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## **Effectual networking during the internationalization process of SMEs**

### **ABSTRACT**

We explore previously discarded phenomena in the internationalization process literature, namely non-predictive logic of foreign market entry. We use effectuation theory as a new lens to examine how small and medium size enterprises (SMEs) network during their international expansion. We develop a conceptual framework by showing similarities and differences of how the network concept is used in the revisited Uppsala model from the International Business literature and in effectuation theory from the entrepreneurship literature. This comparison shows that the underlying assumptions of the network concept relating to trust, risk, uncertainty and coordination are essentially different in these two research streams. Consequently, we identify how effectuation theory can capture the unintentional aspect of networking by internationalizing SMEs. Our research design is a multiple-case study approach. We found that entrepreneurs network with all interested partners instead of carefully selecting international partners according to pre-defined network goals. Entrepreneurs who network effectually enter markets wherever an opportunity emerges to commit to a network relation which will increase their means. Hence, the network relations determine which foreign markets the firm enters rather than vice versa. An implication for entrepreneurs in internationalizing firms is that their networks need not necessarily be planned, structured and coordinated.

**Key words:** international SMEs; internationalization; effectuation; networks; international entrepreneurship.

### **INTRODUCTION**

A large stream of research in International Entrepreneurship (IE) focuses on the importance of network relations for successful foreign expansion of small and medium enterprises (SMEs) (e.g., Chetty & Holm, 2000; McDougall & Oviatt, 2000; Jones, Coviello & Tang, 2011). Numerous scholars suggest that strategic selection of suitable partners provides internationalizing firms with various tangible and intangible resources (e.g., Coviello & Munro, 1995; Oviatt & McDougall, 1994). These scholars propose that partner selection follows the country choice and is made as a purposeful response to the objective information gathered about foreign network structures.

In contrast, another stream of research provides evidence that the internationalization process often lacks strategic reasoning mainly because the relationship component makes this process non-rational (e.g., McDougal, 1991; Welch & Welch, 1996; Ellis, 2000). By using predictive rationality concepts, these studies do not go further than just admitting the existence of this phenomenon and describing it in terms of ‘boldness in decision making’ (Moen & Servais, 2002: 59), ‘chance’, ‘serendipity’, ‘coincidence’ (Meyer & Skak, 2002), ‘random’, ‘opportunistic’, ‘non-systematic’, or ‘ad-hoc’ internationalization that is treated as ‘deviant case’ and ‘anomaly’ (Ellis, 2000). Since the evidence of such non-rational internationalization is increasing it cannot be dismissed as abnormal but needs different theories to explain the phenomenon.

One approach that can be used to explain this phenomenon is the effectuation theory introduced by Sarasvathy (2001; 2008). It provides an alternative logic of reasoning which differs from predictive rationality. Instead of goal-oriented reasoning of causal rationality, effectuation suggests a means-driven logic that goes beyond predicting an uncertain future (Sarasvathy, 2001). Effectuation approach has been developing steadily within entrepreneurship theory during the past decade. It is still developing as a theory and has not yet been applied to explain internationalization of SMEs. Thus, in our study we aim to use

effectuation logic as a new lens to examine how SMEs use networks during their internationalization to explore the above stated ‘anomalies’. Since the revisited Uppsala model (Johanson & Vahlne, 2009) emphasizes the central role of networks during the internationalization process we compare it with effectuation. We highlight the differences relating to how networks are perceived in both theories and how effectuation can complement the Uppsala model (2009). We intend to contribute to the development of IE by integrating the effectuation approach from Entrepreneurship research and the revisited Uppsala model from International Business. Therefore, this article responds to a call for ‘fresh ideas and questions that might extend understanding of IE as a phenomenon, and incorporate perspectives from other disciplines...’ (Jones & Nummela, 2008: 350).

## 1. THEORETICAL BACKGROUND

### 1.1. Network concept in the revisited Uppsala model

In the initial Uppsala model, Johanson and Vahlne (1977) focus on market knowledge and commitment to that market. The rationale is that as firms gain more knowledge about a foreign market they commit more resources to that market. Firms have predefined goals as they initially start internationalizing in countries that have close psychic distance and then gradually as they gain market knowledge they progress towards more distant markets. The mode that firms use in internationalization also progresses towards more resource commitment. Firms start with ad hoc exporting and then replace this with their own sales subsidiary and eventually foreign direct manufacturing.

In their later work, Johanson and Vahlne (2003: 93) acknowledge the increasing role of network relations in internationalization process; they maintain that, a network perspective on internationalization deals only with the managerial problems of building and developing relations with network actors; therefore, it is nothing but ‘a general expansion of a business firm’. Entry barriers are not associated with country specific borders but are related to new contacts establishment and their exploitation (Wright & Dana, 2003). Furthermore, in the revisited Uppsala model, Johanson and Vahlne (2009) show that barrier to internationalization no longer deal with the psychic distance and liability of foreignness but rather are associated with the network position in foreign market and liability of outsidership. Internationalization is the process of embedding into a corresponding network structure of a foreign market and gaining insider position in it. As Johanson and Vahlne (2009: 1411) state, ‘Insidership in relevant network(s) is necessary for successful internationalization, and so by the same token there is *liability of outsidership*’. This discussion about insidership and outsidership infers a form of network boundary.

The underlying logic of the revisited Uppsala model is **bounded rationality** (Johanson and Vahlne, 2009: 1412), which implies that an individual’s ability to make optimal or at least satisfactory decisions is limited by the cognitive limitations of their minds and environmental conditions of information isotropy and lack of resources (Simon, 1957; 1991).

Building on this logic, the network relations in the revisited Uppsala model can be characterized by the following features. First, according to Johanson and Vahlne (2009: 1425), **trust** in network relations is important for the internationalization process. Second, the authors state that one purpose of establishing network relations during internationalization is **risk** management; although risks cannot be avoided, they can be reduced (p. 1418), and ‘entrepreneurs, or at least successful ones, supposedly calculate risk carefully and try to avoid unnecessary risks’, (p. 1422). Third, network outsidership is the root of **uncertainty** and, therefore, it should be overcome through creating new relations, strengthening the existing ones, building trust in them and learning about partners (p. 1411, 1423). In general, the authors admit that their model is an uncertainty reduction model (p. 1422). Fourth, the network relations in the revisited Uppsala model are controllable and manageable. As stated

by Johanson and Vahlne (2009: 1416, 1426): ‘international business network **coordination** will become increasingly important phenomenon with strong implication for firm-specific advantage as well as for internationalization’. This coordination is achieved by beneficial **network position**, which becomes the key aspect of the revisited Uppsala model.

## 1.2. Effectuation approach and networks

The goal-driven and predictive logic of reasoning is called causation by Sarasvathy (2001) and is opposed to non-predictive logic called effectuation. Causation and effectuation are the constitutive parts of entrepreneurial reasoning, and they are constantly present in all entrepreneurial activities (Sarasvathy, 2001; 2008). In this dichotomy, ‘causation processes take a particular effect as given and focus on selecting between means to create that effect. Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means’ (Sarasvathy, 2001: 245).

Effectual action follows several principles. First, it implies *means-driven as opposed to goal-driven action*. It starts with addressing the means components that constitutes; ‘Who I am’ (Identity), ‘What I know’ (Knowledge) and ‘Who I know’ (Networks) (Sarasvathy, 2001: 253; Wiltbank, Dew, Read & Sarasvathy, 2006: 991; Read, Dew, Sarasvathy, Song & Wiltbank, 2009: 4). With a set of means, an entrepreneur focuses on generating new ends, which contrasts with causal logic which starts by defining the end goal and then searching for the means to achieve this goal. Second, effectuation is driven by *leveraging contingencies as opposed to exploiting pre-existing knowledge*. Instead of avoiding uncertainties, positive or negative, effectual entrepreneurs follow the principle of leveraging by being open to unexpected outcomes that can be transformed into new opportunities (Sarasvathy, 2001: 252). By turning unexpected events into opportunities, entrepreneurs control the emerging situation, and uncertainty is perceived as a resource rather than as a disadvantage (Sarasvathy, 2008: 89-90). Third, effectuation proposes *affordable loss as opposed to expected returns*. Instead of calculating the predicted return from an investment, which implies knowing the amount of future sales and possible risks, effectual entrepreneurs only assess how much they can afford to lose in the worst-case scenario (Sarasvathy, 2008: 81). Therefore, they do not need to predict the future to the extent that they can control it (Sarasvathy, 2001: 252; Dew, Read, Sarasvathy & Wiltbank, 2009: 293; Read Dew, Sarasvathy, Song & Wiltbank, 2009: 3). Finally, effectual action favors *partnership as opposed to competitive analysis*. Instead of conducting extensive and expensive research of pre-selected markets, effectual entrepreneurs work jointly with all interested stakeholders; ‘be they early partners, customers, suppliers, professional advisors, employees, or the local communities’ (Sarasvathy & Venkataraman, 2011: 126). Through these interactions, they co-create the structure of a new venture, define what markets to enter or what new market to create (Sarasvathy, 2001: 252; Read & Sarasvathy, 2005; Dew, Read, Sarasvathy & Wiltbank, 2011). Overall, effectuation is not positioned as ‘better’ logic of reasoning but as more applicable in situations of uncertainty and dealing with spheres of human action (Sarasvathy, 2001: 249; Wiltbank, Read, Dew & Sarasvathy, 2009) such as networks.

As shown above, network relations of entrepreneurs represent one of the central aspects of the effectual process. Effectuation scholars introduce the notion of *effectual networks* that are composed of various stakeholders committed to the new venture creation and sharing possible risks (Sarasvathy & Dew, 2005: 542; Read, Song & Smith, 2009: 574). Instead of having a specific goal to drive their partner selection, entrepreneurs network with all interested actors in order to have more means for opportunity discovery (Wiltbank et al., 2006: 992; Wiltbank, Read, Dew & Sarasvathy, 2009: 117). Sarasvathy and Dew (2005: 548) indicate that effectuation as a characteristic of entrepreneurial relations prevail during the early stages of

venture development and later on as an effectual network grows and includes more partners and available resources, it becomes more goal-oriented.

### **1.3. Some similarities in the revisited Uppsala model and the effectuation theory**

Johanson and Vahlne (2009: 1423) indicate that the revisited Uppsala model is consistent with the entrepreneurial theory of effectuation proposed by Sarasvathy (2001, 2008). In this paper we see several commonalities of the two theories. First, internationalization resembles the entrepreneurial process and is related to risk taking, opportunity creation and exploitation (Schweizer, Vahlne and Johanson, 2011). Internationalization and effectuation have a common problem space because they both include Knightian uncertainty ('it is impossible to calculate probabilities for future consequences'), goal ambiguity ('preferences are neither given nor well ordered'), and environmental isotropy ('it is not clear what elements of the environment to pay attention to and what to ignore') (Sarasvathy, 2008: 70).

Second, according to Johanson and Vahlne (2009: 1425), the internationalization process starts from knowledge and firm's relations. Similarly, effectuation process starts from 'What I am?', 'What I know?', 'Who I know?', where 'What I know?' component of effectuation's means relates to knowledge and 'Who I know?' component implies network relations (Sarasvathy, 2001: 253; Wiltbank et al., 2009: 991; Read et al., 2009b: 4). Thus, the two theories have almost similar starting points. One may also argue that 'Who I know?' component of an entrepreneurial set of means is similar to the concept of network position used in the revisited Uppsala model. However, we see some differences in tackling these two points. While Johansson and Vahlne (2009) discuss the concept of network position merely from the business network perspective on the firm level, the 'Who I know?' component in effectuation theory includes the individual level in the form of social networks, firm level in the form of organizational resources, and the level of economy in the form of sociopolitical institutions (Sarasvathy, 2001: 250, 253). Hence, Sarasvathy's 'Who I know?' component of effectual means is a broader concept, though it includes the firm's network position.

Third, both theories emphasize the critical role of commitments in the process. Thus, in the revisited Uppsala model mutual commitment is defined as "the product of the size of the investment times its degree of inflexibility" (Johanson and Vahlne, 2009: 1412). Commitments are important for the learning process and accumulating knowledge about foreign markets. In effectuation theory, commitments among stakeholders are also central for the effectuation process; they represent the building blocks of the effectual networks (Sarasvathy, 2008: 109). However, in the revisited Uppsala model, commitments lead to trust building and avoiding opportunistic behavior (Johanson and Vahlne, 2009: 1414). As mentioned earlier, effectuation regards trust as a theoretically irrelevant concept (Sarasvathy & Dew, 2003; 2008: 734), and the mechanism of intelligent altruism in effectual commitments "eradicates the need to overcome opportunism by merely making it irrelevant to the creation of new markets" (Sarasvathy, 2008: 119). In addition, effectual commitments serve not to reduce uncertainty, as in the revisited Uppsala model, but to create more room for leveraging contingencies and experimentation (Chandler et al., 2011: 386-387).

Fourth, both the revisited Uppsala model and effectuation consider opportunity development as the main trigger of the process. However, according to Johanson and Vahlne (2009: 1420), opportunities are both discovered and created meaning that some of exist in the outer environment as given and wait to be discovered and exploited. In effectuation, opportunities are co-created by all and any interested stakeholders because nothing in the environment is given as exogenous (Sarasvathy, 2008: 73; Wiltbank et al., 2009; Dew et al., 2009; Read et al., 2009).

## 2. METHODOLOGY

Qualitative methodology is coherent with the inductive and exploratory course of this study, which uses the theory of effectuation as a foundation to address a research gap in internationalization theory (Gummeson, 2000; Pratt, 2009). Since it addresses ‘how?’, ‘why?’ and ‘what?’ of effectuation logic within the internationalization process, qualitative methodology is appropriate for this research.

We use an exploratory multiple-case study approach, which is a relevant choice for several reasons. Case study strategy gives a certain meaning to the phenomenon because it provides the idea about its local context and situational constraints (Yin, 2004; Stake, 1995). Attention to details, nuances and interdependences provide a holistic perspective on the phenomenon being studied and reveals a comprehensive picture of its nature in totality (Yin, 1981; 2004; Verschuren, 2003). In addition, it is a strong methodological strategy for researching scantily investigated issues and theory development (Eisenhardt, 1989; Remenyi, Money, Price & Bannister, 2002; Eisenhardt & Graebner, 2007). The nature of this research is inductive as it does not intend to test any new propositions or hypotheses but aims to extend the existing theory of effectuation.

Since information from several sources provides more comprehensive and detailed understanding without chance associations (Yin, 1994: 45; Stake, 1995: 4), this study is based on six cases of SMEs from Finland that have established international operations. This falls within Eisenhardt’s (1989) suggestion for the appropriate number of cases, which is between four and ten because it is enough for analytical generalization and relatively easy for coping with a large volume of data (Yin, 1994; Patton, 1990).

We used replication logic and purposeful sampling to select the case studies, which means that the cases are selected for a specific reason and have a special significance for the study (Yin, 1994; Stake, 1995: 4). The criteria for selecting the case firms were as follows: SME with number of employees less than 250, which is a definition used in the European Union (European Commission, 2003: 5); international operations; willingness to participate in the research. After examining the Internet profiles of several companies, ten firms were considered to be suitable for this study. We invited these ten firms to participate in the study, and nine of them agreed to do so. In order to avoid the bias of observing only effectual logic in networking during internationalization of the selected firms, we asked general questions about relationship establishment in the internationalization process. Consequently, eighteen semi-structured interviews were conducted with the founders and/or managers responsible for internationalization from these nine firms. During data analysis only six firms provided evidence for effectual logic of networking during internationalization (see Table 1). Since we were driven by the phenomenon of interest we used theoretical sampling (Eisenhardt, 1989: 537). Thus, we used only eleven interviews from six firms to satisfy the purpose of this study.

This multiple-case study involved semi-structured interviews with an interview protocol that was used to guide the interviews. The topics covered in the interviews related to networking activities and their impact on the internationalization process. Each interview lasted between 60 to 90 minutes and was recorded and later transcribed.

**Table 1. A profile of the firms in this study**

Firm's industry	Year of firm's inception	Year of initial internationalization	Number of employees	Number of foreign markets
F1. Software for optical reader	2006	2007	130	21
F2. Turnkey luxury interiors built for land and sea	1987	2008	90	1
F3. Facilitation and corporate training	2003	2007	7	5
F4. Fashion garments and accessories	2005	2010	5	1
F5. Supplier of equipment and coating technology	2005	2007	60	15
F6. Business consulting	1993	2007	24	1

To ensure the reliability of the accounts from the respondents during interviews, we used some techniques proposed by Huber & Power (1985). Besides primary sources of information, we also included secondary sources in the data collection process. This contained general information about the individuals to be interviewed, the history of their companies, core businesses and products, their main clients and suppliers which we found from the companies' web-sites, industry associated web-sites and other available press releases. Some informants sent us their company brochures before the interviews. We used this information to prepare for the interviews and to validate the information obtained during the interviews (Cassel & Symon, 1994). We achieved data triangulation by comparing information from interviews with information from the secondary sources. The interview transcripts and drawings that respondents made during the interviews were combined with the secondary evidence to produce a detailed picture of entrepreneurs' networks. In order to confirm the accuracy of the information in the transcripts from the interview they were sent back to the respondents for additional checking.

### **3. ANALYSES OF THE CASE STUDIES AND DISCUSSION**

#### **3.1. Recognizing effectual action in the data**

As mentioned in the methodology section, only six out of nine firms that were studied showed evidence of effectual logic towards networking during the internationalization process. The other three reported that their networking was driven by causal reasoning; it was very strategic, carefully planned and goal driven. First, they chose the target country, then conducted market research and subsequently started to look for potential partners and other useful contacts in the selected country. This approach to networking contrasts with the effectual one. The following example of a firm that was excluded from this study highlights why it contrasts with effectual networking:

Excluded firm: "It wasn't an easy decision... We did a huge market research for one year... And then we had a couple of our board meetings... Then we started to make a list of people who we wanted to network with. First my staff did the list, then I did, then we combined. Then, we sent invitations... One of the company values is to be strategic, to plan, to be organized. So, everything I do is about being organized and being strategic".

This interviewee also presented a plan of network actions for expanding abroad that was coordinated with the other strategies and confirmed by the board. The network plan specified schedules and deadlines, a list of potential target contacts, and a list of known customers. This networking was very goal oriented, strategic and we recognized this as causal action. The other six firms demonstrated examples of a different logic of networking that we considered to be an effectual one and this will be covered in the next subsections.

### **3.2. Means-driven reasoning**

In contrast with the goal-oriented logic, the data collected from the other six firms demonstrate that their networking activities during internationalization were not strategically driven by some pre-defined goal or written in some plan but were more effectual and means-driven. Some respondents described it as a non-focused, natural and intuitive process:

F5: “We are not really active in expanding our network anyhow in a conscious way. The network expands because we just do things. We do not say ‘Ok, now we’re directing to London or something’”

F1: “...the main thing is that the relations have never been established by focusing on how to sell our product. Never! It has always been some other issue. So, there are the two things - intuition and don’t-sell approach”.

F3: “This was not strategic planning... to choose the country and then network there... we have very spontaneous type of network... We're very spontaneous company, very spontaneous people, we're not organized, we're not a very good company...”

Instead of strategically selecting a country for internationalization, conducting market research, learning about foreign network structures, and networking with certain people according to a specific network goal, the entrepreneurs established relations with all interested actors in order to maximize the set of available means and to increase the variety of possible outcomes. The eventual effects from partnerships were unpredictable and so it was important to have plenty of them in order to choose the most suitable one:

F1: “We did not go into the structures... that we should be interested in. The rational way is to choose your clients, your target group, to go to the main players. We decided not to do that. We entered Russia not with the effort we should have had. The contacts that brought us to Russia were outside Russia... these key people are not directly in Russia. We started in Lithuania, and those people in Lithuania happened to have close relations with Russian partners. So, they brought us to that sector...”

F1: “Subjective side of business is more important. We need to find people, not companies, not structures”.

F2: “If you have a wide network, it is like fishing - you throw your net and something will come up”.

### **3.3. Trust**

Our findings demonstrate that the relations in effectual networks could not be characterized by trust because of their spontaneous establishment and absence of the final goal.

F5: “Trust takes time. You cannot build trust after one cup of coffee”.

However, when the purpose of these relations was co-created by both parties, when they began to learn about each other and engage in reciprocal relations, then those relations became more trustworthy.



### **3.4. Affordable loss instead of calculating network risk**

Respondents admitted that establishing relations without a clear goal about their purpose and outcome is not associated with risk because the returns or losses from these relations cannot be estimated. In terms of losses, they only discussed the time they could afford to lose in case a relation did not work out. If the relation happens to be successful, however, the time spent establishing it would be regarded as an investment:

Interviewer: "Do you think it [effectual networking] can be risky?"

Response from F1: "I see more fun! I would not call it risky. It is fun but without stressing the entertainment side. It is not entertainment. It is very serious".

F2: "There are no right or wrong persons, they are just connections which may be useful someday... someday something will be very useful and bring an opportunity... you cannot miss because you cannot know in advance which is the right connections and which is not".

F5: "...the only negative thing to me about networking is ...just a complete waste of time".

### **3.5. Leveraging network contingencies instead of uncertainty reduction**

The interviews show that in many cases the entrepreneurs did not try to reduce network uncertainty by gathering information about foreign market structures and potential partners and developing trustworthy relations before engaging in a deal. During the internationalization process, they were open to unexpected relations and perceived them not as negative factors but as a chance to exploit new opportunity. They also admitted that this attitude required a certain mindset. The quotes below illustrate this finding:

F1: "I was asked by chance to give a presentation in China... Of course, in the end of the lecture I used an example of my company. And after the lecture there was a strange guy asking 'Can you come to Malaysia?' I didn't study anything about Malaysia, what were the possibilities there, I didn't ask any fund for the money to export to Malaysia. I didn't ask any consultant. I didn't ask anybody! But I simply said in two seconds 'Yes!' ...that's how we expanded to Malaysia... So, we just go and see if something would happen".

F6: "You should not plan too much. Often surprising things happen that create new possibilities you could not predict, it requires improvisation and an open mind".

### **3.6. Network co-creation and self-selection instead of coordination**

As opposed to coordination of networking activities that would restrict potential international opportunities, the entrepreneurs did not influence their network relations. They did not try to assess whether they had a position inside or outside the network and what foreign network structures their firms could fit in. It was a conscious choice not to control and influence the network in order to let the other partners bring unexpected opportunities and co-create new combinations:

Response from F1: "Our network develops itself... it is like amoeba... I don't know how it will look tomorrow".

Interviewer: "So, I guess it will be strange to ask you how you coordinate your network, you don't do it".

Response from F1: "No, definitely! But if we see that network does not bring enough effects, if it is not enough things happening, not enough balls in the air, then we also stop to be active".

F5: "You cannot coordinate your network, not fully at least... The best way is just to leave it to develop by itself. It is not control in a sense..."

### 3.7. Balance between effectual and goal-oriented networking

These firms did not adhere to a purely effectual logic of networking. Rather, effectual partnering was in balance with the other more goal-driven relationship establishment and was used more often in situations of high uncertainty. When the situation allowed some degree of prediction, the entrepreneurs applied more causal logic to networking:

F3: “We have been doing both more planned and unplanned networking... You do not always know where a situation will take you but you realize it is important to be there in order to let things develop when possibilities for networking and business might be created”.

F3: “I think there has been a balance of both... When we have the aim of meeting partners we try to investigate as much as we can but it’s not easy to know whether it is going to be a good partner. So, we’re both strategic and spontaneous”.

This evidence shows that effectual and causal logics of partnering are not present in their pure types empirically but rather are constantly intertwined and balanced.

### 3.8. Impact on internationalization process

Our data show that effectual logic of networking had a certain impact on the internationalization process. The data demonstrate that effectuation gave interesting features to decision-making about internationalization. In some cases, respondents found it difficult to specify the exact point in time when the company made a decision to internationalize and how the actual foreign expansion started. Instead of following a pre-defined plan to expand to certain countries, the case firms were driven by ‘Who I know?’ which is related to available means:

Interviewer: “How did you start internationalization? What was the first country you entered?”

Response from F1: “I cannot say that something had started. I don’t feel that something started... There was no first country. No, we don’t work that way. We’ve never targeted any country, we’ve never chosen any strategic issue, we’ve never focused, we don’t do that... We intentionally avoid systematic approach... We don’t try to build a highway up to the top of the mountain and then buy a Mercedes and drive to the top”.

The above quote shows that acting effectually is a conscious choice made by the entrepreneur as opposed to acting strategically and systematically because it is considered to be the best manner that provides room for opportunity. This evidence supports the argument that effectual partnering differs from serendipitous networking and coincidental meeting of people at random.

Additionally, our findings show that the firm’s market selection was primarily driven by its networks, and the geographical direction was the secondary issue that it considered. The entrepreneurs were more likely to be driven by the ‘Who I know?’ question rather than ‘Where to expand?’ and ‘What entry mode to choose?’ In other words, their approach to internationalization was: ‘people – first, country – second principle’.

Interviewer: “What is the next country to enter?”

Response from F3: “Wherever people seem to be interested! I think it would be more difficult to choose the country beforehand, and then search for contacts there. Imagine, I go to a conference and say ‘Any Swedish guys here? We expand to Sweden, so I only talk to Swedish people’. I can’t imagine doing it that way. It has to be that people come first, and country comes after. If this connection is from China – we go to China. But it can also be from US, no problem – let’s expand to US”.

F1: “The main point is that we never intentionally, strategically planned that, ‘Now we should establish subsidiary in Moscow’, ‘Now we should go to Ekaterinburg, St-Petersburg’, no...”

Our study demonstrates that effectual networking processes not only influence internationalization but also themselves obtain specific attributes in the context of foreign

expansion. As the profiles of the firms in this study show, effectual logic of networking does not only dominate during the early stages of venture development, as suggested by Sarasvathy and Dew (2005: 548). For instance cases F2 and F4 do not represent a new venture type of firm but they show evidence of effectual networking during their internationalization stage. Therefore, we argue that it is the conditions of high uncertainty (such as internationalization in our study) rather than the stage of new venture development that determines the effectual logic of networking.

## **CONCLUSIONS, IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

Our research shows that networking of SMEs during their internationalization can be called non-rational if rationality means following predictive reasoning and being driven by pre-defined goals. By using the effectuation point of view we propose that it can be logical but the logic is different. We contrast Johanson and Vahlne's (2009) revised internationalization process model and the effectuation approach (Sarasvathy, 2001) to examine their foundations for network relations. This comparison allows us to demonstrate how effectuation theory can help to capture the unintentional side of networking and to understand some of the anomalies in SME internationalization that have been identified in the extant literature. It is worth mentioning that the effectuation approach as used in this article is not intended to demolish existing theories and models of internationalization. We propose to complement these theories by finding an explanation for previously discarded phenomena in the internationalization process that were considered to be outliers. While the revisited Uppsala model does not focus on any specific type of internationalization, effectuation theory focuses more on small entrepreneurial firms. Hence, effectuation can be complementary to explain internationalization of entrepreneurial firms. Effectuation does not represent a better logic but is a more useful way of reasoning in situations of uncertainty. Examples include the outcome from a partnership or in the case of our study to co-create opportunities through networks to internationalize. It has been well documented in the entrepreneurship literature that entrepreneurial firms which lack resources find them through their network (Blankenburg Holm, Eriksson & Johanson, 1996; Chetty & Agndal, 2007). This represents the 'Who I know?' aspect of entrepreneurial means in effectuation.

The effectuation approach and Johanson and Vahlne (2009) share the common problem space as internationalization resembles entrepreneurship; they both acknowledge the central role of network relations and commitments. We have, however, identified the following differences in their approach to networks. Our findings show how the opportunity for internationalization occurred through means-driven logic because of how and with whom entrepreneurs formed networks with rather than having pre-defined internationalization goals. The study also shows that these effectual relations cannot be characterized by trust. While Johanson and Vahlne (2009) state that network risk and liabilities of outsidership are unavoidable during the internationalization process as the firm progresses into the unknown, effectuation offers an alternative view. Effectually networking entrepreneurs substitute predicting the future and evaluating risks with the principle of affordable loss. This means that they estimate only what they are willing to lose to enter a new market that could eventually fail. Unlike the revisited Uppsala model, uncertainty avoidance does not figure in the effectuation approach and firms are willing to collaborate with partners that they have recently met and barely know. By collaborating with all interested network partners firms co-create the direction of their internationalization process such as which markets they will enter and what modes they will use.

Consistent with effectuation, we have found that network relations that are formed effectually influence the internationalization decision and determine which foreign markets the firm enters rather than vice versa. Hence, one distinct difference between the revisited Uppsala model and effectuation is that effectuation focuses on the means to make internationalization possible while Johanson and Vahlne (2009) focus on the obstacles such as liability of outsidership. The issue of positioning such as the importance of being inside a network and the liability of being outside the network as purported by Johanson and Vahlne (2009) is not central for entrepreneurs using the effectuation approach. As one of our respondents put it networks are ‘like an amoeba’ which constantly changes its shape.

We found that entrepreneurs are not constrained by lack of market knowledge or knowledge about networks but keep an open mind to pursue opportunities to increase their means to internationalize. Our findings show that firms enter markets wherever an opportunity emerges to commit to a network relationship which will increase their means. This infers that the psychic distance concept (Johanson & Wiedersheim-Paul, 1975) of starting with psychically close markets and then going to more distant markets is less relevant in the internationalization decision-making process. Our contribution towards understanding the internationalization process is that we highlight how foreign market selection is determined by networks and not by a clear strategy of choosing psychically close markets and then progressively more distant ones.

Effectual networking suggests new ways of dealing with network relations during internationalization of SMEs and thus has certain practical implications. While Johanson and Vahlne (2009) mention that networks may need to be managed to create firm specific advantage, effectuation logic shows that since networks are unmanageable they should be left alone so that numerous opportunities could appear for the firm. An implication for entrepreneurs is that they should encourage this organic development of networks rather than constraining them through structured networks. In particular, networks in early internationalizing entrepreneurial firms need not necessarily be planned, structured and coordinated. Entrepreneurs could improve their networking skills by being flexible and open to meeting those outside their network as this could open up new opportunities that are absent in their existing networks.

In addition, entrepreneurs need to reconsider how they deal with lack of knowledge and uncertainty avoidance by replacing these perceived obstacles with affordable loss. Hence, in their rush to internationalize to benefit from windows of opportunity managers need to think in terms of affordable loss and co-creation with partners to increase their means. Entrepreneurs need not feel inadequate because they do not have a goal oriented business plan. The implication for policy makers that provide funding opportunities for entrepreneurial firms need not place huge emphasis on goal oriented business plans but to incorporate the means driven approach. Policy makers need to consider the business model used in entrepreneurial firms and their ability to acquire resources through these networks and to co-create opportunities.

Our study also provides several implications for future research direction in IE research. First, our findings can be tested by using in-depth qualitative case studies in other country and market contexts, such as whether entrepreneurs are likely to network effectually in some cultures and markets (e.g., rapidly changing and emerging markets). Second, future research could study the industry specific context and explore whether entrepreneurs use more effectual partnership depending on some industries. For example, in knowledge-intensive, innovative or high-tech sectors where internationalization does not require large investments to develop sales subsidiaries and factories because they can operate from practically any location. Finally, future research could combine effectual logic of networking with the

internationalization process literature to examine other aspects such as entry mode, social capital and market knowledge in greater detail.

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