Decision-makers’ risk perception in the internationalisation of small and medium-sized firms

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Abstract: This study examines the risk perception of decision-makers in small and medium sized enterprises (SMEs) and the factors underlying these perceptions in the process of internationalisation of their firms. While risk perception has been identified as a potential predictor variable in internationalisation research, very little work has been done exploring the factors and processes that shape decision-makers’ perception of risk. A qualitative interview-based approach was adopted by collecting data from 32 Danish SMEs operating in four different industries. Findings suggest that while risk awareness exists, decision-makers do not perceive internationalisation as risky behaviour. Findings highlight the importance of decision-makers’ background, including cognitive and psychological characteristics, such as self-efficacy and locus of control, and their experiences in explaining risk perceptions associated with firm internationalisation.

Keywords: risk perception; internationalisation; small and medium-sized firms; self-efficacy; locus of control; experience; decision-maker.


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Svetla Marinova is an Associate Professor of International Business at Aalborg University, Denmark, and received his MBA degree from Warwick University, UK and his PhD degree from Copenhagen Business School, Denmark. She has taught on both sides of the Atlantic, conducted extensive research, co-authored seven books and published more than 70 papers in scholarly journals.

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1 Introduction

How do decision-makers in small and medium sized enterprises (SMEs) doing business in foreign markets perceive the risks inherent in internationalisation? This question has hitherto been neglected in previous research despite the centrality of risk in internationalisation literature (Acedo and Jones, 2007; Liesch et al., 2011; Kraus et al., 2015). As a consequence, existing literature has been criticised for leaving the decision-maker underspecified and not well explored in extant theory (Maitland and Sammartino, 2015). In this article, we seek to address this shortcoming by providing empirical insights into how SME decision-makers perceive risks associated with SME internationalisation, including the factors that underlie these perceptions. The purpose of this study was therefore to explore the opinions of SME decision-makers when asked to evaluate the risk inherent in internationalisation. Thus, our study contributes to an area about which little is currently known, i.e., how decision-makers in themselves see risk in SME internationalisation.

Prior literature recognises that risk is an inherent part of doing business in foreign markets because of liabilities of foreignness, outsidership, and newness, and the uncertainties associated with venturing into unknown territories (Yuan et al., 2016; Hashai, 2011; Shrader et al., 2000). This is particularly true for SMEs that due to their limited size and financial resources have a reduced ability to absorb potential loss (Brustbauer, 2016; Child and Hsieh, 2014). Thus, in addition to providing advantages, internationalisation may also have negative effects on survival and growth (Fernhaber and Li, 2010; Puig et al., 2014; Mudambi and Zahra, 2007; Sapienza et al., 2006). Pursuing opportunities across national borders has therefore been referred to as ‘risk-seeking behaviour’ (McDougall and Oviatt, 2000). However, despite the considerable risk associated with seeking business in foreign markets, an increasing number of SMEs have actually ventured into foreign markets (Cavusgil and Knight, 2015; Oviatt and McDougall, 1994; Fan and Phan, 2007).

Understanding how decision-makers perceive the risks in SME internationalisation, including the factors underlying these perceptions, is important and can lead to a better understanding of internationalisation decision-making and internationalisation behaviour (Acedo and Florin, 2006). Risk perception is defined as a ‘decision-maker’s assessment of the risk inherent in a situation’ [Sitkin and Pablo (1992), p.12] and has been identified as potential predictor variable in internationalisation research. For example, decision-makers’ perception of risk in internationalisation has been shown to influence the willingness of SMEs to internationalise (Cavusgil and Naor, 1987), the timing of internationalisation (Acedo and Jones, 2007; Oviatt and McDougall, 2005), the operation modes used when entering and operating in foreign markets (Ahmed et al., 2002; Demirbag et al., 2010; Schwens et al., 2011) and the number of countries in which the firm is doing business (Kiss et al., 2013). Thus, the role of subjective interpretations and perceptions in shaping the internationalisation patterns of SMEs is now widely recognised and has caused a renewed interest in the individual’s role within the internationalisation process.

The remainder of the paper is structured as follows: We begin by defining risk and establishing the significance of risk in SME internationalisation, including factors influencing decision-makers’ perception of risk. Then we describe the methodology of
our study. Finally, we present and discuss the findings that lead to the contributions of this research and their implications.

2 Theoretical background

2.1 The concept of risk and risk perception

Risk is a difficult concept to define, since it encompasses many different meanings depending on the context in which it is being applied (Lumpkin and Dess, 1996). Janney and Dess (2006), for example, identified three different meanings of risk in the literature:

1. risk as variance
2. risk as downside loss
3. risk as opportunity costs.

Furthermore, managers have been found to have various interpretations of risk (Pablo, 1999), which are likely to be different from theoretic conceptions of risk (March and Shapira, 1987).

The concept of risk is closely related to outcome uncertainty (Sitkin and Pablo, 1992). Risk is only a factor in managerial decision-making because decision-makers cannot gain sufficient knowledge to predict the actual outcomes of their decisions (Renn, 1998). Thus, risk is associated with the possibility that an unexpected outcome may occur as a result of human actions. Whether risk refers to all unexpected outcomes, including positive or only negative ones, has been a point of discussion. While the classic conception of risk refers to all unexpected outcomes, managers seem to perceive risk in ways that conflict with this view (March and Shapira, 1987). Some authors argue that managers perceive risk not in terms of variance, but rather as downside loss, that is, the risk of the actual return being below the expected return (March and Shapira, 1987). This suggests that risk is about both likelihood and magnitude (Mullins and Forlani, 2005). Thus, Janney and Dess (2006) argue that the most appropriate definition of risk, from a managerial perspective, is “the likelihood and magnitude of downside loss, or hazards, as opposed to an overall variance of returns”. Against this background, risk is defined here as “potential instabilities and vulnerabilities faced by companies which impose limitations, restrictions, or even losses in international business” (Hsieh et al., 2010).

Firms operating across national borders are confronted by different uncertainties. Miller (1992) distinguishes between three types of uncertainty: environmental uncertainties, industry uncertainties and firm uncertainties. General environmental uncertainties include political uncertainties, government policy uncertainties, macroeconomic uncertainties such as interest rates and foreign exchange variability, social and natural uncertainties. Industry uncertainties comprise industry-specific elements and include input-market uncertainties, product-market uncertainties and competitive uncertainties resulting from the actions of competitors and product and process innovations. Firm uncertainties include operating uncertainties like production, labour and input supply issues, uncertainties about potential liabilities resulting from products and emissions of pollutants, uncertainties relating to research and development,
credit uncertainties and behavioural uncertainties. However, it is not clear which of these would or may be associated with risk.

2.2 Factors influencing decision-makers' perception of risk

Research on the factors and processes that shape decision-makers’ perceptions of risk in internationalisation is somewhat limited (Claver et al., 2008; Kraus et al., 2015; Liesch et al., 2011) despite findings suggesting that decision-makers’ perception of risk is a potential predictor variable in firm internationalisation (Acero and Jones, 2007; Kiss et al., 2013; Demirbag et al., 2010).

The goal of research on risk perception is to provide a clearer understanding of the ways in which individuals form (subjective) assessments about the risks they face (Wilkinson, 2001). Several academic disciplines provide insights into the potential factors influencing individuals’ risk perception, of which the two most dominant disciplines are psychology and sociology (Taylor-Gooby and Zinn, 2006). However, no widely accepted model of risk perception specifies what factors are related to risk perception and in what way (Hawkes and Rowe, 2008).

Within social science, risk perception has often been studied by adopting a cognitive perspective (Taylor-Gooby and Zinn, 2006). It assumes that individuals are bounded rational. This view is largely influenced by cognitive psychology, which focuses on the processes by which individuals think and make decisions arguing that perceptions of risk are conditioned and influenced by individual cognitive biases. To cope with constraints in cognitive capacity, individuals employ simplifying strategies and cognitive heuristics, that is, “cognitive shortcuts that emerge when information, time, and processing capacity are limited” [Bingham and Eisenhardt (2011), p.1439]. These heuristics are often quite useful and may result in more accurate judgements with less effort (Mousavi and Gigerenzer, 2014). However, these heuristics may also result in cognitive biases, which may cause decision-makers to either overestimate or underestimate risk (Barnes, 1984; Kiss et al., 2013). Thus, according to the cognitive perspective, differences in perceptions of risk, either between individuals or between groups of individuals, are considered a matter of cognition (Sjöberg, 2000).

One potential group of factors shaping decision-makers’ perception of risk is the psychological characteristics of decision-makers. In the context of SMEs, where decision-making is often centralised around a single decision-maker, the psychological characteristics of the decision-maker are likely to influence how they perceive the risks in internationalisation (Oviatt et al., 2004). This is consistent with the Upper Echelon Perspective in strategic management literature, according to which the decision-makers’ interpretation of the environment is largely determined by their psychological and observable characteristics (Hambrick, 2007; Hambrick and Mason, 1984; Cannella et al., 2010). For instance, the cognitive style of the decision-maker (i.e., how they gather and process information) is likely to influence his or her perceptions and ultimately his/her decision making (Wiersema and Bantel, 1992). Acero and Florin (2007) find that decision-makers with a rational cognitive style will perceive higher levels of risk when they gather and process information in pursuing international opportunities. In addition, their international orientation, that is, mental attitude regarding foreign expansion, is suggested as one of the significant determinants of perceived risk (Eroglu, 1992; Acero and Florin, 2006). High international orientation appears to foster
lower perceptions of risk in internationalisation, as internationally oriented decision-makers are likely to have high core self-evaluations (Hiller and Hambrick, 2005) and perceive themselves to have the abilities required to manage across borders (Piaskowska and Trojanowski, 2014). Consequently, decision-makers with an international orientation are more likely to proactively identify, create and capture international opportunities (Knight and Kim, 2008; Acedo and Jones, 2007).

Others mention the decision-makers’ tolerance for ambiguity, that is, the extent to which an individual is able to make decisions in uncertain and risky situations, as an important determinant of perceived risk. Decision-makers are more likely to associate international activities with less risk when exhibiting a higher tolerance for ambiguity and vice versa (Acedo and Jones, 2007). Kiss et al. (2013) suggest that risk perceptions of key decision-makers are influenced by their motives for internationalisation. Proactive decision-makers perceive internationalisation opportunities as less risky, while reactive decision-makers perceive internationalisation opportunities as riskier (Kiss et al., 2013).

A second group of potential factor shaping decision-makers’ perception of risk inherent in internationalisation is organisational characteristics. For instance, Acedo and Florin (2006) suggest that the firm profile, that is, its age, size and scope of national operations, act as a reference point and influence their perceived risk from international expansion. Larger firms are less vulnerable to potential negative outcomes when internationalising because they have more resources and therefore a higher capacity to absorb failure (Eroglu, 1992; Claver et al., 2008). Thus, decision-makers in older, larger and more established firms are likely to perceive lower levels of risk associated with internationalisation relative to decision-makers in new ventures. Furthermore, risk is perceived to be higher in the later stages of internationalisation, when more resources are committed to increase the level of internationalisation (Liesch et al., 2011; Claver et al., 2008). Others have argued that ownership may play a central role in explaining risk perceptions, arguing that the perception of risk is higher in family businesses relative to SMEs with different ownership structures (Claver et al., 2008). Similarly, family involvement in management has been identified as a factor leading toward caution in the internationalisation process (Bell et al., 2004; Kontinen and Ojala, 2012). Hence, the internationalisation of family businesses is typically described as cautious and slow, in order to avoid unnecessary risk (George et al., 2005).

3 Methodology

A qualitative approach was adopted in order to examine decision-makers’ perception of risk inherent in SME internationalisation and the factors underlying these perceptions given its strengths in understanding something from the subjects’ own perspective and to elicit their perceptions (Silverman, 2013; Das, 1983), including their perceptions of the risks (Bromiley et al., 2015). A qualitative approach can help identify different factors that are somehow related to decision-makers’ perception of risk and the cognitive processes related to their subjective assessment of risk (Hawkes and Rowe, 2008). Such research approach was considered useful considering the limited attention the topic has received in academic inquiry (Birkinshaw et al., 2011).
<table>
<thead>
<tr>
<th>Pseudonym</th>
<th>Sector</th>
<th>Year of establishment</th>
<th>No. of employees</th>
<th>Turnover (million DKK)</th>
<th>Export intensity</th>
<th>Products</th>
<th>Geographical scope* (global/regional)</th>
<th>Top export markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>AirCo</td>
<td>Manufacturing</td>
<td>1991</td>
<td>70</td>
<td>115</td>
<td>70%</td>
<td>Ventilation units</td>
<td>Regional</td>
<td>Germany, Holland, Sweden</td>
</tr>
<tr>
<td>GreenCo</td>
<td>Textile</td>
<td>1916</td>
<td>20</td>
<td>Confidential</td>
<td>80%</td>
<td>Underwear</td>
<td>Regional</td>
<td>Norway</td>
</tr>
<tr>
<td>CoolCo</td>
<td>ICT</td>
<td>1997</td>
<td>70</td>
<td>100</td>
<td>&gt; 95%</td>
<td>Liquid cooling systems</td>
<td>Global</td>
<td>USA, Europe, Japan</td>
</tr>
<tr>
<td>PrivateCo</td>
<td>Textile</td>
<td>1965</td>
<td>100</td>
<td>150</td>
<td>80%</td>
<td>Leather, fur and imitation of leather</td>
<td>Global</td>
<td>Scandinavia, Germany, Holland</td>
</tr>
<tr>
<td>PolyCo</td>
<td>Manufacturing</td>
<td>2000</td>
<td>60</td>
<td>60</td>
<td>90%</td>
<td>Joints and fittings</td>
<td>Global</td>
<td>N/D</td>
</tr>
<tr>
<td>BlueCo</td>
<td>ICT</td>
<td>2003</td>
<td>16</td>
<td>20</td>
<td>75%</td>
<td>Wireless technology</td>
<td>Global</td>
<td>Germany, UK, Sweden, Norway, Middle East</td>
</tr>
<tr>
<td>WashCo</td>
<td>Manufacturing</td>
<td>1843</td>
<td>60</td>
<td>Confidential</td>
<td>95%</td>
<td>Washing and handling systems</td>
<td>Global</td>
<td>Norway, Germany, USA</td>
</tr>
<tr>
<td>TechCo</td>
<td>Textile</td>
<td>1989</td>
<td>6</td>
<td>20</td>
<td>65%</td>
<td>Workwear</td>
<td>Regional</td>
<td>Germany, Scandinavia, Sweden, Faeroe Island and Greenland</td>
</tr>
<tr>
<td>DeliCo</td>
<td>Food</td>
<td>1986</td>
<td>100</td>
<td>220</td>
<td>12%</td>
<td>Food products</td>
<td>Regional</td>
<td></td>
</tr>
<tr>
<td>AccesCo</td>
<td>Textile</td>
<td>2003</td>
<td>12</td>
<td>31</td>
<td>40%</td>
<td>Fashion Accessories</td>
<td>Regional</td>
<td>Norway</td>
</tr>
<tr>
<td>MeatCo</td>
<td>Food</td>
<td>2001</td>
<td>40</td>
<td>175</td>
<td>90%</td>
<td>Food products</td>
<td>Regional</td>
<td>UK, Germany, Italy, Sweden</td>
</tr>
<tr>
<td>MicroCo</td>
<td>ICT</td>
<td>2001</td>
<td>18</td>
<td>22</td>
<td>95%</td>
<td>Software solutions for Microsoft Dynamics AX</td>
<td>Global</td>
<td>US, UK, and Australia</td>
</tr>
<tr>
<td>ShareCo</td>
<td>ICT</td>
<td>2003</td>
<td>15</td>
<td>20</td>
<td>90%</td>
<td>E-learning software</td>
<td>Global</td>
<td>USA, Benelux, Middle East, Australia and New Zealand</td>
</tr>
<tr>
<td>WindCo</td>
<td>ICT</td>
<td>2004</td>
<td>20-25</td>
<td>46</td>
<td>80%</td>
<td>Project management software</td>
<td>Global</td>
<td>Germany</td>
</tr>
<tr>
<td>GateCo</td>
<td>ICT</td>
<td>2001</td>
<td>10</td>
<td>Confidential</td>
<td>25%</td>
<td>Payment solutions</td>
<td>Regional</td>
<td>Sweden and Norway</td>
</tr>
<tr>
<td>AgriCo</td>
<td>Manufacturing</td>
<td>1967</td>
<td>35</td>
<td>50</td>
<td>85%</td>
<td>Machines for the agricultural, forestry and road sectors</td>
<td>Global</td>
<td>Sweden, Norway, Finland</td>
</tr>
<tr>
<td>Pseudonym</td>
<td>Sector</td>
<td>Year of establishment</td>
<td>No. of employees</td>
<td>Turnover (million DKK)</td>
<td>Export intensity</td>
<td>Products</td>
<td>Geographical scope* (global/regional)</td>
<td>Top export markets</td>
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<tr>
<td>TexCo</td>
<td>Textile</td>
<td>1851</td>
<td>69</td>
<td>246</td>
<td>92%</td>
<td>Furniture fabrics</td>
<td>Global</td>
<td>Germany, Sweden, Norway, France, Spain</td>
</tr>
<tr>
<td>FeedCo</td>
<td>Food</td>
<td>1992</td>
<td>75</td>
<td>335</td>
<td>75%</td>
<td>Protein products</td>
<td>Global</td>
<td>USA, Germany, Holland, Belgium, France</td>
</tr>
<tr>
<td>SmokeCo</td>
<td>Food</td>
<td>1929</td>
<td>19</td>
<td>21</td>
<td>80%</td>
<td>Food products</td>
<td>Regional</td>
<td>Italy, France, Spain</td>
</tr>
<tr>
<td>WorkCo</td>
<td>Textile</td>
<td>1923</td>
<td>16</td>
<td>45</td>
<td>50%</td>
<td>Workwear</td>
<td>Regional</td>
<td>Germany</td>
</tr>
<tr>
<td>LeviCo</td>
<td>Textile</td>
<td>1987</td>
<td>24</td>
<td>Confidential</td>
<td>75%</td>
<td>Women's garment</td>
<td>Regional</td>
<td>Sweden, Finland, Germany</td>
</tr>
<tr>
<td>DesignCo</td>
<td>Textile</td>
<td>1975</td>
<td>40</td>
<td>100</td>
<td>75%</td>
<td>Interior products</td>
<td>Global</td>
<td>Scandinavia, UK, Germany, Portugal, Spain, Italy, France</td>
</tr>
<tr>
<td>MixCo</td>
<td>Manufacturing</td>
<td>1993</td>
<td>20</td>
<td>20</td>
<td>75%</td>
<td>Mixers for food industry</td>
<td>Regional</td>
<td>Finland, Ireland</td>
</tr>
<tr>
<td>LogCo</td>
<td>ICT</td>
<td>1987</td>
<td>60</td>
<td>53</td>
<td>&gt; 80%</td>
<td>Software and Automation solutions</td>
<td>Global</td>
<td>Norway</td>
</tr>
<tr>
<td>CleanCo</td>
<td>Manufacturing</td>
<td>1964</td>
<td>155</td>
<td>375</td>
<td>N/D</td>
<td>Cleaning products, detergents and personal care products</td>
<td>Global</td>
<td>Sweden, Germany, Russia</td>
</tr>
<tr>
<td>DairyCo</td>
<td>Food</td>
<td>1984</td>
<td>250</td>
<td>600</td>
<td>95%</td>
<td>Food products</td>
<td>Global</td>
<td>Germany, Middle East, Balkans</td>
</tr>
<tr>
<td>FashionCo</td>
<td>Textile</td>
<td>1962</td>
<td>150</td>
<td>Confidential</td>
<td>70%</td>
<td>Light workwear</td>
<td>Regional</td>
<td>Germany</td>
</tr>
<tr>
<td>SailCo</td>
<td>Textile</td>
<td>1983</td>
<td>42</td>
<td>120</td>
<td>93%</td>
<td>Menswear and Womenswear</td>
<td>Regional</td>
<td>Germany</td>
</tr>
<tr>
<td>ShipCo</td>
<td>Manufacturing</td>
<td>1954</td>
<td>138</td>
<td>267</td>
<td>85%</td>
<td>Cable, rope-making equipment, offshore and composite solutions, and lighting</td>
<td>Global</td>
<td>China, Russia, USA, Thailand, Mexico</td>
</tr>
<tr>
<td>BuildCo</td>
<td>Manufacturing</td>
<td>1986</td>
<td>60</td>
<td>Confidential</td>
<td>96%</td>
<td>Spacers and window sealants</td>
<td>Global</td>
<td>Germany</td>
</tr>
<tr>
<td>MobileCo</td>
<td>ICT</td>
<td>1993</td>
<td>158</td>
<td>241</td>
<td>95%</td>
<td>Advanced wireless solutions</td>
<td>Global</td>
<td>USA</td>
</tr>
<tr>
<td>SourceCo</td>
<td>ICT</td>
<td>1999</td>
<td>25</td>
<td>Confidential</td>
<td>85%</td>
<td>Procurement software</td>
<td>Global</td>
<td>UK</td>
</tr>
</tbody>
</table>
Participants were selected by using ‘criterion sampling’ (Patton, 2002), where cases had to meet a set of predetermined criteria to be considered eligible. First, the firm had to be categorised as an SME, i.e., a firm with fewer than 250 employees. This is the most frequently used definition across OECD countries (OECD, 2005), and is also widely used in the literature (Galkina and Chetty, 2015; Moen et al., 2015; Agndal et al., 2008). Second, given that the purpose of this study was to examine how SME decision-makers perceive risk in internationalisation, all case companies had to be actively involved in international business.

Using a database containing information on all VAT registered companies in Denmark; a list of eligible cases that fulfilled our predetermined criteria’s was identified. Next, firms were contacted and asked if they were willing to participate in our study. This process continued until the point of saturation, which is often used to determine purposive sample sizes (Guest et al., 2006; Strauss and Corbin, 1998). In other words, data collection continued until no new information emerged during the interviews. In total, thirty-two cases from four different industries agreed to take part in our study. The key characteristics of all participating firms are described in Table 1.

As illustrated in Table 1, the sample is diverse in terms of industry, firm age, size, export to total sales ratio, and geographical scope. In addition, the participating firms represent both traditional and knowledge-intensive industries (Child and Hsieh, 2014). Finally, approximately half of the sample only had exporting to other European countries, while the other half of the sample was doing business in Europe and in countries outside Europe. Thus, the participating firms capture adequately the heterogeneity of the firm population in Denmark.

### 3.1 Data collection

Data were collected using semi-structured interviews, which is a particularly useful method when the purpose is to elicit individuals’ perception of risk (Hawkes and Rowe, 2008). When using interviewing, it is important to select key informants who have a thorough knowledge of the topic under consideration and have decision-making authority for the area in which one is interested. The informants used in this study were SME informants who occupied senior positions (Welch et al., 2002), including Owner-Managers, Chief Executive Officers, and VP of Sales. All interviewees therefore had an in-depth knowledge about their firms’ international operations, including how the internationalisation had developed over time, and they had direct impact upon the decisions related to the internationalisation strategy.

In total, 32 face-to-face interviews were conducted and each one lasted between one and a half and two hours. Prior to data collection, an interview guide containing a list of open-ended and structured questions were developed (see Appendix A). These questions were developed based on the research question and the literature review (Kvale and Brinkmann, 2009). This enhanced data reliability by ensuring that the same information was collected from all cases (Yin, 2009). The structured questions were designed to capture background information for classification purposes (e.g., firm size, age, export ratio, export ratio and current markets). In addition, a number of open-ended questions were designed to elicit the risk perceptions of the participants. These included questions about the main risks faced when doing business in foreign markets and whether these risks varied for different markets, the implications of these risks, and the actions
taken to deal with these risks. However, the interviewees were also allowed to move beyond the questions in the interview schedule if considered necessary (Alvesson, 2011).

To facilitate analysis and allow for a more thorough examination of the content of the interviews, all interviews were recorded and transcribed verbatim (McLellan et al., 2003). For reasons of anonymity, all company names have been replaced with pseudonyms.

3.2 Data analysis

For the purpose of analysing the data, thematic analysis was adopted, which involves the identification and coding of basic themes in the data (Braun and Clarke, 2006; Ritchie and Lewis, 2003; Guest et al., 2012). Data analysis proceeded in a sequence of iterative steps. As a first step in the analytic process, we made ourselves familiar with the data by reading and re-reading the interviews in order to get a holistic overview (Ritchie and Lewis, 2003). During this process, we looked specifically to identify statements related to the decision-makers’ subjective assessment of risk inherent in firm internationalisation (Guest et al., 2012). These were coded using structural codes, in order to identify the data most related to our research question (Saldana, 2013). This resulted in the identification of large segments of text related to the participants’ subjective assessment of the risks faced in internationalisation. Next, data were analysed more in-depth using a combination of inductive and deductive coding techniques (DeCuir-Gunby et al., 2011). Thus, while theoretical-driven coding ensured that our analysis was theoretically informed, the data-driven inductive coding ensured that we remained open to what was in the data (Roulston, 2013). Finally, the data were coded for causal and intervening conditions by looking for words that cue relations such as ‘since’, ‘due to’, ‘when’ and ‘because’ (Strauss and Corbin, 1998). By doing this, it was possible to make a ‘conceptual leap’ and enrich our understanding of how SME decision-makers form judgements about the risks in firm internationalisation (Klag and Langley, 2013).

Table 2  Overview of variability in risk perception

<table>
<thead>
<tr>
<th>Perceived level of risk</th>
<th>Supporting quotes</th>
</tr>
</thead>
</table>
| High                    | “Definitely! Internationalisation is very risky. Our customers are struggling and many are forced to go out of business. So it’s extremely risky.” (Owner-manager, LeviCO)  
“If you are not capable of delivering reliable products that live up to the expectations of the customers in foreign markets, it can have fatal consequences for the firm and threaten its survival.” (CEO, AirCO) |
| Moderate                | “Well of course there is some risk. For instance, you have exchange rate risk. But in general I only see advantages. Internationalisation enables you to spread your risks across multiple markets” (Owner-manager, PrivateCO) |
| Low                     | “I do not really see any risk associated with internationalisation. I would rather see it as a challenge” (Sales director, AgriCO)  
“I would never see internationalisation as a risk. I would rather see it as a challenge. But we don’t have any risk” (Director of Operations, SourceCO) |
4 Findings

4.1 Perceived risk of doing business in foreign markets

To elicit the decision-makers’ risk perceptions, they were asked to discuss their assessment of risk inherent in internationalisation, including the main types of risk faced. When looking across all participants in the study, significant diversity and range in decision-makers’ subjective assessment of risk was noted (see Table 2). While some of the decision-makers, in line with scholars and other experts, regarded internationalisation as a risky strategy to pursue, others seemed oblivious to the risk inherent in internationalisation and refused to acknowledge or accept the element of risk in internationalisation. Thus, our findings show that those who are involved in these activities do not always perceive international business as risky.

During the interviews, we asked the decision-makers about the main risks their companies faced in doing business in foreign markets. We found that the decision-makers associated internationalisation with a number of endogenous (i.e., internal) and exogenous (i.e., external) risks. Thus, even if many decision-makers were aware that doing business in foreign markets was accompanied by elements of risk, there was no consensus about what these risks were. The exogenous risks include unexpected outcomes as a result of lack of understanding about cultural differences, currency fluctuations, government actions or opportunistic behaviour by foreign partners or customers. Endogenous risks, on the other hand, include unexpected outcomes as a result of resource-related issues, product-related issues or poorly executed strategic decisions. The majority of the decision-makers’ demonstrated awareness of exogenous risks, whereas only half of them referred to endogenous risks during the interviews.

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description</th>
<th>No. of mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exogenous</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural risk</td>
<td>Unexpected outcomes as a result of a lack of understanding about cultural differences (Hain, 2011)</td>
<td>9</td>
</tr>
<tr>
<td>Financial risk</td>
<td>Unexpected outcomes as a result of currency fluctuations (Jacque, 1981)</td>
<td>7</td>
</tr>
<tr>
<td>Political risk</td>
<td>Unexpected outcomes as a result of government actions (Bekaert et al., 2014)</td>
<td>8</td>
</tr>
<tr>
<td>Relational risk</td>
<td>Unexpected outcomes as a result of others opportunistic behaviour (Das and Teng, 2001)</td>
<td>10</td>
</tr>
<tr>
<td><strong>Endogenous</strong></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Commercial risk</td>
<td>Unexpected outcomes as a result of poorly developed or executed strategies, tactics or procedures</td>
<td>7</td>
</tr>
<tr>
<td>Product-related risk</td>
<td>Unexpected outcomes as a result of product-related issues, including issues related to product quality</td>
<td>3</td>
</tr>
<tr>
<td>Resource-related risk</td>
<td>Risk that the adopted strategy will require resources that the firm does not have, cannot acquire, or cannot spare (Ghoshal, 1987)</td>
<td>10</td>
</tr>
</tbody>
</table>
We examined the data for comparative differences between subgroups in our sample in terms of risk perceptions. While there were numerous reasons to suspect that firm size would influence the risk perceptions, no comparative differences were found between decision-makers in small (i.e., less than 50 employees) and medium-sized firms (i.e., more than 50 employees). Furthermore, no comparative differences were found between decision-makers in SMEs exporting to other European countries and SMEs exporting to countries outside Europe. Many of the decision-makers in SMEs with a global orientation also considered the risk inherent in internationalisation to be low, or even non-existing. Thus, our findings do not indicate that geographical scope influences decision-makers’ risk perception. This is in line with recent claims that many decision-makers in born global firms are in fact ignorant of the potential risk inherent in such a strategy (Liesch et al., 2011).

While a few of the SMEs exporting to other European countries shared the viewpoint that internationalisation was a risky strategy that could have significant negative impact on firm growth and survival the majority assessed the risks associated with internationalisation to be low or non-existing. This was also true for the SMEs exporting to countries outside Europe. In contrast, we found comparative differences between decision-makers in SMEs in terms of the types of risk associated with internationalisation. Decision-makers in small firms were generally found to be more aware of and concerned about financial and resource-related risks. In contrast, decision-makers in medium-sized firms were more concerned about exogenous risks, in particular potential political risks.

Finally, we found that industry was related to differential attention paid to various types of risk. For example, our data showed that decision-makers in manufacturing SMEs were more attentive to exogenous risks, including financial and political risks. In contrast, it was only decision-makers in textile companies that demonstrated a concern for relational and strategic risks, while decision-makers in ICT firms were concerned about resource risks, relational, and cultural risks. This suggests that industry context may influence the risk perceptions of decision-makers by shaping their attention focus.

4.2 Factors influencing risk perceptions

During our analysis, we identified a number of factors that seemed to increase individuals’ perception of risk, in this case, their perception of the risk associated with doing business in foreign markets. Our findings suggest that psychic distance is one of the main drivers of risk perception among decision-makers. By psychic distance, we refer to “the perceived difference between the characteristics of a firm’s domestic environment and those of a foreign country” [Child et al. (2009), p.200]. Ghemawat (2001) and Johanson and Vahlne (1977) argue that distance may originate from differences along cultural, administrative, geographic and economic dimensions. During the interviews, decision-makers explained how different dimensions of distance affect their perception of risk in internationalisation. First, the geographic distance was found to influence decision-makers’ perception of risk. As explained by the CEO in DesignCo: “When you have outsourced your production it becomes more difficult, simply because of the distance”, whereas another informant stated, “If you start receiving complaints from customers far away, it can seriously threaten the survival of the company” (AirCo). Thus geographic distance appears to introduce friction and complexity to cross-border
activities, making it more difficult for SMEs to manage their activities or respond to customer concerns overseas.

Distance also has cultural, administrative or political, and economic dimensions that can have a significant impact on the decision-makers assessment of risk. The factor most often referred to by the interviewed decision-makers was related to cultural distance, that is, the perceived differences in norms and values between the firm’s home country and foreign countries. Increased cultural distance was often associated with an increase in perceived risk. Lack of understanding regarding cultural norms and values was seen to increase misunderstandings and thus make it more difficult for companies to conform to these norms and values. Differences in language were also mentioned as a source of risk by a number of informants for many of the same reasons as mentioned above. The CEO of DenimCo, whose primary activities include designing, producing and selling fashion wear, explains how the Russian market is considered riskier compared to some of their other markets. He states, “It would be very difficult for us to do things differently in Russia because you don’t speak the language and they don’t speak English or German or whatever”.

Another factor that was often mentioned by the interviewees was related to differences in country characteristics, including the political system, institutional conditions, business environment and practices. For instance, the perception of risk increased when the political and institutional conditions were poorly developed or even corrupt: “Corruption seems to be an immanent risk and we have actually decided not to pursue any business in Russia because of corruption. When we started in Russia, we quickly faced some people who wanted money” (MobileCo).

Experience was also found to have an impact on decision-makers’ risk perceptions. Experience may act as a filter or heuristic used to evaluate and prioritise the multitude of risks faced. Experience that individuals and firms accrue from operating internationally, is also a key concept in explaining firm internationalisation in extant literature (Clarke et al., 2013). Experience is seen as leading to experiential learning, which in turn, decreases perceived uncertainty and increases commitment to, and knowledge of, international markets (Michailova and Wilson, 2008; Johanson and Vahlne, 1977; Forsgren, 2002). Thus it can be expected that international experience decreases perceived risk (Figueira-de-Lemos et al., 2011). Our findings show that individuals who have not experienced negative or unexpected outcomes when doing business in foreign markets are more likely to believe that capturing international opportunities is unlikely to have detrimental consequences for the firm and, therefore, their risk perception decreases. However, while experience in some situations led to perceptions of lower risk, the opposite was also true. In some cases, previous experience intensified decision-makers’ perception of risk. For instance, those who had previously experienced unexpected outcomes or losses when engaging in international business were more likely to accept that internationalisation involves risk. To give a couple of examples, the decision-maker in MobilCo stated: “In Russia we decided not to start anything. We did a bit of investigation and we ran into some people, who wanted money. Corruption seemed to be an immanent risk”, while another one stated, “You quickly realise that there are huge differences. What I mean is that I have experienced this in my previous job. Huge differences in the way that people react in different business situations” (GreenCo).

By contrast, managers’ risk perception seemed to decrease if the SME has been spared from suffering losses or unexpected outcomes when engaging in international
business: “Historically speaking, the company has had relatively few losses on debtors and the risk of a significant loss on all receivables is considered to be limited” (MobileCo). Thus, direct positive experience is a strong factor in risk perception.

However, managers were also learning about risks through indirect experience. For instance, knowing someone who has had an unpleasant experience from engaging in international business makes it easier for individuals to see risk in international expansion. For example, the informant from TechniCo explained how his knowledge of others who have suffered adverse outcomes from expanding into certain foreign markets has intensified his awareness of these risks: “There are so many who have gone over the edge, which is why we’re very reluctant to go there”. Hence, through third-party experience, managers may also learn about risk implications of internationalisation. This means that previous experience, either direct or indirect, may distort perceptions of risk, by either intensifying or diminishing perceived risk, depending on the type of experience. While direct experience may increase awareness and acceptance of risk, not having experienced negative or unexpected outcomes from previous international experience may lull the manager into a false sense of security.

SME decision-makers’ core self-evaluations were also found to have an impact on their perceptions of risk and act as risk-relievers. Core self-evaluation is a psychological construct that defines how individuals evaluate themselves and their relationship with the environment (Hiller and Hambrick, 2005). Our findings associate two aspects of core self-evaluation – internal locus of control and self-efficacy, with lower perceptions of risk. SME decision-makers with an internal locus of control have a stronger sense that they can control their environment and assume that risk can be reduced by using their skills. As decision-maker of a company producing accessories articulates, “If you have done your homework diligently, selling products in foreign markets doesn’t translate into higher risk”, while another CEO argued “I would never see internationalisation as a risk. I would see it as a challenge”.

By contrast, SME decision-makers with an external locus of control, meaning that they perceive the outcome of their decisions to be outside their control, or perceive themselves as ill-equipped to achieve the expected outcomes, had a tendency to experience negative emotions, such as anxiety and fear, and perceived a higher degree of risk associated with internationalisation.

Whereas locus of control refers to a person’s belief that he or she can influence the environment, self-efficacy is a belief in one’s own ability to perform a given task (Wood and Bandura, 1989). Our findings indicate that perceptions of self-efficacy play an important role in forming SME decision-makers’ perceptions of risk in internationalisation, by affecting their sense of power over decision outcomes. In other words, the perception of self-efficacy also led SME decision-makers to believe that if they do their part of the job, they will achieve the expected outcomes of their decisions. For example, the CEO of AirCo commented, “I would say that we have been lucky and skilled, which is why we have been able to identify and correct errors when expanding into foreign markets, but that is primarily because we have taken certain decisions and precautions”. Thus, those SME decision-makers who perceived the outcomes of their decisions related to internationalisation to be determined by their own abilities and who had confidence in themselves and their abilities perceived lower levels of risk in internationalisation.
4.3 Impact of perceived risk on firm internationalisation

The final major theme identified in the study was related to the link between risk perceptions and actions in relation to firm internationalisation. In line with existing research, our findings suggest that perceived risk influences strategic decisions, including those on internationalisation.

Our findings from the interviews suggest that, to a certain extent, the managers consider risk to be a constraining factor in the internationalisation process. The interviewees were generally characterised by a low propensity to take risks. Thus, unless risk was considered sufficiently low, these decision-makers would refrain from capturing or exploiting international opportunities. For instance, the CEO of CleanCo stated, “We are very conservative. We don’t throw ourselves into something that could threaten our existence. So we don’t take any kinds of risk, when expanding our business internationally … this can of course constrain our growth … this is of course very unfortunate, when we can see that the market is already there.”

Similarly, the CEO of MariCo argued, “Overall we don’t take any risk. That’s something time has taught us”. In addition to constraining growth, perceptions of risk can also lead to de-internationalisation, that is, “shifts to a strategic configuration that has a lower international presence” [Turner (2012), p.92]. If a manager becomes aware of potential risks or experiences unexpected outcomes in a foreign market where their firm is already active, he or she may decide to withdraw from that market (Miller, 1992). Thus, our findings suggest that managerial perceptions of risk may hinder or inhibit firm internationalisation or even cause the firm to de-internationalise, by withdrawing from markets in which the company is already active. Accordingly, perceived risk constitutes a major perceptual barrier to SMEs’ internationalisation.

5 Discussions

In the following section, we discuss the main findings of the study in terms of their importance and meaning and contrast them with extant literature to identify any discrepancies or unexpected findings.

While internationalisation creates opportunities for SMEs, it arguably also comes with considerable risks, particularly for SMEs (Lu and Beamish, 2001; Fernhaber and McDougall-Covin, 2014). Interestingly, our findings suggest that while internationalisation is generally recognised as a risky strategy in the literature, many of the participating decision-makers did not share this view. While the majority of decision-makers did demonstrate awareness of potential risks accompanying internationalisation, a noteworthy proportion of the decision-makers’ seemed oblivious to the potential risks when doing business in foreign markets. Thus, our findings challenge existing literature and provide an alternative explanation for what makes SME decision-makers act upon international opportunities.

SME decision-makers venturing into foreign markets have often been portrayed as proactive risk-seekers who have a preference for risk. By contrast, our findings suggest that the capture of international opportunities may rather be the outcome of lower levels of perceived risk. This is in line with emerging research in entrepreneurship, which challenges the basic idea that entrepreneurs have a higher risk propensity, even
concluding that entrepreneurs, to a certain extent, are risk avoiders (Miller, 2007; Miner and Raju, 2004). Similarly, Janney and Dess (2006, p.386) warn against using objective entrepreneurial action as a proxy for risk propensity because “an action may appear risky to an established firm; however, in an entrepreneurial context it might actually prove less so. An entrepreneur who accepts such risks will appear to be accepting greater levels of risk relative to their more established counterparts, even though the entrepreneur does not perceive this greater risk”. Apparent risk-seeking behaviour, as in internationalisation, may then be illusory when considered at the level of the individual decision-maker perceptions (Liesch et al., 2011). Hence, in accordance with Sommer (2010), we believe that future studies could benefit by shifting focus from ‘risk propensity’ to ‘risk perception’.

Second, our findings identified a number of potential factors influencing decision-makers’ perception of risk. Our findings suggest that risk perception in internationalisation is influenced by a number of factors, some of which increase perceptions of risk, while others reduce perceptions of risk. In line with existing research on decision-makers’ assessments of risk inherent in internationalisation, our findings suggest that the notions of risk are influenced by psychological characteristics of the individual decision-maker (e.g., Acedo and Jones, 2007; Kiss et al., 2013). First, psychic distance appears to be a primary driver of risk perception. In general, greater psychic distance appears to be associated with greater perceived risk. This seems to be a plausible explanation in light of previous studies. First, behavioural theorists conclude that distance creates uncertainty (Makino and Tsang, 2011), while uncertainties increase risk (Aven and Renn, 2009). Second, cultural distance has been proposed as one of the greatest sources of risk and uncertainty in the international business context due to its tacit nature (Erramilli and D’Souza, 1995; Anderson and Gatignon, 1986). Third, previous research suggests that distance increases the challenge of achieving and sustaining successful cross-border activities, by introducing friction (Shenkar et al., 2008) and complexity (Vermeulen and Barkema, 2002) to cross-border activities.

In addition to distance, risk perceptions appear to be influenced by the psychological traits of the decision-maker. Results indicate that self-confidence, internal locus of control, and high self-efficacy are all risk-relievers. Locus of control has previously been successfully related to variations in managerial perceptions of organisational risks (Smallman and Fischbacher-Smith, 2003). Individuals having an internal locus of control are likely to have a stronger sense of control in relation to their surroundings and therefore a tendency to perceive relatively low personal and general levels of risk compared to individuals with an external locus of control (Kallmen, 2000). Others have found that individuals tend to underestimate risks that are perceived to be under their control (Nordgren et al., 2007). Self-efficacy has also previously been found to influence individuals’ perception of risk (Kallmen, 2000). Self-efficacy is considered an important concept in understanding variations in risk perception, given that it concerns individual’s sense of control and is considered a reflection of uncertainty (Smallman and Fischbacher-Smith, 2003). Without a strong belief in one’s own abilities, many situations may appear risky, while individuals with a strong sense of self-efficacy have more confidence in their own abilities to control and reduce perceived risks (Sheeran et al., 2014). Accordingly, it seems plausible to propose that differences in perceived risks in internationalisation are, to some extent, due to differences in locus of control and self-efficacy.
Finally, our findings underscore the importance of international experience in explaining managerial assessments of risk in the internationalisation of SMEs. Our findings show that international experience affects how managers perceive risks, by acting as a filter or heuristic used to evaluate and prioritise the multitude of risks faced. This is in line with previous studies, where it has been argued that decision-makers may learn about the implications of environmental contingencies through experience (Miller, 2009). Through (international) experience, decision-makers may learn to attend certain environmental factors, while ignoring or neglecting others (Ocasio, 1997). Perceived levels of risk increase if risk has been experienced or can be readily imagined (Kahneman et al., 1982). Previous experience may therefore distort perceptions of risk, by either intensifying or diminishing perceived risk, depending on the type of experience. Hence, our findings support the arguments of Liesch et al. (2011, p.858) who argue that history may be an important factor influencing decision-makers’ perceptions about risks by providing a frame of reference.

Finally, our findings suggest that risk is most often considered a constraining factor hindering firms’ ability to capture opportunities in foreign markets. Results show that the evaluation of international opportunities is, to a certain extent, influenced by the decision-makers’ perceptions of risk; that is, SME decision-makers consider international opportunities less attractive when the perceived level of risk is high and vice versa. These findings are consistent with a number of previous studies. For instance, Acedo and Florin (2006) found that SMEs were more committed to internationalisation and increased their involvement in foreign markets when managers perceived lower levels of risk associated with foreign activities. Similarly, Kiss et al. (2013) found that the international scope of SMEs increases when SME management perceive lower levels of risk. Thus, in order to understand what promotes or constrains internationalisation in SMEs, it is important to understand how SME decision-makers evaluate international opportunities and the role of risk perceptions in that process.

6 Conclusions

Solving the theoretical puzzle of why some SMEs and not others capture international opportunities and why some SMEs internationalise more aggressively than others has long intrigued international business researchers. Our research contributes to this body of literature and builds on the cognitive perspective in the internationalisation of SME literature by focusing explicitly on the decision-makers’ risk perceptions.

From a practical perspective, our findings suggest that decision-makers in SMEs either seeking to do business in foreign markets or already involved in international business may need a better understanding of the risks in internationalisation. Further, our findings indicate that decision-makers should be aware that their perceptions of risk might be inaccurate and biased. Thus, when making sense of foreign markets, decision-makers should make some effort in order to identify, assess, and monitor the risk inherent in internationalisation. This is important for decision-makers in SMEs with international operations or ambitions because being aware of risks related to international business, including potential inaccuracies in their own subjective assessment of risk, is a prerequisite for taking precautionary actions and safeguard against potential loss. Thus, while ignorance may provide decision-makers with a perceptual barrier that protects them...
from the harsh realities of international business, it also refrains them from taking precautionary actions to reduce these risks. Equally, an overestimation of risks in internationalisation inhibits firms’ internationalisation quest and increases the risk of overlooking or dismissing attractive opportunities (Mullins and Forlani, 2005; Dickson and Giglierano, 1986).

While this study addresses an important void in the existing literature and provides insight into SME internationalisation in terms of the sources and implications of risk perception for SME internationalisation, it has several limitations, which represent promising avenues for future research. First, because our study deals only with a limited number of cases, which have been selected for theoretical rather than statistical reasons, our empirical results have limited statistical generalisability (Yin, 2009; Tsang, 2014). In order to generalise our findings to a wider population, future research should explore a larger sample of randomly selected SMEs. In addition, future research should focus on examining how SMEs manage and cope with their concerns about perceived risk, however substantial, in order to identify and exploit international opportunities. Prior literature recognises that risk must be deemed sufficiently low for international involvement to proceed, while the ability of SMEs to internationalise in the face of risk is partly explained by their ability to reduce this risk, by taking precautionary actions (Liesch et al., 2011).

Finally, given that the sample only includes Danish decision-makers, it was impossible to examine the role of culture in their perceptions of risk. It has been argued that individuals’ assessment of risk is and remains context bound and that individuals’ perception of risk can only be understood against the background of their embeddedness in a sociocultural background (Gephart et al., 2009; Douglas and Wildavsky, 1983; Taylor-Gooby and Zinn, 2006). Hence, future research may seek to adopt a risk perception-in-context dimension, in order to examine how cultural differences might add to our understanding of the factors influencing decision-makers’ risk perception in internationalisation.

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References


Decision-makers’ risk perception in the internationalisation


Appendix A: Indicative interview guide

Background information
1. When and how was this company founded?
2. What is the company’s ownership?
3. What is the company’s present size: total employment, sales turnover?
4. What products or services does the company offer?
5. What are the company’s core strengths?
6. What is the percentage of your company’s sales revenues coming from overseas markets?
7. Which foreign market is the largest source of international sales income for this company?

Internationalisation process
8. When did your company first make any sales abroad?
9. How did your international business develop over time? (Countries involved, products/services supplied, entry modes used)
10. What are the main reasons for entering foreign markets?
11. Overall, what have been the benefits of internationalising?

Risk perception
12. What are the main risks you face in doing business in foreign markets?
13. Do these risks vary for different markets?
14. What are the (cost) implications of these risks?
15. How do you deal with these risks?