Globally, nations finance their constitutional responsibilities from diverse sources. These include revenue from natural resources, and taxes, among others. In Nigeria, the sources of revenue include the proceeds from the sale of petroleum products, income from taxes, income from agricultural products, and public loans. Similarly, the other lower levels of government in Nigeria – states and local councils, also have exclusive revenue line constitutionally approved. Accordingly, the states in Nigeria, including Lagos State, improve their revenue from the Internally Generated Revenue (IGR) sources like personal income tax, direct tax, withholding tax from individuals and enterprises, stamp duties, road taxes, and business premises registration, among other sources (Omodero, 2018, citing schedule II of Nigerian 1999 constitution). Thus, the IGR of each state is expected to contribute tremendously to the shared revenue for the federation account. Scholars have however, opined that the inadequacy of revenue generated in emerging economies like Nigeria posed a serious challenge to the efficient delivery of public good and services as well as financial stability (Omodero, 2018; Okeke, Chidi & Eme, 2017; Asimiyu & Kizito, 2014).

In the recent time, the dwindling revenue of government from the federation account has led to the inward-looking steps of the state government to improve their IGR, which is majorly from tax. This, Asimiyu & Kizito (2014) argued that the state governments in Nigeria now face more challenges in terms of struggling to be less dependent on the federal government for financial resources. This has resulted in the formulation of strategies by the state governments in improving their revenue base (Asimiyu & Kizito, 2014). Despite this strategy to improve the IGR, the low level of tax compliance by the taxpayers have become a concern to the government and other stakeholders in policy making. The effect of revenue from tax may not have been positively felt due to tax evasion (Enofe, Embele & Obazee, 2019). Studies have argued that tax evasion is among the societal issues working against the economic development of emerging economies like Nigeria (Okoye & Ezejiofor, 2014; Ogbueghu, 2016). To reduce the incidences of tax evasion and also improve the IGR, the states in Nigeria embark on tax audit to ensure compliance to tax policies.

Tax audit, which could take diverse modes like desk audit, field audit and back duty audit has the special role to examine the records of the taxpayers for accuracy and authenticity (Enofe, Embele & Obazee, 2019). In Lagos state, the exercise has led to increased revenue as well as additional taxpayers brought into the tax net (LIRS, 2019). The tax audit exercise, especially the field audit has not been smooth sailing without resistance from the taxpayers through objections to post audit assessments. Consequent to this, tax audit process usually leads to disputes between the taxpayers and the tax authorities before reconciliation and eventual payment of the reconciled assessments (Enofe, Embele & Obazee, 2019, citing Nwaiwu & McGregor, 2018, Oyedokun, 2016). In making the assessed figures clearer and more reconcilable among the parties in Lagos state, the assessments are mostly segregated into the respective revenue sources and the amount involved. It is in line with this that this study seeks to analyse the opinion of tax experts as to the revenue areas that are most disputed by the taxpayers.

2. Literature Review

2.1 Review of Tax Audit Process

Tax audit is a periodic exercise of government to ascertain the veracity of the tax documents filed by the taxpayers. In emerging economies like Nigeria, where data of eligible taxpayers may not be effectively ascertained, tax audit could also expose the tax evaders that have not been captured in the tax net. This, Mebratu (2016) opined that tax audit plays a vital role in improving tax administration and increasing taxpayers' compliance to tax policies. In the argument of Akinadewo, Akinkoye, Oyedokun & Asaolu (2019), there have been reports of tax evasion despite the engagement of tax auditors over the years. Enofe, Embele & Obazee (2019) however, believed that due to the high level of tax evasion, the tax audit exercise, which include desk audit, field audit and a back duty is an essential mechanism for authenticating the information contained in taxpayers tax information. Thus, tax audit exposes any underreporting of income, shortchanging of government on tax remitted, and any false information for tax credit. This line of argument is in agreement with the submission of Tjondro, Soegihono, Fernando & Wanandi (2019) that taxpayers' perceptions of tax audits affect the level of compliance.

In states in Nigeria, the field audit involves pre-field assignment, field work, and post field reports. The pre-field is majorly to identify eligible taxpayers that might not have had any record with the tax authorities. The knowledge of the physical addresses including those of existing taxpayers enables the authorities to effectively communicate on the planned tax audit exercise. The contents of the letter will include - coverage years, expectations from the taxpayers, the list of the documents to be made available, and the possible number of tax experts involved in the exercise. The field work involves the in-depth examination of taxpayers' record with the intention of either substantiating the reliability of the records presented and or identifying with documentary evidence, the unreported income. The unreported income will then be subjected to the relevant tax rules for additional liability inclusive of interest and penalties through assessments.

The taxpayers however, are at liberty and within a time frame, to object to the assessments formally through the presentation of documentary evidence. The success of the objection, which could reduce the tax liability on the assessment however, is done line by line, recognising the respective sources of revenue. Thus, the taxpayer may agree to the additional tax liability on Pay As You Earn (PAYE), but disagree on that of Withholding Tax (WHT) and vice versa. The Nigerian tax authorities often adopt civility in the approach relating to the taxpayers with the primary goal of bringing in more revenue as against prosecution (Enofe, Embele & Obazee, 2019). According to these scholars, it is more difficult, time-consuming and costly to prove an act of tax evasion.

2.2 Practical Investigating Process of Individual Sources of Internally Generated Revenue of States during Field Audit

The IGR sources, which include the personal income tax, withholding tax, pools and betting, and capital gains tax, among others follow the same investigative technique but with different and diverse evidential documents. The personal income tax and direct taxes of individuals are payable to the states where they are resident (Zubairu, 2014). The Personal Income Tax (Amendment) Act, 2011 allows the imposition of tax by the state on the income of individuals and families, amount due to a trustee or estate, aside from the persons employed by the armed forces, the Nigerian Police Force, officers of the Nigerian foreign service, residents of the Federal Capital Territory, Abuja, and persons resident outside Nigeria, that derives income or profit from Nigeria (Olakanmi, 2012, 2015). In investigating the tax liabilities on personal income tax and direct tax, documents like bank statements and personal assets of the taxpayers will be examined and evaluated. If the taxpayer is an employee of an organisation, then the responsibility for accurate deduction and remittance rests with the employer. The tax auditor will examine the payroll and any evidence of benefit in kind. Benefit in kind involves the use of company's properties like official vehicles which the benefits could be attributable to as personal gains to the employee. Taxpayers have also been objecting to any additional tax liabilities on the benefit in kind because it is primarily contentious and mostly subjective. The audit procedure includes the scrutiny of organisation's bank statements for relevant evidence of the net emolument paid to the employee.

The withholding tax on individuals and enterprises is another revenue source for state governments. This is treated as advance tax for the taxpayers and deductible from the total tax liabilities in each of the assessment years. In affirming the completeness and the accuracy of the payments remitted, the tax auditor will obtain the list and other necessary information of individuals/enterprises that are suppliers of goods and service providers to the organisation being audited. The rates of the withholding tax are - dividend, interest and rates (10%); directors' fees (10%); hire of equipment (10%); consultancy, technical, commission, and service fees (5%); management fees (5%); construction and building, but excluding the survey design and deliveries (5%); and contracts, but not related to any income in the ordinary course of business (5%) – (PwC Tax, 2018; LIRS, 2019). Consequently, any under remittances could be detected through the analytical inspection of contract agreement with suppliers, suppliers' invoices, payments to third parties from bank accounts and other financial documents, suppliers' individual ledger, and evidence of remittances on behalf of the suppliers to the government. The other revenue sources like the pools, betting and lottery; and road taxes, among others are areas where field audit could also be used to improve the revenue of government through the detection of tax evasion. Thus, Lagos State Lotteries Board was established by the government for effective generation of the expected revenue and efficient tax administration (Akinadewo, Akinkoye, Oyedokun & Asaolu, 2019).

Table 1 – Sample of State Assessment Attachment to the letter to Taxpayer after the Tax Audit Exercise

Abcidon Nigeria Limited		
Summary of Tax Liabilities For the year ended 31st December, 2019		
Actual PAYE (Schedule 1)	N 3,000,000.00	
Amount Paid (Schedule 2)	N (1,250,000.00)	
Outstanding PAYE		N 1,750,000.00
Withholding Tax (Schedule 3)	N 4,250,000.00	
Amount Paid (Schedule 4)	N (2,000,000.00)	
Outstanding Withholding Tax		N ,2,250,000.00
Business Premises (Schedule 5)	N 5,0000.00	
Amount Paid	N (0.00)	
Outstanding Business Premises		N5,000.00
Sub Total		N 4,005,000.00
Add: Penalty		400,500.00
Add: Interest		841,050.00
TOTAL OUTSTANDING		**N 5,246,550.00**

Source: Author's Template (2020)

2.3 *Theoretical Framework*

Allingham & Sandmo (1972) did a Theoretical Analysis of Income Tax Evasion. The scholars theorised that tax declaration decision is that of an uncertainty. The failure to report full income to the tax authorities does not automatically provoke a reaction in form of a penalty (Allingham & Sandmo, 1972). The scholars, however, opined that if an individual knows that once he is discovered his whole past will be investigated, his behaviour is straightforward, and he will act exactly as he should in declaring everything. This theory is connected to this study through the behavioural actions of the taxpayer when tax audit is conducted.

2.4 *Empirical Review*

Studies have been conducted on issues relating to general tax, internally generated revenue, tax audit and disputes thereof. Enofe, Embele & Obazee (2019) determined the effect of tax audit and investigation on tax evasion in Bayelsa State, Nigeria. Survey research design was adopted for the study with the administration of structured questionnaire to the staff of the state revenue generating agencies. The analysis of data and the testing of hypotheses were achieved through Ordered Logistic regression technique. The findings showed that tax audit through desk audit, field audit, and back-duty audit has a significant negative influence on tax evasion. Tjondro, Soegihono, Fernando & Wanandi (2019) examined the different perception of voluntary tax compliance between three generations – Millennials, X, and Baby Boomers. The study adopted a survey design technique to four major cities in Indonesia. The study used Custom Factorial ANOVA with SPSS to analyse data. The results revealed that Millennials and X had different perceptions of tax audits regarding audit probability, audit procedures, and auditors' behavior, compare to Baba Boomers.

Asimiyu and Kizito (2014) examined the growth rate of state governments' IGR in Nigeria (1999-2011) using descriptive statistics to analyse data. The findings revealed that the IGR growth rate of the state was low at 20.1% and it is higher than those of the rural states than in the urban states. Okeke, Chidi & Eme (2017) examined the ways to enhance IGR in states in Nigeria. The study used secondary data and were analysed through descriptive statistics. The results revealed that IGR constitutes a small proportion of the finance of the states. The findings also showed that the current revenue system is fraught with problems. The study recommended for the establishment of a dependable data base in eliminating revenue leakages through automation and tracking system. Nkechi & Onuora (2018) examined the relationship between IGR and infrastructural development of the South Eastern States in Nigeria. The study employed descriptive statistics, correlation and linear multiple regression to analyse data. The findings revealed that there is a significant relationship between the variables. Omodero, Ekwe & Ihendinihu (2018) investigated the impact of IGR on economic development of Nigeria. The study used ex-post facto research design with time series data (1981-2016). Multiple regression and t-test were applied to test the hypotheses. The findings revealed a significant positive relationship the variables. The study recommended that government officials with corruption history should not be allowed to continue in the handling of revenue generation responsibilities. Despite the reviewed literatures, there is still no feasible study to identify the areas of the internally generated revenue that taxpayers mostly dispute, which this study examined.

3. Methodology

This study employed primary data. Survey research design through the administration of structured questionnaire on tax experts and tax officials in Lagos State, Nigeria, was adopted. The population consist of 1,243 registered tax consultants, and 144 tax officials. Krejcie & Morgan (1970) formula, was used to determine the sample size of 301. The sample was selected with judgemental sampling technique based on ten (10) years tax consultancy experience of the respondents. Descriptive statistics were used to analyze data.

4. Data Presentation, Analysis and Discussion of Findings

The study analysed the opinion of tax experts on the most disputed of the sources of the IGR after the tax audit exercise as shown in table 2.

Table 2 – The Most Disputed of the Internally Generated Revenue (IGR) Sources

IGR Sources	Range 0-10 (%)	Range 11-20 (%)	Range 21-30 (%)	Range 31-40 (%)	Range 41-50 (%)	Range 51+ (%)	Cumm. Freq. (%)	Decision based on range 41 or above
Personal Income Tax (PIT) – Freq. (%)	5 (1.7%)	16 (5.3%)	36 (12.0%)	46 (15.3%)	85 (28.2%)	113 (37.5%)	301 (100%)	198 (65.7%)
Withholding Tax (WHT) – Freq./(%)	12 (4.0%)	23 (7.6%)	22 (7.3%)	58 (19.3%)	111 (36.9%)	75 (24.9%)	301 (100%)	186 (61.8%)
Capital Gains Tax (CGT) – Freq./(%)	4 (1.3%)	25 (8.3%)	31 (10.3%	38 (12.6%)	104 (34.6%)	99 (32.9%)	301 (100%)	203 (67.5%
Stamp Duties (SD) – Freq./(%)	6 (2.0%)	31 (10.3%	36 (12.0%)	57 (18.9%	109 (36.2%)	62 (20.6%	301 (100%)	171 (56.8%)
Pools Betting, Lotteries, Gaming, Casino Tax (PBLGCT) – Freq./ (%)	6 (2.0%)	31 (10.3%)	36 (12.0%)	56 (18.6%)	109 (36.2%)	62 (20.6%)	300 (99.7%)	171 (56.8%)
Road Tax (RT)– Freq./(%)	7 (2.3%)	20 (6.6%)	15 (5.0%)	55 (18.3%)	74 (24.6%)	130 (43.2%)	301 (43.2%	204 (67.8%)

Source: Author's Field Work (2020)

Table 2 explains the responses from the tax experts, on the level of disagreement by the taxpayers with the figures assessed by tax authorities after the conclusion of tax audit.

Regarding PIT, 5 respondents (1.7%) believed that taxpayers dispute from 0-10%; 16 respondents (5.3%) opinionated that taxpayers contest from 11%-20%; 36 respondents (12.0%) believed that taxpayers contest from 21%-30%; 46 respondents (15.3%) were of the opinion that taxpayers normally disagree from 31%-40% of the assessed figures; 85 respondents (28.2%) opinionated that taxpayers dispute between 41-50% of the figure; and 113 respondents (37.5%) opinionated that taxpayers disagree between 51% or above with the assessed figures.

Regarding withholding tax, 12 respondents (4.0%) believed that taxpayers disagree on 0%-10% of the assessed figure; 23 respondents (7.6%) opinionated that taxpayers dispute on 11%-20%; 22 respondents (7.3%) believed that taxpayers dispute on 21%-30%; 58 respondents (19.3%) of the total respondents opinionated that taxpayers dispute on 31%-40%; 111 respondents (36.9%) believed that taxpayers dispute on 41%-50%; and 75 respondents (24.9%) opinionated that taxpayers disagree on 51% or above of the WHT assessment after the tax audit exercise.

Table 2 also shows that 4 respondents (1.3%) opinionated that taxpayers dispute between 0%-10% of the capital gains tax assessed on them after tax audit exercise; 25 respondents (8.3%), believed that taxpayers dispute between 11%-20%; 31 respondents (10.3%) believed that taxpayers dispute between 21%-30%; 38 respondents (12.6%) opinionated that taxpayers dispute between 31%-40%; 104 respondents (34.6%) believed that taxpayers dispute between 41%-50%; and 99 respondents (32.9%) opinionated that taxpayers dispute between 51% or above on the value assessed on them on CGT.

Regarding pools betting, lotteries gaming and casino taxes, 6 respondents (2.0%), believed that taxpayers dispute between 0%-10% of the amount assessed on PBLGCT; 31 respondents (10.3%) opinionated that taxpayers disagree between 11%-20%; 36 respondents (12.0%) opinionated that taxpayers disagree between 21%-30%; 56 respondents (18.6%) opinionated that taxpayers disagree between 31%-40%; 109 respondents (36.2%) were of the opinion that taxpayers dispute on the figure assessed between 41%-50%; and 62 respondents (20.6%) believed that the taxpayers disagree between 51% or above.

Regarding stamp duty, 6 respondents (2.0%) opinionated that taxpayers dispute between 0%-10%; 31 respondents (10.3%) believed that taxpayers disagree between 11%-20%; 36 respondents (12.0%) were of the opinion that taxpayers disagree on the value assessed between the range of 21%-30%; 57 respondents (18.9%) believed that taxpayers disagree between 31%-40%; 109 respondents (36.2%) said that taxpayers dispute between 41%-50%; and 62 respondents (20.6%) believed that taxpayers disagree between 51% or above of the total amount assessed on them. Table 2 also indicates 7 respondents (2.3%) believed that taxpayers dispute between 0%-10% on road tax assessments; 20 respondents (6.6%) believed that taxpayers disagree between 11%-20%; 15 respondents (5.0%) were of the opinion that taxpayers disagree on the value assessed between the range of 21%-30%; 55 respondents (18.3%) opinionated that taxpayers disagree between 31%-40%; 74 respondents (24.6%) said that taxpayers dispute between 41%-50%; and 130 respondents (43.2%) believed that taxpayers disagree between 51% or above of the total amount assessed on them on road tax.

Consequent on these results and the identification of taxpayers' objections from range 41 or above, experts believed that Road Tax (67.8%), is the most disputed of the sources of IGR in Lagos State, Nigeria. This may not be unconnected to the inability to keep effective data base of vehicles plying roads. This is slightly followed by Capital Gains Tax (67.5%). The CGT is believed to be a difficult IGR source to effectively identified due to the lack of adequate information on such transactions. It is also believed that many of such sale occur daily between sellers and buyers without any active and accurate relevant information process dissemination to the appropriate tax authorities. The experts believed that PIT (65.7%) was the next most disputed after the CGT, and WHT followed with a score of 61.8%. Stamp Duty (56.8%) and PBLGCT (56.8%), were the least among the most disputed of the sources of IGR.

Conclusion and Recommendations

The state government embark on tax audit for effective tax compliance by the taxpayers for the improvement of its IGR. The tax audit, which include field audit, desk audit and back-duty audit have been established as a policy for revenue increase and tax evasion reduction both in the developed and emerging economies, especially on the second-tier government in Nigeria (Enofe, Embele & Obazee, 2019; Mebrutu, 2016). In Nigeria, the tax audit process however, has been generating disputes between the taxpayers and the authorities, especially on post field audit assessment on sources of states' IGR. This study therefore, appraised the sources of IGR that are most disputed by the taxpayers. The findings revealed that road tax is the most disputed. The results also showed that capital gains tax, personal income tax and withholding tax in that order, are the next most disputed by the taxpayers. This study contributes to the body of knowledge through the empirical identification of the IGR sources that create disputes between the government and the taxpayers in Lagos State, Nigeria, which no available study has been able to identify. This is expected to assist the government to reduce the timeframe between the conclusion of tax audit exercise and objection process. This will expectedly resolve tax matters early for timely payment of the assessed tax by the taxpayers. In view of these findings, the tax authorities should re-examine the tax audit process with the intention to ensure areas of disputes with the taxpayers are reduced. The tax authorities should also improve on the tax awareness for taxpayers to effectively educate them of the economic benefits of tax compliance and the consequences of tax evasion.

References

1. Akinadewo, I. S., Akinkoye, E. Y., Oyedokun, G. E. & Asaolu, T. O. (2019). Tax Audit And Direct Tax Revenue in Lottery Industry in Nigeria: Can Forensic Accounting Bridge the Gap? *Fountain University Osogbo Journal of Management (FUOJM)*, *4*(2), 73-92.
2. Allingham, M. G. & Sandmo, A. (1972). Income Tax Evasion: A Theoretical Analysis. *Journal of Public Economics 1*, 323-338.
3. Asimiyu, A. G. & Kizito, E. U. (2014). Analysis of Internally Generated Revenue and Its Implications on Fiscal Viability of State Governments in Nigeria. *Journal of Empirical Economics*, *2*(4), 216-228.
4. Enofe, A., Embele, K. & Obazee, E. P. (2019). Tax Audit, Investigation, and Tax Evasion. *Journal of Accounting and Financial Management*, *5*(4), 47-66.
5. Mebratu, A. A. (2016). Impact of Tax Audit on Improving Taxpayers Compliance: Empirical Evidence from Ethiopian Revenue Authority at Federal Level. *International Journal of Accounting Research (IJAR)*, *2*(12), 1-19.
6. Nkechi, M. A. & Onuora, J. K. J. (2018). Effect of Internally Generated Revenue on Infrastructural Development of South East States of Nigeria. *IIARD International Journal of Economics and Business Management*, *4*(7), 1-10.
7. Nwaiwu, J. N. & McGregor, T. C. (2018). Webometric Indices of Tax Audit and Tax Revenue Generation Research in Nigeria. *International Journal of Advanced Academic Research/Social & Management Sciences*, *4*(2), 33-54.
8. Ogbueghu, S. N., (2016). The effect of Tax Evasion and Avoidance on Revenue Generation in Nigeria. *International Journal of Social Sciences and Humanities Reviews*, *6*(3), 83-89.
9. Okeke, M. A., Chidi, M. & Eme, O. I. (2017). Enhancing Internally Generated Revenue: Issues, Strategies, Foresights & Insights. *Specialty Journal of Humanities and Cultural Science*, *2*(1), 1-22.
10. Okoye, P. V. C., Ezejiofor, E. (2014). The Impact of E-Taxation on Revenue Generation in Enugu, Nigeria. *International Journal of Advanced Research*, *2*(2), 449-458.
11. Olakanmi, O. (2015). Tax Laws: Encyclopaedic Edition. *LawLords Publications*, Abuja, FCT, Nigeria, (4th ed.), ISBN: 978-978-51957-2-9.
12. Olakanmi, O. (2012). Compendium of Tax Laws. *LawLords Publications*, Abuja, FCT, Nigeria, (3rd ed.), ISBN: 978-978-49826-1-0.
13. Omodero, C. O. (2018). Utilization of Internal Revenue Generation to Reduce Cost of Living in Nigeria. *Journal of Accounting and Financial Management*, *4*(8), 1-8.
14. Oyedokun, G. E. (2016). Relevance of Tax Audit and Tax Investigation. *SSRN Electronic Journal*. Punch (2019, February 25) FIRS Vacillation over wealthy tax evaders. Retrieved by Enofe et al from https://punch.com/firs-vacillation-over-wealthy-tax-evidence/
15. Tjondro, E., Soegihono, A., Fernando, F. & Wanandi, F. (2019). Intergenerational Perception of Tax Audit and Voluntary Tax Compliance. *Advances on Economics, Business and Management Research*, *103*, 69-81.
16. Zubairu, A. D. (2014). Understanding Nigerian Taxation. *Husaab Global Press Concept Ltd*., Abuja, (Revised ed.), ISBN: 978-978-5155458-4-9.

ORGANIZATION VS. STRATEGY TOWARDS RETHINKING MANAGEMENT FOR TRAJECTORIES OF RESILIENCE IN WORLD PANDEMIC POST-CRISIS*

Luciano Pilotti
University of Milan, Italy

Alessandra Micheletti
University of Milan, Italy

Received: _March 27, 2020_ Accepted: _August 6, 2020_ Online Published: October 205_, 2020_

Abstract

The recent history of organizational modelling shows a dominant position of strategy on organization with a weakening of the former in front of growing global complexity and change all over the world. In recent years we have seen organization as "part" of strategy as a dynamic counterweights process of action able to improve managers to take decisions often decoupling them, to put them back together in better and more suitable organizational models for more dynamic stability and gaining resilience in front of innovation and change. We see in digital world – in particular - to the organization as a (quasi)-substitute for an increasingly weaker concept of strategy as linear process and an alternative and flexible solution to the failures by the logic of pure calculation of consequences (deterministic rationalism) or simple reactivity – as describe by Pavlov 100 years ago - (bound by external resources), or enclosed in the narrow spaces of a contingent intuitionism of the Bergsonian type (subjectivism and dependence on the constraints of internal resources). Analyzed rigorously by Weaver in the interaction between complexity and science because all problems which involve dealing simultaneously with a sizable number of factors which are interrelated into an organic whole that needs of a governance action both with or without information or decision. Exaptation is a model mutuated by biology able to produce solution before problems and in particular after post pandemic crisis.

* A first version of this work it has been presented in the 1st International Interdisciplinary Conference on "Strategic Decision-Making in International Context", held in Urbino on February 27, 2020.

1. Introduction

We have to see when a rough sea generating complexity of our direction searching for trials and errors where the speed of trial overcome the speed of reasoning neural cortex as in case of non-verbal human language where we need of high level of learning with all of our senses in particular after crisis of covid-19 as an emergent global shock (not first and not last) following financial one of 2008 by USA sub-prime. In modern man we see *cultural limits* and not only by *bounded rationality à la* Simon, with a disrupting coordination between thinking and action facing emergent world where body and mental reactions are decoupling by reducing scarcity of resources and consequently the efficiency of linear processing of action by strategy that presupposes absence of uncertainty (Motterlini and Guala, 2011).

Along a jagged emerging ridge of dynamic learning organizations, want to try to synthetically formulate the ongoing transition starting from an evolution of operational and behavioral contexts, increasingly influenced by the paradigmatic shift between predictability and unpredictability, between simple linearity (in a stable world) and complexity (in an unstable world). Exploring the effects and emergence of substitutes, such as that of *ecology* that shows that it is possible to settle the crisis of the strategy with the appearance of new resilient organizations, just like in the *organic whole* defined by Weaver. Leveraging on non-linear and dynamic complexity models, which integrate interdependent biological, cognitive and social dimensions. *Ecologies*, where change can be understood as self-reorganization of results that derive from (social and cognitive) inter-connectivity between the members of the community, the sub-systems and the environment designed by *density overlapping feed-back loops* of *network* and *network-of-network* nodes, in the sense of Maturana and Varela (1987) and Capra (1996) or in case of exaptation mutuated by biology of J.F. Gould (Gould and Vrba, 1998; La Porta, Pilotti and Zapperi, 2020). In the last case we can see how organisms "normally" push their adaptation in opportunistic way structures just available for many other functions, as could be for human beings when they transform their organizational and social forms to "control" change but with high level of imperfections and without optimization strategy in a bricolage of actions.

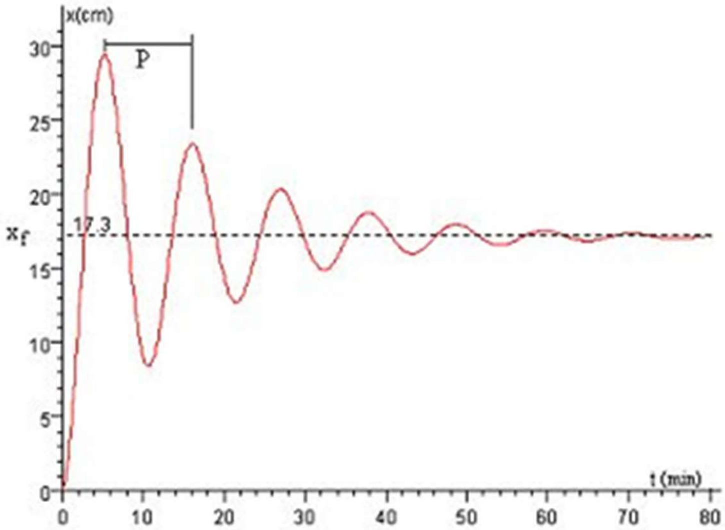
2. Which human behavior in unpredictable world?

Science – as we know – works by connecting (or trying to connect) the causes and effects of natural and social phenomena. In the "hard" sciences, however, this connectivity turns out to be relatively simpler because the variables to be considered can be "isolated" in the laboratory and replicated in their relationships to verify that a simple correlation is also an expression of causation, capable of confirming or denying a research hypothesis and therefore also a theory or segments of it. On the contrary, in the social sciences this exploration of the relationships between causes and effects is more complex, because laboratory replicability is almost never possible. In the social sciences the methodological reductionism, that is usually adopted in the hard sciences to isolate some variables and replicate the experiments, is rarely possible, even if it has been tried to "align" economics and social sciences with the hard sciences, with frequent disappointing results. Such unsatisfactory results have been demonstrated, for example, by the scarce ability of economists - academic and / or professional - to foresee the crises that have occurred over the past 120 years.

Robust forecasting models have always been sought also in the management trying to connect the structure of behaviors to the performances, for example, as in the well-known deterministic approach S-C-P, based on a substantive rationality followed by the agents and assuming a stable world. This led Chandler (1962) to detect that "*structure follows strategy*".

Therefore, a linear approach of connection between structural market variables (average dimensions, number of occupied people, number of competitors, consolidated technologies), which would influence the conduct or choice behaviors (strategic behaviors), would eventually determine the (positive or negative) performances, precisely according to linear logics. But this would happen in the substantial absence of innovation and where the variables at time t cannot change at time t + 1, which configures what economists define *steady state* (borrowing the concept from biochemistry or physics - see figure 1): situation in which the starting conditions do not influence the final or exit conditions of the process.

Figure 1 – Example of a chemical-physical steady state representation



In this case, the decisions would be determined by the original structural factors that would lead to specific performances, based on a good forecast of the future, having gathered the necessary and available information. "Good predictions", in this case, of the economy and management, will depend on the degree of complexity of the surrounding (as well as internal) environment. On one hand, low or no complexity will determine good predictions (which all agents should be able to provide, having the same information and knowledge, or the same technology), even for a prevalence of *close innovation.* A case in which the value of the information approaches the "0", because all the agents can access it at almost zero costs. While, on the other hand, high complexity will force us to formulate alternative scenarios (from *best* to *worst*), scoring the results based on the probability that some circumstances will occur (or not) and in conditions of *open innovation.* In this case, the information value is different from "0" and positive, because it will depend on alternative scenarios and differentiated emerging conditions. The latters, however, are perceived in different ways, which will influence the final results as well as the starting conditions.

3. An "efficient strategy" through Organization preparing action by information networking

The linear-deterministic model in economics - and even more in management - does not work effectively in conditions of complexity of the interacting variables (internal and external), since we (decision makers) are ourselves part of the object of observation and therefore part of the process of decision-action.

Let us start with a practical example, like the persimmon plant and the farmer (Figure 2). The farmer's problem is to determine the best forecast of the times of fall of the leaves (and persimmons) and of their quantity to adapt the technology (trolley and broom) to collect them. The persimmon plant tend to differentiate the adopted strategies in a linear (or simple) world with respect to a non-linear (or complex) world. In the first case, the farmer has only the persimmon plant and only that in the absence of other disturbing variables (wind, rain, birds, and other plants), in a short time and without innovation (the technology cannot change). In this context, the strategy represents the minimization of resources, given the technology and the time needed to reach the plant, according to a principle of energy saving. In this case we can speak – as known – of an optimization procedure. Here the concept of strategy is suitable because it leads us to accept a sequential and deterministic relationship between decision and action, that will ultimately tend to coincide, given the objectives, the resources and timeframe within which the phenomenon is assumed to have run, in a linear and highly predictable manner. The timeframe, however, is short (within a limited space) and susceptible to recourse to some form of stochastic or probabilistic forecasting, capable of giving us an (efficient) measure of the space that can be spanned and of useful or necessary energy consumption. In these situations and contexts, opposite and equivalent solutions cannot exist in the outcomes, in order to exclude possible errors in the chosen solutions to the problem. *The strategy is the calculation of the expected value* of the farmer's decision-action, without other considerations on the behavior, that is assumed to be rational and in which the outcomes will not be influenced by the initial conditions, also for the prevalence of *short termism*. On the whole, we would always face classes of *"reversible"* phenomena, as in the hard sciences.

Figure 2 – Persimmon plants

3. Complexity and non-coincidence between decision and action: the concept of effective ecology and catastrophe change model

Taking up the elementary example of the persimmon and the farmer, we must note that if together with the persimmon plant we have other plants, we introduce the wind (or snow) and also birds that lean on the persimmons and move them, or the presence of insects that condition the life of the plant the original problem changes. It can also change based on the behavioral influences of the farmer and the sense of proper actions and his own perceived identity as his competences. A set of factors that change - dynamically - the original steady state conditions. The outcome is no longer that of simple energy optimization or resource minimization given an objective, which, moreover, in the short term is supposed not to change, but to understand the effects of the network or of the interdependence between the variables. In this case, then, the problem of the farmer is no longer to predict when the fruits will fall and *how many*, but *what to do when* they fall and *how to* collect them and whether he will have the appropriate technology, as well as the spirit (awareness of himself and of his potentials) to do it (Pilotti, 2019; 2011).

Therefore, we will no longer have a "standard forecasting" problem in a strict sense, but the need to understand and design the interaction perimeter between the relevant variables, which arise when all this will happen, so that our farmer knows how to intervene appropriately. Here the concept of strategy is no longer useful because the objective is not given and the process of interaction between the variables changes the relationships in space-time and even theself-perception of the farmer. Another concept is needed, capable of delimiting a *problem of appropriateness* in the variables interaction and/or in the networking and/or in the perception: the concept of *ecology* could be useful for this purpose. Since the concept of ecology is able to point out the appropriateness of behaviors and useful resources - designed in their complex interactions - to accept the challenges of a multi-interaction context (also subjective and behavioral) between variables in unpredictable forms, with multiple effective solutions.

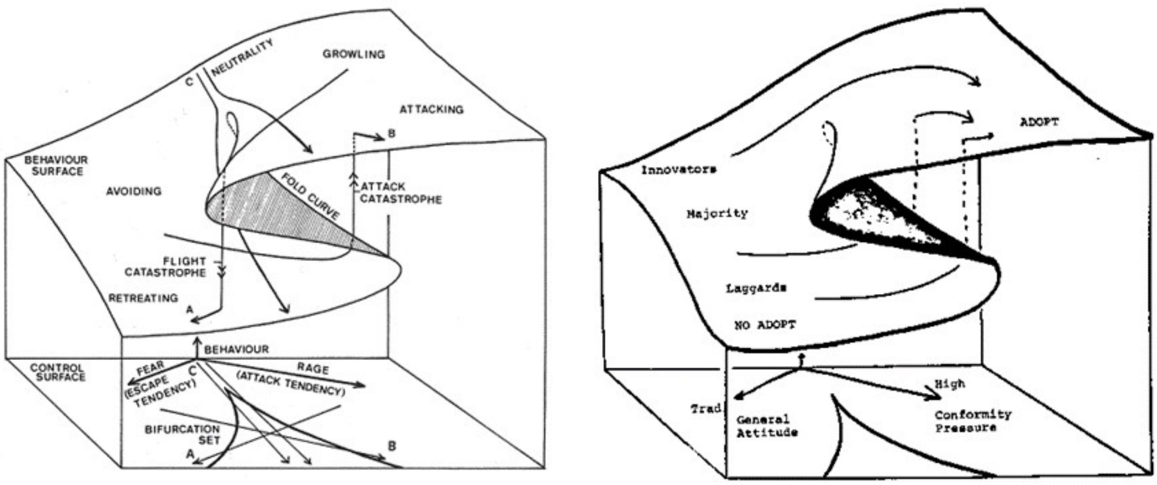
The question is then which solution to choose and furthermore: what connection between decision and action in an unpredictable world? If cognitive functions are co-emerging with respect to the reference environment, to individuals and activities, then decisions no longer coincide with actions but tend to decouple from them. The main reason is because the same decision can bring to more possible actions or, viceversa, the same action can be generated by multiple independent decisions, given the plurality of objectives and the generativity of knowledge emerging in the process. Therefore, the starting conditions can change the final results of the activities and thus we enter a class of *irreversible phenomenous* as in case of Butterfly Effect analyzed by Edward Lorenz for the first time in 1962 (New York Academy of Sciences, 1963). As we know by Lorenz (1963) - and anticipated by Turing in 1950 -, in *chaos theory*, the "*butterfly effect"* is the sensitive dependence on initial conditions in which a small change in one state of a deterministic nonlinear system can result in large differences in a later state. A very small change in intial conditions had created a significantly different outcome.

From this point of view Renè Thom (francophone mathematician, winner of the prestigious Fields Medal in 1985) proposing some form archetypes, tries to solve this problem of discontinuity and irreversibility of the phenomena of change with a qualitative use of quantitative models of geometric or topological type, suggesting the possible forms of change that would lead - in our case - the farmer to accept the challenges of leaps in process innovation and in the system of objectives, as well as in perception. The 7 catastrophes of Renè Thom have the purpose to draw, in a topological sense, the possible connective structures that the variables will or could have when the event takes place and adopt appropriate behaviors to absorb the impacts on subjects and institutions and certainly on the context. His major contribution is in differential topology and in particular in the catastrophe theory, applied mathematically to natural phenomena. In particular, the differential topological theory of catastrophes, by the use of mathematical models, represents those discontinuous phenomena caused by the continuous variation of the parameters on which they depend, i.e. those phenomena that introduce variations in the starting conditions. Thom classifies seven possible types of elementary catastrophes that tend to describe a sudden change in a process that is considered structurally stable. Such theory can be applied to the genesis and evolution of fields ranging from hard sciences (physics, climate change, bio-engineering, chemistry) to human and social sciences (linguistics, semiotics, ethology, sociology, economics). According to this approach the world cannot be described as chaotic by itself, but it is the expression of a series of rational structures whose sequence is the object of a morphological investigation (Pilotti, 1984).

The specific case of the cusp of innovation adoption is representative of many of the complex problems that managers and organizations today have to face in circumstances of permanent and continuous or *disruptive* change, which normally determine behavioral situations of bifurcation of possible choices. Contexts of choice in which the prediction or the concept of standard strategy are misleading or not useful because they assume a stable, linear and substantially adaptive world for incremental changes. In situations of radical change, we need another concept, more capable of indicating a different complex (or ecological) relationship between the variables and of non-coincidence between decision and action. Not coincidence that occurs in a precise point in space where time collapses and gives rise to the innovative "leap" and the cusp. *The ecology of the relationships* between subjects and environmental contextual factors that give origin to the cusp is effective in representing the process of innovation in adoption in an ecological form, of which the cusp (final outcome) is among the possible forms and the surface describes instead process continuity.

In Figure 3 we have the *cusp catastrophe* proposed by Renè Thom and adapted to interpret consumption adoption within a three-dimensional scheme, capable of discriminating between innovator and follower or, even, no consumption.

Figure 3 – The cusp catastrophe interpretation of consumer adoption



The cusp catastrophe (Figure 3) that we have chosen, appears in systems which have two control factors (exogenous variables) and an axis of behavior (endogenous variables), which are interrelated by the action of a potential, which alters the energies of behavioral factors, influencing their direction. However, while in natural phenomena the geometry of the potential is given, in economic-social phenomena it is subject to mutation. The continuous changes of the slope of the paraboloid are generating discontinuous changes in the behavior of the system and determine explosive effects and divergence (unstable equilibrium); or, the discontinuous changes of the paraboloid are incapable of altering the continuity of the behavior of the system, so that they generate implosivity of the process and convergence (stable equilibrium).

Topological languages help us to model the relationships between exogenous (discontinuity) and endogenous (continuity) variables along the crests of a radical and discontinuous change, not predictable, as can be consumption and innovation. They are offering the availability of appropriate tools and languages to grasp discontinuities and structural asymmetries of the changing nature of change (which is technological, but also social as well as economic), expression of a reunion between economic-non-economic, technological-non-technological, endogenous-exogenous factors. They prove also useful to explain the relevant passages from variables normally considered exogenous to an endogenous or behavioral dimension, that assign "autonomy" to the organizational and institutional aspects of a structure with respect to technological ones, changing the traditional causes between social, economic and technological factors towards bifurcation chains between action and decision. To be rejoined in an appropriate ecological understanding of change, that reassigns a role to the subjectivities and relationships, both in their organizational and inter-organizational aspects.

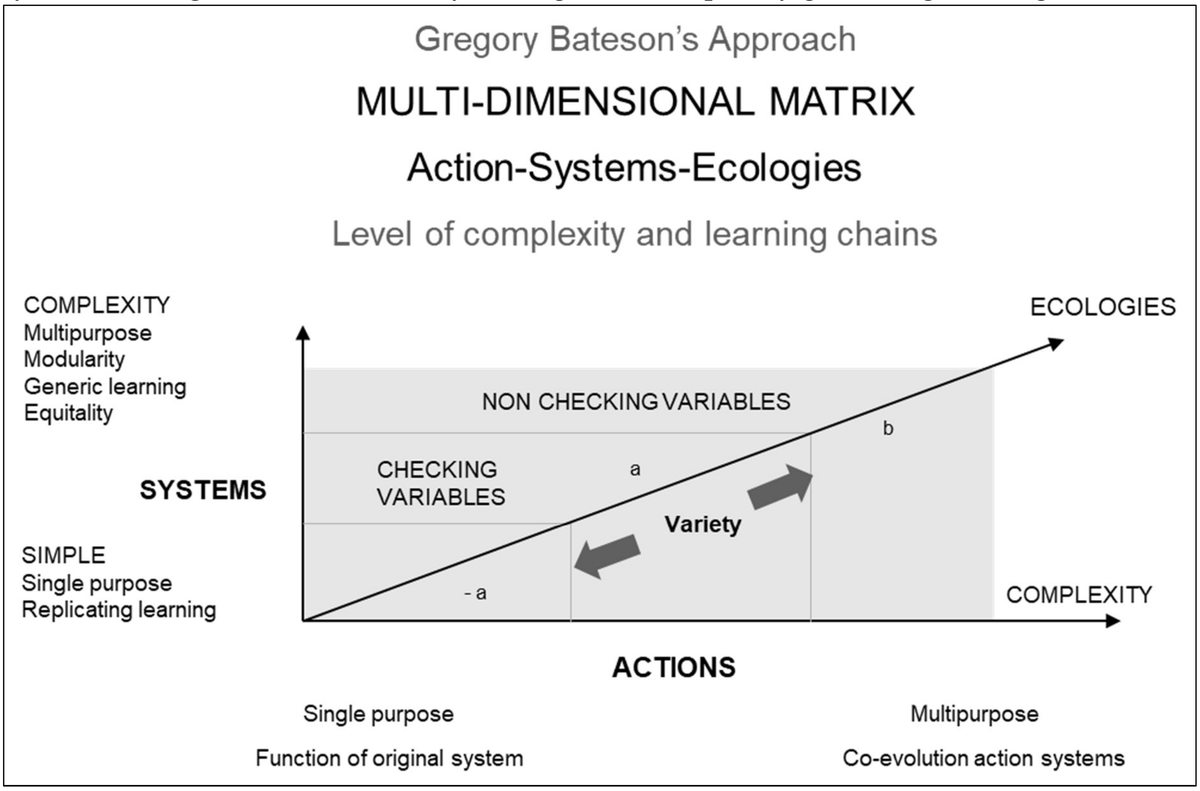
Overcoming, at least in part, the specialized exasperation assumed by academic studies, which shattering reality into thousands of micro problems and contingent micro solutions, is dispersed in a thousand rivulets and sometimes it loses the sense of the whole in the hard sciences and, in part, also in the social sciences, but that seems instead assured by the Italian corporate tradition. The lack of the sense of the whole constitutes a serious problem for all the disciplines, but in particular for the social sciences when they adopt methods and solutions translated *sic et simpliciter* from the natural sciences. And yet around the concept of *ecology* they show unusual convergences through, for example, the categories of self-organization, reflexivity, feedback, resilience, homeostasis. They are trying to solve the structural conflict of each organization, namely that between monocratic centralization and pluralistic decentralization, between top-down and *top-down control* and *bottom-up* or *bottom-up self-organization*. Couples both necessary as long as one limits and enhances the other. Such as to found an organizational postulate so far not denied by the theoretical and practical history of the organizations: the power of government of an organization must be concentrated enough to allow to face the complexity of the problems in their organicity in "reasonable" times, but not so concentrated to inhibit the initiative, autonomy and skills of all actors in the space-time exploration of useful alternative solutions. Because sometimes those solutions even precede problems, especially in a world with a high rate of change that breaks down the causes from the effects, the decisions from the actions. Indeed, that postulate from the bottom up can be reformulated as follows: the nature of the problems, the speed of change, the role of specialist skills require an articulation of the power of corporate governance to endow each point of the company organization with autonomy, responsibility and capacity of initiative, useful to feed creativity and widespread cognitive productivity. As long as they are compatible with the unity of direction and governance of processes, internal and external to the company.

4. Change management and "dramatization" of decisions: exaptation as solutions before problems

We must start to recognize the irreplaceable importance of free, responsible, motivated actors, able to multiply their effectiveness through hybridization, cross-fertilization, respect for differences, awareness of the "ecological" long-term consequences of their decisions (Sérieyx, 1993, p. 248). Only in this way, the company legitimizes its role and allows human capital to preserve itself and to develop, produce utility, consolidate ties, share values and meanings. Markets and organizations need rules but also meanings and certainly without the latter, neither the first nor the second are governed, because the calculation cannot foresee them. We are at the great historical and paradigmatic passage from the Fordist representation of the rigid and fortified enterprise like the castle to the net (from the 90s of the last century) and from this to the community (of the first decade of the century in progress), as was well underlined by Butera

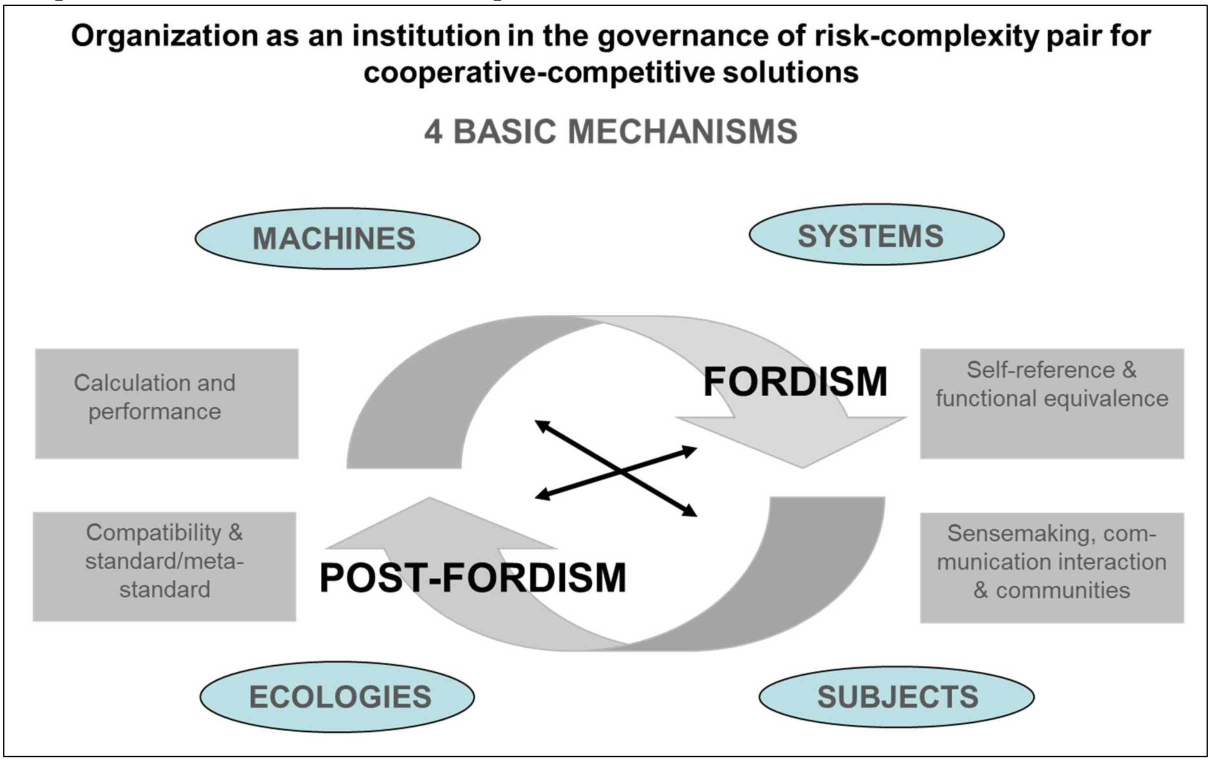
(2005) and Dioguardi (2007). Transformations that - even under the lashes of globalization and digitalization, the Internet and AI, migrations and *climate change* - are paving the way for holocratic organizations, also in the form of ecologies. A form of organized ecologies aimed at privileging osmotic elasticity and flexibility in relations with the external (and internal too) environment as dynamic and complex, impressing trajectories of self-organization, towards a growing decoupling between decision and action, between cause and effect. In this way, we could say that "the space of the possible" can be represented as a multidimensional matrix between actions-systems-ecologies. A matrix of systems and actions differentiating between spaces of uncontrollable variables with unlikely and high-value information (high uncertainty) and spaces with controllable variables with probable low-value information and high certainty. We see a differentiation of actions between single purpose (high specialization as replication of original conditions) reducing variety on one hand. With multipurpose to the other oriented to co-evolution (of / with original conditions) increasing variety. Complexity of the systems (organizations) coupling with multipurpose actions (and functions) create emergent ecologies.

Figure 4 – The space of the possible (or emergent) like a Multidimensional Matrix Action-Systems-Ecologies Differentiated by the degree of complexity generating learning chains



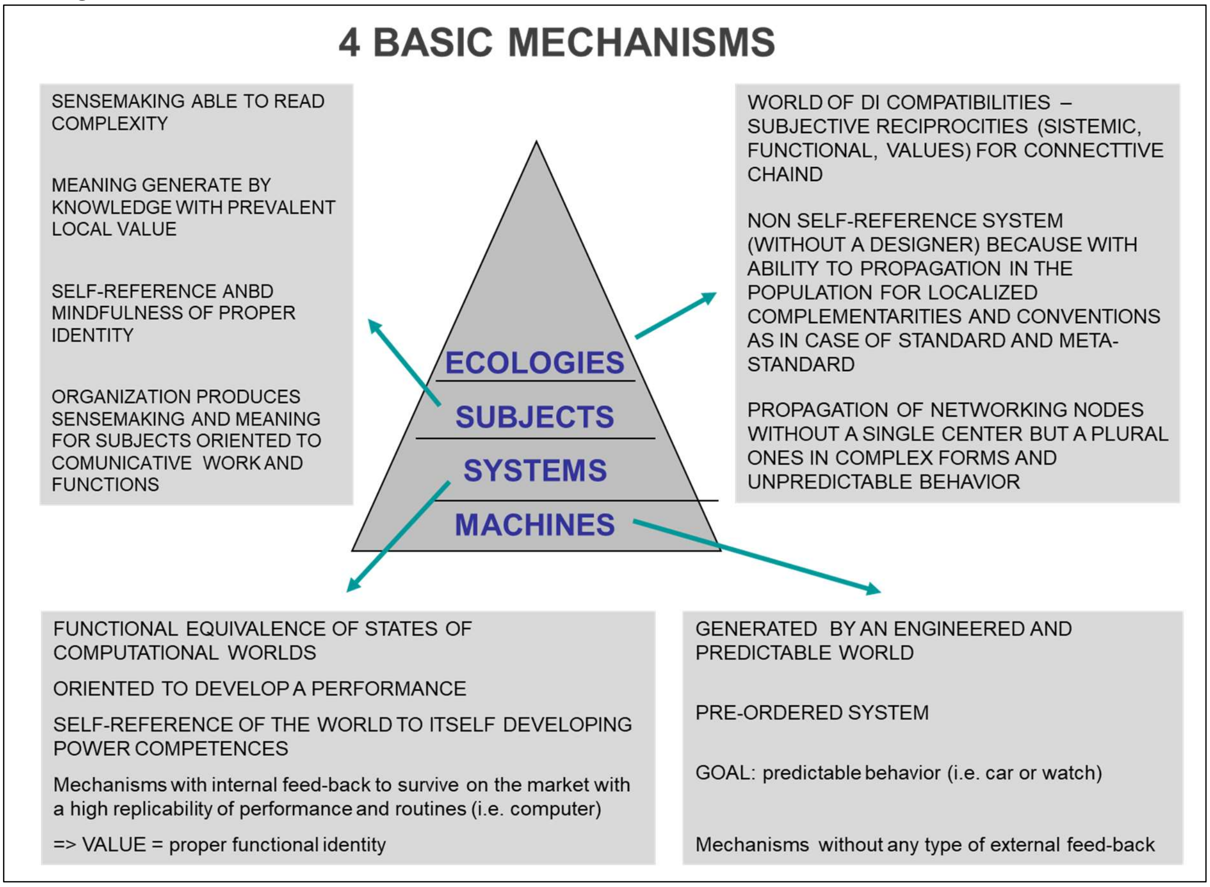
The spaces of controllable variables correspond to historical and social situations (Figure 5) that can be traced back to Fordism (since 1910 until the 1970s), while the spaces of non-controllable variables are attributable to post-Fordism or the current situation (after fall Berlin Wall in 1989 and started new globalization) and digital worlds of Artificial Intelligence in the last two decades. In the former, machines (calculation and performance) and hierarchical systems (authoritative and functional equivalence) prevail, governed by "well-functioning" and stable markets with incremental innovations and where decisions and actions are coupled linearly, as proposed by SCP linear modeling in 1960. Instead, in the latter, ecologies (compatibility and meta-standards) and subjects (meaning, communication and interaction) prevail in the presence of highly unstable markets triggered by radical innovation, where decisions and actions are decoupled, because subjects (stakeholderships and employeeship) are emerging by systems with self-organizations procedure supported by collaborative digitalization.

Figure 4 – The institution-enterprise governs the risk-complexity pair by comparison of competitive solutions from fordism to post-fordism



In situations of non-coincidence between decision and action – as in case of high complexity - there arises the need to offer sense and meaning, as in the innovative emerging contexts of the bifurcation of a cusp and where the concept of strategy is no longer useful. Consider, for example, the decisions of the managers to select a choice, which cannot be based strictly on a standard forecast, derived in some form from a sufficiently stable past and for unchanged contexts accompanied by performance calculations and supported by self-reference. In the current post-Fordism we need to "represent the change in an ecological sense", as it could happen in different configurations, to be able to accept its benefits as an essential part of that change. To do this we need representations of scenarios through a *theatricalization* of the decision-making process and assess the impacts on the context and on the actors where the solution anticipates or precedes the problem, in an ecological meaning: a dynamic mix between rationality and creativity as a viable connection exchanging intelligent collaboration and pluralism of points-of-view (Pilotti, 2011) (Figure 5). The theatricalization of the decision-making process in the organization is then useful in giving a "living" form to ecology (script or storytelling towards scenarios) on which we will have to decide, by choosing between possible or only emerging scenarios, the direction to take, sharing it. Choice of scenario that will no longer be of a reactive-adaptive type, but shared with all participants in the *(decisional) play* of dramatization within a new realistical narrative: achievable, defensible, and sustainable.

Figure 5 – 4 Main Mechanisms by simple to complex Machines – Systems – Subjects – Ecologies



In the *standard approaches*, in fact, we see the centrality of indicators that generally refer to: costs, product, quality, level of profit, customer satisfaction. While in *ecological approaches* we see relevance: relationships, patterns, scenarios, processes, motivations-emotions and contexts.

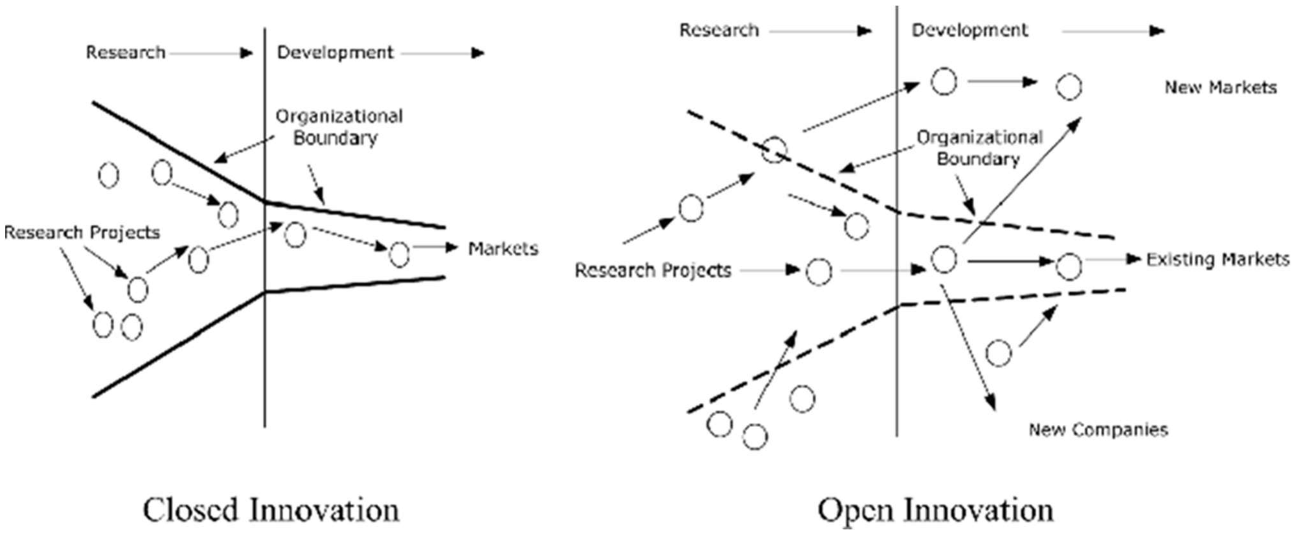
We are replacing Caesarist, assertive and decision-making leadership with a democratic and shared, inclusive leadership that initiates and promotes motivating and involving *employeeship*, building together the way to go with the business community. As in school contexts of children in primary school we see increase in heuristic, applicative and experimental reasoning. Because, inductively it does not sink its own thinking (predictive-mathematical logic, calculus) on a series of progressively acquired and gradually applied mental structures to various assimilable contexts, but rather on the concrete and experimental experience of concepts learning them in the reality, gradually experienced also by the theatrical representation that can variously be configured. Building “solution configuration scenarios” for problems that could only emerge later, and that, when emerged, will be able to accept and respond to the problem, having already tested the possible solutions.

In everyday practice we could cite the *cases of nudging*, that is, of policies capable of "educating" by encouraging virtuous behavior, such as in the separate waste collection where prizes are offered for those who on the basis of their virtuosity "certified" by the smart card that records the quantity discharged for the individual components (plastic, glass, damp, metals, etc.) through a subsidy. Or in driving incentives with the "points license".

All this pushes towards an ecological and eco-systemic balance between multiple variables of subjective behavior (of all the stakeholders) that crowd in an interdependent way and that must be "pushed" or encouraged to reciprocally condition each other towards "virtuous results" producing skills and abilities "evolutionarily constructive" in anticipating solutions to problems. Preparing to accept the shocks and becoming resilient by decoupling decisions from actions to reconnect them ecologically. Adopting a conscious decision today (separate collection / prudent driving), to carry out a responsible action tomorrow (clean up the environment / avoid accidents), contextualizing the overall "vision", minimizing costs and maximizing the creativity of those acts, assigning them sense and a good perception of the self.

Managers are interested in innovative skills with investments in R&D not because they identify a precise immediate result, but because they can climbing on the highest tree in the forest able to explore horizon. They will be able to send a longer look at the emerging landscape that those same investments contribute to achieve *(exaptation)* in *team projects,* continuously oscillating between exploration (open) and exploitation (close), as in the Chesbrough open *innovation* model (Fig. 6).

Figure 6 – Chesbrough open innovation model



It is evident in the Chesbrough model that the *research project processes* are displayable as ecological activators of connections between markets, companies, networks, team projects and single people, as a self-engaging tree capable of generating new ideas for multiple trajectories, generating complexity or entropy. A "persimmon tree" that gems solutions before problems, continuously decoupling and re-coupling decisions and actions without any need to predict the (unpredictable) future, but instead, with the imperative to build it and rebuild it in a warp of options and subjects without clear hierarchies and directionality. Where "dramatized narratives of possible scenarios" - hybridizing and contaminating languages-roles-functions (*semantic capital* of Floridi - 2019) - can try to shed light on disorder by constructing / reconstructing - tentatively - a new order, by assigning a *meaning* to those connections to reduce entropy without reducing variety. Giving origin in this way to resilient organizations, in the ecological activation of conversations and dialogues that Peter Drucker (1986) already referred to as a necessary outcome almost forty years ago.

Resilient organization is – consequently - a horizontal network of people supported by roles and information incentivated (with monetary and non-monetary tools) to participate to dialogue process of actions for trial and errors in decisions as a chain in real terms often not necessarily coinciding with the axiomatic norms of a so-called *rational choice*. Because as in David Hume (1748) approach facts and roles or norms are to distinguish for the simple reason that what it is “normal” or statistically with high frequence or “natural” (independent by human action) in not coinciding with what’s right. Resilience in a complex world can be represented as an ecology of the value produced by interacting actions between multiple actors that exchange credible information on their mutual perceptions of that world or by an emergent one in a fabric of “virtuous” imperfections in the sense proposed by Steven J.Gould where solutions anticipate problems.

References

1. Butera F.(2005), “*Il Castello e la rete: impresa, organizzazioni e professioni nell’Europa degli anni ’90”,* Franco Angeli, Milano.
2. Capra F. (1996), *The Hidden Connections. Integrating the biological, cognitive and social dimensions of life into science of sustainability,* Doudleday, New York.
3. Chandler A. (1962), *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, Beards Books, 2003.
4. Chesbrough H. (2012), *The Open Innovation Model,* Research Technology Management, 55(4), 20-27.
5. Costa G.(2018), Relazione tenuta alla Conference “*L’azienda esiste ancora*”, Padova Università degli Studi
6. Dioguardi G.(2007), *Le Imprese Rete,* Bollati Boringhieri, Torino.
7. Drucker (1986), *The Frontiers of Management. Where Tomorrow’s decisions are being shaped today,* Truman, New York.
8. Gould S.J., Vrba E.S.(1998), *Exaptation: il Bricolage dell’evoluzione,* Bollati Boringhieri, Torino.
9. La Porta C., Pilotti L., Zapperi S. (2020) (eds.), *Understanding Innovation Through Exaptation,* Springer.
10. Maturana H., Varela F.(1987), *The tree of knowledge,* Shambhala, Boston.
11. Motterlini M., Guala F. (2011), *Mente Mercati Decisioni – Introduzione all’economia cognitiva e sperimentale,* EGEA, Milano.
12. Pearl J., Mackenzie D. (2018), *The Book of Why: The New Science of Cause and Effect,* May, Basic Book, Hachette Book Group.
13. Pilotti L. (1984), Mutazioni tecnologiche e catastrofi: verso un modello di cambiamento discontinuo; *Economia e Politica Industriale*, 123-157.
14. Pilotti L. (2011) (a cura di), *Creatività, innovazione e territorio – Ecosistemi del Valore per la Competizione Globale*, Il Mulino, Bologna.
15. Pilotti L. (2017), *Produttività cognitiva e politiche industriali locali*; Edizioni Accademiche Italiane EAI, Berlin.
16. Pilotti L. (2019), *Organizzazioni Emotive (Creative e intelligenti);* McGraw Hill Italia, Milano.
17. Rebora GF. (2017), *Scienza dell’Organizzazione*, Carocci, Roma
18. Rullani F., Rullani E. (2017), *Dentro la Rivoluzione Digitale*, Giappichelli, Torino.
19. Thom R. (1980), *Stabilità strutturale e morfogenesi. Saggio di una teoria generale dei modelli*, Einaudi, Milano.

RECOVERY MARKETING FOR ECONOMIES AFTER DEVASTATION A MULTI-CASE RESEARCH

Mirian Palmeira
PP&MZee Consulting Co., Brazil

Elder Semprebon
UFPR - Federal University of Parana, Brazil

Fabio Musso
Carlo Bo University of Urbino, Italy

Received: *September 27, 2020* Accepted: *November 18, 2020* Online Published: *November 10, 2020*

Abstract
The aim is to identify if Recovery Marketing is a Fresh Start Tool for economies after devastation. Through Multi-method study, with a qualitative study based on a Multi-case research with emphasis in Historic Method and Content's Analyses, and secondary data analyses of some cases of devastated economies, the results show that there are the use of some Marketing Tools and Features, however without a holistic Marketing Approach and either no Recovery Marketing concept as a Fresh Start Tool to renew the place identity after catastrophes. A theoretical contribution of this paper is to produce a new marketing framework as a Fresh Start approach for places after destructions, such as Recovery Marketing, including the analyses of locals and visitors. The managerial implication is the contribution for public and private organisations to help positioning/repositioning a place after devastation, using Recovery Marketing as a Fresh Start Tool.

Keywords: Recovery Marketing; Fresh Start; Devastation; Economy.

1. Introduction

If the concept of Fresh Start Mindset (Price et al., 2018) is useful for people, why not for places such as cities, states, countries, regions and continents? Especially on the occasions after very serious problems that cause devastation. There are different causes of devastation and several possible solutions combined to help local and visitors. However, it is very difficult to find out the use of the concepts of Marketing to the positioning/repositioning of the place brand/identity/image after devastation. The usual intervention is through political approach, as well as humanitarian. Some cause of devastation can be Natural catastrophes – flood, earthquake, tsunamis, drought; War and Terrorism; Political and Economic problems; Accidents caused by Organisations' incompetence and/or greed – the so called "announced catastrophes", and Diseases, epidemics, pandemics caused by famine or lethal viruses, alone or combined.

In this study, through a multi-case method, historic, secondary data and document analyses, the concept of Recovery Marketing is created, which is the use of marketing approach to fulfil a Fresh Start for economies after destruction. How can one make people believe that it is possible "to start life again" even after huge causes of devastation?

According to this context, the research problem of this study is stated: Is Recovery Marketing a Fresh Start Tool for economies after devastation?

Main objective: *to identify if Recovery Marketing is a Fresh Start Tool for economies after devastation*.

Operational objectives:

a) *To describe the economies subject of this study (local characteristics before/after devastation, the environment, the causes of devastation, the types of interventions);*
b) *To identify the use of marketing tools (IMCs, Brand Repositioning, marketing research, etc.);*
c) *To identify stakeholders (spokesperson, influencers, locals and visitors); and*
d) *To identify the use of Recovery Marketing as a Fresh Start Tool.*

In the next section, the literature review is presented.

2. Literature Review

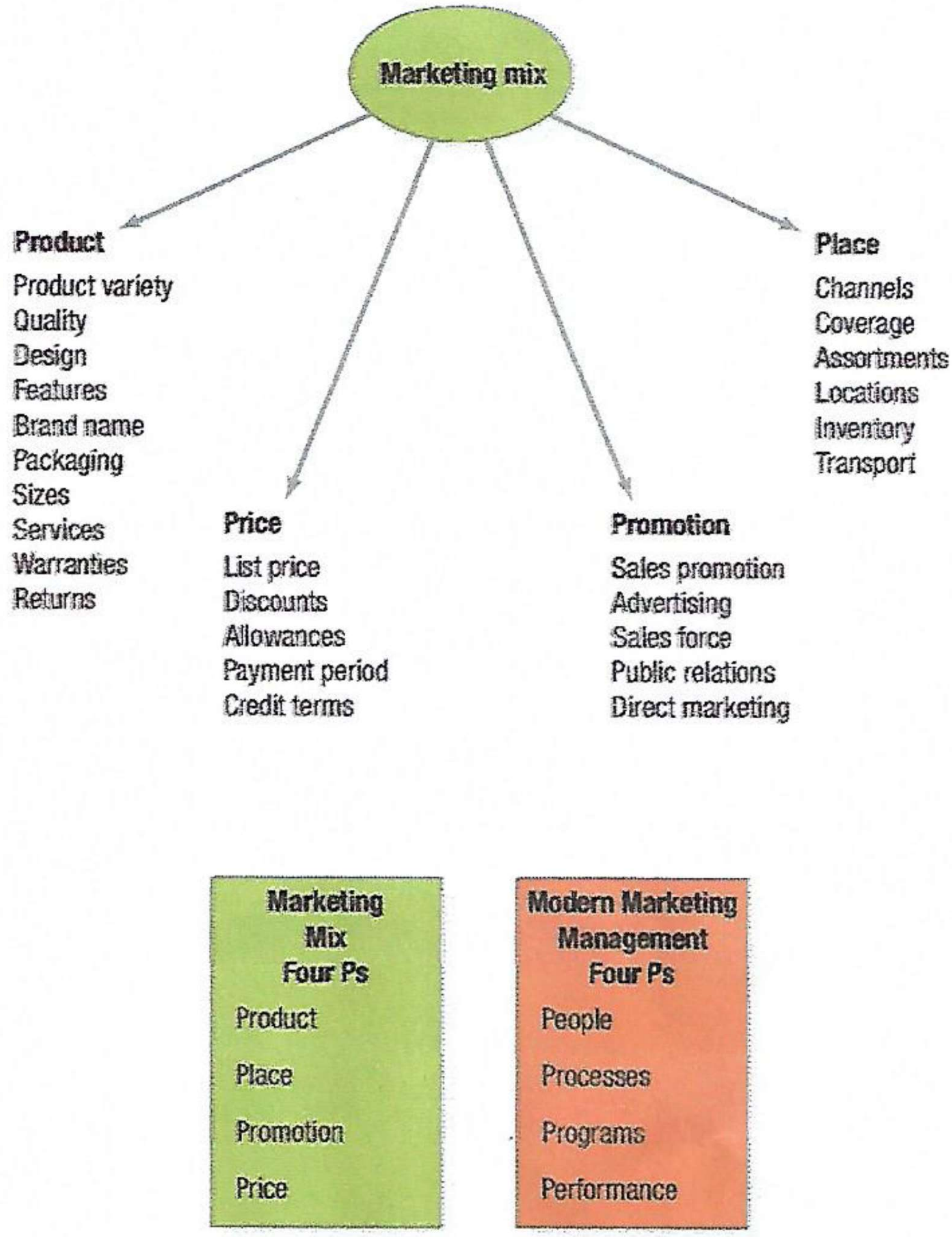
The subjects of this research are presented in four groups: Marketing concepts including Recovery Marketing, Marketing Mix, and Branding; Fresh Start concepts; Devastation and its causes; and Economy.

2.1 Marketing concepts

Marketing is about identifying and meeting human and social needs (Kotler & Keller, 2012). In the literature there is the concept of recovery service (Gohary et al, 2016), which is the process of bringing former customers back to the company as loyal ones. On the other hand, Recovery Marketing is a new concept, developed in this article, and it is the holistic use of marketing approach as a Fresh Start Tool (Price et all, 2018) for the brand positioning/repositioning of a place identity, after some kind of devastated catastrophe or human event of different causes. It is a set of activities related to the market whose aim is helping economies that should have been re-structured after some serious problems, such as crisis and/or catastrophes. Destiny marketing organisations can play an important role to help places recover their identity using a sustainable tourism perspective (Ritchie & Crouch, 2003). One of the tools is to create an integrated marketing team to manage the Recovery Marketing and a financial group to manage the prospect and the use of funds during the whole process of recovering. One example of this procedure is the Malaysia case (De Sausmarez, 2003), when the local government had create a fund of 40 million dollars in a Recovery Marketing campaign.

The concept of Marketing Mix (Figure 1) is the same for companies and places, even if it is holistic (Kotler & Keller, 2012). However, it is necessary to adapted it for a more complex situation due to the characteristics of the places, especially after the event of catastrophes. And it turns out to be Recovery Marketing Mix (figure 2).

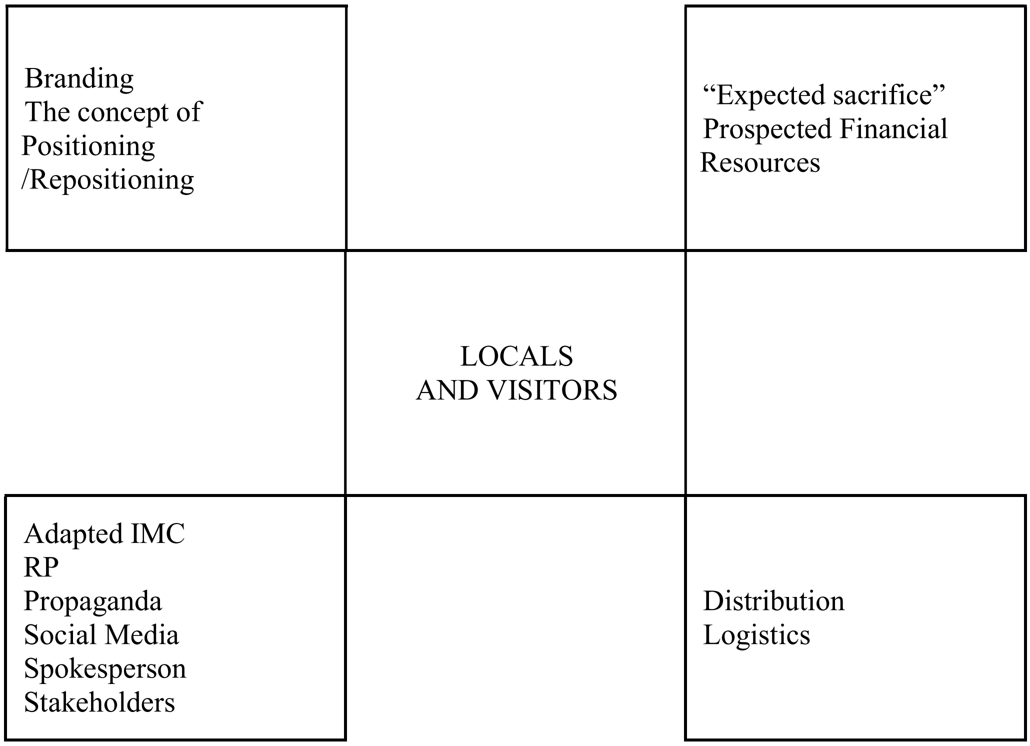
Figure 1 – Marketing Mix



Source: Kotler & Keller, 2012

Instead of a set of Product, Price, Promotion and Place parts, the Recovery Marketing Mix includes the concept of Branding, the prospect of Financial Resources, the adapted IMC, distribution and logistics, and focus on locals and visitors.

Figure 2 – Recovery Marketing Mix



Source: Adapted from Kotler & Keller, 2012

Finally, there is a marketing concept related to brand, which is a “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors” (Kotler & Keller, 2012). It produces elements of differentiation. It represents the identity of a product, service, experience, and even of a place, city, region, state, country, or continent. It presents tangible and intangible elements. When a catastrophe happens in a place, its image, symbolized by its brand, probably is jeopardized by controllable and incontrollable elements of the devastation. A company or a government should lead the process of repositioning its brand. When a government is dealing with its brand, it is carefully dealing with the process of branding, which is a way to create adequate suitable strategies of positioning/repositioning for the place, involving locals and visitors.

> *Marketers can apply branding virtually anywhere a consumer has a choice. It’s possible to brand a physical good (Ford Flex automobile, or Lipitor cholesterol medication), a service (Singapore Airlines or Blue Cross and Blue Shield medical insurance), a store (Nordstrom or Foot Locker), a person (actress Angelina Jolie or tennis player Roger Federer), a place (the city of Sydney or country of Spain), an organization (U2 or American Automobile Association), or an idea (abortion rights or free trade) (Kotler & Keller, 2012:242).*

To apply Recovery Marketing is necessary to follow some kind of protocol to guide the sequence of actions in case of devastation. A tentative approach can be as follows:

(1) To hire a Marketing team to coordinate the efforts with international experience with broader realities and complexities, such as Marketing for public organisations. This group could be formed by Marketing/Media professionals of higher standards, scholars, a professional from local community, a politician and a staff of specialists on the case of devastation, using the concept of Recovery Marketing. The CEO should be the Marketing person. This group should be subscribed at some international organisation, such as UN, FAO, UNICEF, OCDE, WTO, WHO, etc.;

(2) To choose a spokesperson that is recognised by local and visitors, immediately after the cause of devastation takes place. It is recommended not to choose politicians, because sometimes they are not very welcome by local people and/or international community. One can be a celebrity, a famous actor/actress, a philosopher, a priest. An example is the spontaneous choice of Brad Pitt and his project of house reconstruction after Katrina in New Orleans, USA. Unfortunately, a couple of years after the beginning of the reconstruction project, the houses have shown problems of rotting and have collapsed (Business Insider, 2019);

(3) To use transformative consumer research (Mick et al, 2012; Crocket et al, 2013) on locals and visitors to find out their perspectives to design a future identity for the place. It is important to know their profiles and willingness towards a Fresh Start approach for their lives. It is common that just one of the players is considered in the intervention, sometimes only the locals, sometimes the visitors. “Transformative Consumer Research is a movement […] that seeks to encourage, support, and publicize research that benefits consumer welfare and quality of life for all beings affected by consumption across the world” (ACR, 2020);

(4) To customise a Recovery Marketing Mix to the situation, developing a new Branding identity for the place (Aaker, 2012), plans and campaigns to prospect resources. It is also important to improve the use of Mass Media to reach as much people as possible, with a very clear motto, such as “dobbiamo stare lontani, ma uniti”, a saying in Italy during the COVID-19 quarantine (ANSA, 2020). And to develop and maintain a very effective Distributions and Logistics Network; and

(5) To design follow-up procedures to guaranty that the recovery process will be effective and/or making amendments if they are necessary.

2.2 Fresh Start Concepts

“Fresh Start Mindset is defined “as a belief that people can make a new start, get a new beginning, and chart a new course in life, regardless of past or present circumstances” (Price et al, 2018). It affects people’s concepts of their social world, the nature of human characteristics and their consuming underlying conceptions (Devezer et al, 2014). It is based in the American culture and it is anchored that consumption can transform lives. The elements that can improve the Fresh Start Mindset are the internal locus of control, the belief that the individuals can start a new chapter in their lives (Landau, 2017) and the hope that marketers, public policy official, and organisations can help individuals start a new beginning in their lives. Also optimism, future goal focus, self-efficacy, resilience and perseverance are linked with a strong Fresh Start Mindset (John & Park, 2016 and Price et al, 2018). Some elements that can decrease Fresh Start Mindset are the lack of social mobility, high unemployment (Putnam, 2015), and some religions and beliefs that set fate or destiny control people’s lives (Bielo, 2007). Fresh Start concepts can be applied by the use of Recovery Marketing Mix and its Protocol.

2.3 Devastation and its Causes

Devastation is the process and/or state of complete destruction (Macmillan, 2019). Devastated economy is the condition of having its social systems and the production and distribution of means and services completely ruined and destroyed. Elements can trigger devastation in economies. Sandroni (2016) classifies them in two groups: endogen and hexogen crisis. The first one states that the country economic disequilibrium can be cause by over production, trade problems, credit and speculation. The latter involve non-economic, non-controllable factors, such as natural disasters, wars and epidemics. Sandroni's classification, however, limits the analyses of devastated economies. For example, if the focus of analyses is a city, economic problems in a neighbour city can be classified as external, but if the region is considered, it turns to be an endogen one (Figure 3). For this reason, this classification is not used in this study.

The causes of devastation are listed:

1. Natural catastrophes – flood, earthquake, tsunamis, drought;
2. War and Terrorism;
3. Political and economic problems;
4. Accidents caused by Organisations' incompetence and/or greed – "announced catastrophes"; and
5. Diseases, epidemics, pandemics caused by famine or lethal viruses.

Figure 3 – Some Examples of Devastated Economies

Cases	Type of Causes				
	Natural catastrophes	War and Terrorism	Political and economic problems	Organisations' incompetence and/or greed	Diseases
Germany (1914-1945)		X	X	X	
Japan (1945) Hiroshima and Nagasaki		X	X		
Mexico (1986)	Earthquake				
Mexico Bay (2010)				Environment crime – oil spill in Mexico Gulf	
Africa (2013)	Drought	X	X	X	Ebola
Italy (2016)	Earthquake				
Venezuela (2019)		X	X	X	
Brazil (2019) Brumadinho				Land slide	
Brazil (2019) Northeast coast				Environment crime – oil spill on seaside	
Iraq (2020)		X	X	X	

Source: survey, 2019.

2.4 Economy

The word "economy" derives from Greek "oikonomia", which means the management of a house or state. "Economy is the social science that studies how individuals and society decide how to use scarce resources in the production of means and services and to distribute them for people and groups in order to fulfil their needs" (Vasconcellos & Garcia, 2008; Sandroni, 2016). Economy is a set of production, trade and financial activities, added to logistics to provide means and services to a society (Mankiw, 2001, and Dornbush, 2003). Kotler (2000) states that the economy of each country is a complex interactive Marketing system that provides possibilities of exchange among organisations and individuals to fulfil their needs, desires and demands.

In synthesis, the main concepts of this research can be seen in figure 4.

Figure 4 – Main Concepts

Recovery Marketing	It is a set of integrated marketing activities which aim is to improve societies that have their economies jeopardised by any cause of devastation, such as natural disasters, war/terrorism, diseases, political and/or financial problems, greed and/or incompetence.
Recovery Marketing Mix	It includes the concept of Brand management, the prospect of financial resources, the adapted IMC, distribution and logistics, and focus on local and visitors.
Fresh Start	It is the process of starting a new course in life regardless past and present circumstances, looking forward to a new future (Price et al, 2018).
Devastation	It is the process and/or state of complete destruction (Macmillan, 2019), through natural disasters, war and terrorism, political and economic problems, organisations' greed and/or incompetence, diseases and epidemics.
Economy	Economy is a set of production, trade and financial activities, added to logistics to provide means and services to a society (Mankiw, 2001 and Dornbush, Fischer and Begg (2003).

Source: adapted from Price et all (2018) and Kotler & Keller, (2012).

In the next section, the methodology is presented.

3. Methodology

In order to identify if Recovery Marketing is a Fresh Start Tool for economies after devastation, four research questions have been considered:

(1) Which are the features of the economies subject of this study (local characteristics before/after devastation, the environment, the causes of devastation, and the types of interventions)?
(2) Is there the use of marketing tools (IMCs, Brand Repositioning, marketing research, etc.)?
(3) Which are the stakeholders (spokesperson, influencers, locals and visitors)? and
(4) Is there the use of Recovery Marketing as a Fresh Start Tool?

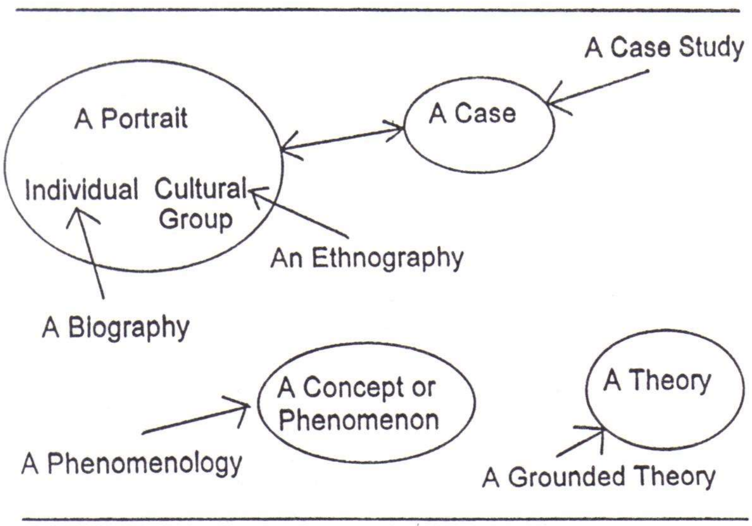
The methodology included some aspects (Creswell, 1998; Gil, 2002; Malhotra, 2012; and Mattar, 2007): the nature of the research and the population and sampling.

3.1 Nature of the research

The methodology adopted was a multi-method approach, with a qualitative study (Creswell, 1998) based on a Multi-case research with emphasis in Historic Method and Content's Analyses, and secondary data analyses of the economies focus of this study (Gil, 2002).

Multi-case Study (Figure 5), which was originated in Political Science, Sociology, Urban Studies and other social sciences, is developed to analyse in-depth case or multiple cases (Creswell, 1998). It uses multiple sources, such documents, archival records, interviews, observations, and physical artifacts, here to analyse the devastated economies, focus of this study.

Figure 05 – Focus of Multi-case Study



Source: Creswell, 1998.

3.2 Population and Sampling

The population is devastated economies around the world, from the last 20 years, from 2000 up to 2019. Sampling by convenience is the set of cases with available information, such as, Iraq, Greece, Japan and China. The survey had taken place in 2019.

4. Results

The findings are developed to meet the operational objectives of this study. For each of four cases, it is presented the analyses of all of those objectives.

4.1 War/terrorism – IRAQ (2003-2011)

Iraq was a country under the rules of Saddam Hussein, considered as a dictator by western countries. The main religion was Islamism. The economy was sustained by gas trade. There were limited human rights. The format of education was designed to prepare people to serve the country under the president's view. The environment was mainly desertic, the weather with warm to hot temperatures, almost all the year, formatted the people's way of life, normally indoors (Chambers, 2020).

After Sept 11th, 2001, the USA had attacked and had invaded Iraq, with an official aim of combating countries with means of mass destruction (Onion, Sullivan & Mullen, 2020). The result was a complete devastation of basic structures of the country. After the major combat operations, a Coalition Provisional Authority (CPA) was established. UN had tried to develop a new government format after the deposition of Hussein, sending diplomats to redesign the political, economic and social structures. However, a terrorist bomb had exploded the UN temporary headquarters in Baghdad and it had killed officials, such as Sergio Vieira de Mello, a Brazilian expert in political and humanitarian reconstruction, appointed as the Special Representative of the UN Secretary General (Power, 2008).

After all these years, the country was still in a delicate situation. The focus was on petroleum trade to recover the economy (USIP, 2020). It seemed that there wasn't the use of marketing tools to help in the process. Fresh Start approach could be used, however it looked none of it had been done and there had not been concern with locals and visitors. It was still considered a wrecked country.

4.2 Political/Economic and Financial Factors – GREECE (2008-2011)

Greece was a parliamentary republic, with a Prime Minister as the Head of the Government, also with a President as the Head of the State. 90% of the population was Christian-Orthodox. Greece was a founding member of UN in1952, became part of EU in 1981 and adopted the Euro in 2001. The population was Greek and minorities of Albanians and ethnic Macedonians and this fact had leaded to some conflicts (HAS, 2013). The main industries were tourism and shipping sector (OECD, 2020). The country has adopted some welfare state policies, such as, public healthcare and free education, without collecting enough taxes to pay for them, leading to huge depts making the country financial situation got worse during the credit crunch period of 2008 to 2011 (Reuters, 2020).

In order to improve the economy, Greece had searched International Agreements and Loans, it had increased interest rates and taxes as new sources of revenue. There wasn't the use of Marketing tools to help improving the market conditions and its focus was on visitors, such as investors and tourists. With the increase of taxes that the population should pay more, it seemed that there was not too much concern with locals. The country was in a recovering status. The rates or unemployment were the lowest in 2016. And the focus was on the tourist activities.

4.3 Natural disaster – JAPAN (2011)

It was an island country in East Asia bordered by the Pacific Ocean, comprising an archipelago of more than 6,800 islands. The country was densely populated (STAT, 2020). Full religious freedom was guaranteed by Constitution. Health care was provided by the government. Despite of some economic depression, Japan was still a great power and a member of numerous of international organisations, such as UN since 1956, the OECD and the G7. The main activities were fishery (FAO, 2020), electronic and automotive industries, service sectors, such as, banking, insurance, real state, retailing, transportation and telecommunications, and tourism. Japan was a leading nation scientific research, especially in natural science and engineering (CIA, 2020b).

On March 11th, 2011 an unexpected "magnitude-9 earthquake shook northeastern Japan, unleashing a savage tsunami (Oskin, 2017), making it the costliest natural disaster in world history. Until 2017, many residents were still recovering from the devastation (RA, 2019). The phenomena had caused the death of more than 16,000 people. It also had caused the destruction of the basic structures of the region of Tohoku, and the meltdown of Fukushima Nuclear Power Plant. The main recovery had happened in 4 months, both infrastructures and private plants (O Estadao, 2011). The Government had incentivised rescue programmes as well have helped volunteers' programmes. There has been intense participation of Locals in the recovery process.

The regional economies have been improved quickly, using the V Model of Recovery through the expansion of Offer. The outcomes have showed improvement in industrial production, for instance, automobile manufacturer together with the reconstruction process, after devastation. And in consumption in Emergency demand through the replacement process of consume products, showing concern with locals and visitors. Fresh Start Tools could have been applied; however, it seems the Government had not used them.

4.4 Disease – CHINA (2019)

China, the world's fourth largest country, is a historical civilisation that had alternated periods of unity and disunity through many imperial dynasties. After World War II, the Chinese Communist Party had been established. In the Seventies', the country had started pursuing a more market-oriented approach in the economy. Since 1990s, "China has increased its participation in international organisations" (CIA, 2020a). In the political sphere, there were a Chief of State, a Head of Government (Premier) and a State Council appointed by the National People's Congress which also indirectly elected the president who chose the premier. China was located in Eastern Asia, with extremely diverse climate, from tropical in the South and subarctic in the North. Its natural resources were very diverse, such as, coal, petroleum, natural gas, manganese, selenium, to mention some, as well as arable land. The majority of its population of 1.4 billion people was found in the eastern half of the country. Officially atheist, although 18.2% of the inhabitants were considered Buddhist and 5.1% Christian. The Chinese Government had formally recognised 56 ethnic groups; however, the main group was Han Chinese with 91.6% of the population.

China had experienced some environment hazardous, such as air pollution, water shortages, water pollution, landslides, soil erosions and many others challenges (CIA, 2020a). Some of its major crops were rice, wheat, corn, tea, tobacco. It was a world leader in mining, iron, steel, aluminium and other metals, besides consumer products (especially footwear, toys and electronics), food processing, transportation and telecommunications equipment. In December 2019, China had announced a new virus, considered extremely lethal, called Coronavirus (COVID-19) that have been spread very quickly from Wuhan market, causing huge levels of contamination and fatalities, through the country and it had taken worldwide in months. "Various crazy conspiracy theories have been circulating that the virus somehow escaped from a Chinese lab, either by accident or design. However, this is categorically untrue and scientists studying its genetic code have linked it to bats. It probably then jumped to another animal, which passed it on to humans" (Newey & Gulland, 2020).

To face the consequences of the disease, the Chinese government had decided to improve the hospital capacities for COVID-19 treatment and it had also decided for lock down of labour activities, due to its concern with the locals. The borders have been closed and the Army had helped to sanitise the roads. Some marketing tools have been used, such as, propaganda to communicate campaigns for the local and the use of the president as a spokesperson. However, tools of Fresh Start have not been applied, although they were feasible for the situation. There had been an initial recovery in 5 months' time, but still a challenged situation due to a second wave of contamination.

The findings, summarised in the Table 1, provide some information about the possible use of Recovery Marketing as a Fresh Start Tool for devastated economies.

Table 1 – Results

Cases	Causes of Devastation	Type of Intervention	Marketing Tools	Allowed Fresh Start?	Results
Iraq (2003)	War/terrorism USA had attacked Iraq to combat terrorism due to Sept 11th 2001. A complete destruction of basic structures.	Focus on petroleum and trade to maintain economy.	None	Yes. FS hasn't been used.	- Nowadays it is still a wrecked country. - Focus on petroleum and trade as a chance of Economy Recovery. - Not concerned with locals and visitors.
Greece (2008-2011)	Political/Economic and Financial Credit crunch	- International Agreements - Increase of interest rates - New taxes - Search for new sources of revenue	None	Yes. FS hasn't been used.	- Country in a recovering status - Lowest rate of employment (2016) - Focus on the central activity (tourism). - Not concerned with locals.
Japan (2011)	Natural disaster Earthquakes, Tsunamis	- Government rescue programmes - Volunteer programmes - Locals' intense participation in recovery process.	- Emergency demand - Consumption products replacement	Yes. FS hasn't been used.	- Recovery in 4 months. - Concerned with locals and visitors.
China (2019)	Disease Pandemic Coronavirus (Telegraph, 2020)	- Hospital improvement - Lock down of labour activities - Quarantine - Borders' closure - Army to sanitise the roads	- Propaganda to communicate campaigns - The president as spokesperson	Yes. FS hasn't been used.	- Initial recovery in 4 months. - Concerned with locals. - Still a challenged situation.

Source: Survey, 2019.

5. Conclusion, Theoretical Contribution, Managerial Implication, Proposal, Research Limitations and Future Studies

The main conclusion of this study, according to the analyses outputs and based on the cases, was that there was the use of some Marketing Tools and Features, however without a holistic Marketing Approach and either no Recovery Marketing concept as a Fresh Start Tool to renew the place identity after devastation.

A theoretical contribution of this paper is to produce a new marketing framework as a Fresh Start approach for places after devastations, including the analyses of locals and visitors, such as Recovery Marketing.

The managerial implication is the contribution for public and private organisations to help positioning /repositioning a place identity after devastation, using Recovery Marketing as a Fresh Start Tool.

A tentative Approach Proposal can be presented: (1) to use Recovery Marketing as a Fresh Start Tool from the beginning, as long as the catastrophe happens; (2) to hire a marketing team to coordinate the process of recovery just after devastation, the most recommended one by international organisations, such UN, FAO, UNICEF, OECD, WTO, WHO, etc.; (3) to choose a spokesperson, (4) to use a transformative consumer research on locals and visitors to produce a profile of their aims for the future related to the devastated place and their willingness towards a Fresh Start approach for their lives; (5) to develop the Recovery Marketing Mix and to apply it; (6) to develop a renewed brand image for the place, through branding; and (7) produce a follow-up protocol to make amendments in the process of recovery, if they are necessary.

This study has some limitations. First, the concept of Fresh Start Mindset is based on the American culture, with the focus on consumption, demanding extra efforts and adaptation in economies where their focuses are in some different mindset. Second, Multi-case is a qualitative study that helps to highlight trends in order to subsidise more complex and quantitative research. Third, the cases that have been studied use some marketing tools, without a holistic marketing approach. And finally, the concept of Recovery Marketing does not appear in the literature, so the authors have developed a new definition of their own.

Future research on the analysed field could be addressed to deepen the research on Recovery Marketing as a Fresh Start Tool. Furthers studies could be extended to other countries, in order to better identify differences depending on culture and norms. Also to analyse more cases of devastated economies and to apply transformative consumer research (Crocket et al, 2013).

References

1. Aaker, D. A. (2012). *Building Strong Brands*. UK: Simon & Schuster UK Ltd.
2. ACR – Association for Consumer Research (2020). Transformative Consumer Research. Retrieved March 26th, 2020 from https://www.acrwebsite.org/web/tcr/transformative-consumer-research.aspx.
3. ANSA (2020). *Distanti ma Uniti.* Retrieved March 26th, 2020 from http://www.ansa.it/sito/notizie/sport/altrisport/2020/03/17/coronavirus-spadafora-al-via-campagna-distanti-ma-uniti_271f88c6-4e75-4f01-84b7-e5288a33350c.html.
4. Bielo, J. S. (2007). 'The Mind of Christ': Financial Success, Born-Again Personhood, and the Anthropology of Christianity. *Ethnos: Journal of Anthropology*, 72 (3), 316–38.
5. Business Insider (2019). *Brad Pitt's post-Katrina housing project is under fire after homes started rotting and collapsing.* Retrieved March 26th, 2020 from https://www.businessinsider.com/brad-pitt-katrina-make-it-right-2019-5.
6. Chambers, R. et all (2020). *Beginnings of Modernization in the Middle East.* Retrieved October 7th, 2020 from https://www.britannica.com/place/Iraq.
7. CIA – Central Intelligence Agency (2020a). China Economy. *The World Factbook 2020.* Washington, DC: Central Intelligence Agency. Retrieved October 18th, 2020 from https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html.

8. CIA – Central Intelligence Agency (2020b). Japan Economy. *The World Factbook 2020.* Washington, DC: Central Intelligence Agency. Retrieved October 14th, 2020 from https://www.cia.gov/library/publications/the-world-factbook/geos/ja.html#Econ.
9. Creswell. J. W. (1998). *Qualitative Inquiry and Research Design*: *Choosing among five traditions*, California. USA: SAGE Publications, Inc.
10. Crockett, D., Downey, H., Fırat, A.F., Ozanne, J.L., Pettigrew, S. (2013). Conceptualizing a Transformative Research Agenda. *Journal of Business Research*, 66 (8), 1171–8.
11. De Sausmarez, N. (2003). Malaysia's response to the Asian financial crisis: Implications for tourism and sectoral crisis management. *Journal of Travel & Tourism Marketing* 15 (4), 217-231.
12. Devezer, Berna, Sprott, D.E., Spangenberg, E.R., Czellar, S. (2014). Consumer Well-Being: Effects of Subgoal Failures and Goal Importance. *Journal of Marketing.* 78 (2), 118–34.
13. Dornbusch, R., Fischer, S. & Begg, D. (2003). *Introdução à economia: para cursos de Administração, Direito, Ciências Humanas e Contábeis.* Rio de Janeiro, Elsevier.
14. FAO – Food and Agriculture Organization (2020). Fisheries Resources: trends in Production, Utilization and Trade. *World Review of Fisheries and Aquaculture*. Retrieved October 14th, 2020 from http://www.fao.org/3/w9900e/w9900e02.htm.
15. Gil, A. C. (2002). *Como elaborar projetos de pesquisa*. Sao Paulo: Atlas.
16. Gohary, Ali, Hamzelu, Bahman and Alizadeh, Hamid (2016). Please explain why it happened! How perceived justice and customer involvement affect post co-recovery evaluations: A study of Iranian online shoppers. *Journal of Retailing and Consumer Services,* 31(July), 127-142. doi: 10.1016/j.jretconser.2016.03.013**.**
17. HAS – Hellenic Statistical Authority (2012). *Announcement of the results of the 2011 population census for the resident population.* Retrieved October 7th, 2020 from https://web.archive.org/web/20131113172928/http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A1602/PressReleases/A1602_SAM01_DTDC_00_2011_02_F_EN.pdf.
18. John, D. R. and J. K. Park (2016). Mindsets Matter: Implications for Branding Research and Practice. *Journal of Consumer Psychology*, 26, (1), 153–60.
19. Kotler, P. (2000). *Administração de marketing*. São Paulo, Prentice-Hall.
20. Kotler, P.; Keller, K. (2012) *Administração de Marketing*. 14ª ed. São Paulo: Pearson Education.
21. Landau, Mark J. (2017). *Conceptual Metaphor in Social Psychology*: The Poetics of Everyday Life, New York: Routledge.
22. Macmillan (2019). *Macmillan British Dictionary.* Retrieved January 9th, 2020 from https://www.macmillandictionary.com/dictionary/british/devastation.
23. Malhotra, N. K. (2012). *Pesquisa de marketing: uma orientacao aplicada*. Porto Alegre: Bookman.
24. Mankiw, N. G. (2001). *Introdução à economia: princípios de micro e macroeconomia.* Rio de Janeiro, Elsevier.
25. Mattar, F. N. (2007). *Pesquisa de Marketing*, 6ª ed. Sao Paulo: Atlas.
26. Mick, D.G.; Pettigrew, S., Pechmann, C.; Ozanne, J.C. (2012). *Transformative Consumer Research for Personal and Collective Well-Being*. New York: Routledge,
27. Newey, S.; Gulland A. (2020). What is coronavirus, how did it start and how big could it get? *Telegraph* Retrieved March 26th, 2020 from https://www.telegraph.co.uk/news/2020/03/26/what-coronavirus-covid-19-pandemic-virus/
28. Estado de São Paulo (2011). Após terremoto, Japão tem rápida recuperação. *Jornal o Estado de São Paulo.* Retrieved October 8th, 2020 from http://economia.estadao.com.br/noticias/geral,apos-terremoto-japao-tem-rapida-recuperacao-imp-,740701.

29. OECD – Organisation for Economic Co-operation and Development (2020). *OECD Economic Surveys – Greece*. Retrieved October 8th, 2020 from http://www.oecd.org/economy/greece-economic-snapshot.
30. Onion, A.; Sullivan, M.; Mullen M. (2020). *War in Iraq begins*. Retrieved October 7th, 2020 from https://www.history.com/this-day-in-history/war-in-iraq-begins.
31. Oskin, B. (2017). *Japan Earthquake & Tsunamis of 2011: Facts and Information*. Retrieved October 14th, 2020 from https://www.livescience.com/39110-japan-2011-earthquake-tsunami-facts.html.
32. Palmeira, M.; Semprebom, E.; Musso, F. (2020). Recovery Marketing as a Fresh Start Tool for Economies after Devastation. Preliminary Study and Approach Proposal, in Musso, F. (Ed.), *Strategic Decision-Making in International Context*. Urbino University Press, Urbino-Italy, pp. 241-254.
33. Power, S. (2008). *Chasing the Flame: Sergio Vieira de Mello and the Fight to Save the World*. UK: Allen Lane. ISBN 1-59420-128-5.
34. Price, L.L.; Coultier, R.A.; Strizhakova, Y.; Schultz, A.E. (2018). The fresh start mindset: transforming consumers' lives. *Journal of Consumer Research*, 45, 21-48. doi: 10.1093/jcr/ucx115.
35. Putnam, R.D. (2015). *Our Kids: The American Dream in Crisis*. New York: Simon & Schuster.
36. RA - Reconstruction Agency (2019). *Efforts of Reconstruction of Tohoku*. Retrieved October 14th, 2020 from https://www.reconstruction.go.jp/english.
37. Reuters, (2020). *OECD sees Greek economy shrinking by 8% in 2020 before rebound*. Retrieved October 8th, 2020 from https://www.reuters.com/article/us-oecd-greece-idUSKCN24N15J.
38. Richie, J.R. e Chrouch, G. I. (2003). *The competitive destination: a sustainable tourism perspective*. Washignton: CABI Publishing.
39. Sandroni, P. (2016). *Dicionário de economia do século XXI*. Rio de Janeiro, Record.
40. STAT - Statistics Bureau of Japan (2020). *Results of the Population Estimates*. Retrieved October 14th, 2020 from https://www.stat.go.jp/english/data/jinsui/tsuki/index.html.
41. USIP – United States of Peace (2020). *The Current Situation in Iraq - A USIP Fact Sheet*. Retrieved October 7th, 2020 from https://www.usip.org/publications/2020/08/current-situation-iraq.
42. Vasconcellos, M. A. S. de e Garcia, M. E. (2008). *Fundamentos de Economia.* 3.ed. São Paulo: Saraiva.

GLOBAL STRATEGIES AND ENTREPRENEURIAL FIRMS: THE ROLE OF THE ENTREPRENEUR'S FEATURES IN THE DECISION-MAKING PROCESS

CLARA BENEVOLO
University of Genoa, Italy

LARA PENCO
University of Genoa, Italy

TERESINA TORRE
University of Genoa, Italy

Received: *July 21, 2020* Accepted: *November 8, 2020* Online Published: *November 15, 2020*

Abstract

The purpose of this paper is to deepen knowledge of entrepreneurial decision-making about global strategies. Towards this goal, it presents a conceptual framework useful for supporting entrepreneurial decisions for globalisation, drawing on an integrated analysis of the external environment and of the internal components, with a specific focus on entrepreneur's characteristics, in terms of cognitive and emotional profiles. It is suggested to adopt a logical process to identify which strategic levers are available for global players to implement their global strategies. The paper provides several implications. In terms of theoretical implications, existing studies are based on the industrial organization-based theory or on the resource-based theory, while an integrated analysis combining these two aspects seems to be lacking. The proposed framework represents a complete and integrated one devoted to global strategies orientation, it also inserts the 'entrepreneur matter' as a variable that affects both the decision-making process and the global decisions' contents. With regard to managerial implications, this framework can help global entrepreneurial firms or future global entrepreneurial firms to face problems related to the global dimension and make decisions to define the strategic levers for globalisation. It proposes the description of the various variables connected to the external environment, the features of the internal firm, and the personal traits of the entrepreneur, all elements which an entrepreneur-decision-maker should take into account during the decision-making process to attain a successful decision.

Keywords: Internationalization, Global Strategies, Entrepreneurial Decision-Making; Entrepreneur's Profile; Successful Intelligence; Self-Efficacy; Perspicacity; Emotions.

1. Introduction

In current environment, internationalisation represents the main path for companies' growth and development but it remains an open question whether international business development proceeds from globalisation or a more circumscribed phenomenon like regionalisation (Rugman and Verbeke, 2004; Dunning *et al*., 2007; Ghemawat, 2007). A generally accepted definition affirms that globalisation is an ongoing process of supranational development, growing integration, and deep interconnection affecting all human activities (Govindarajan and Gupta, 2001). According to Levitt (1983), companies oriented towards globalisation develop according to a multinational model, design a unique high quality/low-cost product addressed to an undifferentiated market, establishing strategies to serve it as a unique global one or, at least, to global segments (Hofstede *et al*., 1999; Douglas and Craig, 1995). A significant chunk of the business literature analyses internationalisation and globalisation following similar frameworks, based on the indubitable connection between these phenomena.

Nevertheless, a neglected area of research is the complexity of global strategies and the related decision-making process undertaken by companies willing to pursue a global strategy and manage interdependencies between markets in the global context. Moreover, the available decision-making frameworks are few and often partial, while a specific decision-making framework useful for entrepreneurial firms looking for global strategies seems to be lacking.

In the international entrepreneurship domain, contributions focused on decision-making models for international entrepreneurs are limited (Jones and Coviello, 2005; O'Cass and Weerawardena, 2009; Musso and Francioni, 2013; Verbeke and Ciravegna, 2018). There is also a lack of decision-making models designed to employ entrepreneurs' individual characteristics as a factor influencing the decision-making process and the choices related to strategic and managerial decisions in the global environment.

In general terms, scholars in the entrepreneurial field apply the general concepts and principles of the decision-making literature to entrepreneurs' decision-making (Berner *et al.*, 2012; De Winnaar and Scholtz, 2019; Shepherd and Rudd, 2014). However, considering that entrepreneurs want to have control of their destinies when dealing with uncertainty (Alvarez and Barney, 2004), decisions are affected not only by the features of the decision-making process (e.g. rational vs intuitive) but also by the entrepreneurs' individual characteristics (Cardon *et al.*, 2012). These characteristics are crucial for the creation, survival, success, and longevity of entrepreneurial firms (Caputo *et al*., 2016; Pellegrini and Ciappei, 2015; Shane and Venkataraman, 2000). Academic contributions focused on antecedents of entrepreneurial orientation (Koellinger, 2008; Lumpkin and Dess, 1996; Penco *et al*., 2020; Shane and Venkataraman, 2000) have studied 'personal' dimensions, e.g. pro-activeness, risk-taking, and innovativeness (Wiklund and Stepherd, 2005). The literature on decision-making has inserted the role of the entrepreneur within the process since an entrepreneur's profile affects the entire decision-making process and contents (Andersson, 2011; Sarasvathy *et al*., 2014).

Based on these premises, the purpose of this paper is to deepen the understanding of entrepreneurial decision-making about global strategies. A conceptual framework (proposed as a decision-making instrument) is developed to define the implementation patterns of global strategies. The model incorporates not only external and internal factors, but also the individual characteristics of entrepreneurs. The paper is built in such a way that it offers a contribution to the literature examining these complex relationships in a global context where both external factors (Spulber, 2007; Yip, 2000) and entrepreneurs' profiles influence process and content of the decision and impact the prospects for success either negatively or positively (Bolzani and Der Foo, 2018; O'Cass and Weerawardena, 2009). This study has also managerial implications, supporting global entrepreneurial firms or future global entrepreneurial firms to face problems and make decisions to define the strategic levers of globalisation.

The remainder of this paper is organised as follows: Section 2 introduces the concepts of global strategies, the decision-making process, and entrepreneurship, which are at the basis of our conceptual framework. Section 3 explains the proposed framework. Finally, Section 4 discusses the academic and practical implications of the framework.

2. Theoretical background

2.1. Global strategies and the decision-making process

International business and management scholars generally do not specifically investigate global strategies as a subset of international strategies or provide different definitions of global strategy (De Kluyver, 2010; Inkpen and Ramaswamy, 2006; Peng, 2014). Levitt (1983) denominates as 'global' any strategy aimed at supplying and selling a globally standardised good all over the world. Similarly, Harzing (2000) underlines the primary role of producing standardised goods and managing supply chains through high-efficiency levels (Farrell, 2004). It follows that a global strategy consists in achieving global efficiency at the lowest cost level. Bartlett and Ghoshal (1991) also consider the role of national flexibility, while Yip (1989; 2003) similarly asserts that companies must react to external strengths and move toward globalisation by implementing global strategies. According to Porter (1986), a global strategy sees a company selling its products over many countries and adopting a globally integrated strategic approach with a high degree of coordination in the value chain activities. Other scholars, such as Ghoshal (1987) and Birkinshaw *et al*. (1995), underline that integrating a company's competitive strategy moves through the main world markets represents the core of the global strategy. In line with our concept of globalisation, Collis (1991) asserts that a global strategy is required when the interdependencies of the company's competitive positioning in different countries are important.

Concerning global strategies, the literature has proposed several models that aim to identify factors that a global decision-maker should take account of. Traditional models are mainly focused on external factors (Yip, 2000). Addressing the industrial organisation-based theory or resource-based theory (Barney, 1991; Roth *et al*., 1991), literature suggests that the strategic choice of a firm competing in global markets is not just a function of market contexts (Birkinshaw *et al*., 2005); rather, Yaprak *et al.* (2011) present a framework of global strategy implementation in which the role of internal factors (resources and capabilities to compete in the global marketplace) are relevant. These frameworks are designed with attention to large and managerial companies, while the definition of an integrated framework for globalisation suitable for entrepreneurial firms in their different forms (e.g. start-ups, SMEs, family firms, etc.) remains a neglected area of research in the decision-making domain.

2.2. Entrepreneurial decision-making

Decision-making is a crucial moment for entrepreneurial firms (De Winnaar and Scholtz, 2019) and the extant literature has identified different approaches. In a 'pure' rationalistic approach, decision-makers are aware of all the business impacts and make decisions to maximise their performance (Lunenburg, 2011). The 'corrective' of bounded rationality (Simon, 1991) enriches the rationalistic model, in considering that decision-makers cannot always be perfectly rational and profit-oriented but are also influenced by other factors, i.e. the limits of available knowledge, external pressures such as time constraints and moral obligations (Klein, 2008). In the strategic management field, the rationalistic (and bounded) approach is added to the strategic planning approach (Lorange, 1980). The literature on entrepreneurship has underlined the relevant role of strategic planning in supporting entrepreneurial decision-making (Chwolka and Raith, 2012).

The second approach is the 'intuitive' and 'behavioural' one: successful or realised strategy is an 'emergent' one, a 'pattern in a stream of actions' taken by members of an organisation, as opposed to a rationalistic plan (Mintzberg, 1987). A dilemma in management theories concerns whether decisions are more effective and successful if they stem from rationality or 'creative intuition' (Mintzberg, 1987). Consistent with Sadler-Smith (2004), rationality and intuition comprise two different cognitive styles, the diversity of which depends on information analysis (rational and intuitive) and the organisation of information in the memory of the decision-maker. De Winnaar and Scholtz (2019) argue that particularly in the entrepreneurial decision-making process, the intuitive approach is in line with the theory of bounded rationality.

Following these premises, two dominant theories regarding the decision-making process can be found in international entrepreneurship studies. The first refers to the *causation process* (Sarasvathy *et al*., 2014), while the second is focused on the *effectuation process,* which starts from a given set of the entrepreneur's characteristics (e.g. traits, mind-sets, skills) that affect her/his knowledge and social networks (Andersson, 2011). In this latter perspective, the entrepreneur is regarded as an 'effectuator' that is: "[. . .] an imaginative actor who seizes contingent opportunities and exploits all means at hand to fulfil a plurality of current and future aspirations, many of which are shaped and created through the very process of economic decision-making and are not given a priori" (Sarasvathy, 2001, p. 262).

2.3 Factors affecting entrepreneurial decision-making: the role of the entrepreneur's profile

Addressing effectuation theory, which explicitly situates the entrepreneur at the centre of the decision-making process (Andersson, 2011; Sarasvathy *et al*., 2014), it is crucial to study and obtain information about the entrepreneur's personal profile since it is the entrepreneur who reads and explains the internal and external environments and devises different interpretations and related decisions (Sarti and Torre, 2019).

In the cognitive-knowledge approach, the entrepreneur's personal profile has attracted great attention from scholars interested in understanding how decision-making processes develop (Shepher, 2015; Zahra *et al.*, 2005). The sociology literature, on the other hand, considers entrepreneurs as embedded in a social context; in this view, the socio-economic characteristics of entrepreneurs, such as family's origins, education/training level, entrepreneurial and technical background, and previous experience, are relevant in shaping their decision-making process (Koellinger, 2008; Shane and Venkataraman, 2000).

In the psychology domain, other variables addressing individual attributes have been examined: innovativeness, self-confidence, locus of control, risk-taking, high level of individualism, openness to change, self-enhancement, low levels of power, conformity, and security (e.g. Tan, 2001; Wakkee *et al*., 2010; Wiklund and Shepherd, 2005) Among these profiles, creativity plays an important role in supporting the growth strategy of the international entrepreneurship (Butler *et al*., 2010; Wakkee *et al*., 2010).

In terms of decision-making, sociological and psychological profiles bring a more versatile thinking style that balances both linear (analytic, rational, logical) and nonlinear (intuitive, emotional, creative) approaches to decisions.

Considering that entrepreneurs attempt to match their mental images of the environment and perceptions of opportunities with the company's action, Pellegrini and Ciappei (2015) focus on the concept of perspicacity as the ability to detect exceptional cases correctly and in turn to properly enact the entrepreneurial orientation process. Another important concept is perspicacity (Bandura, 1997; Cardon and Kirk, 2015), i.e. a person's belief in his/her ability to perform a task and to obtain the desired outcome. Reinforcing the role of entrepreneurial self-efficacy, Sternberg (2004) proposes the concepts of successful intelligence, which is necessary to build a specific path through which an entrepreneur reads the external and internal context.

The entrepreneur's emotional filters also affect decision-making (Cardon *et al.*, 2012; Shepherd, 2015). Deepening this stream, it has been argued that entrepreneurial passion is the core of entrepreneurship (Cardon *et al.*, 2012; 2013; 2015). Welpe *et al.* (2011; 2012) find that emotions influence both the evaluation of opportunity and the exploitation of entrepreneurial decisions, while according to Shepherd (2015), emotions and knowledge-cognitive profiles have reciprocal influences on the decision-making process and content. Emotional intelligence (Ingram *et al.*, 2019; Salovey and Mayer, 1990) is considered to help in connecting the aforementioned profiles.

3. Conceptual framework

The existing literature on global strategies (Bartlett and Ghoshal, 1989; Doz *et al.*, 2001; Ghemawat, 2007; Knights and Cavusgil, 2005; Porter, 1986; 1990; Yip, 1989; 2003; Zou and Cavusgil, 1996) does not provide a framework that integrates external strategic analysis with internal one. Moreover, the entrepreneur's role in the process of decision-making is neglected (Cavusgil and Knights, 2015).

To address this gap, our paper focusses on both the external drivers and internal forces arising from globalisation and acting on companies' strategies and behaviours, as the foundations of new competitive advantage.

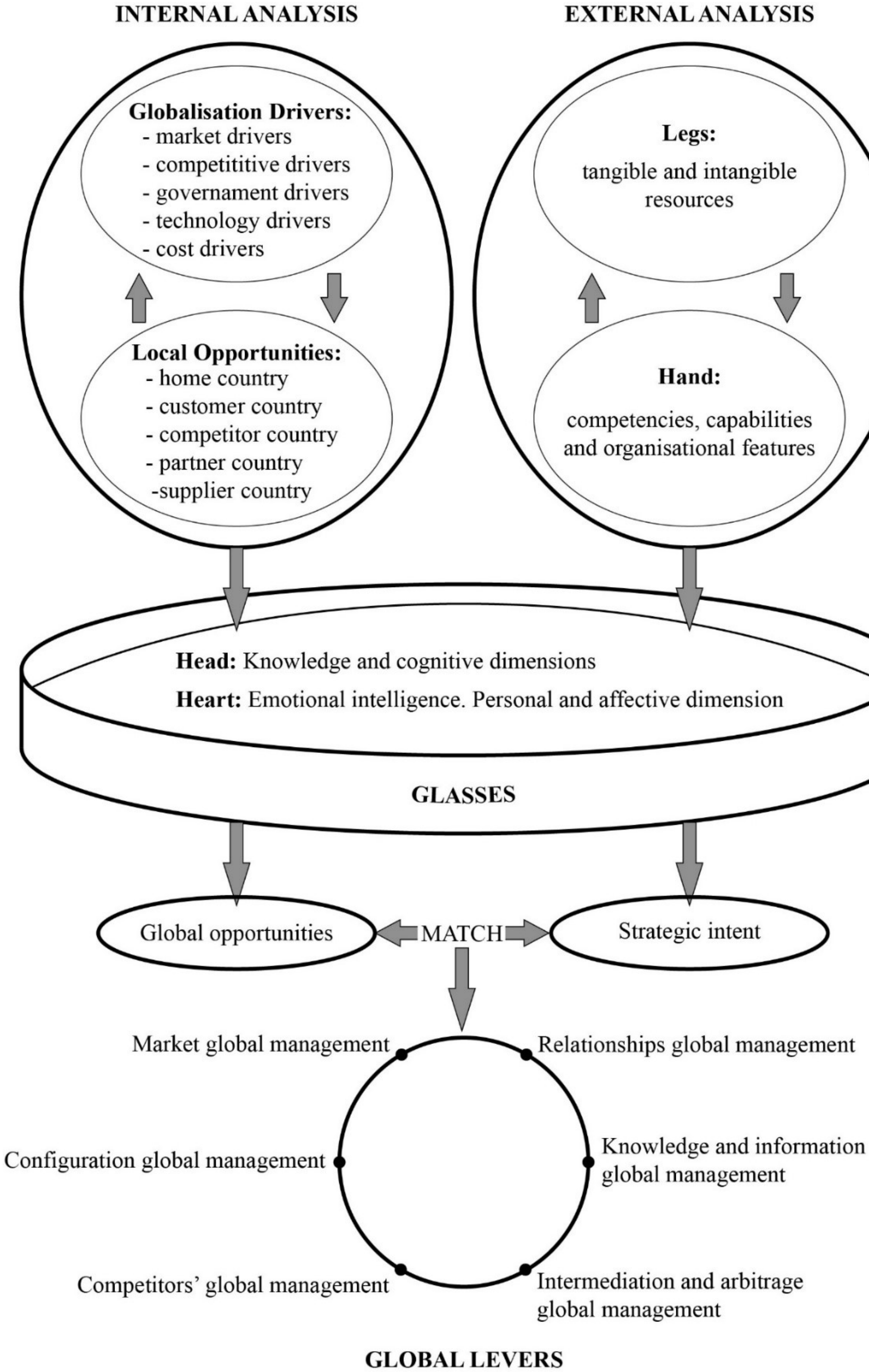
The suggested framework is composed of several phases, into which the global strategies decision-making process can be organised (Benevolo, 2013).

The process begins with an external environment analysis according to the following perspectives: (1) the strategic drivers leading industry toward globalisation, and (2) the local specificities that can be exploited via a global strategy. The first step identifies the external strengths, defining the industry globalisation degree by considering a number of globalisation drivers (Yip, 2003), the importance of which varies by industry. The second step investigates the local specificities to take advantage of through a global strategy. These latter are important because a global competitive advantage also originates (or on the contrary) from the ability to seize and exploit differences, and to combine original uniformities and differences (Ghemawat, 2007; Spulber, 2007). Indeed, globalisation uses interdependences between different countries, markets, and actors (Yip, 2000), and these represent the foundation of global competitive advantage (Inkpen and Ramaswamy, 2006; Lasserre, 2007; Spulber, 2007).

On the other hand, the internal analysis is based on the company's specific features (Collis, 1991), which we call 'legs' and 'hands' (see *infra*) to underline their operational roles in the strategy development. The entire decision-making process is affected by the entrepreneur's ability and enthusiasm to play this role, analysing and synthesising inputs, scanning global opportunities, and attaining decisions. We name this aspect 'entrepreneurial glasses' as a mix of two complementary dimensions – 'head', comprising the entrepreneur's personal knowledge-cognitive attitude, and 'heart', comprising the entrepreneur's emotions.

Global opportunities and strategic global intent emerge from the result of external and internal analysis, filtered through the entrepreneur's glasses. When the main features of global strategy are delineated, the final output of the framework consists in selecting the most appropriate strategic levers to compete in the global marketplace (Yip, 2003). The underlying hypothesis is that a global strategy must exploit a strategic advantage, defined as the extra-value that a company can generate through the coordination of resources, productions, and markets in a 'global value connection' (Spulber, 2007). The framework is synthesised in Figure 1.

Figure 1 – Structure and rationale of the proposed framework



3.1 External environment analysis: globalisation drivers and local opportunities

The external environment analysis adapts and enriches a framework originally proposed by Yip (2000; 2003) and related to the globalisation drivers. These drivers represent the industry's underlying features, creating the conditions necessary to develop global strategies and impact on modes and directions of global strategy.

Five groups of drivers can be identified:

- *Market drivers,* referring to customers' behaviours and networks' features of distribution. Many trends are leading to progressive globalisation: global priorities and needs, global customers, global channels, the transferability of marketing policies, the existence of leader countries where companies are forced to operate, the decrease of the time necessary to innovation of the products' to spread through the market (Yip, 1992; 2003).
- *Cost drivers,* which can lead to a cost advantage on a global scale (e.g. global economies of scale or scope, experience curve, global sourcing cost differential among countries). All these features allow and require a value chain reorientation, aimed at exploiting the interdependencies among different countries in terms of both cost reduction and richness/quality of available resources (Yip, 1992; 2003).
- *Technology drivers*, originated from the flexibility that new technologies offer in terms of efficient and valuable answers to specific needs emerging in different geographic markets (Sawhney, 2006). Moreover, technology development can change the world production map, relocating activities according to newly arising opportunities (De Backer and Miroudot, 2012).
- *Government drivers*, which include an opening to global markets arising from production and trade liberalisation policies, trade barriers removal, global technical standards exploitation, common marketing policies, etc. On the opposite side, restrictive commercial policies represent an obstacle to companies' adoption of global strategies. Of course, government drivers can exploit a different strength in the various industries, while legislation differences open to arbitrage opportunities (Ghemawat, 2007).
- *Competitive drivers.* A company's globalisation process can be supported by a high internalisation/international delocalisation degree of an industry, the existence of international and global competitors, interdependencies between the different regional markets, the transferability of competitive advantages, etc. (Ghemawat, 2007; Yip, 2003).

The second step in external environment analysis deals with local specificities and is based on the hypothesis that a global competitive advantage arises from the ability to combine global environment opportunities that are available to every existing company, with local specificities (*country factors*) suitable for deployment as strengths on a wider basis (Benevolo, 2013). In order to construct (and maintain) a competitive advantage at global level, it is therefore necessary to compare the sources of competitive advantage with the characteristics of the country of origin and the peculiarities of the countries where competitors, suppliers and partners are based. For this reason, country factors need to be identified. Regarding this issue, we enlarge and enrich Spulber's 'star analysis' (2007) and Ghemawat's approach to global strategies (2007).

Five groups of country factors can be identified:

- *Home country factors*, represented by the features of the original country of the company, facilitating or preventing the international growth path. They can be classified into four typologies: identity and culture; nature of existing relationships with stakeholders; the existence of brands that customers can immediately associate with the specific country;

and the political-legal environment (Bertoli and Resciniti, 2012; Delgado *et al*., 2010; Ghemawat, 2007; Porter, 2000).

- *Supplier country factors*, comprising the possibility of realising the best combination of raw materials/components/services suppliers at a global level. The ability to create valuable relationships is crucial (Hult *et al.*, 2014; Trent and Monczka, 2005).
- *Customer country factors,* referring to the individuation of groups of countries which are homogeneous from the perspective of customers' needs, and sufficiently numerous to represent significant transnational segments of the global market. We also refer to the possibility of adapting, to a certain extent, the marketing mix to the local context (Inkpen and Ramaswamy, 2007; Spulber, 2007).
- *Partner country factors*, concerning the specificities of the countries where partners, (with whom agreements and partnerships are established) are operating. Countries must be selected and divided into: demand-side partnerships (based on products' complementarities) or supply-side partnerships (based on competencies and technology complementarities).
- *Competitor country factors*, related to local specificities representing strengths in the competitors' global strategies. Also for competitors, the star analysis must be conducted and then compared with the company analysis (Spulber, 2007).

3.2 Internal analysis: the firm's legs and hands

The internal analysis considers resources and competencies required to manage risks and difficulties in the global environment. We name these features *legs* and *hands*; together they define the company as a complex and organic system, and may characterise the various key resources in different ways.

- *Legs*. The strategic management literature addresses this aspect within the theory of Resource-Based View (Barney, 1991; Roth *et al*., 1991). Resources must be evaluated by a process of internal auditing. Examples of legs for a global strategy are business model transferability, presence at a global level, and tangible and intangible resources availability.
- *Hands*. Hands are evaluable by addressing the analysis of core competences (Hamel and Prahalad, 1994) and of dynamic capabilities (Teece *et al*., 1997). Studies focused on organizational design help to focus on this factor. Examples of 'hands' for a global strategy are: management culture and quality, relational qualities, coordination capacity, the possibility of leveraging the competitive advantage at a global level. An appropriate mix usually translates into a high potential for globalisation and can lead to a 'global value connection', which is the best combination of internal factors and opportunities, leveraging on differences and interrelations in the global environment (Benevolo, 2013; Spulber, 2007).

3.3 Evaluation of entrepreneurial glasses: entrepreneur's head and heart

The originality of our framework is that it includes the entrepreneur's features. We based this approach assuming that these features make the difference in the way the decision-making process is run. Consistent with effectuation theory (Andersson, 2011; Sarasvathy *et al*., 2014), the entrepreneur is indeed the crucial and central part of the process to be evaluated since decisions are affected by his/her capabilities of detecting, understanding, anticipating, and synthesising the environmental inputs in order to envision and design a direction to move towards (Shepherd, 2015).

The entrepreneur's capability and role are named 'glasses' since glasses serve: i) to look ahead, forecast, imagine the future, and ii) to filter and perceive internal and external factors in order to scan global drivers and local opportunities and to create a global strategic intent.

Our framework considers that glasses are the result of a mix of 'head' and 'heart'. We use: i) *Head* as an overall and synthetic way of understanding, which comprises the cognitive perspective of the entrepreneur and the potential impact this perspective has on how he/she perceives environmental information; ii) *Heart* as an overall and synthetic way to consider emotions, moods, and feelings which influence entrepreneurial thinking and the exploitation of possible opportunities.

i) Head

According to Pellegrini and Ciappei (2015), the knowledge-cognitive perspective is considered crucial in the international entrepreneurship domain since it supports to understand the interrelationship between environment, experience, cognition, and entrepreneurs' decisions regarding different global strategies. So, it supports the entrepreneur to evaluate or (self-evaluate) his/her personal knowledge endowment, identifying those elements that could be more relevant for the external/internal context and actions to acquire missing elements.

Our framework includes an assessment of individual entrepreneurs' objective factors such as age, education, training, years of experience, family background, network of ties, and mind-set (Musso and Francioni, 2012; 2013; Shepherd, 2015; Zucchella and Magnani, 2016), considering the critical and predictive role of these variables.

For the complete definition of the knowledge-cognitive profile, our framework follows Stenberg (2004) and adopts the concept of *successful intelligence*, comprising the analytical, creative, and practical intelligences. All these intelligences are applied to create a concrete scheme for the assessment of entrepreneurial cognitive aspects.

The evaluation of the analytical intelligence is aimed at understanding the entrepreneur's ability to scan, collect, and interpret complex information (Baum and Bird, 2010): managerial skills such as skills related to strategy and planning (Casson, 2005) can be considered the most important requirement for the construction of this intelligence.

Creative intelligence generates new and high-quality ideas, consistent with the needs of the internal or external environment (Sternberg, 2004). This type of intelligence is considered a valid support for entrepreneurs operating in international contexts (Butler *et al.*, 2010) where environmental conditions cannot be reasonably foreseen by applying rationalistic procedures (Zucchella and Magnani, 2016). Creative intelligence is the result of entrepreneur's profiles, starting from his/her personality characteristics, experience, and training.

Practical intelligence comprises the entrepreneur's ability to identify solutions for 'day to day' problems. In a global context, the main problem is to understand and manage the interdependences among markets. The entrepreneur's personal experience is considered a predictor of practical intelligence.

These typologies of intelligence are also influenced by other personal factors concerning the entrepreneur's 'cognitive' sphere. Baum and Bird (2010) note the moderator role of *self-efficacy*, which is the confidence that someone has in his/her ability to successfully attain a goal or perform a task: it reflects the entrepreneurs' belief in the perspective of innovation, marketing, management, risk-taking, and financial resources with global decisions (Bandura, 1997).

Pellegrini and Ciappei (2015) introduce the concept of *perspicacity* as the ability to detect accurately exceptional cases and in turn to enact precisely the entrepreneurial orientation process. All these variables are considered bullet points for the evaluation of an entrepreneur's personal cognitive traits.

ii) Heart

Consistently with Baron's (2008) suggestion that entrepreneurship is an 'emotional journey', this study includes emotions in the process of decision-making for globalisation opportunities. Reference is made to the concept of entrepreneurial emotions as proposed by Cardon *et al.* (2012), which is used in our framework to summarise the whole phenomenon of subjective feelings related to an entrepreneur's affective perspective; the assumption is that an entrepreneur's reactions to particular stimuli, and those emotional states emerging from general situations in which an entrepreneur lives, and contextualised in a specific entrepreneurial process, lead to a decision. Emotions have a pervasive influence on decision-making, particularly in complex situations (such as the 'global context') and directly influence an individual's exploitation approach (Welpe *et al*., 2012). In detail, we suggest considering:

- *Fear*, as a negative emotion related to the anticipation of an event which indicates threat, supporting an attitude to avoid entering new situations (Higgins, 2005; Krause, 2004) and preventing risk-taking;
- *Joy,* as a typical positive emotion which reinforces exploitation tendencies (Baron, 2000; Brundin *et al.*, 2008);
- *Anger*, as a negative emotion significantly related to lower risk perceptions, so as to positively influence exploitation tendencies (Foo, 2009);
- *Passion*, which is considered the heart of entrepreneurship, for its role in fostering entrepreneurs' efforts, dedication, persistence towards goals, or in improving new venture survival and performance (Cardon *et al*., 2013); an entrepreneur's passion affects employee commitment (Breugst *et al*., 2012).

To deepen the role of emotions in entrepreneurship, we also suggest introducing the concept of *emotional intelligence* – defined as a person's ability to realise his/her emotions, capture others' emotions, and use them to achieve the desired goal (Salovey and Mayer, 1990). Ingram *et al.* (2019) organize this concept in 'intrapersonal emotional intelligence' and 'interpersonal emotional intelligence'. Consistently with Shepherd (2015), emotional intelligence helps to connect the knowledge-cognitive and emotional domains in the decision-making process, representing an additional linking element between head and heart.

3.4 The output of the decision-making framework: identification of strategic levers for globalisation

The results of the external and internal analysis represent a starting point for the identification of the tools required to implement global strategies. These tools are termed *strategic levers* here, to underline the possibility of using and combining them into an original mix, for a globalisation strategy.

There are six types of 'global' levers, variously usable and combinable (Benevolo, 2013):

- Global management of markets (achievable through the definition of market shares, identification of global segments, proposition of global products/services, and globalisation of marketing);
- Global configuration of value-generating activities (up to the creation of global platforms);
- Global management of relations (contractual and non-contractual relations, outsourcing choices, network formation);
- Global management of intermediation and arbitrage (matchmaking or market-making);
- Global management of knowledge and information (global information systems, identification of new business models, exploitation of arbitrage opportunities);

- global management of the competitive scenario through appropriate competitive actions (cross-subsidisation, control of competitors, counterattack, prevention, global sequence, etc.).

4. Conclusions, scholarly/managerial implications, and future research

This paper has developed an integrated analysis/evaluation/decision/implementation framework to suit companies intending to redefine their strategic behaviours and competitive schemes in the global market.

This framework has been proposed to support global strategy formulation for entrepreneurial firms that want to exploit opportunities deriving from a global strategy based on interrelations and interdependencies between different markets. This will be useful for international entrepreneurial firms that want (or need) to become global; for 'born global' entrepreneurial firms; and for multinational entrepreneurial firms that want to manage their markets in a more coordinated way. A logical process is suggested to identify the strategic levers available for global players to implement strategies, more than suggesting strategies themselves. In particular, this framework serves as a practical tool for the entrepreneur that wants to face the global challenges, nurturing the most important drivers referred to both to the external and to the internal environment. It supports the entrepreneur in finding the correct balance between global and local opportunities in order to formulate the global strategic intent and to identify suitable levers. Moreover, the focus on the personal profiles, the entrepreneur has the possibility to self-evaluate and identify possible gaps. In this vein, it helps to detect the opportunities and threats of the global approach and the internal strengths and weakness deriving from the internal environment in which the entrepreneur is included.

The work take in account the most important international business issues developed by scholars (Buckley, 2002; Ghemawat, 2007; Peng, 2004; Porter, 1986; Spulber, 2007; Yaprak *et al.*, 2011; Kim and Aguilera, 2015). It is based on the global strategies literature and has the additional value of representing an integrated framework. While globalisation processes are increasingly pervasive and radical, they do not lead to the homogenisation of competitive models, neither from the perspective of countries, nor about markets, nor for company strategies. It seems that companies' ability to develop and exploit a global competitive advantage is increasingly linked to the ability to detect and manage the interdependencies between different markets, through innovative and flexible modes of managing markets, competitors, information, and knowledge. Starting from these premises, our framework provides several theoretical, managerial, and political insights.

First we suggest an original conceptual framework for global decisions in which the entrepreneur's personal characteristics (heart and head) are both considered relevant variables for evaluation and drivers that affect the entire decision-making process. In terms of managerial implications, our framework can help global entrepreneurial firms or future global entrepreneurial firms to face problems and make decisions to define the strategic levers of globalisation. It proposes a description of the different variables connected to the external environment, features of the internal firm, and personal traits of the entrepreneur, all those variable that an entrepreneur-decision-maker should take into account during the decision-making process to attain a successful decision. Moreover, implications for human resource management emerge. This model, in fact, can serve to explain the entrepreneurial culture and the leadership style so as to communicate in the best way the factors that have shaped and created the 'global strategic intent'. Understanding the resources / competencies gap in a general assessment can prove to be useful for an organization operating on a global scale.

From a broader perspective, the framework encourages governments, policy-makers, and entrepreneurs to invest in promoting research and specific training interventions aimed at supporting entrepreneurs in enhancing their capacity to manage effective decision-making processes for globalisation.

This paper has several limitations. First, our framework is untested in an empirical setting. Further research is required to address this gap, analysing multiple case studies by presenting hypothetical situations to entrepreneurs in order to understand its real applicability. Second, this framework does not complete the picture of the variables involved in the entrepreneurial decision making process, both in terms of external and internal perspectives. Focusing on the entrepreneurial profiles, we have simplified the number of variables related to the cognitive and emotional aspects of entrepreneurs. The extension to other aspects, such as the role of an entrepreneur's cultural background and his/her experiences when defining and implementing global strategies, could be a suitable subject for specific future research. In particular, collecting additional results from a case-study research and enhancing the number of variables, this framework can help validate a model based on different hypotheses, with the help of further research that is based on an extensive survey.

References

1. Alvarez, S.A., & Barney, J.B. (2004). Organizing rent generation and appropriation: toward a theory of the entrepreneurial firm. *Journal of Business Venturing, 19*(5), 621-635.
2. Andersson, S. (2011). International entrepreneurship, born globals and the theory of effectuation. *Journal of Small Business and Enterprise Development, 18*(3), 627-643.
3. Bandura, A. (1997). *Self-efficacy: The exercise of control*. New York, NY: Freeman.
4. Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management, 17*(1), 99-120.
5. Baron, R.A. (2000). Counterfactual thinking and venture formation: the potential effect of thinking about "what might have been". *Journal of Business Venturing, 15*(1), 79-91.
6. Baron, R.A. (2008). The role of affect in the entrepreneurial process. *Academy of Management Review, 33*(2), 328-340.
7. Bartlett, C.A., & Ghoshal, S. (1989). *Managing Across Borders; The Transnational Solution*. Boston, MA: Harvard Business School Press.
8. Bartlett, C.A., & Ghoshal, S. (1991). Global strategic management: Impact on the new frontiers of strategy research. *Strategic Management Journal, 12*(Summer), 5-16.
9. Baum, J.R., & Bird, B.J. (2010). The successful intelligence of high-growth entrepreneurs: Links to new venture growth. *Organization Science, 21*(2), 397-412.
10. Benevolo, C. (2013). *Le strategie globali. Modelli di analisi e verifica empirica*. Milano, IT: McGraw-Hill.
11. Berner, E., Gomez, G., & Knorringa, P. (2012). 'Helping a large number of people become a little less poor': The logic of survival entrepreneurs. *The European Journal of Development Research, 24*(3), 382-396.
12. Bertoli, G., & Resciniti, R. (2012) (Ed). *International marketing and the country of origin effect: The global impact of 'made in Italy'*. Cheltenham, UK: Edward Elgar Pub.
13. Bird, A., & Stevens, M.J. (2003). Toward an emergent global culture and the effects of globalization on obsolescing national cultures. *Journal of International Management, 9*(4), 395-407.

14. Birkinshaw, J., Morrison, A., & Hulland J, (1995). Structural and competitive determinants of a global integration strategy. *Strategic Management Journal, 16*(8), 637-655.
15. Bolzani, D., & Der Foo, M. (2018). The "why" of international entrepreneurship: uncovering entrepreneurs' personal values. *Small Business Economics, 51*(3), 639-666.
16. Breugst, N., Domurath, A., Patzelt, H., & Klaukien, A. (2012). Perceptions of entrepreneurial passion and employees' commitment to entrepreneurial ventures. *Entrepreneurship Theory and Practice, 36*(1), 171-192.
17. Brundin, E., Patzelt, H. & Shepherd, D.A. (2008). Managers' emotional display and employees' willingness to act entrepreneurially. *Journal of Business Venturing, 23*(2), 221-243.
18. Buckley, P.J. (2002). Is the international business research agenda running out of steam?. *Journal of international business studies, 33*(2), 365-373.
19. Butler, J.E., Doktor, R., & Lins, F.A. (2010). Linking international entrepreneurship to uncertainty, opportunity, discovery and cognition. *Journal of International Entrepreneurship, 8*(2), 121-134.
20. Caputo, A., Pellegrini, M., Dabic, M., & Paul Dana, L. (2016). Internationalisation of firms from Central and Eastern Europe: A systematic literature review. *European business review, 28*(6), 630-651.
21. Cardon, M.S., & Kirk, C.P. (2015). Entrepreneurial passion as mediator of the self–efficacy to persistence relationship. *Entrepreneurship theory and practice, 39*(5), 1027-1050.
22. Cardon, M.S., Foo, M.D., Shepherd, D., & Wiklund, J. (2012). Exploring the heart: Entrepreneurial emotion is a hot topic. *Entrepreneurship theory and practice, 36*(1), 1-10.
23. Cardon, M.S., Gregoire, D.A., Stevens, C.E., & Patel, P.C. (2013). Measuring entrepreneurial passion: Conceptual foundations and scale validation. *Journal of Business Venturing, 28*(3), 373-396.
24. Casson, M. (2005). Entrepreneurship and the theory of the firm. *Journal of Economic Behavior & Organization, 58*(2), 327-348.
25. Cavusgil, S.T., & Knight, G. (2015). The born global firm: An entrepreneurial and capabilities perspective on early and rapid internationalization. *Journal of International Business Studies, 46*(1), 3-16.
26. Chwolka, A., & Raith, M.G. (2012). The value of business planning before start-up—A decision-theoretical perspective. *Journal of Business Venturing, 27*(3), 385-399.
27. Collis, D.J. (1991). A resource-based analysis of global competition: the case of the bearings industry. *Strategic Management Journal*, *12*(Summer), Special Issue, 949-68.
28. De Backer, K., & Miroudot, S. (2012, April). *Mapping global value chains*. Paper presented at Final WIOD Conference: *Causes and consequences of globalization*. Groningen.
29. De Kluyver, C.A. (2010). *Fundamentals of Global Strategy: a Business Model Approach*. New York, NY: Business Expert Press.
30. De Winnaar, K., & Scholtz, F. (2019). Entrepreneurial decision-making: new conceptual perspectives. *Management Decision*, Vol. ahead-of-print No. ahead-of-print.
31. Delgado, M., Porter, M.E., & Stern, S. (2010). Clusters and entrepreneurship. *Journal of economic geography, 10*(4), 495-518.
32. Douglas, S.P., & Craig, C.S. (1995). *Global Marketing Strategy*. New York: McGraw-Hill.

33. Doz, Y.L., Santos, J., & Williamson, P. (2001). *From global to metanational: How companies win in the knowledge economy*. Boston, MA: Harvard Business Press.
34. Dunning, J.H., Fujita, M., & Yakova, N. (2007). Some macro-data on the regionalisation/globalisation debate: a comment on the Rugman/Verbeke analysis. *Journal of International Business Studies, 38*(1), 177-200.
35. Farrell, D. (2004). Beyond offshoring: assess your company's global potential. *Harvard Business Review, 82*(12), 382-90.
36. Foo, M.D. (2009). Emotions and entrepreneurial opportunity evaluation. *Entrepreneurship Theory and Practice*, 35(2), 375-393.
37. Ghemawat, P. (2007). *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*. Boston, MA: Harvard Business Press.
38. Ghoshal, S. (1987). Global strategy: an organizing framework. *Strategic Management Journal, 8*(5), 425-40.
39. Govindarajan, V., & Gupta, A.K. (2001). *The Quest for Global Dominance: Transforming Global Presence into Global Competitive Advantage*. San Francisco, CA: Jossey-Bass.
40. Hamel, G., & Prahalad, C.K. (1994). *Competing for the Future*. Cambridge, MA: Harvard Business School Press.
41. Harzing, A.W. (2000). An empirical analysis and extension of the Bartlett and Ghoshal typology of multinational companies. *Journal of International Business Studies, 31*(1), 101-120.
42. Higgins, E.T. (2005). Value from regulatory fit. *Current Directions in Psychological Science, 14*(4), 209-213.
43. Hofstede, F.T., Steenkamp, J.B.E., & Wedel, M. (1999). International market segmentation based on consumer-product relations. *Journal of Marketing Research, 36*(February), 1-17.
44. Hult, G.T.M., Closs, D., & Frayer, D. (2014). *Global Supply Chain Management*. New York, NY: McGraw-Hill.
45. Ingram, A., Peake, W.O., Stewart, W., & Watson, W. (2019). Emotional intelligence and venture performance. *Journal of Small Business Management, 57*(3), 780-800.
46. Inkpen, A.C., & Ramaswamy, K. (2006). *Global Strategy: Creating and Sustaining Advantage Across Borders*. New York, NY: Oxford University Press.
47. Jones, M.V., & Coviello, N.E. (2005). Internationalisation: conceptualising an entrepreneurial process of behaviour in time. *Journal of International Business Studies, 36*(3), 284-303.
48. Kim, J.U. and Aguilera, R.V. (2015). The world is spiky: An internationalization framework for a semi-globalized world. *Global Strategy Journal, 5* 2), 113-132
49. Klein, P.G. (2008). Opportunity discovery, entrepreneurial action, and economic organization. *Strategic Entrepreneurship Journal, 2*(3), 175-190.
50. Knight, G.A., & Cavusgil, S.T. (2005). A taxonomy of born-global firms. *MIR: Management International Review, 45*(3), 15-35.
51. Koellinger, P. (2008). Why are some entrepreneurs more innovative than others?. *Small Business Economics, 31*(1), 21-37.
52. Krause, D.E. (2004). Influence based leadership as determinant of the inclination to innovate and or innovation-related behaviour: an empirical investigation. *Leadership Quarterly, 15*(1), 79-102.
53. Lasserre, P. (2007). *Global strategic management*. 2 ed., London, UK: Palgrave Macmillan.

54. Levitt, T. (1983). The globalization of markets. *Harvard Business Review*, *61*(3), May-June, 92-102.
55. Lorange, P. (1980). *Corporate Planning. An Executive Viewpoint*. Upper Saddle River, NJ: Prentice Hall.
56. Lumpkin, G.T., & Dess, G.G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of management Review, 21*(1), 135-172.
57. Lunenburg, F.C. (2011). Decision making in organizations. *International Journal of Management. Business and Administration, 15*(1), 1-9.
58. Mintzberg, H. (1987). Crafting strategy. *Harvard Business Review*, 65, 66-75
59. Musso, F., & Francioni, B. (2012). Foreign markets entry mode decision for Italian small and medium-sized enterprises. *International Journal of Business and Management, 7*(2), 3-16.
60. Musso, F., & Francioni, B. (2013). The decision-making process in international business strategies: factors of influence on small and medium enterprises. *International Journal of Applied Behavioral Economics, 2*(2), 1-22.
61. O'Cass, A., & Weerawardena, J. (2009). Examining the role of international entrepreneurship, innovation and international market performance in SME internationalisation. *European journal of marketing*, *43*(11/12), 1325-1348.
62. Pellegrini, M., & Ciappei, C. (2015). Ethical Judgment and Radical Business Changes: The Role of Entrepreneurial Perspicacity. *Journal of Business Ethics, 128*(4), 769–788.
63. Penco, L., Ivaldi, E., Bruzzi, C., & Musso, E. (2020). Knowledge-based urban environments and entrepreneurship: Inside EU cities. *Cities*, 96, 102443.
64. Peng, M.W. (2004). Identifying the big question in international business research. *Journal of International Business Studies, 35*(2), 99-108.
65. Peng, M.W. (2014). Global Strategy. 3rd ed., Mason (OH): Cengage Learning.
66. Porter, M.E. (1986). (Ed.) *Competition in Global Industries*. Boston, MA: Harvard Business School Press.
67. Porter, M.E. (1990). *The Competitive Advantage of Nations*. New York, NY: The Free Press.
68. Porter, M.E. (2000). Location, competition and economic development: Local clusters in the global economy, *Economic development quarterly, 14*(1), 15-31.
69. Roth, K., Schweiger, D.M., & Morrison, A.J. (1991). Global strategy implementation at the business unit level: operational capabilities and administrative mechanisms. *Journal of international business studies*, 22(3), 369-402.
70. Rugman A.M. & Verbeke A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of international business studies, 35*(1), 3-18.
71. Sadler-Smith, E. (2004). Cognitive style and the management of small and medium-sized enterprises. *Organization Studies, 25*(2), 155–181.
72. Salovey, P., & Mayer, J.D. (1990). Emotional intelligence. *Imagination, cognition and personality, 9*(3), 185-211.
73. Sarasvathy, S., Kumar, K., York, J.G., & Bhagavatula, S. (2014). An effectual approach to international entrepreneurship: Overlaps, challenges, and provocative possibilities. *Entrepreneurship Theory and Practice, 38*(1), 71-93.

74. Sarasvathy, S.D. (2001). Causation and effectuation: toward a theoretical shift from economic inevitability to entrepreneurial contingency. *Academy of Management Review*, 26(2), 243–263.
75. Sarti, D., & Torre, T. (2019). ICT Use and Job Satisfaction. The Moderating Role of Task Characteristics. In *Organizing for Digital Innovation*, pp. 11-26. Cham, CH: Springer.
76. Sawhney, R. (2006). Interplay between uncertainty and flexibility across the value-chain: towards a transformation model of manufacturing flexibility. *Journal of operations management, 24*(5), 476-493.
77. Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review, 25*(1), 217–226.
78. Shepherd, D.A. (2015). Party On! A call for entrepreneurship research that is more interactive, activity based, cognitively hot, compassionate, and prosocial. *Journal of Business Venturing, 30*(4), 489-507.
79. Shepherd, N.G., & Rudd, J.M. (2014). The influence of context on the strategic decision-making process: a review of the literature. *International Journal of Management Reviews*, 16(3), 340-364.
80. Simon, H.A. (1991). Bounded rationality and organizational learning. *Organization science, 2*(1), 125-134.
81. Spulber, D.F. (2007). *Global Competitive Strategy*. New York: Cambridge University Press.
82. Sternberg, R.J. (2004). Successful intelligence as a basis for entrepreneurship. *Journal of Business Venturing, 19*(2), 189-201.
83. Tan, J. (2001). Innovation and risk-taking in a transitional economy: A comparative study of Chinese managers and entrepreneurs. *Journal of Business Venturing, 16*(4), 359-376.
84. Teece, D.J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic management journal, 18*(7), 509-533.
85. Trent, R.J., & Monczka, R.M. (2005). Achieving excellence in global sourcing. *MIT Sloan Management Review, 47*(1), 24-32.
86. Verbeke, A., & Ciravegna, L. (2018). International entrepreneurship research versus international business research: A false dichotomy?. *Journal of International Business Studies, 49*(4), 387-394.
87. Wakkee, I., Elfring, T., & Monaghan, S. (2010). Creating entrepreneurial employees in traditional service sectors. *International Entrepreneurship and Management Journal, 6*(1), 1-21.
88. Welpe, I.M., Spörrle, M., Grichnik, D., Michl, T., & Audretsch, D.B. (2012). Emotions and opportunities: The interplay of opportunity evaluation, fear, joy, and anger as antecedent of entrepreneurial exploitation. *Entrepreneurship Theory and Practice, 36*(1), 69-96.
89. Welpe, I.M., Spörrle, M., Grichnik, D., Treffers, T., & Audretsch, D.B. (2011). I think it’s good, but I’m also afraid: the interplay of opportunity evaluation and emotions as antecedent of entrepreneurial exploitation. *Indiana University-Bloomington: School of Public & Environmental Affairs Research Paper*, No. 2011-04-03. Available at SSRN: https://ssrn.com/abstract=1821104.
90. Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: A configurational approach. *Journal of Business Venturing*, *20*(1), 71–91.

91. Yaprak, A., Xu, S., & Cavusgil, E. (2011). Effective global strategy implementation. *Management International Review, 51*(2), 179-192.
92. Yip, G.S. (1989). Global strategy… In a world of nations?. *Sloan Management Review, 31*(1), (Fall), 29-41.
93. Yip, G.S. (1992). *Total Global Strategy: Managing for Worldwide Competitive Advantages*, Englewood Cliffs, NJ: Prentice Hall.
94. Yip, G.S. (2000). Global strategy in the internet era. *Business Strategy Review, 11*(4), 1-14.
95. Yip, G.S. (2003). *Total Global Strategy II: Updated for the Internet and Service Era*. New Jersey: Prentice Hall.
96. Zahra, S.A., Korri, J.S., & Yu, J. (2005). Cognition and international entrepreneurship: implications for research on international opportunity recognition and exploitation. *International business review, 14*(2), 129-146.
97. Zou, S., & Cavusgil, S.T. (1996). Global strategy: A review and an integrated conceptual framework. *European Journal of Marketing, 30*(1), 52-69.
98. Zucchella, A., & Magnani, G. (2016). *International entrepreneurship: theoretical foundations and practices*. London, UK: Palgrave Macmillan.

WOMEN'S PRESENCE ON EUROPEAN BOARDS AND THE PERFORMANCE CYCLE OF VALUE CREATION AS AN INSTRUMENT TO ACHIEVE THE GENDER QUOTAS

Bettina C.K. Binder
Pforzheim University, Germany

Received: *August 12, 2020* Accepted: *October 2, 2020* Online Published: *November 30, 2020*

Abstract

Value creation is a major claim of most companies. Mahajan (2017) argues that "value and value creation are natural to and basic in human behaviour and endeavour", nevertheless women are often marginalized and impeded in their advancement towards leadership positions, where they could shape and influence the process of value creation. Many large companies in Europe include mainly men in supervisory boards and the women quota is often lower than 20 %. We offer an overview of the women's presence on the boards of the EURO STOXX 50 companies and we develop a model, which presents eight steps in a strategic performance cycle showing how more women can be integrated in supervisory and management boards so that they can contribute to a better company value in general. The main contribution consists in offering companies a strategic instrument and concrete advices on how the women presence can be increased company-wide and the gender quota on boards can be achieved.

Keywords: Strategic performance cycle; Value creation; Women on supervisory boards; Key performance indicators; Gender quota; EURO STOXX 50.

1. Introduction

Value creation is a major claim of most companies and when leafing through the annual reports of companies one encounters expressions such as "value to our shareholders", "we provide value for our customers", "we create value for our employees, shareholders, business partners, neighbors and the public", etc. While it seems to be clear for whom value is created, the concept of "value" itself is subjected to various interpretations and is regarded in the literature as ambiguous (Lepak, Smith, & Taylor, 2007; Marinova, Larimo, & Nummela, 2017). Mahajan (2017) argues that "value and value creation are natural to and basic in human behavior and endeavor", nevertheless women are often marginalized and impeded in their advancement towards leadership positions, where they could shape and influence the process of value creation. The urge to better use the talent pool represented by women was voiced by many actors: the Organization for Economic Co-operation and Development ([OECD], 2016) for example emphasized that women "can provide society with different perspectives and approaches to management, organization and business issues". In order to change the organizational culture of all-male boards, positive actions such as gender quotas were introduced in many European countries.

The present paper looks at the companies of EURO STOXX 50 index in the year 2015 and offers an overview of women representation on the boards of these 50 companies, the index being described as a "Blue-chip representation of supersector leaders in the Eurozone" (stoxx.com).

The author of this paper deems the presence of women on corporate boards as valuable in itself and argues that images such as the "white, heterosexual, western, middle/upper class, able man" (Zanoni, Janssens, Benschop, & Nkomo, 2010 p. 13) ought to be challenged in international business.

The paper draws on existing literature in the field of key performance indicators (KPIs), diversity management, women quota and supervisory boards and it is structured as follows: in a first step, value and value creation is described on the basis of the annual reports of the 50 EURO STOXX companies. By reading the annual reports, it also became evident, that some of the companies employ the value-based management approach, and therefore, one section is dedicated to this aspect. In a second step, a short literature review about the presence of women on boards and its relevance will be presented. Based on a strategic performance cycle with eight steps, this paper envisages measures and solutions for companies aiming to achieve a high women quota and to increase at the same time the companies' value.

Finally, a correlation analysis is conducted in order to see, whether there is a relationship between the number of women on supervisory boards and financial performance of the companies under scrutiny. The last sections is dedicated to the findings and it also shows the limitations of this study and offers suggestions for future research.

2. Value, Value Creation and Value Understanding

2.1. The Concept of "Value" and Its Use by Companies

The centrality of value creation is incontestable for companies and management and organizational scholars alike. Generating value is seen to positively impact the stakeholders, employees, customers, partners and CEOs, society, companies and shareholders (Mahajan, 2016). The author of this article acknowledges the significance of the monetary component of value creation, in line with the definition offered by Lepak, Smith and Taylor: "value creation depends on the relative amount of value that is subjectively realized by a target user (or buyer) who is the focus of value creation – whether individual, organization, or society – and that this subjective value realization must at least translate into the user's willingness to exchange a monetary amount for the value received" (2007, p. 182). The CEO should avoid value destruction by focusing on the customer and using financial and non-financial assets and measures (Mahajan 2016, p. 69).

Most of the companies of the EURO STOXX 50 index[1] use in their annual reports the word "value", be it in the sense of monetary worth, importance in the eyes of someone, or principle or belief. Airbus for instance focuses on delivering value for shareholders as in "value to our shareholders through our share buybacks, with an additional €1 billion launched in October 2015" (Airbus Group, 2015, p. 19). Airbus also claims to "recognize the value that diversity

[1] The companies, which were part of the EURO STOXX 50 index in 2015, can be seen in the second table.

brings" and therefore "is committed to advancing women in the workplace and developing female talent" (Airbus Group, 2015, p. 26). Other companies of the EURO STOXX 50 index claim in their annual reports to being committed to value creation. Nokia states for example the following: "We aim for all our business groups to be innovation leaders, drawing on our frontline R&D capabilities to deliver leading products and services for our customers, and ultimately ensure the company's long-term value creation" (Nokia, 2015, p. 40).

What should be pointed out is the tendency of using words in a loose or even misleading manner in some of the annual reports. Fresenius for example had at the end of 2015 an all-male supervisory board, being actually the only company of the EURO STOXX 50 index in this situation. Yet, in its annual report, it is emphasized that "Fresenius values a culture of **diversity**[2]. The interplay of a wide range of views, opinions, cultural backgrounds, experiences, and values help us to achieve our full potential and contributes to our success" (Fresenius, 2015, p. 27).

While the words "value" and "value creation" appear in most annual reports of the companies of EURO STOXX 50 index, some companies even employ a value-based management (VBM) metric. The next section of this paper gives a short overview on VBM and the EURO STOXX 50 companies using this approach.

2.2. VBM, Its KPIs and the EURO STOXX 50 Companies

The following table shows the eight companies of the EURO STOXX 50 index, which according to their annual reports were using VBM in 2015.

Table 1 – Overview of the EURO STOXX Companies Using VBM in 2015

No.	Company name	Country	Sector	VBM
1	AIRBUS GROUP SE	FR	Industrial Goods and Services	✓
2	BASF	DE	Chemicals	✓
3	BAYER	DE	Chemicals	✓
4	BMW	DE	Automobiles and Parts	✓
5	DAIMLER	DE	Automobiles and Parts	✓
6	DEUTSCHE TELEKOM	DE	Telecommunications	✓
7	SAP	DE	Technology	✓
8	UNICREDIT	IT	Banks	✓

Source: Own Representation Based On the Information Provided in the Annual Reports of All 50 EURO STOXX Companies

One can find many definitions of VBM in the literature. According to Firk, Schrapp and Wolff "VBM is a holistic managerial approach that aims to align corporate action with value creation" (2016, p. 42). The driving philosophy of companies using VBM is to "maximize shareholder value by producing returns in excess of the cost of capital" (Simms, 2001). In order to maximize shareholder value "VBM links the company's strategic objectives to a coherent set of performance measures through cause-and-effect chains ('value drivers') that include all relevant processes and all pertinent information systems across a company" (Burkert & Lueg, 2013, p. 5). Among the most known KPIs associated with VBM are economic value added (EVA), discounted cash flow (DCF) and cash flow return on investment (CFROI).

EVA is the most common method, and a registered trademark of Stern Stewart & Company. To calculate the EVA, capital losses are deducted from capital profit. It is considered a simple

[2] Original emphasis.

method, which can be advantageous. However, the existence of a market and book value in the calculation of the EVA can lead to a lack of transparency. Capital profit in opposition to the profit from a balance sheet, is a KPI that describes the profit with interest rates. Capital losses are calculated from the capital multiplied with the capital margin. Yet, only figures taken out from the profit and loss statement or the balance sheet are not sufficient for doing VBM, and calculating the EVA.

When using the DCF method cash flow becomes the central KPI and an equity or an entity approach can be here employed. Discounted rates and the net present value are for the calculation essential. The advantage of the DCF is its acceptance internationally; it is often employed e.g. in mergers and acquisitions valuations. Disadvantages of the DCF-method are that the expected cash flows are uncertain and can change yearly or even during the year.

Companies sometimes use the CFROI method for VBM as well. Developed by the Boston Consulting Group, KPIs like the cash value added (CVA), free cash flow, weighted average costs of capital (WACC) and the gross investments are used for calculating the CFROI. Advantages are that cash flow values can be internally or externally calculated and used by managers and investors to indicate liquidity and solvency. The disadvantages of the CFROI-method are the slightly more complex formulas for calculation.

VBM is, however, 'not just about the numbers' as Haspeslagh, Noda and Boulos (2001) noted: "A successful VBM program is really about introducing fundamental changes to a big company's culture. And therein lies the reason for most of the failures: Transforming beliefs in a large organization is arguably the most difficult of all managerial challenges". In the following paragraphs the understanding of VBM as described in the annual reports of the EURO STOXX companies using this approach is presented.

Airbus states that "among other indicators, the Group uses a Value Based Management approach in order to guide the Company towards sustainable value creation by generating financial returns above the cost of capital" (Airbus, 2015, p. 61). The KPIs employed by Airbus are Return on Capital Employed (RoCE), EBIT pre-goodwill impairment and exceptionals and free cash flow.

The German company BASF considers VBM an essential part of its strategy: the company's slogan "We add value as one company" is regarded as one of the four principles, which contribute to the company's "We create chemistry" strategy (BASF, 2015, p. 30). The annual report describes VBM as a holistic approach, implemented at all levels of the company: "According to our value-based management concept, all employees can make a contribution in their business area to help ensure that we earn the targeted premium on our cost of capital. We pass this value-based management concept on to our team around the world through seminars and training events, thereby promoting entrepreneurial thinking at all levels within BASF" (BASF, 2015, p. 30). As a steering parameter, BASF uses EBIT after cost of capital (BASF, 2015, p. 30).

Bayer is another German company of EURO STOXX index, which uses VBM (six out of the eight companies employing VBM are German). According to the annual report, "one of the prime objectives of the Bayer Group is to steadily increase enterprise value" (Bayer, 2015, p. 55). The steering parameters involved in reaching this objective are CVA and CFROI: "These indicators support management in its decision-making, especially in the areas of strategic portfolio optimization and the allocation of resources for acquisition and capital expenditures" (Bayer, 2015, p. 55).

BMW writes that "the business management system applied by the BMW Group follows a value-based approach, with a clear focus on achieving profitable growth, increasing the value of the business for the capital providers and safeguarding jobs" (BMW, 2015, p. 20). While declaring that the KPIs engaged in measuring value creation are defined for each controlling level, BMW employs not only financial indicators, such as RoCE, and return on equity (RoE), but also non-financial indicators, such as the size of the Group's workforce (BMW, 2015, pp. 20-21).

Daimler too uses KPIs which are oriented "toward our investors' interests and expectations and provide the foundation of our value-based management" (Daimler, 2015, p. 77). At the core of Daimler's performance measurement system is value added which is "calculated as the difference between operating profit and the cost of capital of average net assets" (Daimler, 2015, p. 77).

Deutsche Telekom states that in order to "set and achieve [its] strategic goals more effectively" (Deutsche Telekom, 2015, p. 64) a value management approach is pursued. According to the information from the annual report, the Group has a code of conduct which "defines how employees and management should practice value-based and legally compliant conduct in their daily business activities" (Deutsche Telekom, 2015, p. 46), and the Group's corporate governance is value-oriented (Deutsche Telekom, 2015, p. 63). Among the KPIs employed by Deutsche Telekom are RoCE, EBIT, and free cash flow.

Dedicated to "creat[ing] long-term value by addressing future needs" SAP uses VBM and it concentrates on two different goals: "We use various performance measures to help manage our performance with regard to our primary financial goals, which are growth and profitability, and our primary non-financial goals, which are customer loyalty and employee engagement" (SAP, 2015, p. 59).

The Italian company Unicredit describes in its annual report its "principles of value creation and capital allocation" (Unicredit, 2015, p. 36). The main performance indicator used by Unicredit is the EVA.

From the excerpts of the annual reports, it becomes apparent that the companies implementing VBM systems do have slightly different understandings, approaches, and KPIs in use. However, as all companies of EURO STOXX 50 index do claim to create value, in the next step of the paper the author analyses the degree to which these companies concentrate not only on organizational growth, but also on organizational sustainability. Sustainability could be achieved if women too were given the chance to be in top positions. The next section contains a literature review with regard to the presence of women on boards and women quota.

3. Women on Boards and How Their Number Can Be Increased

3.1. The glass ceiling

A controversial issue during the past decades was women's presence in supervisory boards. Yet, gender equality is one of the founding values of the European Union (EU) with the principle of equal pay being included in the Treaty establishing the European Economic Community already in 1957 (Jacquot, 2017). When looking at the corporate world, one can say that the glass ceiling is still in place, as many large companies in Europe include mostly men on supervisory boards and the number of women on these boards is often low. What needs to be acknowledged is the fact that gender balance became a priority and diversifying corporate supervisory boards often represent a target to be achieved. In Norway, Italy, France, Spain and starting with 2016 also in Germany binding gender quota exist (Sullivan, 2015). Small improvements can be seen with a law instituted quota for women in supervisory boards (Corkery & Taylor, 2012). Norway was the first country to legislate board quotas in 2004 (Dizik, 2015) and many countries followed with law determined or optional women quotas in supervisory boards. Yet, according to the "2019 Report on equality between women and men in the EU" of the European Commission "critical positions within boards are still rarely filled by women" (European Commission, 2019, p. 30).

There are studies on women in European listed companies suggesting that there are positive effects of diverse boards on corporate governance and even on firm performance (Buchwald & Hottenrott, 2015). The study "Women matter. Gender diversity, a corporate performance driver" showed that companies with a higher proportion of women in top management perform better

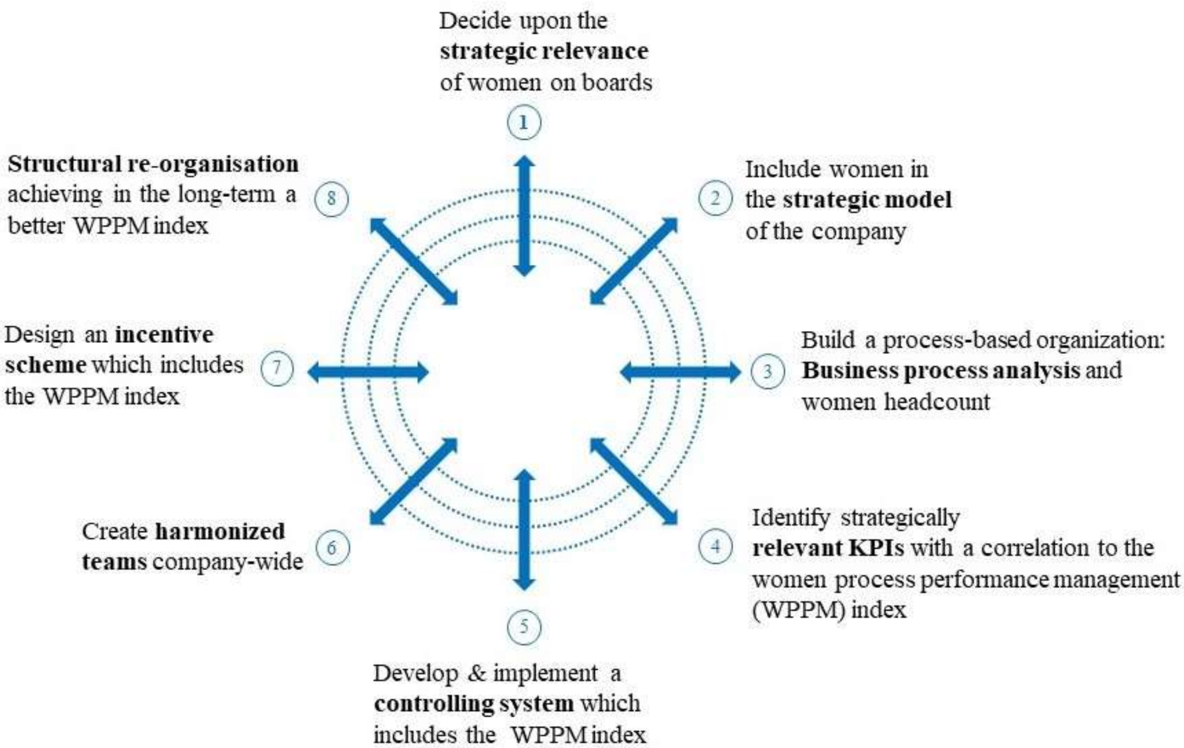
(McKinsey, 2007). However, there are also authors signaling rather the lack of evidence that female representation in supervisory boards improves profitability (Ferreira, 2014). For instance, in a study with 108 German large corporations, which took place between 2009 and 2013, there was not enough evidence to indicate a significant relationship between gender diversity and firms' financial performance (Dick, 2015). Moreover, it seems that men in supervisory boards have often better networks and for this reason, the male supervisory board managers often recruit male followers, which minimizes the women quota in supervisory boards on the long run (Terjesen, Aguilera, & Lorenz, 2015).

Considering the urge voiced by many actors (EU, OECD, the International Labour Organisation [ILO]) to better use the talent pool represented by women as well as the long-term policies of the EU, which aim at advancing gender balance in decision-making, we developed a strategic performance cycle for value creation, which encourage companies to engage women sustainably in top positions.

3.2. The strategic performance cycle for value creation

The following figure presents the strategic performance cycle.

Figure 1 – The Strategic Performance Cycle in Eight Steps



Source: Author's creation

The strategic performance cycle is an instrument, which can help companies boost the presence of women on boards by following eight steps. In the next paragraphs, each step and its implications are shortly presented:

1. Strategic relevance

Many companies nowadays are interested in integrating more women in management or supervisory boards not just in countries where legislation imposes a women quota but also in countries where it is optionally expected. Therefore, achieving a women quota is strategically relevant for most companies. Consequently, companies search for an approach and a course of action to pursue a better integration of women into their boards and their business in general, but sometimes it is not clear which path would be the most appropriate. For instance in Germany, listed companies must achieve a gender quota of 30% on their supervisory boards. For managers this means that they need to search for a solution or an implementation concept. The KPI "women quota" must therefore be integrated not just in the vision and mission statements of the companies, but also at an early stage in the strategic planning process. In the tactical planning phase, women should appear in the organization charts by name, to show that the realization of a women quota of 30 % is not just a faraway dream, but the company is actually promoting women and is envisioning a pool of women talents. In the operating planning and budgeting process more women should be hired as responsible line managers who report planning figures for their departments.

Moreover, the KPI women quota should be included into strategic performance management tools such as the Balanced Scorecard (BSC). Women quota could be for instance included in the internal perspective of the BSC and increase in this way the focus on this critical area.

2. Strategic model

A strategic model for a period of five to ten years should be developed and evaluated. Such a model could contain several strategic KPIs such as the EBT, the women quota, early warning indicators, scenario targets including worst case, best case and trend scenarios. Using the scenario technique or other strategic instruments, the KPI women quota can be emphasized. The slogan "What gets measured gets done" shows how relevant it is to integrate the women quota in scenarios e.g. as prognosis for the next ten years. The KPI women quota could be split into 'smaller' indicators such as the target for female recruitments in the overall workforce, the number of women in middle management, the number of women in the management board, the number of women in the supervisory boards, etc. The business model, together with the vision and the mission of a company should offer a comprehensive and unified image in terms of goals and messages. If the company addresses mainly female customers, the company would surely benefit from emphasizing the importance played by women leadership and the commitment towards achieving a high women quota. Woman quota can be related also to other sustainability goals of the company. Whether it is self-commitment or law compliance, increasing the number of women at the top of companies should be clearly communicated and lived throughout the company.

Moreover, a women quota can be a goal also at departmental level. The business model can stipulate that only those managers are eligible for a performance bonus (e.g. 20%) if their department or team have a women quota higher than 30%. This could be a consistent business model to increase the women quota in the long term also at management level.

3. Business process analysis

In the third step of the strategic performance value creation cycle a business process analysis has to be conducted. First, activities, sub-processes and main processes of different departments or of the company as a whole should be identified. This business process analysis can be done using anonymous interviews about the total headcounts in the cost centers. To know how many women headcounts work in these processes, the interviewers should keep a separate recording of male and female headcounts. The headcount data remains anonymous, but male and female capacities are distinguished for calculating the women quota for each individual activity, sub-process and main process. Second, cost drivers of the processes such as number of orders, number of male or female recruitments, number of women in management positions, etc. are identified. Third, the total process costs should be calculated for the main processes, for the sub-processes and finally for the activities. If one considers some twenty main processes in a company, it seems easy to calculate the process costs that should be finally divided into male and female capacities. For the hundreds of sub-processes the process calculation of the total process costs split into female and male costs could be more time consuming. The total process costs calculation for the final thousands of activities is still necessary because the activities are allocated at the end to sub processes and main processes differentiated in male and female process costs. Fourth, the process cost rate must be calculated so that finally it can be said what are the process costs for one order execution, etc. The process cost rate divided into male and female costs can identify processes e.g. with a high performance and show if these processes have a high women quota too. Fifth, the allocation of activities to sub-processes and finally to main processes can show the male process costs and the female process costs e.g. for one order. In companies with a low women quota, the female process costs over all activities seem low compared to the male process costs. At the latest at this point it should be clear that the women quota must be increased by starting to recruit more women into management and supervisory boards and to the departments and teams too.

The process cost rates can be implemented into a product calculation instead of the burden rates used for the indirect areas. Process cost rates e.g. for the sales process costs, the maintenance process costs or the security process costs are always interesting when they are integrated in a product calculation. Divided into male and female process costs additional information can be made available.

4. Relevant KPIs

For increasing the women quota, it is necessary to measure a special KPI, which we call "women process performance management (WPPM) index". This KPI should increase over a long strategic planning period and has the following formula:

$$WPPM = \frac{Customer\ Importance\ \times\ Customer\ Satisfaction}{Process\ Cost\ Rate\ (Women\ Capacities) \div Benchmark\ Cost\ Rate\ (Women\ Capacities)}$$

With the help of a customer survey, two KPIs are to be measured: the customer importance related to one process and the customer satisfaction attributed to it. It is important to measure both these KPIs because the customer should be able to evaluate whether e.g. an order process is important for him and whether he is satisfied with the order fulfillment in time. The customer survey should be accompanied by a business process analysis as described above. The result of this business process analysis should be the process cost rate, this time calculated considering the women capacities. By comparing this process cost rate based on women capacities with a benchmark process cost rate of women capacities of another company, a quotient can be built and a final equivalence number can be calculated.

If the women WPPM index is higher than 1, the strategic performance and value creation is good. If the index is lower than 1, then the qualitative and quantitative premises should be optimized. A better position in comparison with the main benchmark competitor should be achieved for instance by improving the process cost rate via better recruitment of qualified women or improving customer experience.

5. Controlling system

The controlling system consists of the planning process, the cost accounting process and the reporting process. The WPPM index can be integrated into a planning system. This means that the yearly budgeting process includes the women quota and the WPPM index and incorporates these two KPIs for the next fiscal year for each department of an enterprise.

In the cost and managerial accounting process cost types, cost centers and cost objects are identified. These cost elements are planned including additional KPIs like the women quota and the WPPM index for each cost center. For example, the cost center, order management must plan the costs, the relevant budget with the number of orders, the women quota as target for this cost center and the WPPM index. To calculate the WPPM index it must be ensured that the cost center is big enough and that customer contact (of internal or external customers) is fostered. Additionally when a process cost rate and a benchmark cost were identified, the WPPM index can be calculated and planned.

The relevant KPIs should be integrated in the monthly reporting process. A special chapter for important qualitative KPIs in each month end report ensures that the women quota and the women PPM index are continuously measured and a development trend can be registered. This is important when these two figures are also considered in determining the management variable remuneration.

6. Harmonized teams

Once processes are identified and KPIs are defined in a controlling system, the employees should be aware of them and consider them in their daily work. Harmonized teams where women and men work together often achieve better results and the defined KPIs like EBT, cost target and women quota are achieved easier. When women work together with several male team members, extraordinary ideas, remarkable product and process innovations take place and the team comes to unique results. In most cases, critical questions outside specifications are raised by women, and discussed together in the mixed teams.

To design a harmonized team it must be clear that the management supports harmonized teams formed by both men and women. Starting from the top management level, women should work together with men in management boards and supervisory boards but also at lower management level and throughout the entire company. Moreover, it is recommendable to integrate women into the structural organization and to show women and men by name in the company organigram. In process-oriented organizations, a harmonized team can be linked to a project or a process and should be led by a process responsible. The more process responsible are female, the better the KPI women quota becomes. Furthermore, the number of women in harmonized teams can be measured project based (short term) or process bases (in the long run).

7. Incentive scheme

External factors can influence the number of women in companies. For example, more lectures can be held at universities to attract more academic women, there should be more job ads looking for the best women in the media or more transparent information in the year-end reports about the number of women or the women quota in management or supervisory boards.

Internally there should be a consistent target setting process supported for instance by Management by Objectives (MBO) meetings. Managers and employees should meet at least twice a year to discuss about the already achieved personal targets and about the future expectations until end of the year. It is not enough to discuss only KPIs like the achieved profit, contribution margin or the sales figures. Additionally, the women quota, the WPPM index should be measured and based on target achievement, the variable part of the annual remuneration should be granted or not.

8. Structural re-organization

The result of a process-based analysis should be to obtain a better effectivity and a higher efficiency company-wide. The KPIs women quota and WPPM index can be measured based on processes, at team level, at departmental level and for the entire enterprise. Process optimization teams (POTs) can be created to design the actual order process, the ideal process flow and the optimized standard process cycle. It should be ensured that an optimized standard process cycle includes the KPIs women quota and the WPPM index.

4. The EURO STOXX Companies and Women Presence on Their Boards

In the following section of the article we will shortly present the EURO STOXX 50 index and its companies and the women quota on their boards.

The EURO STOXX 50 Index was selected to represent the performance of the 50 largest companies among 19 supersectors in the year 2015. There are enterprises of seven Eurozone countries which are integrated in this index. This index has a fixed number of components and is part of the STOXX blue-chip index family. Moreover, EURO STOXX 50 index is one of the most liquid indices for the Eurozone and serves for benchmarking purposes. The index is a financial control index, which ensures stable and up-to-date figures. It represents the performance of only the largest and most liquid companies in a sector (stoxx.com).

The following table gives an overview of the 50 companies, which are part of the EURO STOXX index, their sector of activity, country of origin, the percentage of women on their supervisory boards and the names of these women.

Table 2 – Overview of the EURO STOXX Companies in 2015 and Their Women on Board

No.	Company name	Sector	Country	Represent. of women on board	Names of women on board
1	AIR LIQUIDE	Chemicals	FR	41.7%	Geneviève Berger, Sin-Leng Low, Siân Herbert-Jones, Annette Winkler, Karen Katen
2	AIRBUS GROUP SE	Industrial Goods & Services	FR	16.7%	Anne Lauvergeon, María Amparo Moraleda Martinez
3	ALLIANZ	Insurance	DE	30.8%	Christine Bosse, Gabriele Burkhardt-Berg, Ira Gloe-Semler, Renate Köcher
4	ANHEUSER-BUSCH INBEV	Food & Beverage	BE	14.3%	Maria Asuncion Aramburuzabala, Michele Burns
5	ASML HLDG	Technology	NL	33.3%	Pauline F.M. van der Meer Mohr, Clara (Carla) M.S. Smits-Nusteling
6	ASSICURAZIONI GENERALI	Insurance	IT	40.0%	Alberta Figari, Ornella Barra, Sabrina Pucci, Paola Sapienza
7	AXA	Insurance	FR	35.7%	Isabelle Kocher, Suet Fern Lee, Deanna Oppenheimer, Doina Palici-Chehab, Dominique Reiniche
8	BASF	Chemicals	DE	25.0%	Dame Alison Carnwath, Anke Schäferkordt, Denise Schellemans
9	BAYER	Chemicals	DE	20.0%	Simone Bagel-Trah, Petra Kronen, Sue H. Rataj, Petra Reinbold-Knape
10	BCO BILBAO VIZCAYA ARGENTARIA	Banks	ES	25.0%	Belén Garijo López, Lourdes Máiz Carro, Susana Rodríguez Vidarte
11	BCO SANTANDER	Banks	ES	36.4%	Sol Daurella Comadrán, Esther Giménez-Salinas i Colomer, Belén Romana García, Isabel Tocino Biscarolasaga
12	BMW	Automobiles & Parts	DE	30.0%	Christiane Benner, Susanne Klatten, Renate Köcher, Simone Menne, Dominique Mohabeer, Brigitte Rödig
13	BNP PARIBAS	Banks	FR	50.0%	Monique Cohen, Marion Guillou, Nicole Misson, Laurence Parisot, Daniela Schwarzer, Sandrine Verrier, Fields Wicker-Miurin
14	CARREFOUR	Retail	FR	25.0%	Diane Labruyère-Cuilleret, Mathilde Lemoine, Patricia Lemoine, Anne-Claire Taittinger

15	DAIMLER	Automobiles & Parts	DE	25.0%	Sari Baldauf, Petraea Heynike, Andrea Jung, Elke Tönjes-Werner, Sabine Maaßen
16	DANONE	Food & Beverage	FR	38.5%	Marie-Anne Jourdain, Gaëlle Olivier, Isabelle Seillier, Mouna Sepehri, Bettina Theissig
17	DEUTSCHE BANK	Banks	DE	31.8%	Dina Dublon, Katherine Garrett-Cox, Sabine Irrgang, Martina Klee, Henriette Mark, Louise M. Parent, Gabriele Platscher
18	DEUTSCHE POST	Industrial Goods & Services	DE	35.0%	Simone Menne, Katja Windt, Andrea Kocsis, Anke Kufalt, Sabine Schielmann, Helga Thiel, Stefanie Weckesser
19	DEUTSCHE TELEKOM	Telecommunica tions	DE	40.0%	Sari Baldauf, Monika Brandl, Nicole Koch, Petra Steffi Kreusel, Sylvia Hauke, Sibylle Spoo, Ines Kolmsee, Waltraud Litzenberger
20	E.ON	Utilities	DE	16.7%	Denise Kingsmill, Karen de Segundo
21	ENEL	Utilities	IT	33.3%	Giulia De Martino, Lidia D'Alessio
22	ENGIE	Utilities	FR	57.9%	Isabelle Kocher, Ann-Kristin Achleitner, Françoise Malrieu, Marie-José Nadeau, Barbara Kux, Stéphane Pallez, Mari-Noëlle Jégo-Laveissière, Caroline Simon, Lucie Muniesa, Catherine Gouillouard, Anne-Marie Mourer
23	ENI	Oil & Gas	IT	20.0%	Karina A. Litvack
24	ESSILOR INTERNATION AL	Health Care	FR	18.8%	Maureen Cavanagh, Juliette Favre, Louise Fréchette
25	FRESENIUS	Health Care	DE	0.0%	
26	GRP SOCIETE GENERALE	Banks	FR	50.0%	Barbara Dalibard, Kyra Hazou, Ana Maria Llopis Rivas, Nathalie Rachou, Alexandra Schaapveld, France Houssaye, Béatrice Lepagnol
27	IBERDROLA	Utilities	ES	38.5%	Inés Macho Stadler, Samantha Barber, María Helena Antolín Raybaud, Georgina Kessel Martínez, Denise Mary Holt
28	Industria de Diseno Textil SA	Retail	ES	25.0%	Flora Pérez Marcote, Irene R. Miller
29	ING GRP	Banks	NL	25.0%	Isabel Martín Castellá, Mariana Gheorghe
30	INTESA SANPAOLO	Banks	IT	26.3%	Rosalba Casiraghi, Rossella Locatelli, Beatrice Ramasco, Marcella Sarale, Monica Schiraldi,
31	L'OREAL	Personal & Household Goods	FR	40.0%	Ana Sofia Amaral, Belén Garijo, Françoise Bettencourt Meyers, Sophie Bellon, Virginie Morgon, Christiane Kuehne
32	LVMH MOET HENNESSY	Personal & Household Goods	FR	23.5%	Delphine Arnault, Bernadette Chirac, Marie-Laure Sauty de Chalon, Marie-Josée Kravis
33	MUENCHENER RUECK	Insurance	DE	40.0%	Ann-Kristin Achleitner, Benita Ferrero-Waldner, Ursula Gather, Anne Horstmann, Ina Hosenfelder, Beate

					Mensch, Gabriele Sinz-Toporzysek, Angelika Wirtz
34	NOKIA	Technology	FI	25.0%	Elizabeth Nelson, Elizabeth Doherty
35	ORANGE	Telecommunica tions	FR	40.0%	Helle Kristoffersen, Mouna Sepehri, Anne Lange, Ghislaine Coinaud, Lucie Muniesa, Claudie Haigneré
36	PHILIPS	Industrial Goods & Services	NL	33.3%	Neelam Dhawan, Orit Gadiesh, Christine Poon
37	SAFRAN	Industrial Goods & Services	FR	23.5%	Monique Cohen, Odile Desforges, Élisabeth Lulin, Astrid Milsan
38	SAINT GOBAIN	Construction & Materials	FR	40.0%	Isabelle Bouillot, Anne-Marie Idrac, Sylvia Jay, Pamela Knapp, Agnès Lemarchand, Olivia Qiu
39	SANOFI	Health Care	FR	35.7%	Bonnie Bassler, Claudie Haigneré, Fabienne Lecorvaisier Suet-Fern Lee, Carole Piwnica
40	SAP	Technology	DE	22.0%	Margret Klein-Magar, Anja Feldmann, Gesche Joost, Christine Regitz
41	SCHNEIDER ELECTRIC	Industrial Goods & Services	FR	38.5%	Betsy Atkins, Magali Herbaut, Linda Knoll, Cathy Kopp, Lone Fønss Schrøder,
42	SIEMENS	Industrial Goods & Services	DE	30.0%	Birgit Steinborn, Bettina Haller, Nicola Leibinger-Kammüller, Güler Sabancı, Nathalie von Siemens, Sibylle Wankel
43	TELEFONICA	Telecommunica tions	ES	11.0%	Eva Castillo Sanz, Sabina Fluxà Thienemann
44	TOTAL	Oil & Gas	FR	33.3%	Patricia Barbizet, Marie-Christine Coisne-Roquette, Anne-Marie Idrac, Barbara Kux
45	UNIBAIL-RODAMCO	Real Estate	FR	36.4%	Mary Harris, Jacqueline Tammenoms Bakker, Dagmar Kollmann, Sophie Stabile
46	UNICREDIT	Banks	IT	20.0%	Maria Enrica Spinardi
47	UNILEVER NV	Personal & Household Goods	NL	54.6%	Laura Cha, Ann Fudge, Louise Fresco, Judith Hartmann, Mary Ma, Hixonia Nyasulu
48	VINCI	Construction & Materials	FR	40.0%	Graziella Gavezotti, Marie-Christine Lombard, Josiane Marquez, Ana Paula Pessoa, Pascale Sourisse, Yannick Assouad
49	VIVENDI	Media	FR	42.9%	Nathalie Bricault, Yseulys Costes, Aliza Jabès, Cathia Lawson-Hall, Virginie Morgon, Katie Stanton
50	VOLKSWAGEN PREF	Automobiles & Parts	DE	15.0%	Annika Falkengren, Babette Fröhlich, Louise Kiesling

Source: Own representation based on the information from: https://www.stoxx.com/index-details?symbol=SX5E and the annual reports of the respective companies; retrieval date: 03/03/2017

As it can be seen, though some companies have a high percentage of women on their supervisory boards (for instance, the French companies Engie and BNP Parisbas), there is still much work to do, especially in companies such as Fresenius. Only claiming that diversity is important, is not enough. Companies need to rethink their visions and women need to be considered equal creators of the future.

5. Discussion and Conclusion

The present article explored meanings of value creation as understood by the companies of EURO STOXX 50 index. It tried to relate the concept of value creation with the presence of women on the boards of companies, it developed a model, which can help companies increase women presence at top level, and it presented the gender quota of EURO STOXX 50 companies.

One of the contributions of this article is rising awareness on how companies choose to report on their activity in the annual reports. What value means can differ from company to company, while stating that diversity and gender are important for a company still can be meaningless if it is not backed up by concrete actions. The presence of women on boards can be manifested not only by positively influencing a financial KPY, but also by bringing a change in the leadership style or in the strategic orientation of a company. The strategic performance cycle is in this sense a main contribution of the article, as it aims at helping companies to increase the number of women on boards, but this only if there is a real commitment of the company on this issue.

Moreover, the legal environment should be also considered. For instance, during 2015 there were many discussions in Germany about introducing a binding women quota for the supervisory boards of big listed companies, but the quota became obligatory only starting with 2016.

Furthermore, some changes should take place also at societal level. According to the "Special Eurobarometer 465 Gender Equality 2017", 44 percent of respondents believe the most important role of a woman is to take care of her home and family and 43 percent think the most important role of a man is to earn money (European Commission, 2017). In this context, it might be difficult to implement change at higher levels, such as management or supervisory board of companies. Yet, gender legislation could be a first step in designing sustainable strategies.

We conclude by reiterating the call of the ILO: "more concerted efforts and advocacy are needed to share information on the benefits of utilizing women's talent and skills at all levels, including in the boardroom" (ILO, 2015, p. 4).

References

1. Airbus Group (2015). *Flying Ahead. Annual report 2015*. Retrieved from https://www.airbus.com/content/dam/corporate-topics/financial-and-company-informat-ion/airbus-ra-2015-en-03.pdf
2. BASF (2015). *BASF Report 2015. Economic, Environmental, and Social Performance*. Retrieved from https://report.basf.com/2015/en/servicepages/downloads/files/BASF_Re-port_2015.pdf
3. Bayer (2015). *Annual Report 2015. Augmented Version*. Retrieved from: https://www.investor.bayer.de/en/reports/annual-reports/overview/
4. BMW (2015). *Annual Report*. Retrieved from https://www.bmwgroup.com/content/da-m/grpw/websites/bmwgroup_com/ir/downloads/en/2016/hv/2015-BMW-Group-Annual-Report.pdf
5. Buchwald, A., & Hottenrott, H. (2015). Women on the Board and Executive Duration – Evidence for European Listed Firms, Düsseldorf Institute for Competition Economics, Discussion Paper 178, 1-40.
6. Burkert, M., & Lueg, R. (2013). Differences in the Sophistication of Value-Based Management. The Role of Top Executives. *Management Accounting Research*, *24*(1), 3-22.
7. Corkery, J.F., & Taylor, M. (2012). The gender gap: A quota for women on the board Retrieved from https://pdfs.semanticscholar.org/fe63/02c542c140d97a08677d420.pdf

8. Daimler (2015). *Annual Report*. Retrieved from https://www.daimler.com/documents/investors/berichte/geschaeftsberichte/daimler/daimler-ir-annual-report-2015.pdf
9. Deutsche Telekom (2015). *Annual Report*. Retrieved from https://www.telekom.com/-en/investor-relations/service/financial-calendar/details/annual-report-2015-420018
10. Dick, A. (2015). Female directors on German supervisory boards and firms' financial performance. Retrieved from http://essay.utwente.nl/67308/1/DICK_BA_IBA.pdf
11. Dizik, A. (2015). Do quotas for corporate boards help women advance: Retrieved from http://review.chicagobooth.edu/magazine/spring-2015/do-quotas-for-corporate-boards-help-women-advance
12. European Commission (2017). *Special Eurobarometer 465 Gender Equality 2017*. Luxembourg: Publication office of the European Union. Retrieved from http://ibdigital.uib.es/greenstone/collect/portal_social/index/assoc/coeuro01/47.dir/coeuro0147.pdf
13. European Commission (2019). *2019 Report on equality between women and men in the EU*. Luxembourg: Publication office of the European Union. Retrieved from https://ec.europa.eu/info/sites/info/files/aid_development_cooperation_fundamental_rights/annual_report_ge_2019_en.pdf
14. Firk, S., Schrapp, S., & Wolff, K. (2016). Drivers of Value Creation – The Role of Value-Based Management and Underlying Institutions. *Management Accounting Research*, *33*, 42-60.
15. Ferreira, D. (2014). Board Diversity: Should We Trust Research to Inform Policy? *Corporate Governance: An International Review*, *23*(2), 108-111.
16. Fresenius (2015). *Annual Report*. Retrieved from https://www.fresenius.com/financial_reporting/Fresenius_GB_US_GAAP_2015_englisch.pdf
17. Haspeslagh, P., Noda, T., & Boulos, F. (2001). It's Not Just About the Numbers. [Online] *Harvard Business Review*. Retrieved from https://hbr.org/2001/07/its-not-just-about-the-numbers
18. International Labour Organisation (2015). *Women in Business and Management. Gaining Momentum*. Geneva: International Labour Office. Retrieved from http://www.ilo.org/wcmsp5/groups/public/dgreports/dcomm/publ/documents/publication/wcms_334882.pdf
19. Jacquot, S. (2017). European Union Gender Equality Policies since 1957. Retrieved from http://ehne.fr/en/node/1125
20. Lepak, D. P., Smith, K. G., & Taylor, S. M. (2007). Value Creation and Value Capture: A Multilevel Perspective. *Academy of Management Review*, *32*(1), 180-194.
21. Mahajan, G. (2016). *Value Creation: The definitive Guide for business leaders*. New Delhi: SAGE.
22. Mahajan, G. (2017). Value dominant Logic. *Journal of Creating Value*, *3*(2), 217-235.
23. Marinova, S., Larimo, J., & Nummela, N. (Eds.) (2017). *Value Creation in International Business. Volume 1: An MNC Perspective*. Cham: Palgrave Macmillan.
24. McKinsey (2007). Women Matter: Gender Diversity, a Corporate Performance Driver. Retrieved from https://www.raeng.org.uk/publications/other/women-matter-oct-2007
25. Nokia (2015). *Innovation and Possibilities. Annual Report*. Retrieved from https://www.annualreportowl.com/Nokia/2015/Annual%20Report
26. OECD (2016). *OECD Report to G7 Leaders on Women and Entrepreneurship. A summary of recent data and policy developments in G7 countries*. [online] Retrieved from https://www.oecd.org/gender/OECD-Report%20-to-G7-Leaders-on-Women-and-Entrepreneurship.pdf
27. SAP (2015). *Annual Report. Reimagine your Business*. Retrieved from https://www.sap.com/docs/download/investors/2015/sap-2015-annual-report.pdf

28. Simms, J. (2001). Marketing for value. Marketing. Retrieved from https://www.questia.com/magazine/1G1-76914287/marketing-for-value
29. STOXX, (2017). EURO STOXX 50. Retrieved from https://www.stoxx.com/index-details?symbol=SX5E.
30. Sullivan, R. (2015). Can Gender Quotas get more Women into Boardrooms? Bloomberg, Retrieved from https://www.bloomberg.com/news/articles/2015-07-01/can-gender-quotas-get-more-women-into-boardrooms.
31. Terjesen, S., Aguilera, R. V., & Lorenz, R. (2015). Legislating a Woman's Seat on the Board: Institutional Factors Driving Gender Quotas for Boards of Directors. *Journal of Business Ethics*, *128*(2), 233-251.
32. Unicredit (2015). *Inside Real Life. A 3600 View. UniCredit S.p.A. 2015 Reports and Accounts*. Retrieved from https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/investors/financial-reports/2015/4Q15/UniCredit-SpA-2015-Reports-and-Accounts.pdf
33. Zanoni, P., Janssens, M., Benschop, Y., & Nkomo, S. (2010). Guest Editorial: Unpacking Diversity, Grasping Inequality: Rethinking Difference Through Critical Perspectives. *Organization*, *17*(1), 9-29.

BORN INTERNATIONAL SPIN-OFFS IN AN ITALIAN INDUSTRIAL DISTRICT: AN EXPLORATORY STUDY ON TWO RANGE HOOD PRODUCERS

Aldo Bellagamba
Polytechnic University of Marche, Italy

Received: *july 31, 2020* Accepted: *November 18, 2020* Online Published: *December 10, 2020*

Abstract

The paper analyzes the peculiarities and the drivers of the accelerated internationalization strategies of two range hood manufacturers, born as spin-offs, in a small Italian district. Spin-offs are very frequent within industrial districts and can be considered an important way of transferring tacit knowledge from an existing firm to a newly formed one. The present work fits into this cognitive perspective and aims to understand the role played by the founders' learning processes and the relationships established in previous work activities in the creation of born global firms. This study differs from earlier works on born global firms for two main reasons: a) the object of analysis is a specific sector and a given production hub; b) the phenomenon is examined through the multiple case analysis explorative method. The research not only highlights the regional character of the phenomena, but also delves into the role played by certain external factors (which affect the different attractiveness of foreign markets compared to the domestic one). A further significant aspect emerging from the investigation, relates the founders' previous working experiences (as an employee/manager), representing a time of learning and development of personal relationships which are able to facilitate the process of accelerated internationalization of the new firm.

Keywords: Born regional firm; Founders' work experience, Industrial district; Personal relationships; Spin-off.

1. Introduction

This paper fits into the scientific debate that started in the 1990s on companies that follow strategies of rapid internationalization, which means that they internationalize already at the time of birth or immediately afterwards (Rennie, 1993). These firms (defined "born global" for the first time in a McKensey study) are able to sell their products in international markets immediately after their birth and to realize a significant share of turnover in foreign markets in a short period of time following their constitution (Knight and Cavusgil, 2004). In the last decade, several internationally published studies have shown that "immediate internationalization" is a development path pursued by firms in all countries and in all industrial sectors (i.e., both high-tech and low-tech industries).

The empirical evidence on the widespread growth of this kind of company has highlighted some limitations of the traditional theories on firms' internationalization processes, theories which were unable to explain how some small young companies could rapidly grow in foreign markets despite the limited resources they possessed (McDougall et al., 1994). Therefore, a wide-ranging debate on the specific characteristics and determinants of this internationalization opened up in the early 1990s (Zucchella, 2006; Zander et al., 2015; Dzikowski, 2018; Romanello and Chiarvesio, 2019; Jiang et al, 2020).

Although the number of studies on this topic have grown exponentially in the last three decades, the matter of born international firms is still very relevant today (Cavusgil and Knight, 2015; Oyna and Alon, 2018). Indeed, several scholars believe that an adequate understanding of this phenomenon has not yet been achieved (Cesinger et al., 2012; Zander et al., 2015; Knight and Liesch, 2016; Rodriguez-Serrano and Martin-Armario, 2019; Paul and Rosado-Serrano, 2019).

This paper aims to contribute to the scientific debate by analyzing the peculiarity of the processes of "early internationalization" of two firms located in the range hood manufacturing district of Fabriano (in central Italy). Another objective is to detect the main factors that may have facilitated the processes of rapid internationalization in the observed cases, distinguishing between those that are related to the firms' localization within an industrial district and those that are unrelated to belonging to a cluster.

The location of firms within an industrial district can influence the internationalization of SMEs, as district firms are in a good position to access and develop the necessary resources for their foreign expansion (Musso, 2006). Within such a context, geographical proximity encourages frequent contact among firms, which facilitates knowledge production, dissemination, development, and accumulation (Kowalski, 2014, 184). Imitating any one firm's strategies and exchanging knowledge about foreign markets could be instrumental to the rapid internationalization of small district firms. For example, a study by Weerawardena at al. (2007) highlighted that literature on the accelerated internationalization of firms has neglected the aspect pertaining to "learning that is undertaken by these firms and their founders prior to the firm's legal establishment". Later, De Clercq et al. (2012) stated that the issues of learning and knowledge are central components underlying the causes, processes, and outcomes of early internationalization.

This work contributes to accelerated internationalization research, by studying those industrial district processes that can influence the rapid internationalization of firms. In particular, *the focus is on born international companies originating as spin-offs from other district companies*. This study adds new knowledge on accelerated internationalization, by analyzing the role of the learning processes, as well as the knowledge and networks of relationships developed by the founders of born global spin-offs in their previous work activities within an industrial district.

Spin-offs are new firms formed by entrepreneurs who previously worked at other firms in the same industry. As the majority of spin-offs begin their venture in similar areas to their previous one, this kind of new firm start-up represents a powerful source of industry agglomeration (Becattini, 2000; Klepper, 2009; Buenstorf and Costa, 2018; Furlan and Cainelli, 2020). Within industrial districts spin-offs are a significant means of knowledge transfer from "an existing firm, which operates as an incubator for entrepreneurship, to a newly born firm" (Camuffo and Grandinetti, 2011, 822). Therefore, the knowledge useful for the firm's internationalization, as well as the human resources' international orientation could both be transferred through spin-off processes from a highly internationalized district firm to a new one (Klepper, 2009; Buenstorf and Costa, 2018; Masili and Curina, 2018).

This work differs from other studies on firms' early internationalization for two main reasons. Firstly, the phenomenon of accelerated internationalization is analyzed by adopting a qualitative method based on a multiple case study of an explorative nature. Colovic and Lamotte (2014, 450) consider qualitative case studies more suitable than quantitative methods as they can provide a more detailed explanation of how industrial districts can facilitate the early internationalization of SMEs. Second, the study focuses on the international development of two small firms located in a specific small industrial district (in Fabriano, situated in central Italy), characterized by a specialized production of range hoods.

According to Lopez et al. (2009) the analysis of born global firms in specific industrial sectors could be a useful approach in the aim of gaining a deeper knowledge of the factors that can favor or hinder the rapid internationalization of the firm.

2. Literature review

2.1. The growth of small and medium-sized firms in foreign markets between "stage models" and "accelerated internationalization"

As effectively noted by Coviello and McAuley (1999), the internationalization of small and medium-sized enterprises (SMEs) has been previously addressed by three main theoretical research streams: the Foreign Direct Investment theory, the "stage" models of internationalization and the Network perspective, which focuses on the behaviors of firms within networks of interorganizational and interpersonal relationships. From this study it emerged that the stage models were the most used theoretical framework and that scholars proposed several different stage models. However, the most influential has been the one developed by Johanson and Vahlne (1977, 1990), often referred as the Uppsala model.

According to the Uppsala model, internationalization is a process of gradual capacity building, through which companies slowly accumulate the necessary resources to face the uncertainty of foreign markets (Eriksson et al., 1997). These models assume that, before starting to significantly export, companies implement a growth process on their domestic market. Such gradualness depends on a learning process, which aims to develop the specific knowledge and resources that are essential to successfully face the uncertainties of foreign markets.

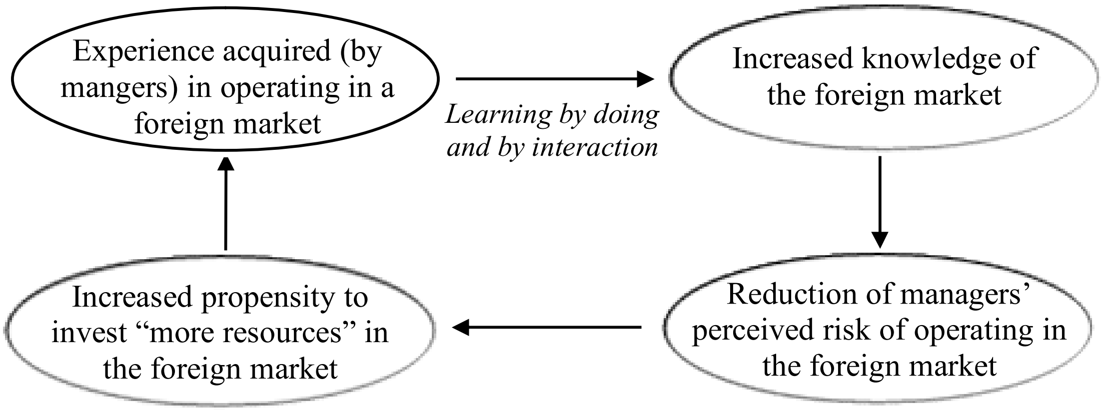
First of all, knowledge and resources are progressively developed through experience in the domestic market (which is known by the company) and then, in the larger foreign markets (Leonidou and Katsikeas, 1996). According to this model, internationalization occurs incrementally and is influenced by *increased market knowledge and commitment*. It is described in terms of market selection and mechanisms used for market entry, in this way (Coviello and McAuley, 1999):

> *For example, firms improve their foreign market knowledge through initial expansion with low risk, indirect exporting approaches to similar, psychically close markets. Over time and through experience, firms increase their foreign market commitment. This in turn, enhances market knowledge, leading to further commitment in more distant markets, including equity investment in offshore manufacturing and sales operations.*

As illustrated in the 'logical "scheme" in Figure 1, gradual internationalization models show that the direct experience of individuals who manage activities in a foreign market triggers a "learning" process, which allows the company to deepen its knowledge of the foreign market and to develop those skills required to operate successfully within that market (Silvestrelli, 2008). This decreases the management's risk perception of operating in the foreign market and increases their willingness to invest more resources, by creating, for example, a direct sales operation or a manufacturing activity (Michailova and Wilson, 2008).

One of the main merits of the stage model is that it highlights the relevance of experience and knowledge as the basis of every firm's internationalization path (Musso, 2006). In this perspective, the learning process is the mechanism by which tacit knowledge is generated, through the transformation of experience (Kolb, 1984; Hånell et al., 2020). In particular, experiential knowledge is the form of tacit knowledge that individuals within a firm learn directly from past outcomes and decisions (and then apply to present-day choices) or indirectly by observing others' experience in an organizational network (Reuber and Fischer, 1997; Eriksson et al., 1997; Bruneel et al., 2010; Fletcher and Harris, 2012; De Clercq et al., 2012). Experiential knowledge is mainly acquired through learning-by-doing, and it is not easily expressed formally nor is it easily transmitted to others (Michailova and Wilson, 2008).

Figure 1 – Logical "scheme" of the interaction among the elements underpinning the model of a firm's gradual internationalization (adapted from Silvestrelli, 2008, 4)



In the gradual theory of internationalization, the learning process allows companies to overcome the difficulties related to the geographical distance and to the "psychic distance". The latter implies a greater difficulty in interpreting a reality which could be very "distant" from the one of the company's country, from a cultural, linguistic, social, and institutional point of view (Mezias, 2002). Much of the research published on SMEs internationalization has confirmed these difficulties faced by firms in their international expansion and it has also identified the need to generate specific skills to overcome them and operate properly on foreign markets.

In recent decades, however, an increasing number of studies have spotlighted how, despite being young and having very few resources, some small enterprises begin exporting immediately after their start-up (McDougall et al, 1994). "Born global" companies sell their products abroad since their inception and they are able to penetrate foreign markets that are geographically, culturally and socio-institutionally distant without following the process of *knowledge accumulation*, typical of firms that follow the stage model of internationalization (Rennie, 1993; Lopez et al., 2009).

2.2. The born global firm: a yet-to-be defined conceptual category that contains heterogeneous situations

Despite the large number of studies on the topic of firms' early internationalization, scholars have not yet reached a uniform and shared definition of the *born global* concept (Cesinger et al., 2012). This type of company's internationalization process is more focalized on exports and it differs from the "international new venture" type of company that develops international activities, already at a young age, that concern different phases of the value chain (Oviatt and McDougall, 1994; Zander et al., 2015). However, from a scientific point of view, the main challenge for reaching a consensus is determined by the variety of criteria used by several studies to distinguish born global firms from other categories of firms.

Among the wide range of studies on this form of internationalization, in most cases born global firms have been identified using one or more of the following criteria (Madsen, 2013):

a) The *speed* (or *precocity*) of internationalization, which has been measured by the time that elapses between the establishment of the firm and the first sales on foreign markets. Some scholars consider born global those firms that have internationalized within two years of their establishment (Rennie, 1993), others look at three years (Knight and Cavusgil, 2004), and others still consider a timeframe of up to six or even ten years.
b) The *intensity* of internationalization, which relates to the minimum share of exports on total turnover that the firm must achieve (within a certain time period from its establishment), in order to be considered "born global". Some studies used a threshold of 25% (Knight and Cavusgil, 2004), others of 50%, and some, even of 75% (Rennie, 1993).
c) The *extent* (or *breadth*) of the firm's geographical international expansion, i.e., the minimum number of foreign markets which the company must enter (by a certain time from its establishment), in order to be considered born global. In some cases, only those firms exporting to at least three foreign markets were considered born global; in others, only those operating on a plurality of foreign markets or on continents other than that of origin of the company were given the *born global* label.

As pointed out by Lopez et al. (2009, 1230), the theoretical foundation of these thresholds is not clear, and their inhomogeneity, which, in certain cases could be justified by the size of the company's country of origin, makes it difficult to compare the results of research carried out by different scholars on firms in different regions, countries, or industrial sectors (Knight and Liesch, 2016, 98). In recent years, in fact, scholars have proposed a more precise framework of analysis to distinguish the different paths taken by companies in their pursuit of rapid internationalization. Gabrielsson et al. (2004) distinguish, for example, the *born global* firm, which quickly achieves more than 50% of its turnover in foreign markets localized on continents other than that of the firm's country of origin, from the *born international* firm, which attains (in a short period of time after establishment) more than 50% of its turnover abroad, but in foreign markets localized within the continent of origin. Kuivalainen et al. (2007, 254) also distinguish between the "real" born global firm and the "only apparent" born global firm (also called "born-international" firm).

According to Lopez et al. (2009), the hypothesis that the number of truly born global firms is increasing is hardly defendable in the face of the empirical evidence pointing to a very low share of the world largest multinationals that meet all the criteria for having a real global market presence and with a turnover spanning all the continents[1]. Indeed, these scholars showed that in the software industry of Costa Rica most of the companies analyzed followed a gradual approach to internationalization. Moreover, the majority of the few companies that exported soon after their establishment were not actually *born global*, but *born regional*, because they exported their products to foreign markets within the continent of origin.

[1] The study by Rugman and Verbeke (2004) showed, for example, that out of 380 multinationals (among the world's largest ones), 320 made more than 80% of their sales in countries within their home regions. Therefore, if one considers the geographical extension of the sales markets, most of these firms cannot be considered global, but regional.

Very similar findings were obtained by Sui et al. (2012): their study on a sample of Canadian small and medium-sized exporters (SMEs) showed that born global firms represented a smaller proportion (of the whole) than born regional firms (16% vs 27%).

Worthy of note is that, according to a recent study of Swedish start-ups in the manufacturing sector, in the decade 1998-2008, born global companies were a very rare event and interestingly, their incidence appears invariant over time (Braunerhjelm and Halldin, 2019)

2.3. Factors influencing the accelerated internationalization of SMEs

Several scholars have identified which factors can favor a rapid internationalization of the company. They are classified as either "exogenous", i.e., related to the environment in which the company operates, or "endogenous", i.e., connected to the characteristics and the actions of the decision-makers internal to enterprises (Zucchella et al., 2007).

A compilation of the factors that have been most frequently considered in the literature was recently provided by Jiang et al. (2020). The *exogenous ones* included: the industrial sector peculiarities, where the company operates, the characteristics of the market, and the geographical area in which it is located. One relevant aspect is, for example, the size of the company's domestic market, compared to that of (its) foreign markets. A firm may decide to enter one or more foreign markets immediately, when it has a production capacity that exceeds the absorption potential of the domestic market (Rennie, 1993).

Instead, among the *endogenous factors*, Jiang et al. (2020) consider the firm's strategy, the values and perceptions of the founder, the characteristics of the team of individuals who founded the company, and the characteristics and competence of the company as a whole.

However, it should be noted that in the early phase of setting up a new business, difficulties in distinguishing between these two categories might emerges. Indeed, the competitive strategy pursued by the born global firm, which is often based on differentiation and on the decision to meet the needs of a specific "market niche" (Musso, 2006; Baronchelli and Cassia, 2014), is a reflection of the strategic decisions made by the entrepreneur and the group of individuals who contributed to setting up the company (Zucchella et al., 2007; Musso and Francioni, 2013).

The location of the firm within an industrial cluster is considered an exogenous factor that can facilitate the adoption of rapid internationalization strategies. In the last two decades, several empirical studies have tested the claim that firms located within the same industrial district benefit from a complex system of factors (skilled and specialized labor, knowledge exchanges, easy access to information, innovative propensity, etc.) that can help the internationalization of firms (Brown and Bell, 2001; Musso, 2006; Belso-Martinez, 2006; Pla-Barber and Puig, 2009; D'Angelo et al., 2013; Andersson et al., 2013; Kowalski, 2014; Bettiol et al., 2019).

A firm's location within a cluster influences not only its industrial processes, but also its commercial ones, which concern the relationships with foreign markets and the related distribution channels (Musso, 2006). By contrast, only few of studies focused on the link between a firm's location within an industrial district and the accelerated internationalization of the firm (Sopas, 2001; Zucchella et al., 2007).

A high presence of foreign companies within a district, for example, has been considered a factor that can accelerate the internationalization of district firms because it exposes them to international competition (Jiang et al., 2020). However, studies on the role of spin-offs on the accelerated internationalization of industrial district firms are still limited.

Spin-offs represent a mechanism that is closely tied to geographical clustering (Furlan and Cainelli, 2020). Indeed, inside the cluster entry barriers tend to be lower than elsewhere because "needed assets, skill, inputs, and staff are often readily available at the cluster location, waiting to be assembled into a new enterprise" (Porter, 1998, 84). However, the widespread phenomenon of spin-offs arising within industrial districts emphasizes the role of the learning process accomplished by the founders of the new firm prior to its legal establishment (Agarwal et al., 2004; Camuffo and Grandinetti, 2011; Dahl and Sorenson, 2014).

Through the spin-off mechanism, industry-specific knowledge and international experience are transferred from a parent company to a newly established one, and this transfer could be conducive to an accelerated foreign expansion of the new firm. Klepper (2002) showed, for example, that the firms best equipped to cope with the competition were those founded by people who had gained lengthy experience in leading companies within the same sector. Brugnoli (1990, 82) also highlighted that the previous occupations of the founders can contribute to the success of a new firm, when the experience accumulated allows the new entrepreneur not only to learn industry-specific knowledge, but also to consider the entrepreneurial activity both "feasible and attractive", to acquire a "reputation and credibility" within the sector, and to develop adequate functional and general management skills.

In line with Kingh and Liesch (2016), who consider the *integration of different scientific fields* a good strategy for improving understanding of the born global phenomenon, the present work has built on the findings of the literature on industrial districts and on spin-offs in order to improve understanding of accelerated internationalization processes.

In sum, it is the intent of this study to underline that the strategic decisions of companies wishing to pursue rapid internationalization do not arise from nothing, but are often based on in-depth tacit knowledge of the sector, accumulated by their founders in previous work experiences as employees or managers of other district companies that operate in the same sector or in a related industry.

3. Methodology

On a methodological level, the study of a single sector is justified by the fact that the internationalization process may not have the same complexity in all industries (Lopez et al., 2009). In the present study the choice of the sector is justified by its specific characteristics.

The Italian firms operating within the range hood sector have a very high propensity to export their product, and they are concentrated in a limited territorial area (the district of Fabriano), where accelerated internationalization represents the rule, rather than the exception.

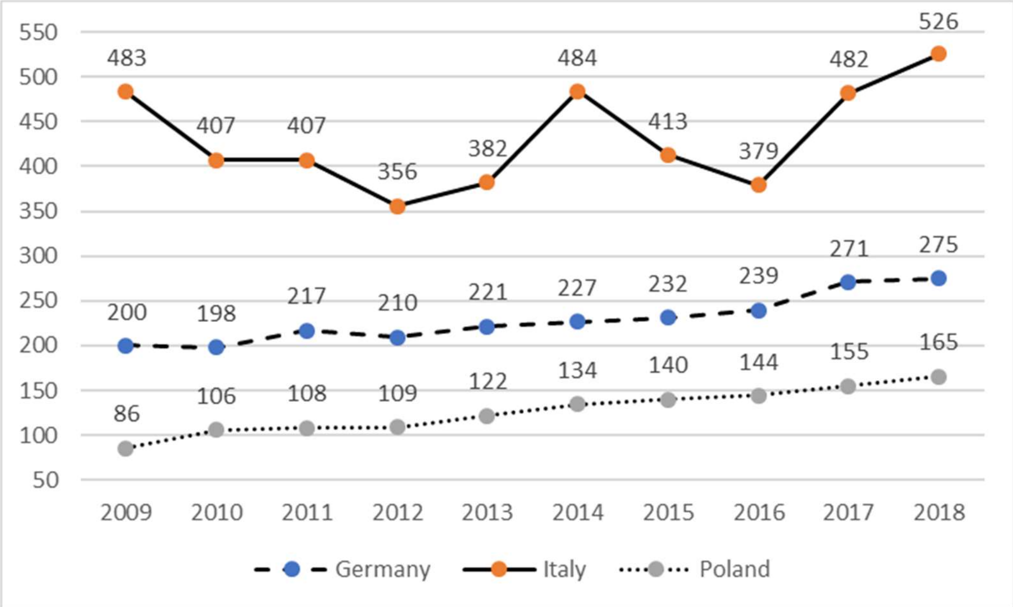
The research followed a methodology of exploratory cases with the scope of achieving a more in-depth and detailed understanding of the phenomenon of born global firms within a specific sectoral and territorial context (Yin, 2014). The analysis is based on one interview of almost three-hour with the founder and the administrative manager of the first firm, two interviews of two-hour with the founder and the administrative manager of the second firm.

The goal of the interviews was to understand how each company developed its first contacts with foreign customers, what kind of entry strategy it adopted, why it decided to immediately enter foreign markets, what role the previous work experiences of the founders played in the international firm's development, and how the local context may have influenced the strategic decision to pursue rapid internationalization.

4. Main characteristics of the range hood sector in Italy

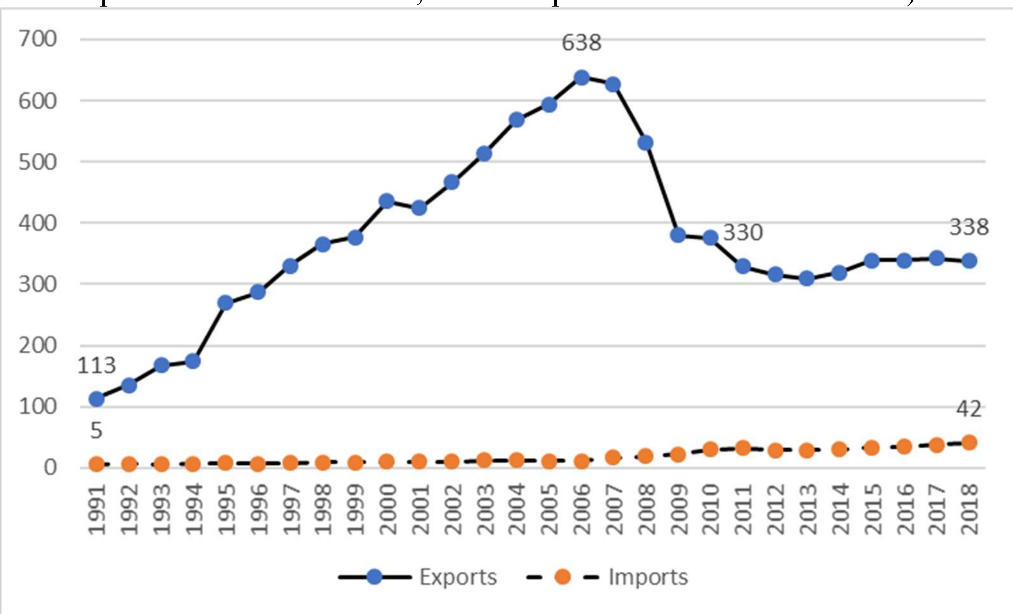
Data on the value of range hoods production from the main European producing countries is shown in Figure 2. In this sector, Italy is in a leading position, with much higher production values than those of Germany and Poland. According to 2018 Eurostat data, 46% of European production of range hoods, in value terms, was concentrated in Italy.

Figure 2 – Evolution of production values of the main European countries, specialized in the manufacturing of range hoods (our own extrapolation of Eurostat data; values expressed in millions of Euros)



Instead, Figure 3 shows the value figures relating to the dynamics of Italian exports and imports of range hoods from 1991 to 2018. It is plainly evident that the value of exports in 2009 fell to half of what they were in 2006. It should be noted that this huge drop in exports was not only due to the sharp decline of product demand, caused by the international financial crisis (which began in 2007/2008), but also to the decision made by the larger companies located in the Fabriano district to transfer production of their cheapest lines of range hoods to low-cost countries (Bellagamba, 2018).

Figure 3 – Evolution of Italian exports and imports of range hoods from 1991 to 2018 (our own extrapolation of Eurostat data; values expressed in millions of euros)



However, in the years following 2012, exports have tended to stabilize at levels that are significantly higher than those of imported hoods. As a result, the trade balance of the Italian range hood sector is still strongly positive and, according to Eurostat data, exports account for more than 80% of production in aggregate terms, even in more recent years (2017, 2018).

Moreover, according to Istat data, about 31-33% of Italian hood exports are directed towards non-European countries. This denotes the ability of Italian producers to export toward geographically distant markets, despite the increasing competition coming from low-cost producers, such as Poland, Mexico, Turkey, and China[2].

Another salient feature of the sector is *the strong geographical concentration of manufacturers in the Fabriano district*. In 2010, more than 85% the sector turnover at the national level came from companies located in the Marche (region) production pole (StudiaBo, 2012, 86). This characteristic is not accidental. It can be traced to the fact that in the late fifties, in this production area, an innovative firm introduced the first range hood for domestic use on the market (Bellagamba, 2018).

This company and the others (that arose around that first one) have been able to significantly improve the product offered, from both a functional and aesthetic point of view; the range hood was transformed into an object of design, which today represents a constant and indispensable element of the home kitchen's décor.

As noted by Fortis (2016, 153), the expansion of the companies in this industrial district "was particularly impressive in the late nineties". In 1999, exports of range hoods from the Ancona province (where the district is located) represented 55% of world exports and this figure was higher than that of the other two major exporters, Germany and Spain.

In recent years, the structure of this sector has undergone profound changes, and there has been a concentration of the supply by just a few leading firms, which have created very internationalized groups (Bellagamba, 2018). These groups operate both as sub-contractors of large manufacturers of household appliances (and in this case, they sell their products under the customer's brands) and as independent producers of own-brand products. According to some estimates, in 2010 just three companies controlled about 50% of the global range hood market (StudiaBo, 2012, 86).

Despite the two firms under investigation are small in comparison to the industry leaders, they differentiate themselves for design, technology, and quality of their offering. For confidentiality reasons, we called the two firms 'Alfa' and 'Beta'.

5. The Alfa case

5.1. Previous work experiences of the founder

Alfa was founded in 1997 by a former employee of the main range hood manufacturer in the Fabriano district, which employed (at that time) more than 900 workers and 85% of its turnover came from exports. The founder of the new business had joined the firm of origin in 1975, with a three-month technical assignment that consisted in assembling a rather complex painting plant. He had been chosen by the employer firm for his specific skills as a blacksmith and electrician that he had developed in his previous work as a craftsman.

At the end of the technical assignment, he was hired as a factory worker. Subsequently, the company owners entrusted him with increasing responsibilities: from department head he became factory manager, then head of purchasing and technical development and, finally, he

[2] Since 2019, China has become the world's largest exporter of range hoods, in value terms. Indeed, in the last 15 years Chinese hood exports have tripled from EUR 181 million in 2008 to EUR 548 million in 2019. (source: www.exportplanning.com).

took on the role of general manager from 1985 until 1995. At that point, the direction of the company was taken over by the owner and the assignment as general manager ended.

In the following year, he worked for another range hood manufacturer, localized in Jesi (a town near Fabriano). Then, in 1997, he decided to start a new business for the production of range hoods, with a small capital (equivalent to 103,000 euros of today) and with the support of three female collaborators for the administrative, commercial, and production areas respectively. Worthy of note is that the administrative director had also had previous work experience on which to draw. Indeed, she had worked for a paper manufacturer first and then, for a construction company, before embarking on the new entrepreneurial venture.

5.2. Features of the firm's international development

The company started its business selling its products exclusively to customers in foreign markets. It was twenty years after its establishment, i.e., in 2017, that it only then began to sell its range hoods on the domestic market.

It should be noted that this decision to enter the Italian market was the direct consequence of the company's response to the requests of a Ligurian distributor, who, after seeing and appreciating Alfa's products at the *Eurocucine* kitchen trade show convinced the founder to consider the possibility of selling range hoods in Italy, too. Thus, Alfa began an activity aimed at identifying distributors in the main Italian regions, who were not only willing to sell the products, but who also had the adequate skills and marketing competence to correctly sustain and promote this typology of product.

However, it should be stressed that the company's recent entry on the Italian market has in no way changed its basic connotation which remains strongly internationalized. Indeed, sales of Alfa products on the domestic market currently do not exceed 4% of the total turnover, which is still almost completely achieved on foreign markets.

The first foreign markets were chosen for their size, in terms of inhabitants. As pointed out by the founder during the interview: the company's expansion logic was to look for customers in those countries where they were more numerous. As he put it, "Where, perhaps, a few crumbs had escaped the big range hood producer and allowed the small one to enter the market."

Considering the number of inhabitants, Italy could also be an interesting market. However, the decision to exclude this country was made for two main reasons.

a) *The geographical dispersion and the fragmentation of Italian kitchen manufacturers and retailers*. Italian manufacturers of kitchen furniture (that is, the main customers of range hood producers) are dispersed over several regions (such as Tuscany, Veneto, and Marche) and they are also very small. This second element implies orders of small quantities of many different models of range hoods. The configuration of this industry in other, large European countries is very different. For example, in Germany there is a much higher concentration of producers and the top four make up a high share of the sector's total turnover. It is obvious that the establishment of business relationships with these customers offers the seller the opportunity to satisfy larger orders, often focused on just a few models of hoods.

b) *The huge differences in the terms of payment.* The founder pointed out that the terms of payment from Alfa's foreign customers, compared to those from Italian customers, are still very short today, ranging from 5 to 15 days after delivery of the goods. The practices of Italian customers are very different: often between missed initial payments, reminders, of post-dated checks, the actual payment could end up being made 150 days after delivery of the product.

Therefore, Alfa started to export to Germany and France and the target customers in these foreign markets were, essentially, kitchen manufacturers and importers of household appliances and household items. The company has never been interested in large-scale retailers because, although these operators are able to buy in large volumes, they usually pay little attention to the quality of products and sell them at very low prices. Furthermore, it has never tried to sell its products to large appliance manufacturers because they were the main customers of the range hood manufacturer where the founder had worked for a long period of time, before establishing the new company.

Alfa developed its first relationships with customers in foreign markets in different ways. For example, the first contact with an important kitchen manufacturer in the French market happened thanks to a chance meeting with a salesman from a local range hood manufacturer (known to the founder in a previous occupation). This person put him in touch with an Italian buyer, commissioned by the French manufacturer to identify potential suppliers of kitchen components in the Italian market.

Instead, the initial relationships with some potential customers in the German market were developed by the founder thanks to a business trip, organized in 1997, to visit and show the first models of hoods to different customers distributed throughout Germany. The next step was participating in the biennial trade show in Cologne. However, one of the best opportunities to meet the most important kitchen manufacturers in Germany (such as Nobilia, Elke, and Nolte) came from attending a trade show (specialized in components and accessories for the kitchen sector) that Alfa's founder discovered thanks to the indications of a German agent. This fair takes place every year in northern Germany, where the largest, German kitchen manufacturers are located. It should be noted that at this particular trade show, Alfa was in an advantageous position, as it was the only range hood manufacturer to exhibit its products.

The founder gave another example of a fortuitous relationship that was forged with an important Dutch customer, thanks again, to a chance meeting, this time at an airport with an agent for a hood manufacturer located in northern Italy. This agent in charge of the Dutch market had just lost a major customer, as a consequence of the director's decision to fire his purchasing manager because he did not select suppliers with transparent approaches. As the agent became aware of the desire of the ex-manager (founder of Alfa) to set up a new business, he put him in touch with a Dutch customer, who would then place an order for 1200 hoods, assuring the company three months of production in the first year of activity.

Today most of the company's turnover comes from customers in major European countries and especially, from Germany (which generates 40% of the company's sales). In recent years, a commercial presence has also grown in farther markets, such as Egypt, Vietnam, Jordan, Dubai, Singapore, Tunisia, and Israel. Nevertheless, exports to these distant markets account for only a little more than 2% of turnover.

5.3. Main elements of the company's competitive strategy

The company was established with limited resources and a high use of production outsourcing. The founder already knew the main local suppliers of components and processing technologies and was also known by them. At an early stage, to enter the first foreign markets, the company designed hoods, which were positioned in the mid-range of the market and sold under its own brand. It then developed product lines with high-end items, focusing on product differentiation, through the offer of technologically advanced decorative hoods, with an innovative design.

However, the firm's differentiation strategy is not limited to the products but involves services, as well. Indeed, Alfa offers its foreign customers immediate availability of all products in the firm's range. More specifically, this service consists of making available a warehouse to each foreign kitchen manufacturer (or distributor), from which this customer can pick up the product according to his/her needs. Under this agreement, the range hoods are formally purchased (and payed for) by the customers when they are picked up from the warehouse that is conveniently located to them.

Another service that is part of the firm's differentiation strategy is rapid development of new hood models, particularly important in meeting the heterogeneous needs of individual customers. This service is made possible by the "platforms of products" used in the design of new kitchen hoods; this concept was developed by the founder, who relied on the technical skills he had gained in his previous occupations.

The use of platforms not only facilitates the production and assembly of components, to obtain the final product, but also simplifies the activity of technical service centers, accelerates the development of new hood models, and makes it easier to approve products that comply with the regulations of individual foreign countries that the company intends to enter. It should be noted that these same technical skills were then transferred to newly hired engineers directly by the founder himself, through internal training.

Today the company has a turnover of about 24 million euros, employs 110 people, and the organizational structure consists of a commercial office, with seven employees (who speak 11 different foreign languages), a customer service manager, a logistics coordinator, a designer (who is responsible for the rendering of products and the production of videos to explain to the customer how to install the products), and a technical office, consisting of eight highly qualified people and a laboratory.

6. The Beta case

6.1. The previous work experiences of the founders

Beta was established in 1996 by three former managers who had previously worked for a range hood company in the Fabriano district, which, at that time, was the second largest producer in terms of employees (with more than 400 employees) and the third largest, in terms of turnover. The founders' company had a strong international vocation and exported 98% of its turnover to more than 80 countries, located in all continents.

The majority shareholder of the new company had been the chief accountant of the company of origin. He had been hired at the time of its establishment in 1976 and, over the twenty years spent there, he was given increasing responsibilities, until he became general manager and partner of a subsidiary of the company, specializing in the production of electric motors. The second partner of the new company is German, and his previous experience involved range hood marketing in the German market. In the new firm, he was entrusted with the responsibility of Central European markets. The third partner (a minority stakeholder of the new firm) had occupied the position of production manager in the company he had originally worked for; in the new one he assumed the role of technical director. In addition to these three core figures, from the very beginning an accounting manager implemented an effective accounting system to control the costs and the revenues of products (on a quarterly basis) and a monthly economic plan to control the profitability of sales.

It is interesting to note that all three former employees decided to each leave the company where they were employed, when the owners ceded control of the company to a US multinational, which wanted to strengthen its commercial presence in European markets, where the acquired company had a consolidated position. This change had not compromised the positions of the three employees/managers, who had all been reappointed to new roles by the new owners. Therefore, the new company, Beta, was not born from a deliberate ousting strategy of the parent company, but from the autonomous impulse of the three employees to become entrepreneurs. This impulse may have been fueled, too, by a disagreement over the lines of strategic development of the parent firm, after the acquisition.

6.2. Features of Beta's international development

During the first years of activity (after its establishment) Beta exported 100% of its turnover and sales were directed toward two European countries: Germany, accounting for 80% of turnover and Spain, accounting for the remaining 20%. The absence of sales on the Italian market is tied to the founders' previous work experience. They seized on the opportunity to satisfy a foreign demand for the product, thanks to the foreign customers that the two founders already knew from their previous commercial experience.

These same founders set up a small company in Germany in 1996, which was responsible for the activities of marketing and technical assistance for the main markets of Central Europe. This commercial unit was headed by the German partner. The turnover initially achieved in Germany was developed essentially by this partner, who had overseen this area in his previous occupation, as well.

Moreover, the turnover generated from Spain derived from the contacts developed by the majority shareholder who, as general manager of the company of origin, had dealt with the Iberian market; in that capacity, he had personally met a distributor who would then be important for the start-up of the new company.

Thus, at the beginning, the German company followed the customers in Central European countries, while the Fabriano-based company, in addition to taking care of the production activity, followed the needs of the customers from the rest of the world. There is no doubt that the relationships developed by the founders in their previous work experience were vital for the start-up of the new firm. However, many new customers were later met, and relationships established in various ways, such as participation in trade fairs, through services offered by the Italian offices of foreign countries' Chambers of Commerce, on the Internet, etc.

The importing wholesaler is Beta's preferred channel of distribution. At the beginning, more than 50% of the turnover came from a German wholesaler. As the number of customers increased, the German wholesaler's share gradually decreased. Moreover, to serve the French, US, and UK markets more attentively, the company created three small (micro) companies consisting of the owner and one employee.

Beta entered the Italian market a few years after its establishment. By the year 2000, the company's range hood sales in Italy accounted for approximately 30% of total sales. Today, the company reports a turnover of about 13 million euros and 41 employees.

6.3. Main elements of Beta's competitive strategy

Since its inception, the company's competitive strategy has been based on two fundamental elements:

a) the search for a distinctive competitive positioning, aimed at meeting the needs of the mid-high and very high end of the market, which were not adequately met by the other local competitors;
b) the choice to maintain a very lean production system, that is, with a low level of vertical integration.

The founders have always sought to differentiate their products from the competitors', especially to avoid directly competing with the company in which they had previously been employed. In fact, because of this differentiation, several foreign customers who had started to buy the hoods from the new company continued, nevertheless, to buy from the company of origin of the founders, because the product ranges of the two companies addressed different market groups and had distinctive characteristics. Only later did the company expand the range of products offered, introducing cheaper models to meet the needs of customers in emerging markets, such as India, Eastern Europe, Russia, and South America. In these geographical areas, customers were less likely to buy luxury hoods.

The company has always been characterized by a high propensity to innovate. In 1997 it launched an aspiration hood with an aluminum fan and shell, which featured very low noise, despite its very high suction capacity. Another innovative product was the "compatible modular system", which allowed the customer to compose up to 250 different product options, by combining the various models of the two components of the hood. Today, the company continues to show a high innovative propensity and a tendency to offer high-end products, such as the new downdraft hood models.

The previous occupation(s) of the founders was relevant, not only for the international firm's expansion, but also in the design and development of the first models of range hoods. Indeed, in their previous experience they had the opportunity to assess which products were received most favorably by the market. As stated by one of the founders during the interview, the company of origin offered a wide variety of models, but only a few "actually" made up a significant share of the turnover. This knowledge was particularly useful in the development of the first hood models. Moreover, previous experience was also instrumental in reducing problems and flaws in the design of new hood models.

7. Conclusions and implications

From the analysis of the two cases of rapid internationalization it clearly emerged that the observed companies cannot be considered "born global" but rather, "born international" or "born regional". Despite exporting a high share of turnover, in fact, it occurred only in markets within their continent of origin.

More specifically, immediately after their establishment Alfa and Beta, instead of selling their products on the domestic market, exported substantial percentages of their turnovers toward other European countries (and especially to Germany). This empirical evidence is coherent with the thesis of the regionalization of a company's internationalization processes and the consequent rarity of truly born global firms (Rugman and Verbeke, 2004; Braunerhjelm and Halldin, 2019).

The decision to sell first in foreign markets and only later in the Italian market was motivated by the greater attractiveness of the former compared to the latter. Indeed, these markets had more favorable structural characteristics than those of the Italian market and were much more advantageous in terms of payment lead times.

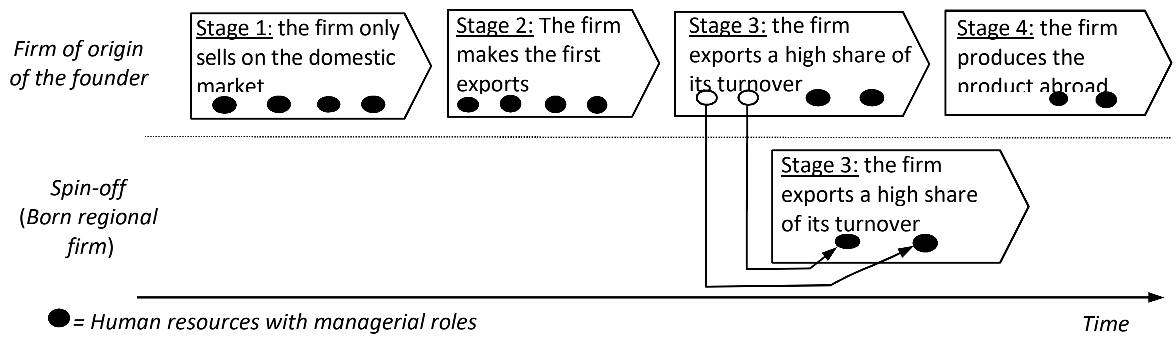
The two companies in this study were born as spin-offs of highly internationalized medium-sized companies. As evidenced in many prior studies, this way of creating new businesses represents the basis for the formation of the industrial districts' entrepreneurial fabric. Moreover, spin- off is also an important conduit for the transfer of tacit knowledge between companies. In both spin offs, the founders' previous employments were a significant factor developing in-depth knowledge of the opportunities present in foreign markets, to assimilate an "international vision" of the business, to form functional and general management skills, and to acquire a certain reputation and credibility within the sector.

In addition, the personal relationships developed in the founders' previous work were instrumental to identifying their first trading partners in the foreign markets (Sharma and Blomstermo, 2003). Furthermore, former experience also conditioned the strategies pursued by the new firms too. In fact, both firms tended to adopt product strategies and entry modes that aimed to avoid situations of direct competition with the founders' original employers.

In conclusion, as shown in Figure 4, in the case of spin offs, it can be assumed that born regional firms are able to skip the first phases of the traditional international stage models, when the founders (or the components of the company's management team) have already experienced these stages and the related learning processes inside the firm where they had worked, before starting the new business (Reuber and Fischer, 1997). In the two cases observed in this study, the new firms were 'new' in relation to their establishment date but were 'old' in terms of the experience of their founders (Michailova and Wilson, 2008)

This study has important implications for companies and for policy makers. At the managerial level it highlights the relevance of tacit experiential knowledge, acquired by the founders of the born regional firms through prior working experience within the district, for rapid penetration of the new firm in foreign markets. However, the knowledge needed for early export success is not limited to that gained by the founders in foreign market activities, but also includes know-how and experience in product innovation and operation management - essential for making innovative products with high quality standards - and in the administrative field - important for controlling costs, revenues, and profitability of products, customers, channels, etc. (Laanti et al, 2007). Moreover, new firm founders should not only strengthen pre-existing personal relationships within the industrial district but should also proactively develop new external relationships to acquire the knowledge needed to successfully design, manufacture, and commercialize their products in foreign markets (Freeman et al., 2010).

Figure 4 – Simplified scheme of the international "stages" followed by the company of origin of the founder and by the born regional spin-off (our own extrapolation based on the empirical analysis).



In relation to public policies implications, they should aim at preserving the economy of those industrial districts severely affected by the competition coming from products manufactured in low cost countries. In this context, born international firms could revitalize the cluster and public policies could encourage a new generation of spin-offs through training programs that would enhance the entrepreneurial capacity of talented employees with a strong international orientation (Eurofound, 2012). Experienced managers, possessing in-depth knowledge of the industrial sector and of the main foreign markets, are critical resources for the creation of new, highly internationalized firms. The birth of these firms can have a positive effect on the cluster's capacity to cope with international competition, especially when its firms try to differentiate their products and market targets from the parent companies in order to fill gaps they have perceived in current products or services (Porter, 1998).

The main limitation of this work concerns the results that can only be applied within the industrial sector examined and cannot be generalized. However, the study has some valid cues for future research developments.

First of all, future analysis should measure the firm's internationalization in term of geographical extension as well as intensity, clearly distinguishing born regional from born global firms, because the determinants of the two paths could be very different. The regional path, for example, has been strongly encouraged by integration policies implemented by governments over the last few decades (D'Angelo et al., 2013).

Another interesting aspect to be further developed concerns the distinction of firms based on the dynamics of their international expansion (Hagen and Zucchella, 2014). For example, the observed firms showed an "inverted internationalization" dynamic, as they entered the domestic market only after they consolidated their sales in foreign countries.

Third, future research should consider the influence of different typologies of start-up firms, clearly distinguishing between industrial district spin-offs and other types of start-ups. This distinction is relevant because of the influence of the diverse learning mechanisms accessible to them which consequently impacts their internationalization paths. Industrial district spin-offs, for example, can rely on congenital and local knowledge to expand rapidly in foreign markets, while other start-ups must leverage on other learning mechanisms (Pellegrino and McNaughton, 2017).

Fourth, future research could also investigate how the different characteristics of industrial districts (size, type of specialization, structure, etc.) either promote or hamper firms' rapid internationalization (Pouder and John, 1996; Grandinetti, 2019).

Finally, future quantitative studies should measure a company' experience considering both the number of years since its establishment as well as the number of years' experience gained by the founder(s) (or by the components of the firm's management team) during previous work activities within strongly internationalized firms.

References

1. Agarwal, R., Echambadi, R., Franco, A.M. & Sarkar, M. (2004). Knowledge transfer through inheritance: spin-out generation, development, and survival. *Academy of Management Journal*, 47 (4), 501-522.
2. Andersson, S., Evers, N., & Griot, C. (2013). Local and international networks in small firm internationalization: cases from the Rhône-Alpes medical technology regional cluster. *Entrepreneurship & Regional Development*, 25 (9-10), 867-888.
3. Baronchelli G., & Cassia, F. (2014). Exploring the antecedents of born-global companies' international development. *International Entrepreneurship and Management Journal*, 10 (1), 67-79.
4. Becattini G. (2000). *Il distretto industriale: un nuovo modo di interpretare il cambiamento economico*. Torino: Rosenberg & Sellier.
5. Bellagamba A. (2018). *Sviluppo e ristrutturazione delle imprese produttrici di cappe. Il caso del distretto di Fabriano*. Torino: Giappichelli.
6. Belso-Martinez, J. A. (2006). Do industrial districts influence export performance and export intensity? Evidence for Spanish SMEs' internationalization process. *European Planning Studies*, 14 (6), 791–810.
7. Bettiol, M., Chiarvesio, M., Di Maria, E., & Gottardello, D. (2019). Local or global? Does internationalization drive innovation in clusters?. *European Planning Studies*, 27 (10), 1995-2014.
8. Braunerhjelm, P., & Halldin, T. (2019). Born globals–presence, performance and prospects. *International Business Review*, 28 (1), 60-73.
9. Brown, P., & Bell, J. (2001). Industrial Clusters and Small Firm Internationalisation. In Taggart, J. H., Berry M., & McDermott, M., (Eds), *Multinationals in a New Era* (pp. 10-26). Basingstoke: Palgrave McMillan.
10. Brugnoli, C. (1990). *L'imprenditorialità per lo sviluppo di nuove aziende*. Milano: Egea.

11. Bruneel, J., Yli-Renko, H., & Clarysse, B. (2010). Learning from experience and learning from others: how congenital and interorganizational learning substitute for experiential learning in young firm internationalization. *Strategic entrepreneurship journal*, 4 (2), 164-182.
12. Buenstorf, G., & Costa, C. (2018). Drivers of spin-off performance in industry clusters: Embodied knowledge or embedded firms?. *Research Policy*, 47 (3), 663-673.
13. Camuffo A., & Grandinetti R. (2011). Italian industrial districts as cognitive systems: are they still reproducible?. *Entrepreneurship & Regional Development*, 23 (9-10), 815-852.
14. Cavusgil, S. T., & Knight, G. (2015). The born global firm: An entrepreneurial and capabilities perspective on early and rapid internationalization. *Journal of International Business Studies*, 46 (1), 3-16.
15. Cesinger B., Danko A., & Bouncken R. (2012). Born Globals: (almost) 20 years of research and still not 'grown up'?. *International Journal of Entrepreneurship and Small Business*, 15 (2), 171-190.
16. Colovic, A., & Lamotte, O. (2014). The role of formal industry clusters in the internationalization of new ventures. *European Business Review*, 26 (5), 449-470.
17. Coviello N. E., & McAuley A. (1999). Internationalisation and the Smaller Firm: A Review of Contemporary Empirical Research. *Management International Review*, 39 (3), 223-256.
18. D'Angelo, A., Majocchi, A., Zucchella. A. & Buck, T. (2013). Geographical pathways for SME internationalization: insights from an Italian sample. *International Marketing Review*, 30 (2), 80-105.
19. Dahl, M.S., & Sorenson, O. (2014). The who, why, and how of spinoffs. *Industrial and Corporate Change*, 23 (3), 661-688.
20. De Clercq D., Sapienza H. J., Yavuz, R. I., & Zhou L. (2012). Learning and knowledge in early internationalization research: Past accomplishments and future directions. *Journal of Business Venturing*, 27 (1), 143-165.
21. Dzikowski, P. (2018). A bibliometric analysis of born global firms. *Journal of Business Research*, 85, 281-294.
22. Eriksson K., Johanson J., Majkgard A., & Sharma D. D. (1997). Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies*, 28 (2), 337-360.
23. Eurofound (2012) *Born global: The potential of job creation in new international businesses*. Luxembourg: Publications Office of the European Union.
24. Fletcher, M., & Harris, S. (2012). Knowledge acquisition for the internationalization of the smaller firm: Content and sources. *International Business Review*, 21 (4), 631-647.
25. Fortis, M. (2016). *Pillars of the Italian Economy*. Cham Switzerland: Springer International Publishing.
26. Freeman, S., Hutchings, K., Lazaris, M., & Zyngier, S. (2010). A model of rapid knowledge development: The smaller born-global firm. *International Business Review*, 19 (1), 70-84.
27. Furlan, A., & Cainelli, G. (2020). Spinoffs or startups? The effects of spatial agglomeration. *Industrial and Corporate Change*, 23 August.
28. Gabrielsson M., Sasi V., & Darling J. (2004). Finance strategies of rapidly-growing Finnish SMEs: born internationals and born globals. *European Business Review*, 16 (6), 590-604.
29. Grandinetti, R. (2019). Rereading industrial districts through the lens of entrepreneurship. *European Planning Studies*, 27 (10), 1959-1977.
30. Hagen, B., & Zucchella, A. (2014). Born global or born to run? The long-term growth of born global firms. *Management International Review*, 54 (4), 497-525.
31. Hånell, S. M., Nordman, E. R., & Mattsson, L. G. (2020). The nature of individual experiential knowledge in internationalizing SMEs: pitfalls of superstitious learning and the need for wisdom. *International Marketing Review*, 13 July.

32. Jiang G., Kotabe M., Zhang F., Hao A. W., Paul J., & Wang C. L. (2020). The determinants and performance of early internationalizing firms: A literature review and research agenda", *International Business Review*, 29 (4), 1-14.
33. Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm - a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8 (1), 23-32.
34. Johanson, J., & Vahlne, J. E. (1990). The mechanism of internationalization. *International Marketing Review*, 7 (4), 11-24.
35. Klepper, S. (2002). The capabilities of new firms and the evolution of the US automobile industry. *Industrial and Corporate Change*, 11 (4), 645-666.
36. Klepper, S. (2009). Spinoffs: A review and synthesis. *European Management Review*, 6 (3), 159-171.
37. Knight G. A., & Liesch P. W. (2016). Internationalization: From incremental to born-global. *Journal of World Business*, 51 (1), 93-102.
38. Knight, G. A., & Cavusgil, S. T. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies*, 35 (2), 124-141.
39. Kolb, D. A. (1984). *Experiential learning: Experience as a source of learning and development*. Englewood Cliffs, NJ: Prentice-Hall.
40. Kowalski, A. M. (2014). The role of innovative clusters in the process of internationalization of firms. *Journal of Economics, Business and Management*, 2(3), 181-185.
41. Kuivalainen O., Sundqvist S., & Servais P. (2007). Firms' degree of born-globalness, international entrepreneurial orientation and export performance. *Journal of World Business*, 42 (3), 253-267.
42. Laanti R., Gabrielsson M., & Gabrielsson P. (2007). The globalization strategies of business-to-business born-global firms in the wireless technology industry. *Industrial Marketing Management*, 36 (8), 1104-1117.
43. Leonidou L. C., & Katsikeas C. S. (1996), "The export development process: an integrative review of empirical models", *Journal of International Business Studies*, 27 (3), 517-551.
44. Lopez L. E., Kundu, & Ciravegna L. (2009). Born global or born regional? Evidence from an exploratory study in the Costa Rican software industry. *Journal of International Business Studies*, 40 (7), 1228-1238.
45. Madsen T. K. (2013). Early and rapidly internationalizing ventures: similarities and differences between classifications based on the original international new venture and born-global literatures. *Journal of International Entrepreneurship*, 11 (1), 65-79.
46. Masili, G., & Curina, I. (2018). Global Start-Ups and Born Global Spin-Offs: A Multiple Case Study. *The International Journal of Economic Behavior*, 8 (1), 61-80.
47. McDougall P. P., Shane, S., & Oviatt, B. M. (1994). Explaining the formation of international new ventures: The limits of theories from international business research. *Journal of Business Venturing*, 9 (6), 469-487.
48. Mezias J. M. (2002). How to identify liabilities of foreignness and assess their effects on multinational corporations. *Journal of International Management*, 8 (3), 265-282.
49. Michailova, S., & Wilson, H. I. (2008). Small firm internationalization through experiential learning: The moderating role of socialization tactics. *Journal of World Business*, 43 (2), 243-254.
50. Musso, F. (2006). Strategie di internazionalizzazione fra economie distrettuali e filiere estese. *Sinergie*, 69, 61-85.

51. Musso, F. & Francioni, B. (2013). The Decision-Making Process in International Business Strategies: Factors of Influence on Small and Medium Enterprises. *International Journal of Applied Behavioural Economics*, 2 (2), 1-22.
52. Oviatt B. M., & McDougall P. P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*, 25 (1), 45-64.
53. Oyna, S., & Alon, I. (2018). A review of born globals. *International Studies of Management & Organization*, 48 (2), 157–180.
54. Paul, J., & Rosado-Serrano, A. (2019). Gradual internationalization vs born-global/international new venture models. *International Marketing Review*, 36 (6), 830-858.
55. Pellegrino, J. M., & McNaughton, R. B. (2017). Beyond learning by experience: The use of alternative learning processes by incrementally and rapidly internationalizing SMEs. *International Business Review*, 26 (4), 614-627.
56. Pla-Barber, J., & Puig, F. (2009). Is the influence of the industrial district on international activities being eroded by globalization? Evidence from a traditional manufacturing industry. *International Business Review*, 18 (5), 435-445.
57. Porter, M. E. (1998). Clusters and the new economics of competition. *Harvard Business Review*. 76 (6), 77-90.
58. Pouder, R., & St. John, C. H. (1996). Hot spots and blind spots: Geographical clusters of firms and innovation. *Academy of Management Review*, 21 (4), 1192-1225.
59. Rennie M. W. (1993). Global competitiveness: born global. *The McKinsey Quarterly*, 4, 45-53.
60. Reuber, A. R., & Fischer, E. (1997). The influence of the management team's international experience on the internationalization behaviors of SMEs. *Journal of International Business Studies*, 28 (4), 807-825.
61. Rodríguez-Serrano, M. Á., & Martín-Armario, E. (2019). Born-Global SMEs, Performance, and Dynamic Absorptive Capacity: Evidence from Spanish Firms. *Journal of Small Business Management*, 57 (2), 298-326.
62. Romanello, R., & Chiarvesio, M. (2019). Early internationalizing firms: 2004–2018. *Journal of International Entrepreneurship*, 17 (2), 172-219.
63. Rugman A. M., & Verbeke A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35 (1), 3-18.
64. Sharma D. D., & Blomstermo A. (2003). The internationalization process of born globals: a network view. *International Business Review*, 12 (6), 739-753.
65. Silvestrelli S. (2008). *International marketing mix*. Bologna: Esculapio.
66. Sopas, L. (2001). 'Born' Exporting in Regional Clusters: Preliminary Empirical Evidence. In Taggart, J. H., Berry M., & McDermott, M., (Eds), *Multinationals in a New Era* (pp. 29-46). Basingstoke: Palgrave McMillan.
67. StudiaBo (2012). *Apparecchi domestici e professionali. Garantire il futuro in Italia*. Osservatorio Strategico Ceced Italia.
68. Sui S., Yu Z., & Baum M. (2012). Prevalence and longitudinal trends of early internationalisation patterns among Canadian SMEs. *International Marketing Review*, 29 (5), 519-535.
69. Weerawardena J., Mort G. S., Liesch P. W., & Knight G. (2007). Conceptualizing accelerated internationalization in the born global firm: A dynamic capabilities perspective. *Journal of World Business*, 42 (3), 294-306.
70. Yin R. K. (2014). *Case study research and applications: Design and methods*. Beverly Hills (CA): Sage.

71. Zander, I., McDougall-Covin, P., & Rose, E. L. (2015). Born globals and international business: Evolution of a field of research. *Journal of International Business Studies*, 46 (1), 27-35.
72. Zucchella, A. (2006). International Entrepreneurship and Customer Orientation in Globalizing Markets: A Study on Born Global Firms. In Lindstrand, A., Johanson, J., Sharma, D.D. (Eds), *Managing Customer relationships on the Internet* (pp. 201-221). Oxford: Elsevier Ltd.
73. Zucchella A., Palamara G., & Denicolai S. (2007). The drivers of the early internationalization of the firm. *Journal of World Business*, 42 (3), 268-280.

FOREIGN MARKET ENTRY DECISION-MAKING: WHAT DO WE KNOW SO FAR?

Simone Guercini
University of Florence, Italy

Matilde Milanesi
University of Florence, Italy

Andrea Runfola
University of Perugia, Italy

Received: *September 8, 2020* Accepted: *December 14, 2020* Online Published: *December 28, 2020*

Abstract

The paper proposes a systematic review of the literature on foreign market entry decision-making. The decision-making process in this area is particularly challenging for companies, given the lack of familiarity with an international environment characterized by increasing complexity and, therefore, a high level of uncertainty. The article adopts a systematic approach to reviewing the literature, to investigate the state of research on the topic, as well as the main theoretical approaches and decision-making processes for entering foreign markets. A total of 64 articles published in international business and international marketing journals are examined. The paper proposes a descriptive and thematic analysis of the articles and highlights the main theoretical approaches adopted, the declinations of the concept of uncertainty, and the entry modes as decision-making contexts. Finally, the paper suggests future directions for research.

Keywords: Foreign market entry; Decision-making; uncertainty; Entry modes; International business; International marketing.

1. Introduction

Foreign market entry is a fundamental issue for international strategic marketing. Entrepreneurs and managers find themselves making important decisions in this area, which may concern the choice of markets to enter (which markets), the geographical concentration or diversification (how many markets), the entry modes, defined in terms of competitive strategy for the foreign markets (how to compete) (Kogut, 2002). Foreign market entry decision-making can take on particular importance for internationalization processes. The decision-making process can be challenging due to the uncertainty that characterizes the international expansion of firms, as the foreign environment can be more complex and less familiar than the national one (Cavusgil & Godiwalla, 1983), especially in the case of SMEs (Milanesi et al., 2020). The condition of uncertainty that characterizes decision-making differs from the condition of "risk", which implies that the probabilities of outcomes are known and the optimal option can be calculated (Knight, 1921). Uncertainty can have multiple sources, such as the introduction of new products, services or the founding of a new venture (McMullen and Shepherd, 2006), or rapid and unpredictable changes in technology, people, markets, quality, and schedules (De Meyer et al., 2002; Artinger et al., 2015). Uncertainty is related to entrepreneurial decision-making, often characterized by limited information and a lack of data from past experience (Busenitz and Barney, 1997).

Uncertainty is acknowledged as the primary characteristic of the international expansion of firms (Mascarenhas, 1982). Sources of uncertainty for internationalizing firms are related to unfamiliarity with operating in a new environment, foreign exchange, different cultures, political risk, labor restrictions, infrastructural difficulties (Mascarenhas, 1982; Johanson and Vahlne, 1977; 2009). The decision to internationalize and the decisions concerning the foreign market entry modes have been described as procedures characterized by great uncertainty (Acedo and Jones, 2007; Liesch et al., 2011).

Decision-making under uncertainty can refer to the adoption of rather simple decision-making rules, namely heuristically-based decisions (Guercini, 2019; Guercini and Runfola, 2020). An example is given by the analysis of foreign markets that can follow rules of thumb such as imitation of competitors; previous experiences of the organization and decision-makers; the definition of thresholds on key factors (cut-off). Heuristics originate in the cognitive science domain and refer to rules that arise when information, time, and process capabilities are limited. Thus, heuristics are rules of thumb that decision-makers rely on to simplify complex problems and/or information processing tasks (Newell and Simon, 1972). The adoption of heuristics for decision-making is debated, as it can lead to biases (Tversky and Kahneman, 1974), or it is capable of effective solutions without using a lot of information and processing (Gigerenzer, 1996; Gigerenzer et al., 1999). Thus, the adoption of heuristically-based decisions is particularly true for foreign market entry decision-making, as shown by Guercini and Milanesi (2020) who investigate heuristics in international business and show that foreign market entry is the main area in which simple rules are adopted, including simple rules such as imitative behavior, previous experience, anchoring heuristics or improvisation. Starting from this background, this paper intends to explore the state of the literature on the dissemination and effectiveness of decision-making rules in relation to foreign market entry. In particular, the article proposes a systematic review of the literature on foreign market entry decision-making, based on contributions published in the top-ranked journals of international business (IB) and international marketing (IM). The review allows a deeper understanding of how decisions are made, whether heuristics are adopted and which type, and thei outcomes of decision-making. Additionally, the paper argues that studying foreign market entry decision-making improves the understanding of how managers and entrepreneurs weigh different entry modes and adjust their choices over time. To this aim, the paper is structured as follows. In the next sections, the research questions, the methodology, and the main results of the systematic literature review are presented; the paper ends with a discussion of the results and future directions of the research.

2. Methodology

The paper proposes a structured systematic review of the literature in order to investigate the current state of research on foreign market entry decision-making. A review of the literature that follows a structured systematic approach must have the characteristics of objectivity, transparency, and replicability (Tranfield et al., 2003). More specifically, a systematic review adopts reproducible methods and procedures to identify, select, and analyze prior studies and develop a research agenda (Paul and Criado, 2020). To this end, the systematic review followed several phases (Schmeisser, 2013; Loock and Hinnen, 2015). The review began with a "planning" phase aimed at establishing a procedure for developing a transparent, replicable, and systematic research process. In this phase, the following research questions were defined:

RQ1. *What is the current state of research on foreign market entry decision-making?*

RQ2. *What are the main theoretical approaches and the decision-making processes emerging from the literature?*

The systematic review of the literature then continued with the "research" phase, in which the Scopus database was adopted as the data source, since Scopus is the largest abstract and citation database of peer-reviewed literature and allows a clear and replicable keywords search. The initial identification of the articles was conducted using a keyword search, consistent with the aforementioned objective of the present study. The following keywords were used: "market entry", "entry mode", "entry strategy". These keywords were combined, through the Boolean AND connector, with other keywords – "decision making", "uncertainty" and "cognition" - for a total of 9 search strings, limited to the title of the article, keywords, and abstract. The research has not been limited to any specific time period in order to obtain a broad vision on the topic and its development in a chronological sense.

The keyword search focused on the top-ranked international academic journals dealing with IB and IM topics, thus excluding books, essays, and conference proceedings. In this sense, journal quality was taken as an indicator of study quality (Narayanan et al., 2011). For the selection of journals, we relied on studies conducted by Dubois and Reeb (2000), Griffth et al. (2008), and Xu et al. (2008), which identified six leading journals: Journal of International Business Studies (JIBS), Management International Review (MIR), Journal of World Business (JWB), International Marketing Review (IMR), Journal of International Marketing (JIMktg) and International Business Review (IBR). Based on Tüselmann et al. (2016), the Journal of International Management (JIM) and Global Strategy Journal (GSJ) were also included. The keyword search in the 8 selected journals resulted in a total of 69 articles. Each article was read independently by the authors in order to verify that the subject actually concerned the foreign market entry decision-making, and therefore the actual adherence to the research objectives and eligibility of articles. At the end of this check, 64 articles were included in the review.

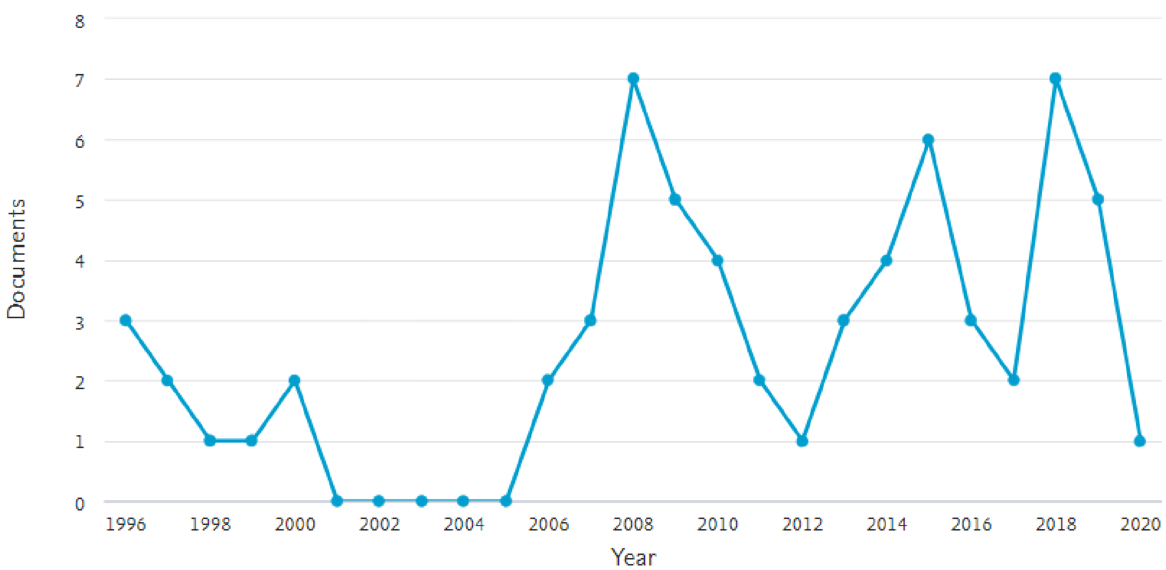
The systematic review of the literature ended with a "reporting" phase concerning the descriptive and thematic analysis of the selected articles. Such an analysis is developed in the next paragraph. The descriptive analysis is aimed at providing a broad view of the studies on foreign market entry decision-making, in terms of temporal trend, articles by journal and most influential articles (citation analysis). The thematic analysis includes a deeper examination of the selected articles in terms of theoretical approaches to the study of foreign market entry decision-making, how uncertainty is addresses and the main entry modes as decision-making contexts.

3. Analysis of the selected articles

3.1. Temporal trend and most influential articles

The descriptive analysis proposed in this section allows answering to the first research question of the study concerning the current state of research on foreign market entry decision-making. The 64 articles resulting from the systematic review of the literature (see the Appendix) were published in the period 1996-2020 (the review stopped in January 2020). The temporal trend of the publications is shown in Figure 1.

Figure 1 – Articles by year



There have been peaks in more recent years, in particular in 2008, 2015, and 2018. This can be attributed to a renewed interest in decision-making issues, following the change in the international scenario, with the opening of new markets and the emergence of new ways of approaching foreign markets. Table 1 shows the distribution of the articles in the 8 selected journals. 64% of the articles are published in two journals: Journal of International Business Studies and International Business Review.

Table 1 – Articles by journal

Journal	Articles
Journal of International Business Studies	23
International Business Review	18
International Marketing Review	8
Journal of World Business	5
Management International Review	5
Journal of International Management	4
Global Strategy Journal	1
Journal of International Marketing	0
Tot.	64

As regards the type of articles, only one (Chi et al., 2019) is a review concerning the real options theory in IB, while the remaining are empirical articles. Additionally, an analysis of the number of citations received by the selected articles allows us to identify some of the most “influential” articles. The total citations of the 64 articles are 4114. The article that has received the most citations so far is that of Johanson and Vahlne, with 1663 citations, published in 2009 in the Journal of International Business Studies, in which the authors revise their well-known Uppsala model of internationalization published in the same journal in 1977. Other 8 articles exceed 100 citations. Table 2, therefore, shows the 9 articles that exceed 100 citations: 14% of the articles collect 68% of the total citations. There are 10 other articles that exceed 50 citations. This suggests that the scientific interest in the subject under study is evident.

Table 2 – Articles with more than 100 citations

Authors	Title	Year	Journal	Citations
Johanson, J.,Vahlne, J.E.	The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership	2009	JIBS	1,663
Acedo, F.J., Jones, M.V.	Speed of internationalization and entrepreneurial cognition: Insights and a comparison between international new ventures, exporters and domestic firms	2007	JWB	185
Slangen, A.H.L., van Tulder, R.J.M.	Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research	2009	IBR	168
Chandra, Y., Styles, C., Wilkinson, I.	The recognition of first time international entrepreneurial opportunities: Evidence from firms in knowledge-based industries	2009	IMR	158
Petersen, B., Pedersen, T., Lyles, M.A.	Closing knowledge gaps in foreign markets	2008	JIBS	146
Chi, T., McGuire, D.J.	Collaborative ventures and value of learning: Integrating the transaction cost and strategic option perspectives on the choice of market entry modes	1996	JIBS	140
Nielsen, B.B., Nielsen, S.	The role of top management team international orientation in international strategic decision-making: The choice of foreign entry mode	2011	JWB	139
Evans, J., Treadgold, A., Mavondo, F.T.	Psychic distance and the performance of international retailers: A suggested theoretical framework	2000	IMR	113
Kumar, V., Subramaniam, V.	A contingency framework for the mode of entry decision	1997	JWB	101
			Tot.	2,813

3.2. Thematic analysis of the selected articles

Starting from the descriptive analysis of the most influential journals and articles, the systematic review continues with a thematic analysis that allows answering to the second research question of the present study concerning the main theoretical approaches and the decision-making processes emerging from the literature. In particular, three main areas of analysis emerge from a thorough reading of the selected articles. The first area concerns the study of the theoretical approaches underlying the 64 selected articles. In fact, the decisions regarding foreign market entry are traced back to several perspectives. As is well known, for example, in their reformulation of the Uppsala model, Johansson and Vahlne (2009) explicitly affirm the relevance of the network vision as a key theoretical context for a greater understanding of the ways companies go abroad, a theoretical conceptualization that, moreover, it is the basis of the concept of liability of outsidership. There are articles that confirm the relevance of this network perspective (Ojala, 2015), broadening the decision-making spectrum of entry methods, for example, also addressing the issue of re-entry into a market (Vissak et al., 2020). A common ground of all these contributions may be interpreted taking into consideration how the decision-making about foreign market entry is related to the ability of export decision makers for finding players who may act as "gatekeepers" to the new markets (Guercini and Runfola, 2010), and let the company deals with the difficulties of entering a foreign market.

However, the network view is only one of the theoretical approaches adopted. The article by Acedo and Jones (2007), one of the most cited in the sample, has cognition as its starting point of theory, according to a psychological as well as managerial conceptualization, considered central to the understanding of the speed in the processes of entry into a foreign market. Li and Parboteeach (2015), on the other hand, draw on the institutional theory to understand the impact of imitative behaviors on foreign market entry decisions, specifically emphasizing the role of the cultural variable in favoring or not such behaviors. The theoretical assumptions are, therefore, various in the contributions considered, even including the real options theory (Li & Rugman, 2007; Chi et al. 2019). Following these contributions, the decision-making regarding foreign-market entry is then related to a set of different variables that comes from different theoretical perspectives. In this sense, it is not possible to give priority to some with respect to others. However, different theoretical lenses contribute to elaborate some features of the decision-making, for example to what extent is imitative or if it is faster for some actors in comparison to others.

A second issue emerging from the systematic literature review concerns how the concept of uncertainty is approached by the selected articles and how it relates to entry decisions. The issue of the perceived distance between the market of origin and the market of destination assumes centrality in many studies, given that it is considered one of the elements capable of generating liabilities in the process of foreign development of companies, affecting the processes of internationalization. The conceptualization of the distance between markets is interpreted according to different meanings, for example as a geographical distance rather than a linguistic distance. There are articles that specifically address the psychic distance (Treatgold & Mavondo, 2010; Baack et al. 2015; Ojala et al. 2015) as a particular aspect on which to decline the uncertainty and difficulties in deciding to enter a foreign market. However, there are other contributions that emphasize the role of different dimensions connected to the perception of uncertainty, such as the concept of country familiarity proposed by Clark et al. (2018), the environmental uncertainty explored by Tseng and Lee (2010), or the uncertainty in its endogenous and exogenous dimensions (Sears, 2019). From this second set of contributions, it emerges that foreign market entry is a decision that is based on "perceptions" that are almost individual by decision-makers to face uncertainty. It is then clear that the extent to which some of those sources of "distances" may be perceived as fundamental, can guide the process of entering a foreign market. The literature shows different causes of uncertainty, but it seems to highlight the need to further study and elaborate perceptions of differences among international markets as a crucial aspect of foreign-market entry decisions.

A third area emerging from the systematic literature review concerns the entry modes that are considered decision-making contexts to understand the relationship between the formulation of judgment and the management of uncertainty in international decision-making. In fact, in the selected articles, decision-making is declined with reference to the traditional ways in which companies enter a foreign market, albeit with different emphasis between the different forms. There are articles that focus on exports (Morgan & Katsikeas, 1997; Freixanet et al. 2018), while a relevant part focuses on forms that can be perceived as riskier, such as foreign direct investments (Boeh & Beamish, 2012; Dermibag et al. 2010; Li & Rugman, 2007; Ma & Delios, 2007) or international joint ventures (Sartor & Beamish 2018; López-Duarte & Vidal-Suárez, 2010; McNaughton, 1996). Additionally, there is also an emphasis on the heuristically-based decision with reference to specific entry modes. In particular, the extant literature on the choice of entry modes, which assumed that the mode of entry is a single-stage rational analytic decision by the manager, is challenged by Kumar and Subramaniam (1997) who propose a contingency framework for the entry mode decision in which an alternative strategy of decision is discussed. In the so-called ‘cybernetic decision strategy’, decisions are made by considering a few critical alternatives, according to a hierarchical process, and the decision rules follow some (non-specified) heuristic established through prior cognitive processes. However, the effectiveness of decision-making is not warranted. Maitland and Sammartino (2015) investigate cross-border acquisitions in which heuristics are seen as powerful cognitive tools that enable, rather than limit, decision-making in dynamic and uncertain environments. Authors examine the cognitive efforts of senior decision-makers of an inexperienced multinational, as they assess a potential acquisition in a politically hazardous country. In this context, heuristics allow building small world representations of a very uncertain strategic context. To summarize, this third area emerging from the analysis investigates both the context where decisions making of foreign entry are assumed, such regarding how export or alternative modes are adopted, and the “tools”, such as heuristics (Guercini and Runfola, 2020) that may support the process of decisions making.

4. Implications, future research, and conclusion

Foreign market entry decision-making: what is the current state of research and what are the main theoretical approaches and the decision-making processes emerging from the literature? These are the questions that the present study was aimed at answering.

The analysis of the articles in this systematic review of the literature highlights how the topic, despite having its roots in past influential contributions, seems to have been the subject of renewed interest in recent years. Understanding how companies decide on the entry of foreign markets is a crucial topic for international marketing and international business scholars. As already underlined, this can derive both from the growing degree of globalization of economies and from the fact that decisions on international development represent for many companies, including small and medium-sized ones, the main way to grow.

This article represents an attempt to systematize the contributions in the literature while highlighting the main directions for future research and possible gaps to be addressed by scholars interested in decision-making for companies in their entry mode strategies. The review shown that three main areas of research, related to the theoretical perspectives used to explain the decision-making process (with a great relevance of the network-based view), how the concept of uncertainty may be considered and the relationship between decisions to be assumed and different market entry modes. However, we believe that advancement in research of decision making may be directed towards the understanding of some issues that are related to the ones described in the review.

A first relevant research direction and potential gap to be addressed concerns the analysis of the differences between decision-making approaches with reference to the different entry methods. Although the entry mode has been addressed in the research as a context of decisions, there is still space for contributions aimed at proposing an overall and comparative picture of differences and commonalities when actors should decide on different entry modes. This is particularly true if we consider different entry mode decisions by the same decision-maker. The distinction between direct and indirect methods may imply a different way of dealing with uncertainty on the part of the same business decision-maker (see for example Ekeledo and Sivakumar, 1998 or Slagen et al., 2009), even in the same company with respect to different entry modes. The level of uncertainty that characterizes forms of direct export is certainly different from that represented by methods of direct entry into foreign markets. How does this level of uncertainty relate to decision-making? What rules do businesses follow with reference to the different entry methods? What common paths and what differences among the alternative forms of entry? In our view these are research questions, deserving still further research by academics.

A second research direction concerns the relationship between uncertainty and decision-making in the comparison between companies with different sizes and in the comparison between SMEs and MNEs. Previous research, at least in the contributions analyzed in our review, seems to have considered a concept of uncertainty that is generally valid for all types of companies. However, the international decision-making has been studied both with regard to SMEs (Francioni et al. 2015) and to MNEs, that have been associated with more rational behaviors (Aharoni et al., 2011). On this issue, however, there is still space for new knowledge regarding decision-making on market-entry. Future research should be oriented to understand how the uncertainty at the level of individual decision-makers and at the organizational level is declined in the case of MNEs and SMEs and what are the solutions implemented to reduce this uncertainty, thus highlighting differences and similarities in the case of the two types of companies.

The third direction of research concerns the ways in which technology can support companies in their decision-making processes regarding market entry decisions. The previous systematic review does not propose technology as a crucial issue for foreign expansion. However, if we consider the wider and more recent debate in management, technology is assumed to play a relevant role in the future, especially if it may act as a reducer of uncertainty in any field of decision-making. As highlighted in the literature, marketing and management processes must now relate to the opportunities and challenges that new technologies, such as artificial intelligence or automation may relate to decision-makers (Guercini, 2020). The new technologies can favor the process of entry into foreign markets, representing a modality (Guercini and Runfola, 2015), and guarantee an extremely rich and useful information base also for small-medium enterprises. In this context, a relevant research gap concerns, how do new technologies relate to the management of uncertainty in decision-making? How can new technological paradigm such as artificial intelligence, be adopted to support business decision-makers? This is an area that deserves further research by academics, given the role that technologies are taking and will take on for theoretical development and managerial practice.

Although the study aims to contribute to the theoretical debate on decision-making in foreign market entry, it can show some implications for practitioners. The implications are twofold. First, this paper emphasizes the importance of conceiving the decision about entry modes from an individual as well as an organizational perspective. Managers should be aware that the decision under question can be linked to personal as well as organizational routines to be effective. Second, our paper shows some "solutions" suggested by the literature, both in terms of heuristics or networking behavior that can help in the decision-making process and to which managers may rely on to face uncertainty.

This study has also some limits. As for the methodology, the systematic review is based on a list of journals, whose selection followed specific criteria, that, however, do not cover the full range of academic journals in the international business and international marketing fields. This may limit the scope of the review, and additional research is required to extend or redefine the journals considered for the review. Additionally, a series of contributions was excluded, such as book chapters, editorials, conference papers, notes and letters, which might lead to an interpretation bias due to the reduced number of reviewed literature pieces. Finally, as the screening and thematic analysis is based on a reading of the articles by the authors, thus using a manual literature review technique, this could have led to unintended biases.

In conclusion, this contribution represents an attempt to provide an insight into the state of the art of the literature on foreign market entry decision-making. Our research, although preliminary, shows a growing interest in the topic and the need to provide an overview of what has been proposed so far in the various contributions published in the top IB and IM journals. This contribution has tried to provide an initial response to these systematization needs.

References

1. Aharoni, Y., Tihanyi, L., & Connelly, B. L. (2011). Managerial decision-making in international business: A forty-five-year retrospective. *Journal of World Business*, *46*(2), 135-142.
2. Acedo, F. J., & Jones, M. V. (2007). Speed of internationalization and entrepreneurial cognition: Insights and a comparison between international new ventures, exporters and domestic firms. *Journal of World Business*, *42*(3), 236-252.
3. Artinger, F., Petersen, M., Gigerenzer, G., & Weibler, J. (2015). Heuristics as adaptive decision strategies in management. *Journal of Organizational Behavior*, *36*(S1).
4. Busenitz L.W., & Barney J.B. (1997) Differences between entrepreneurs and managers in large organizations: biases and heuristics in strategic decision-making, *Journal of Business Venturing*, *12*(1), 9-30.
5. Cavusgil, S. T., & Godiwalla, Y. M. (1982). Decision-making for international marketing: a comparative review. *Management Decision*, *20*(4), 47-54.
6. De Meyer, A., Loch, C. H., & Pich, M. T. (2002). Managing project uncertainty: from variation to chaos. *MIT Sloan Management Review*, *43*(2), 60.
7. DuBois, F. L., & Reeb, D. (2000). Ranking the international business journals. *Journal of International Business Studies*, *31*(4), 689-704.
8. Ekeledo, I., & Sivakumar, K. (1998). Foreign market entry mode choice of service firms: a contingency perspective. *Journal of the academy of marketing science*, *26*(4), 274-292.
9. Furlan, A., & Grandinetti, R. (2011). Size, relationships and capabilities: a new approach to the growth of the firm. *Human Systems Management*, *30*(4), 195-213.
10. Francioni, B., Musso, F., & Cioppi, M. (2015). Decision-maker characteristics and international decisions for SMEs. *Management Decision*, *53*(10), 2226-2249.
11. Gigerenzer G. (1996) On narrow norms and vague heuristics: A reply to Kahneman and Tversky, *Psychological Review*, 103, 592-596.

12. Gigerenzer G., Todd P.M., & the ABC Research Group (1999) *Simple heuristics that make us smart*, New York, Oxford University Press
13. Griffith, D. A., Cavusgil, S. T., & Xu, S. (2008). Emerging themes in international business research. *Journal of International Business Studies*, *39*(7), 1220-1235.
14. Guercini S., Runfola A. (2010). Business networks and retail internationalization: a case analysis in the fashion industry. *Industrial Marketing Management*, *39*(6), 908-916
15. Guercini, S., & Runfola, A. (2015). Internationalization through e-commerce. The case of multibrand luxury retailers in the fashion industry. *Advances in International Marketing*, *26*, 15-31.
16. Guercini, S. (2019). Heuristics as tales from the field: the problem of scope. *Mind & Society*, *18*(2), 191-205.
17. Guercini, S., & Milanesi, M. (2020). Heuristics in international business: a systematic literature review and directions for future research. *Journal of International Management*, *26*(4), 100782.
18. Guercini, S., & Runfola, A. (2020). Heuristics in decision-making by exporting textiles SMEs. *Journal of Global Fashion Marketing*, https://doi.org/10.1080/20932685.2020.1835521.
19. Guercini, S. (2020). The actor or the machine? The strategic marketing decision-maker facing digitalization. *Micro & Macro Marketing*, *29*(1), 3-7.
20. Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm - a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, *8*(1), 23-32.
21. Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, *40*(9), 1411-1431.
22. Knight, F. H. (1921). Risk, uncertainty and profit. *New York: Hart, Schaffner and Marx*.
23. Kogut, B. (2002). International management and strategy. In Pettigrew, A. Thomas, H. and Whittington, R. (Eds), *Handbook of Strategy and Management*. London: Sage.
24. Liesch, P. W., Welch, L. S., & Buckley, P. J. (2011). Risk and uncertainty in internationalisation and international entrepreneurship studies. *Management International Review*, *51*(6), 851-873.
25. Loock, M., & Hinnen, G. (2015). Heuristics in organizations: A review and a research agenda. *Journal of Business Research*, *68*(9), 2027-2036.
26. Mascarenhas, B. (1982). Coping with uncertainty in international business. *Journal of International Business Studies*, *13*(2), 87-98.
27. Milanesi M., Gigliotti M. & Runfola A. (2020). The International Marketing Strategy of Luxury Food SMEs: The Case of Truffle, *Journal of Food Products Marketing*, https://doi.org/10.1080/10454446.2020.1854916
28. McMullen, J. S., & Shepherd, D. A. (2006). Entrepreneurial action and the role of uncertainty in the theory of the entrepreneur. *Academy of Management Review*, *31*(1), 132-152.
29. Narayanan, V. K., Zane, L. J., & Kemmerer, B. (2011). The cognitive perspective in strategy: An integrative review. *Journal of Management*, *37*(1), 305-351.
30. Newell A., & Simon H.A. (1972) *Human problem solving*, Prentice Hall, Englewood Cliffs.
31. Paul, J., & Criado, A. R. (2020). The art of writing literature review: What do we know and what do we need to know?. *International Business Review*, 101717.
32. Schmeisser, B. (2013). A systematic review of literature on offshoring of value chain activities. *Journal of International Management*, *19*(4), 390-406.

33. Slangen, A. H., & Van Tulder, R. J. (2009). Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research. *International business review*, *18*(3), 276-291.
34. Tranfield, D., Denyer, D., & Smart, P. (2003). Towards a methodology for developing evidence-informed management knowledge by means of systematic review. *British Journal of Management*, *14*(3), 207-222.
35. Tüselmann, H., Sinkovics, R. R., & Pishchulov, G. (2016). Revisiting the standing of international business journals in the competitive landscape. *Journal of World Business*, *51*(4), 487-498.
36. Tversky A., & Kahneman D. (1974) Judgement under uncertainty: heuristics and biases, *Science*, 185, 1124-1131.
37. Xu, S., Yalcinkaya, G., & Seggie, S. H. (2008). Prolific authors and institutions in leading international business journals. *Asia Pacific Journal of Management*, *25*(2), 189-207.

Appendix

Authors	Title	Year	Journal
Vissak T., Francioni B., Freeman S.	Foreign market entries, exits and re-entries: The role of knowledge, network relationships and decision-making logic	2020	International Business Review
Elia S., Larsen M.M., Piscitello L.	Entry mode deviation: A behavioral approach to internalization theory	2019	Journal of International Business Studies
Chi T., Li J., Trigeorgis L.G., Tsekrekos A.E.	Real options theory in international business	2019	Journal of International Business Studies
Richardson C., Ariffin S.K.	A Leap of Faith? Managerial Religiosity And Market Entry Decisions	2019	Management International Review
Xu K., Hitt M.A., Miller S.R.	The ownership structure contingency in the sequential international entry mode decision process: Family owners and institutional investors in family-dominant versus family-influenced firms	2019	Journal of International Business Studies
Sears J.B.	A real options model of market entry: Endogenous uncertainty and exogenous uncertainty	2019	Journal of International Management
Luo Y., Bu J.	When are emerging market multinationals more risk taking?	2018	Global Strategy Journal
Freixanet J., Renart G., Rialp-Criado A.	The Impact of Managers' Global Orientation on SME Export and Economic Performance	2018	Management International Review
Jiang F., Ananthram S., Li J.	Global Mindset and Entry Mode Decisions: Moderating Roles of Managers' Decision-Making Style and Managerial Experience	2018	Management International Review
Kriz A., Welch C.	Innovation and internationalisation processes of firms with new-To-The-world technologies	2018	Journal of International Business Studies
Clark D.R., Li D., Shepherd D.A.	Country familiarity in the initial stage of foreign market selection	2018	Journal of International Business Studies
Sartor M.A., Beamish P.W.	Host market government corruption and the equity-based foreign entry strategies of multinational enterprises	2018	Journal of International Business Studies
Magnier-Watanabe R., Lemaire J.-P.	Inbound foreign direct investment in Japan: A typology	2018	International Business Review
Håkanson L., Kappen P.	The 'Casino Model' of internationalization: An alternative Uppsala paradigm	2017	Journal of International Business Studies
Lai J.-H., Lin W.-C., Chen L.-Y.	The influence of CEO overconfidence on ownership choice in foreign market entry decisions	2017	International Business Review
Müllner J.	From uncertainty to risk—A risk management framework for market entry	2016	Journal of World Business
Ji J., Dimitratos P., Huang Q.	Problem-solving dissension and international entry mode performance	2016	International Marketing Review
Wooster R.B., Blanco L., Sawyer W.C.	Equity commitment under uncertainty: A hierarchical model of real option entry mode choices	2016	International Business Review

Baack D.W., Dow D., Parente R., Bacon D.R.	Confirmation bias in individual-level perceptions of psychic distance: An experimental investigation	2015	Journal of International Business Studies
Meyer C.R., Skaggs B.C., Nair S., Cohen D.G.	Customer Interaction Uncertainty, Knowledge, and Service Firm Internationalization	2015	Journal of International Management
Maitland E., Sammartino A.	Managerial cognition and internationalization	2015	Journal of International Business Studies
Ojala A.	Geographic, cultural, and psychic distance to foreign markets in the context of small and new ventures	2015	International Business Review
Li C., Parboteeah K.P.	The effect of culture on the responsiveness of firms to mimetic forces: Imitative foreign joint venture entries into China, 1985-2003	2015	Journal of World Business
Williams D.W., Grégoire D.A.	Seeking commonalities or avoiding differences? Re-conceptualizing distance and its effects on internationalization decisions	2015	Journal of International Business Studies
Pla-Barber J., Villar C., León-Darder F.	Augmenting versus exploiting entry modes in soft services: Reconsidering the role of experiential knowledge	2014	International Marketing Review
Monaghan S., Gunnigle P., Lavelle J.	Courting the multinational: Subnational institutional capacity and foreign market insidership	2014	Journal of International Business Studies
Sartor M.A., Beamish P.W.	Offshoring innovation to emerging markets: Organizational control and informal institutional distance	2014	Journal of International Business Studies
De Beule F., Elia S., Piscitello L.	Entry and access to competencies abroad: Emerging market firms versus advanced market firms	2014	Journal of International Management
Ji J., Dimitratos P.	An empirical investigation into international entry mode decision-making effectiveness	2013	International Business Review
Alcácer J., Dezs C.L., Zhao M.	Firm rivalry, knowledge accumulation, and MNE location choices	2013	Journal of International Business Studies
Chung H.F.L., Tung R.L.	Immigrant social networks and foreign entry: Australia and New Zealand firms in the European Union and Greater China	2013	International Business Review
Boeh K.K., Beamish P.W.	Travel time and the liability of distance in foreign direct investment: Location choice and entry mode	2012	Journal of International Business Studies
Malhotra S., Sivakumar K.	Simultaneous determination of optimal cultural distance and market potential in international market entry	2011	International Marketing Review
Nielsen B.B., Nielsen S.	The role of top management team international orientation in international strategic decision-making: The choice of foreign entry mode	2011	Journal of World Business
Li J., Li Y.	Flexibility versus commitment: MNEs ownership strategy in China	2010	Journal of International Business Studies
López-Duarte C., Vidal-Suárez M.M.	External uncertainty and entry mode choice: Cultural distance, political risk and language diversity	2010	International Business Review

Demirbag M., McGuinness M., Altay H.	Perceptions of institutional environment and entry mode	2010	Management International Review
Tseng C.-H., Lee R.P.	Host environmental uncertainty and equity-based entry mode dilemma: The role of market linking capability	2010	International Business Review
Johanson J., Vahlne J.-E.	The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership	2009	Journal of International Business Studies
Liang X., Musteen M., Datta D.K.	Strategic orientation and the choice of foreign market entry mode: An empirical examination	2009	Management International Review
Slangen A.H.L., van Tulder R.J.M.	Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research	2009	International Business Review
Jiang M.S., Aulakh P.S., Pan Y.	Licensing duration in foreign markets: A real options perspective	2009	Journal of International Business Studies
Chandra Y., Styles C., Wilkinson I.	The recognition of first time international entrepreneurial opportunities: Evidence from firms in knowledge-based industries	2009	International Marketing Review
Christensen M., Knudsen T.	Entry and exit decisions in flexible teams	2008	Journal of International Business Studies
Petersen B., Pedersen T., Lyles M.A.	Closing knowledge gaps in foreign markets	2008	Journal of International Business Studies
Fisch J.H.	Internalization and internationalization under competing real options	2008	Journal of International Management
Perks K.J., Hughes M.	Entrepreneurial decision-making in internationalization: Propositions from mid-size firms	2008	International Business Review
Forlani D., Parthasarathy M., Keaveney S.M.	Managerial risk perceptions of international entry-mode strategies: The interaction effect of control and capability	2008	International Marketing Review
Fisch J.H.	Investment in new foreign subsidiaries under receding perception of uncertainty	2008	Journal of International Business Studies
Paul D.L., Wooster R.B.	Strategic investments by US firms in transition economies	2008	Journal of International Business Studies
Li J., Rugman A.M.	Real options and the theory of foreign direct investment	2007	International Business Review
Acedo F.J., Jones M.V.	Speed of internationalization and entrepreneurial cognition: Insights and a comparison between international new ventures, exporters and domestic firms	2007	Journal of World Business
Ma X., Delios A.	A new tale of two cities: Japanese FDIs in Shanghai and Beijing, 1979-2003	2007	International Business Review
Sanchez-Peinado E., Pla-Barber J.	A multidimensional concept of uncertainty and its influence on the entry mode choice: An empirical analysis in the service sector	2006	International Business Review
Akhter S.H., Robles F.	Leveraging internal competency and managing environmental uncertainty:	2006	International Marketing Review

	Propensity to collaborate in international markets		
Evans J., Treadgold A., Mavondo F.T.	Psychic distance and the performance of international retailers: A suggested theoretical framework	2000	International Marketing Review
LeClair D.T.	Marketing planning and the policy environment in the European Union	2000	International Marketing Review
Bridgewater S.	Networks and internationalisation: The case of multinational corporations entering Ukraine	1999	International Business Review
Edwards R.W., Buckley P.J.	Choice of location and mode: The case of Australian investors in the UK	1998	International Business Review
Morgan R.E., Katsikeas C.S.	Export stimuli: Export intention compared with export activity	1997	International Business Review
Kumar V., Subramaniam V.	A contingency framework for the mode of entry decision	1997	Journal of World Business
Tan B., Vertinsky I.	Foreign direct investment by Japanese electronics firms in the United States and Canada: Modelling the timing of entry	1996	Journal of International Business Studies
Chi T., McGuire D.J.	Collaborative ventures and value of learning: Integrating the transaction cost and strategic option perspectives on the choice of market entry modes	1996	Journal of International Business Studies
McNaughton R.B.	Foreign market channel integration decisions of Canadian computer software firms	1996	International Business Review

List of Authors

Waidi Adeniyi Akingbade {B.SC (Hons), M.SC, Ph.D Business Administration}. He is a Senior Lecturer in the Department of Business Administration, Lagos State University, Ojo; Lagos, Nigeria. He has published in both Local and International Journal. He is a Member of the British Academy of Management and Member the Academy of Management Nigeria.

G. Rod Erfani is an economics professor and director of economics program at Transylvania University in Lexington, Kentucky, USA. Professor Erfani received his Ph.D. in Economics from Florida State University, where he concentrated in International Economics and History of Economic Thought. He also holds a M.A. and a B.S. degree, both in Economics. Prior to joining the economics faculty at Transylvania University in 1986, he was a professor at Spring Hill College, Alabama and Central College, Iowa. Professor Erfani is the author of numerous articles published in refereed economic journals. He has made professional presentations throughout the United States and in many foreign countries. His current research interests are in the fields of International Trade/Finance, and Economic Growth.

Jack Berger graduated Magna Cum Laude from Transylvania University in 2019 with a Bachelor of Arts in Economics, where his advisor was Dr. G. Rod Erfani. He is currently pursuing a Ph.D. in Economics at Indiana University, Bloomington, Indiana, USA. His current research interests include Industrial Organization, Macroeconomics, and Applied Econometrics.

Annalisa Sentuti is Research Fellow in Business Administration at the University of Urbino Carlo Bo, Department of Economic, Society, Politics. She teaches business administration at the School of Foreign Languages and Literatures, and business administration and accounting at the School of Economics, University of Urbino. Her main research topics include SMEs, entrepreneurship, family-owned businesses, women entrepreneurs, corporate governance, business sustainability. She is a member of the European Council for Small Business and Entrepreneurship (ECSB), Crimpi – Research Centre on Entrepreneurship and Small-medium firms, Sidrea – the Italian Society of Accounting and Business Administrations Scholars. She is also a member of the Scientific Committee of IPAZIA, the Scientific Observatory on Gender Research.

Francesca Maria Cesaroni is Full Professor of Business Administration at the University of Urbino Carlo Bo, Department of Economic, Society, Politics. She teaches accounting and entrepreneurship and small business at the School of Economics, University of Urbino. Her main research topics include SMEs, entrepreneurship, women-owned firms, family firms, succession process. She is the Director of the Research Centre on Entrepreneurship and Small-Medium-sized firms, University of Urbino, Italy, the Italian vice-president for ECSB-European Council of Small Business. Since 2017 she is the scientific responsible of UniurbLab, contamination lab of University of Urbino, aimed at promoting students' entrepreneurship.

Gail Denisse Chamochumbi Diaz earned her Ph.D. at the University of Urbino in 2017. Currently she is a Research Fellow in the Department of Economics, Society and Politics at University of Urbino. Her main research interests focus on the following areas: entrepreneurship, family businesses, succession process, corporate governance, women entrepreneurs, corporate social responsibility, innovation, corporate performance.

Israel Akinadewo is a fellow of the Institute of Chartered Accountants of Nigeria (ICAN); fellow, Chartered Institute of Taxation of Nigeria. He has a BSc and MSc in Accounting from Osun State University, Osogbo and Obafemi Awolowo University, Ile-Ife respectively. He has PhD in Forensic Accounting and Audit from Charisma University, Turks and Caicos Islands, West Indies and; MBA from Ladoke Akintola University, Ogbmosho. He is a certified forensic accountant (ICAN); fellow, Association of Forensic Accounting Researchers. He has close 30 years' practical experience in audit and investigation, forensic accounting, taxation and human resources management, among others. He is at the final level to defend another PhD in Accounting from Obafemi Awolowo University, Ile-Ife, and a PhD in Christian Theology from North Central Theological Seminary, Minnesota, USA. He is also an Associate member of Nigeria Institute of Management (Chartered).

Luciano Pilotti is Full Professor of Innovation Management in Dept. of Environmental Science and Policy (ESP) of the University of Milan (Italy). PhD in strategic management at University Cà Foscari of Venice. Main interests of research are: theory of the firm, organization transformation, human resources changes, ethics and business, CSR. He is partner of academic spin-off Complex Data of the University of Milan.

Alessandra Micheletti is Associate Professor of Probability and Mathematical Statistics at the Dept. of Environmental Science and Policy, University of Milan.PhD in computationa mathematics. She is a member of the council of the European Consortium for Mathematics in Industry, of the Data Science Research Center of University of Milan and coordinator of the H2020 MSCA project BIGMATH. Her main research interests are in the field of Statistics and Topological Data Analysis applied to industrial and life sciences problems. She is partner of academic spin-off Complex Data of the University of Milan.

Mirian Palmeira is a Marketing Consultant (PP&MZee Consulting Co., Brazil), Associate Professor at UFPR – Federal University of Parana, Brazil (1994-2019), working in the Business Administration (1994-2008) and Information Management Graduate (2010-2013) and Business Administration (1994-2019) Undergraduate Programmes. Member of the Scientific Advisory Board of the International Journal of Economic Behavior – IJEB. Author of different articles related to the fields of Marketing Strategy, Retailing and Services, Fashion, Experiential Marketing, and Information and Integrated Marketing Communication. Her education levels are Master (1988) and PhD (1995) degrees in Marketing at Fundacao Getulio Vargas, Sao Paulo, and Fashion Design (2012) at Centro Europeu, Curitiba, Parana, Brazil.

Elder Semprebon is a Marketing Professor and Researcher at UFPR – Federal University of Parana, Brazil, working in the Business Administration Graduate and Undergraduate Programmes. Author of different articles related to the fields of Marketing Research and Consumer Behaviour. His education levels are Master (2010) and PhD (2014) degrees in Business Administration at UFPR – Federal University of Parana, Brazil, Curitiba, Parana, Brazil.

Clara Benevolo is associate professor in Business Management at the University of Genoa since 2010. She has been researcher in Business Management in the same university since 1995. She teaches international management and marketing, tourism management and marketing. She designed, coordinated and taught in many master and education programmes. Her research interests lie in internationalisation of firms, entry mode choice and international marketing, e-business and international e-business activities, urban strategy and smart cities, tourism management and marketing. She is author of books and papers on academic national and international journals. Clara Benevolo is the corresponding author and can be contacted at: clara.benevolo@economia.unige.it

Lara Penco is full professor of Business Strategy and Strategic Management and Corporate Strategy in the University of Genoa, Department of Economics and Business Studies. She holds a PhD in "Service Management" from the same university. She is a member of C.I.E.L.I., the Italian Centre of Excellence on Logistics Transports and Infrastructures. She is a member of the Board of SIMA (the Italian Society of Management). Her research interests lie in strategic management, corporate strategyand governance. She is track chair of EURAM Conference – SIG "Entrepreneurship" and member of the editorial board of several international journals and author of books and papers on academic national and international journals.

Teresina Torre is full professor of Organisation and Human Resources Management, Department of Economics and Business Studies, University of Genoa, where she teaches "Organisation" and "Human Resources Management and Organizational Behaviour". She is coordinator of the Master Course of Management in the University of Genoa and president of the MBA – Internacional en Gestion Estrategica. Finanzas e Internacionalizacion de las Empresas in collaboration between the University of Genoa and the Catholic University "Sedes Sapientiae" of Lima (Per_u). She is vice president of ASSIOA (the Italian Academy of Organisation). She is a member of C.I.E.L.I., the Italian Centre of Excellence on Logistics Transports and Infrastructures. Her main research interests are organisation, change management, human resources, digitalisation and soft skills. She is co-editor of Impresa Progetto Electronic Journal of Management and member of the scientific board of several journals and author of many books and papers on qualified national and international journals.

Bettina C.K. Binder (Prof. Dr.) works at Pforzheim University, the institute of Business Administration and Engineering, since 2010, giving courses in Managerial Accounting and Process Management. Her research focus lies in general Key Performance Indicators (KPIs) for Process Performance Measurement and the KPI women quota in supervisory and management boards.

Aldo Bellagamba is currently an assistant professor of Economics and Business Management in the Department of Management at Polytechnic University of Marche, in Ancona (Italy). He received a M.S. in International Business from the South Bank University of London (UK) in 1996 and a PhD in Economics and Business Management from Ancona University in 2000. He is the author of various publications on tourist destination management, SMEs' export strategies, parallel distribution channels, growth paths of district firms, youth entrepreneurship and sales forecasting. His current research interests are firms' internationalization strategies and the diffusion and adoption of new technologies related to the 4th industrial revolution.

Simone Guercini Ph.D., is Full Professor of Marketing at the Department of Economics and Management at the University of Florence (Italy). His research interests include business marketing, internationalization, heuristics and decision making, qualitative methodologies in

marketing and management, with a special focus on the fashion and luxury empirical settings. He has collaborated as member of the editorial board and reviewer for international marketing and management journals. His research was published on journals including *Industrial Marketing Management, Global Strategy Journal, Journal of Business Research, Journal of Cleaner Production, International Business Review, International Marketing Review, Journal of Fashion Marketing and Management, European Journal of Marketing, Management Decision, Journal of Business and Industrial Marketing.*

Andrea Runfola Ph.D., is Associate Professor of Business Economics at the Department of Economics of the University of Perugia (Italy). His research interests include international business, international marketing, business networks and relationship marketing, business models and digitalization, with a focus, although not exclusive, on the fashion industry. He published his works in leading national and international journals such as *Industrial Marketing Management*, *Journal of Business Research*, *Journal of Business and Industrial Marketing*, *European Management Journal*, *International Business Review*, *Journal of Cleaner Production*, *Journal of Global Fashion Marketing and Journal of Fashion Marketing and Management*.

Matilde Milanesi Ph.D., is Postdoctoral Research Fellow at the University of Florence. She graduated in Economics and Management at the University of Florence, where she also received her PhD in Economics in 2015. She is also Lecturer of Marketing and Management at the University of Florence. She has been visiting researcher at the Centre for Science and Technology Studies, Department of Economic History, Uppsala University. Her research interests lie in the area of international business and international marketing, industrial marketing, buyer-supplier relationships, and luxury and fashion marketing. Her works are published in academic refereed journals such as *Journal of Business Research, Industrial Marketing and Management, International Marketing Review, Journal of Business & Industrial Marketing, Journal of Cleaner Production and Journal of International Management.*