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'Expect the unexpected': Implications of effectual logic on the internationalization process

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ABSTRACT

International entrepreneurship literature has indicated that entrepreneurs often increase international activities along unexpected lines of reasoning without having a precise goal, resulting in "unplanned" internationalization. We argue that "unplanned" internationalization does not necessarily involve non-logical decisions; but, entrepreneurs can follow an effectual rather than causal logic and may base their decisions on the affordable loss principle rather than on the maximization of expected returns. Based on five case-studies, we discuss the implication of effectual decision-making on the internationalization process. We find that switching from causal to effectual logic allows firms to rapidly increase the level of commitment in the foreign market and could assist in overcoming liabilities of outsidership and, therefore, successfully increase the level of commitment in the foreign market.

1. Introduction

International entrepreneurship (IE) literature has indicated that entrepreneurs often successfully adapt to changing environmental circumstances by combining networking, resource based analysis, and serendipity which results in "unplanned" internationalization (Chandra, Styles, & Wilkinson, 2009; Crick & Spence, 2005). The term "unplanned" refers to the fact that a firm expands internationally without a precise plan; nevertheless, it successfully develops international activities.

It emerges that in certain conditions when exploring an international business environment, entrepreneurs apply "unexpected" lines of reasoning (Aharoni, Tihanyi, & Connelly, 2011): they make satisfying decisions (March & Simon, 1958; Cyart & March, 1963) by investing as much as they are willing to lose instead of making decisions based on the logic of cost-minimization and risk-adjusted return on investment. Larimo (1995), for example, analyzes the internationalization process of Finnish firms and finds that managers and entrepreneurs frequently take a limited number of alternatives into consideration and adopt an "acceptable level of decision making as opposed to maximization behavior" (p. 53). Nielsen and Nielsen (2011) contend that top management can make effective international strategic decisions based on personal background and experience rather than on market research. Still others have provided empirical evidence that, despite the lack of information about host markets, limited international experience, lack of a business plan, and, therefore, a lack of a clear idea about what to do abroad, firms might still invest effectively in foreign countries (Kalinic & Forza, 2012).

Effectuation theory (Sarasvathy, 2001) may assist in understanding "unexpected" lines of reasoning during "unplanned" internationalization, especially at an individual (entrepreneurial) level (Johanson & Vahlne, 2009; Schweizer, Vahlne, & Johanson, 2010). Effectuation is a type of logic alternative to causality which describes decision-making heuristics based on prediction. Sarasvathy (2001) explains how, in conditions of high uncertainty (when the future cannot be predicted or estimated), entrepreneurs create opportunities by basing their decisions on the affordable loss principle rather than on the maximization of expected returns. They, thus, manage to create new ventures with relatively limited investment and taking limited risks. Nevertheless, IE research concentrated principally on organizational networks while somehow neglecting the influence of entrepreneurial decision-making on the internationalization process (Andersson, 2011).

In this paper, we focus on entrepreneurial decision-making during the "unplanned" internationalization and, more specifically, "unplanned" foreign market expansion. First, with an in-depth analysis, we describe and characterize from the effectuation perspective the international expansion process of five case studies

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from Italy. Our findings suggest that "unplanned" internationalization does not necessarily involve non-logical decisions. We argue that entrepreneurs' decision-making fluctuates between effectual logic and causal logic depending on the level of foreign market uncertainty and entrepreneurs' propensity to base the decisions on the affordable loss principle rather than on the return on investment calculation. Second, building on these empirical observations, we discuss the implication of the effectual decision-making on foreign market expansion. We find that switching from causal to effectual logic allows firms to rapidly increase the level of commitment in the foreign market and may assist in overcoming liabilities of outsidership and, therefore, successfully increase the level of commitment in the foreign market.

Consequently, we provide several important contributions to the existing literature. First, we make an important contribution to the literature pertaining to the internationalization process (Johanson & Vahlne, 2009; Oviatt & McDougall, 2005). With the addition of insights from the effectuation theory, we advance our knowledge on how entrepreneurs think and make decisions to identify and exploit opportunities in foreign markets (Shane & Venktaraman, 2000; Zahra, Korri, & Yu, 2005) during "unplanned" internationalization (Chandra et al., 2009; Crick & Spence, 2005). Second, we contribute to the IE literature that explores forces influencing the speed of internationalization. Previous research has identified in pre-existing global knowledge the amount of international experience of the entrepreneur and the international network as the reasons that allow to increase rapidly international commitment (Rialp, Rialp, & Knight, 2005; Oviatt & McDougall, 2005). In this study, we add to the knowledge by considering how the change of entrepreneurial decision-making logic (from causal to effectual) allows for acceleration of the internationalization process. Finally, we contribute to the international network literature. While previous research has done a good job of analyzing the role of networks in the internationalization process, this research has mainly focused on the already existing network (Coviello, 2006; Johanson & Vahlne, 2009). By adopting the effectuation theory perspective, we enhance our knowledge on how the international network is formed and, international activity successfully expanded.

In this article, we first present the theoretical background. Afterwards, we describe the method. In the subsequent two sections, we provide evidences of the internationalization process from the cases, subsequently discuss the findings, focusing on implications of the effectual decision-making on the internationalization process. In the last section, we discuss the limits of the study, implications for future research, and practitioners.

2. Theoretical background

Behavioral theory of the firm has been the dominant paradigm in studying the decision-making in complex international environments characterized by a high level of uncertainty (Aharoni et al., 2011; Liesch, Welch, & Buckley, 2011). Previous research has helped shape our understanding of the internationalization process; however, it focused more on the content of new venture internationalization strategies and neglected, somehow, to analyze the development and implementation process of these strategies (Zahra & George, 2002; Zahra et al., 2005). The type of managerial decision-making and the connection between the organizational behavior and internationalization still remain under-investigated issues (Rialp et al., 2005). The resource-based view (Peng, 2001; Westhead, Wright, & Ucbasaran, 2001) and the dynamic capabilities approach (Sapienza, Autio, George, & Zahra, 2006; Zahra, Sapienza, & Davidsson, 2006) focused on identifying which resources or capabilities are important in order to obtain a competitive advantage in international markets and, eventually, how they evolve in time; however, they do not deal with the question of how to obtain them. Organizational learning (De Clercq, Sapienza, & Crijns, 2005; Oviatt & McDougall, 2005) and the network approach (Johanson & Vahlne, 2003; Oviatt & McDougall, 2005; Zander, 2002) also instruct what is needed to reduce the uncertainty typical of an international environment (i.e. acquiring more information); nevertheless, they still do not instruct how to act in conditions of uncertainty.

Relatively recently, IE scholars moved some steps in exploring the connection between the decision making process and internationalization by focusing on opportunity recognition (see Jones, Coviello, & Tang, 2011). They consider that opportunity is not only present in the environment waiting to be discovered, but it can also be created by the entrepreneur. A growing number of studies (e.g. Figueira-de-Lemos, Johanson, & Vahlne, 2011; Frishammar & Andersson, 2009; Spence & Crick, 2006) suggest to use an emerging theory from the entrepreneurship field (effectuation) to interpret "unplanned"[3] entrepreneurial behavior in the internationalization process.

Effectuation tells how to act and base decisions on knowledge and capabilities at disposal in conditions when it is not possible to acquire resources or decrease the level of uncertainty. Effectuation finds its roots in Simon's science of the artificial and bounded rationality (Simon, 1996). By analyzing the research on decision-making under uncertainty, Sarasvathy (2008) reports that effectual logic is a technique to face the third type of (Knightian) uncertainty, which consists of a "future that was not only unknown, but unknowable even in principle" (p. 26)[4]. In other words, in phenomena with low predictability where the influence of the human action is primary (e.g. internationalization in an unknown market), the behavior of decision makers is not necessarily irrational but can follow a specific logic that leads to "very effective decisions" (Sarasvathy, 2008, p. 26). High (Knightian) uncertainty, together with goal ambiguity and environmental isotropy, constitutes the effectual problem space (Sarasvathy, Dew, Read, & Wiltbank, 2008)[5]. To make effective decisions while being in an effectual problem space, entrepreneurs tend to follow the affordable loss principle (Sarasvathy, 2001). This is a non-predictive mechanism of estimation used extensively in effectual decision-making and useful to nullify the role of uncertainty. In causal logic, entrepreneurs estimate risk by basing their decisions on the information that is outside the decision maker's control; on the contrary, effectual entrepreneurs need only to know their current financial position and how much they are willing to lose (i.e. the worst case scenario they are ready to face). Thus, by basing the decision on the means available, they begin a new venture and, at the same time, the objective has to be flexible according to the external environment changes, new means at disposal, and eventual unexpected stakeholders that may come on board.

[3] Similar processes have been termed "unstructured decision-making," "serendipitous reasoning" (Spence and Crick, 2006) or, generally, "unplanned strategy" (Crick and Spence, 2005).

[4] The first type of uncertainty (future is considered as relatively predictable characterized by known distribution and unknown draw) and the second type (future is considered as relatively unpredictable characterized by unknown distribution and unknown draw) (Knight, 1921) are faced respectively by analytic and estimation techniques.

[5] Goal ambiguity indicates that there is only a general goal; but the performances are not given, not well-ordered nor translated in specific sub-objectives/action plans. It is more likely that the decision maker (i.e. entrepreneur) has a vague, general, final ambition (vision) that can be refined and even completely changed through the interaction with other people and the environment. Isotropy indicates that *ex ante* it is not clear which pieces of the environment can be useful. Therefore, the process of collecting information is difficult and cannot be set up in a traditional manner as we do not know which information to pay attention to and which to ignore. (Sarasvathy et al., 2008).